



National Audit Office

NAO strategy: Progress update and estimate memorandum for 2021-22

The Public Accounts Commission

REPORT

by the
National Audit Office

FEBRUARY 2021

We are the UK's independent public spending watchdog.

We support Parliament in holding government to account and we help improve public services through our high-quality audits.

The National Audit Office (NAO) scrutinises public spending for Parliament and is independent of government and the civil service. We help Parliament hold government to account and we use our insights to help people who manage and govern public bodies improve public services.

The Comptroller and Auditor General (C&AG), Gareth Davies, is an Officer of the House of Commons and leads the NAO. We audit the financial accounts of departments and other public bodies. We also examine and report on the value for money of how public money has been spent.

In 2019, the NAO's work led to a positive financial impact through reduced costs, improved service delivery, or other benefits to citizens, of £1.1 billion.



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Foreword

It has been an extraordinary year. The COVID-19 pandemic has had a devastating effect on many people's lives and livelihoods. The scale of the response required from front-line workers and other public servants has been unprecedented. Organisations across the whole public sector have had to respond with very high levels of unplanned spending and to adapt how they work. The pandemic's effects will be felt into the future, not least because of the high levels of borrowing required to fund the response. The learning from this searing experience will lead to fundamental changes in many areas of public policy and implementation.

The consequences of the UK's exit from the European Union are also transformative. Government will be taking advantage of the opportunity to legislate in areas previously shaped by EU directives. New bodies will be established, and expertise needed, to run activities previously carried out by EU institutions, with new funding arrangements. Alongside these changes, the government is committed to achieving a net zero carbon economy by 2050 and an ambitious programme of infrastructure spending.

In this context, the National Audit Office's (NAO's) role as the UK's independent public spending watchdog has never been more important. In the first year of our 2020–2025 strategy, we have made good progress in strengthening our financial audit approach and making better use of our knowledge to help government improve. This is despite rapidly reshaping our work programme to review the elements of the government's response to the COVID-19 pandemic. We will have published 19 reports and supported 14 Committee of Public Accounts evidence sessions on this topic alone by March 2021.

Although our 2019-20 audits of government accounts were affected by the impact of the early days of the pandemic, the main effect of the £280 billion unplanned spending on the response will be on the 2020-21 accounts. Our audit planning has already identified very significant risks needing focused audit work. As an example, our 2020-21 audit of the Department of Health & Social Care will be far more complex, and we need to examine the extra spending and new audit risks with the rigour that Parliament expects. The resource implications of this and other audits are reflected in the estimate.

The estimate also shows we plan to continue to carry out the targeted investment in audit quality and knowledge management set out in our five-year strategy. We will make sure we keep our own costs as low as possible. Like the public sector, we will recognise the reality of the economic situation in our pay restraint. We will reduce our travel costs and make better use of technology wherever possible. We also plan to rent out more office space in our London building when circumstances allow.

We are proud of the exceptional efforts of our staff in maintaining their service to Parliament and the public despite the challenges we have all faced in 2020-21. We look forward to continuing that support while ensuring the NAO is fit for the task ahead.

Gareth Davies
Comptroller and Auditor General

Dame Fiona Claire Reynolds DBE
Chair

Summary

1 Last year we launched a new five-year strategy. Our strategy builds on our strengths in providing high-quality, effective support to Parliament. It also responds to feedback that we could share our knowledge and insights more effectively to support both accountability and improvement in outcomes and value for money. Increased expectations of the quality and rigour of audit also mean we must modernise how we carry out our audit work.

2 We launched the strategy in June 2020 when widespread understanding of the COVID-19 pandemic's significance was beginning to emerge. We took the view that, despite the uncertainty caused by the pandemic, the strategy and associated investment would position us well to respond to the extra work needed of us. Parliament and other stakeholders had immediate expectations of us auditing the government's response to the crisis.

3 We are making use of the additional investment received to implement our new strategy, and the beneficial effect and value of our work remains far greater than the cost of the National Audit Office (NAO). In 2019-20, there was £16 of positive financial impact resulting from our work for every £1 the NAO costs.

- We are improving our support for effective scrutiny and accountability. We are on track to publish 60 major reports and certify 411 accounts by the end of the financial year; and we have completed the scoping phase of our programme to improve our financial audit approach.
- We are increasing our impact on outcomes and value for money, focusing on the most significant risks to value for money. In 2020, we have published 12 reports on COVID-19. We have appointed five senior practitioners with functional specialisms and cross-government expertise. We have done more to consider the differential impacts of public services among different groups and in different places, for example in our reports on free school meals and rehousing rough sleepers.
- We are providing more accessible independent insight. We have published four lessons-learnt reports this year, are making more data available, and are professionalising our approach to knowledge management and improving our website.

4 We expect completing our work next year to be even more challenging. While this year has been disruptive to how we go about our work, in 2021-22 we will be auditing the 2020-21 accounts, in which most of the £280 billion of unplanned spending to date has taken place, within a strained control environment. This will have a bigger effect on our work, as there are new and complex audit risks, for example vulnerability to poorly controlled procurement practices, fraudulent claims or administrative errors in spending. We need to examine this extra spending with the rigour that Parliament expects. We will also continue our value-for-money examinations of the government's response to the pandemic. This will include new areas for us, such as the effect of economic stimulus packages, and we will need to provide assurance about whether these large sums of public money are being spent effectively and that lessons are being learned.

5 Even before the pandemic, we already had a full and relevant programme of work that is contributing to our new strategy and helping us achieve greater impact. We have refocused our value-for-money work programme to consider more long-term, systemic opportunities and risks to value for money. These include important infrastructure and defence projects, progress towards the net zero carbon target and the effect of EU Exit, as well as value-for-money issues specific to government departments or discrete parts of the public sector. It is also now clear that many parts of the public sector will face a more constrained financial position than they had expected before the pandemic.

6 The combined effect is that we will have substantially more financial audit and value-for-money work to complete next year and will need more resources than we had previously planned to carry it out. Our proposals for 2021-22 include a net resource requirement of £80.2 million, after allowing £23.8 million of income (**Figure 1** overleaf). This is a £4.3 million increase on our budget for the current financial year and is £2.1 million higher than the plans for 2021-22 already considered by the Public Accounts Commission (the Commission). The extra funding allows us to increase our headcount to 940 people to support both our financial audit and value-for-money practices, which is 75 more than anticipated previously.

Figure 1

Summary of proposed National Audit Office (NAO) budgets, 2020-21 to 2021-22

	2021-22 Estimate	2020-21 Estimate	Variance	Variance
	(£m)	(£m)	(£m)	(%)
Audit and assurance work	104.0	99.0	5.0	5.0
Income	23.8	23.1	0.7	3.0
Net resource expenditure	80.2	75.9	4.3	5.7
Net capital expenditure	2.3	1.5	0.8	53.3
Net cash expenditure	79.8	75.1	4.7	6.3

Notes

- 1 Figures may not sum due to rounding.
- 2 Parliament authorises separate resource, capital and cash budgets, which form totals within which the NAO must manage. The figures in bold are the control limits, which will be voted by Parliament.

Source: National Audit Office

7 While we need to increase our staffing capacity, we recognise our own duty to be as efficient as possible. We will mirror the pay restraint in the wider public sector. We will aim to significantly reduce our travel costs as we make better use of technology to carry out our audits. We will make preparations to reduce the office space we use and increase income by renting more of it out to others. These actions help us to afford more people, but we also need some support from Parliament.

8 We do not ask for additional funding lightly and have demonstrated this year that we are using the investments in the NAO effectively. For the higher volumes of work expected from us and the complexity and nature of new audit risks, we believe Parliament needs an adequately resourced NAO to ensure we can fulfil our role and maximise our impact for the taxpayer. Given the continued uncertainty of the current context, we propose to return to the Commission with a mid-year review as we did last year to provide an account of how we are using the money, and discuss any adjustments to the budget that may be necessary.

Part One

Overview of our strategy 2020-21 to 2024-25

Background

1.1 Following the appointment of the new Comptroller and Auditor General (C&AG) in June 2019, we reviewed our strategy. We considered how best to serve Parliament and respond to changes in the external environment that affect us and the bodies we audit. Our work is held in high regard, but we are not complacent. We know we can achieve more.

1.2 The UK faces new opportunities and demanding challenges in the 2020s. Alongside the effect of the COVID-19 pandemic, which we expect to continue for some time, the government is forging a new relationship with the European Union (EU) and the rest of the world and is working to achieve net zero emissions by 2050. The government also has ambitious plans for improving national infrastructure. Demographic changes continue to lead to higher demand for health and social care, and technological innovation continues to reshape whole industries, including public service delivery. Greater devolution of powers and responsibilities from central government mean new accountability and governance arrangements are being put in place.

