



National Audit Office

NOVEMBER 2012

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National Audit Office

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# Our strategy 2013-14 to 2015-16

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Our vision is to help the nation spend wisely.

Our public audit perspective helps Parliament hold government to account and improve public services.

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The National Audit Office scrutinises public spending for Parliament and is independent of government. The Comptroller and Auditor General (C&AG), Amyas Morse, is an Officer of the House of Commons and leads the NAO, which employs some 860 staff. The C&AG certifies the accounts of all government departments and many other public sector bodies. He has statutory authority to examine and report to Parliament on whether departments and the bodies they fund have used their resources efficiently, effectively, and with economy. Our studies evaluate the value for money of public spending, nationally and locally. Our recommendations and reports on good practice help government improve public services, and our work led to audited savings of more than £1 billion in 2011.

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# **Our strategy 2013-14 to 2015-16**



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# Introduction

The next three years will witness the most dramatic changes in the public service environment for many decades. As the government seeks to reduce the deficit and stimulate the growth needed to put the economy back on track, public services face unparalleled challenges. Challenges are presented by the need to operate with less resource while simultaneously centralising and professionalising strategic functions and managing more varied service delivery structures. Public bodies are working in fundamentally different ways, deploying new skills, many of which are in short supply. This is not just the backdrop for our forward strategy, it is what drives it, and will impact on every aspect of our work.

We share the same challenges as the bodies we audit and will be stretched as we respond. We need our work to be relevant to the development of the strategic centre of government, and to have real insights into the way services are delivered on the ground. We have made a strong contribution to government thinking about the importance of strategic capabilities such as the need for robust information, sound financial management and integration across departments. We are developing our skills in ICT analysis, costing and economic modelling so that we can broaden this contribution. In terms of decentralised service delivery, we have fuelled the debate about accountability and helped drive improvements in the way services are commissioned, but we must turn our attention more frequently to what happens on the ground.

We have insight into public services and understanding of the complex changes taking place. We need to make sure we respond quickly and flexibly to the interests of Parliament, the changing priorities of public bodies, and issues raised with us by members of the public. We should always be investigative and questioning, examining concerns on behalf of taxpayers and making independent, authoritative and fair assessments of whether public money has been spent wisely.

At the same time we will continue to focus on our own value for money. We have made significant progress in the last three years in achieving impact from our work, and in reducing our own costs. Over the next three years, our challenge will be greater still, as we develop our approach so that our work stays relevant and continues to drive improved public services despite the turbulent economic climate.

This strategy document describes how we intend to achieve these aims.

**Professor Sir Andrew Likierman**  
Chairman

**Amyas C E Morse**  
Comptroller and Auditor General

# Part One

## Our recent achievements

**1.1** Our experience auditing government gives us deep insight into the challenges faced by the bodies we audit. We have kept pace with these challenges, and responded to changing demands, through our work to **help public bodies make lasting improvements in public services**:

- We have promoted financial management, including by supporting government through **major financial reporting changes**, such as the introduction of international financial reporting standards;<sup>1</sup> aligning accounting across the public sector, and auditing the first full whole of government accounts,<sup>2</sup> which show how all public bodies use taxpayers' money.
- We have highlighted the importance of managing risks arising from the **decentralisation of public services**, particularly the need for systems to be in place to respond when services fail.
- We have emphasised the need for **better integration** of certain government functions, and have reported on the use of shared services<sup>3</sup> and on government ICT.<sup>4</sup>
- We have led calls to improve **data quality and the effective use of information** in evidence-led decision-making, including by showing how better access to information can improve accountability and the provision of services.<sup>5</sup>

1 IFRS Foundation, *International Financial Reporting Standards*, available at [www.ifrs.org](http://www.ifrs.org), accessed 8 November 2012.

2 Comptroller and Auditor General, *Whole of Government Accounts 2010-11*, Session 2012-2013, HC 687, October 2012.

3 Comptroller and Auditor General, *Efficiency and reform in government corporate functions through shared service centres*, Session 2010-2012, HC 1790, National Audit Office, March 2012.

4 Comptroller and Auditor General, *Implementing the government ICT strategy: six-month review of progress*, Session 2010-2012, HC 1594, National Audit Office, December 2011.

5 Comptroller and Auditor General, *Implementing transparency*, Session 2010-2012, HC 1833, National Audit Office, April 2012.

**1.2** We have identified the challenges faced across government, such as through our seven reports on **cost reductions** made by government bodies, and our nine reports on financial management in government departments. We have also begun to **respond faster to the needs of Parliament**, supporting it in holding government to account:

- We have **made our work more responsive**, for example by producing rapid investigations into the Independent Parliamentary Standards Authority<sup>6</sup> and the Care Quality Commission,<sup>7</sup> as well as investigating the Ministry of Justice's language services contract,<sup>8</sup> following concerns raised by MPs, whistleblowers and the public.
- We have increased the **relevance of our work** by identifying risks to the early stages of policy implementation, as we did with our study on the Work Programme,<sup>9</sup> and by identifying issues relevant to Parliament and users' experience of public services.
- We have **supported wider debates** at the Committee of Public Accounts by producing reviews of sectors facing major challenges, such as our briefings on defence<sup>10</sup> and the electricity market landscape.<sup>11</sup>
- We have anticipated the need to **understand the complex accountabilities** of devolved service provision, supporting the Committee of Public Accounts in their hearings and the production of their reports on accountability.<sup>12</sup>

**1.3** We are also in the process of **implementing internal changes** that will make us a higher-performing organisation:

- We have established **new corporate values** – to be independent, authoritative, collaborative and fair – that must permeate all our work.
- We are **updating our ICT systems** to provide our auditors with the tools they need to conduct our audit work efficiently.
- We have invested in recruiting and **developing our staff** so that they have the skills to produce work of the highest quality. In 2012, our accountancy trainees achieved results in their professional exams that surpassed the national average. We have also focused on diversity, moving into the top 50 employers in Stonewall's Workplace Index, and achieving 'two ticks' accreditation as an employer of disabled people.

6 Comptroller and Auditor General, *Independent Parliamentary Standards Authority*, Session 2010–2012, HC 1273, National Audit Office, July 2011.

