



National Audit Office

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# NAO Strategy 2016-17 to 2018-19

**NOVEMBER 2015**

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

The National Audit Office scrutinises public spending for Parliament and is independent of government. The Comptroller and Auditor General (C&AG), Sir Amyas Morse KCB, is an Officer of the House of Commons and leads the NAO. 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 £1.15 billion in 2014.

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# Foreword

**1** The Comptroller and Auditor General has a wide range of statutory duties to support accountability to Parliament for the way government spends public money. This strategy sets out how we will deliver our duties to support clear accountability, and examine efficiency, effectiveness and value for money and, in doing so, help to create sustainable public service improvement.

**2** Today the context is of further austerity, massive change in central government, most of it technology-driven, localism, devolution and more contracted-out delivery. Not far in the background, there are potentially larger game-changers, such as the decisions on our role in Europe, and the future structure of the UK.

**3** These circumstances would be uniquely challenging to any group of leaders and managers, and they require the development of longer-term management and governance capabilities in government that have not been abundantly evident in recent years. Our task is to understand the skills, capabilities and disciplines needed, and point the way ahead through our work, and the perspectives we can offer because of our unique access, combined with the powerful influence of Parliament.

**4** Our strategy is designed to keep the National Audit Office in a position to be highly effective on a sustained basis, constantly adapting and improving our contribution and its relevance to Parliament and to government.

Sir Amyas CE Morse KCB  
Comptroller and Auditor General

Lord Michael Bichard KCB  
Chairman

# Summary

## Our operating environment

**1** The National Audit Office (NAO) is operating in a period of extensive change across government, with the public sector facing unprecedented challenges. With ongoing fiscal austerity, the government and local bodies must deliver the required level and quality of public services with less financial resource. This means significant changes to the way government operates, enabled by new technology, requiring new skills and more integrated, joined-up working between public bodies to ensure systems and processes are streamlined and compatible.

**2** Localism and devolution are, and will remain, significant shaping forces in the public sector for many years to come. Additional responsibilities are going to local government at the same time as further tightening and reform of their funding. Devolution agreements, city deals and local growth funds are moving substantial activities in health, social care and enterprise away from the centre. At the same time, responsibility for elements of health and education are moving away from local bodies back to more central oversight.

**3** Alongside these significant challenges in local service delivery, there are plans for further radical reshaping in Whitehall. Most government departments are proposing substantial changes in how they run themselves and the services they deliver. Departments have taken the low-hanging fruit and are now taking a more root-and-branch approach to cost reduction. These major changes will require the public sector to demonstrate more consistently high levels of managerial expertise and discipline than has been evident in recent years.

**4** At a national level, there is uncertainty over the future structure of the United Kingdom and its relationship with Europe. This uncertainty pervades the public and private sectors and impacts a wide range of government services. Planning effectively in this context is challenging, with a wide range of possible scenarios with concurrent change at local, central and national levels.

**5** In the midst of the uncertainty over this Parliament, the government has to address the longer-term questions of strategic infrastructure, substantial national assets and the ageing population. The government is set to embark on major investments in High Speed 2 railway, Hinkley Point power station and Nuclear Deterrent. It is planning to dispose of shares in Lloyds Banking Group, UK Asset Resolution assets and parts of the student loan book. A higher birth rate is putting pressure on school places and children's services, while an ageing population is affecting pensions, health and social care costs.

## **Our role**

**6** Parliamentary accountability is a cornerstone of effective government. Our audits support Parliament with an independent and authoritative view of the way government spends public money. Over the last Parliament our role developed with increasing localism and the Local Audit and Accountability Act 2014. In this area our strategy for this Parliament is to consolidate on our enhanced role and leverage our ability to look at end-to-end public service delivery. We are building our expertise and relationships in local audit with impactful insights into the challenges of sustainable service delivery in the context of continuing fiscal constraint.

**7** Accountability at its best helps to improve, not only by focusing leadership on the conditions of success, but also by providing insight and added value. Our role in creating clear accountability is crucial as the public sector becomes more complex. At this time of substantial change in the public sector, our strategy is to maximise the added value we provide to government. In particular, we are responding to the long-term appetite in departments for a greater sense of comparative performance and best practice. We are increasingly delivering on this by building on the foundations we laid in 2013 when, as part of our transformation programme, we restructured our organisation around the strategic issues in government (Figure 2, page 13).

**8** Government faces significant challenges to delivering success over this Parliament. It is delivering substantial change programmes in local, devolved and contracted-out service delivery, while reducing its own size and resources. Successful delivery will require expertise in specialist areas such as programme management, digital transformation and commercial contracting. Our strategy is to develop expertise in the areas where we have identified gaps in government capability. More of our work is now having positive impact by delivering insightful views on government programmes at an earlier stage of their implementation.

**9** The details of plans in substantial areas such as national devolution and Europe – and their implications for public audit – are uncertain. It is more certain that there will be transitional work for us to develop and move to any new arrangements. We will request additional funds for any substantive work when it is confirmed. Until then our strategy is to build our expertise and relationships in these areas as the direction of travel becomes clearer. In making efficiencies in the short term, we are being careful to avoid reducing our ability to respond to events as they arise.

**10** The Scotland Bill raises potentially significant constitutional issues and is likely to have practical implications for the bodies we audit. These include the provision of separate performance information, accounts or statements on Scottish-related activities to facilitate accountability to the Scottish Parliament. The Scottish Parliament may require us to provide assurances to them about Scottish-related activities of the bodies we audit in addition to our existing responsibilities for reporting to the UK Parliament. Under existing legislation, the Comptroller and Auditor General (C&AG) is already required to report annually to the Scottish Parliament on HM Revenue & Customs' preparations and oversight of the Scottish rate of Income Tax. Additional responsibilities are likely to have resource implications for the NAO and will need to be reconciled with the C&AG's existing powers and responsibilities under a wide range of legislative provisions.