1.3 This sets a demanding agenda for the National Audit Office (NAO) in supporting Parliament's scrutiny of how government's policy objectives are being implemented. Our strategy, covering the five-year period 2020-21 to 2024-25, is to provide effective support to Parliament in examining public sector performance while making our insights available to those responsible for managing and improving public services (**Figure 2** overleaf). We are now in the second year of our strategy. Our work aims to address the cross-cutting nature of many of the government's priorities, as well as the performance of individual departments. We are working to use our remit across all public spending to provide high-quality and objective evidence and analysis for Parliament. This includes examining the government's response to COVID-19.

Figure 2
National Audit Office's (NAO's) strategy

Our purpose	Our strategic priorities	Our strategic enablers
<p>We are the UK's independent public spending watchdog</p> <p>We support Parliament in holding government to account and we help improve public services through our high quality audits</p>	<p>Improving our support for effective accountability and scrutiny</p> <p>We provide assurance that public resources are accounted for accurately and used as intended. When this does not happen, we point it out. We will upgrade our methodology and software to deliver higher quality audits using data analytics. This will provide Parliament with deeper insights to scrutinise public spending, and those responsible for the governance of the bodies we audit with the assurance they need.</p> <p>Increasing our impact on outcomes and value for money</p> <p>Our work focuses on the issues that matter and we will place greater emphasis on where we can influence long term value for money. We will make better use of our analytical and audit expertise to identify how public services can be improved. This will allow more insightful and practical recommendations that lead to better outcomes.</p> <p>Providing more accessible independent insight</p> <p>We will be known as a valuable source of knowledge on how well public resources are used and how the governance and performance of public services can be improved. We will synthesise what we know on important issues and make it easier for others to understand and apply the lessons from our work.</p>	<p>We will attract, retain and develop high quality people</p> <p>Our people are proud to be part of our diverse, inclusive and healthy workplace. We attract talented people and support them to become even better at what they do, enhancing their careers and ensuring we have the skills and capabilities we need.</p> <p>We will make more effective use of technology, data and knowledge</p> <p>We use technology and analysis of data to perform our audit work more effectively and to create and communicate new insights that cannot be achieved in other ways.</p> <p>We aim to be an exemplar organisation</p> <p>We lead by example in holding ourselves to the high standards we expect from public bodies. We are efficient, provide value for money and focus on long term sustainability.</p>

Source: National Audit Office

1.4 The main changes we are making to carry out our strategy over five years are as follows.

- **Developing deeper insights from our financial audit work:** We are working to give Parliament and the public better information about how public money is being managed across government and provide the bodies we audit with fresh perspectives on their business. To do this we are investing in our financial audit software and improving our audit methodology, so we continue to work efficiently and ensure consistently strong performance against regulatory quality standards.
- **Focusing more on long-term value-for-money issues:** Our work programme responds to government's plans and particularly those with long-term implications for public spending. These include the long-term effects of COVID-19 on public spending; big infrastructure projects; the effect of EU Exit; progress towards the net zero emissions target; the use of technology and data to transform services; and devolution.
- **Making much better use of our knowledge:** We are working to make it easier for others to find, understand and apply the lessons from our work and use them to improve value for money, including through a new series of reports that bring together lessons learned from our work.
- **Enhancing our expertise in the skills that are a priority for government:** We are focusing more on helping improve value for money in areas that are important to making government more efficient and effective. These include major project delivery; financial and risk management; commercial activities; people and operations management; and digital transformation.

Progress against our strategy in year one

1.5 In the first year of our strategy, we have already made progress with our strategic priorities (**Figure 3** overleaf).

Figure 3

Progress with our strategic priorities

Improving our support for effective scrutiny and accountability

We are on track to publish 60 major reports and certify 411 accounts by the end of the financial year.

We have helped audit and risk committees across government to consider how issues arising from the COVID-19 pandemic affect their accounts, including by publishing a lessons-learnt report.¹

We have completed the scoping phase of our programme to improve our financial audit approach, so it meets the highest standards of audit quality and effectiveness. We have specified a procurement approach for our audit software and have started work on an enhanced audit methodology.

Increasing our impact on outcomes and value for money

We have reported on the most significant risks to value for money, including 12 reports in 2020 relating to the government's response to COVID-19, and others on longer-term issues such as net zero.

We are enhancing our cross-government expertise, for example in procurement, major infrastructure projects, service transformation and regulation, and have appointed five senior practitioners with functional specialisms.

We have done more to consider the differential impacts of public services among different groups and in different places, for example in our reports on free school meals and rehousing rough sleepers.

Providing more accessible independent insight

We have published four new lessons-learnt reports, such as on preparations for EU Exit and major programmes, to draw together and consolidate our insights and make them more widely available.

We are making the data underlying our work more accessible, for example our COVID-19 cost tracker, to help increase transparency and further promote scrutiny and accountability for government spending.

We have set up a knowledge management team so we are better placed to draw together the information we hold and make it more widely available and useful.

We have started a project to improve our website.

Note

¹ Comptroller and Auditor General, *Guide for audit and risk committees on financial reporting and management during COVID-19*, Session 2019–2021, HC 524, National Audit Office, June 2020.

Source: National Audit Office

1.6 The rest of this document covers:

- the plans for 2021-22, year two of our five-year strategy (Part Two);
- the resources we need to continue to make progress against our strategy in 2021-22 (Part Three); and
- our performance framework (Part Four).

Part Two

Our plans for 2021-22

Our strategic priorities

2.1 This section covers how we will deliver against our three strategic priorities over the next financial year.

Improving our support for effective accountability and scrutiny

We provide assurance that public resources are accounted for accurately and used as intended. When this does not happen, we point it out. We will upgrade our methodology and software to deliver higher-quality audits using data analytics. This will provide Parliament with deeper insights to scrutinise public spending, and those responsible for the governance of the bodies we audit with the assurance they need.

Financial audit work

2.2 We certify the accounts of all central government departments and entities, as well as other public bodies such as the BBC and government companies. We produce high-quality audits compliant with audit standards, support government bodies in implementing any new accounting standards and keep pace with industry-wide developments in the audit profession. For this, we need to invest in technology and skills and ensure our audit methodology is fit for purpose.

2.3 The COVID-19 pandemic presented new challenges for our audit work this year, with finance teams in public bodies themselves responding to the pandemic and many audited bodies delaying their timetables for accounts production. We certified 41% of our audits before the Parliamentary summer recess in 2020, compared with 78% in 2019. Audit teams had to work with finance teams to understand how audit work could be carried out remotely, with our teams visiting audited bodies' premises only when it was essential and safe.

2.4 The pandemic and the government response also affected our audit risk assessments and responses for the 2019-20 accounts. Examples of extra audit work included risks to the accurate valuation of assets; the completeness and existence of inventory; and the completeness and valuation of liabilities and commitments entered into by public bodies. We reflected this in our audit reports. We used our audit opinions to point out disclosures made by government departments about uncertainties attached to particular balances and issued several extra reports on accounts to draw issues to Parliament's attention.

2.5 We expect 2021-22 to be even more challenging. We will audit the 2020-21 accounts, in which most of the £280 billion of unplanned spending took place. This will have a bigger effect on our work, as there are new and complex risks to consider, for example vulnerability to poorly controlled procurement practices, fraudulent claims for loans or income support, or administrative errors in spending (**Figure 4**). Extra government spending has taken place at speed and we will need to consider regularity in this context. We need to have enough qualified financial audit staff for this extra audit work.

Figure 4
Examples of additional audit risks arising from the pandemic

Area of government	Estimate of spending	Audit risk and focus
Department of Health & Social Care and associated bodies, including test and trace, deployment of PPE, vaccine programme.	£50 billion in 2020-21 and a further £20 billion in 2021-22.	Significant additional expenditures disbursed at speed and in many new areas. There is the risk of fraud and error.
Department for Business, Energy & Industrial Strategy, including the Bounce Back Loan Scheme and business interruption schemes providing loans to businesses. Grant funding schemes have been set up to support small businesses and businesses in the retail, hospitality and leisure sectors.	The combined value of loans and the grants to support business is around £82 billion. The funding for vaccine research and supply is some £5 billion.	There will be complexity in auditing the regularity and the valuation of the loans.
HM Revenue & Customs. The Coronavirus Job Retention Scheme and Self Employment income support. A number of tax relief adjustments (VAT deferral, stamp duty holiday).	£70 billion of financial support through these schemes is the latest estimate. A further £13 billion of relief through tax adjustments and support schemes.	While payments have been disbursed using existing processes, the risk of fraudulent claims is high.
Department for Work & Pensions. Surge in demand for benefits.	£15 billion in 2020-21.	Benefits paid are through usual payment systems. However, the need for a quick response has meant that many controls and checks were eased, increasing the risk of irregular payments.
Department for Transport (DfT). Significant additional expenditure due to government intervention to ensure that services continue.	£13 billion in 2020-21 and a further £3 billion in 2021-22.	The financial risks were transferred to the DfT for many services and this adds complexity to the audit.
Other Departments: Ministry of Housing, Communities & Local government. Department for Environment, Food & Rural Affairs. Department for Digital, Culture, Media & Sport. Department for Education.	£9.5 billion across 2020-21 – 2021-22 in grants and funding for local government. Wide range of support to schools, cultural assets and charities to an estimated spend of £5 billion.	Many of these grants and disbursements happened at speed, and additional audit work will be required to provide assurance over them.

