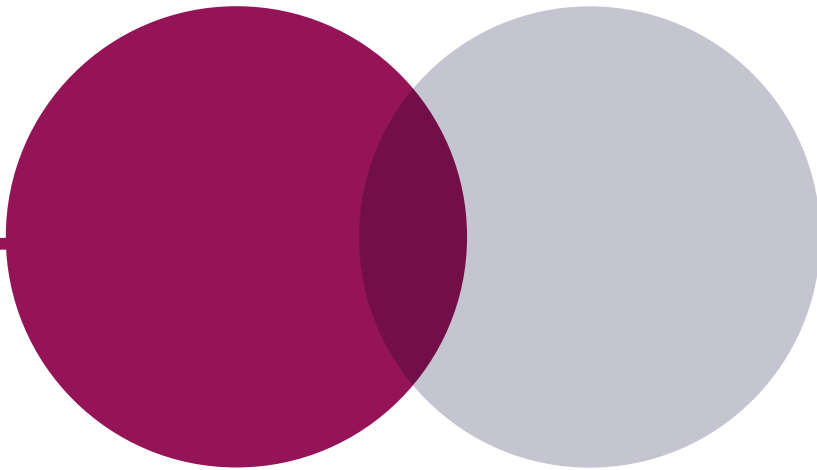




National Audit Office



NAO strategy: Progress update and estimate memorandum for 2022-23

The Public Accounts Commission

REPORT

by the
National Audit Office

FEBRUARY 2022



**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 2020, the NAO's work led to a positive financial impact through reduced costs, improved service delivery, or other benefits to citizens, of £926 million.



Contents

Foreword 4

Summary 6

Part One

Overview of our 2020-21
to 2024-25 strategy 9

Part Two

Our 2022-23 plans 14

Part Three

Our 2022-23 estimate 32

Part Four

Our performance 50


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For further information about the National Audit Office please contact:

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

 020 7798 7400

 www.nao.org.uk

 @NAOorguk

Foreword

We launched a new organisational strategy for the National Audit Office (NAO) in 2020, knowing that the COVID-19 pandemic would challenge us in the short term and that its longer-term effects would be difficult to predict. We were also aware that, in addition to the impact of the pandemic, government faced a much wider set of challenges in delivering good value for money for taxpayers, both now and in the future. These include levelling up, significant investment in infrastructure and the move to a net zero economy by 2050.

As the UK's independent public spending watchdog, we have a vital role to play in supporting Parliament in holding government to account and helping improve public services through our high-quality audits. We are proud that we have managed to make the progress we committed to in our strategy despite the challenging circumstances both for our own staff and those in the bodies we audit. As we set out in this update, we are more effectively supporting Parliament in its scrutiny of government spending; we are having greater impact in influencing government's approach to value for money; and we are systematically sharing our insights so that lessons from our work are more accessible.

By March 2022, we will have published 29 reports on the major elements of the government's pandemic response and audited the 2020-21 departmental accounts containing hundreds of billions of pounds of expenditure on that response. Many of those accounts required substantial additional audit work to address the risks of misstatement where large amounts were spent or guaranteed in unusually weak control environments. Several major accounts resulted in a qualified opinion in respect of regularity and, in the case of the Department of Health & Social Care, material accuracy. We required all the additional resources approved in last year's estimate for this work.

There will be substantial additional audit work in 2022-23 and we need to make sure we have sufficient resources for this. This reflects the continuing effect of the pandemic resulting in high levels of expenditure on the health and social care response and the economic response. Material errors and uncertainties that have led to qualifications in 2021-22 will also require resolution in 2022-23. This means that the temporary additional resources provided to us to manage the impact of the pandemic will be needed for a further year. We expect the additional audit work to diminish after 2022-23 and to be able to return this resource fully by 2024-25, based on our best current planning assumptions.

The pandemic has also had an impact on the timeliness of audit certification. In 2021, 55% of the organisations we audit published their audited accounts before the summer Parliamentary recess. This is an increase from 41% in 2020, but still below the 78% achieved before the pandemic in 2019. We are working to support audited bodies in achieving a target of 70% being published before the summer Parliamentary recess in 2022, and then to 80% (including all government departments) by 2023.

Our estimate also reflects the costs associated with meeting new standards and making more complex audit judgements, including the next stage of modernising our audit methodology and software; and the need to increase pay to mitigate the risk of higher staff turnover following last year's public sector pay freeze.

We will continue to act as an exemplar organisation in keeping our costs as low as possible and using our resources efficiently. Our plans show how we will return within the strategy period the additional resources provided to us for work arising from the pandemic, and that once adjusted for inflation, the overall resources required to carry out our work will reduce.

Gareth Davies
Comptroller and Auditor General

Dame Fiona Claire Reynolds DBE
Chair

Summary

1 We launched a five-year strategy in 2020. Our strategy built on our established strengths in providing high-quality, effective audit work and support to Parliament. It also responded 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 knew when we launched our strategy in June 2020 that the COVID-19 pandemic would be transformative and disruptive, but considered that despite the ongoing uncertainty, our strategy and associated targeted investments would ensure we were well placed to respond to the extra work needed from us. Parliament and other stakeholders had immediate expectations of us auditing the government's response to the crisis. We have responded successfully and the beneficial effect and value of our work remains far greater than the cost of the National Audit Office (NAO). Overall in 2020-21, there was £13 of verified positive financial impact resulting from our work for every £1 the NAO costs, as well as substantial non-financial impact.

- **We have improved our support for effective scrutiny and accountability.** We are on track to publish 60 major reports and certify 402 accounts by the end of the financial year. Strategic investments, including in our Audit Transformation Programme, will further enhance the quality and impact of our work.
- **We are having greater impact in influencing government's approach to value for money,** focusing on the most significant risks. By March 2022, we will have published 29 major reports relating to the COVID-19 pandemic, including drawing together initial lessons learned for government. We have developed enhanced functional specialisms and expertise on thematic areas that are vital to effective public administration, in areas such as digital, commercial and major project delivery. We are doing more work on the most significant long-term risks to value for money.
- **We have provided more accessible independent insight.** We are more routinely publishing new types of outputs to increase visibility and engagement with our work. This includes 14 major outputs over the first two years of our strategy including insight reports, data visualisations, good practice guides and a tracker to provide information on the outcomes of our own recommendations. We are professionalising our approach to knowledge management and also improving our website.

3 The timeliness of some departmental annual reports and accounts has been adversely affected by the need to account for complex and risky expenditure and loan guarantee programmes made necessary by the pandemic, as well as the unusual demands on the capacity of departmental finance staff. We certified 55% of government and arm's-length body accounts before the 2021 summer Parliamentary recess. Our target is to increase that to 70% in the summer of 2022, and then to 80% (including all government departments) in 2023, which is the level achieved before the pandemic.

4 As well as working with departments to restore timely financial reporting, we are also focused on continuing to improve the quality of our audit work. In the Public Accounts Commission's November 2021 evidence session on the NAO's audit quality, we explained the components of our Audit Quality Plan and the progress we are making in implementing it. As we have seen in the wider audit sector, firms are investing substantially as standards are changing, expectations of auditors are increasing and the market for high-quality staff is driving higher salaries. In the audit sector more widely, the 'Big Four' firms increased their audit fee income by 7% in 2019 and 8% in 2020. In order to provide high-quality audits consistently, we are taking forward our Audit Transformation Programme to introduce a new audit methodology and software to ensure we comply with modern audit requirements. We are also increasing spending on external technical support around complex aspects of government spending, such as the use of financial instruments and asset valuation.

5 With respect to our value-for-money work, we will continue to fulfil Parliament's expectation to provide a balanced programme of value-for-money reports. These will provide coverage of the public spending impacts of the pandemic and also focus on long-term systemic risks to value for money, such as on the government's net zero carbon target and on major infrastructure projects. Our programme of value-for-money reports will also take account of the significant investments announced by the government in the 2021 Spending Review.

6 The budgets presented in this document reflect the resources needed in the next financial year to carry out our work:

- The prolonged effect of the pandemic means that we need to retain the temporary additional resources provided to us in 2021-22 for a longer period; although based on our best current planning assumptions, we will return the additional £2.1 million in full by 2024-25.
- In line with the wider audit sector, our work will cost more to carry out, owing to the need to meet new audit standards and the need to draw on specialist expertise outside the NAO to support technical and complex audit judgements.

- In order to support high-quality, modern audit, we are investing in an audit transformation programme which includes an enhanced audit software solution. Following a competitive procurement, we have identified a partner to help us design and build the solution. This will give rise to an asset which will bring benefits over a 12-year period. This has meant greater up front capital investment, with lower future licensing costs, and we have reflected this in our capital budgets.
- Following last year's pay freeze, we are proposing a minimum pay increase of 2% for all staff, with targeted additional payments for staff at the lower end of pay ranges.

7 We only ask for the resources needed to carry out our statutory functions to the standards required by Parliament and no more. We have made efficiencies by using technology to good effect in our assurance work. We have learned during the pandemic that we can optimise our travel to audited bodies and have reduced our travel budget which is now lower than pre-pandemic levels. We have vacated floor space in our office to allow to increase income by renting out more floors. We are also rigorous about charging for any extra work that we do in respect of those audited bodies that pay us directly in fees. We continue to make sure that, despite an increased volume of work, at least 80% of our expenditure is on front line activities as opposed to business support services.

8 Our proposals for 2022-23 include a net resource requirement of £83.5 million, after allowing £25.9 million of income (**Figure 1**). They also allow for a £5.3 million capital budget and a £85.6 million net cash requirement.

Figure 1

Summary of proposed National Audit Office (NAO) budgets, 2021-22 to 2022-23

	2021-22	2022-23		
	Estimate	Estimate	Variance	Variance
	(£m)	(£m)	(£m)	(%)
Audit and assurance work	104.0	109.4	5.4	5.2
Income	23.8	25.9	2.1	8.9
Net resource expenditure	80.2	83.5	3.3	4.1
Net capital expenditure	2.3	5.3	3.0	130.4
Net cash expenditure	79.8	85.6	5.8	7.3

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

Part One

Overview of our 2020-21 to 2024-25 strategy

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.