7 Comptroller and Auditor General, *The Care Quality Commission*, Session 2010–2012, HC 1665, National Audit Office, December 2011.

8 National Audit Office, *The Ministry of Justice's language services contract*, September 2012.

9 Comptroller and Auditor General, *The introduction of the Work Programme*, Session 2010–2012, HC 1701, National Audit Office, January 2012.

10 National Audit Office, *Reforming the Ministry of Defence*, February 2012.

11 Comptroller and Auditor General, *The government's long-term plans to deliver secure, low carbon and affordable electricity*, Session 2012-13, HC 189, National Audit Office, June 2012.

12 HC Committee of Public Accounts, *Accountability for public money*, Twenty-eighth Report of Session 2010-12, HC 740, April 2011; HC Committee of Public Accounts, *Accountability for public money – progress report*, Seventy-ninth Report of Session 2010-12, HC 1503, April 2012.



- We are **practising what we preach** by improving our operations while reducing our costs. By the end of this financial year, the net cost of our existing work will have declined by 12 per cent in cash terms from our 2010-11 baseline.

**1.4** These measures represent good progress in implementing our strategy. To keep pace with the challenges faced by the bodies we audit, and to respond quickly to their and Parliament's needs, we will need to make further improvements to the way we work over the next three years. This strategy describes how we will do this.

## Part Two

### Our strategy for the next three years

#### Summary

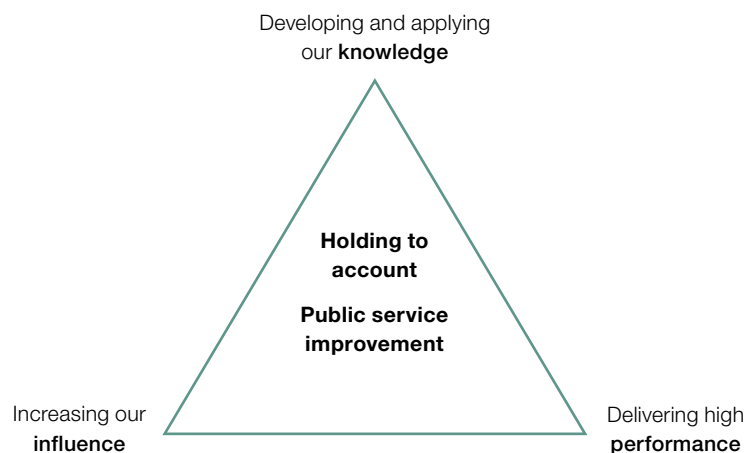
*Major challenges and risks face the public sector. While government is loosening its control of some services through commissioning and decentralisation, other functions are being more tightly integrated within government such as through shared service centres. This strategy sets out how we will respond.*

**2.1** Our public audit perspective helps Parliament hold government to account and improve public services.

**2.2** Our strategic objectives to achieve this aim remain: to be a high-performing organisation that develops and applies knowledge to influence public bodies to provide better value for money (**Figure 1**).

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**Figure 1**  
NAO aim and strategic objectives



**2.3** The economic, policy and delivery context in which we, and the bodies we audit, operate has changed profoundly. We intend to build the flexibility to respond rapidly and effectively to these changes. To do so, we must extend our audit capability to address the greater diversity and devolution of public services:

- a** **The public sector has become increasingly decentralised**, with government departments contracting more with the private and third sectors to provide public services. We will look deeply into the value for money provided by these new ways of delivering services to ensure public money is spent as Parliament intends.
- b** **Complex ways of delivering services sometimes fail**. Staff and service users may be the first to spot the signs of failure. Where members of the public or whistleblowers tell us or Parliament about potential risks to value for money, we will investigate allegations if evidence gives us cause for concern.

**2.4** In addition, we must address the different ways in which government is becoming more integrated:

- a** **Effective provision often requires ‘joined-up’ services**. The extension of our work to local as well as national services will allow us to exploit our cross-government perspective to assess how departments and public bodies are working together to provide services cost-effectively.
- b** **Central government functions are increasingly working more closely together**, and we will examine the benefits and costs of this, as we did in our 2012 study of shared services centres.<sup>13</sup>

**2.5** We must also continue to report on the most important cross-cutting issues:

- a** **Cost reduction can present risks to service quality**. To advise Parliament on value for money, we will look not only at the cost of providing services, but at the value and benefits that users experience.
- b** **The government wants to stimulate growth**. We will report to Parliament on how this goal is impacting on the value delivered for public money.
- c** **Government must innovate** to meet its current challenges and deliver better public services. We will scrutinise the careful planning, management information, and risk management that are all needed for successful innovation.

**2.6** **The public sector’s success depends on a high-performing civil service**, able to implement wide-scale change at lower cost. We will monitor and report on reforms to the civil service to build and strengthen appropriate accountabilities to Parliament. To focus further on current risks, we will continue to **build our insight into each body we audit**, drawing our financial audit and value-for-money work together to understand each organisation’s strengths and weaknesses. Our audit insights will increase accountability by providing better intelligence to Parliament and its select committees, and will help the bodies we audit to understand and improve their own performance.

<sup>13</sup> Comptroller and Auditor General, *Efficiency and reform in government corporate functions through shared service centres*, Session 2010–2012, HC 1790, National Audit Office, March 2012.

**2.7** Our audit work gives assurance to Parliament about emerging risks. We remain committed to providing professional **financial audit** to the bodies we audit for Parliament. We will assess the **value for money** of government spending decisions, including contracts or commissioning relationships with the private or third sectors. We will look at **strategic themes across government**, including financial management, the use of information and ICT, and the capability of public bodies to implement their policies cost-effectively. Together, our work will give Parliament a comprehensive analysis of the efficiency and effectiveness of public spending.

**2.8** We **practise what we preach**. By the end of this financial year, we will have reduced the net cost of our existing work by 12 per cent from our 2010-11 baseline. We remain committed to, and are on track to achieve, our target to reduce the costs of our existing work by 15 per cent in the three years to 2013-14, or 21 per cent in real terms. To achieve our planned £2.7 million (3.6 per cent) saving in 2013-14, we have begun to transform the way we work, to reduce the costs of our value-for-money work and our corporate services, and to maximise our income by subletting part of our London office space.