**11** The Parliamentary committees play an essential role in scrutinising the work of government and creating accountability to the public. The Committee of Public Accounts is our primary and highest profile client. We are working closely with the Committee of Public Accounts to develop our programme of work to address the priorities for this Parliament. More widely, our strategy is to be more responsive to the interests and concerns of the other committees and Parliament as a whole. Our duty is to provide fair, timely and evidence-based work to Parliament from an independent and authoritative perspective.

**12** It is essential that we adapt our ways of working to meet the challenges of today and evolve to stay ahead of the changes in our operating environment. We are building on our successes to date but also working in new ways: delivering more investigations with targeted and timely findings; delivering studies during the earlier stages of government programmes to increase our relevance and impact; and taking a strategic view across departments and government.

## **Our resources**

**13** We have already achieved substantial cost reductions since 2010 of 27% in our ongoing work (Figure 6, page 20). This is not insignificant. We will go on to achieve further structural savings and our strategy focuses on our commitment to practise what we preach in terms of value for money.

**14** Between 2010-11 and 2018-19, we will have reduced comparable costs from £74.1 million to £56.5 million; an inflation-adjusted cost reduction of 33% (Figure 6, page 20). We plan to have reduced our complement from around 870 in 2010 to 730 in 2018. The NAO plays a vital role in helping Parliament hold government to account, and we must have the resources we need to do this work effectively. We must not compromise on quality. We need to protect our ability to fulfil our statutory duties on behalf of Parliament.

**15** Our plans for the next three years build on the foundations laid by our transformation programme. We made our front-line work more efficient through a fundamental change in our business model, breaking down barriers between work streams, increasing delegation and working more effectively with smaller teams through better knowledge and skill-sharing. We achieved all of this, even while increasing the range of our work for Parliament. We will continue to find better ways of working and plan a further 4% efficiency in our front-line work over the next three years.

**16** The NAO is a relatively small organisation with a net resource requirement of £64.5 million in 2015-16. We deliver tightly defined statutory functions, including £48 million on financial audit, and any further significant reduction (above that planned) over the next three years would mean we are unable to discharge our statutory functions. The majority of further cost savings must now come from a structural change in our corporate services, which we will reduce by at least 25%. We will achieve this through technology-enabled change, building on the platform provided by our transformation programme. Overall, we will reduce our running costs by £3.0 million, which is a real-terms 10% cut in our budget over three years (Figure 4, page 17).

**17** Our proposals in this document are the next step in a carefully managed programme of change. The remainder of this strategy sets out how we will achieve this.

# Part One

## Accountability and public service improvement

**1.1** Our primary role is to scrutinise public spending for Parliament. Our public audit perspective helps Parliament hold government to account and improve public services. We do this by fulfilling our statutory roles in financial audit and value-for-money reporting across central government and local bodies. The Local Audit and Accountability Act 2014 makes the Comptroller and Auditor General (C&AG) responsible for the preparation, publication and maintenance of the Code of Audit Practice.

**1.2** This Parliament will see further reductions in public spending, further devolution and localism, and changes in public service delivery models. The public and Parliament are increasingly turning to the National Audit Office (NAO) with correspondence and requests to investigate their concerns. There is a degree of uncertainty in the future of national devolution and localism. As the position becomes clearer over time, we will discuss with Parliament the effect of devolution on the NAO.

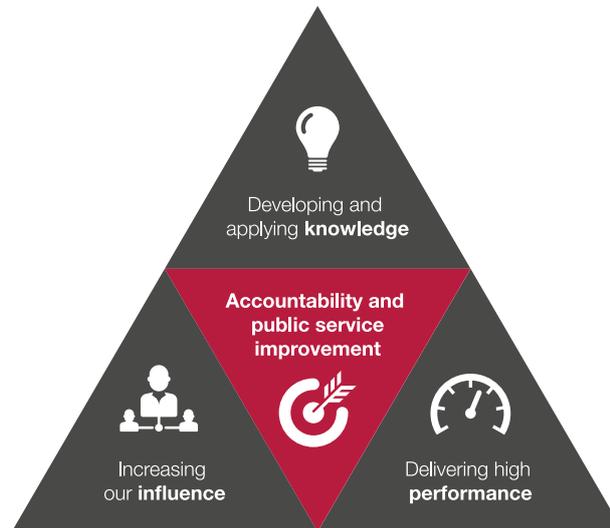
### Our strategy

**1.3** The core features of our strategy endure (**Figure 1**), but the changes in our operating environment mean we need to adapt and enhance our ways of working to meet new challenges as they emerge and deliver work of the highest quality to support Parliament. The key features of our response are to:

- stay ahead of changes in our environment by taking a strategic view of the challenges facing the public sector and investing in the expertise we will need in areas such as digital transformation, commercial contracting, finance and asset sales, process efficiency, and programme and portfolio management;
- bring the best of the NAO to Parliament and those we audit in every piece of work we do. This means accessing the best professional skills and knowledge of the entire NAO, through joined-up working, to be a more efficient and streamlined organisation, and making better use of our cross-government perspective;
- reach out to Parliament and those we audit to increase our influence; spend time with them to understand their issues and perspectives, recognise that insights come from time spent on site with our stakeholders, and communicate our views in a responsive and persuasive way; and
- maximise our relevance by delivering timely work in the areas most likely to add value to Parliament and those we audit, based on the effective use of our access rights to uncover systemic issues and deliver insights from our cross-government perspective.

**Figure 1**

Our strategic objective and enablers

**Note**

- 1 Our overall strategic objective is accountability and public service improvement that is enabled through: developing and applying knowledge; increasing influence; and delivering high performance.

**Support to Parliament**

**1.4** We aim for the NAO to be an authoritative source of information and advice within Parliament to help hold government to account more effectively. We are widening our reach at Parliament, improving our communications and putting more emphasis on building relationships with members of Parliament, members' staff and key Parliamentary staff.

**1.5** The Committee of Public Accounts is our primary client and we are working closely with the Committee to develop our programme of work. We are also broadening our work with Parliament, increasing our support to both Houses of Parliament, and increasing our value to select committees and MPs generally.

