



National Audit Office

National Audit Office

NAO strategy 2017-18 to 2019-20

DECEMBER 2016

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, which employs some 785 people. 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 £1.21 billion in 2015.

Contents

Foreword 4

Summary 5

Part One

The role of the NAO: adding value 8

Part Two

The new challenges 11

Part Three

Meeting the challenges 14

Part Four

Our people 20

Part Five

Our resources 23

Part Six

How we demonstrate our contribution 28

Appendix One

Detailed financial information 30

For further information about the
National Audit Office please contact:

National Audit Office
Press Office
157–197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Tel: 020 7798 7400

Enquiries: www.nao.org.uk/contact-us

Website: www.nao.org.uk

Twitter: @NAOorguk

Foreword

1 This is a challenging time for the public sector, and indeed anyone concerned with improving outcomes for those that use public services. Our strategy reflects how we are supporting Parliament in responding to the challenges facing government, and preparing for the likely challenges of the future, such that we remain a valuable source of insight and support to Parliament.

2 With ongoing financial restraint, the government looks to deliver services in new ways and with fewer resources, through greater delegation to local bodies, partnerships with the private and third sector and with digital technology. Such significant level of change brings with it opportunities for efficiency but also risks to value for money and service delivery. At the same time, the uncertainties created by Brexit place further strain on government resources. Successfully meeting these challenges will depend greatly on government capability and effective prioritisation.

3 In this context, the role of the National Audit Office has never been more important. Our relationship with Parliament, our independence and our commitment to high-quality evidence-based work means that we are in a position to give full and fair assessments to provide transparency and accountability of those we audit. We are well placed to look across government to identify systemic issues and share knowledge, and to review the impact of policy through to the effect on the citizen, allowing us to drive real beneficial change through our influence.

4 Our strategy reflects how we use our resources to add real value through our support to Parliament and our wider influence, as we focus on the issues of greatest priority, and have the capacity and resources to support accountability and improvement.

Sir Amyas CE Morse KCB
Comptroller and Auditor General

Lord Michael Bichard KCB
Chairman

Summary

1 Resource constraints: the impact of ongoing spending constraint and limited government capacity, combined with changing public needs and an ageing population, create a pervasive challenge to the delivery of public services in all sectors. At the same time, there is uncertainty around the terms of the UK's exit from the European Union, which government will have to manage within the constraints of its limited capacity. Against this context, the public sector must deliver services with fewer resources that meet the needs and expectations of the public. With the most readily achievable savings already taken, further efficiencies have to be met through new and different ways of working, demanding new skills and capabilities in the civil service.

2 Digital transformation: technology offers opportunities for cost-efficient, user-centric public service delivery as technology changes the way we live and work. Such transformation also brings with it risks of service failure or not securing value for money if the expected savings are not delivered. In addition, the increasing availability of data offers the potential to make more informed, evidence-based decisions to have greater impact. For government to exploit this effectively it will need not just technical skills, but skills for effective communication, transformation and change management.

3 Accountability: as localism and devolution continue, lines of accountability become blurred, and it is more important for government to understand how decisions can have an effect across the spectrum of services, affecting individuals and public bodies in unforeseen ways. At the same time, new commercial delivery models based on partnerships with private and voluntary organisations will need effective commissioning and accountability to deliver on potential benefits.

4 Independent insight: our role, in the context of these challenges, is essential to providing authoritative and independent insight to support Parliament. We add value through our experience, technical expertise and relationships coupled with our cross-government perspective. Through our work on local government, we look at the end-to-end delivery of services where we follow policy through to the impact on the people affected. We can view activities across all providers involved and highlight the systemic issues to provide a better service to Parliament. Our independence from government underpins the unique value of public audit and the impact we achieve through our review of public finances and service delivery.

5 Internal efficiency: since 2010 we have achieved 20% efficiencies in our overall budget, while taking on substantive new responsibilities such as under the Local Audit and Accountability Act 2014. Recently, government and Parliament have increased our responsibilities, with the BBC, UK Asset Resolution and Bank of England. We are dedicated to delivering our new work with the same high quality and independence we have always shown. Although we have previously absorbed new responsibilities within our existing resources, the scale of these further responsibilities now needs to be reflected in our future budget.

6 Future priorities: in the light of the new challenges facing the public sector, we now need to invest in our capability and enhance our skills. We will:

- develop our digital capability, both in how we deliver our financial audits and to have the expertise to provide Parliament with in-depth value-for-money assessments;
- produce more reports on local service delivery;
- deepen our expertise in the strategic issues that departments and local bodies face, to improve the quality of our insights and the recommendations we make;
- build on our experience of company audits to develop our ability to comment with authority on commercial delivery models;
- invest in our investigative capacity to provide Parliament with timely and targeted reports on key emerging issues; and
- increase the impact of our recommendations and our messages by tailoring information in a way that is suited to those we are trying to reach.

7 Influence: our ability to influence is critical to our success and we are increasingly tailoring our communications to our audiences, to meet their needs and present information in a way that most effectively creates engagement and understanding. We will make greater use of digital channels and social media to reach our audiences.

8 No longer are we simply judging in hindsight on past failures in public value and just signing off accounts. By making these investments, we ensure that all our stakeholders see the NAO as a source of good insight, and the benefits of accepting our recommendations are widely recognised so those we audit implement our advice.

9 We are a relatively small organisation with a very large remit. We are looking to punch above our weight with our statutory audit work and the wide range of support we give to Parliament. Our performance in 2015-16 demonstrates the far-reaching impacts we have, with financial savings of £1.21 billion and wider impacts providing real benefits to those we work with and the public.

Part One

The role of the NAO: adding value

1.1 The National Audit Office (NAO) supports Parliament to hold government to account and to improve public services. We do this by fulfilling our statutory duties in financial audit: in 2015-16 we certified 368 accounts including all 17 government departments and their associated bodies, as well as companies such as Network Rail and the Green Investment Bank. We produce a broad range of value-for-money reports, with 65 outputs published in 2015-16.