Note

1 Expenditure figures are estimates at the time of writing and will be subject to change.

2.6 As well as new audit work arising from the pandemic, following the UK's departure from the European Union there will be further financial audit work. This could include work on the settlement of the UK and EU's outstanding financial obligations to each other under the terms of the Withdrawal Agreement. As well as auditing the receipts and payments for the EU financial settlement, we will also need to audit transactions and balances arising from any new arrangements and legislation put in place. For example, this includes auditing payments to farmers for environmental or animal welfare improvements under new Agriculture Act requirements that replace administration under the EU's Common Agricultural Policy.

Audit quality and approach

2.7 Across the audit profession, audits are not yet consistently reaching the high standards needed to provide confidence in financial reporting. The results of the Financial Reporting Council's inspection of our audits is consistent with the findings across the wider profession. We are committed to achieving the quality standard set reliably and consistently. To address this, we have improved our processes including:

- assigning one of our executive directors a specific responsibility for financial audit quality, including implementing an updated Quality Plan to ensure the effectiveness of our internal quality procedures;
- revising our learning and development programme, with a focus on professional scepticism and important judgements; and
- investing in extra capacity in the financial audit service line so our people have sufficient time to carry out high-quality audit work.

2.8 Our new or improved processes will be embedded further in 2021-22 and will complement further investments we will make in our financial audit work. These investments will make sure:

- our audit methodology is in line with the best of the audit profession and relevant recommendations from the Kingman and Brydon reviews into audit quality and effectiveness;
- our audit software supports improvements in the quality and efficiency of our financial audits through higher levels of standardisation and automation; and
- we can exploit the full value of technology for data storage and analysis capability.

Value for money, wider assurance and support to Parliament

2.9 Parliament examines how the government spends taxpayers' money to provide public services. We support Parliament by providing MPs and committees with value-for-money reports, investigations and briefings, as well as supporting its scrutiny of the annual reports and accounts of government departments. Our main Parliamentary relationship is with the House of Commons Committee of Public Accounts (the Committee). We have continued to support the Committee throughout the pandemic, working remotely or in hybrid arrangements as circumstances have allowed. We expect to support between 50 and 65 evidence sessions in 2020-21.

2.10 We will continue to support and strengthen our relationship with other select committees, including clerks and their teams, by providing oral evidence, written briefings and Departmental Overviews. For example, we have recently briefed Women and Equalities Committee staff on our COVID-19 reports and our studies which consider vulnerable people; and Education Committee staff on the findings of our report on colleges' financial sustainability. We will continue to second around 10 of our staff to select committees.

2.11 In 2021-22, we will provide high-quality and relevant support to the Committee, other departmental select committees and individual MPs. We want to improve how we engage with Parliament and will build on changes we have already made including:

- producing tailored outputs, such as data visualisations using constituency information, and other products synthesising our knowledge;
- developing our Departmental Overviews so they draw more on insights from our financial audit work and better meet the needs and support the work of departmental select committees;
- improving our communications with parliamentarians, including through more monitoring of the correspondence we receive, social media and upcoming debates in both Houses to better understand MPs' and Peers' interests;
- identifying specific demographics and interests within Parliament, so we can provide relevant, targeted and timely support to MPs and Peers ahead of debates and committee sessions; and
- helping MPs examine departmental spending by developing standard training, including with the Parliamentary Scrutiny Unit, on departmental accounts for MPs, clerks and other parliamentary staff.

Local audit

2.12 The Comptroller and Auditor General (C&AG) has a statutory responsibility to issue the Code of Audit Practice and supporting guidance. This sets out how external auditors of local public bodies meet their responsibilities under the Local Audit and Accountability Act 2014 and the NHS Act 2006. The Code of Audit Practice was updated in April 2020, with a greater focus on auditors' work on local bodies' arrangements to secure value for money. The aim is to promote more meaningful and timely reporting to local public bodies, supported by clear recommendations for improvement.

2.13 During 2020-21, we consulted on and issued statutory guidance for auditors on the new Code's value-for-money approach. Alongside issuing statutory guidance, we have also convened networks to help auditors address emerging issues such as the audit of 'going concern' in the public sector. We developed and issued an online tool to improve public accessibility of local auditors' reports.

2.14 In 2021-22, following the Redmond review's publication, we will continue to work with the Ministry of Housing, Communities & Local Government and other stakeholders in local audit as the government responds to the review. The review was supportive of the new Code while making recommendations that would affect our Code-related work. We will review the scope and content of our statutory guidance for local auditors. We will continue to support local auditors to manage emerging issues, including dealing with objections and questions from local electors more quickly.

International relations

2.15 The National Audit Office (NAO) has an international reputation as a leading public audit institution that provides the UK with a modern, professional public audit service. We play a role internationally when this aligns with our interests and develops our own and others' abilities. The work also provides valuable development opportunities for our own people, helping to attract and keep them at the NAO. From time to time we take up appointments as the external auditor of international organisations that are recipients of UK funding.

2.16 Working with audit offices across the world provides an insight into different approaches and new perspectives on ways of working. We use these relationships to increase the use of international comparators in our reports. For example, we have set up an international project group on auditing the response to the COVID-19 pandemic. This has allowed us to draw on international comparisons and therefore strengthen our ability to report on test and trace, procurement, preparedness for vaccines, and children's education during the pandemic. More widely, our international work improves our approaches to value-for-money studies in subjects such as the environment and national defence.

Increasing our impact on outcomes and value for money

Our work focuses on the issues that matter and we will place greater emphasis on where we can influence long-term value for money. We will make better use of our analytical and audit expertise to identify how public services can be improved. This will allow more insightful and practical recommendations that lead to better outcomes.

2.17 In 2021-22, we will continue to report to Parliament on the most significant risks to value for money, both immediate and in the longer term. We are well placed to understand the most significant risks because our work is system-wide in its scope, looking across departmental boundaries. We are doing more to make sure we consider the range of perspectives of users of public services and examine the effect public spending has on different groups of people.

Strengthening our expertise

2.18 Since introducing our new strategy, we have been improving our expertise in skills that are important across government. In the first year of our strategy, we set up six hubs covering different specialist areas: analysis; commercial; digital; financial and risk management; major project delivery; and people and operations management. We recruited for senior positions in these hubs and expect appointments to be in place by the end of 2020-21. This will be critical in ensuring we are well placed to provide assurance over the value for money of public spending arising from the pandemic.

2.19 In the second year of our strategy, we intend to invest further to develop our skills and expertise through these hubs, including training and development of our people to help them extend their specialist knowledge. In 2021-22, we will put in place learning and development plans for each hub to improve our specialist skills and to bring greater expertise to our value-for-money and wider assurance work.

2.20 Compared to our plans for 2021-22 that we presented last year, we are proposing an extra £1.0 million in our value-for-money resources, reflecting the increased demand on our value-for-money and responsive work. This will allow us to provide Parliament with the assurance it expects over whether the government's spending, including that related to the pandemic, is providing value for money.

Our programme of work for 2021-22

2.21 We aim to deliver a demanding programme of value-for-money work in 2021-22, responding to the significant risks to value for money in the government's pandemic response.

COVID-19

2.22 Because of the unprecedented scale and cost of government's activities in response to the COVID-19 pandemic, we successfully re-prioritised our work to begin a big programme of studies in 2020-21. Topics have included: government's preparedness for the pandemic; the spending on the direct health response and the wider emergency response; the measures aimed at protecting businesses and individuals from economic harm; and the measures to support recovery and manage issues worsened by the pandemic. In 2020-21, we provided timely and transparent information which highlighted risks for government to manage. Examples include reviewing the government's efforts to increase the number of ventilators available to the NHS and the supply of personal protective equipment to health and social care workers; and government's approach to procurement in the pandemic. We expect to revisit these and other subjects in the next year. We began tracking and reported on, including through a new online application, the size of government's commitments and spending on its COVID-19 response.

2.23 In 2021-22 we will prioritise those reviews that address the greatest risks to effective public spending while remaining responsive to the changing nature of the pandemic. For example, we reported on the test and trace system and will continue to examine this. We will consider government's plans for recovery from the pandemic with reports on the backlogs in the NHS and criminal justice system and the employment support grant scheme. We will continue to provide updates on the costs of the response to the pandemic to improve transparency and promote Parliamentary scrutiny of public spending.

