



House of Commons
Public Accounts Committee

Selection of the new Comptroller and Auditor General

Twelfth Report of Session 2008–09

*Report, together with formal minutes, oral and
written evidence*

*Ordered by the House of Commons
to be printed 11 February 2009*

The Public Accounts Committee

The Committee of Public Accounts is appointed by the House of Commons to examine “the accounts showing the appropriation of the sums granted by Parliament to meet the public expenditure, and of such other accounts laid before Parliament as the committee may think fit” (Standing Order No 148).

Current membership

Mr Edward Leigh MP (*Conservative, Gainsborough*) (Chairman)
Mr Richard Bacon MP (*Conservative, South Norfolk*)
Angela Browning MP (*Conservative, Tiverton and Honiton*)
Mr Paul Burstow MP (*Liberal Democrat, Sutton and Cheam*)
Mr Douglas Carswell MP (*Conservative, Harwich*)
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Nigel Griffiths MP (*Labour, Edinburgh South*)
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Mr Austin Mitchell MP (*Labour, Great Grimsby*)
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Powers

Powers of the Committee of Public Accounts are set out in House of Commons Standing Orders, principally in SO No 148. These are available on the Internet via www.parliament.uk.

Publication

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at <http://www.parliament.uk/pac>. A list of Reports of the Committee in the present Session is at the back of this volume.

Committee staff

The current staff of the Committee is Mark Etherton (Clerk), Lorna Horton (Senior Committee Assistant), Pam Morris (Committee Assistant), Jane Lauder (Committee Assistant) and Alex Paterson (Media Officer).

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1 Pre-appointment hearings

1. In July 2007, in his first statement to the House as Prime Minister, Gordon Brown announced the publication of *The Governance of Britain Green Paper*. This broad package of proposals for constitutional reform included two proposals that:¹

“... the Government nominee for key positions such as those listed below should be subject to a pre-appointment hearing with the relevant select committee. The hearing would be non-binding, but in the light of the report from the committee, Ministers would decide whether to proceed. The hearings would cover issues such as the candidate’s suitability for the role, his or her key priorities, and the process used in selection... .

“For market-sensitive and certain other appointments, including the Governor and the two Deputy Governors of the Bank of England, the Chairman of the Financial Services Authority, and some utility regulators, there is a particular set of issues around confirmation hearings. But the Government does believe that it is important to ensure greater accountability than currently exists. So, for these positions, once an appointment has been approved, the relevant select committee will be invited to convene a hearing with the nominee before he or she takes up post. The relevant department will consult with the select committee as to what such hearings might usefully cover.”

2. On 23 January 2008 the Minister for the Cabinet Office, Rt Hon Ed Miliband, wrote to the Chairman of the Liaison Committee with a list of posts that the Government proposed should be subject to pre-appointment scrutiny.² The list comprised 30 posts, mainly public service ombudsmen, inspectors and regulators, and included the Comptroller and Auditor General (C&AG). The Liaison Committee consulted the Chairmen of relevant Committees about the Government’s proposals. The Chairman of the Committee of Public Accounts (PAC) replied on 18 February 2008, arguing that the particular statutory provisions for the appointment of the C&AG, which include a motion on the floor of the House and which are designed to safeguard his independence through a balance between the executive and the House and Government and Opposition, meant that this position was not suitable for a pre-appointment hearing of the kind envisaged. The letter continued that there would be no objection to the C&AG-designate appearing before the Committee once a name had been announced but before the debate on the motion for the appointment.³

3. The Liaison Committee shared the Chairman’s views,⁴ which were also endorsed by the Government in its reply to the Liaison Committee’s report.⁵

1 Ministry of Justice, *The Governance of Britain*, Cm 7170, July 2007, paras 76–79

2 Liaison Committee, *First Report of Session 2007–08, Pre-appointment hearings by select committees*, HC 384, Annex A

3 Liaison Committee, *Pre-appointment hearings by select committees*, Annex B, page 23

4 Liaison Committee, *Pre-appointment hearings by select committees*, para 16

5 Liaison Committee, *First Special Report of Session 2007–08, Pre-appointment hearings by select committees: Government response to the Committee’s First Report of Session 2007–08*, page 3

2 The Comptroller and Auditor General

The role of the Comptroller and Auditor General

4. The C&AG is the head of the NAO. According to the NAO's website:⁶

“The role of the National Audit Office is to:

Audit the accounts of all government departments and agencies as well as a wide range of other public bodies.

Report to Parliament on the economy, efficiency and effectiveness with which these bodies have used public money.

The Audit and inspection rights are vested in the head of the National Audit Office, the Comptroller and Auditor General (C&AG). The staff of the National Audit Office carry out these tasks on his behalf.”

5. The C&AG's role and powers are set out in the National Audit Act 1983. The Act provides for the C&AG to be appointed by the Queen on an address from the House of Commons on the basis of a motion made by the Prime Minister with the agreement of the Chairman of the Committee of Public Accounts. The C&AG is an officer of the House of Commons. He has “complete discretion in the discharge of his functions and, in particular, in determining whether to carry out any examination under Part II of this Act [ie value for money studies] and as to the manner in which any such examination is carried out; but in determining whether to carry out any such examination he shall take into account any proposals made by the Committee of Public Accounts”.⁷

The selection process

6. The 1983 Act gives no guidance on the process of selecting the C&AG. Sir John Bourn, the current C&AG's predecessor, was the first to be appointed under the Act, in 1987. The then Chairman of the PAC, Robert (now Lord) Sheldon conducted a series of interviews by himself over a period of months before putting a name to the Prime Minister.⁸ This procedure would not meet contemporary standards of openness and the post of C&AG was therefore advertised, together with that of Chairman of the NAO, which is to be set up as part of the changes to the NAO's governance arrangements agreed between the Public Accounts Commission and the Government.⁹ The Chairman of the PAC chaired a panel consisting of himself, Sir Nick Macpherson, Permanent Secretary at the Treasury, and Tim

6 http://www.nao.org.uk/about_us.aspx

7 National Audit Act 1983, Section 1

8 Treasury and Civil Service Committee, Fifth Report of Session 1993–94, *The role of the Civil Service*, HC 27–II, page 99

9 The Public Accounts Commission, Fourteenth Report, *Review of the National Audit Office's Corporate Governance*, HC 328 (2007–08), Fifteenth Report, *Corporate Governance of the National Audit Office: Response to John Tiner's Review*, HC 402 (2007–08) and Sixteenth Report, *Draft clauses on the corporate governance of the National Audit Office*, HC 1027 (2007–08)

Burr, the current C&AG, as an independent observer. Sir Andrew Likierman, the NAO Chairman-designate, took part in the final short-list interviews. (The appointment of Tim Burr, who had been Deputy C&AG, was explicitly a temporary one—although formally of exactly the same nature as that of Sir John Bourn—and there was no interview or selection process.)¹⁰

7. On 16 January 2009 it was announced that the Prime Minister had approved Amyas Morse, currently Commercial Director and Head of the Commercial Profession in the Ministry of Defence.¹¹ The Chairman of the PAC put out a press release the same day welcoming the Prime Minister's approval of Mr Morse.¹² Mr Morse's CV is appended to this Report.

8. The next formal step is for the Prime Minister to table a motion in the House asking the Queen to appoint Mr Morse. Although a hearing with this Committee plays no part in the statutory process, we thought that debate in the Chamber would be informed by such a hearing, particularly given the endorsement of the idea by the Liaison Committee and the Government. We accordingly held a hearing with Mr Morse on Wednesday 11 February.

10 HC Deb, 23 January 2008, cols 1521 and 1526

11 'Appointment of the Comptroller and Auditor General', Number 10 press release, 16 January 2009

12 'Nomination of the Comptroller and Auditor General', PAC press notice, 16 January 2009

3 The hearing

9. At the hearing we asked Mr Morse about his experience and suitability for the post of C&AG and about his plans for the NAO, particularly in the light of the forthcoming changes to the NAO's governance.

10. As a Committee, we have no role in the statutory process of selection and appointment of the Comptroller and Auditor General. Nonetheless we believe that our views should carry weight in the debate on the Prime Minister's motion praying the Queen to appoint Amyas Morse, since we have collectively some 65 years of experience on the Committee and thus of working with the Comptroller and Auditor General and the National Audit Office. We are satisfied that Amyas Morse is highly suitable for the post of Comptroller and Auditor General. We take this opportunity to thank Tim Burr, the current Comptroller and Auditor General, for his work.

Appendix: Mr Morse's CV

Amyas Morse gained his degree at Oxford University in English Literature, and then qualified as a Chartered Accountant in Scotland at Arthur Young. After becoming a partner, he then moved to Deloitte where he became the youngest regional partner, overseeing Scotland and subsequently leading the Coopers & Lybrand practice in Scotland, (after its various amalgamations). He then moved to London to manage the London City Office, becoming the Executive Partner of the Coopers & Lybrand UK firm. When PricewaterhouseCoopers was formed, he took on global responsibilities, and served as Global Leader of Assurance practice (audit and related services), and then as Global Managing Partner (Operations). During his time there Amyas was a member of PWC's UK and Global Boards and also regularly attended board meetings of their major clients. He joined MOD in July 2006 as the Defence Commercial Director, a 3* civil service appointment. He is the Head of Profession for the commercial function, which comprises some 2000 staff based at locations throughout the UK.