1.2 Under the Local Audit and Accountability Act 2014 we produce reports on the value for money of public spending locally. We are also responsible for the *Code of Audit Practice* that sets out what local auditors are required to do to meet their statutory responsibilities. This code and its guidance supports local auditors and underpins a consistent high-quality approach to the audit of local public bodies.

1.3 We are undertaking more investigations to provide Parliament with timely and targeted reports on key issues as they occur, and we are responding to growing correspondence from MPs and the public. Our reports on the financial sustainability of the Department of Health and its partners, which arose from our financial audit work on these bodies, and our investigation into the charity Kids Company are illustrations of the progress we have made in providing timely insight on emerging issues, and supporting Parliament in holding government to account.

1.4 In addition to our relationship with the Committee of Public Accounts, we provide wider support to Parliament through assisting Parliamentary committees by providing information and analysis to support inquiries, and through short and longer-term secondments.

1.5 Our responsibilities, underpinned by our independence and the evidence-based approach that we apply to all our work, mean that we are in a unique position to improve the transparency of those we audit, to give a fair and complete assessment, in a way that adds wider value to the public sector.

1.6 Parliament and government continues to expand the role of the NAO with recent responsibilities including the audit of Network Rail and UK Asset Resolution and new powers for value-for-money reporting on the Bank of England. The new BBC Charter establishes the role of the NAO as the financial auditor of the BBC as well as having responsibilities for undertaking value-for-money reporting. The Comptroller and Auditor General (C&AG) now reports annually to the Scottish Parliament on HM Revenue & Customs' preparations and oversight of the Scottish rate of Income Tax. In future, the Scottish Parliament and the Welsh Assembly may seek assurances from the NAO, in our capacity as auditor of UK-wide public bodies that engage in activities for the devolved governments. The NAO is currently working with the UK Parliament and government to agree a framework for these relationships.

1.7 So far, the NAO has absorbed its new responsibilities into its existing budget through internal efficiencies and better ways of working. Since 2010, we have achieved 20% savings. However, as we indicated in our previous strategy, the scale of the further responsibilities that Parliament wishes us to take on now needs to be reflected in our future budget. We have set out our resource requirements for the next three years in Part Five.

Our strategy

1.8 Our overall strategy remains consistent with previous years: we use the insights and knowledge from the broad range of our work to increase our influence and encourage improvements in public services, and to support accountability. We implement our strategy by organising ourselves to work in an efficient and targeted way, with an inclusive and collaborative culture, and by focusing our work on systemic issues that cut across those we audit.

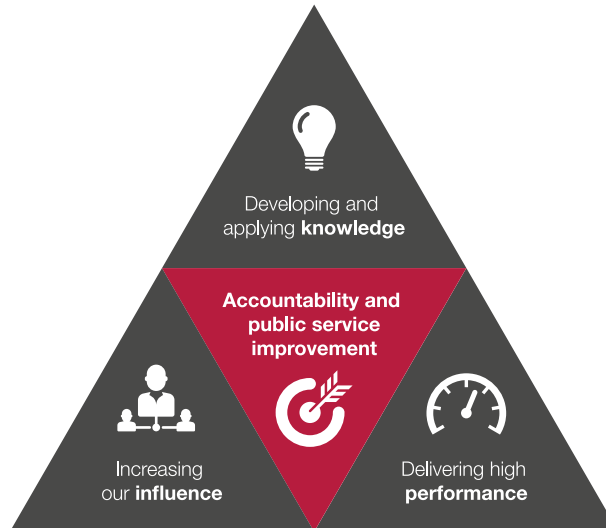
1.9 Our strategic objective is supported by three areas which, by performing well, we are more likely to achieve our objectives (**Figure 1**).

Organised to be effective

1.10 We are organised in a way that groups our people around departments facing similar strategic issues, such as project and programme management and local service delivery. This is crucial to our strategy and maximises the use of shared knowledge and expertise. By focusing our resources on the strategic issues shared between departments, we can concentrate on those outcomes that have a significant impact in improving public services. This way of working also has the advantage that it provides autonomy at the right level of our business, allowing our people to quickly respond to emerging issues and focus on the areas of greatest importance to Parliament.

Figure 1

Our strategic objective and enablers

**Note**

The three key areas in which we focus our efforts to deliver the overall objective are:

- 1 Developing and applying knowledge: we carefully plan our work so that it meets the needs of Parliament, and from this draw out the insights gained that are most likely to help drive positive change across the public sector.
- 2 Increasing our influence: we aim to improve the awareness and opinion of the NAO held by all our stakeholders, including MPs and the bodies we audit such that government is more likely to implement our recommendations and look to us as a source of guidance.
- 3 Delivering high performance: we use our funds cost-effectively and make sure we get the best from our people.

1.11 Our ability to be able to achieve our objectives relies on our independence to determine and execute our work programme on the areas and subjects that need scrutiny and the freedom to exercise discretion in how we do our work.

1.12 Our way of working is proving successful, with greater collaboration and sharing of skills across the business, which is helping to increase our influence and impact. Examples include the impact we are having in improving financial management in government; strengthening government's management of contractors; and in the transparency of the payment of taxes. Internally, our people are readily taking up opportunities to develop new skills and expertise, furthering our culture of opportunity and ensuring we remain authoritative, as evidenced by surveys of our stakeholders, who recognise the quality and expertise of the NAO.

Part Two

The new challenges

2.1 We are in a period of unprecedented change that affects all aspects of the public sector. The scale of government's transformation programmes, limited government capacity, ongoing financial constraint and the challenges of an ageing population mean that both the delivery of public services and the expectations of those who rely on them are changing. At the same time, the highly interconnected global economy and international financial markets which impact on trade, competition, cooperation, and development are having wide-reaching impacts on the UK public sector. Consequently, transformative changes are needed to increase the value for money from public spending and improve the quality of public services. In this context, the government must ensure that service delivery meets the needs of the people and achieving that will require a fundamental re-think of the way in which public services are designed, funded and delivered.

2.2 The timing and terms of the UK's exit from the European Union have yet to be decided, and the long-term economic effects are unknown. With such uncertainty it is difficult to evaluate what the impact will be, but regardless of the specifics, it is clear that the government will need to have the skills, expertise and capacity in place to manage the withdrawal and establish new international agreements. In a time of austerity and civil service reduction, this is an additional resourcing issue the government will need to manage.

