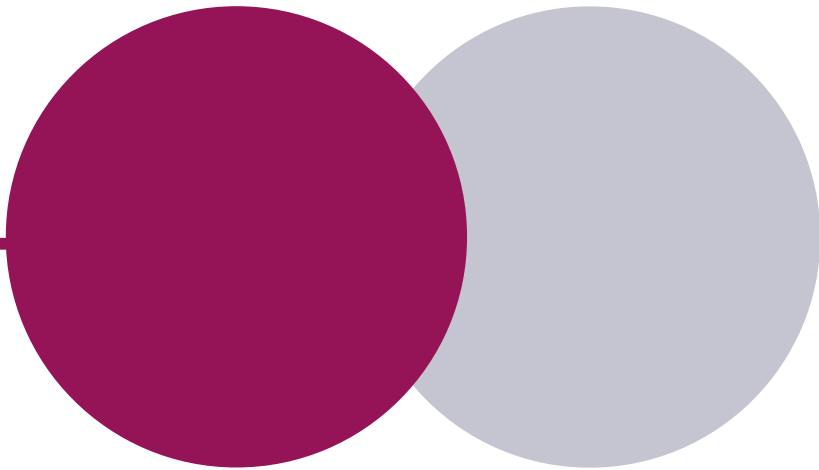




National Audit Office



NAO strategy: Progress update and estimate memorandum for 2023-24

The Public Accounts Commission

FEBRUARY 2023



**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 2021, the NAO's work led to a positive financial impact through reduced costs, improved service delivery, or other benefits to citizens, of £874 million.



Contents

Foreword 4

Summary 6

Part One

Overview of our 2020-21
to 2024-25 strategy 10

Part Two

Our plans for 2023-24 14

Part Three

Our estimate for 2023-24 35

Part Four

Our performance 56

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


This report can be found on the National Audit Office website at www.nao.org.uk


If you need a version of this report in an alternative format for accessibility reasons, or any of the figures in a different format, contact the NAO at enquiries@nao.org.uk

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 are proud to have made good progress with the five-year strategy we launched in 2020. There is clear beneficial financial impact from our work. 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.

The changes we made as part of that strategy in transforming our audit approach and developing specific skills and capabilities are bearing fruit. We have focused on the long-term value-for-money themes we identified in 2020, such as significant investments in infrastructure and the move to a net zero economy, while also reacting effectively to the extraordinary issues arising from the pandemic.

The priorities driving the NAO's programme of financial audit and value-for-money work for 2023-24 are:

- coverage of the most significant risks to value for money in public spending, including the government's energy support schemes; inflation impacts in major infrastructure programmes; backlogs and reducing waiting times in front-line services; and workforce challenges. Our work will address the efficiency and resilience challenges facing government;
- making further progress towards helping the bodies we audit to publish high-quality certified accounts to the timetables that existed prior to the pandemic;
- implementing our new risk assessment methodology on all audits, in line with the revised international auditing standard ISA 315, and the other actions in our audit transformation and quality plans; and
- continuing to draw out the lessons from our work and making them accessible to those responsible for managing public money.

To deliver these priorities, we must ensure that the NAO remains as competitive an employer as possible. Our main competitors for the high-quality people we need are the major audit firms, where high pay increases have put pressure on our ability to retain newly qualified and more experienced auditors. Our long-planned review of pay and grading was therefore timely. We are however also mindful of our need to demonstrate efficiency as a public body and our pay review has therefore focused on our need to address competitiveness, progression and retention in the most affordable way we can. The outcomes – a proposed new staffing grade and adjustments to pay ranges and pay progression – are presented in this estimate, alongside a pay award of 4%, which we consider to be appropriate in the context of current and forecast inflation levels for 2023-24.

Our planned staffing levels for 2023-24 reflect a small net increase in financial audit staff (an increase to meet the requirements of updated auditing standards mostly offset by a reduction in the resource required to audit pandemic-related expenditure). We also need to strengthen our value-for-money teams to ensure that they have the necessary analytical skills and can provide coverage across the broad range of sectors required by our work programme.

Our estimate reflects the increased cost of using private sector audit firms, who are passing on the costs of substantial pay increases for their staff in the last year and who are increasing the scope of their audit work in order to meet the same auditing standards. We are drawing more on these external firms for specialist expertise where we do not hold this ourselves, for example in valuing complex financial instruments. We are reviewing the strategic implications of this increased cost of outsourcing some of our work.

2023-24 is the fourth year of our five-year strategy and will see the culmination of our audit transformation programme with the implementation of our new audit software platform in the autumn of 2023. We will continue to maximise the improvement impact of our value-for-money work, with a focus on the highest risk areas in public spending. And we will continue to make progress towards our aim of being an exemplar organisation in the management of our people and the resources entrusted to us. This year, we will also start a strategic review to consult on our next five-year strategy. We will engage with a wide range of external stakeholders including other international public audit bodies in developing our new strategy

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 Despite the disruption caused by the COVID-19 pandemic, both for our staff and the bodies we audit, we have made good progress with our strategy. We have responded successfully to the additional demand for our work. The beneficial effect and value of our work remains far greater than the cost of the National Audit Office (NAO). Overall, in 2021, we achieved £874 million of verified positive financial impact resulting from our work, as well as substantial non-financial impact.

3 We are more effectively supporting Parliament in its scrutiny of government spending and are on track to publish around 60 major reports and certify more than 400 accounts by the end of the financial year. Strategic investments, including in our Audit Transformation Programme, are progressing well and will further enhance the quality and impact of our work. We are having greater impact in influencing government's approach to value for money, including focusing on the most significant long-term risks, and we have provided more accessible independent insight, for example through our improved website.

4 While we have made excellent progress with our strategy, this year's resource request takes place at a time where, like many public sector organisations, we face a complex set of economic and delivery challenges. Within our specific context of public audit, these relate to the following issues, each of which is explained in more detail below.

- **The bodies we audit still face significant challenges recovering from the pandemic in meeting the financial reporting timetables expected by HM Treasury.** We are supporting them so that we can certify as many audits as possible prior to the summer Parliamentary recess, to further our objective to support effective accountability and scrutiny.
- **Updated standards for risk assessment and planning of audit work require transformational change in our methodology and approach.** We are continuing our multi-year investment in our Audit Transformation Programme and, in line with the rest of the audit sector, we need to invest more time at the outset of each audit as a result.
- **Around one fifth of our audit work is carried out by private sector firms, whose costs have significantly increased in the last year,** because of their own pay increases and their need to expand the scope of their work to meet the revised standards. Greater complexity in public service delivery also means we need to draw on their specialist technical advice, also at greater cost.
- **Current economic conditions mean that we need to invest in maintaining our competitiveness as an attractive employer.** We have faced recruitment challenges and higher than expected resignations this year as we are competing against private sector firms that have awarded significant pay rises this year. We are proposing a proportionate 4% annual pay award alongside the implementation of changes to our pay framework, under which we want to ensure quicker pay progression, reduce in-grade pay gaps and improve retention through offering improved opportunities for progression.

5 We are working hard to return the delivery of our audit programme to a pre-pandemic position in terms of the timeliness of financial reporting. In 2022, we were able to increase by three the number of government departments' accounts certified before the summer Parliamentary recess. In terms of our overall programme, we certified 53% of government and arm's-length body accounts before the summer Parliamentary recess and 62% by the end of October. This has been challenging because of the ongoing need to account for complex and risky expenditure and loan guarantee programmes as well as the increased demands on departmental finance staff. Other issues have also adversely affected timeliness, including for example ministerial resignations prior to the summer Parliamentary recess. Our target is to increase delivery of audit certifications prior to the Parliamentary summer recess to 70% in 2023, and then to 80% (including all government departments) in 2024, which is the level achieved before the pandemic.

6 We are investing heavily in audit quality, recognising that quality comes from clear leadership, a culture of learning and the pursuit of excellence, effective training and development, strong technical resources, effective systems and the retention and recruitment of high-quality professionals. We have rolled out a new audit methodology that meets revised standards for risk assessment and audit planning. The next stage in our ongoing audit transformation programme is to pilot and then implement a new audit software platform designed to guide auditors to deliver consistently high quality in line with the new methodology and support them in making greater use of data analytics.

7 Auditing standards are changing and becoming more demanding. Our estimate reflects the increased workload we will face to meet new requirements of international audit standards. It also reflects an increase of £2 million in the costs of using external audit firms to carry out some of our audits, and to advise on specialist areas where we do not hold sufficient in-house expertise. These costs are increasing because firms' fees reflect their significant pay increases and because they are also having to expand the scope of their work in some areas such as risk assessment to meet revised quality standards.

