



National Audit Office

National Audit Office

Our Strategy 2011-12 – 2013-14

Our vision is to help the nation spend wisely.

We apply the unique perspective of public audit to help Parliament and government drive lasting improvement in public services.

The National Audit Office scrutinises public spending on behalf of Parliament. The Comptroller and Auditor General, Amyas Morse, is an Officer of the House of Commons. He is the head of the National Audit Office which employs some 900 staff. He and the National Audit Office are totally independent of Government. He certifies the accounts of all Government departments and a wide range of other public sector bodies; and he has statutory authority to report to Parliament on the economy, efficiency and effectiveness with which departments and other bodies have used their resources. Our work leads to savings and other efficiency gains worth many millions of pounds: £890 million in 2009-10.



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Our Strategy 2011-12 – 2013-14

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Foreword

The challenges currently faced by the public sector are significant, with public bodies under pressure to deliver their services with fewer resources. It is now more important than ever for these organisations to be in control of their costs, to manage their risks, to have adequate information about their performance, and to understand how their services can be delivered most cost-effectively.

The National Audit Office, reporting to Parliament, has a unique role in helping public bodies to meet these challenges. Our deep public audit expertise and our independent remit across the whole of the public sector allow us to focus on issues that are central to ensuring that public money is well spent.

Specific, practical issues will arise as public bodies address challenges that currently include, among others, the need to reduce costs, to decentralise, and to reform the criminal justice, health, and welfare systems. Through a rigorous independent assessment of these client issues, we are able to focus our work where it is most likely to help drive operational improvement and protect public value. This in turn allows us to target our resources more effectively, to utilise our knowledge more systematically, and to adopt a more standardised approach more consistently at lower cost. As we conduct structured examinations of the forthcoming changes, this strategy will allow us to add value in helping to drive public service improvement over the coming three years, while requiring 15 per cent fewer resources.

The NAO is already well-placed to support Parliament in helping government address its many challenges in delivering public services at a cost that represents value to the taxpayer. Over the coming year, we intend to become more effective still.

Amyas C E Morse
Comptroller and Auditor General

Professor Sir Andrew Likierman
Chairman

Part One

The context of public audit

Summary

The fiscal and policy pressures on the public sector are significant, with cost reductions required of most organisations. This is a difficult time for the public sector, but a strong focus on improving financial management is necessary to help public bodies manage through the challenges they face and move towards more efficient and effective public services. The National Audit Office is ready to support Parliament in holding public bodies to account as they meet these and other challenges to secure greater value for public spending.

A changing public sector

1.1 In October 2009, the National Audit Office published its three-year strategy for the period beginning 1 April 2010. Since then, there have been significant changes to the political and economic environment in which we operate. The new coalition government has made reducing the country's fiscal deficit its top priority, particularly through substantial reductions in public spending. The post-election budget and Comprehensive Spending Review have put pressure on central government departments' budgets. At the same time, the demand for public services continues to grow, while the wider effects of the downturn are still being felt.

1.2 The modern public sector has not previously been subject to this degree of fiscal pressure, and it presents challenges to government departments and their delivery partners. They must focus both on short to medium-term savings, while producing longer-term structured, sustainable reductions in costs, and maintaining or improving service quality.

1.3 This is a difficult time for the public sector. But it also represents an opportunity to scrutinise all aspects of government spending. With a systematic, determined focus on improving financial management, the public sector could emerge from this period better equipped to deliver services more economically, efficiently and effectively.

New priorities for public services

1.4 Alongside its fiscal priorities, the government has taken action to devolve power to local levels and to remove regional structures, with an intention to recalibrate the relationship between central and local government. Steps are being taken to require both central and local public bodies to make their financial and performance information more transparent. Organisations will publish details of their spending, tenders and contracts, and details of senior staff salaries in order to encourage members of the public to hold government to account.

1.5 Public bodies also need to be ready to provide services through different models, such as social enterprises, which will bring greater competition from the private and voluntary sectors in delivering public services.

1.6 Through these and other measures, the government intends to change the way that departments are accountable for their work, moving from a system of Public Service Agreement targets towards other forms of democratic and consumer accountability, supported by a more prominent role for non-executive members on departmental boards. More community-based budgets will lead to a greater need to balance parliamentary accountability for services funded centrally with the legitimate influence of local accountability.

1.7 These changes, which combine a drive to reduce costs with different systems of accountability and governance and new delivery models, present opportunities to improve services as well as potential risks to delivery. The National Audit Office will help to safeguard public money by scrutinising these changes to help ensure that departments' decisions support good management of public money and represent value for money for service users, taxpayers and their locally and nationally elected representatives.