EU Exit

2.24 Following EU Exit, the UK will need to continue to build expertise in matters formerly covered by the EU, including trade negotiation and regulatory policy. The government is setting up new funding streams to replace EU programmes, enacting new accountability arrangements, upgrading legacy IT systems and replacing EU law with a body of new UK legislation. Sometimes new public bodies are being established to run arrangements previously carried out by EU institutions. These changes need close audit scrutiny. We will report to Parliament on how effectively departments are carrying out these changes. This will build on our previous reports on government's preparedness at the border and the Department for International Trade's progress with the UK's independent trade policy.

2.25 We have previously reported on the UK's proposed financial settlement with the EU, a complex financial transaction, the value of which depends on the result of future events. As new information becomes available, HM Treasury will review its estimate of the cost of the settlement. We therefore expect to further examine the financial settlement.

Net zero and the environment

2.26 The government has set out its long-term environmental ambitions in its 25-year environment plan and tightened its climate change target, including a legal requirement to achieve net zero carbon emissions by 2050. Meeting climate change targets will need significant changes, for example, in energy, transport, housing and agriculture. We have examined how government assures delivery of important policies on achieving long-term environmental goals including the robustness of government's plans to fulfil net zero emissions targets. We have also reported on carrying out supporting initiatives such as reducing carbon emissions from cars; and how vital infrastructure, such as flood defences, are being managed.

2.27 Our work in 2021-22 will report on a broad range of environmentally focused public sector activities. This will include setting up the Green Homes Grant to decarbonise buildings; cross-government plans and investment to improve the uptake of walking and cycling as part of wider objectives to decarbonise transport and improve public health; and management of the tree planting scheme which aims to support biodiversity and net zero targets.

Major infrastructure projects and programmes

2.28 The estimated lifetime costs of the Government Major Projects Portfolio, containing around 130 of the government's highest-value and most critical projects, is around £440 billion. We regularly report on the value for money with which government departments and agencies carry out their projects and programmes and see similar problems in: scope, planning, managing interdependencies and oversight. In 2020-21, we produced a lessons-learned report drawing together insights from our reports on infrastructure programmes, including High Speed 2, Carrier Strike and Universal Credit. Our aim is to identify learning points that government can focus on to improve its performance.

2.29 We carried out an early review of the programme to restore the Palace of Westminster and the risks to delivery. Our report sets out value-for-money risks relevant to the approach approved by Parliament, that is, the 'decant option' – completing repair work while Parliament relocates elsewhere. It recommends how Parliament and the Sponsor Body can reduce these risks and describes the potential effect of not doing so.

2.30 In 2021-22, we will focus on significant projects and programmes as the government delivers its existing commitments and plans further infrastructure investment. This will include reports on the Crossrail programme; the decommissioning arrangements for a subset of the UK's nuclear power stations; and how the Ministry of Defence manages its spending on equipment over the next 10 years. We will continue to follow progress on other programmes such as High Speed 2 and the Restoration and Renewal of Parliament.

Public spending and service sustainability

2.31 While the government has committed significant public spending to address the COVID-19 pandemic, changes to core departmental budgets over this Parliament are variable, with the government's commitments to the NHS, schools and defence implying a tight funding situation for other services. We have highlighted longstanding service sustainability challenges such as the effective integration of the health and social care sectors, and potential increases in costs and poorer outcomes where services aimed at prevention, early intervention and self-management of long-term conditions are disrupted. Dealing with backlogs and underlying demand across all public services will also compete with efforts to improve and transform services. There have already been concerning examples of financial failure emerging in local government. We will therefore continue to examine financial sustainability across the public sector, with work planned this year in the higher education and schools sectors, and also for the BBC.

Shifting models of government and devolution

2.32 Accountability and transparency are essential for public trust in government. These continue to be significant areas of focus for us as models of government and regional devolution settlements evolve alongside changes in demand for public services. We will consider how government joins decision-making and funding arrangements in connected systems such as local government, health and justice. We will look at: the government's use of arm's-length bodies to deliver its objectives; the future arrangements for public health following the abolition of Public Health England; and government's contractual arrangements with the independent hospital sector during the COVID-19 pandemic.

2.33 Many public services are delivered by private providers on a contractual basis. When problems occur, this can result in financial losses falling to the taxpayer, with the government left to identify alternative providers. There are questions about the government's management of the supplier market, the degree of competition for some major contracts, and the transition to new arrangements once a contract ends. We will consider, for example, how effectively the Ministry of Defence manages defence equipment contracts.

Technology and transformation

2.34 Digital and data-led services aim to reduce costs, support government decision-making and improve the ease with which citizens can interact with government. Many of these have involved new and innovative approaches where government underestimated the complexity and difficulties of translating ambition into practical solutions. In recent years we have reported on several major digital and technology projects which failed to achieve their expected benefits, for example on Universal Credit; the Home Office's digital services at the border programme; and digital transformation in the NHS. We intend to consolidate these lessons into an overall report to be published in 2021.

2.35 The current COVID-19 pandemic highlighted the importance of digital technology as a means of providing and accessing public services remotely. The pandemic has precipitated change on an unprecedented level for public bodies, which were unused to working in this way at scale. Our recent report on improving broadband services set out that better broadband has helped communities to work and study from home and stay connected during the pandemic, and we will report soon on how children's education has been supported. But the government identified the need for further upgrades to meet future needs. We will continue to report on the government's implementation of its vision and strategy for digital change across the public sector, including by examining the Government Digital Service and producing a lessons-learned report on digital transformation.

Impact on different groups

2.36 We consider diversity and inclusion issues such as the range of perspectives of users of public services and the specific effects of public spending on different groups of people. This is essential in assessing whether public services are reaching their intended users and how any barriers to this are tackled. In 2020-21, as part of our work on the response to the pandemic, we reported on:

- how effectively government identified and met the needs of vulnerable people during the pandemic;
- the Department for Education's voucher scheme to help give children in England eligible access to meals while not attending school; and
- government's actions to rehouse rough sleepers.

2.37 Recent examples of work that raised awareness of changes in equality, diversity and inclusion can be found in our Diversity & Inclusion Annual Report 2019-20. We will consider diversity and inclusion in our future work, for example reporting on the Ministry of Justice's progress in improving outcomes for female prisoners.

Providing more accessible independent insight

We will be known as a valuable source of knowledge on how well public resources are used and how the governance and performance of public services can be improved. We will synthesise what we know on important issues and make it easier for others to understand and apply the lessons from our work.

2.38 Throughout our five-year strategy we will focus on improving the ease with which parliamentarians, the bodies we audit and those with an interest in public service improvement, can access the lessons from our work. Steps we have taken during 2020-21 include:

- providing a new range of lessons-learnt reports. These bring together our understanding and good practice on specific themes. We have published four of these in 2020-21, including on major programmes to report on the root causes of issues we see most often across government and on EU Exit to identify learning for government relevant to future challenges;
- producing work for audit and risk committees that addresses the challenges they face. We quickly produced guidance for audit and risk committees to help them examine the effects on their organisations of the COVID-19 outbreak. We have promoted this work with audit and risk committee chairs and the wider government finance community to ensure the messages reach the intended audience. We have done this while continuing to help boards and audit committees have confidence in audited information and while providing information on which they can take decisions; and
- making the data underlying our work more accessible. With our COVID-19 cost tracker we have developed a new approach to gathering, sharing and updating analysis on an important element of current public spending. By publishing these data, we aim to help increase transparency and to promote scrutiny and parliamentary accountability for government spending.

2.39 We will continue to build on this work during 2021-22 and target areas where our insights and knowledge can help improve public services' governance and delivery. We plan to produce six lessons-learnt reports, as well as good-practice guidance from our audit work. For instance, we will produce lessons-learnt reports on digital and innovation in major projects and government's response to COVID-19. For good-practice guidance, we will cover the principles of effective regulation and operations management.

2.40 We plan to produce an annual report on our insights from across the full range of our financial audit, value-for-money and wider assurance work. In this overview report we will set out our view on the main cross-cutting issues arising from our work and set out how government can address those challenges.

2.41 We want more people to find and use our work at the right time. To do this we plan to improve the way we communicate. We have redesigned our website to bring together our work on important issues, such as COVID-19 and EU Exit, in one place. We are more extensively using videos to summarise our reports. Over the next year we will build our digital and social media capabilities and increase the visibility of our experts. We will begin work to improve our website to make it more searchable and accessible.

2.42 Our work to provide more accessible insight will be underpinned by changes to our knowledge management. We will continue to build up this capability during 2021-22. Our people are central to how we manage and make the most of our knowledge. We will support them to apply and embed new techniques and methods over the next year.

Our strategic enablers

2.43 This section covers how we will ensure that our three strategic enablers continue to drive high performance.

We will attract, retain and develop high-quality people

Our people are proud to be part of our diverse, inclusive and healthy workplace. We attract talented people and support them to become even better at what they do, improving their careers and ensuring we have the skills and capabilities we need.