1.2 The UK faces new opportunities and demanding challenges in the 2020s. Alongside the ongoing effects of the COVID-19 pandemic on high levels of public spending in a looser control environment, the government is working to achieve net zero emissions by 2050, underscored by the COP26 agreement. It is brokering new trading arrangements globally and working domestically to 'level up' outcomes from government spending and other interventions in different regions. There are also ambitious plans to improve national infrastructure. In addition to the pressures of the pandemic, ongoing 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, and introduce new risks, such as those relating to cyber-security.

1.3 This, in addition to changes in the wider audit profession and its regulation, 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 audits and objective evidence and analysis for Parliament.

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; managing the impacts of EU Exit including developing new international trading relationships; progress towards the net zero emissions target; the use of technology and data to transform services; and local growth and levelling up.
- **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.

Progress against our strategy in year two

1.5 In the second year of our strategy we have built on the progress we made in year one 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 402 accounts by the end of the financial year.

We support Parliament by providing MPs and select committees with value-for-money reports, investigations, knowledge products and briefings, as well as supporting its scrutiny of the annual reports and accounts of government departments. We expect to support around 65 evidence sessions by the end of the financial year.

We have assisted audit and risk committees across government to consider how issues arising from the COVID-19 pandemic are affecting their accounts and have produced good practice guides on scrutinising cyber-security arrangements and climate change risks.¹

We have made substantial progress in our programme to improve our financial audit approach, so it meets the highest standards of audit quality and effectiveness. We have piloted an enhanced audit methodology that will be rolled out in 2022-23 and have appointed a strategic partner to help us develop new audit software.

Increasing our impact on outcomes and value for money

In 2021-22 we have reported on the most significant risks to value for money. This includes 12 major reports relating to the government's response to COVID-19, and others on longer-term issues such as net zero.

We have enhanced our specialist expertise having established insight 'hubs' in areas where government has faced ongoing capability challenges, such as financial and risk management and digital, and we are drawing together our insights to support improvement in these areas.

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 improving outcomes for female prisoners and the Windrush Compensation Scheme.²

Providing more accessible independent insight

We are more routinely publishing new types of outputs to increase visibility and engagement with our work. These include insight reports and data visualisations, such as how the financial circumstances of English local authorities' have changed over the past decade and the interactive map of local auditor reporting in England.³ We have produced more outputs specifically targeted at public officials, for example on the principles of effective regulation and insights from delivering programmes at speed.⁴ We are also now publishing a tracker on our website to provide information on the outcomes of our own recommendations to government.⁵

We published the data underlying our report on NHS backlogs and waiting times in England and we updated our COVID-19 cost tracker to help increase transparency and further promote scrutiny and accountability for government spending.⁶

We are professionalising our approach to knowledge management and have also made progress in the project to improve our website.

Notes

- 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; National Audit Office, *Good practice guide: Cyber and information security*, October 2021; and National Audit Office, *Good practice guide: Climate change risk: A good practice guide for Audit and Risk Assurance Committees*, August 2021.
- 2 Comptroller and Auditor General, *Investigation into the Windrush Compensation Scheme*, Session 2021-22, HC 65, National Audit Office, May 2021; and Comptroller and Auditor General, *Improving outcomes for women in the criminal justice system*, Session 2021-22, HC 1012, National Audit Office, January 2022.
- 3 Our *Financial sustainability of local authorities visualisation* was updated in July 2021 and is available at: www.nao.org.uk/other/financial-sustainability-of-local-authorities-visualisation-update/; and our tool to find a local public body's audit report, updated in November 2021, is available at: www.nao.org.uk/other/find-a-local-public-bodys-audit-report/.
- 4 National Audit Office, *Principles of effective regulation*, May 2021; and Comptroller and Auditor General, *Lessons learned: Delivering programmes at speed*, Session 2021-22, HC 667, National Audit Office, September 2021.
- 5 Our recommendations tracker is available at: www.nao.org.uk/nao-recommendations-tracker/.
- 6 Comptroller and Auditor General, *Investigation into the Windrush Compensation Scheme*, Session 2021-22, HC 65, National Audit Office, May 2021. Our COVID-19 cost tracker is available at: www.nao.org.uk/covid-19/cost-tracker/.

Source: National Audit Office

1.6 During the past year, we have reflected on whether the strategy we launched in June 2020 is still relevant. We believe that, despite the different context in which we now operate, the strategic objectives remain those most relevant for us and we have been able to respond swiftly to the demands posed by the pandemic. Our experience during the past two years has also highlighted the importance of investing in high-quality audits that bring out key risks to government, for example those around procurement, financial instruments, and fraud and error.

1.7 The rest of this document covers:

- the plans for 2022-23, year three of our five-year strategy (Part Two);
- the resources we need to continue to make progress against our strategy in 2022-23 (Part Three); and
- our performance framework (Part Four).

Part Two

Our 2022-23 plans

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 government-owned companies and organisations such as the BBC. Our financial audit work is conducted in accordance with auditing standards to deliver high-quality audits, providing assurance to Parliament and other stakeholders through the Comptroller and Auditor General's (C&AG's) audit opinions on the truth and fairness of financial statements and, for most of our audits, that income and expenditure are in accordance with Parliament's intentions (known as the regularity opinion).

2.3 The COVID-19 pandemic is expected to remain a key challenge for our financial audit work in 2022-23, both in terms of the impact on audit risk assessment and also on audited bodies' finance teams and timetables for accounts production.

2.4 Audit risk assessments continue to evolve as measures introduced by the government in response to the pandemic develop. Ongoing measures introduced since March 2020 will continue to have an impact on the valuation of assets and liabilities and the completeness of inventory stock. This has resulted in new areas of complexity and audit risk, for example around the valuation and extent of liabilities, and the impairment of assets. Responses to the pandemic including arrangements for furlough, self-employed income support bounce back loans and grants to businesses have elevated fraud and error risks. **Figure 4** sets out some of the additional risks arising from COVID-19 that we addressed in 2021-22 and which will continue to be a feature during 2022-23.

Figure 4

Examples of additional risks arising from the pandemic and the evolving impact on our audit work

Area of government	Estimate of spending	Audit risk and focus
Department of Health & Social Care and associated bodies <ul style="list-style-type: none"> • Vaccine and booster programme. • Test and Trace. • Creation of UK Health Protection Agency and funding the support for the NHS's recovery from the initial impact of COVID-19. 	Lifetime cost of £75 billion (National Audit Office (NAO) COVID-19 cost tracker).	Significant additional expenditure and delivery mechanisms, including the valuation of inventory and valuation of assets relating to vaccine and booster programme and Test and Trace. A risk of fraud and error. Financial reporting and governance implications for the NHS's recovery from the initial impact of COVID-19.
Department for Business, Energy & Industrial Strategy <ul style="list-style-type: none"> • Loans to businesses affected by the pandemic, including the Bounce Back Loan Scheme and extension of the Recovery Loan Scheme until 2022. • New Local Authority Business Loan scheme announced in response to Omicron variant, December 2021. 	Combined loans and grants with a lifetime cost of £58 billion (NAO COVID-19 cost tracker).	Recoverability of loans and increased risk of fraud and error result in a heightened complexity around the valuation of loan assets, and regularity.
HM Revenue & Customs <ul style="list-style-type: none"> • Unwinding of Coronavirus Job Retention Scheme and Self-Employment Income Support Scheme. • Statutory Sick Pay Rebate scheme announced in response to Omicron variant, December 2021. 	Lifetime cost of £123 billion (NAO COVID-19 cost tracker).	While payments are disbursed through existing processes, the risk of fraud remains high and will continue to have an impact in 2022-23.
Government spending decisions to support COVID-19 recovery announced in the 2021 Spending Review, including: <ul style="list-style-type: none"> • Department for Levelling Up, Housing & Communities – including the creation of the UK Shared Prosperity Fund (£2.6 billion). • Department for Education – Education Recovery Fund (£1.8 billion). • Ministry of Justice – reducing courts' backlogs (£0.5 billion). 	Announcement of significant investment in public services as part of the 2021 Spending Review with an expected increase in cash expenditure of more than £90 billion in real terms each year by 2024-25 (Spending Review Budget Report).	Audit of new expenditure streams and delivery models requiring consideration from both a financial reporting and value-for-money perspective.

Notes

- 1 Expenditure figures taken from the NAO COVID-19 cost tracker (available at www.nao.org.uk/covid-19/cost-tracker/) are estimates as of September 2021 and will be subject to change.
- 2 HM Treasury, *Autumn Budget and Spending Review 2021*, policy paper, October 2021.

Source: National Audit Office

2.5 The pandemic has disrupted a number of audited bodies' accounts production processes and, as a result, the timetable for audit and publication of financial statements. In 2021, 55% of the organisations we audit published their accounts before the summer Parliamentary recess. This is an increase from 41% in 2020, but still below the 78% achieved before the pandemic in 2019. We are working to support audited bodies in achieving a target of 70% being published before the summer Parliamentary recess in 2022, and then to 80% by 2023.

2.6 In addition to our financial audit work evolving in response to COVID-19, in 2022-23 we will focus on:

- **the implementation of the new auditing standard relating to risk assessment, ISA 315.**¹ This is a major change to the way in which audit risk assessment is undertaken and the National Audit Office (NAO), like all audit organisations, will be revising our audit approach. ISA 315 will come into effect for audit work commencing in 2022-23 and is designed to drive better quality and more consistent risk assessments. In terms of our work, we expect to spend more time assessing risk at the organisations we audit; expanding audit procedures to obtain greater reliance on information technology and controls; and seeking additional audit evidence to gain the necessary assurances. Our estimate is that this will increase our audit planning activities by approximately 25%. We are well prepared for the changes that ISA 315 will bring, revising our audit methodology and introducing training, which will continue to roll out in preparation for work commencing in the next year; and
- **responding to changes in the bodies that we audit; and taking on new audit arrangements.** Our financial audit work will respond to the creation of the Department for Levelling Up, Housing & Communities (including transferring functions from the Cabinet Office), changes in the structure of the Department of Health & Social Care's arms-length bodies, and organisations such as the Atomic Weapons Establishment appointing the NAO as auditor. We will continue to audit arrangements relating to the European Union Agricultural Funds until this ceases in 2024 and respond to new requirements put in place following the UK's exit from the European Union.

