



National Audit Office

---

**National Audit Office**

---

# NAO Strategy 2018-19 to 2020-21

**DECEMBER 2017**

---

---

Our vision is to help the nation spend wisely.

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 £734 million in 2016.

---

---

# Contents

**Foreword** 4

**Summary** 5

**Part One**

Our vision 6

**Part Two**

Our three strategic objectives 11

**Part Three**

Our resources 23

**Appendix One**

Finance tables 28

Links to external websites were valid at the time of publication of this report. The National Audit Office is not responsible for the future validity of the links.

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](http://www.nao.org.uk/contact-us)

Website: [www.nao.org.uk](http://www.nao.org.uk)

Twitter: @NAOorguk

---

# Foreword

**1** Helping Parliament to hold government to account has never been more important than it is in the context of the decision to leave the European Union. Since as a country we are involved in complex negotiations to leave which could lead to a range of different outcomes, posing different implementation challenges, so our NAO work to inform and evaluate needs to be highly flexible and fast-moving if we are to meet Parliament's expectations. We are already doing so by using the full range of our skills and capabilities, drawing in expertise where needed, and focusing on the areas of government which are 'on point'.

**2** There are many key areas of interest to Parliament in addition to leaving the European Union, of course, and we will continue to play an important role in monitoring and reporting on change and sustainability in areas such as health, social care, English devolution and many more.

**3** Our professional environment is changing as well, partly because government is increasingly using corporate vehicles for important parts of its business, and partly because we have in recent times been given new responsibilities at the BBC and Network Rail. At the same time, professional standards are rising, largely driven by digital capability. We are keeping pace.

**4** We have learned a great deal about how to change in a way that really engages our people and invites their ideas and contribution. This means that we change faster and more effectively, supported by better management information, as we need to do.

**5** Alongside our primary responsibility toward Parliament, we are committed to driving improvement in the public sector. This is significantly assisted by actively managing the continuing discussion with those we audit about how our work can and does deliver value against the issues that matter.

Sir Amyas CE Morse KCB  
Comptroller and Auditor General

Lord (Michael) Bichard KCB  
Chairman

# Summary

**1** We help Parliament hold government to account for spending public money and, in so doing, drive improvements in public services. To achieve this, we provide system-wide, integrated and independent public audit, drawing on the distinctive framework of rights set out for us by Parliament.

**2** In this document, we set out the NAO's strategy for between 2018-19 and 2020-21. We describe progress against our long-standing objectives – to apply knowledge, increase our influence, and be a high-performing organisation – and how we can best serve Parliament and respond to changes in the external environment that affect us and the bodies we audit.

**3** Our four main priorities for the coming strategy period are to serve Parliament by:

- adapting our work to address the issues that matter to government and Parliament in the current environment, particularly in light of the decision to leave the EU;
- innovating and adapting to developments in the audit industry so we continue as ever to deliver high-quality work with the best of the audit profession;
- responding to feedback from public bodies for further cross-government insights and deepening our engagement with those we audit; and
- making sure we continue to be a professional, innovative and data-led organisation that uses management information well and embedding our investment in new digital technology into our ways of working.

**4** By producing high-quality, relevant work, the recommendations from our work are more likely to result in financial savings for the taxpayer and positive changes in how government runs itself, public services and major projects and programmes. Our interventions now look at programmes earlier in their lifecycle and at the planning stage as failure can become built in at an early stage of a project. Our recommendations help put in place governance and financial management practices, contributing to the success of these projects. We aim for this to continue over the period of this strategy.

# Part One

## Our vision

**1.1** We help Parliament to hold government to account for spending public money. In so doing, we drive improvements in public services.

**1.2** We have:

- broad obligations for providing statutory audits on behalf of Parliament;
- the ability to draw on a range of approaches and information in holding government to account; and
- the protection and support of Parliament in forming and communicating independent audit judgements.

**1.3** By using these rights and duties Parliament has given us, we aim to serve Parliament by providing system-wide, integrated and independent public audit.

- 'System-wide' because the breadth of our remit gives us an opportunity to look across the public sector and beyond organisational boundaries.
- 'Integrated' because financial audit and value-for-money audit work can together provide Parliament with an extremely accurate, broad and deep understanding of the challenges facing the public sector as one and each body we audit.
- 'Public audit' because the National Audit Office (NAO) and Comptroller and Auditor General are statutorily independent, and this ensures our work provides an independent voice for the public interest represented by Parliament.

**1.4** System-wide, integrated public audit can help to drive better public services for all. By looking across the public sector, one audit judgement building upon another with a clear view of the public interest, our role can be, and indeed should be, more than just driving accountability. It has the power to help public servants identify good practice, to help Parliament to understand better the practical effects of policy and to help government draw better connections between its decisions.

## Our objectives

**1.5** Achieving system-wide, integrated public audit, relies in turn on our three strategic objectives for the NAO (**Figure 1**):

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

---

### Figure 1

Our strategic objectives



## Our changing external environment

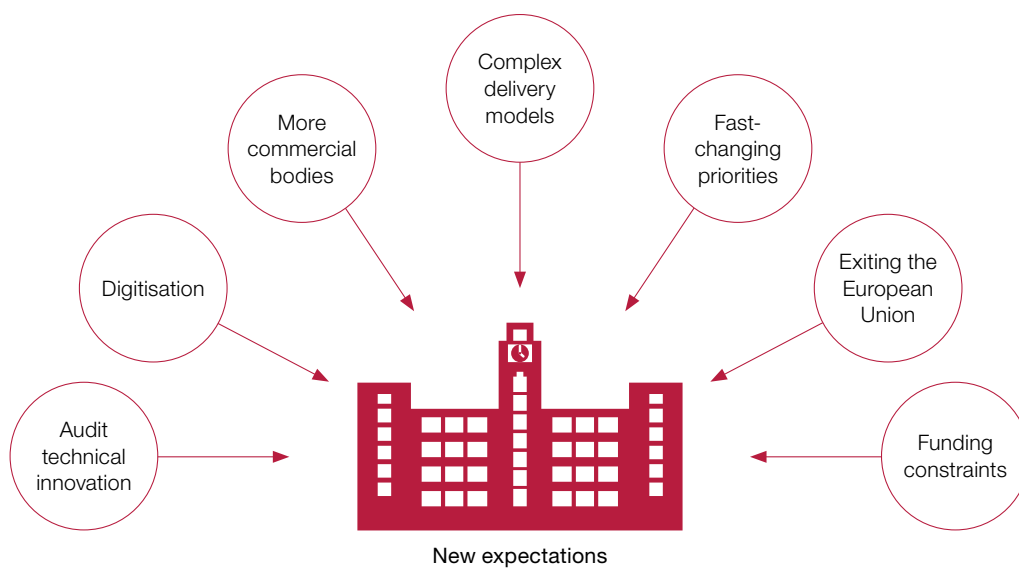
**1.6** While our core strategic objectives endure, to serve Parliament fully we must innovate as we see new developments and challenges in the external environment (**Figure 2**).