2.3 After six years of austerity many of the most readily achievable cuts in public spending have been made. Local government in particular has seen significant reductions to funding in recent years, while still needing to meet service needs. To succeed, government has to continue to develop new skills on the part of civil servants, new ways to engage with those using services and innovative thinking about reforming services. It needs to do this while coordinating national priorities such as growth, environmental management, demographic change and infrastructure development. It has started to accelerate delegation to local bodies and contract out more services, create market-like ways of choosing and supplying services, and increase the use of digital technology.

The opportunities and risks of digital

2.4 Technology and the growing volume and accessibility of data provide opportunities for a wide-scale transformation of public service delivery to save money, be more efficient and design services around the user. This opportunity also comes with a risk that value for money may not be achieved, or that services will not meet people's needs, unless transformation is managed well and accountability clearly defined.

2.5 Technology-enabled transformation programmes are widespread across government. Our previous reports, such as those on the Aspire contract and E-borders, have highlighted problems with technology-related, high-cost programmes and contracts, and in the coordination of government approaches to digital, technology and security, with departments adopting different strategies to managing information.

2.6 With challenging programmes, it is possible to underestimate the expectations of those who rely on a service and the behavioural changes of those who manage them. Examples of this include the Universal Credit and the courts digital transformation programmes. With large numbers of new transformation projects in progress, there is a risk that failure to address these issues will result in benefits not materialising as planned. We have also identified risks for security and information protection that will need to be managed, as increasing the use of data and allowing greater access to data through online services could lead to increases in cyber-threat risks.

2.7 Technology and better data allows government to work differently. Where appropriate, government must become proficient at making full use of the data that are now available, for example on people's preferences, transactions and organisational performance. The volume and types of data have grown rapidly. The recent Science and Technology Committee report into *The big data dilemma* noted that 90% of all data available on the internet were created in the last two years alone. The vast majority of these data are unstructured which, combined with the volume and velocity in which they are generated, makes them very difficult to analyse using traditional techniques. The government is attempting to respond to this environment by developing its capability.

2.8 With more data available in the public sphere than ever before the line between information and misinformation becomes harder to manage, and trusted sources of insight and information are more, rather than less, valuable. Government needs the right capabilities and strategy to exploit fully big data, where appropriate, and the opportunities it affords. This means having not just technical skills, but also skills needed for effective communication, transformation and change management.

Opportunities and risks through new ways of working

2.9 To embed more efficiencies the government is looking to new ways of delivering public services with greater emphasis on contracts with private and voluntary organisations, aiming to reduce costs while delivering the services needed. At the same time, greater localism and devolution have pushed responsibility out from the centre of government to empower local authorities and cities. Such significant changes offer opportunities for decision-making to rest with those who are best placed to understand local needs, and to embed efficiencies through targeted use of resources. However, we must also be prepared for the risks that such large-scale change can bring. Issues such as: the sustainability of funding; the risk of service failure; the need for integration across providers; the potential blurring of accountability; loss of public confidence if services are seen to suffer; and the risk that delivery partners can choose to withdraw their involvement at critical points.

2.10 Greater delegated power at the local level can support reduced expenditure, improve economic growth and improve service delivery and integration. However, the dividing line between efficiency and rationing of services is a blurred one, as we saw in our work on financial sustainability in local government. It is also possible that cost economies in providing social care can drive up costs in other areas of health provision, and vice versa. For this reason, a comprehensive view of all the connected elements of services is needed.

The accountability challenge

2.11 The changing landscape in the public sector and complexity of new delivery models can mean that holding government to account is a more challenging task for Parliament. Our role is to continue to offer our insight and expertise to support Parliament in ensuring accountability.

2.12 With Parliament, central and local government the NAO shares the goal of improving public services. Ultimately, it is the users of services that must experience these benefits through better-quality services and a more efficient use of taxpayers' pound. With such a high degree of change, however, there is an increasing risk that the public may be impacted by costly mistakes and poor decision-making by government. Failure can result in losses not only in monetary terms, but also to the cost of the well-being of the individual. It is the considerable challenge for government to learn from past mistakes and to manage these challenges effectively; the NAO is well placed to support Parliament in ensuring government does so.

Part Three

Meeting the challenges

3.1 The National Audit Office (NAO) needs to understand the challenges and major changes that government faces, and be able to bring valuable insight and analysis as well as to support Parliament in holding government to account.

3.2 Our work is evidence-based, enabling us to get to the heart of why a programme or project has underperformed, or what has made it successful. Increasingly, by comparing performance between organisations and sectors, we can identify systemic issues of wider importance. Bringing together all the evidence and insights we derive from our audits of public bodies enables us to provide timely and focused intelligence on issues of importance to MPs and the public.

3.3 In Part Two we set out the high-level challenges that government, at all levels, faces. Here, we consider our response to the specific elements of those challenges that, by targeting, we most increase our effectiveness. Over the next three years, we will continue to enhance our work and capability to meet these challenges, while taking on new responsibilities and seeking to enhance our impact.

The digital challenge

3.4 Technology and better data are transforming the way public services are delivered. With ongoing financial constraint, public bodies are looking to technology-enabled transformation to deliver further savings while maintaining or enhancing the quality of public services. This provides opportunities to deliver more personalised services, but experience to date indicates significant risks, requiring careful management.

3.5 As departments employ greater technology-enabled changes, we are responding in both how we tackle a more digital, IT-enabled environment, and how we make best use of technology-enabled methods and techniques to provide the most efficient and insightful work. To address this, we are doing the following:

- Building our capacity to audit more digital environments. We have embarked on a new Financial Audit Development Plan to enhance our digital audit expertise and skills and appointed a senior practitioner expert in digital-based audit.
- Applying new methods and techniques to our own audit practices, such as greater use of our data analytics skills to support our financial audit work, and ensuring we have the right systems and software to support our work.
- Establishing the expertise needed, through our digital team, to be able to provide insight to Parliament through our value-for-money (VfM) work, developing expertise in digital transformation to support the government as it sets out its strategy and approach. Increasingly, our VfM work draws on insights and sector knowledge gained from our financial audit.
- Developing our approach to external communications and influence, to use digital channels to promote our messages and better secure our impacts. We are looking at ways to build on this further as part of our ongoing communications strategy.