**1.6** We plan to work more closely with Parliament to help tailor our products and support to MPs' needs. To do this, we are increasing our understanding of the House of Commons through secondments and recruitment. Our new directors of Parliamentary relations and external relations have extensive experience of working in Parliament. We are running reciprocal secondments with the main committees and other House of Commons staff, and we are building closer relationships with the House of Commons Library.

## **Our areas of work**

**1.7** In 2013, we restructured the way we work and we have been building on this to increase our efficiency and effectiveness, streamline our ways of working and make better use of our cross-government perspective. We are committed to developing our audit practices further so we bring the best of all the NAO has; a key element to this will be working in a more integrated and joined-up way, to bring together all the skills and expertise of the NAO on our principal areas of work.

- **Financial audit:** Our work provides assurance on public spending, helps strengthen financial management and adds value by delivering our broader insights from our cross-government perspective. Feedback from our audited bodies shows a high level of respect for our technical expertise and the insights we offer. Our audit practice needs to stay ahead of changes facing the bodies we audit, draw on the full range of our expertise, and do more to disseminate the wider lessons from our financial audit work and the Whole of Government Accounts.
- **Value for money:** We are streamlining and innovating our study approaches while also ensuring a flexible approach to respond quickly to new issues as they arise. In more and more areas we are adding value to departments and enhancing accountability by taking a comparative perspective and highlighting good practice. We are also increasingly leveraging our cross-cutting insights; examining major projects and programmes early in their evolution to highlight risks which need to be managed to ensure a successful outcome; examining services and their integration from the user perspective; and evaluating how services are transformed to ensure sustainable improvement.
- **Locally focused work:** We have used our new powers under the Local Audit and Accountability Act 2014 to provide an end-to-end view of policy implementation, informed by user experience and insight. We have also published stand-alone reports aimed at the local government sector on subjects including the impact of funding reductions on local authorities. We have continued to build our links with local bodies, sharing experience and learning to positive effect. Following the Audit Commission's closure, we have published a new Code of Audit Practice setting out the requirements of appointed auditors of local public bodies. We are providing ongoing support to auditors through regular contact and the provision of information and formal guidance to assist them in their work.
- **Investigations:** Our investigations are more narrowly focused than our value-for-money studies, providing a responsive and fast-paced means to address concerns and issues that we are made aware of. Investigations are based on intelligence we gather, and use facts to deliver focused messages on public service delivery. We aim to be ahead of more issues before they escalate, and to complete more impactful investigations to be used by Parliament to hold government to account.

- **Responding to correspondence and whistleblowers:** The C&AG is a prescribed person for public interest disclosures and may be contacted by whistleblowers across the public sector. More widely, the NAO receives a high volume of correspondence, which is often a valuable source of intelligence and insight to inform the NAO of the current systemic issues that we should focus on. Writing to the C&AG is often the first experience MPs and the public have of the NAO. We will ensure that our responses are consistently timely and proportionate and that we escalate issues for investigation quickly where appropriate.
- **Digital audit:** Across our work we are staying up-to-date in our use of digital techniques to maximise our efficiency and audit effectiveness. We are developing our use of digital and risk-based audit approaches to reduce the need for large sample sizes and manual work. Underpinning our audits is an increasingly strong analytical capability to scrutinise and analyse big and complex data sets. We are bringing together public data from across the public sector to increase our cross-cutting insights and reduce the time spent by teams working on data individually.

# Part Two

## Our knowledge and influence

**2.1** Since 2013, our strategy has been to structure our organisation and expertise to focus on the main challenges facing the public sector (**Figure 2**). We are continuing to embed and build on this structure to deliver more comparative work and cross-cutting insights. We aim to maximise our relevance to the strategic issues of our stakeholders and thereby increase our authority and influence. To do this, we are spending more time on site with our stakeholders to extend our understanding of their issues and perspective.

### **Developing and applying our knowledge**

**2.2** We are developing our expertise to stay on top of the emerging issues and demonstrate the authority needed to generate positive impacts across all the bodies we audit. Through our overall training and skills development strategy we will ensure our staff continue to have the required skills and knowledge to tackle the issues affecting the bodies we audit.

**2.3** Our audit practice will remain high quality, staying ahead of changes in the bodies we audit. This includes deepening our digital audit expertise and leveraging our cross-government perspective to add value for Parliament and those we audit. This includes local service delivery, as we are well placed to follow public money from central government to local bodies. Through our cluster organisational structure, we are focused on the issues facing government (Figure 2).

**2.4** This way of working gives us greater opportunities to drive improvement in the bodies we audit. In addition, we are developing areas of operational expertise, which work across the office, giving us an integrated view of the key issues that affect multiple departments, as well as helping us share lessons, good practice and expertise across the bodies we audit. With the ongoing changes in service delivery, the National Audit Office's (NAO's) insight into service integration and cross-government thinking is becoming increasingly important to support the bodies we audit in making long-term improvements to government service delivery.

## Figure 2 Strategic issues

Cluster name	Shared strategic issues	Departments and areas of public spending
Effective Strategic Centre	Achieving the right balance between short- and long-term decision-making	Cabinet Office; HM Treasury; Parliament
Local Service Delivery	Maintaining effective local services under financial constraint	Local government; Department of Health; Department for Communities and Local Government
Mass Market Operations	Improving the accuracy and effectiveness of high-volume services to the public	Department for Work & Pensions; HM Revenue & Customs
Delivering Major Projects	Improving the effective delivery of major programmes and projects	Ministry of Defence; Department for Transport; Department of Energy & Climate Change
Delivery Through Networks	Improving outcomes from a diverse range of providers, with effective oversight and intervention	Department for Education; Ministry of Justice; Home Office; Department for Culture, Media & Sport
Influencing and Regulating	Strengthening influence and regulation to make markets work effectively	Department for Business, Innovation & Skills; Department for Environment, Food & Rural Affairs; Foreign & Commonwealth Office; Department for International Development

### Increasing our influence

**2.5** We are working more closely with our stakeholders in Parliament, the civil service and local bodies. We are spending time with them to understand their issues and perspectives. We are engaging more at board level, and tackling issues through a greater range of channels such as investigations, comparative studies and looking at the user perspective of public services.