The National Audit Office will help Parliament scrutinise these developments

1.8 The National Audit Office will help the Committee of Public Accounts to scrutinise these developments and will support public bodies as they meet the challenges ahead. Our strategy builds on our unique public audit role and draws on our core expertise in three particular areas – financial management and reporting, the use of information to improve decision-making, and how to deliver services cost-effectively. Our work will help to deliver long-term improvements in public services and to assist in achieving structured cost reduction. We will lead by example, by reducing our costs and increasing the transparency of the information we hold.

1.9 This document summarises how we propose to update our existing strategy. Part Two describes our strategy and how it focuses on the challenges ahead, Part Three sets out our priorities and the outputs we will produce to achieve our objectives, and Part Four outlines the financial and human resources we will deploy to deliver our work.

Part Two

The NAO strategy

Summary

The National Audit Office is the external auditor of all government departments and a wide range of other public sector bodies. Our aim is to apply the unique perspective of public audit to help Parliament and government drive lasting improvement in public services. We will achieve this aim by focusing strongly on the main management issues facing government, developing and applying the expert knowledge of a high-performing organisation to influence positive change.

Our business

2.1 The role of the National Audit Office is to scrutinise public spending on behalf of Parliament. The Comptroller and Auditor General, Amyas Morse, is an officer of the House of Commons and heads the NAO, which is totally independent of government and has the largest concentration of financial skills in the central public sector. The Comptroller and Auditor General and his 900 staff certify some 470 accounts of public bodies, including all government departments, all non-departmental public bodies and a range of other public sector organisations. In 2010, the NAO was also appointed to the Board of Audit of the United Nations.

2.2 In addition, the NAO has statutory authority to report to Parliament on the value for money of government expenditure. The 60 major reports we publish each year are available to the Committee of Public Accounts of the House of Commons, which draws on our findings to question the government on the implementation of its spending decisions. The NAO also offers its expertise to government in response to other financial and delivery challenges. This has recently included published advice to departments on reducing their costs in a structured way.

2.3 In 2009-10, our work led to savings and other efficiency gains for government and the taxpayer worth £890 million. Of this financial impact, £837 million was calculated to be cash-releasing for our client bodies, such as through more efficient procurement practices or improved debt recovery.

2.4 Our financial audit and value for money work has delivered additional benefits, including reports which have helped improve internal systems of financial control and cautioned government against making costly machinery of government changes. As a result of our reports, the Home Office has taken steps to improve its approach to project management, including by establishing a more thorough and coordinated approach to financial control. Actions taken since an NAO report in 2005¹ for instance, have improved the value for money of stroke care, although improvements have not been universal. Our report on *Supporting people with autism through adulthood* influenced the Autism Act 2009. Such actions by departments are a further key indicator of our impact.

2.5 Our work is valued by Parliament and by government. In 2010, independent research found that 68 per cent of members of Parliament believed the NAO to have a beneficial impact² and government departments welcomed our ability to challenge and add value to their work.³

Our aim and objectives

2.6 Our aim is to apply the unique perspective of public audit to help Parliament and government drive lasting improvement in public services. We will achieve this aim by meeting our objectives to:

- a** be a high performing organisation that consistently demonstrates leading edge competencies in its core disciplines;
- b** develop and apply our expert knowledge to provide an independent and objective assessment of government performance; and
- c** use our knowledge to influence departments to drive lasting improvement in public services.

2.7 We set out this aim and these objectives in our three-year strategy (2010-11 to 2012-13) published in October 2009 (see **Figure 1**). The strategy represented a new approach for the NAO in seeking to identify systemic barriers to improved public service delivery and to support Parliament and government in addressing them.

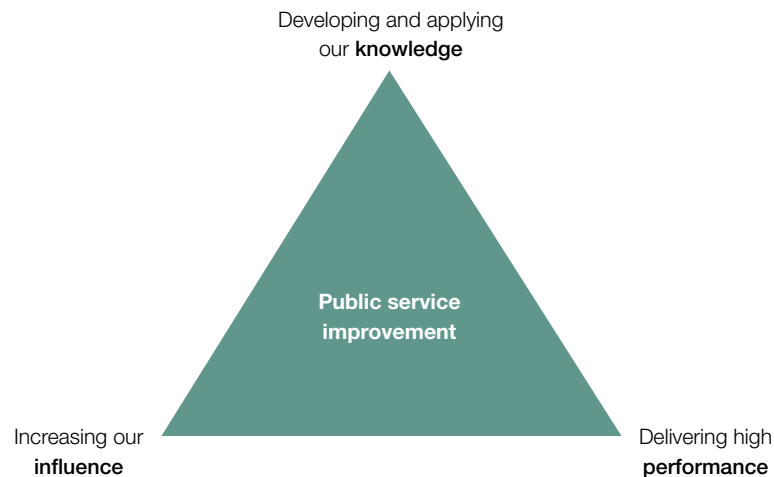
2.8 In 2010-11, our aim and objectives enabled us to respond positively and flexibly to external events, including the change of government and the financial retrenchment experienced by our clients. Evidence from our clients and others suggests that our strategy is having a positive impact, enabling us to identify and reflect good practice to our clients as a means of supporting their work to improve the efficiency and effectiveness of public services.