### Our audit environment

**1.7** Auditing the public sector requires us to understand organisations that can be vast and complex. For example, HM Revenue & Customs (HMRC) collects around £575 billion of tax revenue, around a third of the country's wealth, and the Department for Work & Pensions (DWP) processes £170 billion of payments. We are working with a wider range of different delivery models within the public sector and a greater number of commercial entities such as Network Rail, BBC Worldwide and UK Asset Resolution.

**1.8** Government departments have signed up to a shared services strategy, which aims to embed the shared services across government. We may see a slow convergence of departments onto a small number of systems and we will continue to monitor this. Depending on the outcome, this could provide an opportunity to leverage the common control environment and use data analytics covering many audited bodies through a single data environment in line with wider audit sector practice.

**Figure 2**  
Our external environment





## Exiting the European Union

**1.9** The UK's departure from the EU is a huge challenge for Whitehall. Public bodies, including the NAO, have to operate in a highly fluid environment, preparing for a range of scenarios and implementation timescales. These pressures place extraordinary demands upon the civil service's policy-making capacity and its capacity to set up the systems and processes, and potentially new bodies, to facilitate a smooth exit. Cooperation across departments, flexible planning and focused prioritisation will be essential. Likewise, it is important for the civil service to attract and deploy people with the right negotiating skills, and the necessary legal expertise alongside specialist skills in programme and project management, commercial and digital skills. As leaving the EU means more work for the civil service, it also means more work for us. We must be more agile and responsive in providing analysis and scrutiny of the implementation of leaving the EU.

## Spending restraint and financial sustainability

**1.10** The public sector environment is characterised by fiscal targets and spending restraint. It is delivering large-scale, complex transformation and change programmes while reducing its own size and resources. Through such reports as *Capability in the civil service* (2017), we have built up a picture of the civil service as often being asked to do more than current resource plans allow for. Projects frequently draw on the same skills pool and many projects contain optimism bias that they will be able to meet their skill needs at an appropriate cost in the current funding climate.

**1.11** Local public bodies are affected too. Reduced funding and rising citizen demand puts at risk the volume and quality of local services. As exemplified by our 2017 report *Health and social care integration*, the inter-relationship between local services means that reduced funding for one service can have knock-on detrimental effects on other services and government oversight is often poor.

**1.12** Spending restraint also affects public bodies' routine processes. We witnessed effects on the quality of financial reporting, and saw reductions in the skills and capacity within some central finance departments, affecting the gains from the professionalisation of Whitehall's finance function. These declines in the quality of financial reporting puts pressure on our ability to provide the same high-quality, timely audits Parliament and public bodies expect.

## Project and programme management

**1.13** Much of government's work continues to be delivered through projects and programmes. The biggest and riskiest of these make up the Government Major Projects' Portfolio, which has a whole-life cost value of £455 billion. As exemplified by our report *Modernising the Great Western railway* (2016), government departments have had a poor track record of delivery with programmes completed late; over budget; failing to secure the benefits expected; or cancelled after a significant investment. Our January 2016 report *Delivering major projects in government* pointed to the increasing challenge and complexity of the government's programme of major projects and how this stretched its capacity to deliver.

## Accountability

**1.14** Effective, transparent accountability for public money spent on behalf of citizens is fundamental to democratic government. New delivery models through private partnerships, increased localism and complex infrastructure programmes can blur the accountability lines. This can mean that holding government to account is a more challenging task for Parliament. Also accountability arrangements are often an afterthought when government introduces new ways of delivering services such as through greater devolution to local areas. Our role is to offer our insight and expertise to support Parliament in ensuring accountability.

## Digitisation

**1.15** Alongside implementing the decision to leave the European Union, the government continues to run complex transformation projects, with significant digital technological components. New digital technologies aim to allow customers to interact with services, potentially improving citizens' experiences and reducing costs. It is important to understand the expectations of those who rely on a service and the required behavioural changes of those who manage them. Failure to address these issues can result in benefits not materialising as planned. To date, digital transformation projects have had a mixed record of accomplishment across government as indicated in our 2017 report *Digital transformation in government*. They have not yet provided a level of change to allow government to reduce costs further while still meeting people's needs.

**1.16** Digital transactions often generate valuable data about citizens' needs and public services' effectiveness. Increased volume and sophistication of cyber attacks mean that yesterday's static security and information controls need to adapt and evolve faster to keep up with tomorrow's threats. This is crucial as cyber-threat risks increase in complexity. As exemplified by our 2017 investigation into the NHS's response to the 2017 WannaCry cyber attack and the impact on health services, recent cyber attacks have exposed the susceptibility of public services to breaches of security and service disruption. Likewise, we need to protect ourselves against cyber attacks.

# Part Two

## Our three strategic objectives

### 1 Developing and applying our knowledge

**2.1** To best serve Parliament's needs we plan our work so it is relevant to the issues of the day and draws out the insights most likely to drive positive change across the public sector. Providing high-quality work for Parliament is at the core of what we do and remains an area of focus, especially given changes in our external environment. There are two aspects to this:

- innovating and adapting to developments in the audit environment so we continue as ever to deliver high-quality work with the best of the audit profession; and
- adapting our work to address the issues that matter to government and Parliament in the current environment, particularly in light of the decision to leave the EU.