He is 59.

Formal Minutes

Wednesday 11 February 2009

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon
Angela Browning
Mr Paul Burstow
Rt Hon David Curry
Mr Douglas Carswell

Mr Nigel Griffiths
Rt Hon Keith Hill
Mr Austin Mitchell
Rt Hon Don Touhig
Rt Hon Alan Williams

Draft Report (*Selection of the new Comptroller and Auditor General*), proposed by the Chairman, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 10 read and agreed to.

Mr Morse's curriculum vitae was appended to the Report.

Resolved, That the Report be the Twelfth Report of the Committee to the House.

Ordered, That the Chairman make the Report to the House.

[Adjourned till Monday 23 February at 4.30 pm]

Witness

Wednesday 11 February 2009

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Amyas Morse, Comptroller and Auditor General Designate

Ev 1

List of Reports from the Committee of Public Accounts 2008–09

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Oral evidence

Taken before the Committee of Public Accounts

on Wednesday 11 February 2009

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon
Angela Browning
Mr Paul Burstow
Mr Douglas Carswell
Mr David Curry

Nigel Griffiths
Keith Hill
Mr Austin Mitchell
Mr Don Touhig
Mr Alan Williams

Ms Paula Diggle, Treasury Officer of Accounts, HM Treasury, in attendance.

Witness: **Mr Amyas Morse**, Comptroller and Auditor General Designate, gave evidence.

Chairman: Good afternoon and welcome to the Committee of Public Accounts, where today we are having the first ever confirmation hearing in our history of the Comptroller and Auditor Designate, Mr Amyas Morse. We welcome to our hearing a new member Mr Douglas Carswell. I am afraid the very first thing that Mr Carswell has to do is to give his Register of Interests. We have here your Register of Interests; is this true and correct, Mr Carswell?

Mr Carswell: I have just submitted an amendment to it yesterday to reflect some income from some freelance writing.

Q1 Chairman: You are officially a member of the Committee, Mr Carswell. So this is our first ever confirmation hearing. The interviews which have produced the name Mr Amyas Morse were conducted by myself. I conducted them with Mr Tim Burr, who of course is the present Comptroller and Auditor General, and Nick Macpherson, who is the Permanent Secretary at the Treasury, who was there to represent the Prime Minister, and also Sir Andrew Likierman, who is the new Chairman of the National Audit Office under the new governance arrangements that we have set in place. We suggested the name Mr Amyas Morse to the Prime Minister, who approved the suggestion, and that suggestion will now need to be put to Parliament. First, this is an opportunity for the Committee to meet Mr Morse and hear his views and question him about his plans for the National Audit Office, so welcome Mr Morse. Would you like to make a very short opening statement, perhaps telling us briefly why you want to do this job and why you think you are equipped to do it?

Mr Morse: Certainly, thank you very much, Chairman. I think, if I may, I will couch this with a little bit about my experience to date and my recent career, and therefore why that has led me to believe that I might be able to make a contribution here, and really very much want to do so. You may be aware, members of the Committee, that I have had various roles in PricewaterhouseCoopers, most recently in the role of Global Managing Partner, and prior to that for two years leading the International and

Global Assurance Practice. So first leading that and trying to deliver assurance services consistently to international companies around the world, and developing consistent approaches across different national boundaries and different cultures. Then, secondly, as Global Managing Partner (Operations) responsible for risk management, for compliance with regulation, for finance and for IT, for my sins, around the world, and in all of those cases trying to provide co-ordination and effectiveness across a range of different cultures and interests. I must say, although very challenging, I found that an intensely interesting role. Then in the MoD, where once again it is probably the most intense procurement environment in the government sphere in terms of large projects, and I found it very challenging and interesting to try to get more clear evidence of value for money and how that can be delivered through the MoD. While I have been doing that I have also become a member of the Major Project Review Group, which is a Treasury group looking at cross-government projects of a very large nature, and again the same areas of interest, asking how these projects can be run in the most efficient way. I do not mean the cheapest way, by the way, I mean in a way, if I can use a defence expression, that delivers best bang for buck. How can we be efficient with money and get the best practical results? You can appreciate that with that developing interest, when this opportunity came I thought, well, it is a chance to carry this into another role across government where I hope that I can contribute and I can also provide some leadership and inspiration to the NAO going forward, so that lies behind my being in front of you today.

Q2 Chairman: Thank you. I will just ask one question and then I will open it up to colleagues. You are the first ever chartered accountant to be Comptroller and Auditor General Designate. Do you think that gives you any advantages in terms of looking at the accounts of government or the work generally and the office?

Comptroller and Auditor General Designate

Mr Morse: I think it brings certain things with it. Whether it is an advantage over others, I will not address, but I will say that being a chartered accountant does bring with it a certain set of professional disciplines and understanding of the importance of independence and of the importance of measurable and evidential statements, rather than simply assertion, so there are a number of things which you get drilled into you when you become an accountant which I hope will be relevant even though, as you probably know from my CV, I have been in government service now for, roughly speaking, two and a half years. That does not mean that I know everything about government, but I do find that those skills are relevant to what I am doing in government.

Chairman: Thank you. Richard Bacon?

Q3 Mr Bacon: Thank you. Mr Morse, I would like to start with your qualification as a chartered accountant which I think is very welcome. Three-quarters of the staff who work in the NAO will, as you know, work on financial audit matters, although 99% of the work of this Committee is looking at the value-for-money studies done by the other 200 or so staff. I have always thought that there was merit in looking further at the financial audit statements. We have done it a bit with the Home Office, the Foreign Office and recently with the Revenue & Customs Prosecutions Office. Do you see scope to expand your reporting to Parliament in this area, because it seems to me that we may be missing a trick in that having shifted, as the office has done radically over the last 25 or 30 years, towards the value-for-money studies, we may have actually skimmed over an awful lot that we as a Committee should have covered in relation to financial audit and what that could turn up. Do you see any scope for expanding that in terms of how you report to Parliament and report to us?

Mr Morse: You go to a point that I have been considering. I do not want to claim to have deep knowledge of the NAO at this stage (whilst I have been researching it as much as possible) but it is important to realise that financial audit gives you a great deal of access and some deep insight into the systems by which any organisation is being run and how well those systems work. A glance at the audit reports and some of the qualifications that there have been over the last few years does draw that to your attention. What I would say is that is not separate from but part of understanding how effective the organisation is, and it should be coupled with the value-for-money approach and not seen as something that is completely segregated, so evidence from both sources is relevant to understanding what is happening in a particular agency or ministry.

Q4 Mr Bacon: That is very helpful. Do you think that you might see more numbers in the value-for-money reports, particularly in relation to financial management and what those numbers indicate?

Mr Morse: Both I and Andrew Likierman—and I have met with him—are very much of one mind in our thinking about the future. Both he and I have a

penchant for measurement and for evidence, as I have mentioned, and generally that does involve numbers.

Q5 Mr Bacon: You absolutely anticipate my next question. I have got the word “Likierman” written down here. I was very concerned as a member of the Public Accounts Commission during the appointments process and the advice the Commission gave to the Government on the new legislation and the new governance framework, that there might be a possibility of two voices for the NAO when we have hitherto always had the C&AG as the voice. This was borne out in relation to the Audit Commission when with a particular Chief Executive and Chairman, I analysed the press coverage and we ended with nearly 50% coming from each and it was not clear who was speaking for the Audit Commission most of the time. The arrangements, I hope, are now clear and the Chairman’s role is internal-facing. It is hard to think of a better person to be Chairman, so I cannot imagine that this is going to happen under the present holder of that office, but can you reassure us that if you had any concerns at all about that split role leading to a dual voice or it not being clear who was speaking for the NAO, especially in relation to statutory responsibilities, that you would immediately come to this Committee and let us know?

Mr Morse: I certainly would. I have got to say not only do I think the draft legislation, which I have looked at closely, is very clearly drafted, but also, on a personal level, having met the Chairman, I am confident that we not only both understand our roles—and I deliberately met with him before coming here to make sure that we were very clear, it was a very short discussion to make sure that we were—but that actually he is going to be a terrific support, if I am confirmed, in my carrying out my role. I am very clear about that.

Chairman: If I may just interject there. It is quite important that we get this right because we were very aware of what was going on in the Audit Commission, and throughout this process when I was working with Mr Burr we made it absolutely clear that the public voice of the National Audit Office is the Comptroller and Auditor General. The Chairman is there to help with the governance, to be your adviser, to lead the board in the governance sense, but he should not have a public voice. I have to say that Sir Andrew has entirely accepted that. I think there would be nothing more dangerous than to inhibit in any way the powers of the C&AG in this respect.

Q6 Mr Bacon: I would like to ask you about whole of government accounting, and your chartered accountancy background might inform your answer. We understand from what the NAO has said previously on this subject that as we move towards whole of government accounting we will see the financing for Network Rail and indeed the PFI book basically come on to the national balance sheet.