**2.6** We plan to increase our influence by demonstrating our relevance and our expertise in the things that matter to our stakeholders. We are planning to use a broader range of communication channels and styles to deliver campaign themes with target audiences. We are taking a longer-term view, focusing on the issues that affect government's objectives, with an integrated programme of work that ensures that our messages and recommendations are reinforcing.

**2.7** Our audiences are diverse, including Parliamentarians, senior civil servants, technical experts, the public and service users. With our diverse audiences, we need to make use of the full range of modern communication channels to reinforce our key messages and to tailor our approach to each stakeholder. We must also remain innovative and adaptable in the way we engage with them, ready to make use of new ways of communicating as they arise.

# Part Three

## Delivering high performance

**3.1** We are committed to being, at all times, a high-performing organisation and practising what we preach. We work collaboratively and inclusively to deliver the best we have to offer and maximise the use of our resources.

### **We get the best from our people**

**3.2** Our people remain our most valuable and important asset. We want our office to support the development of our staff and be career-enhancing. We are focused on creating the right working environment so people can give of their best in all that they do, in line with the National Audit Office's (NAO's) values and ways of working (**Figure 3**).

### Clear about our working culture and behaviours

**3.3** We are clear with our people about the behaviours we are looking for and reflect these in our ways of working, training and performance management. To that end, our leadership talent development programmes are centred on culture and behaviours. Feedback, through surveys and day-to-day communication, is also vital so we can continue to monitor staff engagement and retention issues.

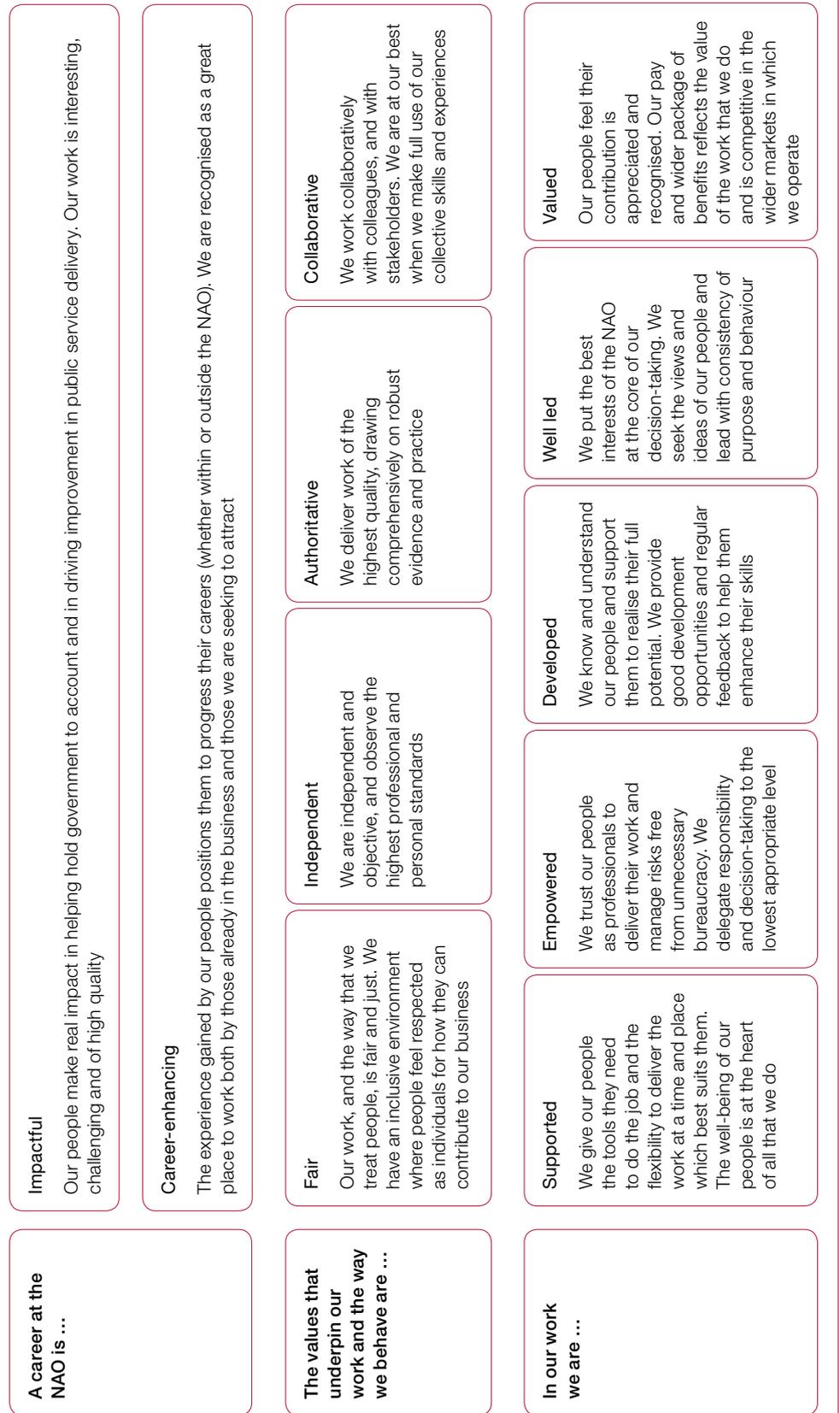
### Using data and information effectively

**3.4** We are information-led and take responsibility for the quality of our data both in our external audit work and in managing ourselves. We use data to improve our organisational management and prioritise the use of our resources. This means supporting our people to deliver high-quality work through good integrated planning, strong project management and prioritisation, and flexibility across our programme of work.