1 *Reducing Brain Damage: Faster access to better stroke care*, 16 November 2005.

2 Ipsos MORI survey.

3 Grant Thornton moderated client feedback.

Figure 1
NAO objectives 2010-11 – 2012-13



2.9 We are still committed to our strategy. Over the last year, we have found that our aim and objectives have worked well and are still highly relevant for the challenges facing government in 2011-12. Our strategy enables us to understand and analyse client issues, building on our knowledge and having a positive influence on public services whilst remaining flexible enough to support our clients in dealing with changes.

2.10 We must continue to work hard to embed our aim and objectives into everything we do. Our new Board arrangements, established in 2009, provide an effective model of public sector governance and we have created a strong Leadership Team, under the Comptroller and Auditor General, to realise our ambitions. But we still need to improve how we coordinate, promote and gain value from cross-cutting work on our strategic themes. And in some areas, we need to develop further our capabilities, such as our ability to conduct complex quantitative analyses and to keep pace with the latest generation of government IT. In addition, the NAO must continue to offer value to audit clients and to Parliament in a climate of spending restraint and concern about audit and regulatory burdens. All these are challenges for 2011-12.

Develop and apply our expert knowledge

2.11 Our role and remit give us privileged access to information from across government, allowing us to focus on the most significant issues facing our clients and to adopt a consistent analytical approach to them. We will continue to build our knowledge base on these issues and apply it effectively to the bodies we audit. By focusing our work and producing more targeted, relevant findings, we will thus be able to work more cost-effectively.

2.12 Over the past year, we exploited our knowledge of client issues through a thorough knowledge and information strategy and virtual networks built around in-house experts so that all staff can access their expert knowledge. We have established cross-cutting teams to focus on key strategic issues, producing reports that have had wide impact. For example, our report on the costs of machinery of government changes⁴ influenced the incoming government's decision to limit such moves⁵.

2.13 We have made progress, but we have more to do over the coming year to ensure that the NAO remains an acknowledged authority in its core areas of expertise. We will refine the internal systems that provide access to current expertise to benefit our clients. We will liaise with our stakeholders to focus our capability on those challenges where our support can help most. And we will produce value for money reports that identify and disseminate good practice in meeting the challenges facing Britain's public services.

Build a high-performance NAO

2.14 We have already done much to build a team-based, professional, efficient and high-performing organisation. We expect the continued application of this strategy over the coming year to allow us to use our resources more efficiently.

2.15 In the first year of our strategy, we planned to reduce the cost of producing our value for money studies by 10 per cent, our financial audits by 2 per cent, and our corporate costs by 5 per cent. Through increased productivity, we are on course to achieve or exceed these savings. We have also reviewed and improved the quality of our financial audit and value for money audit work by making process improvements, including by allocating staff more efficiently to projects, improving overall utilisation. We have brought in five director-level experts to supplement our knowledge in key areas including economic analysis, capital markets, IT, and have secured access to the expertise of others with decades of relevant experience. We have also recruited 70 new trainee auditors to guarantee our future skills base, without increasing our overall headcount.

2.16 But there is still much to do to create the dynamic, high-performing organisation that would add maximum value to our clients and to Parliament. We must continue to reduce our costs, and we propose to cut these by a further 15 per cent over the coming three years⁶. We will support the Committee of Public Accounts and Parliament more generally including through the dedicated parliamentary relations team that we have established to secure this. We will also exert our influence on government to improve public services and to ensure that proper assurance arrangements are in place. We will improve the quality and relevance of our value for money audit findings, particularly with more data publicly available, and we must communicate these findings and recommendations more clearly to our key public sector audiences.

⁴ *Reorganising Central Government*, 18 March 2010.

⁵ *The Times*, 14 May 2010, *inter alia*.

⁶ Assuming we take on no additional responsibilities (see paragraph 4.6).