Comptroller and Auditor General Designate

Could you say something about that and how long you think that will take and what challenges it will represent?

Mr Morse: I know that that process is already happening and I think there are some significant transitional issues involved. You can imagine where there is a major project going on now and that project has been predicated on not being on the balance sheet and now we are saying we want it to be, that will require some transitional relief. As I understand it, there is a firm move to say on balance sheet will apply to arrangements which are appropriate—PFI arrangements and other arrangements of that kind—so I do not think there is any doubt as to where it is going, but the question is in some cases where an arrangement of that kind is already far enough down the track because that will require some additional understanding with the Treasury as to what capacity will be required.

Q7 Mr Bacon: You are recently a defence specialist in that you are the Commercial Director of the MoD. Your predecessor once referred to the central problem with defence procurement being that there was “too much infanticide and not enough contraception”. How do you see your relationship developing now as auditor to the MoD, which you know from the inside, and helping the MoD to do a better job, because historically it has been one of the worst for many, many years under governments of both parties?

Mr Morse: Clearly when there are things that have not been done well, then we have an obligation to hold the MoD, and any other agency or ministry of government, to account, through this Committee and through our Reports, without fear or favour, and that clearly is a core job, but, in addition to that, I think the MoD would accept and they are driving for improvement, and what we can do is to help to push in the direction of those appropriate improvements. I think one of the things that we can do in the NAO is to point the direction of how that improvement should be and measure how that is being achieved.

Q8 Mr Bacon: I would like to ask you about PFI. I have deliberately left this to last so that you have got the most time to answer. I have never quite come to the conclusion whether I think PFI is simply a stupid way to borrow money or whether it is a really good way for financial services firms (like PricewaterhouseCoopers) and merchant banks and lawyers to make fat fees. It appears to be both. It plainly cannot just be that; it has got lots of ardent supporters as well as many trenchant critics. One of the central concerns that I have is that the National Audit Office for years has been perhaps slightly soft on PFI, and one of the reasons for that is that in the calculation of the benefit that is produced, the number of pounds that you produce of saving for each pound that is spent on the office, a ratio of £8 saved to every £1 spent, part of that calculation includes the notional savings which are derived from PFI, which themselves are subject to the most enormous range of assumptions, so that you can

finesse them almost to the nth degree and tweak your ratio to make sure that it stays where you want. In the present climate, especially with the credit markets having tightened up, it is not quite so obvious that PFI is such a good route as it was. How are you going to act now as an auditor of PFI rather than an advocate or a contractor on behalf of the government department signing the PFI contract?

Mr Morse: I would never have imagined myself as an advocate of it; it is just an instrument. It either makes sense or it does not, depending on the terms available from the market, the nature of the assets being purchased and, remember, very importantly, most PFI contracts mean a very long-term service commitment. You had better be sure you really want service for such a long period of time and that you understand what the consequences will be if that changes. There are some PFI deals where you feel that level of confidence and where it really makes sense, and I can understand that that is so in some cases, but 25 years or so is a very long time and an awful lot can change, and therefore it is important to ask yourself the question, this may look all right today, but how is it going to look in that period of time? What do we fear might happen in that time? Is the risk that we might have different requirements in that period acceptable and are the terms on which we can extract ourselves from the agreement ones which we would not be embarrassed to speak about or embarrassed to admit in public if that were to fall in? All that thinking has to take place before you commit to such a deal.

Q9 Mr Bacon: Would it be fair to say that all that thinking has not always taken place in many of the contracts that have been signed?

Mr Morse: I am not in a position to comment on that.

Mr Bacon: A very, very wise answer, thank you very much.

Chairman: Thank you. Keith Hill?

Q10 Keith Hill: Thank you, Chairman, mine will be a very brief intervention and to some extent provoked, Mr Morse, by reference to the fact that when you introduced yourself you said that you had had some responsibility for risk management, which I would take to be not about the deterrence of risk but rather about adopting a balanced approach towards risk. You are about to head up the NAO, which is an enormously powerful machine, huge numbers of staff members, huge numbers of qualified people, its reach goes into every aspect of government and agencies, and of course it attracts enormous publicity, and its criticisms are very often very forthright. Nowadays the NAO seems to get two bites of the cherry on these issues because we have the publicity surrounding the initial Report and then of course we have the publicity surrounding the Chairman’s Report, and his often also forthright comments, and it is sometimes suggested that the effect of the power of the NAO is to create some kind of risk aversion in organisations. Do you think that there is any danger of that, any risk of that?

 Comptroller and Auditor General Designate

Mr Morse: There is no doubt that in any organisation—and, by the way, I could apply the same thing to commercial organisations. Yes, that can have an effect, but the answer to that is I really believe that our comments should be balanced comments, that is to say not simply focused on negatives, but all my experience professionally has been that it is important to give fair reporting. That is to say reporting that recognises positives and negatives. If we have a track record for being firm but fair we are less likely to encourage very defensive decision-making in the bodies that we look at. In other words, if we engage in a firm reasonable way, we look at hard evidence, we test out our conclusions carefully, we give people the opportunity to comment, and we listen to the comments that they make, I think all of those are the badges of coming to balanced conclusions and being seen to be balanced and reasonable in the way that you assess what you are looking at. I do think that is an important part of any such role, and this role in particular.

Keith Hill: I find that a very reassuring answer, and that is really all I want to ask, Mr Chairman.

Chairman: Thank you, Mr Hill. I should say, Mr Hill, by the way, it is not my Reports, it is our Reports.

Keith Hill: But it is often your comments, Chairman?

Chairman: Austin Mitchell?

Q11 Mr Mitchell: I noticed when Richard Bacon said that some people are enthusiasts of PFI, some heads on this Committee nodded vigorously and mine remained obstinately fixed! *Private Eye* on 28 November 2008 said that you are “a PFI enthusiast”; is that correct?

Mr Morse: No. I am neutral about it. I see it as a tool in the tool kit. I am perfectly serious, Mr Mitchell. You look at PFI, or any other tool, given what you are trying to accomplish, does it work or does it not work, is it appropriate or is it not appropriate. Of course I am not an enthusiast or a non-enthusiast; I am neither. You have to look at it, as I stated, in all of the very considerable consideration and care that one has got to take before making such a long-term commitment. That is not a new view on my part; that is the way I have always looked at it, so I do not know where they got that from.

Q12 Mr Mitchell: I am delighted to hear that. It also says that the PFI deal on MoD headquarters rocketed by £99 million and that PwC advised on the HQ deal. Were you at PwC then?

Mr Morse: It is an awfully long time ago but I guess I must have been since I was there for a long time, but I was not advising on PFI.

Q13 Mr Mitchell: Chinese walls kept you out of it?

Mr Morse: I just was not involved in giving PFI advice. That was not my role. At that time I was probably doing global management so I do not think I was around at that time.

Q14 Mr Mitchell: Would you propose any changes in the way the National Audit Office currently views PFI? Gradually it has tightened up and we now have rules about what goes onto the public balance sheet. Do you propose to change those?

Mr Morse: What I would say is that I expect the National Audit Office will look at PFI objectively. I think that is the only way to look at it—objectively—based on the actual facts and the evidence in every single case and not to have a partisan view either way, but to look at it as something that you can use in the appropriate circumstances or not. In the current circumstances with the capital markets situation where they are, it will be used, I suspect, rather rarely.

Q15 Mr Mitchell: David Heald, who used to be adviser on the Accounts Commission, objected to the appointment of a Chairman which he indicated would diffuse that relationship which is central between the Comptroller and Auditor General and Parliament by bringing an element of executive power. What is your view on the appointment of a Chairman?

Mr Morse: I actually think that it is going to be extremely positive and I am very comforted that there is a Chairman role. I think it is a very good thing. I am not saying that to be polite, I really believe it, first, in the person of the Chairman, who I have already met and talked to and I am satisfied I am going to get a lot of positive advice. It is asking a lot of someone to be in a sole role. Mr Hill talked about the responsibilities of this role. To be in a position where you have to sustain that over a long period of time without anyone to give you really authoritative advice is quite tough. I think actually having a quality Chairman there to advise you is a huge asset and will improve it. Of course I am in the lead in the relationship with Parliament, but it will improve the ability to do the job, not make it worse, not limit it.

Q16 Mr Mitchell: Do you see it as protecting your back or with a majority of non-executives on the board, being a kind of court of appeal for your judgments? It is a pressure on you.

Mr Morse: I do not think it is going to protect my back at all. I take personal responsibility, this is a personal office.

Q17 Mr Mitchell: So you do not want your back protected?

Mr Morse: I am going to protect it myself by making good judgments, but I am more likely to make good judgments by having excellent advice and guidance from objective and expert people.

Q18 Mr Mitchell: You are drawn from the very profitable world of big accountancy houses, the new masters of the universe, who have done extraordinarily well out of government contracts, particularly from this Government I may add. Why did you leave the gravy train?

Comptroller and Auditor General Designate

Mr Morse: If you are asking me why I left the private sector, I am going to answer that by saying first that I had a global job where I was doing a huge amount of travelling, and it did not agree with my health to do that. I then faced whether I wanted to spend the next three years or so in the firm and then retire at 60. I happen to be an enthusiast for work and I happen to be fascinated by the subject matter of my work, and I wanted to have a much longer career. I have also been interested by public service so I thought, "Let's give it a go," and so that is why. I wanted to work and I want to work for a long time. I get a lot of pleasure and excitement out of it.