Audit quality, approach and the wider audit sector

2.7 The quality of our financial audit work is fundamental to our professional reputation especially with our Parliamentary stakeholders, who appoint the C&AG to undertake this work in holding government bodies to account on its behalf.

¹ ISA 315, Identifying and Assessing the Risk of Material Misstatements. This new standard comes into effect for financial reporting periods commencing after 15 December 2021, and therefore will have a significant impact on government accounts.

2.8 Our internal and external inspections of our financial audit work highlight that we have delivered high-quality audit work that has met professional standards. However, in common with the wider profession, we need to do more to ensure that these standards are applied consistently and that our performance is sustained over time. The Public Accounts Commission hearing in November 2021, which explored audit quality in detail with us for the first time, examined the areas where we are doing more to improve the quality of our work.

2.9 Our key development during 2021 was the production of our first Quality Plan.² This sets out our significant investment in audit quality and the detailed interventions designed to support teams as they take forward their audit work. We have made good progress against our Plan, which includes:

- 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 quality procedures;
- establishing an Audit Quality Board as an advisory committee to the C&AG to consider and challenge our progress;
- revising our learning and development programme, with a focus on new auditing standards and professional scepticism of key judgements feeding into management estimates;
- devising new methodologies to support our approach, such as in audit sampling; and
- investing in sufficient capacity and skills to carry out high-quality audit work with access to external expertise where necessary, on specialist and complex areas (such as in financial services audits).

2.10 We will continue to invest in our financial audit work through the implementation of our Audit Transformation Programme. This has been piloted in 2021-22 and will be rolled out from 2022-23. It is a once in a generation investment which will make sure our audit methodology is up to date and in line with best professional standards. It will also see the release of new audit software, which will support improvements in the quality and efficiency of our work through higher levels of standardisation and automation. We will continue to exploit the full value of technology for data storage and analysis capability.

² The actions and future priorities within our Quality Plan are set out in our *Transparency Report 2020-21*, published in July 2021 and available at: www.nao.org.uk/wp-content/uploads/2021/07/NAO-Transparency-Report-2020-21.pdf.

2.11 In the wider audit sector, firms are investing substantially in response to a range of changes. These include new auditing standards and evolving financial reporting complexity; heightened regulator and stakeholder expectations around audit quality requiring enhanced audit procedures and demonstration of professional scepticism; and the increasing use of technology. These factors have all led to an increase in the level of audit work required and a consequent impact on audit fees: the 'Big Four' firms increased their audit fee income by 7% in 2019 and 8% in 2020. The NAO is committed to delivering high-quality audit work and to meeting the expectations of our audited bodies, Parliament, the public and other stakeholders. The NAO is no different to private sector audit firms in its need to keep investing in systems and processes to support quality improvements and audit judgements that meet modern audit standards. This includes drawing on external specialist expertise to undertake high-quality audit procedures in relation to complex financial instruments, property valuation and pensions. We are investing in developing our audit methodology in light of new auditing standards and training our staff in response to heightened expectations around audit quality.

Value for money, wider assurance and support to Parliament

2.12 Parliament scrutinises how the government spends taxpayers' money to provide public services. We support Parliament by providing MPs and committees with value-for-money reports, investigations, knowledge products 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 and in person as circumstances have allowed. We expect to support some 65 evidence sessions in 2021-22.

2.13 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. Recent examples include briefings for a group of House of Commons officials representing various committees on our work on the Kickstart scheme; and providing a written private briefing to the Defence Committee to inform its inquiry on procurement in the Navy. We have also begun engaging MPs' research staff more directly, contributing to the House of Commons 'Library Talks' series, attended by House and Members' staff, and next year plan to also work more closely with the House of Lords Library. Our teams have recently met with the House of Lords Risk Management Committee to highlight relevant reports. We will continue to second around 10 of our staff to Parliamentary select committees and the Scrutiny Unit.

2.14 In 2022-23, we will continue to provide high-quality and relevant support to the Committee, other departmental select committees and individual MPs. We will achieve this by:

- 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;
- further improving our communications with Parliamentarians and their research staff and holding events based on our reports; and
- helping MPs examine departmental spending by working with the Parliamentary Scrutiny Unit in explaining departmental accounts and other financial documents.

Local audit

2.15 Local audit is a vital element of the system of accountability and governance of local public bodies. When it is effective it serves the interests not only of the public bodies themselves but also government, Parliament and local people. However, the Committee and others have been concerned at the increasing delays in the delivery of local audits, in addition to fragility in the local audit market more widely. Our work on the Code of Audit Practice will continue to support this sector and promote both the return to more timely audits and the wider health of the local audit market. We will:

- play a full part in the Department for Levelling Up, Housing & Communities (DLUHC) Liaison Committee for local audit, which is now seeking to coordinate the actions of key stakeholders in the local audit sector;
- work to ensure a smooth transition of our Code of Audit Practice setting function to the new system leader for local audit when it begins its work;
- ensure that our guidance to auditors remains up to date and reflects emerging issues in the sector and supports the work of auditors effectively; and
- report as necessary on the DLUHC's performance in restoring the local audit regime to the necessary level of robustness.

International work

2.16 We have a small international team that manages our interactions with other Supreme Audit Institutions (SAIs). Our international work improves what we can offer UK Parliament by:

- bringing global perspectives to our UK work, providing insights into how different countries tackle relevant issues;
- providing us with access to comparative data on international issues such as the climate crisis, sustainable development goals and national disaster preparedness and response;
- learning and importing good practices from other audit offices, benchmarking our own audit approaches and use of data analytics;
- strengthening accountability and transparency in international institutions and countries which are recipients of UK taxpayer funding; and
- developing our people to give them new perspectives, skills and knowledge.

2.17 We have three main components of our international work:

- **International relations** – cooperating with other audit bodies to learn and share information. In 2022-23, we will focus our attention on working with European SAIs as part of our role on the governing board of the European Organisation of Supreme Audit Institutions (EUROSAI). We have taken the lead on the Emerging Issues portfolio and prioritise work on key issues that fit with our objectives.
- **Technical cooperation** – work funded directly by donor organisations or third parties to support less developed audit offices in areas of the world which are the recipient of UK development funds and are of UK interest. In 2022-23, we aim to keep this small-scale.
- **International audit** – external audit of international bodies, for which we charge the body directly for the audit. In 2022-23, our appointments include the Pan American Health Organization, the World Intellectual Property Organization, and the International Telecommunication Union.

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.

2.18 In 2022-23, 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

2.19 We have completed recruitment of senior experts for each of the six 'insight hubs' we have established covering different specialist areas: analysis; commercial; digital; financial and risk management; major project delivery; and people and operations management. Each of these areas is working to draw together our insights. For example, new guides and insights are accessible on our website covering areas such as managing portfolios of major programmes, commercial management, and audit committee oversight of cyber risks.

2.20 Our insight teams also support and advise our financial audit teams on areas such as valuation, modelling and data analytics, and improve our value for money work by bringing expertise to areas such as our reports covering risk management in pandemic preparations, continuous improvement in operational delivery of public services, and the importance of evaluation in government.

Our programme of work for 2022-23

2.21 In 2022-23 we will continue to deliver a programme of value-for-money and wider assurance work, focused on where we believe the NAO can have an impact on long-term value for money, as well as responding to key issues of the day. Our programme will take account of the key priorities for government we set out in our strategy and our regularly updated assessments of where we see the greatest risks and the scope for our work to make a difference in improving outcomes and value for money. We will review our work programming approach to ensure that we have a sufficient body of work which generates recommendations about where government can improve efficiency or make financial savings.

COVID-19

2.22 From our first report in May 2020, just two months after the pandemic was declared, we have prioritised providing timely reporting on the UK government's response. By March 2022, we will have published 29 major reports relating to the COVID-19 pandemic. In 2021-22, we examined government's plans for recovery with reports on the employment support grant scheme and the backlogs in the NHS and criminal justice system. We updated our COVID-19 cost tracker that sets out government's spending commitments on its response to the pandemic. We have also focused on government's procurement activity by reviewing the Test and Trace programme, the way government is managing its COVID-19 contracts, and the award and management of contracts to Randox.

2.23 We have also started to draw out wider learning for the government from the pandemic. Our November 2021 report on government's preparedness for COVID-19 specifically found that government needs to strengthen its oversight and assurance of preparations for system-wide emergencies and provide clarity over how system-wide risks are managed.

2.24 In 2022-23 we will examine the longer-term impact of the pandemic on public services and how government is seeking to support their recovery. This will include further examinations of NHS backlogs and waiting lists and the impact on children's education during the pandemic and government's response, such as catch-up learning schemes that have been introduced. We will also report on government efforts to recover public finances following the pandemic, including efforts to ensure tax compliance.

Net zero and the environment

2.25 The government 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. It also presided over the Glasgow Climate Pact negotiated at COP26 in November 2021. Meeting climate change targets will need significant changes, for example in energy, transport, housing and agriculture. We have examined the robustness of government's plans to fulfil net zero emissions targets, for example, in our report on the management and performance of government's Green Homes Grant scheme. We have also reported on government's progress in delivering the Environmental Land Management Scheme, its replacement scheme for the EU's Common Agricultural Policy, and we are due to report in March 2022 on the government commitment to increase tree-planting rates across the UK. We have also provided support to the Environmental Audit Committee, including with our report examining how effectively central government and local authorities in England are collaborating on net zero, and with an analysis of Environment Agency data on storm overflows.

2.26 Our work in 2022-23 will report on spending and effectiveness of environmentally focused public sector activities. This will include how government is measuring and reporting on its own carbon emissions; the complex range of government policies aimed at decarbonising the power sector; how regulation is being used to meet government's key environmental goals; and government's work to combat waste crime.

Major infrastructure projects and programmes

2.27 The estimated lifetime costs of the Government Major Projects Portfolio, containing around 180 of the government's highest-value and most critical projects, is around £540 billion. We regularly report on the value for money with which government departments and agencies carry out their projects and programmes and our work shows the chances of success are closely related to the quality of the early decisions. Common challenges include: being realistic about cost and timetable uncertainty; establishing robust, yet flexible, governance and assurance; and understanding and managing the integration with other projects. In 2021-22, we reported on the Crossrail programme; how the Ministry of Defence plans to manage its spending on equipment over the next 10 years; and an overview of the costs of running the rail system in England and the challenges and opportunities facing government. We also published an update to our April 2020 review of the programme to restore the Palace of Westminster – updating our early assessment of progress and risks to delivery of the restoration and renewal of Parliament.