### Working collaboratively

**3.5** We are a collaborative organisation. We want to see more of our people asking for input from expert colleagues, re-using methods and applying consistent comparative frameworks to ensure we always deliver the best the NAO has to offer. This way, our work draws on all the NAO's collective experience.

**Figure 3**  
Model for the National Audit Office people experience



## Trusting and empowering our people

**3.6** Inclusivity is also at the heart of our working culture, as is trusting and empowering our people. We manage our people through outcomes and ensure that decisions are delegated to the right level. We respect different views but challenge unacceptable behaviour. We support and coach our people to give their best and provide honest, open feedback to them. To support this, we will ensure that our appraisal system is the best it can be and aligns with behaviours we need to exhibit to succeed.

## Delivering efficiencies through better ways of working

### Increasing productivity

**3.7** We achieved substantial increases in productivity over the last Parliament and will go on to achieve more. In 2014-15 our average study cost was £178,000 compared with £233,000 in 2010-11; a reduction of 24% in cash terms (adjusting for inflation, this is 29%). We are now producing studies faster, with tighter management and more focused scope in response to the Committee of Public Accounts' requests.

**3.8** In financial audit we have increased efficiency with reductions in the cost of auditing our 30 largest bodies from £15.2 million in 2010-11 to £13.6 million in 2014-15; a reduction of 9% in cash terms (adjusting for inflation, this is 16%). These efficiencies have been achieved in the context of government reforms such as Clear Line of Sight, where smaller bodies are incorporated into departmental accounts, and the creation of more complex accounting groups, which has increased the volume and complexity of our financial audit work. We have done this by introducing new audit software and risk-based approaches to increase our efficiency, with more targeted work and delegation of low-risk audits to more junior staff.

**3.9** We plan further increases in productivity and efficiency through improved ways of working in our audit and business support teams, supported by the right technology and processes. By the end of our Strategy period, we plan to reduce our complement to 730 from around 870 in 2010; a reduction of 16%. We will review this if Parliament ask us to take on new responsibilities. We are making these reductions without compromising the high quality of our work or the support we give to our people.

### Efficient business systems

**3.10** Our business support functions – human resources, finance, facilities, digital, quality and communications – provide essential services to the office. We have long had an embedded culture of efficiency, and to build on this we will ensure our systems are as efficient as possible by digital investment and streamlining our activities. We are replacing legacy financial, human resources and resourcing systems with an integrated solution that is accessible, easy-to-use and provides one version of the truth. This will deliver better planning and facilitate more efficient, flexible working.

## Revised recruitment strategy

**3.11** The market for new recruits and audit professionals continues to be highly competitive and this has put pressure on our ability to produce our range of products and has increased the costs of recruitment and temporary staff. Principally, we are taking steps to retain our best talent and attract new recruits in a more cost-effective manner (**Figure 4**).

## Supplementing our internal resources

**3.12** Finally, we supplement our internal resources by spending around £10.5 million per year (around 12% of our total spend) on framework partners. This is mainly for financial audit work, where we contract out 20% of our portfolio. Using our own people is more cost-effective in the majority of cases. However, we outsource our work where it is geographically advantageous to do so, where it helps us manage the annual peaks of our work, or where it is the best way of accessing a particular skill set.

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### Figure 4

#### Retain and recruit the best talent



We are providing our people with a positive working experience, which they see as career-enhancing. We are doing this by offering flexible working arrangements, tailored learning and development pathways, and ensuring everyone working at the NAO has a challenging range of work assignments.



Shifting the balance of effort from process and control to more innovative thinking and earlier planning will allow our people greater autonomy in decision-making in an environment of trust and support.



By offering competitive rates of pay, we will set our own pay awards within our overall budget. We recognise that we need to reflect the continuing environment of pay restraint across our client base and will therefore ensure that our pay awards are proportionate and funded through internal efficiencies.

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# Part Four

## Our resources

**4.1** The National Audit Office (NAO) is a relatively small organisation with a net resource requirement of some £64.5 million in 2015-16. We deliver tightly defined statutory functions, including £48 million on financial audit work. We have already achieved significant savings over the last Parliament and any further significant reductions above those planned would mean that we are unable to discharge our statutory functions.

**4.2** The NAO plays a vital role in holding government to account through a period of huge change in public services and the way they are provided. We must have the resources we need to do this work effectively.

- Our plans build on what we have already achieved. Transformation of our business has already created a 27% reduction in the cost of our ongoing work. Our forward proposals are the next step in a carefully managed programme of change and include structural savings.
- We cannot compromise on quality. Change and the devolution of service delivery creates risk in the system. Our audit function and our ability to respond quickly to emerging issues must be protected.
- We are committed to improving the way we do things while guaranteeing our front-line delivery. Our teams will continue to work more efficiently, but the majority of our savings will come from a structural change of our corporate services.

### Resource plans

**4.3** The resources we need for the next three years are set out in **Figure 5**. Over the period, we will reduce our running costs by £3.0 million, which is a 5% reduction from our current budget, a 10% reduction once we take account of the effect of inflation.<sup>1</sup>

<sup>1</sup> Government presents its savings in percentage terms, after taking account of the expected impact of inflation. We have shown our plans on a consistent basis.

**Figure 5**

## Resources needed for the period ending 2018-19

	2015-16 Estimate	2016-17 Proposed	2017-18 Proposed	2018-19 Proposed	Total
Gross resources	84.8	81.4	79.1	78.3	
Income	-20.3	-18.0	-16.8	-16.8	
Net resources	<b>64.5</b>	<b>63.4</b>	<b>62.3</b>	<b>61.5</b>	
Saving year on year		-1.1	-1.1	-0.8	-3.0
Percentage of saving		-2%	-2%	-1%	-5%
Percentage of saving (inflation adjusted) <sup>1</sup>					-10%

**Note**

<sup>1</sup> Figure 5 sets our future expenditure plans in the context of resources consumed since 2010-11.