8 We will continue to fulfil Parliament's expectation to provide a balanced programme of value-for-money reports. Our work will maintain our focus on the long-term value-for-money themes we identified in 2020, such as significant investments in infrastructure and the move to a net zero economy, while also reacting effectively to emerging issues, for example relating to energy costs and supply, and government borrowing. Our reports will also examine the delivery of core public services. We will assess efficiency and productivity within government, and address long-term risks to the resilience of services, government operations and national infrastructure, as well as examining how government responds to unforeseen events.

9 We have included £2.2 million in our 2023-24 estimate submission to TPAC to deliver the outcome of our pay framework review. Current economic conditions have accelerated the urgency of the need to remain competitive in recruiting and motivating staff, particularly given the high levels of pay awards in private sector audit firms. The proposals focus on ensuring quicker pay progression, reducing in-grade pay gaps and improving retention through offering improved opportunities for progression. These proposals are in addition to our annual pay award of 4%, which we consider to be proportionate in the context of current and forecast inflation levels and pay awards in private sector audit firms.

10 Our budget includes a net resource requirement of £91.1 million, after allowing £27 million of income (**Figure 1**). Our budget next year is an 8.6% increase on our current budget. This includes an allowance for inflation (as measured by the Consumer Price Index), which at the time of writing is forecast by the Office for Budget Responsibility (OBR) to average 5.5% for the next financial year.

11 We aim to be an exemplar organisation in terms of our own efficiency and only ask for the resources needed to carry out our functions to the standards required by Parliament. More than 80% of our expenditure is on front-line activities, with the remainder on vital business support services, and we continually look for opportunities to work more efficiently. In an environment of increasing audit costs, driven by inflation and increased regulatory expectations and focus on audit quality, the increase in our audit fees is significantly lower than seen in the private sector.

Figure 1

Summary of proposed budgets, 2022-23 to 2023-24

	2022-23	2023-24		
	Estimate	Estimate	Variance	Variance
	(£mn)	(£mn)	(£mn)	(%)
Audit and assurance work	109.8	118.1	8.3	7.6
Income	25.9	27.0	1.1	4.2
Net resource expenditure	83.9	91.1	7.2	8.6
Net capital expenditure	8.6	3.7	-4.9	-57.0
Net cash expenditure	86.5	91.2	4.7	5.5

Notes

- Figures may not sum due to rounding.
- 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.
- 2022-23 Estimate includes the Supplementary Estimate approved by the Commission on 3 November 2022.

Source: National Audit Office

Part One

Overview of our 2020-21 to 2024-25 strategy

Background

1.1 When formulating our five-year strategy, we considered how best to serve Parliament and respond to changes in the external environment that affect us and the bodies we audit. The UK faces new opportunities and demanding challenges in the 2020s. Alongside the ongoing implications of the COVID-19 pandemic on public spending and control environments, the government is working to achieve net zero emissions by 2050; seeking to 'level up' outcomes in different regions; and addressing the cost-of-living crisis and increased levels of government borrowing. There are also ambitious plans to improve national infrastructure. In addition to the residual 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.

1.2 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. We are now concluding the third year of our strategy, which covers the five-year period 2020-21 to 2024-25 and aims 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**). 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

1.3 The main changes we are making to deliver our five-year strategy are:

- **Developing deeper insights from our financial audit work:** We are working to give Parliament and the public greater transparency 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 significant investments in infrastructure and the move to a net zero economy, and governments levelling up ambitions. In addition to reacting effectively to emerging issues, we are focusing on assessing efficiency and productivity within government, the resilience of public services, operations and infrastructure, as well maintaining our scrutiny of the performance and costs of core public services.
- **Making much better use of our knowledge:** We are working to make it easier for others to find, understand and apply the lessons from our work and use them to improve value for money, including through a new series of reports that bring together lessons learned from our work.
- **Enhancing our expertise in the skills that are a priority for government:** We are focusing more on helping improve value for money in areas that are important to making government more efficient and effective. These include major project delivery; financial and risk management; commercial activities; people and operations management; and digital transformation.

Progress against our strategy in year three

1.4 In the third year of our strategy, we have continued to make progress with our strategic priorities (**Figure 3**).

Figure 3Progress with our strategic priorities

Improving our support for effective scrutiny and accountability

We are on track to publish around 60 major reports and certify more than 400 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 64 evidence sessions by the end of the financial year.

We continue to have a strong reputation in Parliament with MPs recording their highest levels of favourability since we started our annual survey (72% of MPs had a favourable opinion of the NAO in 2021). MPs are increasingly aware of our work and trust us to help them to hold government to account and scrutinise public services, with 90% of MPs agreeing we were effective at this in 2021.

We have provided a tool for audit and risk committees across government to assess their effectiveness and produced a good practice guide on scrutinising major digital change programmes using Agile.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 rolled out an enhanced audit methodology in 2022-23 and are on track with the development of our new audit software.

Increasing our impact on outcomes and value for money

In 2022-23 we have continued to report on the most significant risks to value for money. This has included several reports focused on the efficiency of government, including shared services, a good practice guide on how to improve operational services and reports examining backlogs in the NHS, DVLA and Passport Office.²

We have maintained our focus on the resilience of government's activity, for example in our reports on how local health and care is funded and who is accountable, and on the decarbonisation of the power sector.³

We have also continued our programme of reports examining the delivery of core public services. For example, we have reported on government's programme to address long-term unemployment, mental health services in England, and the Electronic Monitoring Programme.⁴

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, for example using spatial analytics to produce an interactive tool that visualises the complex geographic relationships of the various organisations that need to interact with each other in the justice system.⁵

We have produced more outputs specifically targeted at public officials, for example sharing practical tips on how to improve the quality and efficiency of day-to-day services provided by government.⁶ We also continue to update the tracker on our website that provides information on the outcomes of our own recommendations to government.⁷

We have launched a new website designed to help stakeholders find the insights they need more easily and have also hosted a range of insight sharing events, for example a workshop bringing together expertise in public sector workforce planning.

Notes

- 1 National Audit Office, *Audit and Risk Assurance Committee effectiveness tool*, May 2022; and National Audit Office, *Use of Agile in large-scale digital change programmes*, October 2022.
- 2 Comptroller and Auditor General, *Government Shared Services*, Session 2022-23, HC 921, National Audit Office, November 2022; Comptroller and Auditor General, *Managing NHS backlogs and waiting times in England*, Session 2022-23, HC 799, National Audit Office, November 2022; Comptroller and Auditor General, *Investigation into the management of backlogs in driving licence applications*, Session 2022-23, HC 851, National Audit Office, November 2022; and Comptroller and Auditor General, *Investigation into the performance of HM Passport Office*, Session 2022-23, HC 949 National Audit Office, December 2022.
- 3 Comptroller and Auditor General, *Introducing Integrated Care Systems: joining up local services to improve health outcomes*, Session 2022-23, HC 655, National Audit Office, October 2022.
- 4 Comptroller and Auditor General, *The Restart scheme for long-term unemployed people*, Session 2022-23, HC 936, National Audit Office, December 2022; and Comptroller and Auditor General, *Electronic monitoring – a progress update*, Session 2022-23, HC 62, National Audit Office, June 2022.
- 5 National Audit Office, *Mapping the Justice landscape*, May 2022.
- 6 National Audit Office, *How to improve operational services*, January 2023.
- 7 Our recommendations tracker is available at: www.nao.org.uk/nao-recommendations-tracker/

Source: National Audit Office

Part Two

Our plans for 2023-24

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 certain 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 Recovery from the COVID-19 pandemic continues to remain a key challenge for our financial audit work. In 2023-24, we anticipate our work will also require a continued response to the ongoing economic and political developments that have affected public services this year and will impact our assessments of audit risks. These include the government's energy support scheme and inflation.

2.4 **Figure 4** sets out some of the additional risks arising across our portfolio of audit work that we addressed in 2022-23 and will feature in 2023-24.

Figure 4

Examples of public finance risks impacting 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"> Storage and disposal of inventory (vaccines and personal protective equipment). Creation of UK Health Security Agency. 	Lifetime cost of £75 billion. ¹	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"> Ongoing impact of COVID-19 including loans to businesses affected by the pandemic, such as the Bounce Back Loan Scheme and the Recovery Loan Scheme. Energy Bills Support Scheme funding for discounts or refunds to domestic energy customers during 2022 and 2023. Energy Price Guarantee and Energy Bill Relief Scheme announced in September 2022 to support domestic and non-domestic customers. 	Combined loans and grants with a lifetime cost of £58 billion. ¹ Energy Bills Support Scheme expected cost of £12 billion. The cost of the Energy Price Guarantee and Energy Bill Relief Scheme is not yet known as it is based on future wholesale gas and electricity price. ²	Recoverability of loans and increased risk of fraud and error result in a heightened complexity around the valuation of loan assets, and regularity. Significant additional expenditure in relation to interventions in the energy market.
Department for Transport <ul style="list-style-type: none"> Significant inflation creating major challenges across the construction industry and its supply chain with an implication for major capital projects, such as the High Speed 2. 	£53–71 billion lifetime budget for the construction of HS2 for phases 1, 2a and 2b. ³	Valuation of assets and liabilities associated with construction and viability of funding.