Positively influence those responsible for running public services

2.17 We aim to deliver consistent quality service, build strong relationships and forge active partnerships, developing new channels to increase our influence so that audited bodies implement our recommendations.

2.18 Following the May 2010 General Election, we developed strong links with our new partners in Parliament. Before the summer recess, we published short guides on all 17 major government departments to help the work of the new select committees. Our published advice to departments on how they should strengthen their systems of internal control has led to positive change⁷. We also gave our opinion to government on how to ensure sufficient accountability in the ways they hoped to deliver public services. Our guide on undertaking programmes of structured cost reduction, published in June 2010, has proved influential, receiving wide airing with audiences in both government departments and the professions, and has helped demonstrate the NAO's ability to lead debate in areas of current significance to public policy.

2.19 We must work hard to continue to influence positive change. We will conduct a thorough review of our strategic, digital and internal communications strategies to ensure that we are using all appropriate ways to transmit our knowledge effectively to those who can take action. We will continue to work closely with the Committee of Public Accounts and its Chair to ensure that the NAO is doing all it can to support Parliament in holding the executive to account for its spending. And we will continue to liaise with government, whilst maintaining our independence, to ensure that it has the capability to implement our audit recommendations to deliver services more economically and efficiently.

7 NAO Survey 2010.

Part Three

Delivering the strategy

Summary

In 2011-12, we will continue to focus on three strategic themes that impact on all departments' performance in achieving value for money: improving financial management and reporting; making better use of information; and ensuring that services are delivered cost-effectively. Our financial audit work will remain central to Parliament's ability to hold government to account for its expenditure of public money. We will report to Parliament on government actions to address the economic impact of the financial crisis and the implications for the nation's finances. We will also report on the government's approach to reducing public spending and the costs of public services.

Helping Parliament hold government to account

3.1 Accountability for public money begins and ends with Parliament. The NAO helps Parliament provide assurance to taxpayers that public money is being spent wisely. Over the coming year, we will provide independent assurance on some 470 annual financial statements of public bodies, including government departments, agencies, non-departmental public bodies and publicly-owned companies. We will highlight to Parliament important issues arising from our work and work with the bodies we audit to improve the quality of financial reporting.

3.2 We will deliver 60 major reports to Parliament and support the Committee of Public Accounts in its examinations based on our findings. Our reports, drawing on our wide-ranging, cross-government perspective, will identify both generic issues and specific problems that face our changing public services.

Focusing on the main challenges

3.3 In 2009-10, we identified three areas of weakness in government that compromised departments' ability to deliver and where our skills and expertise could add significant value. These became our three strategic themes: improving financial management and reporting; helping government make better use of information; and ensuring that services are delivered cost-effectively.

3.4 These themes highlight areas that are critical to the government's ability to manage and improve public services in all circumstances. As such, our current focus will continue over the coming year. We will carry out further evidence-based work in these areas to ensure that good practice is replicated, risks are addressed, greater standardisation is achieved to reduce costs, and systemic barriers to better performance are identified and remedied.

Improving financial management and reporting

3.5 All public bodies must have robust processes in place to manage their resources and risks effectively so that they achieve their goals and report spending comprehensibly to the public. In 2010-11, in addition to the volume of work to improve the timeliness and quality of departments' financial reporting, particularly in the light of the introduction of International Financial Reporting Standards, we highlighted to departments how they could undertake a structured programme of cost reduction, and we helped them strengthen their statements on internal control. In 2011-12, we will advise departments on how better management of costs and risks can help reduce spending whilst maintaining high-quality services to the public, and we will examine plans to improve the transparency of government reporting.

A more informed government

3.6 Departments need good quality management information to take decisions, design and deliver services, track performance and control costs. In 2010-11, we assessed the success of existing government performance measures and advised on how departments could improve their sponsorship of non-departmental public bodies. In 2011-12, we will seek improved measures of public sector productivity. We will also review the data and quality issues raised by government's requirement for public bodies locally and nationally to publish financial and performance information online.

More cost-effective delivery

3.7 The range of bodies from the public, private and third sectors involved in delivering public services creates complex governance and accountability arrangements. Departments must understand and manage these arrangements to make them work cost-effectively. To support them, in 2010-11 we reported on the costs and benefits of machinery of government changes and on how to improve procurement and project assurance across the public sector. In 2011-12, we will develop our work on the cost-effectiveness of different delivery models and on further aspects of commissioning, contracting and business process management. This will include assessing the evidence on emerging new public service delivery models.