**2.9** **Our staff** are our most important asset and we remain committed to investing in their development and well-being. We will make effective use of their diverse skills and engage them in the delivery of this strategy.

**2.10** We intend to provide further value for money to Parliament in 2014-15 and 2015-16. To decide the extent of further savings we will **review all aspects of our operations**. This is in line with our recommendations to government that bodies must rigorously examine internal processes and operations, not just trim existing budgets, to make sustainable savings. Our review will examine how we can continue to provide high-quality services to Parliament and to the bodies we audit at significantly lower cost. We expect to conclude the review during 2013 and agree our conclusions with Parliament. In the interim, our planning assumes that we will reduce the cost of our existing work by a further 2 per cent in cash terms in both 2014-15 and 2015-16.

**2.11** Part Three of this document describes the challenges faced by public bodies in more detail and to which our strategy is a response. Part Four sets out in more detail the work that we will undertake to implement our strategy. Part Five explains the resources we will require to complete our work.

# Part Three

## Challenges for public bodies

### Summary

*Spending reductions and reform will challenge public sector managers. We will report to Parliament on the impact of these changes on accountability arrangements, and risks to value for money.*

### Reducing costs

**3.1 The need to reduce costs** will be a long-term feature of the public sector in the UK. The government has published its spending assumptions to 2016-17. It expects average annual real-terms reductions in departmental spending of 3.8 per cent in 2015-16 and 2016-17.<sup>14</sup> This is a faster decline than during the current spending review period which has seen average annual reductions of 2.3 per cent. With these prospects, and the potential for further difficulty in Europe, there may be no real growth in public spending for many years. Yet demand for public services, driven by demographic changes, rising expectations and the impact of the recession, will continue to increase.

**3.2** The current generation of public sector managers has never experienced greater pressure to do more with less. Their challenge is to reduce costs in a structured and sustainable way. Many have already made the easier savings. They will now need to **re-examine their costs and processes more fundamentally** in order to identify further scope for efficiencies and to cut spending while minimising the impact on public services.

### Stimulating growth

**3.3** In addition to making savings, government departments are trying to **stimulate economic growth** by reforming regulation, brokering private or international investment, and investing in infrastructure improvements. Government initiatives must be based on sound information and a careful appraisal of options if they are to stimulate growth and provide value for money.

14 HM Treasury: *Budget 2012*, Session 2010–2012, HC 1853, March 2012, table A1.

## Strategic centre

**3.4** The government's *Open Public Services White Paper*<sup>15</sup> described the intention to **integrate more closely** certain core functions within government, including the management of ICT and other large projects, and internal services such as knowledge management and human resources. The government has appointed senior leaders for finance, policy, economics and statistics, and other functions. This consolidation will require greater professionalisation in each area, as well as more sophisticated coordination and cross-government working between departments with fewer staff.

## Reforming services

**3.5** Other aspects of public service provision are fundamentally changing. The government is increasingly **decentralising the delivery of services**, requiring more contracting and commissioning skills across the public sector. Many departments now contract with the private and third sectors to provide services. The *Open Public Services White Paper* and the government's localism agenda both build on the moves of previous governments towards more devolved decision-making. As a result, public services are provided to users in more ways, and it is sometimes unclear who is accountable for the public money spent.

**3.6** The government is also implementing specific **reforms in many public services**. Legislation has been passed for major changes in health, welfare, education and policing. Implementing structural, operational and cultural change on this scale, while achieving the required cost reductions, will test the skills of managers in many organisations. At the same time, the government says it will **reform the civil service**, with potential impacts on accounting officers and their relationship with Parliament.

## Changing audit

**3.7** The government is **changing how local bodies are audited**. Subject to Parliamentary approval, we expect to become responsible for setting the code of audit practice for local authorities from 2015-16. We already conduct value-for-money examinations on specific issues regarding local services, and many of our studies have a local dimension. We are working with local government and bodies such as the Local Government Association to make sure our approach is proportionate, appropriate and of benefit to the sector and to the users of local public services.

**3.8** The **whole of government accounts** have emerged as an important tool to help government and Parliament to review all public spending. A poor understanding of public finances across departmental boundaries may otherwise result in low value for money from the complex, cross-government programmes that are currently being implemented.

<sup>15</sup> Cabinet Office, *Open Public Services White Paper*, Cm 8145, July 2011.

**3.9** Collectively, these economic and policy changes profoundly impact on how public services are provided. In our government audit work, we will support public bodies as they meet these challenges, and we will help Parliament to scrutinise the value for money of government spending. This will involve scrutinising decentralised services, and auditing the implementation of reforms to the public sector and the civil service to ensure that there is greater accountability to Parliament and improved capability to provide value for money.

# Part Four

## Our work

### Summary

*Our work in 2013-14 will exploit the learning from our audit work and our cross-government perspective on national and local issues to improve accountability for public spending to Parliament, and give assurance that the government is being challenged to improve its financial management and to achieve value for money.*

### Building knowledge and insight

**4.1** We will draw on our **knowledge of good practice** and **our insight into the bodies we audit** and their needs. Each financial audit or value-for-money investigation shows us organisational strengths and weaknesses. By understanding these, we can focus our work more accurately, and give a deeper analysis to Parliament.

### Auditing public spending

**4.2** **Our financial audit** of government accounts is at the heart of our work. We audit public bodies proportionately and appropriately, while maintaining the highest quality standards. We audit 450 accounts and over £1 trillion of income and expenditure. This includes public bodies from the Sir John Soane's Museum, with its annual spending of £2 million, to the Ministry of Defence, with spending of over £40 billion per year. We have also been appointed as auditor for 27 public companies. We report the results of our audits to Parliament, to hold government and other bodies to account for how they use public money, thereby safeguarding taxpayers' interests. Our audits are carried out by qualified and trainee accountants and will remain our core function.

**4.3** We will disseminate the **wider lessons from our financial audit work** and our ongoing audit of the whole of government accounts to help other bodies learn from good practice and improve their financial management and reporting. For example, we will help bodies to improve the transparency of their financial reporting, and transfer learning from their approach to accounting alignment. In this way good practice becomes normal practice.