3.6 We will build on the work we have done so far, such as exposing capability gaps through our 2015 digital survey, and our studies on digital transformation, to establish a longer-term approach. We will focus on tracking and extracting the lessons of the past, both for departments and local government, and assessing the current risks of ineffective spending and missed opportunities. We will use our work to examine digital transformation projects and programmes and support sharing of good-practice, promoting consistency across departments.

Accountability, localism and new ways of working

Accountability

3.7 New delivery models through private partnerships, increased localism and complex infrastructure programmes can blur the lines of accountability and make Parliament's role in holding government to account more challenging. At the same time new, complex and novel accounting treatments, which often require complex valuations, can make financial reporting less accessible for the users of the accounts.

3.8 The strength of the NAO is to be able to look across government, beyond individual departments, and use our work to look at the delivery of public services across all the organisations involved including different public bodies but also private sector delivery partners. In this way, we can look at the whole system and provide the Committee of Public Accounts and select committees the full picture to support accountability.

3.9 By undertaking our new audit responsibilities to the BBC, Network Rail and UK Asset Resolution as well as powers to undertake value-for-money reports on the Bank of England, we will further enhance our capability for auditing a wide range of different types of organisations, including private sector bodies. This builds on the success of our auditing experience under the Companies Act 2006, and gives us the knowledge and experience to examine and comment with authority on new commercial delivery models involving private sector partners used by government.

Localism and devolution

3.10 More responsibilities have moved to local authorities and others as government has increased localism and delegated responsibility from the centre of government. Central government sets the aims and policy objectives, while local organisations increasingly decide how to spend the funding based on local needs and priorities. Further devolution deals between central government and local areas in England are the latest in a range of initiatives and programmes designed to support decentralisation. There are real opportunities for local bodies to integrate activities across organisations and services. However, centrally made decisions and cost reductions need to be made with an understanding of the full implications so costs or service pressures are not simply moved elsewhere, and clear lines of accountability must be established upfront.

3.11 In response, we are planning more studies focusing on systemic issues that are affecting local bodies, such as financial sustainability of local authorities, transformation and support for local economic growth. These reports can provide evaluation, commentary and advice and help improve public services through a complete view of the use of public funds, helping to inform Parliament while adding value at the local level, and to comment on whether responsibilities have been properly delegated.

3.12 We will leverage our ability to view government policy through to implementation to consider services from the users' perspectives. This end-to-end perspective of service delivery puts us in a strong position to enforce the message that government needs to understand the impact of its decisions on local bodies and those who rely on them. Studies we have published – such as our work on the quality of help and protection services delivered by local authorities for children, access to mental health services and the health and social care system's management of discharging older patients – have highlighted the impacts of departmental decisions on the welfare and life quality of UK citizens. Our future programme builds on this, with studies on issues such as adult social care and human trafficking.

3.13 We will focus our work to ensure joined-up delivery between services at the local level, as services do not operate in isolation and the impact of success or failure in one area can have repercussions on the demands placed on other services. For example, our work on mental health services highlighted that implementing the access and waiting time standards depends on actions taken by many local commissioners and providers working in a complex system of service providers including NHS bodies and private and third sector organisations.

3.14 An essential responsibility we continue to have is to set the *Code of Audit Practice*, which sets out what local auditors are required to do to meet their statutory responsibilities. This code and its guidance support local auditors and underpins a consistent high-quality approach to the audit of local public bodies. In setting the code and through our engagement with the audit profession we will set out the issues that auditors need to focus on in delivering value for money.

The changing environment

Brexit

3.15 Although the timing and terms of the UK's exit from the European Union (EU) remains uncertain and the economic arrangements have yet to be agreed, it is inevitable that there will be wide-ranging consequences for government, including changes to funding streams such as those currently delivered under the Common Agricultural Policy. The role that the NAO will have in supporting Parliament, and the demands on our work programme and resources, is unclear at this time. However, we are developing our approach as the process unfolds, and we are ensuring we have the capacity and capability to be able to respond as needed.

Capability in the public sector

3.16 The civil service has to negotiate the UK's departure from the EU while at the same time delivering an ambitious programme of reform and transformation involving infrastructure investment and other major projects. To manage this scale of change effectively, the civil service needs new skills and capabilities and must be more effective in prioritising. Long-established weaknesses such as optimism bias in what it can realistically deliver, short-termism in planning and a lack of strong financial management will all need to be addressed.

3.17 We will continue to focus the NAO's work on the capability and capacity that is needed in government, and identify where there are skills gaps that need to be addressed. We are promoting the message that government needs to identify the capability it needs in advance, and to have a robust plan for how it will address skills gaps. To increase our impact, we are engaging with projects and programmes earlier in their development to enable risks to be identified and remedied.

3.18 Through our cross-government perspective we will draw out the systemic issues that cut across government, to support a consistent approach to addressing the common barriers to success. Using our position and network of relationships, we will share good practice between those we audit, recognising where things are done well and sharing lessons learned.

Emerging risks

3.19 Correspondence from the public and MPs, coupled with intelligence from our wider work, are often the first indications we have of risks to public services, and are therefore useful in bringing important issues to our attention. Where the risks warrant it, we undertake investigations to provide a rapid assessment of service quality, failure and financial management to provide targeted findings quickly. For example, 2015 saw the collapse of the charity Kids Company, prompting us to undertake an investigation to provide a quick response to a complex and sensitive issue to support the Select Committee.

Restoration and renewal of Parliament

3.20 In September 2016 the Joint Committee on the Palace of Westminster recommended that Parliament should move out temporarily from the Palace of Westminster so that restoration and renewal work can be carried out as efficiently and cost-effectively as possible. Should Parliament accept the Joint Committee's proposal, the restoration and renewal programme, which would commence early next decade (although initial planning is likely to be sooner), will be a large, costly and complex project involving a nationally significant building in the heart of a UNESCO World Heritage Site.