Q19 Mr Mitchell: I think that is an entirely commendable attitude and I feel it myself! You will now be under a finite sentence of 10 years. You do not feel that might be too short or have you a compulsion to do a Sir John and stay on for ever?

Mr Morse: No, I do not feel that. I think people make their contribution and it is time they moved on, whoever they are. No-one can go on improving things on an infinitely improving curve. It does not work like that. Some of the issues in government are intractable and need long application of concerted pressure to get improvement. I really do believe that, which is why I think a 10-year appointment for this role is the right thing, but not more than that, heavens. I think by then I will have done everything I can do in this role and it will be time for someone else.

Q20 Mr Mitchell: I will call that a Harold Wilson perspective. I would be worried personally if the ethics of the big accounting houses were brought into this business of the National Audit Office. There was a brilliant early day motion recently pointing out that all the banks that have gone bust or begged for government money had clean bills of audit. You are an auditor and, in a sense, if those kinds of ethics come into the public sector, it would make me very suspicious.

Mr Morse: The reason for the audit reports being clean—and I do not know whether all the audit reports were clean but let us take it that they were clean audit reports—ethics really do not come into it, if you do not mind me saying so. I am now going to speak for the auditing profession, which I have not done for many years, but the audit reports are on a finite basis on the evidence available. They are not supposed to predict what happens if there is a major financial slump or a crisis of the kind that we have got. They are a true and fair view based on the assumptions that are appropriate at the time.

Q21 Mr Mitchell: It was a brilliant early day motion.

Mr Morse: I know you are an expert in this subject, Mr Mitchell, so you understand those arguments as well as I do.

Q22 Mr Mitchell: I will get the last question in. It was a brilliant early day motion, and I have to acknowledge the fact that it was mine, but it pointed to a system in which there is a degree of collusion between the auditor and the company that is being

audited. The auditor is dependent, because he wants to sell services, but there is also a consultation on value-for-money reports between the Audit Office and the department concerned that seems, in many cases, to soften some of the Reports. Would you want that to go on? Is it a desirable practice?

Mr Morse: I think it is difficult to report without giving the department an opportunity to comment on the Report, so I think that is appropriate, but, having said that, I think giving that a pretty sharp edge, a sense of real pressure and urgency is entirely appropriate. So you be fair, you listen to what is said, but you make sure that you do not accept a watering down of your findings unless that is entirely justified. By the way, on this matter, I intend to lead from the front on this, so I expect to be part of some of these discussions myself, not just listening to the reports on them, and if I do not feel that we are getting right to the heart of the matter, in some cases, I will want to see what these teams are doing and how these discussions go, and therefore in some cases I will join them.

Q23 Mr Mitchell: Will you be accepting hospitality from firms which you are auditing?

Mr Morse: This is obviously a significant subject for a lot of reasons we both understand. Firstly, I am going to be keeping a hospitality book which will be exhibited to the Chairman on a regular basis. Secondly, I thought it would be meaningful to you perhaps to look back on my hospitality book for last year 2008 in the MoD. During that year I was invited to 51 different events of which I declined (that is a polite word, is it not!) 40. Of the 11 that I accepted, most of them were either group dinners of an association or a society dinner which I was asked to attend. There were about three or four individual dinners at the RAC Club or lunches at the RAC Club, which I do not regard as excessive. I prefer doing business over a sandwich at my desk in the office.

Chairman: That is a good place for us to break. We will be back, do stay, do not go anywhere!

The Committee suspended from 4.04 pm to 4.10 pm for a division in the House.

Chairman: I think we are now quorate again. Don Touhig?

Q24 Mr Touhig: Mr Morse, the Chairman referred to you as being a chartered accountant. Of course, my colleague, Mr Mitchell, who is not here at the moment, said that accountants in fact are the new masters of the universe. I rather suggest we are going to have to rewrite the Sermon on the Mount because accountants will inherit the earth. I do not want you to think that I am in any way prejudiced about that! You were from 2006 Commercial Director of the MoD.

Mr Morse: I still am.

Q25 Mr Touhig: You still are. What are you doing? Can you tell us a little bit about the range of responsibilities?

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Mr Morse: Certainly. The first responsibility is that I am head of the commercial profession in the MoD. That is to say—and forgive me if I am telling you things that you already know—those who are working on and drafting contracts and putting commercial agreements in place are in the commercial profession in the MoD, and therefore my job is to be the leader of that profession. Largely speaking, that is a matrix role, in other words some are reporting directly to me, but for a much larger number across the whole of the MoD I am their professional head rather than their line manager, so I am setting standards for them, I am stating commercial policy, how we expect them to make commercial arrangements, all of that comes from me, and we create on-line guidance and a set of tools for them to do their work and basically regulate what they do, because they are supposed to be able to exercise independent commercial judgment, so that is the first piece. The second is that the permanent under-secretary has delegated to me the power to commit the Department to contract, so basically I have to be satisfied in doing that that those contracts are appropriate, they make sense commercially, and they meet the requirements and standards that we have in the Department. Thirdly, I am a member of the Investment Approval Board and therefore we make decisions on approving investment decisions, and that is a role across the MoD. The final thing that is worth mentioning is that I am responsible for our strategic relationship with industry and therefore I am talking to industry at a strategic level and to trade and industry bodies about how they shape themselves in order to meet our requirements.

Q26 Mr Touhig: I understand.

Mr Morse: I am sorry, there are other things but I do not want to be tedious. Those are the main ones.

Q27 Mr Touhig: The NAO often investigates matters relating to the Ministry of Defence and somewhere down the track there is going to be an inquiry into a matter which was decided upon on your watch. How will you demonstrate leadership in those circumstances?

Mr Morse: First of all, as it happens, there are many of those matters where rather than being the person who has been running the procurement I have simply commented on it or provided guidance on it, so to some extent that helps in the matter. But apart from that, it is clearly a problem if you are going to have somebody from government, they are going to have to be involved in business in a particular ministry, and so am I, but if I feel that there is something which is prejudicial, or particularly prejudicial, which I was going to be involved in, I would make sure, firstly, that I had input from my Chairman and, secondly, that some of the rest of the very able team in the NAO came to judgments independently of me, that I set protections in place so that it could not be suggested that I had reached partial judgments.

Q28 Mr Touhig: You really will have to work at that. I understand the point you are making because this will happen.

Mr Morse: I will have to work at it. There is no doubt about that.

Q29 Mr Touhig: You mentioned when you spoke to the Committee at the outset value for money. How many projects during your time as Commercial Director has the MoD cancelled and wasted public money?

Mr Morse: Not very many have they cancelled, to be quite honest. More likely because of pressure on budget capacity that they have slowed down the rate of progress on those projects in order to stay within the budget capacity, and that does obviously add to the cost of the projects.

Q30 Mr Touhig: How much money did you spend on FRES and you got nothing for it?

Mr Morse: I cannot answer that off-hand but some significant amount.

Q31 Mr Touhig: I think the shadow Defence Secretary asked a question and it was something like £120-odd million. Was that value for money?

Mr Morse: Well, it has not resulted in any equipment so far but has resulted in significant narrowing down of the planning of what we want to do.

Q32 Mr Touhig: You will see clearly that the NAO will be looking into that somewhere down the track and they might well conclude that that was not value for money.

Mr Morse: Yes they might and I would not have a problem about attesting to that.

Q33 Mr Touhig: The BBC—that wonderful organisation so open with wonderful high standards—will not let the National Audit Office in to look at its books unless it does so on its terms. What do you think of that?

Mr Morse: Personally I think that we should be looking at its books.

Q34 Mr Touhig: And how would you seek to achieve that? We have tried over the years.

Mr Morse: It is a bit early for me to say what tactics I would adopt. We do, as I understand it, look at some BBC information now, but we do so on the basis of being invited to look. I think that it is a bit hard to understand why it is appropriate to limit it to that extent, but I really think before saying how would we pursue it, I would like to get into the role and see how that could be done.

Q35 Mr Touhig: You made it clear that you want to be very much hands-on in this job and you want to share the experiences of some of your teams doing investigations and so on and so forth. That will require a great deal of aggression, in the best sort of way, in order to get some of the answers. How do you feel about that kind of approach in terms of the MoD?

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Mr Morse: I think some of my MoD colleagues will be quite well-placed to testify to what my approach is because already I am in a position where I look at issues and I raise issues; that is my job. If you consider what I have said about my role, it is often one of commenting and when appropriate I comment already very trenchantly. But, if I may, to the overall comment about whether aggression is part of the role, I think firmness and insistence on getting to the facts and the evidence is what is required, and if you get pushed back, then you have to be very firm. I am not sure aggression as such is something that is needed. It is just that you really do not need to be an easy person to push over or overawe, and I am not such a person, I can assure you of that.

Q36 Mr Touhig: What if you encountered a situation where the NAO was doing an inquiry into some matter at the MoD and perhaps you were not given all the information that the team required and yet you knew the answers; what do you do in those circumstances?