Notes

1 National Audit Office (NAO) COVID-19 cost tracker.

2 BEIS Annual Report and Accounts 2021-22.

3 HS2 6-monthly report to Parliament, Oct 2022.

Source: National Audit Office

Delivery

2.5 We want to make further progress towards helping the bodies we audit to publish high-quality certified accounts to the timetables that existed prior to the pandemic. The pandemic disrupted a number of audited bodies' accounts production processes. Government departments, and their arms-length bodies, are still working to recover to a pre-pandemic position. As well as the lasting effects of the pandemic, other factors have made the timely publication of audited accounts more challenging.

- **The knock-on impact of delays in local government accounts production:** Some central government bodies are members of local authority pension schemes. This means assurance over pension balances is required from auditors of the local authority schemes. Delays in local authority accounts publication (where 9% of local authorities achieved the 30 September deadline in 2021) have had a resultant impact on the assurances needed for government departments such as the Department for Digital, Culture, Media & Sport and the Ministry of Justice.
- **Disruptions to Parliamentary business:** Publication of audited financial statements requires ministerial approval for laying in Parliament, and for Parliament to be in-session. Changes in ministers in July, September and October 2022 resulted in delays to publication.

2.6 In responding to these challenges, our focus leading up to the summer Parliamentary recess in 2022 was to work with the bodies we audit to prioritise the delivery of major government departments to provide as much coverage over government expenditure as possible. In 2022, the NAO worked with the Ministry of Defence, HM Revenue and Customs, the Foreign, Commonwealth and Development Office and Department for Transport to achieve publication dates before the summer Parliamentary recess. This meant that nine of the 16 major government departments published their financial statements before the summer Parliamentary recess, an increase from six in 2021.

2.7 Overall, 53% of the organisations we audit published their accounts before the summer Parliamentary recess. The prioritisation of major government departments, and the impact of the challenges outlined above, mean this was a slight decrease from the 55% achieved in 2021, but an increase from 41% in 2020. We are working to support audited bodies in achieving a target of 80%, which is comparable to the position before the pandemic, by 2024.

2.8 In addition, in 2023-24 we will focus on:

- the implementation of revised auditing standard requirements relating to risk assessment (ISA 315). 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 approach. The revisions to ISA 315 will come into effect for work commencing in 2022-23 and are designed to drive better quality and more consistent risk assessments, rooted in a deep understanding of the audited body's business and its systems and processes. In terms of our work, we expect to spend more time assessing risk at the organisations we audit; expanding procedures to obtain greater reliance on information technology and controls; and seeking additional evidence to gain the assurances needed.
- responding to changes in the bodies that we audit and taking on new audit engagements. Our financial audit work will respond to changes in the structure of the Department of Health & Social Care's arms-length bodies, the anticipated creation of the Further Education Sector Report, and organisations such as Pool Reinsurance appointing the NAO as its 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

2.9 The quality of our financial audit work is fundamental to our professional reputation. High quality audits mean stakeholders can be confident that our work provides a robust basis for public accountability and Parliament's essential scrutiny of how government uses taxpayers' funds.

2.10 The most recent internal and external inspections of our financial audits 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 we apply these standards consistently, that our performance meets the increasing demands of professional standards and that we sustain this over time. The Public Accounts Commission's evidence session in November 2022, explored audit quality in detail and challenged us on areas where we are doing more to improve the quality of our work.

2.11 Our second Quality Plan, published in December 2021, set out the significant investment in audit quality we were making through a wide range of interventions to support audit teams as they took forward their audit work. We have delivered all the actions we set out in this plan, which included:

- revising our blended learning and development programme, with a focus on updated auditing standards and professional scepticism of key judgements feeding into management estimates;
- devising new methodologies to support our approach, such as in audit sampling;
- investing in sufficient capacity and skills to carry out high-quality audit work with access to external expertise in specialist and complex areas where necessary;
- investing further in our capacity and capability to support audit teams who audit harder-to-value assets through the work of our centre of expertise on financial instruments, drawing from the experience of our framework partners so that we adopt best practice; and
- preparing for the launch of new audit quality management standards from December 2022.

2.12 Our quality scores show that we still have more to do to deliver high quality audits consistently. Our 2023 Quality Plan sets out the actions we will take in the coming year. A vital element this year is the first phase of our Audit Transformation Programme. We are also continuing to invest in our audit of harder-to-value financial assets, especially in the financial services sector, to ensure that we have the skills and expertise needed in this complex area.

2.13 We will continue to invest in our financial audit work through the implementation of our Audit Transformation Programme. This is a once in a generation investment that will make sure our audit methodology is up to date and in line with best professional standards. Its first phase was launched in September 2022 to support our 2022-23 audits. In autumn 2023, we 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.

2.14 In autumn 2022 we went live with our revised methodology which implements the new auditing standard requirements relating to risk assessment (ISA 315). This is a major change to the way in which audit risk assessment is undertaken and is designed to drive better quality and more consistent risk assessments, rooted in a deep understanding of the audited body's business and its systems and processes.

2.15 Our financial audit staff have all completed the ‘Go Live’ programme: an innovative three-day training event designed to equip them to apply the new methodology. They are also supported in the application of the new methodology by new tools, further details of which are set out at paragraphs 2.69 to 2.70.

2.16 The focus on audit quality will continue as the Financial Reporting Council evolves into the Audit, Reporting and Governance Authority, and regulatory expectations continue to increase. In addition, the government’s proposals for reforming audit and corporate governance increase expectations of auditors.

2.17 As part of regulatory developments, there is increasing focus on non-financial information such as disclosures relating to climate change that may result in additional audit procedures undertaken relating to the annual report.

2.18 There are also additional auditing standards due to come into effect (for example, ISQM 1, relating to quality management, and the revised ISA 600, relating to the approach to group audits). Alongside this, to maintain pace with other audit organisations, the expectations of our stakeholders and the evolving systems and technology used by audit bodies, audit approaches will continue to evolve to include greater use of technology and analytics.

Value for money, wider assurance and support to Parliament

2.19 We support Parliament by providing MPs and committees with value-for-money reports, investigations, knowledge products and briefings, as well as supporting scrutiny of the annual reports and accounts of government departments. Our main relationship is with the Committee of Public Accounts which we expect to provide support for 64 PAC evidence sessions in 2022-23.

2.20 In addition, we provide support to Parliament through our programme of wider support to select committees, individual MPs and committees and Peers in the House of Lords. Up to the end of December 2022, we provided 13 oral or written briefings to select committees; 36 bespoke meetings with MPs or Lords; published 8 reports specifically for Select Committees; and had 9 of our people on secondment to select committees and the Scrutiny Unit.

2.21 In July, we held a week-long exhibition in Parliament, which gave us the opportunity to showcase our work to MPs, Peers and the wider parliamentary community. The exhibition was well-attended, and we made around 100 contacts with MPs, peers, researchers and constituency staff, committee staff, and journalists.

2.22 Written and oral outputs include a public evidence session as part of the Public Administration and Constitutional Affairs Committee’s inquiry into “Planning for the future of the Government’s estates”, a written briefing for the Environment, Food and Rural Affairs Committee to support its inquiry on food security, and our ongoing programme of Departmental Overviews.

2.23 Our positive working relationship with the House of Commons Library continues, with our contributions to their “Library Talks” series – about to enter its third year in 2023. In November, the Library and the NAO hosted a joint training event with the aim of learning how our respective organisations undertake their work and to identify opportunities for greater collaboration.

2.24 Every year, we commission a survey of MPs to gather feedback on their familiarity with our work and the extent to which they judge it of high quality and usefulness to them.

2.25 The main messages arising from the 2021 survey were:

- 80% of MPs rate our work as high-quality, up from 75% in 2020.
- Our reputation remains strong, with around nine in ten respondent MPs continuing to view the NAO as authoritative, independent and acting with integrity. This reflects the efforts we have made to achieve greater awareness of our work.
- Around nine in ten respondents continue to agree that the NAO is effective in fulfilling its strategic priority to support Parliament in scrutinising public services.
- MPs continue to view us favourably on other measures, including: acting with honesty and integrity – 89% (87% in 2020); quality of products or services – 80% (74% in 2020); and focusing on the right issues – 74% (62% in 2020)
- In 2023-24, we will put into effect our updated engagement plan with MPs and Peers continuing to focus effort on improving our communications with MPs and their staff to maximise the opportunity for parliamentarians to use our work. We will also continue to raise awareness of the NAO within Parliament through in-person events, building on the success of our 2022 exhibition. In addition, we will focus on supporting NAO colleagues to engage effectively with Parliament through in-house training and mentoring.