2.28 We drew together our insights from our audit work in recent years on the subject of delivering programmes at speed. This insight report can help decision-makers determine when or how a programme should be delivered at speed and then continually test whether they can successfully deliver the programme.

2.29 In 2022-23, we will focus on significant projects and programmes as the government delivers its existing commitments and plans further infrastructure investment. This will include reports examining the strategic roads network enhancements programme, the Transpennine rail route investment and the Science Capability and Animal Health Programme to redevelop the Weybridge site designated as critical national infrastructure.

Local growth and levelling up

2.30 With the aim of ensuring equality of opportunity across the country so that everyone can benefit from economic growth and investment, government's focus on regenerating towns and communities is increasing. This 'levelling up' agenda will require coordination between both central and local government, and accountability and oversight will be shared across multiple departments, who will allocate funding to local places. We will determine our programme of work in this important area to report on progress in improving outcomes and the proper accountability of public money.

2.31 In 2021-22 we examined how well government has learned and applied lessons from local growth programmes and how effectively central government and local authorities in England are collaborating on net zero. Our previous work has also examined local government financial sustainability and local infrastructure such as transport. In 2022-23 we will look at whether the affordable homes programme has increased the supply of homes people need, where they need them.

Digital

2.32 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. In July 2021 we consolidated these lessons into an overall report setting out the lessons for government to learn from the experience of implementing digital change. We also reported on the progress in the delivery of the National Law Enforcement Data Service, a replacement for two key national police databases.

2.33 The current COVID-19 pandemic highlighted the importance of digital technology as a means of providing and accessing public services remotely. It has precipitated change on an unprecedented level for public bodies, which were unused to working in this way at scale. The government has identified the need for further upgrades to meet future needs and the 2021 Spending Review allocated significant funds to modernise IT systems. 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 how the Department for Environment, Food & Rural Affairs is tackling its ageing digital systems and how the centre of government is leading digital transformation.

Impact of public spending on different groups

2.34 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 2021-22, examples include:

- the Ministry of Justice's progress in improving outcomes for female prisoners;
- whether the regulation of private renting in England supports the aim to ensure the sector is fair for renters; and
- the establishment and administration of the Windrush Compensation Scheme.

2.35 Recent examples of work that raised awareness of changes in equality, diversity and inclusion can be found in our Diversity & Inclusion Annual Report 2020-21. We will continue to consider diversity and inclusion in our future work, for example reporting on the effectiveness of support for vulnerable children, affordable housing and the management of asylum claims.

EU Exit and international trading relationships

2.36 Following EU Exit, the UK is building 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. In 2021-22, we examined the progress made with the government's programme of trade negotiations and the government's progress managing the border and implementing the Northern Ireland Protocol since the end of the transition period. Our work in 2022-23 will include looking at how regulation has been impacted by the UK's departure from the EU and the challenges and opportunities it poses for regulators.

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.

2.37 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 2021-22 include:

- continuing to provide reports drawing on the lessons learned from our work. In 2021-22 these included reports on: delivering major programmes at speed, efficiency in government, implementing digital change, initial lessons from the response to the pandemic, and lessons for risk management from pandemic preparedness;
- supporting Audit and Risk Committees with focused guidance, for example on climate change risk and on cloud services; and
- developing a first prototype of a new website design that will allow users to better search and browse our publications and insights.

2.38 In 2022-23 we will continue to make it easier for stakeholders to access and engage with our work, developing good practice and lessons learned reports, and we will launch our new website in beta in 2022-23. Our insight ‘hubs’ will draw together learning in areas where we assess there to be opportunities for government to improve its capability, for example our approach to considering government’s resilience and preparedness; and how to improve operational services.

Our strategic enablers

2.39 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.

2.40 In the first two years of our strategy, we have focused on attracting and retaining high-quality recruits from diverse backgrounds, and succeeded in filling a wide range of roles across the NAO, from school leaver trainees to experienced directors, with diverse appointments.

2.41 Building on the changes we introduced in the first year of our strategy, in 2021-22 we introduced:

- new people management arrangements to enhance our focus on personal development;
- new ways of working, which introduced a blended approach of staff spending time working in our offices, at client sites and remotely;
- a series of detailed equality action plans covering race, disability and social mobility;
- enhancements to our support for trainees; and
- improvements to our performance management and appraisal framework.

2.42 We have also continued to focus on staff well-being and morale, ensuring that we remain conscious of the continuing impacts of the pandemic and providing colleagues with flexibility and support to balance their work with caring and other responsibilities.

2.43 Our new monthly people survey provides us with comprehensive data on the views of our people across a range of topics, allowing us to respond quickly to any emerging issues. This feedback will help us understand the impact of the people changes we are making as part of the strategy, and ultimately to focus on areas where we can enhance staff engagement and motivation.

2.44 As well as embedding the changes made to date, in 2022-23 we will focus on completing the review of our pay framework, with implementation from April 2023, and conducting a review of our approach to promotions. We will also be taking the opportunity to review the effectiveness of our new people management arrangements.

Developing our people and their careers

2.45 In the second year of our strategy we have continued to focus on the development of all our people through new line management arrangements and a more tailored learning and development offer. All of our people now have personal development plans, providing a better basis to understand both individual and collective learning needs within the NAO. As a result of these, we have established new training content for specific groups of staff including directors, trainees and line managers. In 2022-23, our main focus for learning and development will be to support staff to apply the new methodology and tools being developed under the Audit Transformation Programme, particularly in light of forthcoming changes to audit regulations. We will also continue to analyse individual development plans to identify learning needs.

Diversity and inclusion

2.46 We launched our new Diversity & Inclusion Strategy (D&I Strategy) in June 2021, which is supported by targeted action plans on race, disability and social mobility. The D&I Strategy sets ambitious targets for us to achieve by 2025, in keeping with our aim of becoming an exemplar employer.

2.47 Our improvements to date have been encouraging and we are making faster progress on achieving better representation of both female and ethnic minority staff at senior levels. We have also strengthened our diversity at middle-management level and secured our most diverse intake of trainees in 2021, who form the future pipeline of staff for our more senior grades.

2.48 Alongside representation, inclusion is a priority issue for the organisation, and as a result we have supported open and honest conversations among our teams and actively promoted events such as the International Day of Persons with Disabilities, Black History Month, and National Inclusion Week. We have supported teams to consider accessibility when developing learning content and have produced an Accessibility Guide for developing training exercises and materials. We have also procured a new accessibility-compliant Learner Experience Platform to be in place from April 2022.

Our future workplace

2.49 Following the period of home working required by the pandemic lockdowns, we developed a principles-based approach to our ways of working. We expect our staff to work in whatever way makes them most effective in achieving the NAO's objectives. By November 2021 our offices were operating at a busy level and we were able to address the disadvantages of remote working, particularly for our trainees and others learning by working alongside more experienced colleagues. We are taking this work forward again following the period of home working from December 2021 to January 2022.

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.

2.50 Following the migration of all digital services to secure cloud provision, in 2022-23, our focus for the entire NAO estate will be to review the services provided to ensure that we are maximising the value from the improved functionality and extended remote working capabilities which cloud services provide. We will replace all legacy end user devices (laptops and phones) to utilise modern connectivity technology that makes best use of our new cloud-based systems. This will ensure that our people have the right tools and services at the right time, with improved and stable connectivity regardless of their working location or patterns. We will also transition to a new strategic digital support partner in 2022-23, which will provide an improved digital service provision and customer experience to our people.

Knowledge management

2.51 In the past year, we have begun work to restructure how we collect, organise and share knowledge within the NAO. This included building systems for our specialist 'insight hubs' to collate, publish and share knowledge within and outside the NAO. We will continue this work in 2022-23, including reviewing how new technologies can improve the current search experience, making it easier to use technology to gather and re-use knowledge. The overriding aim is to continue to improve how we use our core technology, making the discovery and sharing of existing knowledge and insights as easy as possible.

2.52 Greater use of remote working has necessitated better use of collaboration tools and technology. To help us use these more effectively we have also created online toolkits for staff and we will work to improve and expand this approach to other areas.

Financial audit

2.53 We are transforming 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. Technology and data play a vital role supporting our work, enabling us to improve the quality of our work and identify insights that would otherwise not be possible.

2.54 The Audit Transformation Programme (ATP) is our programme to deliver modern financial audit. Under the ATP we have refreshed our audit methodology to be more risk-focused, data-driven and analytically sophisticated and are utilising technology to support its application. We are piloting a new risk assessment tool and have appointed a strategic partner to help us further develop new audit software incorporating workflow, automation and analytics to drive quality through the audit process. We will pilot the new methodology in 2022-23, with full implementation in 2023-24.

2.55 As part of the ATP we are also delivering enhancements in our data analytics capability. Automation and data analytics enable us to perform routine work quickly, freeing up our people to focus on areas of greater complexity where professional judgement is required, enhancing the quality of our work. Our in-house data analytics team has built a range of applications which automate time-consuming tasks and analyse data in an approved and standardised way, allowing our people to spend more of their time considering significant areas of judgement, helping ensure audit quality. For example, we have developed a journals application, which supports our financial audit teams with analysis of general ledger data against risk characteristics of fraud and error.

Value for money

2.56 We are improving our data analysis approaches on our value-for-money (VFM) work to create and communicate new insights that cannot be achieved in other ways. In 2021-22, we have applied new techniques including process mining in our investigation into the Windrush Compensation Scheme. We used textual analysis to help analyse the high volume of consultation responses received as part of the Child Maintenance Service study. We also used new data and spatial analysis techniques to support insights on storm overflows for the Environmental Audit Committee. In 2022-23, we expect to apply more advanced data analysis approaches in a range of studies, including on the management of asylum claims and in our report on mental health services in England.

2.57 During the past year we have introduced a more effective way of storing our value-for-money audit evidence. Our teams now have a more user-friendly and efficient way of collaborating on and storing their audit work, as well as simplified checklists and tools to support compliance with ethical and data management policies.