Mr Morse: In that circumstance, if I knew the answers, I would presumably know where the evidence was and I would require it to be disclosed.

Q37 Mr Touhig: So you think it is very important that you must do that?

Mr Morse: Yes, absolutely. I do not think the MoD would expect me to do anything else.

Mr Touhig: That is good. Thank you, Chairman.

Chairman: Thank you Mr Touhig. Angela Browning?

Q38 Angela Browning: Mr Morse, very often the permanent secretaries and the CEOs of government agencies sit where you are sitting now and in answering questions from this Committee they frequently tell us in response to an NAO Report, "Oh well, that was in the Report but actually we are already doing that." That excuse is so repetitive—and I do say "excuse" quite deliberately. I heard what you have said that government departments need to look at the Report and comment on the Report before it is published, but it does seem to me that NAO Reports are almost triggers. They identify these very important issues; they produce an in-depth response to them in the NAO Report, and then that triggers some sort of action from government. That is not a bad thing, that is a good thing. In fact, if it was so good we could commission yet more Reports and have more triggers going on in more government departments, but there is an underlying problem in government and I think it is this: I would be interested to know if when you lead from the front whether you feel there is something you could do through these NAO Reports. We know that only 1% of the Civil Service have a financial qualification. Indeed, it has often been commented in this Committee how permanent secretaries not only do not have qualifications such as you have but actually we know from the last NAO Report there are, for example, six government departments with a spending budget between them of £45 billion who

do not even have any board level finance director representation. Is there not an underlying problem when we talk about value for money, and the NAO produce all these Reports, that actually a lot of the problem is not a specific government department responding to a specific Report but throughout the Civil Service there simply is not the financial competency to carry out the management of government departments and the management of budgets in a way that perhaps you would be familiar with from your past career in the private sector?¹

Mr Morse: Well, I think you are onto a very good point first. I think that this is the area where I have ambitions for the NAO in terms of improving the efficiency and the cost-efficiency and the functional efficiency of government, as far as I can do it, working with other government agencies who are interested, and I certainly include the Treasury in that. They all have an objective to see good-quality information, the ability to interpret that information, and the ability to make structured and evidenced management decisions that drive things forward in an efficient way. Where those enabling services and capabilities are not present, we have really got to push for them to be present. There is no point simply picking up a particular instance and saying, "This is not good enough," and giving people a hard time and sending them off and then finding that we are not addressing a systemic problem. I actually believe that there are systemic issues, not necessarily universally in government but certainly in some places, and part of what I hope to do is to take us to that agenda and at least participate in that agenda going forward. I do think that is a very important subject and, no, I do not think we have all the information and all the capabilities for interpreting information that we need throughout government. From what I have seen in the Major Project Review Group, I think there is room for improvement and for a drive to improve and, by the way, I think that is well-understood by a lot of people across government. We would simply be participating in that but we have a pretty unique role to play.

Q39 Angela Browning: Thank you, I am encouraged by that, but then there is another problem that comes along because if that were successful and if you can improve the general qualifications and the financial expertise within the Civil Service, and that is that we know, for example, at the moment the Civil Service have difficulty retaining people with good accountancy and financial qualifications. In my view, it is pretty obvious why and that is because of course once they become qualified and experienced they are very often poached by the private sector by some of the big accountancy firms and others with whom you will be familiar. How do you retain well-qualified people in the public sector without losing them to the private sector?

¹ The Treasury has now made it clear that all departments now either have qualified Finance directors or are in the process of recruiting again after the resignation of a qualified director.

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Mr Morse: I guess one thing I should note, by the way, as I answer you is let us bear in mind that it is government policy now, and an objective set by the Treasury, that the finance directors of all the departments should in fact be professionally qualified, so we are driving in the right direction, and it is worth pointing that out. Secondly, yes, it is partly terms and conditions but do not underestimate how interesting working in the public sector is. I find working in the MoD extremely interesting.

Q40 Angela Browning: But you would want to be paid for doing it, would you not?

Mr Morse: Not paid a huge amount for doing it. I do not want to suggest that you have got to replicate the pay rates of the private sector in order to keep time. You do not want them to be so low that they cannot look at it at all, but you do not need to replicate the full levels of the private sector, in my judgment. Dare I say, before somebody else on the Committee may think it, at the moment I do not think you would find quite such difficulty as you might find at other times in recruiting.

Q41 Angela Browning: Thank you very much. That is something which I would hope in the future that the NAO, through the Reports they produce and the way in which these Reports are presented, can define the underlying systemic problems more than just the surface detail of what has gone wrong with a particular project or something like that.

Mr Morse: The Chairman can tell you that when I was interviewed for this during the selection process, I did express a very great interest in moving in this direction.

Angela Browning: Just finally, Chairman, I am married to a retired accountant so I have heard all the bean-counting jokes that there ever were. Accountants are important and I think they are particularly important in government. They are the salt of the earth, yes!

Chairman: Nigel Griffiths?

Q42 Nigel Griffiths: I am at a slight disadvantage because I am used to getting high-quality Reports from the National Audit Office on which to base my questions and they usually surpass briefings from *Private Eye*! I also want to very much affirm that PFI has strong support in my constituency. It has provided four new schools and a brand new hospital in a period of six years, as part of 17 new schools in Edinburgh, after a famine that preceded it of 20 years and a famine since then of 20 months since the SNP Government took over and abandoned it. Prior to PFI it may have been cheaper but they built cheap schools that started leaking weeks after they finished them and the public sector has paid for them ever since. Be that as it may, what I wanted to draw out of you was your experience on the global board of a major auditing company and what you saw in that role that you are going to bring to the National Audit Office to enhance what already has a very good reputation as an organisation?

Mr Morse: Thank you. I think what I got out of it is the experience of realising, in particular, this: that you should not assume that you are talking the same language or have the same assumptions or concepts as the people you are assessing. As I worked across Germany, the United States, and all the other major economies in the world, I realised that to get to a baseline of real understanding with them, I had a lot of work to do defining what we were all talking about, building trust relationships, and actually saying, okay, this is a problem we agree that we share. You might say but surely government is not as diverse as that, but actually I think there is evidence that the same thing is needed.

Q43 Nigel Griffiths: You have anticipated my next question.

Mr Morse: Well, I really think it is needed because if you consider that some people come with a financial basis, some people do not, some people have different disciplines, some people have been in a single department their whole career, and to assume that all those cultures are the same would be very optimistic indeed. What is needed to be able to create the platform for understanding problems and understanding what we need to do together is a methodical approach whereby you get to a baseline, and you make sure you really do understand each other. You may say, gosh, you had this global role, is that all you can come up with? I can tell you learning how to get to grips with a problem where you are both talking about the same thing and you actually develop the same solution, and getting that to stick across territorial boundaries, is quite a major skill and quite a major learning experience.

Q44 Nigel Griffiths: Do you think that you could devise a strategy to do that across Whitehall?

Mr Morse: Part of it would be a strategy and part of it is attitudinal actually. In other words, you have got to talk to people, you have got to build trusting relationships, you have to take the time to make sure that you have defined the terms, and you have got to get through what I would call the defensive layer of assurance that you may be offered and get people to be comfortable enough with you to be truthful about what they are worried about and what they are struggling with.

Q45 Nigel Griffiths: The NAO has a world-class reputation. Which aspects of it do you think would benefit most from improvement?

Mr Morse: It is early days for me to say this, to be quite honest with you. I am not going to start by criticising the NAO, but what I am going to say is that it is inevitable that over the last two or three years there has been a period where we have reached the end of a long tenure, and then there has been an interim period, and that is bound to have had some effect, I guess, of making people feel a bit less confident and a bit less strong in where their direction is. The first thing I can do to improve it is to deliver a sense of urgency and energy and appetite for what we are doing, and I am going to start with that. One other thing: if we are really excellent we

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should be open to learn from excellence in other people and in other organisations. We should be prepared to look around and see what those are and make sure we draw that in, rather than thinking of ourselves as the best. Okay, it is good to say we are the best but the best actually can talk and be open with everyone else. That is the sort of approach I would intend to take.

Q46 Nigel Griffiths: As was indicated earlier, in terms of spending, the balance has been very much in favour of financial audit as against value-for-money work, which I think makes up 28%. Have you considered—accepting that you have not yet got the job—whether that balance might be right or not? Do you think it is worth looking at?

Mr Morse: It is always worth looking at, but if I can go back to something I said earlier, all of these are lenses through which you can see the effectiveness of the organisations that you are examining. I think Mr Bacon asked earlier whether there is more we can get out of financial audit? Maybe there is. Is there something we can do bringing together what we find in the financial audit and what we find in value for money to get a deeper view of the entities that we are auditing? I believe there probably is. Only after one has done that can one say whether we should be switching the balance. It is too early for me to go further than what I have said to you.

Q47 Nigel Griffiths: Sir John Bourn was very proud of the ability of the National Audit Office to both recruit some of the brightest graduates and others of very high calibre, to train up people, and also to attract, especially at senior level—perhaps you are an example—people who have had private sector experience who have decided they wanted to contribute something to the public sector, even if it meant a pay cut, and make a contribution to the National Audit Office. Is that a philosophy that you share?