2.44 In the first year of our strategy, we introduced changes to:

- improve our focus on developing our people's skills and capabilities;
- enhance the quality of people management in the NAO; and
- develop positive actions to make the NAO a more diverse and inclusive workplace.

2.45 We have done this while working remotely, and we have also increased our focus on staff well-being and morale in this context. We have provided support for people's physical and mental well-being, for example ensuring people have a safe working environment and access to trained mental health first aiders and other forms of support. We have carried out regular surveys of our staff to understand the issues they are facing which impact on their work and to adapt our approach accordingly, for example by offering more flexible working arrangements and reprioritising work where appropriate.

2.46 We are considering carefully how we will run as a workplace in the future. We plan to embed and build on these changes in 2021-22.

Developing our people and their careers

2.47 We are continuing to make changes to support our people's career development. We have set up personal development plans to encourage our people to be open about their career hopes and to set out a plan for achieving them. We have updated our accountancy training scheme 'Audit Pathways', combining online and more traditional training approaches. This supports our expectation that trainees ought to receive experience of not only financial audit work but also value-for-money and wider assurance work. The aim is to increase their skills and capabilities and allow us to use our people more flexibly. We are introducing a new people management structure to provide our people with better and more consistent development support.

Diversity and inclusion

2.48 As our Diversity and Inclusion Annual Report noted, the pace of improvement has not been enough. We want to make faster progress. For example, women are not yet equally represented at director level, and we have comparatively poor progression rates for black and minority ethnic (BAME) colleagues. We have encouraged more open and honest conversations and consideration of diversity and inclusion issues and made some important improvements such as changes to our recruitment protocols. We are developing a new four-year Diversity and Inclusion Strategy for 2021–2025. It will set up ambitious targets and systematic improvements, to ensure we are a diverse, inclusive and healthy workplace for everyone.

Our future workplace

2.49 Over the past year, we have shown that we can work remotely, using technology securely and efficiently. Our people have reported that they have felt well-supported. We considered their health, safety and well-being, while ensuring we delivered a challenging workload to a high standard.

2.50 It is clear to us that once COVID-19 restrictions are lifted, a return to our former ways of working is unlikely. Many of our people have found that they can perform significant parts of their jobs as effectively remotely as in the office. We therefore plan to rent out more of our office space within the next two years while reconfiguring the rest to support new ways of working. We are developing new working arrangements to make best use of our two offices, where there are clear benefits to being together, for example for learning and innovation.

We will make more effective use of technology, data and knowledge

We use technology and analysis of data to perform our audit work more effectively and to create and communicate new insights that cannot be achieved in other ways.

2.51 Significant remote working developments in recent years allowed us to respond swiftly and adapt to extended home working, minimising the pandemic's effect on our people and increasing organisational resilience. In 2021-22 we will continue to change our digital systems and architecture, and in particular complete the migration of all our digital services to secure cloud provision, to improve the remote working experience for our people, and further improve the security of our digital estate.

Financial audit

2.52 We have begun to transform the way we deliver financial audit. The role of technology and data analytics is becoming ever more important across the audit profession, with all audit firms investing in new technology and data analytics to provide higher-quality audits, better insight and more efficient audit processes.

2.53 Our Audit Transformation Programme (ATP) will provide a technological platform allowing us to improve significantly the quality of our audits in a sustainable way. The ATP encompasses three interdependent projects:

- Audit Methodology Review: to ensure our methodology is in line with best practice in the audit profession.
- Audit Software Review: to enhance or replace our current audit software, allowing us to harness the opportunities that technology now offers for a more risk-focused, data-driven and analytically sophisticated audit approach.
- Audit of the Future: to embed greater use of data analytics, IT audit and a focus on business process controls when we apply our new methodology.

2.54 As part of the ATP we are delivering enhancements in our data analytics capability. For example, in 2020-21 we have increased use of automation in our logging and reporting of issues arising from our audits; and enhanced our journal testing and risk assessment applications. This builds on the introduction of data analytics tools and automation of workflows of previous years. Analytics tools include:

- the introduction of an automated consolidation tool for the preparation of departmental group accounts;
- a suite of data diagnostic tests and visualisations which look at different elements of a purchase to pay-cycle and payroll data; and
- a trial balance application which automates the reconciliation between the general ledger (where financial transactions are recorded) and the trial balance (a summary of the general ledger balances) and from the trial balance to draft financial accounts.

2.55 Our aim is to carry out a phased delivery of strategic transformation over several years, responding to the increased expectations of audit. In the first year of this programme we have completed detailed planning and started the procurement process for new audit software. We have also started to transform our methodology to consider risk using a deeper data-driven understanding of the entities we audit. We aim to pilot the new methodology in 2021-22 with full implementation in 2022-23.

2.56 In 2020-21, we also rolled out our cloud-based data platform (Audit Information Management System) across all of our audits, allowing audit teams to process and analyse large amounts of government data and providing the foundation for the development of more sophisticated analytic tools in the future.

Value for money

2.57 Over the past year we have improved the quality and efficiency of our approach to producing value-for-money work by introducing: a more modern way of publishing our reports online; an efficient and effective method of linking evidence to our final report; and a clear and efficient workflow.

2.58 We set up a simplified way of moving through our design and publishing process, which has increased efficiency and reduced the risk of errors. We reviewed how we store audit evidence for value-for-money reports and in 2021-22 we will embed a new way of storing evidence, based on more modern technologies, to improve the efficiency and quality of our work and support compliance with data management policies. We will also introduce more modern and accessible ways of publishing our report content online, so it can be viewed more easily on mobile devices and allow greater measurement of audience engagement. In 2021-22, we will move to this format alongside the redesign of the full NAO website.

We aim to be an exemplar organisation

We aim to lead by example in holding ourselves to the high standards we expect from public bodies. We are efficient, provide value for money and focus on long-term sustainability.

Demonstrating our value for money

2.59 We have a proven record of using taxpayers' money effectively and appropriately. Our net expenditure last year was 20% lower in real terms (adjusting for inflation) than in 2010-11. By the end of 2023-24 we expect our net expenditure to be at least 15% lower than in 2010-11 (inflation adjusted). Over this strategy period, we will continue to focus on our own efficiency. We are confident there is no unnecessary spend in our plans and that the NAO represents good value for money.

2.60 The beneficial effect and value of our work is far greater than the cost of the NAO. In 2019-20, there was £16 of positive financial impact resulting from our work for every £1 the NAO costs, against a target of 10 times our annual expenditure. And this is only one perspective on our impact. In 2020-21, we have sharpened our internal processes for identifying the beneficial effects from our work and next year we will continue to improve how we track recommendations and work to make sure we are making recommendations that are most likely to improve public services.

2.61 We oversee the proportion of resource we provide to business support services. We continue to improve our corporate services through better use of IT. We are carrying out a series of process and policy efficiency reviews over the strategy period, supported by our external auditors. This year they carried out an independent review of our finance and procurement functions and concluded they are effective and that their use of resources represents value for money. They made recommendations for greater process automation, which we will implement.

2.62 We control the costs of our audit and assurance work carefully. We have a target of between 80% and 85% utilisation for our staff on front-line audit and value-for-money work. Next year, we will continue to monitor this closely and improve performance where possible.

2.63 We maximise our income. Since 2010 we have reorganised the way our office is set up to free up space available for rental. We now earn around £2 million per year from this. Our recent experience of remote working has made us more ambitious. We plan to increase the space we let out, with potential to earn a further £1 million a year, depending on the strength of the commercial rental market.

Natural resources

2.64 The UK government has committed to achieve net zero carbon emissions by 2050. We have decided to quicken our own progress in managing our resources sustainably and aim to be a net zero carbon organisation by 2029. This means that by then we will have a neutral effect on the climate through greenhouse gas emissions. To achieve our target, we need to reconfigure some of our ways of working, including:

- investment in our estate and use of offices. Specifically, we will need to modernise our heating and building maintenance systems; to move to full use of LED lighting throughout the estate; and find ways we can generate as much of our own energy as possible;
- modelling and analysing our travel habits to be as efficient as possible and bringing in new policies on our business travel, including overseas and flights, and for face-to-face meetings. Our digital technology will allow this; and
- investigating our supply chain to identify what carbon our suppliers emit in order to provide goods and services to us. We will apply criteria in our procurement practices to influence our suppliers.

2.65 While net zero carbon is our long-term aim, we will continue to monitor our continuing environmental effect against a range of targets. We will report on these in our annual report and accounts and on our website. These include waste and paper consumption, travel and carbon dioxide emissions, water use per person and recycling rates. In our last published report, we achieved all our targets except the proportion of waste that was recycled. On this measure, we achieved 77% against a target of 85%, and we have a plan in place to address this gap.