#### High-quality work

##### **Financial audit**

**2.2** Every year the Comptroller & Auditor General gives an audit opinion on some 370 individual accounts across the public sector, including the major government departments. This comprises around 60% of the National Audit Office's (NAO's) total output and provides direct assurance over approximately £1.7 trillion of government expenditure. In addition, the Comptroller & Auditor General has statutory responsibility to maintain the *Code of Audit Practice*, which sets the framework of standards for auditors of around 950 local public bodies to follow.

**2.3** We are committed to serving Parliament by providing high-quality financial audits compliant with the standards expected of the top tier of the audit profession. The scope and scale of our financial audit work is defined by international standards of auditing, regulated by the UK Financial Reporting Council.

**2.4** We will continue to outsource part of our audit portfolio to benchmark our performance against the private sector and align ourselves to current developments in audit methodology. Some 20% by value of our audit portfolio is outsourced, which is an appropriate balance for cross-sharing of skills and methods. Our main partners include large to medium-sized private audit firms, and other audit offices such as Audit Scotland, Audit Wales and the Northern Ireland Audit Office. We typically draw on external expertise where we do not have internal knowledge, where it is more cost-effective and where it makes good geographical sense to draw on a local presence.

**2.5** Our audit methods and approach must be high quality. The changes in the bodies we audit, the use of complex financial instruments and digitisation of public services necessitates a change in the way we audit. We use the independent work of the Financial Reporting Council's Audit Quality Review team to compare ourselves with the wider audit profession, a practice we will continue. Over the previous strategy period, we introduced more detailed audit planning, a focus on digital audit and a greater reliance on automated controls. The scope and complexity of our work grew, for example, as we became the auditors of the BBC and UK Asset Resolution.

We will carry on investing in our in-house IT audit capability which allows us to audit through a body's own information systems. Our approach is to develop our skills base incrementally through in-house training. As part of this, we will:

- increase our expertise in identifying and testing automated controls as part of our standard audit testing and Companies Act audit work; and
- invest in the use of data analytics to improve quality, insight and efficiency which allow us to examine high-volume data sets and focus on high risk or unusual patterns in our audit work.

### **Local audit**

**2.6** We continue to set the *Code of Audit Practice*, which defines what local auditors are required to do to meet their statutory responsibilities. The Code and its supporting guidance notes assist local auditors and underpin a consistent approach to the audit of local public bodies. In setting the Code and through our engagement with the audit profession, we set out issues that auditors need to consider when planning their work. We have ongoing and deepening relations with finance directors across local government, and work closely with the Local Government Association, the Chartered Institute for Public Finance and Accountancy and the Society of Local Authority Chief Executives, including consulting upon a new Code due in 2020.

### **Non-financial audit**

**2.7** We conduct a range of non-financial audit work. Our legislative powers allow us to deliver value-for-money reports, of which we published 68 in 2016-17. We deliver public interest investigations, reports to management, published guidance and toolkits for audit committees and boards. We also respond to correspondence from both MPs and the public.

**2.8** To make sure our value-for-money audit work is high quality, we embedded more routine consultation with our in-house experts into our quality assurance and value-for-money audit processes. We also invested in our knowledge management capability, and we continued to develop our methodological approaches as well as the way we present our audit findings. This led to higher-quality products, increased collaboration and knowledge sharing between audit teams and better presented and more efficient value-for-money audit work.

**2.9** For our non-financial work, we will explore what the future might look like and work to understand uncertainties and likely changes required. This will include taking account of changes in our external environment and the demands from Parliament, public bodies and the public. Alongside, we aim for further recognition among those we audit and Parliament of the relevance, merit and usefulness of our work.

**2.10** We will continue to undertake more investigations to provide Parliament with timely and targeted reports on emerging issues. Our investigations are responsive, focused and purely factual and shed light on emerging matters quickly. We produced 18 investigative reports in 2016-17.

**2.11** Members of Parliament help us by bringing emerging issues to our attention. In July 2016, for example, Clive Betts MP, chair of the House of Commons Communities and Local Government Committee wrote to us asking us to investigate the Sheffield-Rotherham Tram-Train National Pilot Project. We published an investigation into the works to modify the national rail network, which the Department for Transport part-funded and Network Rail managed.

### Our programme of work

**2.12** Our programme of audit work is designed to be of interest to audited bodies and Parliament. We include cross-government comparison in our programme to identify systemic issues of wider importance to the public sector and spread best practice. We will focus on the following major themes.

#### **Exiting the European Union**

**2.13** Parliament expects our programme of work to reflect the importance it places on leaving the European Union. We need to be ever more responsive and agile in conducting our work so Whitehall can use our findings contemporaneously. This includes being aware of the sensitivities during the negotiation phase.

**2.14** We will deliver a coherent scrutiny of exiting the EU to help Parliament and audited bodies focus on the critical implementation issues. Our work should make a positive contribution to the way we leave the EU and be respected as a credible, independent voice by public bodies, Parliament and the media. We will look at civil service skills and capacity issues and build on the work we have already undertaken, for example on the establishment of the Department for Exiting the EU as part of our examination of civil service capability and on the development of HM Revenue & Customs's (HMRC's) customs systems. We will:

- continue to examine and report on the preparations being made across departments and the wider range of public bodies; and
- respond appropriately to the range of financial audit questions that may arise, including any EU financial settlement linked to the UK's exit, the closure of EU funding programmes, the creation of any new UK programmes, and the potential creation of new bodies to take forward re-patriated functions post-exit.

**2.15** Parliament is already asking us to provide scrutiny and assurance over the process of leaving the EU. Parliamentary demand will grow and we must respond to any demands quickly, including work we are highly likely to undertake regarding the EU financial settlement.

### **Accountability**

**2.16** As the business of government has become more complex over the years, accountability arrangements have often not kept pace and lines of accountability across the public sector become blurred. With blurred lines of accountability, failure can result in losses not only in monetary terms, but also to the detriment of the well-being of the individual. Following on from our previous work, for example our 2016 report *Accountability to Parliament for taxpayers' money*, we will focus on how well central government can provide assurance to Parliament based on its oversight of local bodies' funding and complex services. Clarity about accountability for public money is vital, not just for Parliament but also for government, as it enables understanding of the effectiveness of public spending, particularly important in times of continuing fiscal restraint.