**Building on what we have achieved**

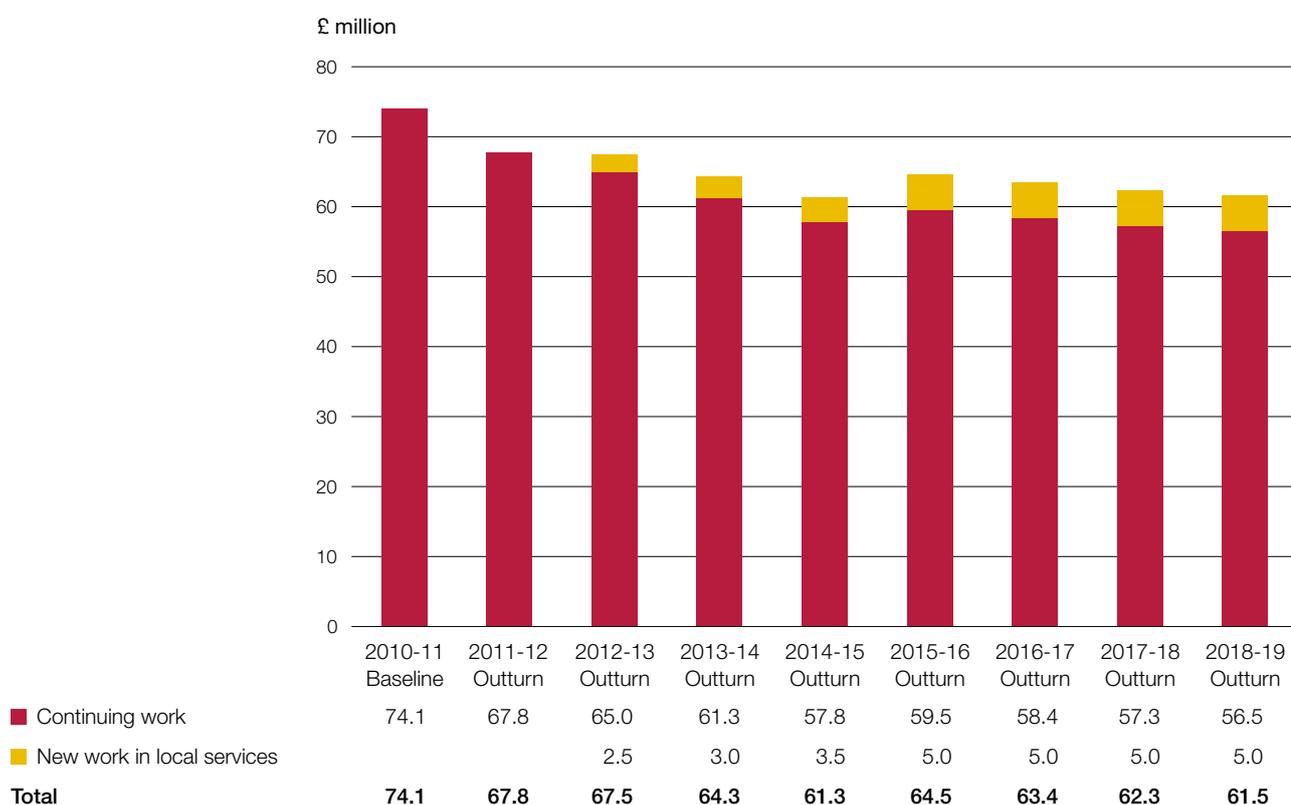
**4.4** Our plans for the next three years build on the foundations laid by our transformation programme. We have already significantly reduced our expenditure on our audit and assurance services (**Figure 6** overleaf). We have already made savings of 27% (inflation adjusted) on our continuing work, and will have reduced this by 33% (inflation adjusted) over the period from 2010-11 to 2018-19.

**4.5** We have made savings through a fundamental change in our business model. We reorganised our teams around strategic issues and broke down barriers between work streams. At the same time, we increased delegation and local decision-making. We are now working more effectively with smaller teams in both our value-for-money reports and financial audit work (see paragraphs 3.7 and 3.8). This has meant we have been able to reduce our staff numbers from 870 to 825 between 2010-11 and 2015-16 even while increasing the range of our work to include coverage of the local government sector.

**4.6** Our commitment to increasing efficiency and reducing costs is an inherent part of practising what we preach, which we take very seriously; plans to achieve savings against our corporate services costs were put in place as far back as 2008. This included a reorganisation to free up office space, from which we now earn significant rental income at market rates.

**Figure 6**

National Audit Office net resources for audit and assurance services

**Notes**

- 1 Our spend on continuing work reduced by 22% between 2010-11 and 2014-15 (last audited outturn), which is 27% once adjusted for inflation.
- 2 Over the full period from 2010-11 through to 2018-19 we will reduce the costs of our continuing work by 24%. This is 33% when adjusted for inflation.
- 3 Our budget for 2014-15 was £63.0 million but we returned an extra £1.7 million to Parliament in this year. The net cost of our continuing work reduced because:
  - we earned an additional £1.4 million of income. £1.0 million was from the additional work on probation trusts, and with our international work, which is subject to exchange rate movements, also earning more than planned. These events are non-recurring as we do not have this work going forward; and
  - the costs of our work were less than budgeted by £0.3 million (under 1%) as we operated with fewer people than planned.
- 4 Our budget for 2015-16 increased by £1.5 million to £64.5 million to include the extra responsibility for the Code of Audit Practice transferred from the Audit Commission. The budget for continuing work remained unchanged as we returned to a normal operating level.

## The challenge ahead

**4.7** These reductions will not be easy. Our plan for the years ahead needs to account for the way we:

- are losing the majority of our international work. Our income will drop by £3.5 million over the next few years as our position on the UN Board of Auditors ends and other assignments end. This work made use of our people during quieter periods of the year, so we will need to manage their redeployment carefully;
- need to retain flexibility around pay and our ability to retain skills. Our people are professionally qualified and highly marketable. We will fund any pay award internally. We continue to be susceptible to legislative change, such as pension reform, which restricts our ability to reduce our budgets as we are required to pay an additional £0.7 million of national insurance contributions on behalf of our staff each year;
- must absorb inflationary pressures. A number of the costs associated with our building are fixed and increase each year beyond our control; and
- plan to deliver to Parliament a cash reduction in our budget of £3.0 million over the next three years.