2.58 In 2022-23, we will introduce a new quality management approach that will better support our teams to understand and manage quality risks across our full range of VFM and wider assurance products. The approach – known as risk-based quality management – makes clearer which quality activities are designed to mitigate which risks, so our teams can take an approach that is proportionate to the risks in their work. We have already introduced elements of this approach during the past year to help teams adapt to new ways of working during the pandemic and to support our teams to deliver a wider range of audits, including at speed where necessary.

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 are continually looking at how we can work more efficiently and have tightly controlled expenditure. This includes plans to rent out additional office space in our London buildings, which will mean a total of 12 floors available for letting and which will earn extra income, which reduces the cost of the NAO to Parliament. Examples of performance measures and activities to demonstrate that we operate efficiently include:

- making sure that at least 80% of our expenditure is on front line activities, with the remainder on business support services;
- ensuring that staff are used productively and spend between 75% and 90% of their time on chargeable work, depending on grade; and
- budget challenge meetings with the C&AG are in place for all our major audits and expenditure against them is tightly monitored throughout the year.

2.60 The NAO monitors our contractual commitments on a line-by-line basis and we are confident there is no unnecessary expenditure in our plans and that the NAO represents good value for money. To provide additional independent assurance on this, we also commission external auditors to look at aspects of the NAO's organisation each year and report on whether resources are being used economically, efficiently and effectively. In recent years, this has included a report on our finance and procurement activities, as well as the implementation of our strategy. Next year, they will look at our human resources department.

2.61 The budgets we request are necessary for us to audit the prolonged effect of the pandemic, but they will be reduced once this work diminishes. They also include an appropriate level of investment we need to ensure that we meet the increasing audit quality industry standards. This includes supplementing our own internal staff with specialist expertise to support more technical and complex audit judgements, and to effectively deploy technology in our audit work. We consider our requirements carefully before requesting funding, and these budgets are what we need to make sure we have the capabilities and skills to provide Parliament with the range and standard of work it needs to effectively hold government to account.

2.62 There is a return on this investment. Our work for Parliament has a significant positive financial impact through reduced costs, improved service delivery and other benefits to citizens. Our work saves public money, paying for the cost of running the NAO many times over. While we reported £926 million of directly identifiable financial impact from our work in 2020, much of what we do has an enduring impact which cannot be easily quantified. For example, our work examining HM Revenue & Customs' (HMRC's) efforts to combat tax fraud has led to HMRC increasing its investigations and prosecutions of tax evasion. This increased activity deters criminals from committing tax crimes but it is currently not possible to quantify this impact.

Natural resources

2.63 The UK government has committed to achieve net zero carbon emissions by 2050. We will play our part 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 to 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, facilitated by digital technology; 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.

2.64 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. We are currently on track to achieve all our targets for this year.

Part Three

Our 2022-23 estimate

Summary

3.1 Part Three comprises our Estimate memorandum and forms part of our update on progress against the National Audit Office (NAO) strategy. It includes the budgets we request for the next financial year (the Estimate), and it provides more information about why we need these and about our longer-term financial plans. If the Estimate is approved by the Public Accounts Commission (the Commission), it will be presented to Parliament for consideration and will be voted on by Parliament as part of the Supply and Appropriation (Main Estimates) Bill.

3.2 Most of our spending is on the annual running costs of the NAO and is categorised as resource expenditure. However, in addition, Parliament votes for a capital expenditure 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 These are summarised in Figure 1 (page 8) and are also set out in a format requested by HM Treasury in the accompanying NAO Main Supply Estimate 2022-23, which will be laid in Parliament. In addition to the above summary, more information about how these budgets will be used is set out in the paragraphs that follow. It includes detail on our resource requirement, showing how we will use the money and what has changed year-on-year.

3.4 We invite the Commission to consider the plans set out in this memorandum and approve the NAO's Estimate for 2022-23.

Resource

3.5 Our budget includes a net resource requirement of £83.5 million, after allowing £25.9 million of income. **Figure 5** shows our proposed annual running costs for the next financial year 2022-23 and sets out our expectations of the three-year period to 2024-25 as compared with the current financial year 2020-21.

Figure 5

Resource spending plans, 2021-22 to 2024-25

	2021-22	2022-23	2023-24	2024-25
	Estimate	Estimate	Plan	Plan
Total expenditure (£m)	104.0	109.4	110.0	109.6
Income (£m)	23.8	25.9	26.9	25.2
Net expenditure (£m)	80.2	83.5	83.1	84.4
Percentage change year-on-year (%)		4.1%	-0.5%	1.6%
Percentage change over period (%)				5.2%
GDP deflators ¹		2.7%	2.2%	1.9%
Net expenditure (inflation adjusted) (£m)		81.3	79.1	78.9
Percentage change year-on-year (%)		1.4%	-2.6%	-0.3%
Percentage change over period (%)				-1.6%
People numbers	940	940	926	914

Notes

- 1 GDP deflators are used in government to compare the real levels of economic activity from one year to another. It is considered a comprehensive measure of inflation. These are the figures from the Office for Budget Responsibility publication *Economic and fiscal outlook October 2021* and are consistent with those used for planning the Spending Review.
- 2 Figures may not sum due to rounding.

Source: National Audit Office

Overview of net resource budget changes

3.6 By the end of the period, our forward operating budgets show a real-terms reduction when compared to our current running costs. Significant movements in these budgets are set out by year and for the whole period in **Figure 6** and **Figure 7** on page 36. They include the following key components as we respond to changing priorities and external challenges:

- The prolonged effect of the pandemic means that we need to retain the temporary additional resources provided to us in 2021-22 for a longer period, although based on our best current planning assumptions, we will return the additional £2.1 million in full by 2024-25.
- Provision of pay increases following a pay freeze last year: we have also adjusted for the impact of the Health and Social Care Levy.
- Increased capacity in financial audit, allowing us to comply with new auditing standards and ensure we have sufficient skills to audit IT systems and complex management estimates.
- Portfolio adjustments to reflect the reduction in assurance work on agricultural funds provided by the EU. We do not fully know the nature of audit work which we may be asked to undertake regarding any replacement UK financial support to these sectors.
- Provision for inflation on our contracts and third-party costs.
- Allowance for increased travel to audit sites. However, we learnt how to make better use of technology over the past 18 months, and we plan to leverage efficiencies from it where we can.
- Increases in income reflecting changes in the volume of our fee-earning work as well as renting out extra office space.

Figure 6

Movements in net resource budgets across three-year period

£ million	Three-year period	By year		
		2022-23	2023-24	2024-25
Net expenditure brought-forward	80.2	80.2	83.5	83.1
Staff costs				
Adjustments for pandemic-related work	(2.1)	-	(1.1)	(1.0)
Reduction in ATP staff expenditure ¹	(0.3)	(0.3)	-	-
IT audit and ISA315-related capabilities	0.6	0.6	-	-
Health and Social Care Levy	0.6	0.6	-	-
Provision for pay award	5.1	2.1	1.5	1.5
Total movement in staff costs	3.9	3.0	0.4	0.5
Non-staff costs				
Specialist audit expertise	1.4	1.4	-	-
Increased travel to client sites	0.8	0.8	-	-
UK audit offices – EU Fund audits	(1.6)	-	(0.2)	(1.4)
Reduction in ATP non-staff expenditure ¹	(0.9)	(0.5)	(0.4)	-
Increase in depreciation ¹	0.5	0.2	0.3	-
Inflationary increases on non-staff costs	1.5	0.5	0.5	0.5
Total movement in non-staff costs	1.7	2.4	0.2	(0.9)
Income				
Increase in rental income	(1.7)	(0.4)	(1.1)	(0.2)
Loss of income for EU Fund audits	2.7	-	0.5	2.2
Increase in audit fees and overseas income	(2.4)	(1.7)	(0.4)	(0.3)
Total movement in income	(1.4)	(2.1)	(1.0)	1.7
Net expenditure carried-forward	84.4	83.5	83.1	84.4