3.21 As Parliament's auditor, we possess the skills and capability to help Parliament secure value for money and advise the House Service on how to improve its delivery of services. Although any future role for the NAO regarding restoration and renewal is to be determined, and contingent on Parliament's approval, we are well equipped to provide audit and assurance work as the programme develops.

Our new responsibilities

3.22 As discussed, government and Parliament has expanded the role of the NAO to include new financial audit and VfM responsibilities. We are committed to providing the same high quality of financial audit and reporting on the efficiency, effectiveness and economy of these organisations through our VfM studies, in keeping with the same values of independence, fairness, authority and collaboration that we apply to our existing work.

Using our influence

3.23 To increase our influence and encourage improvements in public services through the implementation of our recommendations, we need to ensure that we communicate effectively. To increase our reach and make our work more accessible we are:

- increasing the types of output we produce, so that as well as VfM reports we are also producing interactive media, and shorter reports and briefings tailored in length and style to the target audience, such as MPs and chairs of audit committees;
- using digital communication, including social media, as a powerful tool for reaching our audiences through digital ‘showcases’ of our work, podcasts and infographics;
- engaging more through external networks, using speaking opportunities and delivering events, such as seminars, to facilitate the sharing of best practice and knowledge; and
- ensuring that we give a consistent message on the important issues. By having an integrated approach to our campaigns on strategic themes and cross-government work, we will highlight the systemic issues and identify the critical interconnections in public service delivery.

3.24 We also recognise the importance for our people to have the skills needed to influence and support those we audit, at all levels of our organisation. Through our culture, training and career development, we provide our people with the expertise and confidence to support the organisations we work with. Collaboration is an integral value to our business, and one we encourage in all our work.

3.25 Through our responses to addressing the most significant challenges of today and our ability to influence our wide range of stakeholders, we ensure we have the capability, focus and responsiveness to provide a better service to the Committee of Public Accounts, select committees, and Parliament more widely.

Part Four

Our people

4.1 Our people remain our most valuable and important assets. Many of our people are qualified accountants, but in addition, we have a breadth of other valuable expertise including skilled professionals such as economists, statisticians and business analysts as well as those with skills in important areas such as commercial and digital. We recognise the value of all the skills we have and what they can offer, and we work in an integrated way through multi-disciplinary teams and knowledge sharing such that we bring the full range of our expertise to all of our work.

4.2 The National Audit Office's (NAO's) staffing approach is to recruit graduates and school-leavers each year to train as accountants and our pass rate for the professional examinations remains significantly above the national average year-on-year. We have recently reviewed our staffing approach, and concluded that this remains the best way to ensure that the NAO attracts and retains the right skills and aptitude.

4.3 We are, nevertheless, vulnerable to market conditions and the ability of private sector employers, particularly financial services, to offer more competitive salaries. To help manage this risk, we have focused our training programmes as part of a longer-term career with the NAO, actively re-selling our employment offer to trainees as they qualify, through better career development support and greater access to challenging work opportunities. These actions, which includes the introduction of additional recognition payments one year and two years post-qualification, help us retain the people we need and we are now well-placed to take on the extra work we are being asked to do.

4.4 However, the recruitment market can change quickly. Therefore, our forward salary costings, which are aligned with central government pay guidance, also include flexibility to go beyond this should there be a clear business need to improve retention.

Skills and development

4.5 Maintaining and enhancing the quality of our work requires that our skills keep pace with developments externally and are relevant to the challenges faced by those we audit. This goes further than the professional accountancy qualification that many of our people have and recognises that a breadth of skills is necessary and valuable to our work. We support our people to acquire other relevant qualifications, such as those offered by the International Association for Contract and Commercial Management and the Chartered Institute for Securities Investment. Our priorities over the next three years are to:

- enhance the digital skills and expertise of NAO people. This is important both for our financial audit, but also in widening our ability to evaluate the value for money of digital-enabled transformation;
- develop and extend the NAO's data analytic capability. We have a well-established internal data service. This is particularly important in sectors such as local government and health, where assessments of value for money often require analysis of large datasets. We are extending this approach to other sectors, such as education;
- widen our people's operational experience. Well-developed sector knowledge, such as in health, local government or defence, combined with experience of managing a project or delivering a service are valuable in deepening our insight into the typical issues that organisations face. We will widen NAO people's experience of this through secondments and other work experience, where practicable, in the public, private and voluntary sectors. Secondments to select committees are now well established as part of our wider support to Parliament;
- deepen our expertise in the strategic issues that departments and local bodies face so as to improve the insights we provide and the quality of recommendations we make;
- enhance NAO people's influencing skills, supporting our strategy to widen and deepen the NAO's impact in helping support improvements in public service delivery; and
- support NAO people's personal development in leadership and management skills and through our 'way we work' training programme promote greater collaboration and team working. This will also support the consistent demonstration of behaviours to realise the full potential of our recently implemented new business support system.

Diversity and inclusion

4.6 Our commitment to making the NAO a more diverse and inclusive organisation is an integral part of who we are. To remain a high-performing organisation, we recruit, retain and develop people with a diverse mix of skills and experience, creating an inclusive working environment. We were one of the founding members of Access Accountancy, established to encourage a more socially inclusive accountancy profession.

4.7 The NAO's ultimate aim is to have a workforce that reflects the diversity of the wider population that we serve. In order to achieve this, we need to bring in a yearly graduate and school-leaver intake that reflects the diversity of the population and to promote staff in the same proportions as the feeder grades from which they are drawn.

4.8 Our diversity and inclusion strategy is based on three pillars:

- Talent pipeline: building greater diversity at all levels to senior leadership.
- Inclusive work environment: creating a barrier-free NAO.
- Diversity in our delivery: integrating diversity into all of our work.

4.9 Fundamental to the success of this strategy is clear governance and accountability, and regular monitoring and evaluation. The strategy and action plan is overseen by a Diversity Delivery Board, chaired by the Comptroller & Auditor General, and its membership is drawn from volunteers from across the business.