Responding to fiscal restraint

3.8 The financial and economic downturn has impacted heavily on the stability of the economy and has increased the demand for public services while reducing government revenue. In response, the government has acted to support financial institutions and to halt increases to public sector borrowing. The assets, liabilities and contingent exposure on the government's balance sheet remain significant. Maximising the return for the taxpayer as assets are disposed of will be a major challenge.

3.9 As external auditors working on behalf of Parliament and taxpayers, our aim is to ensure that the actions taken to address the economic downturn and the fiscal gap are transparent. The government has put in place unprecedented arrangements to underpin financial stability and entered into a series of commitments. We have already produced a number of reports and we will continue to keep Parliament informed through an integrated programme of financial audit and value for money work until the arrangements fully unwind.

3.10 We will assess the value for money of the government's approach to reducing the costs of delivering public services, as set out in its spending review announcement of October 2010. To help Parliament hold government to account and to enable departments to learn from good practice, we will standardise and focus our existing work on departmental expenditure in the light of the government's spending review, to establish a rolling programme of reports to Parliament on departments' work to reduce costs.

Developments in the audit landscape

3.11 Our audit work helps safeguard parliamentary scrutiny of all public money and ensure consistent, high-quality public sector financial reporting. There have been some extensions of our audit remit in 2010-11 including, for example, the audit of the Financial Services Authority. The government has announced its intention to appoint the Comptroller and Auditor General to audit the Civil List, and has acted to remove some of the constraints applying to the value for money audit of the BBC. The government is also to establish appropriate audit arrangements for individual academy trusts. In recognition of the importance of accountability for national funds spent by local bodies, the government has also recognised our interest in ensuring robust audit arrangements replace those operated currently by the Audit Commission.

3.12 There will be other changes to the bodies we audit. As part of its programme of fiscal consolidation, the government intends to disband or merge a number of our clients, including Regional Development Agencies, the Health Protection Agency and the UK Film Council. The government also proposes to create new bodies that we will audit. These include two new bodies to increase independent scrutiny of public finances, the Office for Budget Responsibility and the Independent Aid Watchdog. Over the coming year, we will consolidate and finalise those existing accounts and put audit arrangements in place for the new bodies.

Developments in financial reporting

3.13 Our financial audit work is central to Parliament's ability to hold government to account for its expenditure of public money. In 2010-11, government departments, their agencies and most arm's length bodies prepared their accounts under International Financial Reporting Standards (IFRS) for the first time. This achievement was supported by substantial effort by our financial audit teams to provide support to HM Treasury and to clients on implementation to ensure that accounts remained timely and of a high standard. This resulted in all but one major department hitting a summer recess target. The change was delivered without increasing our costs to clients. The adoption of IFRS is the most significant development in financial reporting for a decade.

3.14 In 2011-12, we will strengthen scrutiny and help Parliament hold government to account through the implementation of enhanced approaches to financial reporting proposed by HM Treasury and the introduction of revised accounting standards. Each of these projects will place significant demands on our financial audit practice, and on our clients.

The Alignment (Clear Line of Sight) Project

3.15 We will continue to work with HM Treasury to implement proposals to simplify financial reporting by bringing into line the treatment of income and expenditure in Resource Accounts, Parliamentary Supply Estimates, and the Budgetary process through which the Treasury controls expenditure. In 2010-11, we will be providing audit opinions for additional Trust Accounts which will be used to account for revenue collected by organisations on behalf of the Consolidated Fund. More substantial changes are planned for 2011-12, which we will implement with our clients. These include departments' Estimates and Resource Accounts consolidating the income, expenditure, and assets and liabilities of non-departmental public bodies, and with voted supply being on the same basis as Treasury set budgets. The complexity, volume and challenge of this project will be significant both for our audit staff and for our clients.

Strengthening governance

3.16 Good public governance arrangements, with access to good quality financial and other information, can help safeguard value for public money. We support our clients in this area by helping equip non-executive members on departmental boards to carry out their challenge and scrutiny functions and to hold departments to account. In September 2010, we held a conference with the Institute of Chartered Accountants in England and Wales for non-executive board members, and we will shortly report on standards of board reporting to assess whether new governance arrangements are helping promote improvements in departmental performance. Our audit staff support the work of audit committees and our audit committee assessment tools and our board effectiveness diagnostic tool support the work of improving effective scrutiny.

Supporting the Committee of Public Accounts and other select committees

3.17 The Committee of Public Accounts is the principal client for our value for money work. Their analysis of our findings helps secure sustainable improvements in public service performance. In 2010-11, we established a dedicated team to aid the work of the Committee. These arrangements helped ensure a smooth transition in our support for new Committee members following the 2010 General Election. We will continue to build the quality of this support in 2011-12.