**4.8** We are still confident we can achieve our proposed savings without compromising the quality and range of the work we do for Parliament. Our front-line teams will continue to work more efficiently as new risk-based and digital approaches to our work help us plan better and get the most from our people. We plan for a further 4% efficiency in our front-line work; however, the focus of our saving initiative will be on our corporate services. We are carrying out a 'root and branch' review of all our support functions and we plan to reduce our back-office by at least 25% over the period as better systems and policies mean we need fewer people.

**4.9** We are a people business: staff costs are our biggest cost driver and make up around 70% of our expenditure. Therefore, saving money will mean fewer people. We aim to reduce our staff complement to 730 over the period from our current complement of 825. We are not planning, nor can we afford, a sudden release of staff through a departure scheme; the reduction will be carefully planned through adjustments to our retention and recruitment policies.

**4.10** However, it is impossible to deliver cuts of the scale being asked of unprotected departments without undermining the NAO's ability to hold government to account. Our proposals do not, therefore, include a reduction in the service and assurance we provide to Parliament.

## **Our work portfolio**

**4.11** A significant amount of our work is financial audit, which we carry out under statute. This work is regulated by the Financial Reporting Council and must comply with minimum quality standards. We are committed to fully upholding these external standards and, while we continue to look for better ways of streamlining our documentation and review processes, we will not cut any corners in the way we carry out our audits.

**4.12** We will continue to provide the same range of major outputs, investigations, reports to management, correspondence and support to Parliament (see Appendix One). Our projections take account of the fact that the Comptroller and Auditor General ceases to be a member of the United Nations Board of Auditors on the 30 June 2016 and we will no longer carry out this work.

**4.13** Our resource request does not include any additional work that may be required around the Scottish devolution, the potential impact of the EU referendum, or decisions on the future audit arrangements of the BBC. If Parliament asked the NAO to carry out significant work in any new areas such as these, we would revisit the resources required.

# Part Five

## Our performance

**5.1** We will measure our progress with implementing the aims and objectives of this strategy. We use a range of measures to assess our contribution towards public service improvement and our success in developing knowledge and influence (**Figure 7** overleaf). We set out our performance against these measures in our annual report and accounts.

### **Developing and applying our knowledge**

**5.2** We monitor the cost-effective delivery of our work programme to ensure that we practise what we preach in terms of efficiency. We look at the impact our work, and that of the Committee of Public Accounts, have had on public services.

**5.3** We have an established process to identify and measure the financially quantifiable benefits of work for the bodies we audit. All our financial impact claims must meet strict criteria, including being validated by the relevant public body. They are also subject to internal and external audit assurance.

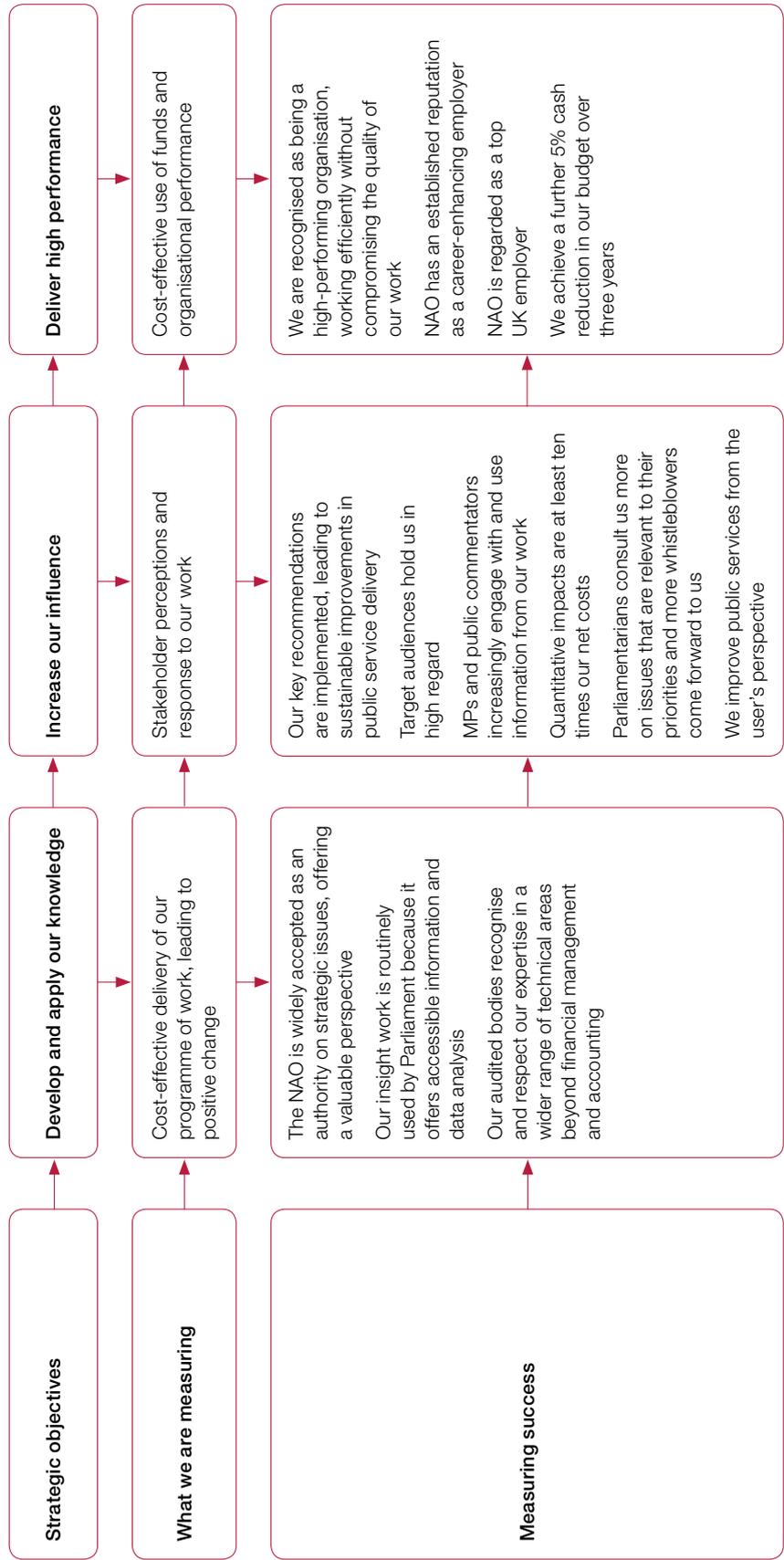
**5.4** In some areas, it is harder to establish a quantified financial estimate of our impact. In such cases, we agree our wider impacts with our audited bodies and include them as case studies in our annual report and accounts.