2.26 We also include questions regarding the NAO in a public opinion survey. This was carried out at the end of March and headline results were:

- Recognition of the NAO has fallen slightly since last year, with 71% aware of the organisation compared with 77% in 2021. However, this level of recognition can still be considered high.
- Understanding of the NAO’s responsibilities remains mixed. Almost 60% correctly identify that the organisation audits government spending but there is also continuing confusion between our role and that of the ONS and OBR.

Local audit

2.27 The C&AG is responsible for maintaining the Code of Audit Practice (the Code) which sets the framework for the audit of local public bodies in England. The government has signalled its intention to create a new system leader through primary legislation for local audit within the new Audit, Reporting and Governance Authority (ARGA) into which responsibility for the Code will transfer. The NAO's Local Audit Code and Guidance team has continued to work with all stakeholders to support the local audit system, pending the start of these new arrangements. The team has worked with the Financial Reporting Council (FRC) as the predecessor organisation to ARGA to inform development of the new local audit leadership function after its appointment of the first Director of Local Audit. We will continue to support the local audit system in this transitional period and will maintain our programme of guidance publication and active engagement. We intend to re-issue the current Code in early 2024 as part of a wider programme of actions by all stakeholders to support local audit.

2.28 At the time of writing, we are due to publish an update on the timeliness of local auditor reporting on local government in England which explains the action taken since we last reported in 2021 and the Committee of Public Accounts' subsequent report and recommendations. The Department for Levelling Up, Housing and Communities is co-ordinating action to support the local audit market, boost the numbers of qualified auditors and reform local audit. Despite this, Public Sector Audit Appointments has reported that just 12% of 2021-22 audits were completed by an extended deadline of 30 November 2022; and 632 audit opinions remained outstanding, including those from previous years.¹

International work

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

- bringing global perspectives and access to comparative data to our UK work, providing insights into how different countries tackle relevant issues, such as the climate crisis, sustainable development goals and national disaster preparedness and response;
- sharing knowledge and importing good practice from other audit offices, with a particular focus on innovation in data analytics and technology;
- 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 to complement their UK audit experience. These opportunities make the NAO a more attractive place to work and help us retain talented staff.

¹ Comptroller and Auditor General, Progress update: *Timeliness of local auditor reporting on local government in England*, Session 2022-23, HC 1026, National Audit Office, January 2023.

2.30 There are three main components to our international work:

- **International relations:** We build relationships with other audit offices worldwide to share experience, knowledge and learn from good practice. We contribute to international forums and work with other organisations to learn, offer our experience, and collaborate on global themes, methods and standards;
- **International audit:** The NAO is the external auditor of some of the international organisations that receive UK funding (such as the Pan American Health Organization and International Telecommunication Union). These appointments provide membership to the UN Panel of External Auditors, where we use our insight to influence the quality of assurance and gain intelligence of common issues across the UN system; and
- **Technical cooperation:** We participate in projects to help other national audit offices overseas improve their ability to deliver a professional public audit service. We strengthen accountability to taxpayers by prioritising our support in countries that receive UK aid.

2.31 Our future aims and plans for this work include:

- Continuing with a role on the Governing Board of the European Supreme Audit Institutions (EUROSAI) while also contributing to a range of international working groups specialising in environmental audit, IT audit and the development of financial and performance quality standards. We will draw on these overseas relationships to bring international comparisons to our value-for-money work;
- Inviting the audit offices of the US and the Netherlands to perform an independent expert review into the use of technology in our work and how we are auditing and reporting on sustainability and climate change;
- Increasing our external audit responsibilities in the United Nations system. We are setting out our early interest in having a role on the UN Board of Audit when a position becomes available in 2028, and aim to develop our skills and capacity accordingly by expanding the range of international audits we undertake;
- Managing a small programme of work with overseas audit offices, including Kenya, Rwanda, Tanzania and the Gambia to increase their audit capability. This work is funded entirely by donors, with primary assistance provided by the Foreign, Commonwealth & Development Office, with whom we coordinate carefully to make sure our role supports the interests of the UK overseas; and

- Considering the potential provision of support to the Accounting Chamber of Ukraine (ACU), who will have a role in auditing the estimated cost of reconstruction of damaged infrastructure and public institutions, as well as potentially providing assurance that such expenditures are appropriated correctly. We have provided limited capacity building support to the ACU between 2015 and 2019, so are well placed to re-engage if appropriate to do so.

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.

Strengthening our expertise

2.32 Our six hubs continue to develop expertise in core areas of insight: analysis; digital; commercial; project and programme delivery; people and operations management; and financial and risk management. As well as developing new insights and good practice guidance, they support both financial audit and value-for-money teams directly with their work and engage with key stakeholders and functional experts in government. The hubs run programmes of knowledge sharing and training for staff across the NAO and will be updating these during 2023-24 to ensure that we continue to strengthen expertise across the organisation.

Our programme of work for 2023-24

2.33 We will continue to provide Parliament with a balanced programme of value-for-money reports. We will maintain our scrutiny of the long-term value-for-money themes we identified in our 2020 strategy, such as significant investments in infrastructure and the move to a net zero economy, and government's levelling up ambitions. We will do this while also reacting effectively to emerging issues, such as rising energy costs and supply, and government borrowing.

2.34 In the year ahead we will focus more acutely on assessing efficiency and productivity within government, the resilience of public services, government operations and critical national infrastructure, as well as maintaining our scrutiny of the performance and costs of core public services. The COVID-19 pandemic demonstrated that for public services to be both efficient and resilient to future shocks it is important that these issues are considered and addressed collectively by government. We will use our position to look across government as a whole and make impactful recommendations. For example, in our lessons learned report on delivering across departmental boundaries we will draw together both examples of good practice and where siloed behaviour and a lack of cooperation has hindered effective delivery.

Efficiency

2.35 The constrained public finances demand that the government extracts as much value as possible from every public pound spent. That requires choosing well and delivering well. In 2022-23 we have examined a number of key enablers of efficiency across government including government's counter-fraud capabilities; and how it manages the central government property estate. We also reported on Defra's progress in modernising its ageing IT infrastructure, a key enabler of improved efficiency.

2.36 In 2023-24 we will continue to develop our work on enablers of efficiency, including financial management in government and effective competition in public procurement. We will draw together our insights around how government delivers value from its major programmes.

2.37 We will also focus on examining government's efficiency programmes and identifying areas where there is further scope for efficiency improvements. We will revisit defence inventory management; and expect to examine variations in medicines procurement efficiency in the NHS in England.

2.38 We will further consider public sector productivity, building upon work we have done in the last year looking at the productivity of key services in areas where significant backlogs have developed, such as in the NHS and applications for passports and driving licenses. For example, we plan to look at access to urgent and emergency care; how DWP is responding to increased demand for benefits; and management of the civil service workforce.

Resilience

2.39 Our programme will address long-term risks to the resilience of public services, government operations and critical national infrastructure as well as how well-placed government is to respond to unforeseen events or emergencies.

2.40 In 2022-23 we looked at the resilience of key parts of critical national infrastructure such as Defra's facility in Weybridge, which manages animal disease threats in England, and how government plans to decarbonise the power sector, subject to security of supply. In 2023-24 we will continue to examine how government is investing in the resilience of critical infrastructure in areas such as flood defences, school buildings and digital infrastructure. We will also look at resilience of services such as legal aid and draw together our insights around how government manages its borrowing and how it responds when companies fail.

2.41 Perhaps the ultimate challenge to UK resilience is posed by climate change. We will continue to deliver a body of work looking at the key components of the government's plans for achieving net zero carbon and meeting its wider environmental goals. In 2023-24 we expect to look at the decarbonisation of home heating; support for Carbon Capture Utilisation and Storage; active travel; and government's programme of waste reforms.

2.42 In 2023-24 we will also increase our emphasis on examining how government prepares to respond to unforeseen events. We are taking the learning we have gained through examining the government's response to the COVID-19 pandemic and thinking about how government addresses risk and prepares to be able to respond to high impact cross-system shocks. We are introducing a more systemic approach to assessing how government is building resilience to key risks it has identified. We expect to initially look at how it is preparing to respond to extreme weather events.

Delivery of core public services

2.43 We will ensure that we maintain our focus on the performance of core public services, enduring delivery challenges facing government and the areas of greatest public expenditure and risk to value for money. Our 2022-23 work covered key areas of spending, including investment in major programmes such as HS2; support for household and business energy bills; and we continued to examine the costs of government's response to the COVID-19 pandemic.

2.44 In the year ahead, we will examine key spending commitments such as the programme for new hospitals, levelling up funding allocated by central government to local government and school rebuilding and maintenance. We will also look at the performance of key public services including Universal Credit; adult social care; programmes to reduce harm from illegal drugs; the health transformation programme; and the operation of the asylum system.

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.