### **Project and programme management**

**2.17** The UK's decision to leave the EU is adding significant pressure to government's ability to deliver major projects, increasing the importance of effective prioritisation. Against this background, we will use both value-for-money studies and investigations to:

- test whether departments structure projects and programmes in ways that deliver their long-term strategic objectives;
- examine whether departmental decisions to initiate and manage projects throughout their life are based on: a transparent understanding of the costs and the benefits sought; departmental priorities; and the impact on their overall portfolio; and
- follow up after projects are completed to check that departments are actively managing the realisation of benefits.

### **Commercial and contracting**

**2.18** Private and voluntary providers' role in the public sector has evolved from relatively simple contracts to provide goods or established services, to innovative high-profile commissioning arrangements in sensitive public service areas such as health and justice. The NAO and Committee of Public Accounts (the Committee) have acknowledged improvements in the government's management of contracts in recent years. Nonetheless, there is more to be done for government contracting to be effective, meet expected public service standards and provide better value-for-money for the taxpayer. We will continue to examine areas for improvement including ensuring that stronger commercial skills and standards are present when purchasing services and managing contracts as part of larger projects.

### **Digital technology and transformation**

**2.19** The government continues to run complex transformation projects which have significant digital technological components. The aim is to deliver public services more efficiently. With increasing adoption of digital services by users and rapid growth in the nature and extent of data, we will continue to:

- test whether technology is being used securely and effectively across government particularly in those departments where there is a high volume of transactions such as HMRC; and
- focus our work on government transformation programmes early on in their implementation as risk to value-for-money can materialise early on.

**2.20** Digital technology also has an effect on our ways of working. We will continue to expand our existing digital audit programmes while exploring new opportunities and technical developments. To improve our testing of financial systems and understanding of audited bodies we have been developing and piloting new analytical techniques in our audits. While the use of such techniques remains a fast-moving field, our work is identifying opportunities to analyse transactions more completely and efficiently, allowing us to divert our audit teams' focus to higher value-adding activities.

### **Local services and financial sustainability**

**2.21** We have considered the financial sustainability of local authorities, police forces, schools, the further education sector, fire and rescue authorities and the NHS. We also reported on progress towards 100% business rate retention and drew attention to the lack of assurance over whether there would be enough money in the system by 2019-20. We have built up a picture of financial stress and falling service performance for many local bodies. Our reports drew attention to issues of service sustainability and central government's oversight responsibilities, and we will continue to:

- test whether there is enough money in the systems to deliver the duties and responsibilities placed upon local authorities and the health system; and
- examine the sustained funding reductions and the rising service demand many local bodies are experiencing.

**2.22** Our studies indicate that joined-up decision-making and funding arrangements between connected systems – local government and the health system for instance – are often missing, leading to deleterious consequences such as ‘cost shunting’ between parts of connected systems and risks of financial or service failure locally. We will continue to:

- examine local service delivery directly and use the wider insights gained from our local audit responsibilities to add value through an end-to-end view of policy implementation; and
- explore the multiple pressures which geographical areas are subject to, and build the evidence base around the extent to which different parts of government coordinate their approaches to local bodies in the same area.

## Support for Parliament

**2.23** Following the 2017 General Election, we refreshed our parliamentary relations strategy to make sure we serve Parliament – our primary client – by providing high-quality assurance over how public money is spent. We will ensure that we continue to provide high-quality support and are well placed to meet Parliament’s changing needs.

### **Committee of Public Accounts**

**2.24** Our relationship with the chair and members of the Committee remains crucial to the success of our strategy. In 2016-17, we supported 62 Committee evidence sessions. Through this relationship, we help drive improvements in public services. For example, since 2014 we and the Committee have highlighted weaknesses in government contracting through a series of reports and evidence sessions. Our subsequent reports into commercial relationships continued to comment on capability issues. In an update to the Committee in February 2017, government described the ongoing progress it is making in improving its commercial capability in response to NAO and the Committee recommendations.

**2.25** In the new Parliament, we have identified three areas where we can improve the support we provide to the Committee. We will:

- continue to refine our briefings to meet members’ needs, by including more local data, making better use of technology, and providing more frequent and tailored oral briefings;
- provide greater support to the Committee in following up on recommendations from the Committee reports; and
- respond quickly to support the Committee’s scrutiny of emerging issues by producing investigations that are timely and relevant, and in doing so to encourage members to raise potential subjects for investigation with us.



### **Select committees**

**2.26** We will continue to serve other select committees as part of our programme of wider support for Parliament. We provide committee members with an annual overview of the performance of the relevant departments and support their scrutiny of departments' annual report and accounts. This year, we will produce 24 Short Guides covering the work of individual departments and major cross-government themes for the relevant committees.

**2.27** We will work more systematically to identify opportunities to contribute to select committee inquiries. We provide a range of formal and informal advice and information to select committees to support their inquiries. In 2016-17, in addition to 16 Departmental Overviews, we published seven bespoke outputs for select committees. Examples include contributions to the Work and Pensions Committee's inquiry into the future of Jobcentre Plus and the Environmental Audit Committee's scrutiny of departments' approaches to sustainability issues. We also made contributions to the Public Administration and Constitutional Affairs Committee inquiry into financial management and government accounts, and the Procedure Committee inquiry into the Estimates procedure.

**2.28** We currently have nine staff on secondment to select committees and to the Scrutiny Unit. NAO people provide vital expertise to committee members as they undertake inquiries and scrutinise the work of government, something we will continue to do. As with the Committee of Public Accounts, we will also seek to build up awareness of our investigative work.

### **Members of Parliament**

**2.29** We want all members of Parliament to understand our role and to feel able to actively seek out our expertise on public spending and financial management and service delivery. We will continue to respond to MPs' correspondence and provide assistance where appropriate including to MPs' staff. During 2016-17, we responded to 172 pieces of correspondence from MPs. Roundtable briefings for parliamentarians on issues ranging from Hinkley Point C to the financial sustainability of the NHS have been well received. We will continue to work closely with the House of Commons Library and the Scrutiny Unit, including through secondments.