**4.4** We will examine the **value for money** of particular projects and activities, with our work supporting hearings of the Committee of Public Accounts. In 2011-12, we produced 60 value-for-money publications to support 57 Committee hearings. We scrutinise the spending of programmes within government departments as well as cross-government initiatives. Some of our investigations specifically relate to local services, including those provided through the public, private and third sectors. In coming years, we will continue to scrutinise value for money nationally and locally.

**4.5** We will continue to produce **documents that comprehensively survey a current or complex issue**. This year, such 'landscape reviews' have included reports on the lessons arising from our work on defence,<sup>16</sup> and electricity markets.<sup>17</sup> These reviews survey the area of interest, and inform hearings of the Committee of Public Accounts. We will be responsive to requests from Parliament by providing analysis and evidence to support their examinations of value for money.

### Our role in local public services

**4.6** The significant changes to the nature and number of bodies providing local services present challenges to parliamentary accountability. In 2011-12, around £266 billion of public money was spent locally by schools, hospitals, police forces, and local government (**Figure 2**). Seventy-two per cent of this spending was funded by central government.

**Figure 2**  
Spending on local public services

Area of spend	Total local spending (£bn)	Locally raised funding (£bn)	Centrally raised funding (£bn)
Health services	89.0	0.0	89.0
Education	37.0	0.0	37.0
Police	12.9	3.1	9.8
Local government	126.6	71.3	55.3
Total	265.5	74.4	191.1
		(28 per cent of total local spending)	(72 per cent of total local spending)

Source: HC Committee of Public Accounts, *Accountability for public money, Twenty-eighth Report of Session 2010-2012, HC 740, April 2011*

<sup>16</sup> National Audit Office, *Reforming the Ministry of Defence*, February 2012.

<sup>17</sup> Comptroller and Auditor General, *The government's long-term plans to deliver secure, low carbon and affordable electricity*, Session 2012-13, HC 189, June 2012.

**4.7** Our understanding of national issues will be informed by analysis at local level, providing assurance to Parliament in the context of more devolved services. In the health and education sectors, oversight and regulation are an important part of the government's approach to ensuring probity and value for money. We will assess the adequacy of these arrangements in practice, such as through our planned evaluation of the Education Funding Agency. We may also examine individual local providers where broader lessons can be learned, as was the case with our report on Peterborough and Stamford Foundation Trust.<sup>18</sup>

**4.8** We will develop a programme of local government reports that examine issues of both national and local significance, including how effectively central government and local government work together. For example, in 2013-14, we will review the value for money of initiatives to promote local economic growth.

**4.9** Legislation on the future of local audit will be debated in Parliament in 2013. In July 2012, the government published a draft Local Audit Bill, which proposes that the National Audit Office take on from the Audit Commission, once it is abolished, the role of preparing the **Code of Audit Practice** for the audit of local authorities. This Code sets the framework of audit standards for the auditors of local authorities to follow. The Bill also clarifies the basis on which the NAO will carry out value-for-money work with a focus on service delivery in local government.

**4.10** We will continue to **work actively with central and local government** and with relevant representative bodies, including through our 'reference panel' of local government representatives, to ensure that our work is performed effectively in support of robust local and national accountability.

### **Adding value in key areas of risk**

**4.11** We will continue to monitor and **report on government's efforts to reduce costs**. This year, we published reports on progress in reducing costs across central government and within individual departments, such as the Department for Work and Pensions.<sup>19</sup> From 2013-14, we will give Parliament work that examines government's success at reducing costs sustainably over the long term, including in the education sector, and in HM Revenue & Customs.

**4.12** We will continue to focus on critical areas where government needs to improve. Over the last three years, we have assessed the maturity of **financial management** in Whitehall departments. In 2013-14, we will support further improvements in financial management by examining government costing, risk management and accountability mechanisms.

<sup>18</sup> Publication expected November 2012.

<sup>19</sup> Comptroller and Auditor General, *Reducing costs in the Department for Work and Pensions*, Session 2010-2012, HC 1089, National Audit Office, June 2011.

**4.13** For many years, we have reported on data quality and **whether government uses information effectively**. Government bodies often do not have the information they need to support good decision-making. In 2013-14, we will continue to review the data systems and indicators that underpin departmental business plans. We will also assess departments' use of information to define where government needs to build its capability to make well-supported decisions that are good value for money.

**4.14** Central government currently spends an estimated £6 billion a year on **ICT goods and services** and intends to provide ever more services to users digitally. We will scrutinise the value for money of this spending. This year, we reported on how government uses 'agile' project management techniques to reduce waste and risks.<sup>20</sup> In 2013-14, we will report on users' experiences of government ICT and the government's progress in developing a well-functioning marketplace for government ICT.

**4.15** Public bodies must increase their **capability to implement policies cost-effectively**. This year we worked to understand more complex ways of delivering public services, including via commissioning of the private and third sectors. We have also used 'lean' techniques to show public bodies, including the Child Maintenance and Enforcement Commission, how they can improve their processes to provide services. In 2013-14, we will develop tools to help public bodies make their processes more efficient and publish a review of the different ways in which policies can be implemented.

**4.16** We will draw on our audit and cross-cutting work to support improvement in the bodies we audit. We will exploit our knowledge of good practice and our insight into the needs of public bodies to provide assistance in areas where our expertise can add value. This year we showed the UK Statistics Authority how it can improve its governance of ICT projects, and recommended ways in which the Department for Work and Pensions could improve its contract management processes. We will conduct a limited amount of similar work in 2013-14.

## Supporting Parliament

**4.17** The insight and analysis in our work informs the **scrutiny of government by parliamentary select committees, notably the Committee of Public Accounts**. In 2013-14, we will provide 16 Commons select committees with a report on our work relevant to the department they are examining. This year we also provided significant analysis to support the Environmental Audit, Justice and Public Administration select committees. We will meet the chair of each major parliamentary committee to discuss what additional support we might give them to inform Parliamentary debate.

**4.18** We will give the Committee of Public Accounts **a wide range of reports**, briefings and other analysis to support their hearings into the value for money of public spending. We will select issues for examination where committee members identify particular concerns, where there is greatest risk to value for money, and where there are novel or complex implementation problems to be explored.

<sup>20</sup> National Audit Office, *Governance for Agile delivery*, July 2012.