Mr Morse: Yes I do. If you have high quality people and a sense of opportunity and excitement about what is being done, you will attract talent, and I really want to do that. I think a significant part of my time should be spent making sure that I am close to the people who are developing, not sitting at the top of the pyramid but making sure I spend time with people in the NAO and I know them well and I understand what they want and help to generate some enthusiasm and provide some leadership.

Nigel Griffiths: I look forward to having a sandwich some time soon!

Chairman: Thank you. David Curry?

Q48 Mr Curry: Mr Morse, what day do you actually walk into the new job?

Mr Morse: Our discussions have indicated that it will be June this year.

Q49 Mr Curry: 1 June?

Mr Morse: That is where we are up to just now.

Q50 Mr Curry: What day will be your last day in the Ministry of Defence?

Mr Morse: Probably it is looking to me like it will be the Friday beforehand.

Q51 Mr Curry: Is that not a problem? If a civil servant wanted to go into politics with a political party they would have to resign the minute they are adopted. Do you not think if you were going to be the chief poacher, or the gamekeeper (the poacher would be the Ministry of Defence) that you really ought to get out now?

Mr Morse: I have not been adopted yet, I would remind you.

Q52 Mr Curry: Should you not declare that you will resign the day after you are formally appointed?

Mr Morse: No, because that is not what I have been told is required. Frankly, I think I am quite capable of separating those functions. I am not applying for a political position, to be quite honest.

Q53 Mr Curry: With all due respect, it is not party political but it is an intensely political position. You see, what bothers me is that we spend a huge amount of time on the Ministry of Defence simply because they lose so much money. Incidentally, Chairman, if you recall, when we had them here last, I asked them if we could have the information about the additional costs that the decline of the pound in relation to the euro or the dollar imposed on major equipment programmes, and we still have not got that note, to my knowledge. Could we kick them up the backside and ask them to deliver it since the pound has fallen apart since those contracts were signed. I would not want you to go in there and for them to say, “Oh, it’s old Amyas, we have known him for a long time, it will be okay.” I want you to be seriously tough on that lot. I want the assurance that you are not going to be a soft touch and that this distinction will be very, very fiercely felt.

Mr Morse: I absolutely give you that assurance.

Mr Curry: Right now then, can I come on to one or two more domestic issues. You are an accountant; I am a journalist. I want the Reports to be readable. When the National Audit Office Reports drop on my mat, my reaction is like George III when he got a new volume of Gibbon: “Another damn volume, Mr Gibbon,” and my heart sinks.

Mr Bacon: George III was mad!

Q54 Mr Curry: Not for all the time and not at that time and Gibbon certainly was not mad. Very often they are difficult to read. I find some of the graphs and charts unfathomable. I really hope that you will hire someone to ensure that these things written as simply and as directly as they possibly can be, because I think that is very important. We try to do far too much. We do two Reports every week. The task of assimilating them is a hugely difficult task. We have got to be able to get a grasp of it. Could you as your first task say, “I am going to go through these with a toothcomb and make sure they are written in good, sensible English?”

Mr Morse: Yes I will.

Mr Curry: Right, my second point—

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Nigel Griffiths: Are you sending him on an accountancy course?

Q55 Mr Curry: I will go on an accountancy course and he can go on a journalism course. The second thing is, could we have more comparisons with performance in overseas countries? In politics, on the whole, the fashions for the way you address issues tend to be international. You will find the formulae being adopted in Britain are ones which other countries are also adopting. You very rarely have a national exceptionalism as far as the approach to problems is concerned. I find the NAO Reports most interesting when they look at comparisons with the way other countries perform because then we can say what do the Dutch know about this which we do not? Why do they deliver better? Could we do that more systematically? That sort of comparison appears in a minority of Reports. I realise in many cases it will not be relevant but in many cases it will be relevant.

Mr Morse: If I may, I think that takes me to the point that it is very important for me to respond, as far as I can, to what the Committee would find helpful, and I put this in that category. If it is possible for us to react to that and take account of that, I will certainly do so, as appropriate to the particular Reports, but take it that I respond with a desire to be helpful. Anything I can do to make the Reports as understandable for the Committee and as useful to the Committee as I can, of course I want to do. By the way, I quite like it if they are understandable for me too.

Q56 Mr Curry: If we can all understand them that would be a great plus. If the public can understand them as well that might be a dangerous plus but probably a helpful one. On the guidance notes which we get, I think Mr Griffiths said that he found them very, very useful; I am afraid I do not. It tends to be a page and a half of densely typed prose followed by six questions all in row, so I very rarely use them at all. You will find other select committees tend to have a couple of paragraphs of explanation and then one or two questions. I have always found that much more useful as a prompt than the way they are produced at the NAO, which I simply do not find useful at all. I do not wish to impose anything on my colleagues, but it might be helpful if you were to look at the way this is done in other committees to see whether you felt there might be a way in which you might find the information more accessible for Members in doing that.

Mr Morse: We are always going to be interested in improving what we do.

Q57 Mr Curry: A final point, you cannot answer this now but I would ask you perhaps after six months to reflect upon it, as to whether you think the balance of power between the NAO and this Committee is right. At the moment, I sometimes ask myself would it make any difference if this Committee did not exist and the NAO simply produced its Reports. After all, you produce them and the government departments read those Reports. Very often as, Mrs Browning

has said, they say, "We are already doing it," so what is the added value of this Committee? Sometimes I think that there is a real question about that. Sometimes I would like more of a say in what sort of things you are covering and perhaps the sort of things that we want to get more into, and to come back on subjects more often, to keep the government on its toes more often.

Mr Morse: That is interesting. I have given that some thought and although, again, I hesitate to be critical at this stage—

Q58 Mr Curry: You cannot answer now.

Mr Morse: I have given it a bit of thought and I want to explore what the Committee finds useful and is actually interested in participating in. It might be that a more regular short meeting type of briefing as opposed to simply giving you documents, from time to time, would be useful to you and, if it would be, I would be more than happy to do it, and it might provide you with a more live feeling of some of the issues. I am more than happy to do that. I generally find just handing somebody a document is not as inspirational as all that. I see this as a dialogue as to what you find useful, what we can practically do, to be worked out together to be done as well as possible.

Mr Curry: Thank you.

Chairman: Paul Burstow?

Q59 Mr Burstow: The first question really was to ask you what value you think the process you are currently being subjected to, this pre-appointment interview, actually adds to this whole process?

Mr Morse: I think it is probably very valuable because it gives you a chance to have a good look at me. I do not know whether you will have that chance in such a formal way when we start doing business together. You will obviously become aware of me, but the chance to actually register me and give me your attention in this way, I am not sure that that will happen again in the conduct of the Committee, so I do not think it is a bad idea and, frankly, it also gives me a chance to get an idea of what the feel of the Committee is. I think it is a very good thing at that level. Obviously it also will inform your views on me as a candidate, so taking it all-in-all I think I would have to say that it is a valuable process.

Q60 Mr Burstow: I want to pick up on a few of the exchanges so far just to tease out one or two things. Mr Curry was talking just now about international comparisons. One of the areas of work that the NAO has done over the years has been to draw out the issue of hospital-acquired infections and develop that and really, in some senses, drive and help shape Government policy. There is a further Report in the works on that at the moment. Are there going to be international comparisons in that area because it does seem to me that that is a very good area for getting some international comparisons and, if not, is that something that can still be looked at?

Mr Morse: Clearly we will look at it, but I am saying this slightly in a vacuum at this stage, if you will forgive me, Mr Burstow.

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Q61 Mr Burstow: I think I would underscore the point that Mr Curry is making about international comparisons. I just wanted to pick up on the point about conflicts of interest which Mr Touhig was talking about earlier on, and pick up on contracts that you have signed. You have commented that you think there were few contracts that you directly are responsible for running but many you have signed off and given advice on. Are there any contracts that you are directly responsible for running that you have signed off on?

Mr Morse: I think the one where I have had the most involvement would be the aircraft carrier contract, where I actually signed it and, although I was not running the project team, at a certain point in time negotiations were needed to be picked up. I was suddenly whisked off the benches and told by the then Minister, Lord Drayson, to go and run the negotiations, so for an intense period of time I took charge of the negotiations, drove them forward, we got to a conclusion of what I would describe as a “heads of terms” agreement, and then after that really I was not as involved in the detail. So what I did was to step in, provide, if you want, my experience of intense corporate negotiation, move the thing forward, working with the team, get it to a certain point of progress which it had not been getting to as rapidly as we wanted, and then I stepped away again and resumed my more normal role. Then when finally I came to sign the contract I did so based on the evidence that was available. Obviously I was familiar with facts because I had done some negotiating, but I still had to look at all the papers and the file of evidence that I would ordinarily look at before I would be content to sign a contract. I had done something quite intense there for a period of time and was probably more deeply involved in doing that bit of commercial negotiating, but there have been other cases where if I feel that negotiations have not been as favourable to the MoD as they might be and there was a bit of an issue developing, I might have stepped in and effectively provided a service of doing commercial intervention and negotiation for a period of time. It did not make me the owner of the project, simply somebody who turned up and got engaged for a period.