### **Integrated public audit**

**2.30** We will make more use of our financial audit work for Parliament. Bringing financial audit and value-for-money work together can provide Parliament with a deep understanding of the challenges facing individual departments and the wider public sector. We will work to raise the awareness of our financial audit work within Parliament and provide training for MPs on complex financial matters and understanding government accounts.

**2.31** Our financial audit work is increasingly valued by parliamentarians. In the past year, the Committee held hearings on the accounts of the Department for Education, Department of Health, the Whole of Government Accounts and HMRC. We will identify further opportunities for Committee evidence sessions to draw on financial audit as well as value-for-money work where appropriate. For example, we recently supported an evidence session, which brought together the Committee's scrutiny of the Department of Health's accounts and the effectiveness of its approach to managing the costs of clinical negligence.

## **2 Increasing our influence**

**2.32** Our ability to increase our influence is critical to our success. We aim to improve the awareness and opinion of the NAO held by MPs and the bodies we audit. In so doing, government is more likely to implement our recommendations and look to us as a source of guidance. Our main area of focus is

- responding to feedback from public bodies for further cross-government insights and deepening our engagement with those we audit.

### Delivering value in a changing environment

#### **External relations**

**2.33** Our communications activities are central to disseminating our findings to the right groups of people and influencing them to act. We take part in external engagements and influencing activities such as speaking at conferences and contributing to publications. Over the next three years, we will make greater use of our website, which we are refreshing to improve accessibility, our social media channels and other digital communications such as our e-newsletter and blog.

**2.34** We focus on systemic issues facing the public sector and produce well-received cross-government outputs designed to communicate best practice. For example, we published an interactive publication on commercial and contract management to provide practitioners with insights on the new, higher standard for government contracting. With the Cabinet Office, we then hosted a seminar for practitioners on the same topic. We likewise published *Cyber security and information risk guidance for Audit Committees*, designed to complement government advice by setting out issues for audit committees to consider.

**2.35** Through our annual feedback survey of audited bodies, around half of those we surveyed told us that they particularly value our cross-government perspective and would like us to do more to help public services improve by sharing good practice and guidance. This will be a focus for us: producing tailored cross-government outputs and promoting them in a targeted way. These are short, accessible outputs designed to help public bodies drive up their performance.

## Adding value for those we audit

**2.36** Our audit work adds value to our audited bodies. The financial savings and wider non-financial impacts that we report every year show that our work helps improve public services. We monitor and regularly discuss with departments their progress in implementing recommendations from our reports, and last year 94% were accepted. Our financial audits likewise lead to widespread improvements in financial reporting and management. Our annual feedback survey told us that 91% of respondents positively rated our financial audit work. Of those surveyed who were involved in a value-for-money study, 71% rated the quality of their most recent study positively.

**2.37** We are building on this by deepening our engagement with our audited bodies around the value they receive from our work. Our goal is to more consistently engage with Accounting Officers and officials at all levels of the organisation, through more frequent engagement on specific studies, for example emerging findings and post-study meetings. Having conversations about the value from our work with audited bodies allows them to acknowledge our contribution to driving improvements and we can then spend less time establishing our credibility with each new engagement. The better we understand our clients, the better we can identify opportunities to help them deal with their challenges and add value based on our expertise and thematic knowledge.

**2.38** We are starting to see this deeper engagement reflected in the way Accounting Officers talk about the work of the NAO, both in terms of our value for money work and our financial audit, including in areas where senior officials may not have appreciated the value before. For example, in October 2017 in giving evidence to the Committee of Public Accounts regarding the qualification of the HS2Ltd financial statements, HS2Ltd CEO, Mark Thurston told the Committee how he valued the work the NAO had done in identifying control weaknesses in the organisation. He said “we have accepted all the NAO’s recommendations around our end-of-year accounts. We are putting most of those actions in place – many of them are already complete”. He went on to say “we continue to meet the NAO every month, so they can see the measures we are taking to put corrective action in place to deal with some of our controls issues. We found the NAO Report really helpful.”

**2.39** We have many similar examples of this type of systematic engagement with Accounting Officers and officials beyond the audit cycle and through dissemination of findings and good practice. There is, however, more to do so this focus on deep engagement is routine across our organisation.

### **3 Delivering high performance**

**2.40** Our ability to be a high-performing organisation is not only predicated on efficient use of our resources but also the unique knowledge and insight our people have of the public sector. We use our funds cost-effectively and make sure we get the best from our people. In addition to investing in our people, our main area of focus here is:

- making sure we continue to be a professional, innovative and data-led organisation that uses management information well and embedding our investment in new digital technology into our ways of working.

Professional, innovative and data-led organisation

#### **Getting the best from our people**

**2.41** We are a high-performing organisation thanks to the way we train and develop our people and the unique insight into and knowledge of the public sector that our people build up. This allows us to serve Parliament by delivering system-wide integrated public audit and by making progress against our strategic objectives and business priorities.

**2.42** We have a comprehensive training strategy, focused on continuous professional and technical development. We recruit some 70–80 graduates and school leavers each year, and support them in gaining their professional accounting qualification. We also support all of our people with ongoing learning. To continue to make sure that our people are best placed to make the most out of our unique role and deliver high-quality work, we will refresh our learning and development strategy this year. A particular emphasis will be to look at whether our technical training is competitive to other similar audit firms. We will also continue to train our people in a wide range of managerial and behavioural skills, and are already delivering a major change programme so office culture supports the way we want to work and our people work more collaboratively, coach others and make maximum impact through their interactions with our audiences.

**2.43** In addition to training, we continue to focus on cross-office collaboration between teams and knowledge-sharing, supported by digital technology. Good knowledge-sharing and collaboration allows us to bring the best of the NAO to each piece of work we do and this will continue to be a focus over the coming strategy period.

**2.44** It takes time for our people to build up insight into and knowledge of the public sector and our experience shows that we secure higher-quality work and greater value for money by retaining our people to meet future challenges, for example the work we are now undertaking on the UK's withdrawal from the EU, where we already see more demand on our people and their skills. This is a more sustainable approach to resourcing than frequently fluctuating our capacity. We therefore propose to retain our current staffing levels at around 805 people for the next two years as it is more sensible to retain and use the knowledge and experience of our current people rather than go to the market. This is built into our staffing model shown in Figure 6, Appendix One.

