
Annual Report and Accounts 2017-18

HIGHLIGHTS



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National Audit Office

Annual Report and Accounts

2017-18

HIGHLIGHTS



Our year at a glance



Our role and strategy



Our work



Our performance



Our impact



Our influence



Our people



Our sustainability



Contact us

Our year at a glance



370

financial statements certified covering £1.6 trillion of public income and expenditure



£741m

of savings achieved for the bodies we audit, equating to £11 for every £1 spend running the NAO



1,072

pieces of correspondence or FOI requests



90%

of Committee of Public Accounts (PAC) recommendations accepted by government



78%

percentage of NAO staff satisfied with their work



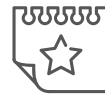
88%

of surveyed MPs think the NAO is authoritative



850

NAO recommendations made since April 2014, with a 94% acceptance rate



7

Best practice guides published



6

the average number of mentions of the NAO in Parliament per sitting day



65

value-for-money reports and investigations published, including nine reports on the government's preparedness for exiting the EU



25

Short Guides published, providing an overview of central departments and issues such as regulation



88%

of respondents from audited bodies surveyed considered our financial audit to be of high quality



806

Full Time Equivalent permanent staff employed at the NAO



80%+

of the NAO's net resources were spent on front-line activity



94%

of our trainees passed the Professional Stage exams at their first attempt, compared with 83% nationally



National Audit Office

Annual Report and Accounts

2017-18

HIGHLIGHTS

Our year at a glance

Our role and strategy

Our work

Our performance

Our impact

Our influence

Our people

Our sustainability

Contact us

Our role and strategy 1/2

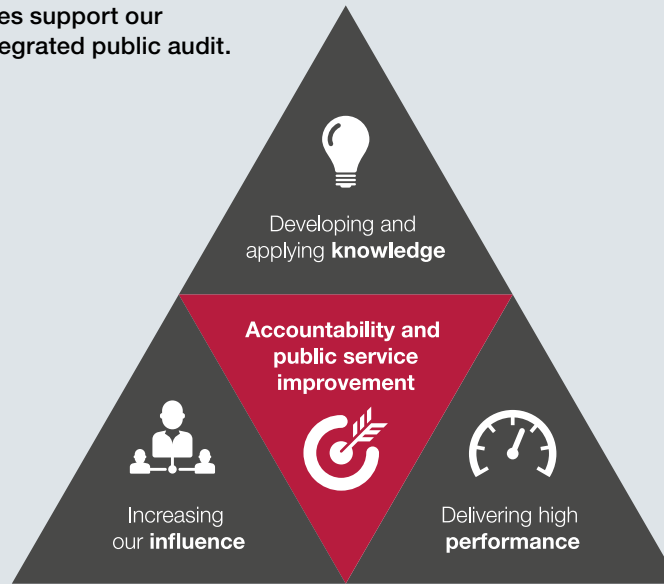
The National Audit Office (NAO) supports Parliament in holding government to account for spending public money. In so doing, we help to improve the way public services are delivered.

We audit the financial statements of all central government departments, agencies and other public bodies, including big commercial entities such as the Network Rail, and report the results to Parliament. We also report on the effectiveness, efficiency and economy of government spending through: value-for-money reports; investigations that set out facts in circumstances where concerns have been raised; landscape reviews; and good-practice guides.

What sets us apart from private sector audit firms is that we can strive to provide system-wide, integrated and independent public audit.

Our three strategic objectives support our delivery of system-wide, integrated public audit.

Read more on [our strategy](#).



“2017-18 has been a year of extraordinary change in UK public life, and we at the NAO have been “in the thick of it!” I think that, in addition to the strengths normally associated with us: analytic rigour, professionalism and objectivity, we can add adaptability and agility in a changing environment.

“...We are getting more and more fluent at dealing with change, and focusing on what a changing environment means to the bodies we audit and the public sector. This makes our work more challenging, but also more relevant and helpful”.

Sir Amyas Morse
Comptroller and Auditor General



National Audit Office

Annual Report and Accounts

2017-18

HIGHLIGHTS



Our year at a glance



Our role and strategy



Our work



Our performance



Our impact



Our influence



Our people



Our sustainability



Contact us

Meeting the challenges 2/2

Although our strategic objectives are enduring, we adapt to meet the challenges facing government today.