**4.19** We will also improve Parliamentary scrutiny of government by engaging more actively with a wider range of parliamentarians to give them **greater access to our knowledge and expertise** about departments and public policy. We will identify and contact MPs who are interested in topics that we work on to ensure that they can draw on our examinations of value for money and our financial audits of government bodies to support their work.

### **Addressing public concerns**

**4.20** We operate a whistleblower's 'hotline', which is advertised on our website. Members of the public also contact us, either directly or through an elected representative. In 2011-12, we corresponded with 31 whistleblowers, and handled 584 inquiries from members of the public. We aim to give **assurance to taxpayers and service users** who have concerns about how public money is spent. In 2013-14, we will actively monitor value-for-money issues raised by individuals formally and informally, including through social media, as potential indications of inefficiencies in public spending or potential malpractice. We will investigate any allegations where we find material evidence that gives us cause for concern, or if we believe that the issue raised has wider implications of interest to Parliament.

**4.21** We will continue to be **transparent** in our own work, including by making the conclusions of our work available online, and by complying with relevant standards of openness and freedom of information.

**4.22** We will uphold the **highest standards of governance**, ensuring that our board and its Audit and Remuneration Committees are able to perform their functions effectively, supported by our external auditors. We will also place all minutes of board meetings online so anyone interested can find assurance that we manage our own work in accordance with the principles we apply to the bodies we audit.

### **Our international role**

**4.23** We will continue to ensure that value for money is achieved from UK funds spent overseas. We will remain on the United Nations Board of Audit until 2016, and we will recommend improvements in financial management, governance and accountability in countries and organisations that receive UK funds. There is no net cost to Parliament or the UK taxpayer from our income-generating international work.

## Part Five

### Our organisation

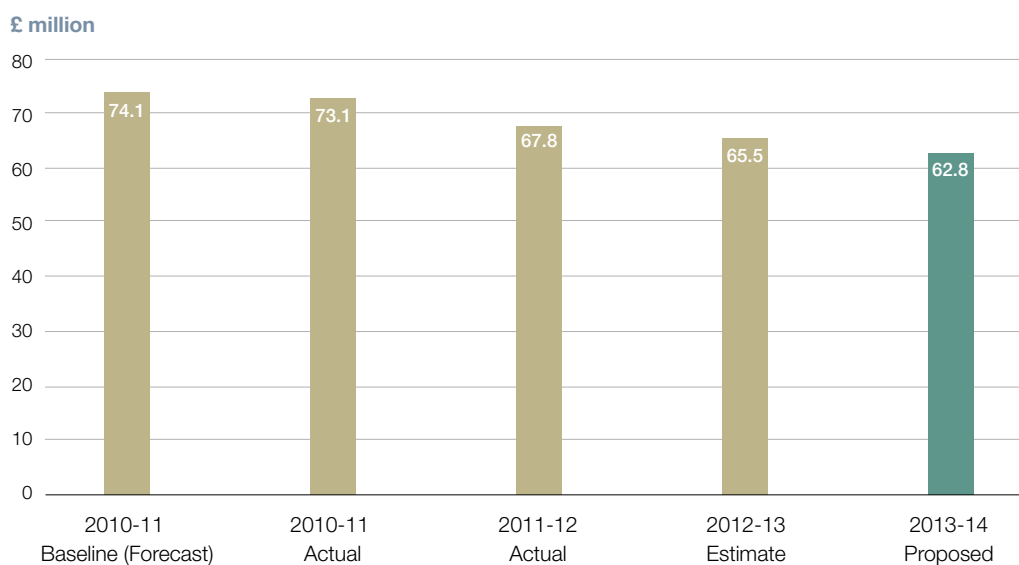
#### Summary

*We practise what we preach. In 2013-14, we will complete our three-year plan to reduce the costs of our existing work by 15 per cent.<sup>21</sup> We will conduct new work in local services, subject to the agreement of Parliament. We will undertake a review of all our costs and processes so that we continue to offer value for money in 2014-15 and 2015-16.*

#### Our existing work in 2013-14

**5.1** In October 2010, The Public Accounts Commission endorsed our target to reduce our net resource requirement for existing work by 15 per cent in cash terms by 2013-14, from a baseline of £74.1 million. By March 2012, we had reduced the net costs of our existing work by £6.3 million or 8.5 per cent from this baseline. In the current financial year, we are on track to reduce our costs by a further £2.3 million (**Figure 3**).

**Figure 3**  
Progress in reducing our costs



<sup>21</sup> This excludes new areas of work agreed with Parliament for 2012-13. Paragraphs 5.9 to 5.16 explain our new work in detail.

**5.2** In 2011, we proposed to Parliament that, in 2013-14, our net resource requirement for existing work would be £62.8 million, representing a further reduction of £2.7 million or 3.6 per cent from our 2012-13 Estimate. We are committed to this figure. It represents a total cost reduction of £11.3 million from our baseline figure. We will meet our 15 per cent target and achieve a reduction in real terms of 21 per cent.

**5.3** **Figure 4** sets out our proposed resources for 2013-14. We will achieve our savings target by:

- **Reducing our staffing complement.** Our existing work is now delivered by 860 full-time equivalent staff, down from around 900 in 2009-10. Ongoing efficiency improvements will enable us to reduce this further in 2013-14.
- **Improving our operations.** We have reduced the cost of our corporate overheads by 20 per cent since 2008-09 and the average cost of our value-for-money reports by 19 per cent since 2010-11. We expect to achieve further efficiencies of 5 per cent in corporate overheads and in value-for-money work in 2013-14.
- **Maximising our income.** We are subletting the final two floors of our available London office space. We will achieve 100 per cent occupancy of this space in December 2012, and will generate £1.6 million a year in income.
- **Reducing our use of outsourcing.** We reduced our expenditure on outsourcing from £17.6 million in 2009-10 to £13.2 million in 2011-12. We intend to reduce this to £10.7 million in 2013-14 by using more of our internal expertise particularly in the audit of ICT systems, which we have developed. This will represent a 39 per cent reduction overall and is a more cost-effective use of taxpayers' money.