2.45 We are developing our expertise, bringing together key insights, following up with stakeholders, and making our insights more accessible. During 2022-23 this has included:

- launching a new website design that allows users to better search and browse our publications and insights;
- continuing to draw out lessons and insights from our work. In 2022-23 these included how to improve operational effectiveness, improving government data, and achieving value for money for government's environmental goals;
- supporting Audit and Risk Committees with focused guidance, for example on scrutinising corporate finance in the public sector, audit and risk assurance committee effectiveness, and using Agile in large-scale digital change programmes;
- continuing to post regular blogs on our website covering issues that are pertinent to many across government;
- hosting or speaking at over 50 events to share our insights and facilitate debate on topics including workforce planning and regulation post EU exit. We also hosted the first of a series of annual 'Insights from the Auditor General' speeches in Parliament in December.

2.46 In 2023-24 we will build upon our activity in prior years, continuing to develop our outputs, channels and communications so that our insight reaches those responsible for delivering and governing public services. We will also seek regular feedback on the accessibility and usefulness of what we share. Our planned activities include:

- building on the better tracking of our recommendations to draw out key areas for good practice development, improve access to financial reporting and audit insights, and growing our expertise across our organisation;
- further improvements to our website to aid accessibility and provide more information about our experts and upcoming work;
- scoping a digital-first publications project that will look at how we can publish information and insights in more accessible formats to help our stakeholders find, understand and learn from our work;
- improve our email alert system so that subscribers receive more valuable updates from the NAO about our work;
- publishing reports on lessons learned including resetting programmes, delivering regulation locally, and competition in public procurement, as well as continuing our series of good practice guides on improving operational services.

Our strategic enablers

2.47 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.

2.48 We want to maintain our position as a stimulating, rewarding and inclusive place to work, offering our people a clear and motivating public purpose, fulfilling and challenging opportunities, and support for their development and progression. We will continue to develop our offer to our people, in terms of professional development, inclusivity, working environment and wellbeing. However, 2022-23 has proved a challenging year for the NAO for both recruitment and retention. The external recruitment market is extraordinarily competitive with vacancies being filled rapidly and candidates are in a strong bargaining position to secure premium salaries. Private sector competitors are currently better placed to meet salary demands and have greater flexibility to respond quickly to market conditions.

2.49 Competition is acute at all grade levels, with all firms in the market for trainee accountants struggling to recruit their target numbers. We extended our 2022 graduate campaign to secure additional trainees to join the NAO later in 2022 and have focused on early starters in our 2023 campaign.

2.50 Following a period of relative stability, resignation rates have increased in recent months in our key audit grades. This has prompted external recruitment campaigns at Audit Principal, Senior Analyst and Audit Manager level to supplement the cadre of staff coming through our trainee and Analyst feeder grades.

2.51 Resignation rates remain above target levels at Audit Manager, Audit Principal, Senior Analyst and Analyst grades.

2.52 Whilst we undoubtedly face significant recruitment challenges in our main markets of graduates and school leavers, qualified accountants and analysts, competition is greater still in areas such as data and financial analysis, digital, and project management and delivery.

Review of our pay framework

2.53 We committed, as part of our 2020-25 strategy, to review existing pay structures to ensure the NAO is in a strong position to meet our strategic enablers of attracting, retaining and developing high quality people and being an exemplar organisation for diversity and inclusion. We need to attract high quality people to work for us, support them to develop worthwhile and impactful careers, and make them feel valued and appreciated for the work they do.

2.54 While we are already an attractive employer, our new pay framework is designed to enhance our offer and ensure we have a competitive reward package which demonstrates our commitment to investing in our people and ensures we are better placed to compete in the wider market.

2.55 The revised framework will allow us to:

- Respond better to the external pay environment we operate in, including the grading structures of private sector audit firms;
- Ensure our pay rates remain competitive in both the London and the North East markets;
- Focus on grades where we are most vulnerable to the offer of competitors and where retention has been problematic, particularly Audit Principal, Senior Analyst and Analyst grades;
- Provide enhanced progression opportunities for our Audit Principals by creating a new Audit Manager grade in our financial audit service line to replicate the grading structures of private sector audit firms;
- Attract and retain staff with the talent and skills we need, including those who bring with them specialist experience that is essential to our work and which attracts a premium in the market; and
- Improve pay progression, particularly in the lower part of our pay ranges, and address in-grade pay gaps where they occur.

Staff engagement and wellbeing

2.56 While pay is a significant factor affecting our people’s engagement and motivation, we offer a much more rounded proposition as an employer. We will focus this year on reviewing and articulating clearly all the elements that make the NAO a great place to work, including our support for staff well-being and morale; flexibility and support to balance people’s work with caring and other responsibilities; development opportunities and support for career progression; and the work environment and purpose-driven organisational culture.

2.57 We are driven by our vision of being an exemplar employer, introducing best practice and new approaches that enhance our people offer. In addition, our regular 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 continuously helps us to 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.

Developing our people and their careers

2.58 In the third year of our strategy our main focus for learning and development was to support staff in applying the new methodology and tools being developed under the Audit Transformation Programme. We have delivered an innovative and fully immersive in-person learning experience for all our financial auditors, utilising our new Learning Experience Platform. Complementing this technical learning we have delivered courses developing personal skills around time management, responding to change, and expertise sharing.

2.59 In 2023-24 we will continue to support staff as part of the Audit Transformation Programme, as our people start to use the new end-to-end audit management system. We will work with experts to develop our value-for-money technical skills training; focusing on synthesising evidence and communicating our findings. We will also build on personal development plans and learning needs analysis to develop leadership, project management and data literacy skills.

Diversity and inclusion

2.60 At the beginning of 2022-23 we launched a three-year Social Mobility Equality Action Plan (SMEAP) which complements our existing action plans on race equality and disability.

2.61 Under our 2021-2025 Diversity & Inclusion Strategy we have set clear and ambitious targets across our key focus areas and at all levels of the organisation.

2.62 We are pleased that we have made good progress against the majority of our targets in the early stages of the strategy, although we recognise that we need to remain focused to achieve deliberately challenging targets. The impacts of our social mobility, race equality and disability action plans have been positive, with high proportions of ethnic minority and disabled candidates entering our trainee grades. However, we need to focus further on our ability to retain ethnic minority trainees as they progress through to full qualification if we are to secure greater representation at more senior levels.

2.63 We are pleased that we have seen more diverse representation at manager level, with women now representing over half of this grade. This provides us with confidence that we can reach our gender representation targets at Director and Executive Director level and close our gender pay gap by 2027.

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.

2.64 In 2022-23 we replaced all legacy laptops and phones with up-to-date equipment which utilises modern, secure connectivity architectures, enabling flexible working for all NAO staff, and making the best use of our fully cloud-based systems. We also transitioned to a new strategic digital support partner, which will provide an improved digital service provision and customer experience to our people.

2.65 Our main focus in 2023-24 will be to get the maximum value from our strategic cloud platforms. We will further exploit the capabilities of our Microsoft platform through the Audit Transformation Programme, and various knowledge and information security initiatives. We will expand our corporate resource management and reporting systems to improve ownership and accountability of NAO resources, budgets and forecasting. There will be improvements in usage reporting and incident response management across all NAO cloud systems.

Knowledge & Information management

2.66 We have a dedicated knowledge and information management team that drives continuous improvement and leads relevant projects. The team has built on the previous year's work to restructure how we collect, organise and share knowledge within the NAO.

2.67 The major project undertaken this year was the launch of a new version of the NAO's intranet, Merlin. This involved replacing our legacy intranet platform, improving search and navigation, and introducing new internal communications channels. We have improved our ability to find and share internal communications, technical guidance and insights across the NAO. In the last year we also have reviewed our remaining legacy paper records and continued to reduce the need for paper record storage.

2.68 In 2023-24 we will continue to develop a single search platform to further improve our ability to draw on insights from across our work. We will also review our records and information management policies and activities, to ensure we continue to follow best practice and manage legacy digital records.

Financial audit

2.69 In autumn 2022 we introduced our Risk Assessment and Planning Tool (RAPT) to support financial auditors applying our new methodology. The RAPT is based on the Microsoft Power platform and is a user-friendly application which guides auditors through the assessment of risks applicable to the entity under audit. The RAPT is underpinned by a content library of possible risks which we have developed in house.

2.70 The RAPT represents the first stage in updating our audit software. In parallel we have developed, in partnership with a third-party supplier, the pilot release of our new Audit Management System (AMS). This also utilises the Power platform and provides enhanced tooling including workflow, integration, project management and dashboarding. Additional functionality will be built into AMS in 2023 before it is rolled out to the full financial audit service line in September 2023. A further update will complete full implementation in autumn 2024.

2.71 In 2023-24 the focus for our Audit Transformation Programme will increasingly be on further embedding digital audit approaches into our methodology. We will continue to develop analytics tools in house as well running proof of concepts on some leading technologies available in the market. We plan to expand our current portfolio of apps and tools to help our financial auditors in a range of areas including sampling and payroll.