Current challenges:

- **Exiting the European Union** is placing extraordinary demands on the civil service, both to facilitate a smooth Exit and maintain other areas of work.
- **Digital transformation:** Transformation programmes can improve services and reduce costs, but they carry significant risks.
- **Accountability, localism and devolution:** New delivery models place further pressure on those implementing change, centrally and locally, and can blur the lines of accountability.
- **Resource constraints:** Financial sustainability remains a key challenge, in all sectors, due to ongoing spending constraint, limited government capacity, changing public needs and an ageing population.

In response we are:

- Increasingly agile to focus our non-financial audit work on addressing the issues that matter most to government and Parliament.
- Focusing our understanding and guidance on the government's strategic issues, such as major programmes and local service delivery; providing more cross-government insights; and deepening our engagement with those we audit.
- Being innovative and adapting to developments in the audit industry to continue improving the quality of our financial audits.



National Audit Office

Annual Report and Accounts

2017-18

HIGHLIGHTS



Our year at a glance



Our role and strategy



Our work



Our performance



Our impact



Our influence



Our people



Our sustainability



Contact us

Our programme of work in 2017-18 1/2



370 accounts

Our Financial Audit

We audited 370 accounts across the public sector, including all government departments and commercial entities such as the BBC, Network Rail and UK Asset Resolution Ltd.



65 publications

Wider assurance work

We published 65 value-for-money reports and investigations including nine reports on various aspects of the government's preparedness for exiting the EU.



7 best practice guides

Best practice guidance

We published seven guidance documents as part of our focus on sharing insight, good practice and the factors we consider when evaluating value for money.



1,072 pieces of correspondence

Correspondence

We provided 108 responses to correspondence from MPs, and 877 responses to correspondence from the public. We also responded to 87 enquiries under the Freedom of Information Act.



51 evidence sessions supported

Support for Parliament

We support 51 Committee of Public Accounts evidence sessions through a combination of written outputs, oral briefings and expert advice. We also gave formal and informal advice and support to other select committees.

We also published 25 [Short Guides](#) on departments and key issues, such as regulation, to highlight aspects MPs should look out for when scrutinising government performance.



C&AG elected as chair of the United Nations Panel of External Auditors

International work

We play an active role in the international audit community, working with other Supreme Audit Institutions to strengthen good governance, accountability and oversight in public administrations around the world.

During the year the C&AG was appointed as the external auditor of the World Intellectual Property Office and the Pan American Health Organization, and elected as chair of the United Nations Panel of External Auditors.