Q62 Mr Burstow: So can you envisage a circumstance in which on that particular project you could wind up being before the Committee not as the Comptroller but in fact as a witness to answer questions about the decisions you made?

Mr Morse: I think yes, you could very well ask me questions about why I had thought it right to sign the contract on behalf of the MoD; that is possible. Since my signature appears on it, yes, that is possible, but what I would then be doing is producing the evidence that I looked at. The fact that at a certain point I did a phase of negotiating, you could ask me about that, but that would not actually have resulted in committing the MoD. I do not think it is an insuperable problem but there is no doubt that on that particular contract which I signed

myself, yes, you might want to ask me what process did I go through and whether I had a sound basis to sign that deal?

Q63 Mr Burstow: I was interested also in what you were saying to Mrs Browning about the systemic issues that you believe need to be addressed, and what you were saying about information, the capacity to interpret, and information management capacity. There has been a very significant drive over the last few years, with regards to the Gershon Review and so on, targeting back office costs. Some of the things you describe there might fit within that sort of description of back office costs. In that regard have we in some areas of government gone too far in terms of stripping out back office costs which actually are about the capacity to use financial information sensibly?

Mr Morse: Well of course cost is not necessarily the question. Sometimes maybe the answer is to make progress in rather modest steps, with a much less ambitious programme, to move the thing forward in that way. To be honest, in some cases that may be what we should do. I am not going to say that we have necessarily gone too far in government. I do not think it is a matter simply of the amount of money; it is a question of effectiveness and it is a question of managing risk, particularly when you are talking about IT and information contracts. Even in the private sector these are extremely difficult to manage successfully.

Q64 Mr Burstow: My final question is just about the NAO and the Audit Commission. Is this an area where you think there is room for further development? Do you think that there is room for two organisations that are in some cases doing overlapping work or is there a case for a merger?

Mr Morse: My understanding of it—and it is only an understanding based on what I have learned and what I have read so far—is that the work does not overlap that much because, as I understand it, the Audit Commission does not primarily focus on value-for-money work. It primarily goes for a more holistic capability assessment of the entities on which it is commenting. I do think that it is worthwhile to be open to exchange, and be on friendly and open relations with the NAO and the Audit Commission, and understand if they have anything to offer each other in terms of knowledge and understanding.

Mr Burstow: Certainly in the past the Audit Commission has done work on dementia and obviously the NAO has done some really important work on dementia as well, so there are, at least in terms of historical examples, cases where there is clearly overlap. I am going to finish at that point. Thank you very much.

Chairman: Douglas Carswell?

Q65 Mr Carswell: I am almost as new in this role as you may shortly be in yours, so I have only got a couple of quick questions. I am interested in your role with the MoD and I am interested in trying to tease out a little bit more about how as Defence

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Commercial Director you are now going to put on a different hat and be able to assess objectively MoD defence procurement. Would we be able to have a list of projects and areas that you were involved with at the MoD where, further to the answer that you gave Mr Touhig, you recognise that there might be a conflict of interest, and given your former role you might want to actually give a list and let us know now which areas you might not be comfortable with doing both.

Mr Morse: I do not honestly think, apart from the carrier, there are any others where I will not be able to function perfectly objectively. In other words, the fact that I have given comments and guidance does not mean that I cannot make an objective assessment. I just do not accept that that is true. I think it is true in the case where I have actually been involved in significantly structuring something—and I have given you one example of that—but for the most part that has not been the case. I am mostly in the MoD a standard setter and an assessor rather than a person who runs a programme. In my normal function obviously one is going to have regard for it, but I do not think it is a conflict in looking at that objectively.

Q66 Mr Carswell: In your role as the Defence Commercial Director you must have become aware that there is this debate between those who say we need more off-the-shelf defence procurement and those who say we need to buy from a limited range of suppliers. Purely in terms of value for money, I would be interested in knowing where your sympathies lay. Have we got the balance right?

Mr Morse: I think we need to have regard for how much risk and volatility we can allow in the programme at any one time. It is a very complex programme of projects. You might say, well, if you are building and designing your own platforms, whatever they are, then that is more risky, it is probably net more expensive, and that should be balanced. You should do that where you really need to, and where you do not really need to and where a more standard (and therefore less risky, and possibly net less expensive option) works well, you should be going for that. To my mind that would be an overall rational approach. If you say to me but is that what is applying at the moment, I think we are moving towards it, to be quite honest. I think the effect of being involved in two campaigns for so long has been that, to a significant extent, a lot of what we have had been bought under urgent operational requirements and has been, largely speaking, off-the-peg, so what has been happening over a period of time is that the requirement of equipment that we have that is actually bespoke as opposed to bought from the market has gone down.

Q67 Mr Carswell: A final question if I may. You mention urgent operational requirements. Is the increase in that happening de facto because the Armed Forces have sussed out that it is a way of getting stuff they actually want rather than stuff the MoD is prepared to supply?

Mr Morse: The reason for that is because we are involved in two wars and because the military planning assumptions are not based on that much activity, so that is why. I do not believe the Treasury would let that expenditure take place without that. Having taken the other side of it, people are human beings and no doubt they are aware of the effect of the UOR regime, so I leave it to you to say what the balance is. For the vast majority of these, and with very close Treasury scrutiny, what is being bought under the UOR regime is strictly necessary and absolutely appropriate, and it is not being pushed, in my view, beyond the limit.

Chairman: Your last questioner is Alan Williams.

Q68 Mr Williams: You are the first C&AG in history not to have absolute discretion in the exercise of your functions. I have come straight here from a meeting with Sir Andrew Likierman. I remember him as a very impressive witness on various occasions and I found him a very congenial and amiable person to talk to. How far have you had a chance as yet to get a measure of your new partner in the running of the NAO?

Mr Morse: Well, first of all, I had a long telephone conversation and then I went to visit him at the London Business School, and we had a long and very satisfactory meeting, so the answer is I am extremely confident that we both clearly understand our functions, Mr Williams, and also at a personal level I think our ambitions for the NAO and our expectations of how we are going to work together are going to be very effective indeed, so I am very confident about it.

Q69 Mr Williams: He has a similar positive attitude, but how well do you think this goodwill will survive beyond the start of the development of the code, the strategy, the new imposition of rules on the NAO instead of your absolute discretion? When will the process of the development of the code start? Do you see any major problems that you might encounter over the code?

Mr Morse: Of course, when you are working out detailed rules, it is unavoidable in getting to complete agreement on rules and operating principles that are required to be developed that there is close working, and there will be points we will discuss. However, to be quite honest, it is not like I have previously been in an unfettered role and now suddenly you are limiting me. I actually view this as a very desirable thing and perfectly normal and appropriate. Nobody is taking anything away from me. I think it is strengthening and so I approach it with a very positive attitude. Of course, we will have detailed things to work out as to how exactly it is going to work, but I think we can do that.

Q70 Mr Williams: The loss of discretion will be particularly obviously in the area of non legislative functions. An important area there, an important sector of work is the overseas work, and this has developed gradually, with encouragement from the Committee, over the years. How far do you cherish

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the existing areas of activity or are you quite happy to see a considerable pruning back if that was suggested in the code?

Mr Morse: I think in the fees work, as I understand it, and again I am not going to pretend to have a very high level of knowledge on this, you have always got to have in mind what your priorities are. Our priorities are the main functioning of the NAO, working with the Public Accounts Commission.

Q71 Mr Williams: Yes, of course the priorities then go to the Commission anyhow for resources, so in the event of wanting expansion of activities, you still have that option open to you but you come jointly for resources. Then on another area that has been developed relatively recently, it always used to be a source of great envy, and still is, to all the other select committees of this House that we have the vast resource of the National Audit Office to provide us with these ready-made and very thorough Reports. We have encouraged—and I have tested it on the Liaison Committee—them to provide support more widely in the House in terms of the briefings to more select committees and indeed in terms of secondments. Do you envisage that continuing and expanding? Of course it will not be entirely within your discretion whether it does, but what would your instinct be on that?

Mr Morse: I think it is a good thing. I think it is a good thing because it provides breadth and the experience across different government activities for the NAO staff, and hopefully provides a good resource and good-quality support to other committees. But I will keep on with the point I made earlier, which is that you have always got to remember what job one is. If there was a question of resourcing priority or the ability to do the job properly, our first job is the one that we have to keep very much in the front of our mind. It does not mean that we should not accept this—I think it is a good thing—but we should keep in mind what the priority is.

Q72 Mr Williams: But it could well be that you would envisage an expansion of these roles, having seen how they work, and your colleague does not. Do you see any problems arising there?

Mr Morse: I assume if my colleague did not see that, it would be because he had concerns about something specific, and I guess that might be our ability to resource our existing work. If those concerns were, in both of our views, well-founded, then I am afraid, as I have said, I would put the core work as a priority. It always helps to know what you are really there for, I think.

Q73 Mr Williams: You have got to keep your eye on that obviously. You met your colleague because he is setting up a new organisation and you were not really having to envisage the recruiting of the non-executive directors. I believe adverts may be coming out in the very near future. Where is your thinking in terms of the composition within the board and the directors that you are able to appoint? When do you envisage selecting those?