Value for money

2.72 In 2022-23 we introduced a revised approach to quality management, which is more flexible and risk-based to reflect the wider range of report types we publish and the different risk profiles each piece of work has. Alongside these changes we launched new guidance and tools to support an integrated workflow that prompts people to undertake required activities at the right time and in the right way to ensure high-quality work. We have also added new guidance on making recommendations, explaining our methodologies and how to clearly present data. These changes will better support our teams to produce work that has a greater impact on the outcomes and value for money that government achieves.

2.73 In 2022-23, we have also used data analytics to support more impactful reporting of our work. For example, in our investigation into the performance of HM Passport Office, we carried out analysis to reverse engineer estimates of passport application caseload and backlogs from outturn data. In our report on grassroots participation in sport and physical activity, we carried out spatial analysis of sports facility sites and grant awards, and related these to local area-based deprivation measures and population estimates.

2.74 In 2023-24 our focus will be on embedding our new quality approach and supporting our people to work in a more streamlined way through the development of tools and support materials. These include further developing our audit storage system and workflow, expanding our learning and development offer and the tools we give people to help them build a report from scoping and methods selection, to evidence collection and analysis, to communication of findings. We will also be seeking to develop our analytical methods and audit approaches, including looking at the potential to use artificial intelligence and predictive analysis to support our work.

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

2.75 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 building, by making 12 floor areas available for letting. This will earn extra income and reduces the cost of the NAO's parliamentary funding requirement. Examples of performance measures and activities that support our operational efficiency include:

- making sure that at least 80% of our expenditure is on front line activities, with the remainder on vital 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.

2.76 In 2022-23 we introduced better and more detailed management information to our service lines, management groups and individual teams. This has enabled us to more readily deploy our people and other resources where they are most needed.

2.77 To provide additional independent assurance on our efficiency, each year the Public Accounts Commission asks the NAO's external auditors (Crowe) to undertake an assessment of an aspect of the NAO's work, reporting on whether our resources are being used economically, efficiently and effectively. A 2019-20 audit of the NAO's finance and procurement functions found that these functions are working effectively and efficiently given the nature and size of the organisation; and that they are generally fit for purpose and value for money in the use of its resources. In 2020-21, the external audit of our major strategic investments found that the new Strategy is being implemented in line with value-for-money principles. For 2021-22, the auditors examined the NAO's Human Resources function and concluded that it was working effectively; and that its activities were in line with those the auditors would expect from similar organisations.

2.78 Our work saves the public money and we assess our financial impact every year, identifying where our work or influence has resulted in an improvement with a financially quantifiable net benefit. In 2021, our total audited impact was £874 million, which means we saved £11 for every £1 spent through our work. Our work provides a significant positive return on the investment of public money made in us.

Natural resources

2.79 We aim to be a net zero carbon organisation by 2029. Having initially focused our efforts on ensuring we accurately capture and measure our carbon emissions, last year we created a detailed carbon reduction pathway plan aimed at reducing carbon in all areas of NAO activity. The plan encompasses the reduction of carbon emissions in our wider operations, including how we can work with suppliers to reduce the size of their carbon footprint attributable to our operations, and how we can support our people in making the right choices in terms of minimising their own carbon footprint in relation to working from home and commuting.

2.80 Our next major change aimed at reducing our direct carbon emissions is the planned installation of an energy-efficient heat pump system in our London office in 2024-25. The current gas boilers are expected to reach the end of their lives in 2024 and we are undertaking a feasibility study for this project.

2.81 In 2023-24 we will change office locations in Newcastle. Our new building promotes excellent environmental standards. It holds an A-rated Energy Performance Certificate with low-carbon energy sources and data analytics to manage the building and minimise waste. This office move is an important step towards us achieving our target of becoming net zero by 2029.

Part Three

Our estimate for 2023-24

Summary

3.1 Part Three comprises our Estimate memorandum and forms part of our update on progress against our organisational strategy. It includes the budgets we request for the next financial year (the Estimate), provides more information about why we need these and outlines our medium-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 9) and are also set out in a format requested by HM Treasury in the accompanying NAO Main Supply Estimate 2023-24, 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 2023-24.

Resource

3.5 Our budget includes a net resource requirement of £91.1 million, after allowing for £27.0 million of income. **Figure 5** overleaf shows our proposed annual running costs for the next financial year 2023-24 and sets out our expectations of the three-year period to 2025-26 as compared with the current budget for the financial year 2022-23.

Figure 5

Resource spending plans, 2022-23 to 2025-26

	2022-23	2023-24	2024-25	2025-26
	Estimate	Estimate	Plan	Plan
Total expenditure (£mn)	109.8	118.1	119.3	122.2
Income (£mn)	25.9	27.0	25.9	26.9
Net expenditure (£mn)	83.9	91.1	93.4	95.3
Percentage change year on year (%)		8.6%	2.5%	2.1%
Percentage change over period (%)				13.6%
Annual real growth rate in GDP ¹		3.2%	1.3%	0.5%
Net expenditure (adjusted using GDP) (£mn)		88.3	89.3	90.7
Percentage change year on year (%)		5.2%	1.1%	1.6%
Percentage change over period (%)				8.1%
Annual real growth rate in CPI ²		5.5%	0.0%	-1.0%
Net expenditure (adjusted for CPI increase) (£mn)		86.4	88.5	91.2
Percentage change year on year (%)		3.0%	2.4%	3.1%
Percentage change over period (%)				8.7%
People numbers	940	948	948	948

Notes

- 1 GDP reflects the rate of increase in prices of all domestically produced goods and services in the economy. HM Treasury consider the wider coverage of the GDP deflator makes it appropriate for deflating public expenditure series.
- 2 The Consumer Price Index is an index of the prices of goods and services bought by a typical household and is a common measure of inflation. Suppliers will seek uplifts in line with inflation and therefore, movements in this index are relevant to the cost pressures faced by the NAO.
- 3 Figures may not sum due to rounding.

Source: National Audit Office, with reference to the Office of Budget Responsibility's November 2022 *Economic and fiscal outlook*

Overview of net resource budget changes

3.6 Our budget next year is an 8.6% increase on our current budget. Over the three-year period we expect a 13.6% increase against this baseline.

3.7 These increases are reduced once adjusted for expected inflation, as measured by the Consumer Price Index (CPI) and based on forecasts provided by the OBR over these periods. Once adjusted for CPI our budget will show a 3.0% increase next year in our budget, and over a three-year period an increase of 8.7%. Applying the GDP deflators commonly used by HM Treasury, our budget will show 5.2% increase next year and 8.1% over a three-year period.

Key assumptions

3.8 Our forward plans for next year are based on a number of key assumptions which are shown in the table **Figure 6** overleaf and summarised in the diagram in **Figure 7** on page 39. The most significant assumptions are:

- **A net increase in staffing numbers.** This reflects the fact that significantly more audit work across our whole portfolio is required to meet the requirements of revised international audit standards. It is consistent with practices across the audit profession resulting from ISA 315 revisions, which introduce a new approach to risk assessment and work planning. We have also taken account of reductions in some areas where we see a scaling back of our work on the government's response to the pandemic.
- **Our approach to pay.** We have applied a pay award of 4% as of 1 April 2023. However, we are also proposing a more fundamental change to our pay and reward framework: an approach which is necessary to make us a more competitive employer and improve staff retention. Taken together, these two changes are worth slightly more than 6%.
- **Further increases in the costs of audit firms,** where we outsource around 20% of our financial audit portfolio. Publicly disclosed pay awards in these firms are around 10%, and they are also increasing the scope of their work as a result of updated audit standards. These changes are being reflected in the fees they charge us to carry out their work.
- **Allowance for inflation** relating to our non-staff costs. We have provided for an average of 5.5% inflation next year based on published OBR forecasts. We have used CPI as an appropriate measure, as suppliers will negotiate with reference to headline inflation. However, inflation has proved difficult to forecast in recent months, and it may not fall next year as quickly as expected.
- An assumption that, where we charge audited bodies a fee for their audits, we can **recover the additional costs** through our audit fees.