Part Three

Our estimate for 2021-22

Summary

3.1 Our Estimate memorandum forms part of our update on progress against the National Audit Office (NAO) Strategy. It provides more information about our plans for the financial year 2021-22. It places these in the context of expenditure since 2010-11 and provides our current expectations of the three-year period to 2023-24. It includes detail on our resource requirement, showing how we will use the money and what has changed year-on-year.

3.2 Most of our spending is on the annual running costs of the NAO and is categorised as resource spend. In addition, Parliament votes for a capital spend budget, which allows the NAO to buy assets used for more than one year, and a cash requirement, which covers resource and capital cash spending in-year.

3.3 We invite the Public Accounts Commission (the Commission) to consider the plans set out in this memorandum and approve the NAO's Estimate for 2021-22. This includes a £80.2 million net resource requirement, a £2.3 million net capital requirement and a £79.8 million net cash requirement. These are summarised in **Figure 5** and are also set out in a format requested by HM Treasury in the NAO Main Supply Estimate 2021-22, which will be laid in Parliament.

3.4 These plans are based on our assessment at the time of writing, but uncertainty remains over the full effects of the pandemic and the work that we will need to do next year. Our work programme will continue to evolve as we work through the detail of our audit plans with affected departments, and the range of related value-for-money work. We propose to come back to the Commission at our autumn session to provide an update on progress and how we are using our resources. If there are any changes to our budgets that the Commission considers suitable at this point, then these could be authorised through the supplementary estimates process.

Budget allocation by type of work

3.5 **Figure 6** shows how the main components of the NAO's budget will be used. It demonstrates how we will use our resource to achieve our objectives.

Figure 5

Summary of National Audit Office (NAO) budgets, 2020-21 to 2021-22

	2021-22 Estimate	2020-21 Estimate	Variance	Variance
	(£m)	(£m)	(£m)	(%)
Audit and assurance work	104.0	99.0	5.0	5.0
Income	23.8	23.1	0.7	3.0
Net resource expenditure	80.2	75.9	4.3	5.7
Net capital expenditure	2.3	1.5	0.8	53.3
Net cash expenditure	79.8	75.1	4.7	6.3

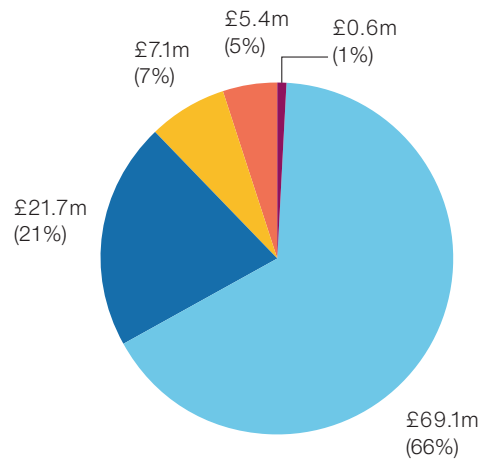
Notes

- 1 Figures may not sum due to rounding.
- 2 Parliament authorises separate resource, capital and cash budgets, which form totals within which the NAO must manage. The figures in bold are the control limits, which will be voted by Parliament.

Source: National Audit Office

Figure 6

Budget by type of work, 2021-22



- Financial audit
- Value-for-money and wider assurance work
- Knowledge
- Support to Parliament
- International relations

Source: National Audit Office

Financial audit

3.6 Some 66% of our work next year will be meeting the statutory requirements to provide an audit opinion on financial statements in line with the reporting framework and deadlines agreed with HM Treasury.

3.7 Our budget for this work is £69.1 million compared with a budget of £62.6 million in 2020-21. More information about the changes in scale of our audit work and greater audit risks we face for next year is set out in Part Two.

Value-for-money and wider assurance work

3.8 Our programme of value-for-money and wider assurance work covers a range of different outputs, including value-for-money studies, major public interest investigations, smaller insight pieces and other interventions.

3.9 Our budget for this work is £21.7 million compared with a budget of £18.0 million in 2020-21. This now includes our responsive work of £3 million, which was presented separately in previous years. It also includes an additional £1.0 million to respond to the challenges we see next year in providing additional assurance over issues arising from the pandemic. Further detail about our work programme and the major issues we intend to look at are set out in Part Two.

Knowledge

3.10 We want to develop our people's skills in specialist areas, and to recruit and buy-in more expertise. We plan to continue to invest in our knowledge management processes and systems, and provide specific expertise to support reports and activities, drawing together lessons learned for our audited bodies and Parliament.

3.11 This is the first time we have identified and brought together these activities as a single objective. It is our response to our Strategic Review, where stakeholders wanted us to get better at sharing the knowledge we gained from our unique cross-government perspective.

3.12 Our budget for this work is £7.1 million compared with a budget of £11.7 million for investigation and insight work in the prior year. This mostly reflects a reclassification of our budget for responsive work, which is now included under value-for-money and wider assurance work. Plans for our objectives around knowledge are set out further in Part Two.

Support for Parliament

3.13 In 2021-22 we expect to support between 50 and 65 Committee of Public Accounts (the Committee) evidence sessions each year. Our budget for this work is £5.4 million per year, similar to our budget of £5.6 million in 2020-21. More information about our work in this area is in Part Two.

International relations

3.14 We have a small programme of work which maintains our relations with audit offices across the world and allows us to draw on international benchmarks and comparators to inform our UK work. The budget allocation for this activity next financial year is £0.6 million, compared with £0.9 million last year, reflecting reduced scope for international travel.

Comptroller function

3.15 In addition to those activities shown in Figure 6, the NAO receives funding for its Exchequer section, which supports the Comptroller and Auditor General (C&AG) in fulfilling statutory Comptroller responsibilities. These require the C&AG to confirm underlying authorities and grant 'credits' approving the release of funds from the Consolidated Fund and National Loans Fund to pay for government's activities. This function costs around £0.2 million per year.

Drivers of spending

Summary

3.16 The NAO's expenditure consists of its staff costs, which make up around 70% of its total cost base, and other external spend associated with drawing on the audit firms, running the office, providing digital support and training our people. The budget requested for 2021-22 is set out in **Figure 7** overleaf.

3.17 The changes in our expenditure and income budgets year-on-year are summarised in **Figure 8** overleaf. These include the planned increase to our investment in knowledge and value-for-money capacity, as well as other significant changes to our cost base. This includes £0.3 million for work on our Audit Transformation Programme (ATP), which was scheduled to take place in 2020-21 but, due to the impact of the pandemic on our market research, engagement and other project activities, has been re-profiled to take place in 2021-22. Our budget for 2021-22 now includes a total £2.3 million relating to our project to upgrade our audit methodology and software (our ATP).

Figure 7

Budget allocation by type of expenditure, 2020-21 to 2021-22

	2021-22		2020-21		Variance	
	Estimate		Estimate			
	(£m)	(%)	(£m)	(%)	(£m)	(%)
Staff costs	74.5	71.6	69.0	69.7	5.5	8.0
Non-staff costs	29.5	28.4	30.0	30.3	-0.5	-1.7
Total spend	104.0	100.0	99.0	100.0	5.0	5.0
Income	23.8		23.1		0.7	3.0
Net spend	80.2		75.9		4.3	5.7

Note

1 Figures may not sum due to rounding.

Source: National Audit Office

Figure 8

Change in resources, 2020-21 to 2021-22

	£
Investment as per our Strategic Plan	
Value-for-money skills	1.0
Audit Transformation Programme – re-profiled spend	0.3
Statutory work and inflation:	
Increase in staff capacity	4.4
Increase in use of audit firms	0.8
Other inflationary pressures	0.3
Reduction in travel budgets	-1.8
Change in total spend year on year	5.0
Net increase in income	0.7
Change in net spend year on year	4.3

Note

1 Figures may not sum due to rounding.

Source: National Audit Office

3.18 The other most noteworthy changes are the changes in our planned staff numbers and associated costs as well as the effect of significantly reduced levels of travel. These adjustments to our budget reflect the way the organisation is changing to address the challenges of COVID-19. Where we have found the effect of new ways of working positive, we want to keep them. More details about our plans for our future ways of working and their effect on our office space is provided in Part Two.

Staff costs

3.19 Around 70% of the NAO's total cost base is for the salaries and related costs of staff, comprising both front-line and business support teams. Our budget for staffing year-on-year is a consequence of headcount, grade mix and pay proposals.

Figure 9 shows in more detail the movement in staff costs year-on-year.