National Audit Office

Annual Report and Accounts

2017-18

HIGHLIGHTS

Our year at a glance

Our role and strategy

Our work

Our performance

Our impact

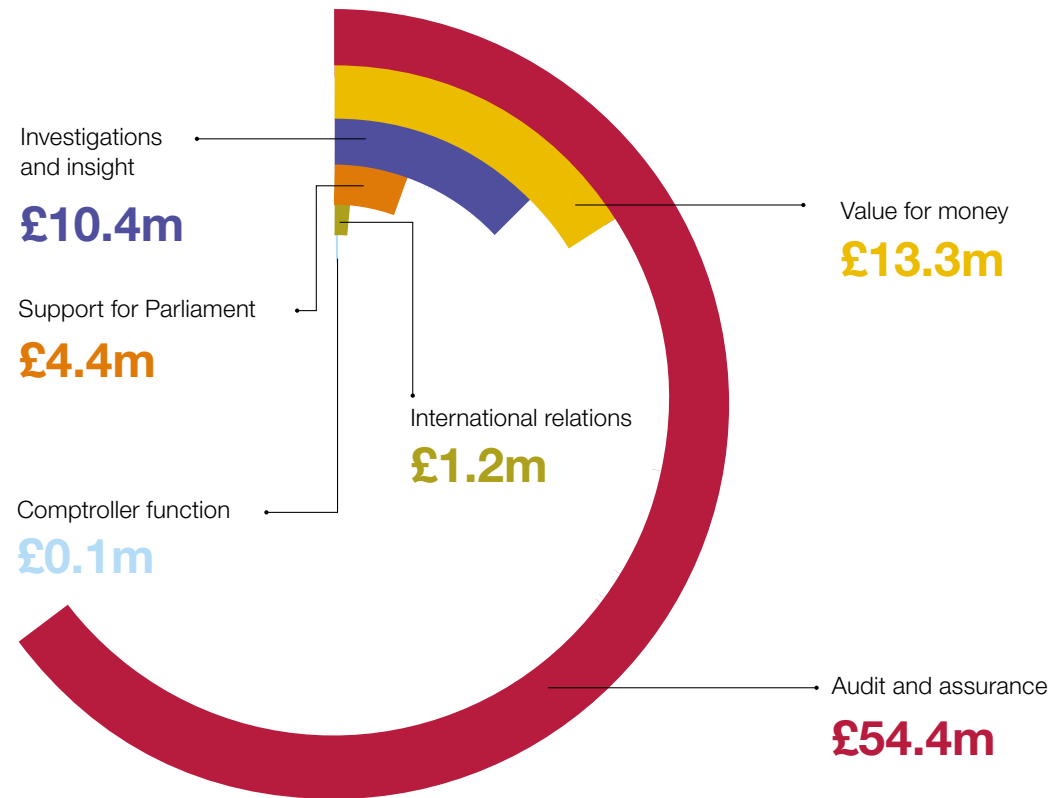
Our influence

Our people

Our sustainability

Contact us

The range of our work in 2017-18 2/2





We measure our performance against our strategic objectives and our intended outcomes.¹

Our performance framework

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

¹ National Audit Office: Our Strategy 2018-2019 to 2020-2021, available at: www.nao.org.uk/report/national-audit-office-our-strategy-2018-2019-to-2020-2021/



Our year at a glance



Our role and strategy



Our work



Our performance



Our impact



Our influence



Our people



Our sustainability



Contact us



HIGHLIGHTS



Our year at a glance



Our role and strategy



Our work



Our performance



Our impact



Our influence



Our people



Our sustainability



Contact us

Our impact 1/2

Each year we identify cases where our work or influence has contributed to better public services or a financially quantifiable net benefit. We refer to this as our 'impact'.

As these case studies illustrate, much of our work brings about beneficial qualitative changes, from specific recommendations for improvements to raising wider awareness of issues.

We also assess where our work has resulted in an improvement with a financially quantifiable net benefit, which is confirmed by the audited bodies concerned and assured by our external auditor. During the calendar year 2017, our financial impact was £741 million which represents a saving of around £11 for every pound we spend. A list of financial impacts valued at more than £5 million is included our full Annual Report.

Our work has led to positive change

Home Office's effectiveness in tackling fraud

Our 2017 report on *Online Fraud* examined the Home Office's effectiveness in tackling fraud through the creation of the Joint Fraud Taskforce.

IMPACT

The publication of our report helped to raise the profile of the threat and received substantial media coverage. The British Retail Consortium used our report to urge closer partnerships between government, law enforcement and industry to tackle online fraud. As a result, bodies started to work more closely together, with the Taskforce expanding its membership. In addition, we encouraged greater transparency, and the Taskforce now publishes more information, including board minutes. Our report supported the Committee of Public Accounts by setting out the priority problems government needs to address.

Clients acknowledge the value of our work

Removal and transfer of parts between ships and submarines

Our investigation, *Equipment Cannibalisation in the Royal Navy* looked at the removal and transfer of parts between ships and submarines where insufficient parts are available. We found that cannibalisation had increased 49% since 2012; cost of the work could exceed the value of parts being transferred; and given a lack of information, the Ministry of Defence (MoD) decided to cannibalise parts without understanding the longer-term impacts.

IMPACT

The Permanent Secretary said it was "an extremely helpful" study that valuably highlighted how the MoD managed ship and submarine maintenance and parts. The MoD told us it is now: improving cannibalisation reporting; reviewing the longer-term impact of cost-saving decisions; investing more in parts; and investigating further the reasons behind increased cannibalisation. The Permanent Secretary committed to ensuring that the lessons it has learnt from the Navy are applied across the other services.



National Audit Office

Annual Report and Accounts

2017-18

HIGHLIGHTS



Our year at a glance



Our role and strategy



Our work



Our performance



Our impact



Our influence



Our people



Our sustainability



Contact us

Our impact 2/2

Parliament has confidence in the independent assurance of the NAO

We are a recognised authority in our core areas of expertise

The higher education market

Our December 2017 study on *the higher education market* found that this market has yet to prove effective in driving improvements on price or quality. We concluded that the Department for Education needs a more comprehensive approach to overseeing the market, and must use regulatory reforms with the establishment of the Office for Students to address the deficiencies we identified.

IMPACT

Our work has directly influenced the ongoing development of the new regulatory regime, as well as contributing to the wider debate that culminated, in February 2018, with the government launching a review of post-18 education funding. Our report also had influence in Parliament: it informed the Education Select Committee's inquiry into value for money in higher education, and the Treasury Select Committee drew directly on our study findings in its report on student loans, concluding that market mechanisms, in and of themselves, are not sufficient to drive meaningful improvements in quality.