**2.45** This is also important given that we have witnessed the effects of spending restraint on the quality of financial reporting and seen reductions in skills and capacity within some central finance team in departments. The decline in the quality of financial reporting put pressures on our ability to provide the same high-quality, timely audits that Parliament and public bodies expect.

**2.46** To retain our people, our planning assumption is that we will maintain pay increases at 1% a year, based on our assessment of the current state of the recruitment market. The external environment can change fast, however. We have budgeted to allow us to increase pay to beyond 1% only if there is a strong reason to do so and we need to respond fast to changing circumstances to stay competitive. Exemplified by previous years, we have a good track record of not spending money earmarked for specific purposes that ultimately we did not need.

**2.47** We are committed to being a diverse and inclusive organisation and that is an integral part of who we are. The NAO's ultimate aim is to have a workforce that reflects the diversity of the wider population. We will now update our diversity and inclusion strategy for the next three years and put in place a plan of action to make sure that we have an inclusive work environment and have a diverse workforce. This will include making sure our work sufficiently covers diversity and inclusion issues.

## Digital technology

**2.48** With fast-moving digitisation, it is important for us to be a professional and innovative organisation that effectively uses its management information. There are three aspects to this:

- higher-quality, more insightful and system-wide audit approaches through further adoption of proven technologies and the expansion of our IT audit capabilities;
- more integrated and relevant audit through decision-making based on management information, knowledge-sharing and efficient working practices; and
- a gradual approach to the extension of cloud technologies based on security considerations.

**2.49** Our approach is to respond quickly to developments in the audit market and adopt new technologies when they have proven their ability to enhance audit processes. Using automated technology will help eliminate, where possible, low-level quality risks as our auditors can focus their attention on the risks to audited bodies and direct their efforts towards more in-depth work.

**2.50** We replaced our outdated finance and HR systems, and now have better-quality management information since resourcing and investment decisions can be based upon more accurate and timely data. We are introducing additional methods for monitoring and improving quality and performance, and continue to realise the benefits of our improvement programme. A further area of focus will be our knowledge management systems.

**2.51** We are considering the opportunities for increased flexibility and functionality from moving our IT infrastructure to a cloud-based solution. Given our responsibilities for protecting information, we have adopted a careful approach, taking into account new risks and security considerations.

**2.52** The NAO accesses and holds data from across government as part of its data analysis and evidence of its judgements and conclusions. We must keep this data secure, in light of the continuing risks of cyber attacks. The increased number and sophistication of cyber attacks mean that static security and information controls need to evolve more rapidly to keep pace with the threats we see now. No solution will ever be risk-free but we need to manage information risks as we pursue our own digital and technology choices.

**2.53** In the face of an evolving market for cloud services, our engaged but careful approach requires us to actively monitor and test any new solutions before committing to them. We are piloting new cloud services before extending them to our core systems and activities and reviewing progress and risks continuously. We have taken the decision to expand our capability to monitor and tackle security risks, manage cloud transition and manage internal data.

# Part Three

## Our resources

### Resources needed from 2018-19 to 2020-21

**3.1** The resources required for the next three years are summarised in **Figure 3** with a more detailed costing in Appendix One. This resource bid represents a decrease in our current budget of just over 1% over the three-year period, which is a 6% reduction once adjusted for the effect of inflation over this timeframe.

**3.2** These future proposals should be set in historical context and are a step change in our cost model from our 2010 baseline of £74.1 million. Enabled through transformation and reform of our systems, we have not only taken on extra responsibilities in relation to local public bodies and bedded in new commercial audits, but also reduced our net expenditure to around £66 million. Our future proposals will mean a reduction of 11% in cash terms at the end of our Strategy period against our baseline, which is a reduction of some 25% when taking into account the impact of inflation over the same period.

### Figure 3

Resources needed for the period ending 2020-21

	2017-18 Estimate (£m)	2018-19 Proposed (£m)	2019-20 Proposed (£m)	2020-21 Proposed (£m)	Total
Total expenditure	85.4	86.4	86.5	86.0	
Income	-18.8	-20.0	-20.2	-20.3	
Net expenditure	66.6	66.4	66.3	65.7	
Change year on year (£m)		-0.2	-0.1	-0.6	-0.9
Percentage of change (%)		-0.30	-0.15	-0.90	-1.35
Percentage of change (inflation adjusted) (%)					-6.2
Percentage of change against 2010-11 baseline (inflation adjusted) (%)					-24.6

**3.3** The future years are necessarily provisional and may be subject to change. These planning assumptions reflect our best knowledge at this time. Should we be asked to take on extra assurance work, such as a specific audit of any EU financial settlement, we will review the resource needs associated with this request, and discuss with Parliament any shortfalls or budgetary pressures.

### How we will use these resources

**3.4** As described in this Strategy, our work is a blend of financial audit and assurance, value-for-money reports, investigations and other insights. Our work also includes the direct support to parliamentary committees and international overseas institutions. We are set up in multi-skilled teams, and move resource flexibly between our priorities. For example, auditors can work on investigations after a financial audit is complete and those working on value for money can help during the financial audit peak season. The broad deployment of our resources is set out in **Figure 4**.

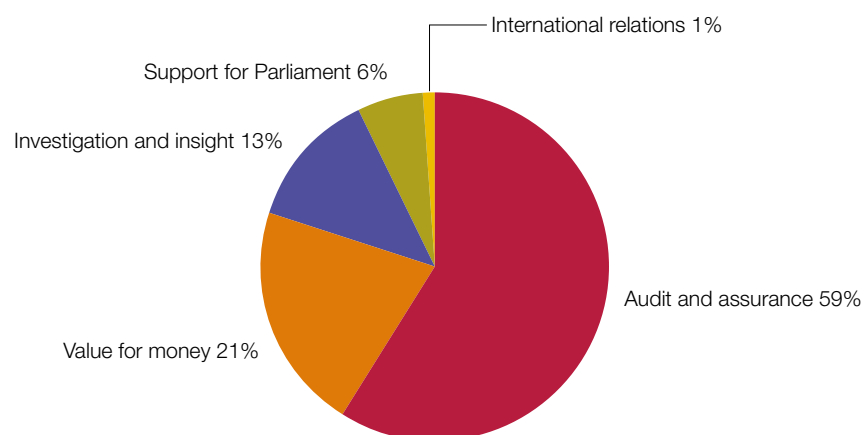
**3.5** In addition, we flex our resource plans in line with changes in the size of our audit portfolio. Our core audit work has expanded to include big commercial entities such as the BBC, Network Rail and financial service companies. It will continue to change as the regulatory environment changes following the UK's departure from the EU.