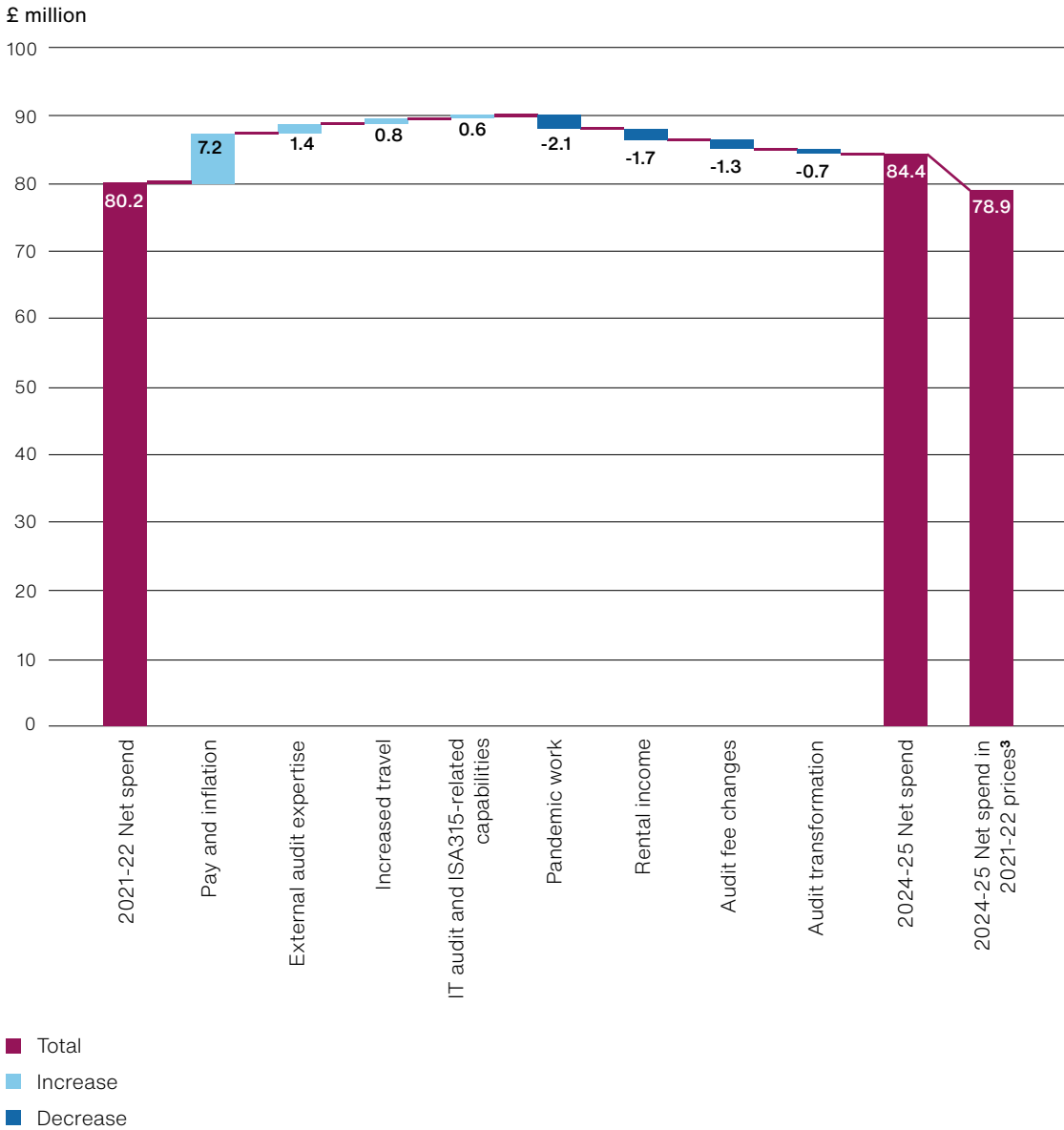
Notes

- 1 Our Audit Transformation Programme (ATP) includes upfront costs which require capitalisation. We plan to capitalise £1 million in 2021-22, £1.9 million in 2022-23 and £1.1 million in future years, which is a total of £4 million. These result in lower resource costs each year, but a greater depreciation charge associated with the capital asset.
- 2 Figures may not sum due to rounding.

Source: National Audit Office

Figure 7

Summary of movements in net resource budgets across three-year period



Notes

- 1 'Pay and inflation' includes: the impact of the Health and Social Care Levy; assumptions on future pay awards; and forecast impacts of inflation on non-staff costs.
- 2 'Audit fee changes' includes the impact of reduced assurance work on agricultural funds provided by the European Union.
- 3 To adjust the 2024-25 cash budget to 2021-22 prices, we used government-published GDP deflators. These are used in government to compare the real levels of economic activity from one year to another. It is considered a comprehensive measure of inflation. The figures used for the calculation are from the Office for Budget Responsibility publication *Economic and fiscal outlook October 2021* and are consistent with those used for planning the Spending Review.
- 4 Figures may not sum due to rounding.

Source: National Audit Office

Drivers of spending

3.7 The NAO's expenditure consists of its staff costs, which make up around 70% of its total cost base, and other external expenditure associated with drawing on the audit firms, running the office, providing digital support, and training our people. The budget requested for next year is set out in **Figure 8**.

Staff costs

3.8 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** overleaf shows in more detail the movement in staff costs year-on-year.

People numbers

3.9 We plan for the same number of people next year. We continue to carry out additional work associated with auditing the government's response to the pandemic, although this will reduce in future years. In addition, we aim to make sure we have sufficient capability in the team who specialise in IT audit. This both reflects the ongoing transition to an audit approach which places more reliance on the testing of the audit body's IT system and digital financial controls, as well as providing support to NAO audit teams when they plan their audits under new ISA 315 audit standards.

3.10 We make sure we have a strong pipeline of qualified and skilled people. We will continue to recruit and support around 70–80 graduates and apprentices in gaining a professional accountancy qualification, which takes between three and five years.

Figure 8

Budget allocation by type of expenditure, 2021-22 to 2022-23

	2021-22		2022-23		Variance	
	Estimate		Estimate			
	(£m)	(%)	(£m)	(%)	(£m)	(%)
Staff expenditure	74.5	71.6	77.5	70.8	3.0	4.0
Non-staff costs	29.5	28.4	31.9	29.2	2.4	8.3
Total expenditure	104.0	100.0	109.4	100.0	5.4	5.2
Income	23.8		25.9		2.1	8.9
Net expenditure	80.2		83.5		3.3	4.1

Note

1 Figures may not sum due to rounding.

Source: National Audit Office

Figure 9
Staff costs, 2021-22 to 2022-23

	2021-22		2022-23		Variance	
	Estimate		Estimate			
	(£m)	(%)	(£m)	(%)	(£m)	(%)
Wages and salaries	51.0	68.5	52.7	68.0	1.7	3.3
Social security costs	5.9	7.9	6.7	8.6	0.8	13.5
Pension costs	14.3	19.2	14.8	19.1	0.5	3.3
Direct staff costs	71.2	95.6	74.2	95.6	3.0	4.0
Staff-related costs	2.7	3.6	2.7	3.5	-	-
Staff benefits	0.4	0.5	0.4	0.5	-	-
Apprenticeship Levy	0.2	0.3	0.2	0.3	-	-
Total staff costs	74.5	100.0	77.5	100.0	3.0	4.0
Staffing numbers	940		940		-	-

Note

1 Figures may not sum due to rounding.

Source: National Audit Office

Pay approach

3.11 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.

3.12 Our proposed pay budget has been set in recognition that last year's pay freeze and increasing inflation will have an impact on how competitive we are as an employer. The government has already confirmed that it will not repeat a pay freeze for the civil service this year and inflation has climbed further to 5.1% in November 2021, with the Bank of England expecting inflation to remain above its 2% target for the next two years. The recruitment market for qualified accountants has tightened and graduate vacancies are expected to be 20% higher in 2022 than in the previous year. Our resignation rates for our qualified auditors are running close to target but with a risk that they will move above these levels if we are not able to offer staff a positive pay award. Resignations in our Analyst grade have been well above target figures during 2021-22.

3.13 Given these challenges and the importance of retaining the skills and knowledge our staff have developed, we have allowed for a standard pay award of 2%. However, we are asking for additional funds to provide higher awards for those in the lower part of their pay ranges to address longstanding pay gaps in line with our previous commitments to the Commission. Our total pay award budget will therefore be 3% in total.

Non-staff costs

3.14 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.

Professional services

3.15 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.

Figure 10
Non-staff costs, 2021-22 to 2022-23

	2021-22		2022-23		Variance	
	Estimate		Estimate			
	(£m)	(%)	(£m)	(%)	(£m)	(%)
Professional services	14.3	48.5	16.1	50.3	1.8	12.3
Travel	0.5	1.7	1.3	4.1	0.8	160.0
Audit technology	2.6	8.8	2.1	6.6	-0.5	-19.2
Business support	9.1	30.8	9.3	29.1	0.2	2.1
Depreciation	3.0	10.2	3.2	10.0	0.2	6.7
Total non-staff costs	29.5	100.0	31.9	100.0	2.4	8.3

Note

1 Figures may not sum due to rounding.

Source: National Audit Office

3.16 Our partnership with the private sector provides us with additional capacity to carry out our audit engagements. More specifically, we have variations in audit activity which typically fall between April and July because the bodies we audit share the same financial year-end. Drawing on the audit firms in this period helps us manage these workload peaks and means we do not need to increase our permanent headcount further. 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. We have increased our investment in specialist expertise as part of our approach to audit quality, as set out in Part Two.

3.17 During 2020-21 we carried out a procurement exercise to replace contracts with firms that had come to an end and provide us with future support. This exercise showed us that firms' audit fees are increasing, as explained in Part Two. We follow government procurement standards to ensure value for money, but because of these fee increases, tender responses averaged some 8% higher than expected.

Travel

3.18 Our travel budget covers hotel costs and travel and subsistence payments to employees who work away from the office. Working remotely during the pandemic has shown that we can adapt our audit techniques to use digital technology and many of these changes are sustainable.

3.19 There are elements of the audit, however, where site visits are required for the purposes of the physical verification of assets, inventories, or inspection of major capital works. We also find that meetings with senior stakeholders and key personnel can also be effective for the purposes of getting our message across.

3.20 We therefore budget for an increase in travel next year, although this is still much lower than historical levels. All payments are in line with our travel policy, which is agreed with HM Revenue & Customs and meets central government requirements. There is no first-class travel allowed.

Audit technology

3.21 Our audit technology budgets include the licensing of our audit software and IT audit training. It also includes our investment in our Audit Transformation Programme (ATP).

3.22 The ATP is the cornerstone of the financial audit elements of our corporate strategy and organisational development plan (ODP). At its heart, the ATP is about significantly improving the quality of our audits in a sustainable way that supports consistently high-quality across all our audits. As such, the ATP enables us to address our top strategic risk.

3.23 During the year we have completed a competitive procurement exercise to identify a preferred supplier to provide us with an audit software solution. This will involve greater upfront design, build and implementation costs than planned because it is a bespoke solution which addressed the specific requirements of public sector audit and new audit standards. However, while we spend more initially, it will lead to lower annual licensing costs over the 12-year lifecycle of the solution.

3.24 A significant component of the initial expenditure will be classified as capital because we will own the solution and benefit from it. This is different from how we account for a solution that we buy ‘as a service’ from a software provider where we do not own the underlying assets associated with the service. Our prior year planning assumption had been that our audit solution would be based on a Software as a Service solution, but our rigorous market testing has shown that the development of a bespoke cloud-based solution that we will own provides a much better outcome for the NAO. Consequently, our forward financial plans have been adjusted to include: i) greater capital expenditure at the outset; ii) reduced annual licensing charges over the 12-year lifetime; and iii) annual amortisation of the capital asset to allocate these initial costs over the period it will be in use.

Business support

3.25 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.

3.26 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.

Depreciation

3.27 Depreciation is a charge which reflects the decrease in the value of our capital assets over time. These assets are our office buildings, our IT equipment and any software which we purchase outright or develop and own ourselves. Depreciation ensures that any initial costs are apportioned over the period these assets are used.

3.28 Our annual depreciation costs will increase because of greater capital expenditure in 2022-23. We expect higher depreciation charges in future years, once our new software is fully operational.