Figure 9
Staff costs, 2021-22

	2021-22		2020-21		Variance	
	Estimate		Estimate			
	(£m)	(%)	(£m)	(%)	(£m)	(%)
Wages and salaries	51.0	68.4	46.9	68.0	4.1	8.7
Social security costs	5.9	7.9	5.5	8.0	0.4	7.3
Pension costs	14.3	19.2	13.2	19.1	1.1	8.3
Direct staff costs	71.1	95.5	65.6	95.1	5.5	8.4
Staff-related costs	2.7	3.7	2.8	4.1	-0.1	-3.6
Staff benefits	0.4	0.5	0.4	0.6	0.0	0.0
Apprenticeship levy	0.2	0.3	0.2	0.3	0.0	0.0
Total staff costs	74.5	100.0	69.0	100.0	5.5	8.0
Staffing numbers	940		852		88	10.3

Note

1 Figures may not sum due to rounding.

Source: National Audit Office

People numbers

3.20 We plan for around 940 people next year, which is 88 more than we budgeted for the current financial year. When we presented our Strategy to the Commission in March 2020, we had anticipated we would need more people for 2020-21 and had provided for an increase to 865. However, a higher headcount of 940 is now needed to tackle the audit and value-for-money challenges that lie ahead, which is 75 more than previously anticipated. Therefore, we will draw on skilled resource from our pipeline of graduates to give us the capability and capacity to take on this work, which we will supplement by recruitment where necessary.

3.21 There is a compelling case that we need more people as we will audit and provide assurance on the significant sums of public expenditure and programmes put in place to respond to the COVID-19 pandemic and its effects. This extra work will be of very high public interest and, given the speed and nature of some of the disbursements, will be of greater audit risk. This is summarised in Figure 4. We currently anticipate that our people numbers will be higher in 2021-22 than in the subsequent two years.

Pay approach

3.22 Our pay awards are determined in consultation with stakeholders, including our Board, and are negotiated with the trade union. They are informed by our assessment of inflation and earnings growth, by independent external benchmarking of the latest pay settlements in comparator organisations, and recent data on staff turnover. We also have regard to keeping the terms of our employment of staff broadly in line with those applying to the civil service. In the context of the current economic environment we do not propose to make a pay award, with the exception of those who earn less than £24,000 a year. This mirrors the pay restraint in the wider public sector.

Non-staff costs

3.23 Around 30% of the NAO's cost base comprises non-staff costs as shown in **Figure 10**. This includes the use of partner firms to assist our audit work, the travel costs associated with audit; investment in audit technology and data security; the costs of running the London and Newcastle offices; and the annual depreciation of our assets.

Figure 10

Non-staff costs, 2020-21 to 2021-22

	2021-22		2020-21		Variance	
	Estimate		Estimate			
	(£m)	(%)	(£m)	(%)	(£m)	(%)
Professional services	14.3	48.6	13.5	45.1	0.8	6.1
Travel	0.5	1.7	2.3	7.8	-1.8	-78.6
Audit technology	2.6	8.8	2.3	7.7	0.3	12.1
Business support	9.1	30.7	8.8	29.4	0.3	2.9
Depreciation	3.0	10.2	3.0	10.0	0.0	0.0
Total non-staff costs	29.5	100.0	30.0	100.0	-0.5	-1.7

Note

1 Figures may not sum due to rounding.

Source: National Audit Office

Professional services

3.24 We continue our practice of outsourcing part of our audit portfolio. 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.

3.25 Our partnership with the private sector provides us with additional capacity to carry out our audit engagements. Our financial audit work needs to adapt to both developments in auditing standards and regulation and to address the unique challenges in financial reporting arising from the effects of the COVID-19 pandemic. Working alongside audit firms will help ensure we can respond to these challenges and achieve the high-quality standard of work which Parliament expects. We budget to spend an extra £0.8 million next year working with audit firms as shown in Figure 8 and Figure 10.

3.26 This partnership will also provide us access to specialist expertise and learning and development tools, where it is more efficient to buy it when needed rather than develop it in-house. Given the industry-wide pressures on audit quality and the pace of change within the technical environment, access to specialist services is a vital part of our way of working. It is a partnership which provides us with insight into available technologies. Firms have been open in demonstrating their own audit software and processes, which informed our own ATP.

3.27 This budget includes £0.3 million we spend each year for external quality assurance by the Financial Reporting Council for its inspection of a sample of our audits. As arrangements for the oversight our financial audit quality are expected to change from 2022-23, the scope of this work and who might undertake it may change as a result.

Travel

Our travel budget covers hotel costs and travel and subsistence payments to employees who work away from the office. We plan a reduction in our travel expenditure year-on-year of £1.8 million, as shown in Figure 8 and Figure 10.

3.28 The experience of performing our work during the restrictions on the movement of people which came into effect in March 2020 has fundamentally changed the way we work. We have adapted our audit techniques to enable us to work using digital technology; these changes are sustainable. We will keep this under review as there are areas, such as physical verification of assets, inventories or major capital works, where it makes more sense for us to be on-site. Once it is safe to do so, we would anticipate some travel is required.

Audit technology

Our audit technology budgets include the licensing of our audit software and IT audit training. It includes our investment in our ATP: our plans to further digitalise our audits, the evolution of our audit methodology and the learning and development activities needed to support our people in using new audit techniques. Our budget for 2021-22 now includes an extra £0.3 million of expenditure, as shown in Figure 10, relating to the project to upgrade our audit software and methodology, as work scheduled in 2020-21 has been re-profiled as a consequence of the impact of the pandemic on our market research and engagement activities. More information about our investment in audit transformation is set out in Part Two.

Business support

3.29 Business support costs include those associated with running our office buildings, recruiting and training our people and the provision of IT equipment and support to audit teams. These costs are subject to inflationary price increases each year, estimated to be around £0.3 million as shown in Figure 8 and Figure 10.

3.30 These costs also include the measures we take to make sure that our IT systems are secure. The NAO has extensive access to government data and our business support costs include our information security team. As we continue to move our IT infrastructure into the cloud, it is vital that we handle these data safely.

Depreciation

3.31 Depreciation is a charge which reflects the decrease in the value of our capital assets over time. These assets are our office buildings and our IT equipment. Because our asset base remains broadly consistent year-on-year, the annual charge does not change.

Income

The NAO earns income from some of its UK and international audit work; through the rental of surplus office space; from providing services to overseas bodies; and from seconding its staff to other organisations. These income sources are set out in **Figure 11**. Overall, our income will increase next year by £0.7 million as also disclosed in Figure 8.

Figure 11
Income, 2020-21 to 2021-22

	2021-22		2020-21		Variance	
	Estimate		Estimate			
	(£m)	(%)	(£m)	(%)	(£m)	(%)
Audit fees	21.8	91.6	20.1	87.4	1.7	8.5
Rental of office space	1.7	7.2	2.2	9.6	-0.5	-22.7
Other overseas work	0.1	0.4	0.4	1.7	-0.3	-75.0
Secondment income	0.2	0.8	0.3	1.3	-0.1	-33.3
Total income	23.8	100.0	23.1	100.0	0.7	3.0

Note

1 Figures may not sum due to rounding.

Source: National Audit Office

Audit fees

3.32 For government bodies and companies operating at arm's length from departments we charge a fee to cover the costs of their audits. We do this in accordance with the fee scheme approved by the Commission at its evidence session in March 2019. Fees are set with the aim of recovering the full cost of the audit.

3.33 Overall, we anticipate an increase in our audit fees year-on-year. The effect of the COVID-19 pandemic on the operations of audited bodies means more assurance work is needed. Consequently, where the overall cost of the audit has increased, we have reflected that in our audit fees.

Rental income

3.34 Our rental income is earned on the parts of our London office building that are made available for commercial letting. This comprises some 40% of the total working space. One tenant has served notice on their lease and will vacate the two floors they occupy currently in January 2021. We expect to lose rental income next year while we find a replacement tenant.

3.35 In the longer term we consider there is potential to rent out more space in our London property, as we have shown how effectively we can use technology to minimise our need to work on the premises. Next year's budgets include provision to reconfigure four extra floors so they can be available to rent from 1 April 2022. Based on current rental values, these would earn at least a further £1 million per year in rental income. However, these plans are dependent on the London property market and the demand for office space over the next few years.

Other income

3.36 We carry out small interventions overseas designed to strengthen governance and accountability for UK taxpayers' money flowing beyond the UK's borders. We charge fees to cover any associated costs. However, limits on international travel have significantly curtailed our plans in this area. We also have a small programme of seconding people to other organisations and charge host bodies for these staff.

Capital

3.37 Our assets are funded through our capital budgets as set out in **Figure 12**.

Figure 12
Capital budget, 2020-21 to 2021-22

	2021-22 Estimate		2020-21 Estimate		Variance	
	(£m)	(%)	(£m)	(%)	(£m)	(%)
IT assets	1.1	4.7	1.2	5.2	-0.1	-8.3
Property assets	1.2	4.9	0.3	1.3	0.9	300
Total capital spend	2.3	9.5	1.5	6.5	0.8	53.3

Note

1 Figures may not sum due to rounding.

Source: National Audit Office

IT assets

3.38 These budgets cover the purchase of IT assets such as laptops, mobile phones and video conferencing equipment, and are based on detailed asset replacement plans. Budgeted costs include provision for a major re-development of our external website and software licences, which are capitalised where we purchase and own the licence.