**3.6** The National Audit Office (NAO) continues to work closely with parliamentary and select committees. Our budget for our parliamentary work is around £5.4 million per year, and includes a number of secondments made to committees on a non-recovery basis.

---

#### Figure 4

The use of National Audit Office resources





## **How these plans compare to our previous strategy**

**3.7** As indicated in Parts One and Two, while much is consistent with our previous Strategy, our resource plans now adjust for our expected position in light of the new challenges we face. Specifically, this means an increase in investment in our audit capability as this is the area where we anticipate that our work will be more challenging.

**3.8** The impact of the decision to leave the EU will permeate through all of our audits, both in the need to consider the impact on disclosures and balances in financial statements and in any new responsibilities arising from changes in the regulatory environment. This also occurs in an audit environment that is changing. The introduction of new financial reporting standards, for example on leases and revenue recognition, will have a major impact on accounts. In addition, many public bodies are undergoing digital transformation and changing underlying business processes.

**3.9** To address these resource pressures most cost-effectively we propose to retain our current staffing levels at around 805 people for the next two years. Our experience, cost and quality data tells us that it is more sensible to retain and use the knowledge and experience of our current people rather than go to the market. The NAO is unique in being able to offer people the experience of looking across the whole of government, and this reflects in the quality of our work. The market offers no guarantee we will find the comparable skills in public sector audit from the wider market.

**3.10** In the second year of our Strategy, we will review the benefits gained from our investment in the use of technology in our audit and the impact this has on the way we work. We have included provisional proposals to reduce the number of people we need for our audit work in the final year of our Strategy, but will need to revisit these assumptions as we embed these changes into our practice. While investment in technology can enhance the audit process, experience in the private sector has been that these benefits can be in terms of improved quality and insight rather than just cost savings.

**3.11** While we are enhancing our audit capability over the next two years of our Strategy, this is matched by corresponding reductions in the size of our business support teams, where automated workflows have replaced manual processes, and with efficiencies in our wider value-for-money and investigations work. Our full costs and staffing projections are shown in Figure 6, Appendix One.

## **Our people**

**3.12** The most significant component of our cost base is our people, and related salary costs. Our provisional pay proposals are modest and demonstrate a responsible approach to setting pay. Our planning assumption is that we will maintain pay increases at 1% a year. This is based on our assessment of the current state of the recruitment market, and we believe it is sufficient to retain the people we need. We acknowledge that during this period of economic and political uncertainty our turnover rates have been lower than in previous years, and we are reflecting this in our remuneration policy.

**3.13** However, the external environment can change quickly, our people continue to be in high demand and inflation is higher now than in the past. The complex and changing environment means we need to keep our skills current and up to date but also look to widen our skills base in specific areas and ensure our pay is competitive. We recognise that government's own approach to pay is sufficiently flexible to offer higher levels of remuneration to those people with particular expertise and skills in order that it can better compete with the commercial sector. Therefore, we have budgeted so as to allow us to increase pay by a further 2% in addition to the 1%, if there is a clear justification to do so and we need to respond quickly to changing circumstance. If we do not adjust our pay in-year, we will not use this budget for other purposes and it will be re-appropriated to Parliament. This approach is consistent with the previous year where we budgeted for an extra 1% pay flexibility over and above the 1% pay rise. We have a good track record of not spending money earmarked for specific purposes that ultimately we do not need and we will not use the money earmarked in our budget for 1% pay flexibility this year.

## **Business support**

**3.14** Our business support functions include our central teams, such as HR, finance and digital services and include the operational costs of running our buildings, providing office equipment, and recruiting and training our people.

**3.15** Components of this expenditure, such as business rates and the depreciation of the building, are outside of the control of the NAO and are subject to annual increases. However, other elements can be managed and we are on track to achieve our planned budget reductions in these areas in line with our internal corporate services review. By the end of 2019-20 we will have made £3.0 million of savings (comprising of lower office contract costs and reductions in headcount of 25 in administrative roles) against our baseline in 2015-16. However, we are committed to continuous improvements in our support operations and plan further reductions in the number of back-office positions in 2020-21 and beyond.

**3.16** Our office budgets are in line with our previous plans with the exception of two areas, which have been affected by a change in circumstance. These are the investment we make in data security and the extra rental income we will receive from making additional office space available for rental.

## **Data security**

**3.17** As described above, data security is increasing in significance. We are alert to the need for government to be more vigilant around the growing threat of increasingly sophisticated cyber attacks. As recent cyber incidents have shown, external threats are increasing and attackers are continually evolving their threat patterns. Given the changing environment, we plan to increase our annual investment in our information security architecture and strengthen our policies and procedures. The costs of this have been disclosed separately in Appendix One, Figure 7 under 'Data security'. There are extra costs in 2018-19 as we continue to pay to stay on the Public Sector Network, while we carry out the necessary due diligence of looking at alternatives. However, the budgets from 2019-20 and beyond reflect the ongoing cost by identifying potential gaps and managing the risks of our data being compromised from external threats.

## **Rental income**

**3.18** The NAO offices are located in London and Newcastle with approximately 700 people in London and 100 people in Newcastle. The London building has been partitioned to allow us to rent one end of our building to tenants (six floors). This also means we can generate income from the hire of internal meeting rooms. Our rental income, including service charge, is around £1.8 million from this floor space.