Part Five

Our resources

Supporting the National Audit Office (NAO)

5.1 For 2017-18, we are asking for net resources of £66.6 million. This is a £3.2 million increase compared to our 2016-17 Estimate approved by the Public Accounts Commission in March 2016. Our budget for 2017-18 has changed from our previous strategy document, but as we made clear at the time, we always planned to revisit our proposals should Parliament ask the NAO to carry out significant work in new areas.

5.2 We have a good record of accomplishment in making efficiency savings while maintaining the high quality of our work. However, so we can respond to the new requests that Parliament has made of us, we need extra resource in our audit and assurance capability. Our budget for 2017-18 therefore allows for an increase of 20 in our planned staff numbers from 785 to 805 to carry out this work, a £0.5 million investment in our audit technology and a £0.8 million increase in consultancy costs. This allows us to take on the challenge of auditing the BBC and the wider change in our responsibilities; allows us access to technical expertise should we need it; and makes sure our audit approach remains relevant in the modern digital world.

5.3 The extra work associated with our new responsibility also impacts on our 2016-17 budget as preparatory work is underway. A separate supplementary request has been prepared and submitted to the Commission to request a change to our in-year budget.

5.4 The resource proposals for Years 2 and 3 of our strategy remain provisional, against a backdrop of continued uncertainty. The role that Parliament will ask of the NAO in reviewing the UK's exit negotiations with the European Union (EU) remains unclear. There are also plans for restoration work on the Palace of Westminster, which will be a major capital project, and one on which Parliament may ask the NAO, as auditors of the House of Commons, to provide assurance. Again, we do not know precisely what the impact of this will be on our work programme and this makes planning accurately for the future difficult. We will continue to revise and refine our resource estimates as things become clearer, but we must make sure we have the capacity to engage quickly on emerging issues when Parliament asks us to.

Summary of resource proposals

5.5 The resources we need for the next three years are set out in **Figure 2**, with a more detailed costing in Appendix One. These proposals include the upfront investment in 2017-18 as we need to reposition ourselves for the increase in our audit responsibilities, but thereafter reflect our commitment to making ongoing efficiencies.

Continued efficiency

5.6 These resource proposals are set in the context of what we have already achieved. Since 2010-11, we have reduced the cost of our work by 20% in real terms even while expanding our range of value-for-money (VfM) work in the local government sector, and taking on specific functions from the Audit Commission relating to the *Code of Audit Practice*. Excluding these, our baseline spend has fallen by around 26%¹ in real terms over this period.

5.7 Our efficiency programme now focuses on reducing both the number of people working in our back office, and associated contract costs, and we are on track to make the savings of £3 million in line with the findings of our internal corporate services review. We will achieve this by outsourcing specific functions where it is cost-effective to do so, optimising our contracts with suppliers by purchasing more services through the government Cloud marketplace, and with the successful roll-out of new Finance, Human Resource and planning systems, which automates paper-based manual workflows.

Figure 2

Resources needed for the period ending 2019-20

	2016-17 Estimate ¹ (£m)	2017-18 Proposed (£m)	2018-19 Proposed (£m)	2019-20 Proposed (£m)	Total
Total expenditure	81.4	85.4	84.8	84.1	
Income	-18.0	-18.8	-20.2	-20.2	
Net expenditure	63.4	66.6	64.6	63.9	
Change year-on-year		+3.2	-2.0	-0.7	+0.5
Percentage of change		+5.0%	-3.0%	-1.1%	+0.9%
Percentage of change (inflation adjusted)					-4.8%

Note

¹ This is the Original Estimate. The NAO has requested a Supplementary Estimate which, if approved, will change total expenditure to £83.2m, income to £18.7m and net expenditure to £64.5m

¹ Savings reported in National Audit Office Annual Report and Accounts 2015-16, Session 2016-17, HC 237, National Audit Office, June 2016

5.8 Where we now ask for extra investment, this is not for the costs of running our office. The investment is to grow the size of our audit capability and to update our audit methodology through better use of audit technology. We plan to increase our front-line capability while shrinking our corporate centre.

Meeting Parliament's changing needs

5.9 Since our last strategy document, Parliament and government have commissioned the NAO to take on more work and greater responsibility. This includes the proposal for the NAO to become the financial auditor of the BBC, which is a significant and strategic audit. These changes to our remit include our appointment as auditor to UK Asset Resolution; an expansion of our access rights to the Bank of England; machinery-of-government changes in wake of the UK referendum, and additional work associated with providing a level of assurance to both the UK and Scottish Parliaments following the introduction of the Scotland Act 2016. We have consolidated these new statutory responsibilities into our forward work plans. We anticipate we may need to access specialist consultancy and legal advice to deal with many of the complicated issues arising from this work, and from wider issues around Brexit. We have included provision for this within our plans.

Figure 3
Resource plans by type of work

	2016-17 Estimate (£m)	2017-18 Proposed (£m)	2018-19 Proposed (£m)	2019-20 Proposed (£m)
Audit and assurance ¹	46.2	49.5	49.0	48.5
Value for money ²	17.3	18.1	18.0	17.9
Investigation and insight	11.3	11.2	11.2	11.1
Support for Parliament	5.4	5.4	5.4	5.4
International relations	1.0	1.0	1.0	1.0
Comptroller function	0.2	0.2	0.2	0.2
Total expenditure	81.4	85.4	84.8	84.1
Income ³	-18.0	-18.8	-20.2	-20.2
Net expenditure	63.4	66.6	64.6	63.9

Notes

- Our audit and assurance budget will increase by £3.3 million to take into account the change in our audit portfolio, including provision for work on the BBC, the UK Asset Resolution Ltd and an investment in audit technology.
- Our value for money portfolio will increase to include extra work on the Bank of England and the financial services sector.
- Income will increase where we can charge additional fees for our extra audit work. We will not recover set up costs associated with the BBC.