**Figure 4**  
Analysis of resource requirement by type of expenditure

	2010-11 Actual (£m)	2011-12 Actual (£m)	2012-13 Estimate (£m)	2013-14 Proposed (£m)
Staff	58.3	58.4	56.3	55.4
Outsourcing	13.7	13.3	12.9	10.7
Travel	3.1	3.1	3.1	3.1
Other cash costs	11.0	10.0	10.0	9.1
Non-cash costs	6.5	2.9	3.0	3.0
<b>Gross resource requirement</b>	<b>92.6</b>	<b>87.7</b>	<b>85.3</b>	<b>81.3</b>
Income	(19.5)	(19.9)	(19.8)	(18.5)
<b>Net resource requirement</b>	<b>73.1</b>	<b>67.8</b>	<b>65.5</b>	<b>62.8</b>

**5.4** **Figure 5** overleaf shows how we will allocate resources to our areas of work in 2013-14. We propose to spend £48.1 million on our financial audit work. This is a reduction of £3.1 million (6 per cent) from 2010-11. This change results from having fewer bodies to audit, as well as from operational efficiencies through new audit methodologies. We will continue to deliver audits that meet rigorous professional standards.

**5.5** We will allocate £18.4 million to examinations of value for money in public spending. This is a reduction of £0.7 million (4 per cent) from 2010-11. We have achieved this by reducing the average time taken to complete and agree each report and by restricting our use of external contractors. We have still been able to invest in our internal expertise.

**5.6** We plan to spend £6 million in 2013-14 on work to increase our understanding of, and support improvement in the performance of the bodies we audit. This work is far-reaching, focusing on data quality, controls, risk management and new ways of delivering public services, such as commissioning. As well as promoting good practice, this work informs the development of our value-for-money programme and our client insight. When this work highlights systemic issues impacting on the use of taxpayers' money, we report them to Parliament, as we did with our work on the Ministry of Justice's language services contract in September 2012. In 2013-14, we will be reviewing the future direction and focus of our performance improvement work.

**5.7** Of the £8.5 million to support our work with other organisations, £3.3 million will directly support our work with the Committee of Public Accounts, and £2.5 million will be spent on work for other select committees and parliamentarians in general. Since 2010-11, we have improved the focus of our support through a dedicated parliamentary team. In 2013-14, we will ensure that all parliamentarians and committees with an interest in our work can access our evidence and support. These resources will also allow us the flexibility to respond quickly to ad hoc requests from Parliament.

**5.8** We will continue to use resources to support overseas organisations. However, this work is income-generating and we recover all costs.

**Figure 5**

Analysis of resource requirement by area of work

	2010-11 Actual (£m)	2011-12 Actual (£m)	2012-13 Estimate (£m)	2013-14 Proposed (£m)
Financial audit	51.2	51.2	49.1	48.1
Value for money	19.1	19.6	19.3	18.4
Performance improvement	10.5	7.7	7.7	6.0
Support for Parliament and other organisations	11.6	9.0	8.9	8.5
Comptroller function	0.2	0.2	0.3	0.3
<b>Gross resource requirement</b>	<b>92.6</b>	<b>87.7</b>	<b>85.3</b>	<b>81.3</b>
Income	(19.5)	(19.9)	(19.8)	(18.5)
<b>Net resource requirement</b>	<b>73.1</b>	<b>67.8</b>	<b>65.5</b>	<b>62.8</b>

### New areas of work in 2013-14

**5.9** In 2012-13, The Public Accounts Commission provided resources to support new work, some of which resulted from the government's proposed abolition of the Audit Commission. The new work included the audit of all probation trusts and the production of value-for-money reports that explore issues relating to local public services, including NHS foundation trusts. In addition, we wanted to develop our capability to respond to the reforms in the financial regulatory system. Parliament granted us an additional £2.5 million in net terms in 2012-13 to undertake this work. We are proposing that the net resource for this work should increase to £3 million in 2013-14.

**5.10** In 2012-13, this increase in resources has helped us to:

- Report on central government's communication with local government,<sup>22</sup> and carry out studies on financial sustainability in local authorities,<sup>23</sup> the new homes bonus,<sup>24</sup> and local economic growth,<sup>25</sup> supplementing our other value-for-money reports which also touch on local issues.
- Engage with local government stakeholders, such as through our local government reference panel.
- Develop a strategy to examine value for money in the NHS foundation trust sector.

22 Comptroller and Auditor General, *Central government's communication and engagement with local government*, Session 2012-13, HC 187, National Audit Office, June 2012.

23 Publication expected in early 2013.

24 Publication expected in March 2013.

25 Publication expected pre-recess 2013.



- Prepare to take on the code of audit practice, including by participating in relevant forums such as the Department for Communities and Local Government's regulatory working group, and producing the Comptroller and Auditor General's submission to the Local Audit Bill Select Committee.
- Prepare for the audit of 34 probation trusts and the audit of new bodies in financial services regulation.

**5.11** In 2013-14, this resource will help support our response to the increasingly devolved and diverse nature of public services, such as in the health, welfare and education sectors (including through the increased number of school academies), and to continue to provide assurance to Parliament that public funds are being properly spent, whether nationally or locally. We will ensure that, if unexpected high-priority issues arise in new areas of work, we have scope to reallocate core resources. These funds will allow us to build our capacity to audit probation trusts, enhance our approach to NHS foundation trusts and continue to monitor reforms to the financial regulatory system.

**5.12** Pending the passage and implementation of the government's Local Audit Bill, we will continue to incur some costs in advance of taking on from the Audit Commission the role of preparing the Code of Audit Practice.

**5.13** Our work in these new areas (**Figure 6**) is a proportionate, risk-based response to the wide range of changes to the provision of local public services.