Income

3.29 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** overleaf.

Figure 11
Income, 2021-22 to 2022-23

	2021-22		2022-23		Variance	
	Estimate		Estimate			
	(£m)	(%)	(£m)	(%)	(£m)	(%)
Audit fees	21.8	91.6	23.3	89.9	1.5	6.9
Rental of office space	1.7	7.1	2.1	8.2	0.4	24.4
Other overseas work	0.1	0.4	0.3	1.2	0.2	200.0
Secondment income	0.2	0.8	0.2	0.8	-	-
Total income	23.8	100.0	25.9	100.0	2.1	8.9

Note

1 Figures may not sum due to rounding.

Source: National Audit Office

Audit fees

3.30 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.

3.31 We expect the costs of our audit work to increase. This is because of audit risk assessments evolving as measures introduced by the government in response to the COVID-19 pandemic develop; the implementation of the new auditing standard relating to risk assessment, ISA 315; responding to changes in the bodies that we audit; and taking on new audit arrangements. We set out further detail in Part Two. Where we charge the audit body directly for the audit, the changes in the audit costs will result in higher audit fees.

Rental income

3.32 We already have eight floors of our London office available for rental. We are and preparing an extra four floors to make these available from April 2022 as working with technology means we need less physical office space.

3.33 However, the London property market and the demand for office space is hard to anticipate with many organisations considering how they will operate more flexible working arrangements and what that means for their estate strategy. Of the total space available for rental next year, we have only assumed that 60% will be rented (currently 50%), rising to 90% the following year and 100% in the final year. These are prudent planning assumptions given the uncertainty of the market. However, we do consider our office to be an attractive location and we would hope that we achieve higher occupancy at a quicker rate.

3.34 We also aim to increase rents in the future once the property market for office space in London recovers. The long-term target that we have set ourselves is to make the London office entirely cost-neutral to Parliament. This will make sure we achieve value for money for our building.

Other income

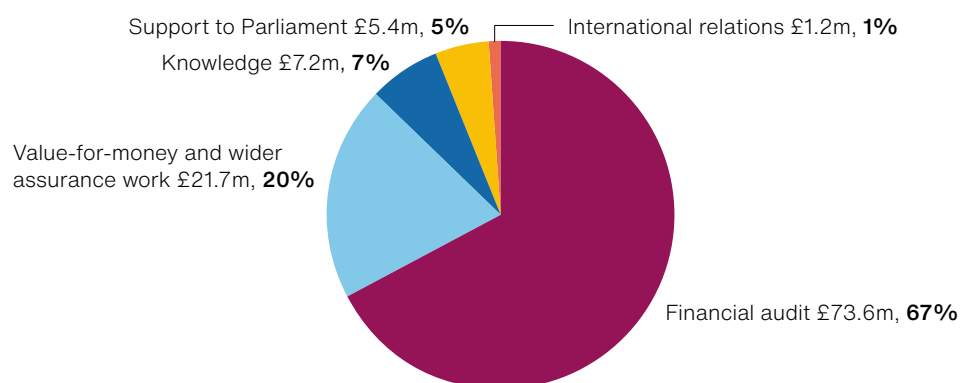
3.35 We carry out small interventions overseas designed to strengthen governance and accountability for UK taxpayers' money flowing beyond the UK's borders. We charge fees to cover any associated costs of this work. We will see a modest increase in this activity as international travel restrictions are removed. While the percentage increase is significant, this is because there was almost no activity planned during the pandemic and in absolute terms this is only a small change.

Budget allocation by type of work

3.36 **Figure 12** shows how we intend to allocate the NAO's budget to our main work streams in 2022-23.

Figure 12

Budget allocation by type of work, 2022-23



Source: National Audit Office

Financial audit

3.37 Our financial audit work covers some 400 accounts and £1.8 trillion of government expenditures. Our audit work will comprise 67% of our total work next year, and we have allocated it a budget of £73.6 million. This compares with a current budget of £69.1 million. This increase reflects the growing volume and complexity of financial audit work, as well as the extra audit procedures to respond to the requirements of the new ISA 315.

3.38 More information about the changes in scale and nature of our audit work for next year is set out in Part Two.

Value-for-money and wider assurance work

3.39 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. It comprises 20% of our work with a budget of £21.7 million, which is directly comparable with the prior year.

3.40 Further detail about our work programme and the major issues we intend to look at are set out in Part Two.

Knowledge

3.41 Our knowledge work continues to develop our people's skills in specialist areas, and to recruit and buy-in more expertise. It includes our investment in our knowledge management processes and systems, and provides specific expertise to support reports and activities, drawing together lessons learned for our audited bodies and Parliament.

3.42 We continue to set aside around £7 million a year for this. Plans for our objectives around knowledge are set out further in Part Two.

Support for Parliament

3.43 Our direct support to Parliament has always been welcomed and we plan to maintain the amount of time we spend with Parliamentary committees and evidence sessions, as well as our programme of secondments. Our budget for this continues to be £5.4 million a year. More information about our work in this area is in Part Two.

International relations

3.44 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 £1.2 million, which is comparable with previous levels immediately before travel was curtailed because of the pandemic. This budget includes us taking up our role in the governing board of the European grouping of audit offices.

Comptroller function

3.45 In addition to those activities, the NAO receives funding for its Exchequer section, which supports the Comptroller and Auditor General (C&AG) in fulfilling his 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 £0.3 million per year.

Capital expenditure

3.46 Figure 13 sets out our capital spending proposals for 2022-23, and our expectations for the three years up to and including 2024-25.

Figure 13

Capital spending plans, 2021-22 to 2024-25

	2021-22	2022-23	2023-24	2024-25
	Estimate	Estimate	Plan	Plan
Total expenditure (£m)	2.3	5.3	4.4	3.2
Percentage change year-on-year (%)		130%	-17%	-27%
Percentage change over period (%)				40%
GDP deflators ¹		2.7%	2.2%	1.9%
Net expenditure (inflation adjusted) (£m)		5.2	4.2	3.0
Percentage change year-on-year (%)		126%	-18%	-29%
Percentage change over period (%)				31%

Notes

- 1 GDP deflators are used in government to compare the real levels of economic activity from one year to another. It is considered a comprehensive measure of inflation. These are the figures from the Office for Budget Responsibility publication *Economic and fiscal outlook October 2021* and are consistent with those used for planning the Spending Review.
- 2 Figures may not sum due to rounding.

Source: National Audit Office

3.47 Our capital plans over the next three years include the following key items:

- The implementation of our Audit Transformation Programme, of which key elements of this are assessed to result in a capital asset, with costs of £4 million falling between 2020-21 and 2024-25.
- The replacement of the laptops used by NAO staff which is planned in 2022-23 as one big exercise to minimise the procurement and distribution costs. We typically expect these to last for four years, and existing equipment is reaching the end of its useful life; this will cost an estimated £2 million.
- The renewal of the lease for an office in Newcastle in 2023-24. Under new accounting standards for leases, we are required to recognise the upfront costs of a 10-year lease as an asset. We have set aside provision for £2.5 million for this, an estimate which will be refined once we have assessed the available locations.
- The installation of an energy-efficient heat pumping system in 2024-25 as well as an allowance to redesign areas of our building. These help us achieve our net zero goals, as well as providing an inviting modern office space appropriate for flexible and collaborative ways of working.

Drivers of capital expenditure

3.48 Figure 14 sets out how the capital budget will be allocated to IT and property assets in 2022-23 and how this compares with the 2021-22 estimate.

Figure 14
Capital budget, 2021-22 to 2022-23

	2021-22		2022-23		Variance	
	Estimate		Estimate			
	(£m)	(%)	(£m)	(%)	(£m)	(%)
IT assets	1.1	47.8	4.5	84.5	3.4	309.1
Property assets	1.2	52.2	0.8	15.5	-0.4	-31.3
Total capital expenditure	2.3	100.0	5.3	100.0	3.0	130.4

Note

1 Figures may not sum due to rounding.

Source: National Audit Office

IT assets

3.49 These budgets cover the purchase of IT assets such as laptops, mobile phones and video conferencing equipment. Capital budgets are based on detailed asset plans showing the timetable for replacement of physical assets, which next year includes the purchase of laptops.

3.50 The most significant component is the investment in an enhanced audit software solution which we expect to have a benefit lasting for 12 years. We expect to capitalise £4 million in total over a four-year period, but with £2 million of implementation costs falling into 2022-23, building on £1 million incurred in the current year, and the balance in future periods. These costs will be depreciated over the life of the contract.