5.10 The BBC financial audit has significant resource implications for us. It is a complex international body with commercial activities, a range of subsidiaries and a significant pension scheme. The impact on the NAO is wider than simply the audit. Changes to the consolidation boundaries now means that a range of BBC activities are to be consolidated into the Department for Culture, Media & Sport accounts, and will need to be fully aligned with government reporting standards. It is important that we make a success of the challenge the BBC brings, and we will, if we have enough resource to make sure the right people with the right skills are assigned to this work. Our early planning indicates at least 20 full-time people are needed to support this audit, with senior engagement throughout. We expect to buy-in specialist expertise to assist with taxation issues and we will incur travel costs as the BBC is a multi-location audit with operations overseas. We will continue to refine these estimates as we open up communications with the body, and complete our handover with the outgoing auditors.

5.11 There will be start-up and mobilisation costs associated with this work, and we need Parliament's support to help us prepare for it. When we took on the audit of Network Rail we funded ourselves the costs associated with building up skills and knowledge of the organisation. However, the audit of BBC is of a much bigger scale. We have started some preparatory work and we plan to assemble a shadow team to work alongside the current auditors and understand the business to ensure a smooth transition to the new audit arrangements. We will not recover these initial upfront costs associated with taking on this new assignment. However, once we have completed the handover process, we will start to recover a significant proportion of the ongoing audit costs through fees charged directly to the BBC.

5.12 The other areas where our responsibilities are growing are substantial. UK Asset Resolution is a significant body set up to return financial assets that were nationalised during the financial crisis back to the private sector. This is a complex and technical audit to pass to the NAO. Our new access rights to the Bank of England will increase the range of our VfM work and will allow us a more holistic approach to our studies on the UK's financial system. We need people with relevant expertise and knowledge of the regulations and are building up our corporate finance capability.

5.13 The machinery-of-government changes introduced following the UK referendum on EU membership will further impact our audit portfolio. We are now the auditors of the new Department for Exiting the European Union, the Department for International Trade and the Department for Business, Energy & Industrial Strategy. We will also need to complete work on the closure and transfer of functions of the Department for Business, Innovation & Skills and the Department for Energy & Climate Change. This includes the transfer of responsibility for higher education to the Department for Education, an increasingly complicated sector with the growing number of Academies. All of these changes will mean additional reporting and audit requirements.

5.14 In addition to the 20 people we have earmarked for the BBC financial audit, we have also made provision to deploy people to take on this other extra work and to support improvements in audit technology. The total number of people we need to discharge our statutory duties is included within our staff costs projections (Appendix One, Figure 6). Our planned complement for next year is around 805 compared with our current complement of 785. While we do need to increase the size of our front-line teams, we will partly fund this through our programme of ongoing efficiencies and reductions in the numbers of our corporate support staff. We are asking Parliament to make up the balance.

Investment in audit technology

5.15 This strategy document introduces plans to invest in audit methodology and make better use of technology to simplify, standardise and automate our audit approach. We request a budget of an extra £0.5 million per year over the period to allow us to develop our audit capability and make sure it is fit for purpose, given the move in the public sector towards more digital government (Appendix One, Figure 7). This investment will be in two key areas: first, there will be investment in software products (for example, data analysis products; tools to automate certain audit tasks); second, there will be investment in the skills development of our staff to ensure we can use the new tools to their maximum while having the broader understanding of technology matters to interpret what these tools tell us about the organisations we audit in terms of their use and control of technology. We continue to develop our plans in this area, and we will discuss them further with the Public Accounts Commission before drawing down on this budget. We are committed that any investment we make can first demonstrate that it will both pay back its cost outlay in terms of increased efficiency, and will enhance the quality of our work.

5.16 This investment will enhance the value from our audit and support to public sector bodies as they increasingly move to a digital way of doing business. The transition to digital government affects the processing, recording and reporting of financial activities of the entities we audit and will change the risk profile of many operations. These investment plans ensure our audit approach adapts to the changes within the entities we audit. They also mirror the investments that the major commercial audit firms are making as they respond to their own clients' move to digital operations.

5.17 We will increase the work we do with data analytics as a core part of our audit approach. Data analytics involves downloading and analysing full populations of financial transactions, reducing the level of manual testing and targeting the financial audit towards the areas of highest risk, and so improving quality and efficiency. This approach will be of particular value in the public sector, given the vast quantities of data held by government departments and the scope for drawing insight from analysis of these data across government. The roll-out will be coordinated by a small central team of digital specialists, which we will put in place. We will also invest in our own infrastructure to make sure we can receive, process, analyse, store and control bulk data without the risk it could be compromised.

5.18 The budgets we need for this three-year investment in technology are set out in Appendix One, Figure 7. The return on this investment will be our ability to deliver ongoing efficiencies beyond the period of this strategy. Around 60% of our work is in financial audit, where the level of testing is set with reference to international standards regulated by the Financial Reporting Council. This investment in audit technology and better use of data analytics will ensure we meet all these external requirements and maintain quality, while also making efficiencies in the core of our business. In addition, this investment can help increase the value and insights provided by our audits by deepening our expertise in this area.

Part Six

How we demonstrate our contribution

6.1 The National Audit Office (NAO) has a strong framework to measure our performance and demonstrate our impact. We use a well-developed approach to monitoring the level of acceptance of our recommendations and the recommendations of the Committee of Public Accounts arising from our work. We quantify the financial savings that our work has secured in those we audit and we ensure that these savings are agreed, and we will continue with our target of achieving at least £10 of financial impact for every £1 we spend. Not all beneficial changes from our work can be quantified, so we also capture the qualitative improvements we bring about through the influence of our work, by monitoring the full range of impacts of our reports. All impacts that we report are agreed with those we audit to ensure they are transparent and accurate.

6.2 Our stakeholders must have confidence in the quality of our work. Our financial audit work is externally reviewed annually for quality by the Financial Reporting Council, and we have an established practice of independent post-publication reviews of our value-for-money (VfM) reports by Oxford University Innovation, Risk Solutions and RAND. We also have a robust process for internal reviews of both our financial and non-financial outputs within the NAO.