### Figure 6

Net resource requirements, including new work

	2011-12 Actual (£m)	2012-13 Estimate (£m)	2013-14 Proposed (£m)	2014-15 Assumption (£m)	2015-16 Assumption (£m)
Existing work	67.8	65.5	62.8	61.5	60.3
New work	–	2.5	3.0	3.5	3.5
<b>Net resource requirement</b>	<b>67.8</b>	<b>68.0</b>	<b>65.8</b>	<b>65.0</b>	<b>63.8</b>

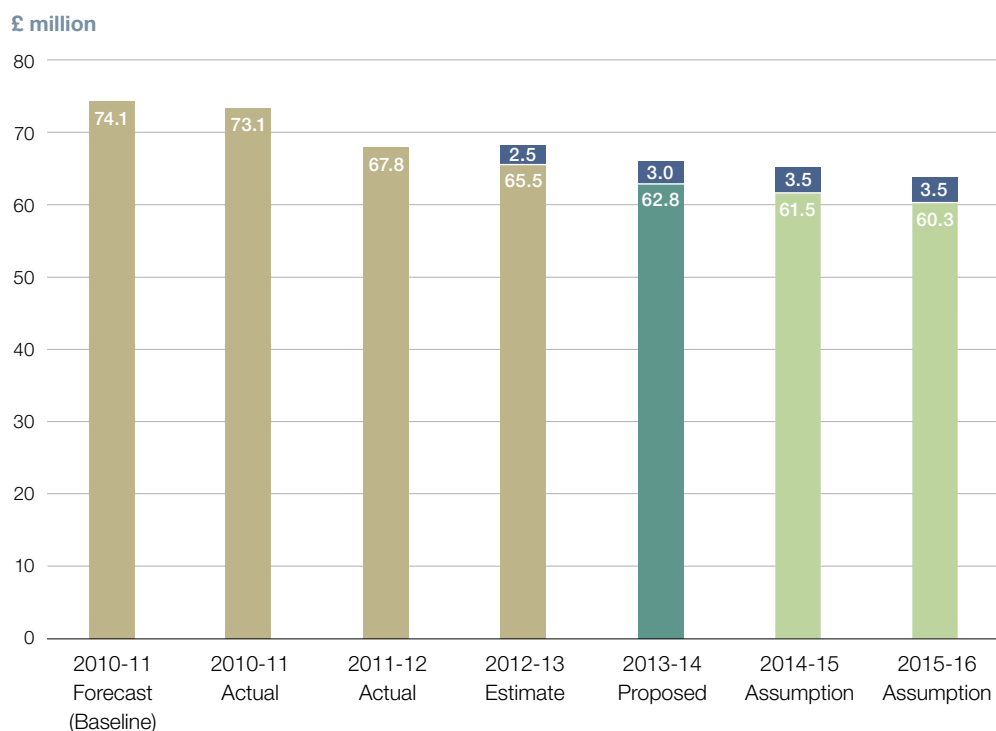
### Our assumptions for 2014-15 and 2015-16

**5.14** We are committed to transforming our operations in 2014-15 and 2015-16, and to seeking further opportunities to reduce our costs. Building on the work achieved to reduce our costs by 15 per cent so far, we have set up a fundamental review of our costs and processes to determine where we can make further savings and improvements to our work. This review follows the principles of structured cost reduction that we recommend to the bodies we audit. We expect to report the findings of this review to Parliament in autumn 2013.

**5.15** We have assumed that in 2014-15 and 2015-16, we will seek further reductions in the costs of our existing work of 2 per cent in cash terms each year. This would mean a total reduction of £13.8 million (19 per cent) in cash terms from our 2010-11 baseline (**Figure 7**). Our assumptions include a modest, below-inflation pay award for staff, which acknowledges both the pay restraint experienced within the public sector and the competition for our staff in the accountancy market. We will revisit these assumptions once our fundamental review is complete.

**5.16** We have also included a provision for new work in future years, much of which will arise from the proposed abolition of the Audit Commission. We have assumed that our role will increase as responsibilities transfer to us, but we will continue to keep this position under review.

**Figure 7**  
Planning assumptions to 2015-16



■ Resource requirements for new work

## **Our people**

**5.17** We are committed to our staff and to working collaboratively towards shared goals. The skills, insight and expertise of all our people are at the core of our work. It is vital that our staff are trained, motivated and empowered to identify potential risks and improvements to the value for money of the bodies we audit and to help Parliament to hold government to account.

**5.18** We currently invest in the learning and development of all our staff, including the training of our intake of graduates and school leavers each year to attain the professional qualification from the Institute of Chartered Accountants in England and Wales. We also identify those with most potential, providing them with targeted leadership development. We will continue this investment in 2013-14, recruiting high-calibre candidates and training them to become our future auditors.

**5.19** We are also deepening our skills base by boosting our capability to conduct economic modelling, statistical analysis and assessments of large-scale government ICT. We will expand our expertise on the costing of public sector programmes, on project management, and on commercial issues. We will also improve the presentation and communication skills of our audit staff to help them to liaise more effectively with the bodies we audit.

**5.20** In 2011-12, we introduced new corporate values to ensure that the NAO is independent, authoritative, collaborative and fair in all its work. We will ensure that our values underpin all our activity in 2013-14. In 2013, we will implement a new performance management framework and other human resources processes that are wholly aligned with our values and which encourage a collaborative corporate culture and a dynamic organisation.

**5.21** Our longer-term staffing model will form part of our fundamental review for 2014-15 and beyond. Financial audit practice in the private sector is changing, and public bodies are also adopting new approaches, including the use of shared or redesigned services. We will examine how best these changes should be incorporated into our work to allow us to continue to produce high-quality work more cost-effectively.

## **Our support services**

**5.22** We have high-quality corporate services. We have reduced the cost of our corporate overheads by 20 per cent since 2008-09, and will continue to do so in 2013-14 (**Figure 8**). We will assess the extent to which further savings can be made in our corporate service functions as part of the fundamental review of our costs and processes.

**5.23** We have set ourselves an internal target to ensure that at least 80 per cent of our total resources are deployed on front-line work. In 2011-12, we used 83 per cent of our resources on front-line work, and are on track to achieve a similar result in 2012-13. We will maintain this ratio over the coming three financial years, ensuring that costs are reduced proportionately across the work of the office.

**5.24** We propose to increase our capital expenditure in 2013-14 from £1.1 million to £1.5 million (**Figure 9**). This reflects the need to replace ageing legacy systems for managing our resources and documents while ensuring that our mobile workforce has effective support systems and services. We believe this level of investment is necessary for us to continue to provide staff with modern and reliable equipment and audit tools and to keep pace with the technologies being used by our clients and stakeholders. By replacing outdated ICT systems, we will achieve efficiencies in support costs in future years.