3.18 We will continue to develop our ability to support other parliamentary select committees. In 2010-11, we produced overviews of our work on 17 government departments for the departmental select committees and agreed further support for committees with their inquiries. In 2011-12, we will continue to meet the increased demand for the support we provide to select committees in areas where we have expertise to deliver work that enhances Parliament's ability to hold government to account.

Working with others

3.19 We work closely with others to achieve our aim to help Parliament hold government to account. We encourage client departments to implement our recommendations, and we highlight our findings through briefings, conferences and best practice guidance. We recognise the power of cross-government networks in sharing learning and promoting best practice and we support initiatives that promote better value for money. Examples include our work with other UK audit agencies to share good practice and to improve our ability to benchmark the value for money of back office services. We also work with supreme audit institutions overseas to promote our work and to learn from best international audit practice. We liaise with a wide range of professional bodies to ensure our staff are wholly familiar with good practice in fields ranging from accounting, auditing and procurement to risk and programme management.

3.20 We will continue to pursue this work in 2011-12, whilst maintaining our independence, transparency and accountability to Parliament. We will continue to develop our value for money methodology by building relations with the Government Accountability Office in the United States, from whom we will draw ideas for new ways of gathering and analysing data. We will also continue to liaise with Audit Scotland, the Wales Audit Office and the Northern Ireland Audit Office to ensure consistent quality to our audit work, and to develop further our work on the value for money of back office services.

Part Four

Resourcing the strategy

Summary

With our more focused strategy enabling us to become more productive, we propose to reduce our costs by 15 per cent over the coming three years, in addition to the cost reduction targets for 2010-11. We will demonstrate our overall contribution by publishing a broader range of performance measures and by ensuring our internal processes are transparent and accountable.

Practising what we preach

4.1 The pressure on public finances has intensified. Public sector bodies are required to demonstrate cost savings and value for money. The NAO is no exception, and we are committed to leading by example. We set our 2010-11 budgets to achieve savings of 2 per cent in our financial audit and 10 per cent in our value for money work. Our budgets also incorporated savings of 5 per cent in our corporate costs following reductions in the number of senior posts and planned efficiencies in the way we support our frontline work.

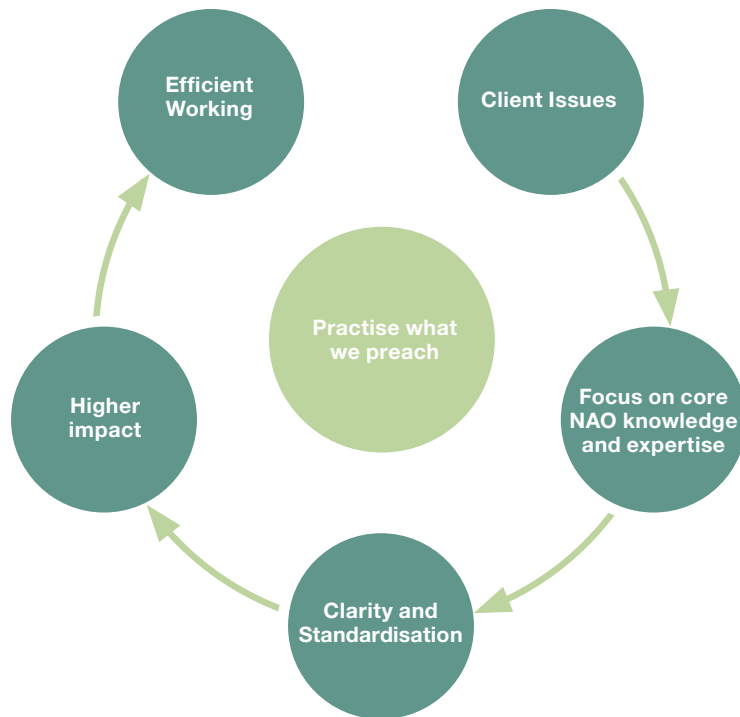
4.2 In 2009, we formulated our strategy to identify how we could maximise the value we delivered to the taxpayer for the resources voted for us by Parliament. The key elements of this were that we should apply our expert knowledge, derived from the exercise of our statutory functions, to increase our ability to influence public bodies to improve service delivery. This approach is led by a greater understanding of the needs of our audit clients so that our knowledge and expertise is focused and exploited effectively to achieve greater impact (**Figure 2** overleaf).