6.3 We believe in understanding and being responsive to our stakeholders, to work collaboratively with them in order to maximise our impact and influence. We seek feedback from those we audit through externally commissioned surveys to understand how both MPs and the organisations we audit perceive our work, and we factor these views into how we plan and deliver our activities, such that we are constantly improving the value we add. We also frequently review our performance framework to test that it continues to provide a comprehensive and objective measure of our success against our strategic objectives, and that it provides a fair and rounded review of our performance. Our performance framework is detailed in **Figure 4** overleaf.

6.4 In our Annual Report and Accounts 2015-16 we provide a detailed report on our successful performance in 2015-16. We achieved financial impacts of £1.21 billion, equating to a £19 saving for every £1 spent, greatly exceeding our target, while the case studies we report to demonstrate our wider impact show how our work has real impact for the public at the local level, benefiting individuals and promoting fairness in service delivery. The quality and expertise of our work remains widely recognised, reflected in 93% of our recommendations being accepted. We continue to support Parliament and influence stakeholders, with 47 Committee of Public Accounts sessions supported and more than 480 active external engagements in 2015-16 alone. Our success is due to the diligence and ability of our people. We are pleased to report that our staff satisfaction is further improving, and the quality of our people is apparent in the 97% pass rate of our people in professional exams, consistently above the national average.

Figure 4

Our performance framework

Enabler	What we want to achieve	What success looks like	How we measure this
Developing and applying our knowledge	Cost-effective delivery of our programme of work, leading to positive change.	Successful delivery of our programme of financial audit, VfM and wider work programme.	The total number of reports and outputs (including financial audits) we produce; the number of reports that supported a Committee of Public Accounts hearing.
		Our work leads to positive change in accountability and/or public services in those we audit.	Case studies, agreed with the audited body, which give examples of positive changes resulting from our work.
		Our work generates financial savings resulting from our work of at least 10 times our operating costs.	Total value of financial savings generated by our work, as agreed with the audited body, against our final net outturn.
Increasing our influence	Stakeholder awareness and response to our work.	Recommendations arising from the work of the NAO and the Committee of Public Accounts are accepted and implemented by government.	The percentage of Committee of Public Accounts recommendations that are accepted and implemented set out in the Treasury Minutes. We also include a metric showing what percentage of all NAO recommendations since April 2014 have been accepted.
		Parliamentarians are familiar with and have a favourable opinion of the NAO and support the work we do.	Results of the annual MPs survey we commission and monitoring of NAO mentions in Parliament.
		Senior stakeholders in departments rate the quality of our work, and the impact we have, highly.	Annually commissioned independent qualitative interviews with senior civil servants and chairs of audit committees.
Delivering high performance	Cost-effective use of funds and organisational performance.	Continued efficiency without reduction in quality of our work.	Our net expenditure, adjusted for new work, to show the like-for-like position using 2010-11 as the baseline.
		At least 80% of our resources are spent on front-line activities.	Ratio of expenditure on front-line to expenditure on corporate services functions.
		Our people show high work satisfaction and engagement.	The annual People Survey of NAO staff.

Appendix One

Detailed financial information

Figure 5

Summary of income and expenditure

	2016-17 Estimate (£000)	2017-18 Proposed (£000)	2018-19 Proposed (£000)	2019-20 Proposed (£000)
Staff costs	56,200	59,100	59,000	58,800
Non-staff costs	25,200	26,260	25,800	25,330
Total expenditure	81,400	85,360	84,800	84,130
Income	18,000	18,800	20,200	20,200
Net expenditure	63,400	66,560	64,600	63,930

Figure 6

Staff costs and numbers

	2016-17 Estimate (£000)	2017-18 Proposed (£000)	2018-19 Proposed (£000)	2019-20 Proposed (£000)
Wages and salaries ¹	39,500	41,600	41,600	41,500
Social security costs	4,600	4,800	4,800	4,800
Pension costs	8,700	9,100	9,100	9,100
Staff-related costs	2,800	2,800	2,800	2,800
Staff benefits	600	600	500	400
Apprenticeship levy	–	200	200	200
Total staff costs	56,200	59,100	59,000	58,800
Staffing numbers	785	805	795	785

Note

1 Includes pay flexibility in excess of 1% if required

Figure 7
Non-staff costs

	2016-17 Estimate (£000)	2017-18 Proposed (£000)	2018-19 Proposed (£000)	2019-20 Proposed (£000)
Outsourcing	10,500	11,300	11,300	11,270
Travel	2,200	2,230	2,230	2,230
Audit technology				
Audit software	100	100	100	100
IT audit skills	–	240	160	100
Data analytics	100	200	200	200
Enabling automation	–	140	140	160
Audit technology	200	680	600	560
Office costs				
Facilities management	4,900	4,900	4,800	4,700
Office supplies and equipment	2,900	2,800	2,600	2,300
Recruitment and professional training	1,700	1,550	1,470	1,470
External auditors	100	100	100	100
Other administration costs	100	100	100	100
Operating lease rentals	200	200	200	200
VAT recoverable	-800	-800	-800	-800
Tax expense	200	200	200	200
Office costs	9,300	9,050	8,670	8,270
Non-cash costs				
Depreciation on property and plant	2,140	2,140	2,140	2,140
Depreciation on other items	660	660	660	660
Amortisation	200	200	200	200
Non-cash costs	3,000	3,000	3,000	3,000
Total non-staff costs	25,200	26,260	25,800	25,330

Figure 8

Income

	2016-17 Estimate (£000)	2017-18 Proposed (£000)	2018-19 Proposed (£000)	2019-20 Proposed (£000)
Audit fees – UK	13,900	15,500	16,700	16,700
United Nations Board of Auditors	900	0	0	0
Audit fees – international	100	100	100	100
International technical cooperation	200	200	300	300
Secondment income	1,100	1,100	1,100	1,100
Rental of office space	1,800	1,900	2,000	2,000
Total	18,000	18,800	20,200	20,200

Figure 9

Capital expenditure

	2016-17 Estimate (£000)	2017-18 Proposed (£000)	2018-19 Proposed (£000)	2019-20 Proposed (£000)
IT equipment and licences	1,000	600	500	500
Property, plant and equipment	500	200	200	200
Total	1,500	800	700	700

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