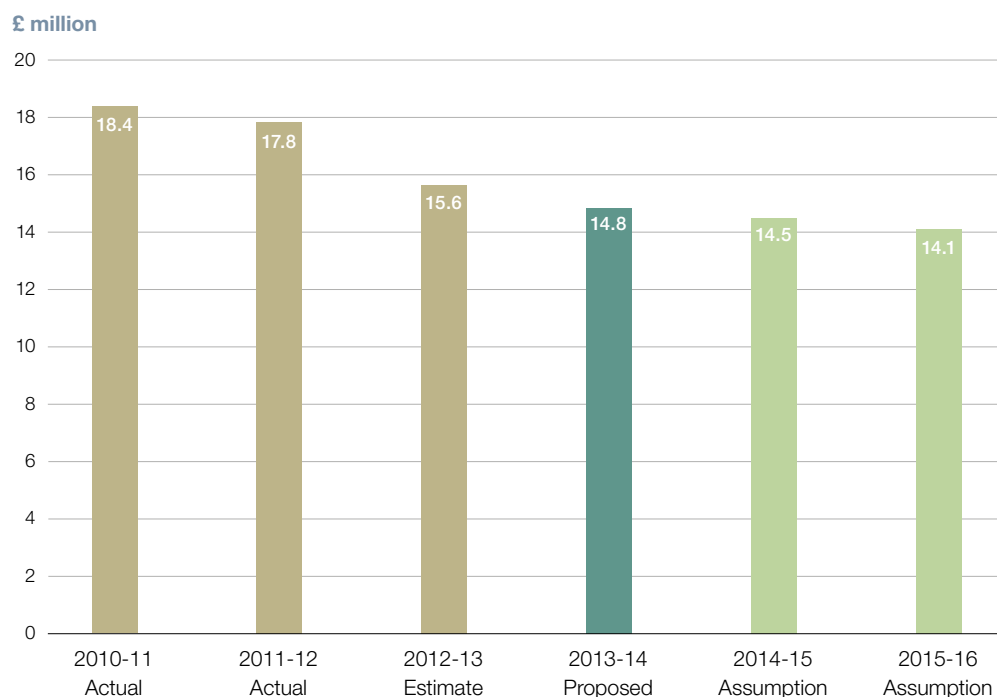
**5.25** We are currently implementing a programme of ICT-enabled change to introduce new systems to improve the management of our financial audit and value-for-money work, our document and record management, the operation of our website, and our management information. We expect these investments to result in operational and maintenance savings and improved productivity through better use of staff time in 2013-14. We will evaluate the outcome of this change programme and report the results to The Public Accounts Commission.

## **Our assets**

**5.26** Our main physical asset is our office in London which is held on a long lease at a peppercorn rent. We also have an office in Newcastle which is four years into a five-year lease which we intend to renew at favourable rates. We have improved our operational efficiency through subletting office space in our London building on a commercial basis.

**5.27** By December 2012, we will be renting out all available space on six floors of our London building. By adopting smarter working practices, we have redesigned our London operations to fit within 65 per cent of our total office space, with eight square metres of office space per full-time employee. This is consistent with government targets on the use of office space.

**Figure 8**  
Reducing the cost of our corporate overheads



**Figure 9**  
Capital provision 2011-12 to 2014-15

	2010-11 Actual (£m)	2011-12 Actual (£m)	2012-13 Estimate (£m)	2013-14 Proposed (£m)	2014-15 Assumption (£m)	2015-16 Assumption (£m)
Capital provision	1.3	1.2	1.1	1.5	1.5	1.5

## Our suppliers

**5.28** We use outsourcing to help us deliver our financial audit work, and have used this approach to share skills and methodologies with the private sector. We have also used outsourcing to provide certain specialist skills for specific value-for-money studies or pieces of performance improvement work.

**5.29** In 2013-14, we expect the outsourcing costs related to our existing work to amount to £10.7 million, a reduction of £3.0 million from 2010-11. We have managed this transition by building up our in-house ICT audit capacity, as well as by developing other skills and methodologies.

## Our performance

**5.30** In 2011-12, we established a public reporting framework in order to show Parliament and other stakeholders how we measure our performance. The measures we monitor are:

- **Our work saves public money:** We assess our financial impact, identifying savings achieved as a direct result of our work. Against our target of £10 of savings for every £1 it costs to run the NAO, in 2011, our work led to savings of more than £1 billion, £16 for every £1 it costs to run the NAO.
- **Our work leads to positive change.** We look at the impact the work of the NAO and the Committee of Public Accounts has had on public services. In 2012, for example, we helped improve governance arrangements at HM Revenue & Customs for the resolution of major tax disputes. Following our recommendations, the government published plans to appoint a new assurance commissioner to ensure that settlements are reasonable and that internal governance procedures have been followed.
- **Parliament has confidence in the independent assurance and quality of our work.** We carry out an independent annual survey of MPs to understand their views on our work. In 2012, 85 per cent of MPs viewed us as impartial and independent, and 81 per cent viewed us as having honesty and integrity. Both are marked improvements to MPs' perceptions in 2011 and 2010.
- **Audited bodies acknowledge the value of our work.** Independent interviews are carried out with senior civil servants from bodies we audit, as well as the chairs of their audit committees. Eighty-four per cent of those interviewed in 2012 say that our judgements are fair and balanced, up from 70 per cent in 2011.
- **The NAO is a recognised authority in its core areas of expertise.** We use independent feedback to quantify our performance. In 2012, 82 per cent of MPs said that we are authorities in government finance and public spending, with the same proportion of the bodies we audit agreeing that we have the right expertise to conduct our work.
- **We use funds cost-effectively.** From our 2010-11 baseline, we reduced the costs of our existing work by £6.3 million or 8.5 per cent in 2011-12. We are on track to achieve our target to reduce the costs of our existing work by 15 per cent in the three years to 2013-14. In addition, we now spend 17 per cent of our resources on corporate overheads, down from 20 per cent in 2009-10.

Our progress towards achieving our strategy is published each year in our annual report,<sup>26</sup> which also includes details of the impacts that we have achieved.

<sup>26</sup> National Audit Office *Annual Report 2012*, May 2012, available at: [www.nao.org.uk/publications/1213/annual\\_report\\_2012.aspx](http://www.nao.org.uk/publications/1213/annual_report_2012.aspx), accessed 15 October 2012.

Design & Production by  
NAO Communications  
DP Ref: 010023-001

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Printed by SLS Print