### **Increasing our influence**

**5.5** We are strengthening how we track the implementation of our recommendations to audited bodies. We are now systematically recording the responses to our recommendations from both our financial audit and value-for-money work. In addition, we will continue to monitor the government's responses to the recommendations made by the Committee of Public Accounts based on hearings we have supported.

**5.6** In addition to our established measure of financial impact, we will also extend our impact measures to capture more of the wider benefits our work produces, including our impact on local bodies and improvements to user perspectives of public services, and we will look to new and innovative techniques such as web-scraping to capture better, cost-effective information on the National Audit Office's (NAO's) impact.

**Figure 7**  
Measuring success against our strategic objectives



**5.7** We seek feedback from Parliament and our audited bodies as one measure of our success in developing expertise and knowledge on the issues facing government. We commission three independent surveys annually. The surveys provide structured and comparable feedback from audited bodies and MPs. This comprises:

- interviews with senior civil servants in audited bodies and chairs of audit committees;
- a survey of MPs that asks them about their perceptions of the NAO and the work the NAO does; and
- a survey of local bodies that asks them about their perceptions of the NAO.

**5.8** We also track the extent to which Parliamentarians use our work in debates and in select committee hearings. We record the volume of references to the NAO and Committee of Public Accounts' work in the House of Commons as well as whether these references are favourable or unfavourable. Outside of Parliament, we monitor references to our work made by prominent commentators and policy organisations such as think tanks and trade associations.

### **Delivering high performance**

**5.9** We continuously monitor our cost-effective use of resources and our organisational performance. This includes a measure of our aggregate gross and net cost savings as an organisation, and the ratio of expenditure on our front-line work and corporate services overheads. These are important measures of our corporate efficiency and demonstrate our commitment to reducing our costs while preserving the quality of our work.

**5.10** We commission an independent survey of NAO people to understand the levels of employee engagement across the organisation. This survey is an important leading indicator of our ability to retain our skilled staff and our success in delivering our people strategy.

# Appendix One

## Our resource requirements

### Figure 8

Net resources shown by type of expenditure

	2015-16 Estimate (£m)	2016-17 Proposed (£m)	2017-18 Proposed (£m)	2018-19 Proposed (£m)
Staff <sup>1</sup>	58.7	56.2	54.1	53.3
Outsourcing	10.5	10.5	10.5	10.5
Travel	3.0	2.2	2.0	2.0
Establishment costs	9.6	9.5	9.5	9.5
Depreciation	3.0	3.0	3.0	3.0
<b>Gross resource requirement</b>	<b>84.8</b>	<b>81.4</b>	<b>79.1</b>	<b>78.3</b>
Income	-20.3	-18.0	-16.8	-16.8
<b>Net resource requirement</b>	<b>64.5</b>	<b>63.4</b>	<b>62.3</b>	<b>61.5</b>

#### Note

- 1 Our efficiencies will be realised through a reduction in headcount. Better systems and smaller support services will mean we can maintain our front-line portfolio of work with fewer people. Our future staff costs include £0.7 million of extra National Insurance payments each year following reform of the State Pension.

**Figure 9**

## Net resources shown by objective

	<b>2015-16 Estimate (£m)</b>	<b>2016-17 Proposed (£m)</b>	<b>2017-18 Proposed (£m)</b>	<b>2018-19 Proposed (£m)</b>
Audit and assurance <sup>1</sup>	48.4	46.2	45.1	44.9
Value for money	17.8	17.3	17.0	16.7
Investigation and insight	11.7	11.3	10.9	10.7
Support for Parliament	5.4	5.4	5.4	5.4
International relations	1.3	1.0	0.5	0.4
Comptroller function	0.2	0.2	0.2	0.2
<b>Gross resource requirement</b>	<b>84.8</b>	<b>81.4</b>	<b>79.1</b>	<b>78.3</b>
Income <sup>2</sup>	-20.3	-18.0	-16.8	-16.8
<b>Net resource requirement</b>	<b>64.5</b>	<b>63.4</b>	<b>62.3</b>	<b>61.5</b>

**Notes**

- 1 Reductions include the loss of the UN audit portfolio, which is classified under audit.
- 2 The decline in income reflects the loss of UN fees and reduction in other international assignments undertaken as part of our international relations activity for which we earn a fee.

**Capital expenditure**

Our capital expenditure provision for 2016-17 continues to include provision for investment in IT equipment and systems, and upgrade work on our lifts, which was not included as part of the 2007–2009 refurbishment of our office. After this, we do not anticipate any major capital works, other than the standard asset replacement cycles, and have scaled back future budgets accordingly.

**Figure 10**

## Capital provision

	<b>2015-16 Estimate (£m)</b>	<b>2016-17 Proposed (£m)</b>	<b>2017-18 Proposed (£m)</b>	<b>2018-19 Proposed (£m)</b>
Capital provision	2.0	1.5	1.0	1.0

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