Figure 6

Movements in net resource budgets between 2022-23 and 2023-24

	£ million
Net resource budget for 2022-23	83.9
Staff costs	
Fewer staff working on Government pandemic response	(1.1)
Additional staff on ISA 315 work	1.7
Pay award	3.0
Reduction in employer national insurance rates	(0.5)
Pay framework review	2.2
Total movement in staff costs	5.3
Non-staff costs	
Reduced work with UK audit offices who support EU Agricultural Fund audits	(0.2)
Increase in cost of commercial audit firms	2.0
Increased level of business support	0.4
Inflation on business support costs	0.6
Increase in depreciation following higher capital budgets	0.3
Total movement in non-staff costs	3.1
Income	
Increase in rental income	0.1
Loss of income for EU Agricultural Fund audits	(0.4)
Increase in audit fees	1.4
Total movement in income	1.1
Net resource budget for 2023-24	91.1

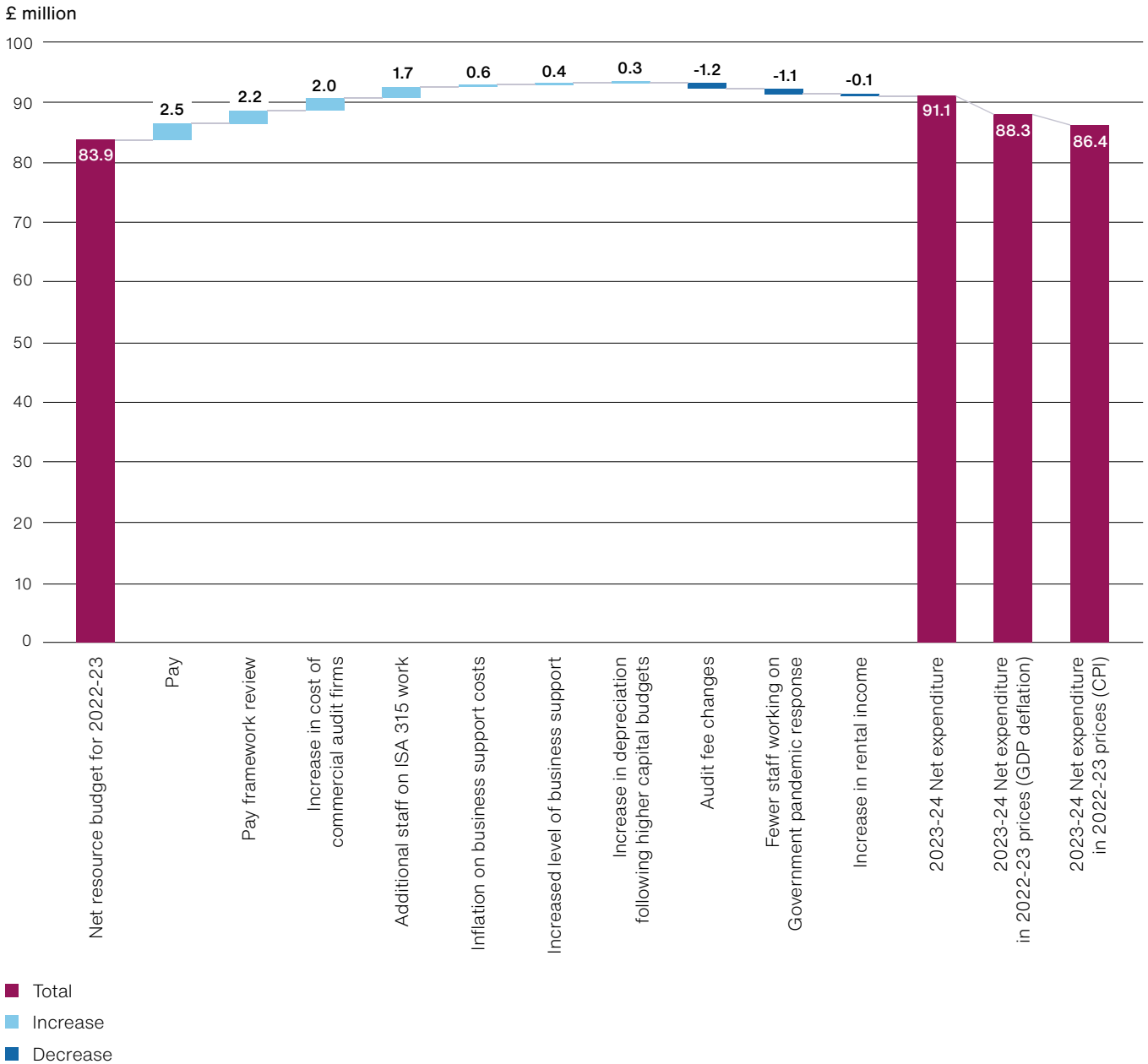
Notes

1 Figures may not sum due to rounding.

Source: National Audit Office

Figure 7

Summary of movements in net resource budgets between 2022-23 and 2023-24



Notes

- 1 'Pay' comprises the impact of the annual pay award and a reduction in employer national insurance rates.
- 2 'Audit fee changes' includes increases in audit fees and the impact of reduced assurance work on agricultural funds provided by the European Union.
- 3 GDP deflators reflects the prices of all domestically produced goods and services in the economy. HM Treasury consider the wider coverage of the GDP deflator makes it more appropriate for deflating public expenditure series.
- 4 The Consumer Price Index (CPI) is an index of the prices of goods and services bought by a typical household. Therefore, movements in this index reflect cost of living changes, and is relevant to the cost pressures in the NAO.

Source: National Audit Office

3.9 We note that we are planning our resource proposals against a backdrop of high uncertainty with continued change in the external economic environment. We will continue to monitor and refine our resource estimates as things become clearer, and we will stay in regular communication with the Commission about what we need to make sure we can carry out the role that Parliament asks of us.

3.10 In addition, year 3 of our forward plans is beyond our current five-year organisational strategy period (which runs from 2020 to 2025). We are about to start a strategic review to consult on our next five-year strategy, which will start in 2025. The review will be an opportunity to refresh and re-baseline objectives and resource needs. We will engage with a wide range of external stakeholders including other international public audit bodies in developing our new strategy.

Drivers of spending

3.11 The budget requested for next year is set out in **Figure 8**.

Figure 8

Budget allocation by type of expenditure, 2022-23 to 2023-24

	2022-23		2023-24		Variance	
	Estimate		Estimate			
	(£mn)	(%)	(£mn)	(%)	(£mn)	(%)
Staff costs	77.5	70.5	82.8	70.1	5.3	6.8
Non-staff costs	29.0	26.5	31.8	26.9	2.8	9.7
Depreciation	3.3	3.0	3.6	3.0	0.3	9.1
Total expenditure	109.8	100.0	118.1	100.0	8.3	7.6
Income	25.9		27.0		1.1	4.2
Net expenditure	83.9		91.1		7.2	8.6

Note

1 Figures may not sum due to rounding.

Source: National Audit Office

3.12 The NAO's budget is comprised as follows:

- 70% of the NAO's total cost base comprises salaries and is a consequence of staff numbers, grade mix and pay proposals. This has increased 6.8% year on year (paragraphs 3.13 to 3.22);
- 27% of the cost base is non-staff costs which include the use of firms to assist our audit work; the travel costs associated with audit; investment in audit technology and data security; and the costs of running the London and Newcastle offices. Overall, this has increased by 9.7% year on year, although within this, we have seen bigger increases in the costs of the audit firms (paragraphs 3.23 to 3.35);
- 3% relates to the annual depreciation and amortisation of assets owned or within the control of the NAO. This is a factor of the NAO's capital expenditures (paragraphs 3.51 to 3.58); and
- 25% of the NAO's expenditure is recovered through income (mostly fees charged to the audited bodies where appropriate), with the balance of net expenditure being funded by Parliament (paragraphs 3.36 to 3.43)

Staff costs

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

People numbers

3.14 To meet Parliament's needs and expectations in 2023-24, it is critical that we have sufficient numbers of high-quality people. While the emergency phase of the pandemic has ended, its effects present on-going operational and accounting challenges, and departmental financial reporting timetables are not yet back to where they were prior to the pandemic. In addition, the external economic context, with inflation, supply chain disruptions and intervention in the energy markets, presents new challenges to public service delivery. Within this volatile and changing environment, we also need to apply the recent revisions to the international audit standard on assessing risks, which will give rise to additional audit fieldwork.

Figure 9
Staff costs, 2022-23 to 2023-24

	2022-23		2023-24		Variance	
	Estimate		Estimate		Variance	
	(£mn)	(%)	(£mn)	(%)	(£mn)	(%)
Wages and salaries	52.7	68.0	55.3	66.8	2.6	4.9
Social security costs	6.6	8.6	6.4	7.8	-0.2	-3.1
Pension costs	14.8	19.1	15.5	18.7	0.7	4.7
Sub-total	74.1	95.6	77.2	93.3	3.1	4.2
Pay Review	0.0	0.0	2.2	2.7	2.2	100.0
Direct staff costs	74.1	95.6	79.4	95.9	5.3	7.2
Staff-related costs	2.7	3.5	2.6	3.2	-0.1	-3.7
Staff benefits	0.4	0.5	0.5	0.6	0.1	25.0
Apprenticeship Levy	0.25	0.3	0.26	0.3	0.01	4.0
Total staff costs	77.5	100.0	82.8	100.0	5.3	6.8
Staffing numbers	940		948		8.0	0.9

Note

- 1 Figures may not sum due to rounding.
- 2 Staff numbers are full-time equivalent (FTE).