Property assets

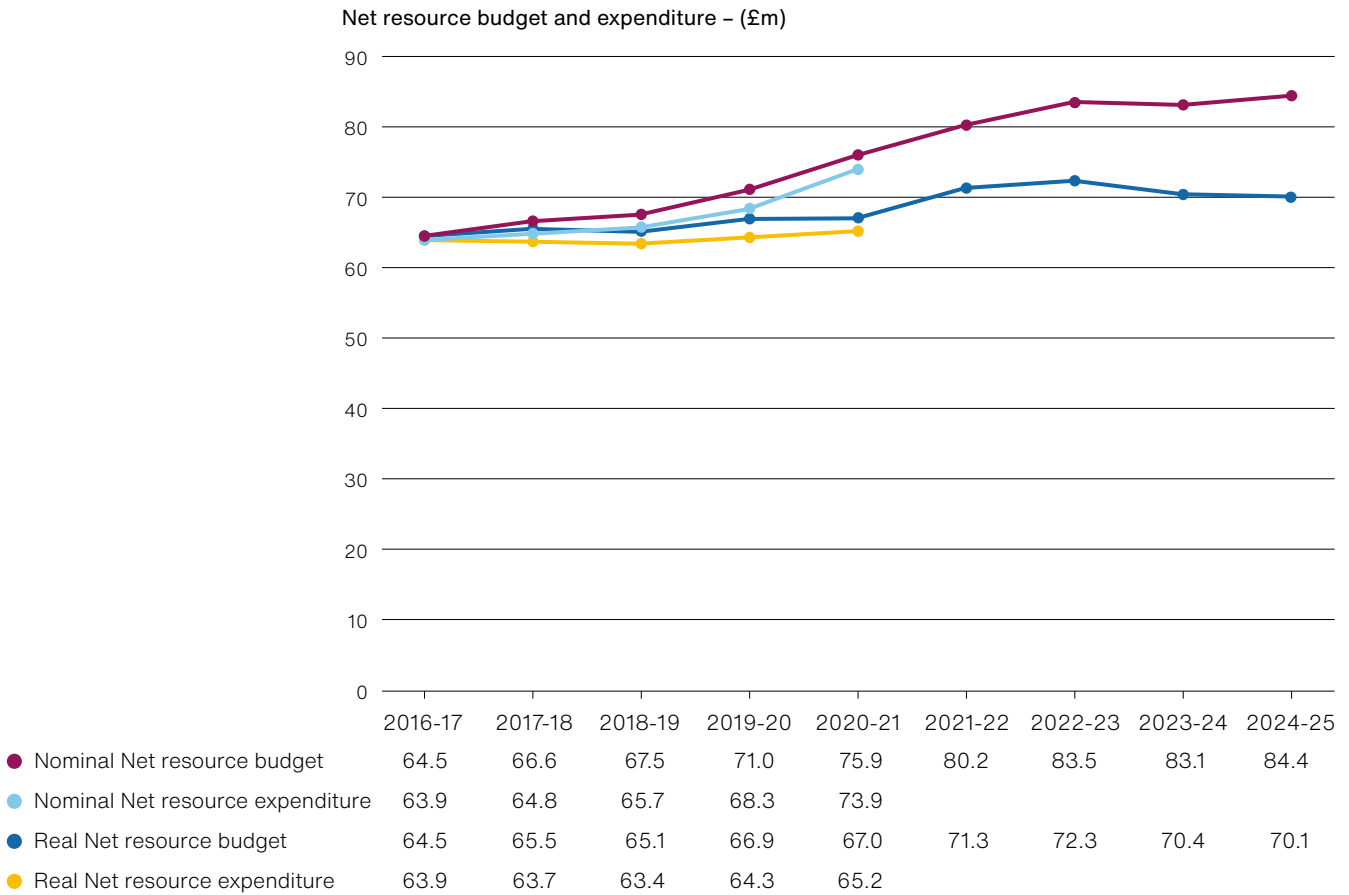
3.51 Our main physical asset is the office in London, which is held on a long lease at a peppercorn rent from Network Rail and which, including the land on which it is situated, has a current market value of around £100 million. The London building is a Grade II listed site. It was fully refurbished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

3.52 Projected capital expenditure on the property includes enhancements to the building as we prepare more space to be rented out to third parties.

Supplementary financial information

3.53 This section provides supplementary historical information about how future plans have compared with previous years. It is added for context only and the trends reflect the growth in our audit portfolio and responsibilities since 2016-17. **Figure 15** overleaf and **Figure 16** on page 49 are shown in nominal terms and also in real terms, which adjusts for the impact of inflation over the same period.

Figure 15
Net resource budgets and expenditure, 2016-17 to 2024-25

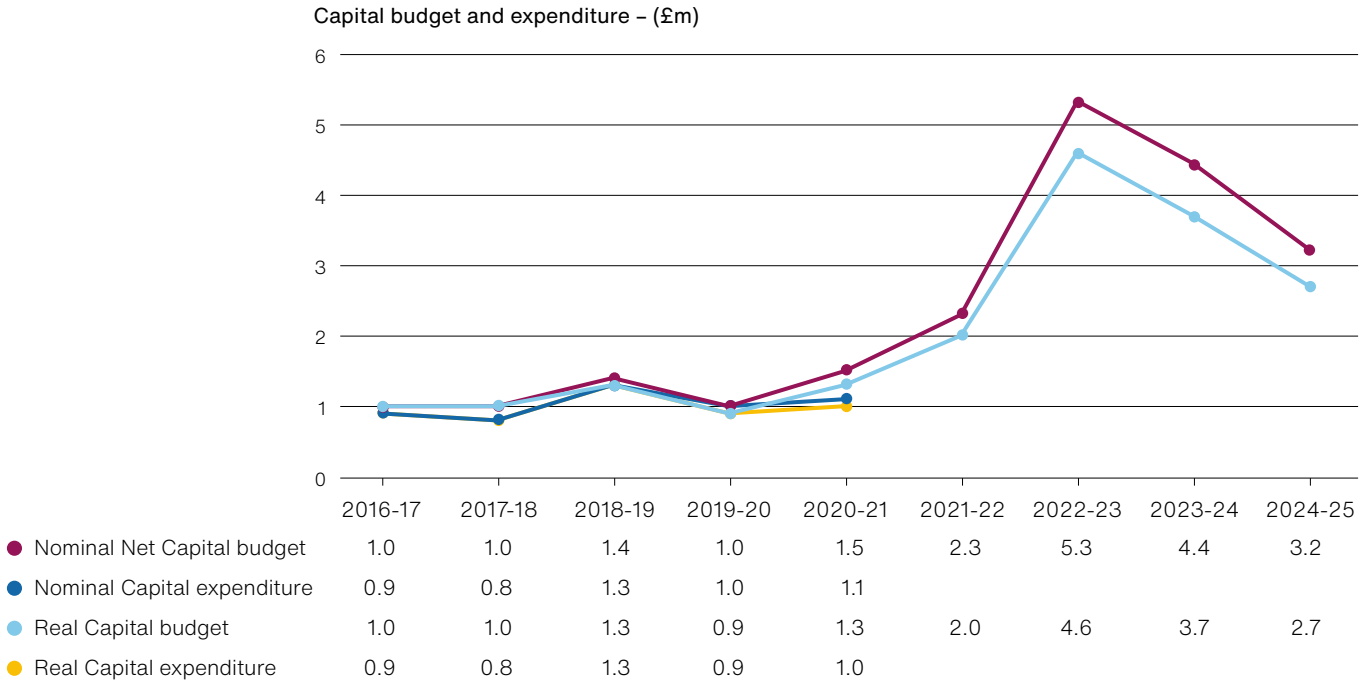


Note

1 To show budgets and expenditure in real terms (adjusted for the impact of inflation) we have adjusted the figures to 2016-17 prices using government-published GDP deflators. These are used in government to compare the real levels of economic activity from one year to another. It is considered a comprehensive measure of inflation. The figures used for the calculation are from the Office for Budget Responsibility publication *Economic and fiscal outlook October 2021* and are consistent with those used for planning the Spending Review.

Source: National Audit Office

Figure 16
Capital budgets and expenditure, 2016-17 to 2024-25



Note

1 To show budgets and expenditure in real terms (adjusted for the impact of inflation) we have adjusted the figures to 2016-17 prices using government-published GDP deflators. These are used in government to compare the real levels of economic activity from one year to another. It is considered a comprehensive measure of inflation. The figures used for the calculation are from the Office for Budget Responsibility publication *Economic and fiscal outlook October 2021* and are consistent with those used for planning the Spending Review.

Source: National Audit Office

Part Four

Our performance

4.1 We have developed a new performance framework (**Figure 17** on pages 51 and 52) 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 17

National Audit Office (NAO) performance framework

Strategic priority or enabler	What success looks like	How we measure this	Target for 2022-23	Target for 2024-25
We support effective accountability and scrutiny	Successful delivery of our programme of financial audit, value-for-money (VFM) and wider work programme	Number of financial audits, VFM reports and wider assurance work	60 to 65 VFM reports and around 400 audit certifications each year	60 to 65 VFM reports and around 400 audit certifications each year
	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 (FRC) or subject to internal cold review are classified as needing no more than limited improvements	100% of our financial audit work meets FRC and internal standards	100% of our financial audit work meets FRC and internal standards
	VFM reports subjected to an external cold review meet standards and VFM reports subjected to an internal cold review rated as 'good with limited improvement needed' or better	VFM reports subjected to an external cold review meet standards and VFM reports subjected to an internal cold review rated as 'good with limited improvement needed' or better	100% of our VFM audit work meets internal standards	100% of our VFM audit work meets internal standards
	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	90% of MPs agree	90% of MPs agree
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	£10 financial impact for every £1 of net expenditure each year	£10 financial impact for every £1 of net expenditure each year
	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	65% of senior officials agree	70% of senior officials agree
We provide accessible independent insight	Our knowledge and insights are clear and accessible to key stakeholders	MPs agree that they can easily access our insights and knowledge	60% of MPs agree	65% of MPs agree
		Annually commissioned independent feedback from senior officials shows that they can easily access our insights and knowledge	65% of senior officials agree	70% of senior officials agree
		We use an Average Article Rating, which is a composite performance score based on industry best practice which calculates an article's media impact based upon key drivers such as its profile, inclusion of spokesperson and corporate messaging, and positive or negative reference to the NAO	60 out of 100	64 out of 100

Figure 17 *continued*
National Audit Office (NAO) performance framework

Strategic priority or enabler	What success looks like	How we measure this	Target for 2022-23	Target for 2024-25
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 monthly surveys of NAO staff provide a composite engagement score out of 10	Average engagement score for the year of 7.4	Average engagement score for the year of 8.0
	We have diversity of talent at all levels and a talent pipeline that embraces people from any background ¹ There is no pay gap associated with gender or ethnicity	Reporting gender pay gap Reporting BAME pay gap	6% 11%	4% 8%
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	Monthly surveys of NAO staff ask them to score out of 10 the extent to which:	Average score for the year of 8.0	Average score for the year of 8.2
		<ul style="list-style-type: none"> they have the right technology and tools to do their work; and they can find the information they need to do their work effectively 	Average score for the year of 7.0	Average score for the year of 7.4
We are an exemplar organisation	We demonstrate continued cost-effectiveness and efficiency	Ratio of expenditure on audit work to expenditure on business support services	A minimum of 80% of our expenditure is on audit work	A minimum of 80% of our expenditure is on audit work
	We see a sustained reduction in our environmental impact	Reduction in tonnes of carbon emissions	To reduce to 880 tonnes of carbon emissions	To reduce to 880 tonnes of carbon emissions

Note

1 In addition to the pay gap measures, our Diversity and Inclusion annual reports include data on a broader range of metrics, including senior management representation for women; staff from BAME backgrounds; those with disabilities; and those from a socially disadvantaged background.

Source: National Audit Office

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