3.39 Where we make payments to use cloud computing services, we typically do not treat these as capital expenditure because we do not own the underlying assets associated with these services. Our investment in audit transformation includes an enhanced audit software solution, but because we anticipate a cloud-based solution we have not budgeted for this as a capital expenditure item. This may change as the programme develops and we will agree any budget adjustments with the Commission should it become necessary.

Property assets

3.40 Our main physical asset is the office in London, which is held on a long lease at a peppercorn rent from Network Rail and which, including the land on which it is situated, has a current market value of around £100 million. The London building is a Grade II listed site. It was fully refurbished between 2007 and 2009, creating a modern, open-plan office with renewed plant and equipment and many environmentally friendly features.

3.41 Projected capital spend on the property includes provision for preparing a further four floors of our London property to make them suitable for rental to third parties.

Spending trends and three-year financial plans

3.42 As required by legislation, our strategy includes a resourcing plan for the next three financial years.

Resource spend

3.43 Our proposed running costs are set out in **Figure 13** overleaf. This includes our proposed budget for next year, along with plans for future years 2022-23 and 2023-24.

Figure 13

Three-year spending plans, 2020-21 to 2023-24

	2020-21 Estimate	2021-22 Estimate	2022-23 Plan	2023-24 Plan
	(£m)	(£m)	(£m)	(£m)
Staff costs	69.0	74.5	73.4	73.3
Non-staff costs	30.0	29.5	29.4	29.8
Total spend	99.0	104.0	102.8	103.0
Income	23.1	23.8	25.2	25.6
Net spend	75.9	80.2	77.6	77.4
Change year on year		4.3	-2.6	-0.2
% change year on year		5.7	-3.2	-0.3
% change over period				2.0
Staff numbers	852	940	920	900

Note

1 Figures may not sum due to rounding.

Source: National Audit Office

3.44 Given the current uncertain climate, years beyond 2021-22 are indicative and based on the following assumptions:

- We rent out an additional four floors of our London property, which will generate a further £1 million rental income. This will be effective from 1 April 2022 because it will take time to reconfigure the floors so that they are suitable for tenants. This is dependent on the London property market and the demand for office space.
- Staffing numbers may reduce beyond next year as extra work required to provide assurance on exceptional government expenditures in relation to COVID-19 reduces, although this is very much dependent on the course of the pandemic.
- Any staff reductions will be managed through adjusting our recruitment and our graduate intake policy, in the context of resignations and retirements. This assumes a more benign set of wider economic conditions in which these can be accurately forecast, which – given that staff costs make up around 70% of the NAO’s total expenditure – is an important determinant.
- We include provision for future pay awards, should they be needed in light of any change in the wider recruitment market, but in practice we engage with the Commission each year to make sure our policy is appropriate.

- The volume of the services provided by audit firms and other suppliers remains broadly comparable across the period, with an adjustment of 2% per year factored in for inflation.
- We continue to make use of technology to carry out our financial audits and other work and minimise the need to travel.

Capital spend

3.45 Our capital expenditure plans for the next three years are set out in **Figure 14**.

3.46 Years beyond 2021-22 are indicative and based on the assumption that we will renew a lease for office space in Newcastle in 2024 on expiry of our current lease. Under new reporting standards, the full value of the lease is to be capitalised as an asset.

Figure 14

Three-year capital plans, 2020-21 to 2023-24

	2020-21 Estimate (£m)	2021-22 Estimate (£m)	2022-23 Plan (£m)	2023-24 Plan (£m)
IT assets	1.2	1.1	2.0	0.4
Property assets	0.3	1.2	0.2	2.7
Total capital spend	1.5	2.3	2.2	3.1
Change year on year		0.8	-0.1	0.9
% change year on year		50	-4.3	40
% change over period				107

Note

1 Figures may not sum due to rounding.

Source: National Audit Office

Spending trends

3.47 Current proposals can be placed in historical context. **Figure 15** shows budgets approved by Parliament and outturn for the NAO since 2010-11 compared to future proposals.

3.48 In summary, our future proposals return us to historical expenditure levels in cash terms, even though our statutory responsibilities have increased significantly over the same period. This includes a big expansion of our audit portfolio, to include major entities such as Network Rail and the BBC Group, as well as much greater oversight of the local government sector. In fact, once adjusted for inflation, these future plans show a decrease of more than 15% by 2023-24 when compared with 2010-11.

3.49 Outturn has remained close to budget each year, with small variations caused by provisional budgets for pay awards which were not drawn down, and instances where headcount was less than planned. Explanations for variances each year are included in the NAO's annual report and accounts, along with how we have performed against our full range of performance measures.

Figure 15
 Net budget and spending, 2010-11 to 2023-24 (£ millions)



Source: National Audit Office

Part Four

Our performance

4.1 We have developed a new performance framework (**Figure 16**) to align with the strategic priorities and enablers in our organisational strategy. We will use this framework to report our performance in our annual report.

Figure 16
National Audit Office (NAO) performance framework

Strategic priority or enabler	What success looks like	How we measure this
We support effective accountability and scrutiny	Successful delivery of our programme of financial audit, value-for-money and wider work programme	Number of financial audits, value for-money (VfM) reports and wider assurance work
	The quality of our audits is in step with the best of the profession and meets external quality standards	All of our audits that have been reviewed by the Financial Reporting Council or subject to internal cold review are classified as needing no more than limited improvements VfM reports subjected to an external cold review meet standards and VfM reports subjected to an internal cold review rated as 2a or higher
	MPs consider that we support effective accountability and scrutiny	MPs agree that the NAO is effective at supporting Parliament to hold government to account and scrutinise public services
Our work leads to better outcomes and value for money	Our work has a quantifiable positive financial impact on the public sector	Total value of financial impacts generated by our work, as agreed with the audited body, against our final net outturn
	Senior officials in the bodies we audit consider that our work leads to better outcomes	Annually commissioned independent feedback from senior officials shows that they agree that our work leads to better outcomes
We provide accessible independent insight	Our knowledge and insights are clear and accessible to key stakeholders	Annually commissioned independent feedback from the bodies we audit and results of the annual MPs survey we commission show senior officials and MPs agree that they can easily access our insights and knowledge
		Reach of our work in the media to UK adults

Target for 2021-22	Target for 2024-25
Sixty to 65 VfM reports and around 400 audit certifications each year	Sixty to 65 VfM reports and around 400 audit certifications each year
100% of our financial audit work meets Financial Reporting Council (FRC) and internal standard	100% of our financial audit work meets FRC and internal standards
100% of our VfM audit work meets external and internal standards	100% of our VfM audit work meets external and internal standards
Target under development ¹	Target under development
£10 financial impact for every £1 of net expenditure each year	£10 financial impact for every £1 of net expenditure each year
60% of senior officials agree	70% of senior officials agree
Target under development ²	Target under development
Target under development ³	Target under development

Figure 16 *continued*
National Audit Office (NAO) performance framework

Strategic priority or enabler	What success looks like	How we measure this
We will attract, retain and develop high-quality people	Our people feel highly engaged in their work and report having access to learning and career development opportunities when they need them	Our annual People Survey of NAO staff shows our people are highly engaged in their work
	We have diversity of talent at all levels and a talent pipeline that embraces people from any background. ⁴ There is no pay gap associated with gender or ethnicity	Reporting gender pay gap Reporting BAME pay gap
We make effective use of technology, data and knowledge	Our people say they have the right technology and tools to do their work and it is easy to find the information they need to do their work effectively	The annual People Survey of NAO staff shows our people agree: <ul style="list-style-type: none"> ● they have the right technology and tools to do their work ● they can find the information they need to do their work effectively
We are an exemplar organisation	We demonstrate continued cost-effectiveness and efficiency	Ratio of expenditure on audit work to expenditure on business support services
	We see a sustained reduction in our environmental impact	Reduction in tonnes of carbon emissions

Notes

- 1 This is a new question that has not been asked of MPs before. We have no data on which to base our targets. Once we have the first year's-worth of data we will be able to set a target.
- 2 These are new questions that have not been asked of the bodies we audit nor of MPs before. We have no past data on which to base targets. We will do so once we receive initial data.
- 3 We have a new approach to compiling this metric and have no past data on which to base a target. We will do so once we receive initial data.
- 4 In addition to the pay gap measures, our Diversity and Inclusion annual reports will include data on a broader range of metrics, including senior management representation for women; and staff from BAME backgrounds, those with disabilities and those from a socially disadvantaged background.

Source: National Audit Office

Target for 2021-22	Target for 2024-25
71% of our people agree they are highly engaged in their work	80% of our people agree they are highly engaged in their work
9%	4%
14%	10%
85% of our people agree	90% of our people agree
60% of our people agree	80% of our people agree
A minimum of 80% of our expenditure on audit work	A minimum of 80% of our expenditure on audit work
To reduce to 733 tonnes of carbon emissions	Five-year target under development

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