4.3 Our strategy is enabling us to:

- prioritise our work more effectively through a more structured, diagnostic and evidenced-based analysis of the risks which our clients face;
- focus more clearly on areas where we have key expertise, such as financial management, informed government and cost-effective delivery, which are essential to sound operational performance and high-quality public services. This targeting enables us to marshal our expertise and accumulated knowledge more cost effectively;

Figure 2

A high performance NAO: A virtuous circle



- standardise our audit approach, so where a methodology works effectively in one client area we quickly apply it across all departments. This enables us to compare and contrast at a lower unit cost; and
- apply good practice to ourselves much more rigorously, particularly in managing our own costs.

4.4 This approach is already delivering results. For the current financial year we are on track to achieve additional savings of £2.5 million or 3.3 per cent of the budget approved in March for 2010-11.

4.5 Experience over the last year indicates that our strategic approach is working. There is now scope to extend this approach while continuing to support Parliament and help drive improvement in public service delivery. Our intention is therefore to reduce our net resource costs by a further 15 per cent over the three years from 2011-12. To achieve this we are:

- **utilising staff more efficiently.** We will make more use of less expensive staff and make sure that senior expertise is targeted where it can have most influence in support of the audit judgements reached. We can achieve this by standardising more of our approaches, being more forensic in targeting our work, through more collaborative work and sharing knowledge. This will drive down costs while enhancing quality. We intend to have around 850 staff in 2013-14 compared to a forecast complement of 900 in 2010-11;
- **reducing our outsourcing requirements.** Outsourcing can provide access to skills that it is not necessary, sensible or economic for the NAO to build or maintain itself. We are nonetheless building our in-house ICT capability to reduce our reliance on external suppliers;
- **reducing our corporate overheads.** We are examining every aspect of our overheads to determine how these can be reduced further without detrimentally affecting the performance of the NAO. We will build on the recommendations of our external auditor's review of our corporate costs so that at least 80 per cent of our resources are spent on the delivery of our frontline services; and
- **utilising office space better.** To reduce our costs further, we are seeking to sub-let floor space of our London office totalling some 19,300 square feet from late 2010-11. We estimate that this will recoup £0.8 million in 2011-12, an increase of £0.5 million on our forecast rental income for the current year. These and other measures to maximise the benefit of our offices in Buckingham Palace Road, London, and in Sandyford Road, Newcastle, will further reduce our net resource requirement.

4.6 We have modelled the implications of these changes and are confident that they can deliver a 15 per cent reduction in our cost base, without taking account of inflation, while continuing to allow us to deliver our strategic ambitions. We may need to revisit this figure should we be asked to assume additional responsibilities which have the support of Parliament.

Figure 3
Proposed resource requirement

	2010-11 Estimate (£m)	2010-11 Forecast (£m)	2011-12 Proposed (£m)	2012-13 Assumption (£m)	2013-14 Assumption (£m)
Net resource requirement	76.6	74.1	68.7	65.5	62.8
Decrease		2.5	5.4	3.2	2.7

Our use of resources

4.7 In 2011-12, we will use around 65 per cent of our resources to employ 890 staff, of whom some 59 per cent will be either qualified accountants or training for accountancy qualifications.

4.8 We will recruit up to 70 graduates a year under our professional training scheme leading to an accountancy qualification with the Institute of Chartered Accountants in England and Wales. Their starting salaries will remain in line with those paid by other employers for similar roles. But we will implement a pay freeze for all other staff for 2011-12. For 2012-13, we have assumed no increase in our pay bill, and for 2013-14, we have assumed a pay increase of 2 per cent.

4.9 We maintain partnerships with organisations in the private and academic sectors to support us in our value for money and financial audit assurance work. All such partnerships are established following open competition. We will reduce the level of resources used to buy in external support, in order both to use limited resources more effectively and to promote and develop our in-house expertise.

4.10 We have already taken steps to improve our analytical and quantitative expertise. Our new audit responsibilities for bodies with different financial regimes and different risks will require us to develop and deepen our professional expertise in other specific areas. Information and Communication Technology (ICT), for example, will become increasingly central to the delivery of public services, and we will similarly need to build our capacity to evaluate how ICT is used to deliver services and make them more efficient and secure. We may also need to build our forensic audit capability and to develop our work with the National Fraud Authority in order to support Parliament in assessing the increased risk of fraud as mergers and closures of public bodies take place, and staff are made redundant. All decisions to build our capability in areas of strategic interest will be made within our overall available resources.

4.11 **Figure 4** sets out how we propose to use our resources by function, and **Figure 5** does this by the work we undertake.