**3.19** We have reviewed our use of space and considered how to maximise the return we generate from it. This has included consideration of the daily usage of desk space across a full business cycle (one financial year) in order to make an informed decision about office space requirements in light of the extra work we take on. Following this, we plan to rent out an additional two floors of the London office. This is expected to generate around £0.5 million of extra income per annum from 2018-19 (Figure 8, Appendix One). We are able to free up more space because we can now make better use of IT, particularly mobile technology to enable flexible working. This extra income is included in our forward plans and contributes towards investment we need to make in data security.

# Appendix One

## Finance tables

### Figure 5

Summary of income and expenditure

	2017-18 Estimate (£000)	2018-19 Proposed (£000)	2019-20 Proposed (£000)	2020-21 Proposed (£000)
Staff costs	59,100	60,100	60,600	60,200
Non-staff costs	26,260	26,255	25,865	25,805
<b>Total expenditure</b>	<b>85,360</b>	<b>86,355</b>	<b>86,465</b>	<b>86,005</b>
Income	18,800	20,000	20,200	20,300
<b>Net expenditure</b>	<b>66,560</b>	<b>66,355</b>	<b>66,265</b>	<b>65,705</b>

### Figure 6

Staff costs and numbers

	2017-18 Estimate (£000)	2018-19 Proposed (£000)	2019-20 Proposed (£000)	2020-21 Proposed (£000)
Wages and salaries	41,600	42,600	43,000	42,800
Social security costs	4,800	4,800	4,900	4,900
Pension costs	9,100	9,200	9,300	9,200
Staff-related costs	2,800	2,800	2,800	2,700
Staff benefits	600	500	400	400
Apprenticeship levy	200	200	200	200
<b>Total staff costs</b>	<b>59,100</b>	<b>60,100</b>	<b>60,600</b>	<b>60,200</b>
<b>Total staff numbers</b>	<b>805</b>	<b>805</b>	<b>805</b>	<b>792</b>

**Figure 7**  
Non-staff costs

	2017-18 Estimate (£000)	2018-19 Proposed (£000)	2019-20 Proposed (£000)	2020-21 Proposed (£000)
<b>Outsourcing</b>	<b>11,300</b>	<b>11,300</b>	<b>11,300</b>	<b>11,300</b>
<b>Travel</b>	<b>2,230</b>	<b>2,230</b>	<b>2,320</b>	<b>2,420</b>
<b>Audit technology</b>				
Audit software	100	100	100	120
IT audit skills	240	160	100	100
Data analytics	200	200	200	130
Enabling automation	140	140	160	150
<b>Audit technology</b>	<b>680</b>	<b>600</b>	<b>560</b>	<b>500</b>
<b>Office costs</b>				
Facilities management	4,900	4,800	4,700	4,700
Office supplies and equipment	2,670	2,470	2,300	2,300
Recruitment and professional training	1,550	1,520	1,470	1,370
Data security	130	535	415	415
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
<b>Office costs</b>	<b>9,050</b>	<b>9,125</b>	<b>8,685</b>	<b>8,585</b>
<b>Depreciation and amortisation</b>				
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
<b>Depreciation and amortisation</b>	<b>3,000</b>	<b>3,000</b>	<b>3,000</b>	<b>3,000</b>
<b>Total non-staff costs</b>	<b>26,260</b>	<b>26,255</b>	<b>25,865</b>	<b>25,805</b>

**Figure 8**

## Income

	<b>2017-18 Estimate (£000)</b>	<b>2018-19 Proposed (£000)</b>	<b>2019-20 Proposed (£000)</b>	<b>2020-21 Proposed (£000)</b>
UK audit fees	15,700	16,300	16,300	16,300
International audit fees	–	400	500	500
International relations	400	300	300	300
Secondment income	900	700	700	700
Rental of office space	1,800	2,300	2,400	2,500
<b>Total</b>	<b>18,800</b>	<b>20,000</b>	<b>20,200</b>	<b>20,300</b>

**Figure 9**

## Capital expenditure

	<b>2017-18 Estimate (£000)</b>	<b>2018-19 Proposed (£000)</b>	<b>2019-20 Proposed (£000)</b>	<b>2020-21 Proposed (£000)</b>
IT equipment and licences	600	840	700	700
Property, plant and equipment	700	110	100	100
<b>Total</b>	<b>1,300</b>	<b>950</b>	<b>800</b>	<b>800</b>

**Figure 10**

## Expenditure by objective

	<b>2017-18 Estimate (£000)</b>	<b>2018-19 Proposed (£000)</b>	<b>2019-20 Proposed (£000)</b>	<b>2020-21 Proposed (£000)</b>
Audit and assurance	49,500	51,325	51,695	51,055
Value for money	18,060	17,630	17,470	17,590
Investigation and insight	11,200	10,900	10,800	10,860
Support for Parliament	5,400	5,400	5,400	5,400
International relations	1,000	900	900	900
Comptroller function	200	200	200	200
<b>Total</b>	<b>85,360</b>	<b>86,355</b>	<b>86,465</b>	<b>86,005</b>

© National Audit Office 2017

The material featured in this document is subject to National Audit Office (NAO) copyright. The material may be copied or reproduced for non-commercial purposes only, namely reproduction for research, private study or for limited internal circulation within an organisation for the purpose of review.

Copying for non-commercial purposes is subject to the material being accompanied by a sufficient acknowledgement, reproduced accurately, and not being used in a misleading context. To reproduce NAO copyright material for any other use, you must contact [copyright@nao.gsi.gov.uk](mailto:copyright@nao.gsi.gov.uk). Please tell us who you are, the organisation you represent (if any) and how and why you wish to use our material. Please include your full contact details: name, address, telephone number and email.

Please note that the material featured in this document may not be reproduced for commercial gain without the NAO's express and direct permission and that the NAO reserves its right to pursue copyright infringement proceedings against individuals or companies who reproduce material for commercial gain without our permission.

This report has been printed on Evolution Digital Satin and contains material sourced from responsibly managed and sustainable forests certified in accordance with the FSC (Forest Stewardship Council).

The wood pulp is totally recyclable and acid-free. Our printers also have full ISO 14001 environmental accreditation, which ensures that they have effective procedures in place to manage waste and practices that may affect the environment.



National Audit Office