Mr Morse: Not too soon. I am only at the very early stages. I need a chance to not only meet people but actually see them a little bit in operation. I need a chance to think about what we are going to have within the NAO as management structures. So, in other words, if this is the policy board and, in addition to that, you need to have management structures where all the senior people will participate, we need to think that through, and then that allows you to say who can contribute at the policy level, what is the appropriate choice, how long should they be there for? I am aware that it is a subject of some interest, but it is really too soon for me to take a position on that, and I would like to do that giving myself as much elbow room to assess the position as possible.

Q74 Mr Williams: One of the quandaries we had to face when we were trying to devise the legislation to introduce the changes was over what happens to you, as it is now, at the end of your 10 years. We had considerable discussions around whether it should be two years that you are not allowed to work for government or for anyone that you have had professional business with in your new role. What would you envisage as being an adequate protection for the public to ensure that you are not in any way influenced by a future career when you are making your decisions?

Mr Morse: I think you will be protected by my exhaustion at that stage rather than anything else! If I am giving you proper professional advice, I would say select something that is actually legally enforceable as a limitation and that makes reasonable sense. You are better judges than I of what is going to be embarrassing or not embarrassing, but it should not be too short a period, obviously not. I would think two years is about right personally.

Q75 Mr Williams: A final question following on Nigel. Nigel made a point about value-for-money work and the proportion of your resources that go to it. May I say that I am a geriatric on this Committee; I have been here since about 1989 I think it is. When I first came on the Committee, the NAO used to save five times its annual budget for the public, and it was at the request of this Committee and the Commission that it has gradually increased to six times, seven times, eight times and it is now nine times its annual budget. It is actually saving the taxpayer £1 billion every 18 months. That is a remarkable achievement. I hope that when you look at your programme in relation to VfM, following on from what Nigel was saying, you will be looking more towards expanding the VfM work rather than contracting it. Do you have any predispositions?

Mr Morse: I find the VfM side of the book naturally very fascinating and attractive. I must admit that it is one of the major reasons why I want to do this job. I find it intensely interesting, so I am not going to deny that I have an interest. I do not mean I am not interested in everything that the NAO does, of course I am, but I do find the subject of how you deliver and grow value for money in government, as

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I have probably indicated before, extremely interesting, and it is probably where I feel rather passionate and want to drive things ahead. Does that mean that we will spend the money on it? I do not know, but I certainly want to see it prosper.

Q76 Mr Williams: This is the point, the Commission's role is completely separate from this Committee's role. This Committee deals with the contents of your work and your Reports. We deal with the resourcing of the Commission for you. We are encouraging you to save more money for the public. One of the first things I suspect we will say to you at your first appearance before the Commission, and probably my colleagues here at the Committee will say the same, is will you now start looking at the possibility of increasing it to 10 times your annual budget? Perhaps you will think about it between now and starting work.

Mr Morse: Thank you very much.

Chairman: I think Mr Bacon has a supplementary.

Q77 Mr Bacon: Can I squeeze in very quickly, Chairman, three questions, one about the Financial Services Authority, one about the clearance process with departments; and one about the Office of Government Commerce. The FSA, like the BBC, falls into that nether limbo where it is not audited by the NAO although it is an important public body. Can you think of any good reason why it should not be audited in the same way as many other public bodies are by the NAO?

Mr Morse: It is not obvious to me.

Q78 Mr Bacon: Would you like to see it audited by the NAO in the same way as the BBC should be?

Mr Morse: I am tempted to say yes, and on the face of your question that sounds like the right answer, but I am going to be hesitant about it based on not really knowing enough to say if there is a counter-argument.

Q79 Mr Bacon: It would have been a perfectly acceptable answer.

Mr Morse: If somebody said to me would you please audit the FSA, I would be more than willing to do so.

Q80 Mr Bacon: Thank you. You mentioned the clearance process and how you might get quite involved in that yourself, and you were going to be on the front foot, and you described the process as needing to have a sharp edge and that there should be no watering down. On the subject of the way the Reports are written, mostly I think NAO Reports are really clear, well written and carefully written, as you would expect. Where sometimes they get opaque is where it looks like it is as the result of a committee, a camel if you like, a horse designed by a committee, where various different bits have been put into the paragraph to cover every possible base. Can I take it from what you were saying about not watering down the findings that there is scope that you would be pleased to see brought out for making differences, where they occur (and there will be irreconcilable differences between the view of the

NAO and the view of the department) explicit, because there will be disagreements from time to time, and it would be very helpful to the Committee if those were more clear rather than opaque and buried?

Mr Morse: I think there are two things. Firstly, of course, when you make points it is very important to listen to the answers that you are being again given and there may be genuine, good reasons why you should qualify your first comments, and it is quite wrong and I go back to my comment to Mr Hill on the subject, and I do not want to lose that; it is important that you be seen to be fair and to listen and to take account of explanations that you are given. But, secondly, if there is an insoluble position being taken, quite often in my previous life I have thought it better to say that there is an opposed position here than necessarily trying to produce an amalgam which really does not help anybody to understand what is being said. With that qualification, I go with you.

Mr Bacon: I find that a very helpful answer.

Q81 Mr Williams: Can I follow up on that one. I think we must be absolutely clear at the outset about the review about departments. The review about departments is about facts. It is to make sure that we do not sit here arguing whether it was £10 million, £11 million or £15 million so we are not wasting our time trying to get at the truth. The review is not to do with value judgments. The review is not to do with the department telling the NAO what it should recommend. The NAO gets around this, and you are probably well aware of this, by the simple tactic—and it is the thing I always look for in the Report—“In the view of the department . . .” or, “In the view of the NAO . . .” That is the flag that is put in. There must be no false impression go out from this Committee that your judgments—I do not mean you personally now—the NAO's judgments are in any way watered down because of persuasion by a department on value judgments. You highlight where there are differences and people have to recognise the way in which it is highlighted.

Mr Morse: Thank you.

Q82 Mr Bacon: I endorse very much what Mr Williams said. I look out for those flags, too. I take your point completely, and I have heard others in the NAO say the same, that sometimes a department will point out something that is of enormous help to the audit process and the value-for-money process so that you get it right. I think there may be occasions where it could be even more explicit where there are disagreements and differences. My final question is about the Office of Government Commerce. You mention the business of making financial management more central to the way in which departments and agencies are managed and financial management is driven through an organisation. The same could be said of project management. We see time and time again not only utter failures of financial management but we have seen projects that had no budget; we have also seen projects that had no-one in charge; we have seen

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projects that had seven people in charge in seven years. The Office of Government Commerce and the traffic light process has an enormously important role to play here, but it is not very high profile. What do you think you could do to see that process brought out and made more central inside government and made more high profile?

Mr Morse: I think that if I look at the Office of Government Commerce and the direction in which they point, in terms of project management and efficiency, and if I look at the Treasury and the direction in which they point, and not be dependent on those, be independent of them, but take intelligent account of them and make sure that we are all exerting pressure in the right way and, as far as possible, endorsing that pressure so that, in other words, if you are looking at a department, and it is quite clear that they have had guidance from the OGC that they are not putting into effect, that is a relevant piece of evidence. I suspect that would be very strengthening to the OGC. I am quite familiar with the OGC and I have had quite a lot of interaction with them. I would be more than willing to say that is a relevant piece of evidence. If they have been given that guidance or they have had guidance from the Treasury and they have not taken account of it; why not? That is the sort of thing I would have thought we could quite legitimately ask. In terms of mutual enforcement and reinforcement of efforts in the right direction, I think there is something to be done there. I do not suggest it is not happening already because I do not know that, but I believe it is something that makes sense.

Q83 Chairman: A last question from me. You have had a lifetime of experience in the private sector and you have been working for the MoD for between two and three years. What about your interaction with politicians and what is it about your past that

makes you think you can interact with us? This is a unique position that you hold because you have absolute independence in the way you frame the Reports but, to reply to the point Mr Curry made, it does add enormous value to the process that, unlike the Audit Commission, the National Audit Office reports to a parliamentary committee. If the National Audit Office was on its own and just produced Reports, I do not think it would have anything like the effect on Whitehall that it does have. Why it has an effect is that you produce the Reports independently and then the Permanent Secretary has to answer for them and appear in public session, often with very tough questioning. We have got to know that you will want to interact with us politicians and have some sort of, with a small “p”—political skills which you have learned in your time as a chartered accountant.

Mr Morse: Right, well, I think that this country is run by a political process, and my experience in the MoD has been that I get on very well with the politicians that I have worked with, and I understand their priorities, and they are trying to do their job by their best lights, and try and be helpful to them and, to be honest, I do not find that particularly difficult at all. Coming at this job, of course the role of the NAO and my role is to be independent of party but, within that, if I can help politicians to do their work, to understand the issues, and be able to govern the country better, I want to do it. That is not a hardship for me, I really welcome it, and I am fascinated by it.

Q84 Chairman: Thank you. Do you wish to say anything else to us before the end of the session?

Mr Morse: Thank you very much for your good attention.

Chairman: Thank you. That concludes our public session.