Figure 4

Proposed use of resources

	2010-11 Estimate (£m)	2010-11 Forecast (£m)	2011-12 Proposed (£m)	2012-13 Assumption (£m)	2013-14 Assumption (£m)
Staff	60.0	58.6	58.2	57.1	56.9
Outsourcing	19.6	15.7	15.0	13.5	11.6
Travel	3.6	3.4	3.3	3.2	3.2
Other cash costs	10.0	10.0	9.6	9.1	8.4
Non-cash costs	2.9	5.9	3.0	3.0	3.0
Gross resource requirement	96.1	93.6	89.1	85.9	83.1
Income	19.5	19.5	20.4	20.4	20.3
Net resource requirement	76.6	74.1	68.7	65.5	62.8

Figure 5

Analysis of resource requirement by type of work

	2010-11 Estimate (£m)	2010-11 Forecast (£m)	2011-12 Proposed (£m)	2012-13 Assumption (£m)	2013-14 Assumption (£m)
Financial audit	48.8	48.7	47.6	46.4	45.3
Value for money	24.4	22.6	21.1	19.9	19.0
Performance improvement	11.9	11.3	10.2	9.8	9.4
Support for Parliament, the public, international work, etc	10.7	10.7	9.9	9.6	9.2
Comptroller function	0.3	0.3	0.3	0.2	0.2
Gross resource requirement	96.1	93.6	89.1	85.9	83.1
Income	19.5	19.5	20.4	20.4	20.3
Net resource requirement	76.6	74.1	68.7	65.5	62.8

Capital expenditure

4.12 We have undertaken a detailed review of our capital expenditure requirements and assessed our information technology needs. The refurbishment of our headquarters building was completed in December 2009 which means that we will have lower capital needs in the foreseeable future but we are increasingly dependent on information technology to support flexible and remote working in the delivery of efficient audit and assurance services. We propose to reduce our capital investment by 21 per cent over the period covered by this strategy to reflect reduced requirements in respect of our accommodation needs. This level of investment will however be necessary to enable us to continue to provide modern and reliable equipment and audit tools to support our work.

Figure 6

Capital provision 2010-11 to 2013-14

	2010-11 Estimate (£m)	2010-11 Forecast (£m)	2011-12 Proposed (£m)	2012-13 Assumption (£m)	2013-14 Assumption (£m)
Capital provision	1.4	1.4	1.2	1.1	1.1

Demonstrating our performance

4.13 High quality management information supports performance improvements in all organisations. We use a range of performance measures to assess our ability to use our resources cost-effectively and our success in achieving impact. Appendix 1 sets out how we expect to perform against our targets for 2010-11.

4.14 From 2011-12, we propose to update our public performance reporting framework to increase its alignment with our strategic objectives and to assist Parliament and our other stakeholders in understanding our work and how we are performing. We will include measures of our impact, of the opinions of Parliament and our clients, and of our capability to deliver and to use our resources cost-effectively. The proposed new performance reporting framework is set out at Appendix 2. We will continue to collect and analyse a range of additional information for internal management purposes.

4.15 We are also undertaking further action to report publicly, in line with increased parliamentary and government transparency, by publishing online all salaries of our senior staff and details of all transactions over £500.

Appendix One

Current NAO performance measures

Resource inputs

	2010-11 Target	2010-11 Forecast
1 Resources used on frontline activity	78%	76%
2 Efficiency improvements in corporate costs, including staff, consultancy and travel	5%	5%
3 Efficiency improvement in financial audit work	2%	2%
4 Efficiency improvement in value for money work	2%	2%

Outputs: Speed of delivery and quality

	2010-11 Target	2010-11 Forecast
5 Accounts audited within four months of the year end	77%	76%
6 Independent confirmation of compliance with auditing standards	Yes	Yes
7 Value for money studies taking nine months or less	65%	65%

Outcomes

	2010-11 Target	2010-11 Forecast
8 Financial impacts achieved	£766m	£766m
9 Improvements in departmental performance – impacts achieved	Significant audited case examples to be reported	
10 Improvements in accountability and transparency – impacts achieved	Significant audited case examples to be reported	

Appendix Two

NAO strategic performance measures from 2011-12

Performance objective	Approach
Our work saves public money	An assessment of our financial impact, with the amount of savings identified
Our work leads to positive change	Analysis of non-financial results during the year
Parliament has confidence in the independent assurance from the NAO	Survey of MPs' views
Clients acknowledge the value of our work	Moderated feedback from departmental clients
NAO is a recognised authority in its core areas of expertise	Qualitative assessment building on feedback from stakeholders
We use public funds cost-efficiently	Assessment of aggregate cost-savings and the allocation of resources between frontline and back office functions

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