Fraud and error in the benefits system

The NAO reported on fraud and error within the Department for Work & Pensions (DWP) over many years, including as part of our financial audits and reports, such as *Minimising the cost of administrative errors in the benefit system (2010)*, *Reducing losses in the benefits system caused by customers' mistakes (2011)*, *Housing Benefit fraud and error (2014)*, *Fraud and error stocktake (2015)*. We also produce an annual report on the DWP Accounts setting out the level of fraud and error.

IMPACT

In 2015, in response to our recommendations, DWP began to take a more structured approach to tackling fraud and error, using analysis of the causes of fraud and error in each benefit to develop its strategy and interventions. DWP considers that this work led it to apply greater scrutiny to overpayments and underpayments. The value of this analysis was shown in our March 2018 report, *Investigation into errors in Employment and Support Allowance (ESA)*. Based on its new detailed analysis of the causes of error, DWP identified that it had a significant error relating to how people were transferred from previous types of incapacity benefit to ESA. Their investigation found that an estimated 70,000 people may have missed out on 'premium' payments which may on average be around £5,000 per person. In August 2017, DWP established a special team to contact people affected and pay arrears, where due, with the aim of correcting all underpayments by April 2019.



HIGHLIGHTS



Our year at a glance



Our role and strategy



Our work



Our performance



Our impact



Our influence



Our people



Our sustainability



Contact us

Our influence

Response to recommendations from our work

For the recommendations responded to in 2017-18, the government accepted some 90% of the recommendations made by the Committee of Public Accounts (PAC).

As well as monitoring PAC recommendations, we also track implementation of all recommendations made in our reports since April 2014.



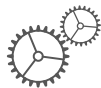
850

NAO recommendations



709

of these discussed with departments



462

in the process of being implemented



208

implemented



39

rejected

Perception of the NAO

MPs continue to score us very well for being authoritative (88% of MPs surveyed say that we are above average for this attribute); acting with honesty and integrity (80%); and acting impartially and independently (77%).

We also received six references in Parliament per sitting day in 2017-18.

Those we audit remain very satisfied with the NAO's financial audit work with 88% agreeing it is of high-quality and 88% also saying that they would actively seek our feedback on accounting and financial control issues.

Of those directly involved in value-for-money studies, about 70% rated the quality of their most recent study as good or very good and 59% said our value-for-money work overall brings valuable insights for their organisation.

Overall, 55% of respondents said the NAO's recommendations lead to improvements and 61% that during the NAO's work with them they had made changes prompted by the NAO's engagement.



National Audit Office

Annual Report and Accounts

2017-18

HIGHLIGHTS



Our year at a glance



Our role and strategy



Our work



Our performance



Our impact



Our influence



Our people



Our sustainability



Contact us

Our people 1/2

Delivering high performance

Efficiency

We have made saving of 3% for the year. Since our baseline in 2010, we have reduced net resource cost by 22% in real terms, during which time we have also taken on significant new responsibilities in local government.

Our people

Our people remain our most valuable and important asset.

The high quality of our work reflects our investment in recruiting, developing and retaining the right calibre people and providing the working environment that enables NAO people to achieve their full potential. For example, all staff have been involved in a training course on 'The Way We Work', helping bring the best the NAO has to all of our work.

Our graduate pass rate are consistently above the national average. Last year 94% of our trainees passed the Professional Stage examinations for the Association of Chartered Accountants qualification at the first attempt (compared with 83% nationally) and 85% passed the Advanced Stage examinations at the first attempt (in line with the national average).

We conduct an annual survey of our people. The 2017 the results largely show a consolidation of the significant increases in 2016, and continue to compare favourably with our benchmarks against comparable organisations.



806

full time equivalent permanent staff



94%

trainees passed Professional Stage exams first time



78%

NAO staff satisfied with their work

HIGHLIGHTS

Our year at a glance

Our role and strategy

Our work

Our performance

Our impact

Our influence

Our people

Our sustainability

Contact us

Our people 2/2

Diversity and inclusion

The NAO's diversity and inclusion strategy has three pillars:

- improving our talent pipeline;
- building an inclusive work environment; and
- reflecting diversity issues in our work.

Key achievements during 2017-18:

A new 'challenger' role in our appraisal moderation helped us to achieve an unbiased appraisal profile.

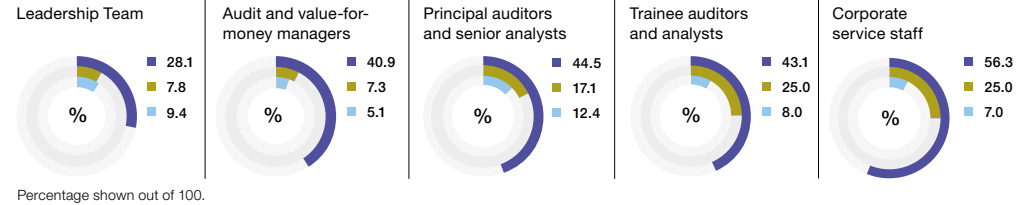
Achieved Level 2, so far, of the Disability Confident scheme, after implementing recommendations from a review of our reasonable adjustments process and the engagement levels of our disabled staff.

However, we have made slower progress in other areas:

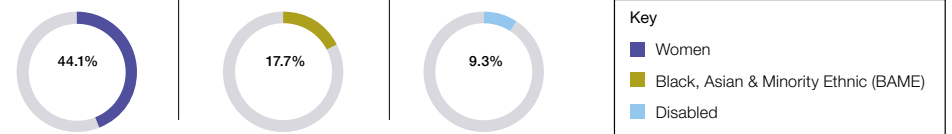
- Compared with other members of Access Accountancy, we performed well in attracting applications from those with disadvantaged backgrounds, but were less successful in converting applications into training contracts. We are reviewing our processes to understand how we can address this.
- As at 31 March 2017 we had a mean gender pay gap of 10.6% and a median pay gap of 11.3%, largely explained by fewer women in senior positions. Actions to support women to progress their careers will be incorporated into our new Diversity and Inclusion strategy to be published later this year.
- For more details, please see our [Diversity and Inclusion Annual Report 2017-18](#) and our [Diversity and Inclusion Strategy](#).

Staff composition as at 31 March 2018

Grade diversity as at 31 March 2018



Totals



Data are expressed as a percentage of total population including staff who have not declared or selected 'prefer not to say'.



HIGHLIGHTS

Our year at a glance

Our role and strategy

Our work

Our performance

Our impact

Our influence

Our people

Our sustainability

Contact us

Our sustainability

Holding government to account on its environmental performance

Our greatest potential environmental impact arises from our role in holding government to account on performance against its environmental objectives. One way we do this is through our support to the Environmental Audit Committee.

Improving our own environmental sustainability

We manage our business in an environmentally responsible manner, with a continued focus on sustainability. This involves carefully controlling our use of resources and consumables, and minimising waste. We have challenging sustainability targets in all these areas

We are pleased to report that we have achieved the targets set out in the Greening Government Commitments and have plans in place to improve on these results in 2018-19.

Information about our environmental and sustainability policy, including roles and responsibilities, is available on our Transparency web-page: www.nao.org.uk/about-us/our-work/governance-of-the-nao/transparency/

NAO performance against the environmental targets in the Greening Government Commitments

Plant, equipment and purchased energy



Target
16%
reduction in CO_{2e}
(compared with 2010-11)

Result
31%
reduction
achieved

Business travel



Target
30%
reduction in domestic
flights (compared with
2009-10)

Result
60%
reduction
achieved

Water usage per full-time equivalent (FTE) employee



Target
**ratio of 4m³
to 6m³**
per FTE

Result
5.6m³
achieved

Waste generation and paper consumption



Target
Less than
10%
of waste to go to landfill

Result
0%
of waste sent
to landfill



Reduce the overall
amount of waste
generated from
**0.14
tonnes**
per FTE in 2011-12

Reduced to
**0.09
tonnes**
per FTE



Increase the proportion
of waste which is
recycled from
85%
in 2011-12

99%
recycled



50%
reduction in paper
(compared with
2009-10)

55%
reduction
achieved



National Audit Office

Annual Report and Accounts

2017-18

HIGHLIGHTS



Our year at a glance



Our role and strategy



Our work



Our performance



Our impact



Our influence



Our people



Our sustainability



Contact us

For our full Annual Report and Accounts 2017-18 published on 26 June 2018, and all other NAO publications, please visit www.nao.org.uk

The NAO has a new [preference centre](#) that allows you to sign-up for our e:newsletter and/or to subscribe to email alerts when new content is added to our website, which you can tailor by sector, topic or audience, such as publications specifically relevant for Audit Committees and Boards.

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, nationally and locally, have used their resources efficiently, effectively, and with economy. The C&AG does this through a range of outputs including value-for-money reports on matters of public interest; investigations to establish the underlying facts in circumstances where concerns have been raised by others or observed through our wider work; landscape reviews to aid transparency; and good-practice guides. Our work ensures that those responsible for the use of public money are held to account and helps government to improve public services, leading to audited savings of £741 million in 2017.