Source: National Audit Office

3.15 Moreover, as we have started to deliver audit work under the enhanced requirements of ISA 315, we have refined our understanding of the extent of audit work needed in response to the revised standard. This has informed our expectations around our headcount for 2023-24.

3.16 We need to make sure we have the capacity and skill sets in our value-for-money staff to meet the type of work Parliament expects us to do, continuing to invest in economics, digital and data analytics expertise. **Figure 10** shows movements in our staff numbers.

3.17 Our staffing numbers depend substantially on our recruitment of graduate trainees. We aim to recruit around 80 graduates each year to join our training programme. We also offer school leaver schemes, apprenticeships and work experience placements. We supplement this through direct recruitment to specialist roles where the need arises.

3.18 Our current balance of staff is around 85% based in London, with 15% working out of Newcastle. We expect this to change in the longer term as we plan to recruit a greater proportion of our staff to work in the North East.

Figure 10
Staff numbers, 2022-23 to 2023-24

	2022-23	Planned reductions	ISA 315 and other needs	2023-24
	Estimate			Estimate
Executive Team	6	-	-	6
Financial Audit	563	(14)	19	568
Value-for-Money	169	-	3	172
Knowledge Hubs	35	-	-	35
Business Support	167	-	-	167
Total Staff Numbers	940	(14)	22	948

Note

1 Staff numbers are full-time equivalent (FTE).

Source: National Audit Office

Pay approach

3.19 As the Commission is aware from our Supplementary Estimate evidence session in 2022, we have faced higher than anticipated staff turnover at key grades; we have found it more difficult to recruit new staff at the levels we have intended; and we have seen substantial pay increases in audit firms in response to high levels of inflation. We are mindful of the need to balance our competitiveness as an attractive employer with our duty as a public body to use public funds responsibly. We are therefore proposing an annual pay award of 4%, which we consider to be proportionate and appropriate in this context. Our budgets also reflect the latest changes in employers' national insurance rates.

Pay review

3.20 We have carried out a review of our pay and grading framework for audit roles and propose to:

- introduce a new financial audit manager-level grade;
- update some of our pay ranges to ensure they are competitive; and
- improve how quickly staff progress to the mid-point of their pay range.

3.21 If implemented, the new pay framework will both improve existing pay gaps and reduce the risk of these building up again over time, offering more equitable pay across the organisation. The new framework will also address a perceived lack of progression for recently qualified staff – a new audit manager grade is more closely aligned to practices in the audit firms and offers a stepping-stone to more senior roles. It will make the NAO a more attractive and equitable place to work and support our ability to retain talented colleagues.

3.22 These changes will have a up-front implementation cost, as we would move staff who have met the required length of service to the mid-point of their salary range from 1 April. However, there will be costs in future years because the increases will be consolidated and we anticipate the new grade structure will be phased in over a period of time. Based on modelling of the changes, the expected costs over a three-year period are shown in **Figure 11**.

Non-staff costs

3.23 **Figure 12** shows in more detail the movement in non-staff costs year on year.

Professional services – audit firms

3.24 The majority of our spending on professional services is with audit firms and other audit offices who help carry out our audit portfolio. Our spend with the firms is expected to increase by 18% next year.

3.25 We have always used audit firms to help deliver a share of our work. Our work with the commercial firms provides us with advantages, including:

- resourcing support to the NAO through the most demanding point of the audit cycle following the financial year-end when most accounts are presented for audit;
- access to specialist areas of expertise where firms can draw on their broader knowledge base to supplement our work, such as pensions, financial instruments, and commercial property management; and
- benchmarking opportunities, allowing us to test our methodology and approach against private sector practice.

Figure 11
Pay Framework Review, 2022-23 to 2025-26

	2023-24	2024-25	2025-26	3-year Total
	Estimate	Plan	Plan	
Additional year-on-year costs (£mn)	2.2	0.3	0.5	3.0

Source: National Audit Office

Figure 12

Non-staff costs, 2022-23 to 2023-24

	2022-23		2023-24		Variance	
	Estimate		Estimate			
	(£mn)	(%)	(£mn)	(%)	(£m)	(%)
Audit firms	11.1	38.3	13.1	41.2	2.0	18.0
Other audit support	3.2	11.0	3.0	9.4	-0.2	-6.2
Professional services	14.3	49.3	16.1	50.6	1.8	12.6
Travel	1.3	4.5	1.5	4.7	0.2	15.3
Audit technology	2.1	7.2	1.9	6.0	-0.2	-9.5
Business support	11.3	39.0	12.3	38.7	1.0	8.8
Total non-staff costs	29.0	100.0	31.8	100.0	2.8	9.7

Note

1 Figures may not sum due to rounding.

Source: National Audit Office

3.26 However, the rising costs of this arrangement are highlighting some areas of concern. Firms control their own pay policies and are currently offering much higher pay awards for their staff than the pay awards we are applying in the NAO (for example, publicly disclosed pay awards in these firms of around 10%). This in turn pushes up the costs of the audits they carry out on behalf of the NAO. Of the 18% increase year on year, we estimate around half is related to pay-driven inflation.

3.27 In addition, the firms are increasing the scope of their audits as they factor in the need to carry out more rigorous planning and extended audit testing into their budgets for next year. This is to ensure compliance with recent auditing standards which introduce an updated approach to risk assessment. The remainder of the increase is related to change in scope (of which the majority is ISA 315 implementation costs).

Professional Services – other audit support

3.28 This includes the work that the other audit offices (Wales, Scotland and Northern Ireland) do to help us with the audit of EU agricultural funding, as well as other devolved bodies. This will reduce as these funding schemes are wound down. It also includes provision to provide expert support to our value-for-money and knowledge teams, as well as the costs of the Financial Reporting Council reviewing a sample of our audit work.

Travel

3.29 Our travel budget covers hotel costs and travel, and subsistence payments to employees who work away from the office. We continue to allow for a budget to carry out visits to audited body locations each year, although this is still around 50% lower than historical spending levels, as digital remote working techniques have meant teams do not need to be stationed at the offices of audited bodies for extended periods of time. Our budgets for next year are based on detailed audit plans submitted by teams.

3.30 All payments are in line with our travel policy, which has regard to HM Revenue & Customs guidance and is consistent with central government practice. Almost all travel is by economy class. Business class for air and first-class for rail is allowed only in exceptional circumstances (such as for medical reasons, or a very long-haul trip) and requires prior authorisation.

Audit technology

3.31 Our audit technology budgets include the licensing of our audit software and IT audit training. It includes a budget to enable our Data Analytics and Research Team to pioneer and test new approaches to digital audit. It also includes our investment in our Audit Transformation Programme (ATP) for those elements of the programme which are not recognised as a capital asset.

3.32 Ongoing investment in technology is fundamental to improving the quality of our audits in a sustainable way that meets updated auditing standards and expectations of the audit regulator. More information about our use of technology in audit can be found in paras 2.69 to 2.71.

Business support

3.33 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.

3.34 It also includes a budget for around £2 million of consultancy spend on IT support, legal, commercial and other technical advice. This includes specific expertise to major change projects where it is often cheaper to buy in resource as needed rather than employ specialists within the NAO.²

² This was classified under professional services in 2022-23. £1.9m has been reclassified in 2023-24 so as to better disclose the direct costs of providing professional services support to audit. The prior year budget of £1.8m has also been reclassified to ensure budgets are presented consistently year on year.

3.35 We have planned for an 8.8% increase (some £1.0 million) in our business support costs. This includes a general allowance for inflation (measured by CPI) which is forecast by the OBR to average 5.5% for the next financial year; an allowance of around £0.6 million. It also includes an allowance for increased business support of £0.4 million to complete the Newcastle office move in May 2023, to allow for energy prices which might exceed average inflation figures and to carry out greater levels of recruitment as we aim to achieve next year's staffing complement in a competitive market.

Income

3.36 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 13**.

Audit fees

3.37 The NAO charges audit fees directly to the audited body for around 250 of the 400 accounts which it audits. It charges fees for those government owned bodies and companies which operate in a broadly commercial manner. We also charge cash fees to those bodies where our appointment is by agreement rather than by legislation (for example the audit of international bodies) and the agreement allows for a fee to be charged.

Figure 13
Income, 2022-23 to 2023-24

	2022-23		2023-24		Variance	
	Estimate		Estimate			
	(£mn)	(%)	(£mn)	(%)	(£mn)	(%)
Audit fees	23.3	89.9	24.3	90.0	1.0	4.3
Rental of office space	2.1	8.1	2.2	8.1	0.1	4.8
Other overseas work	0.3	1.2	0.3	1.1	0.0	0.0
Secondment income	0.2	0.8	0.2	0.7	0.0	0.0
Total income	25.9	100.0	27.0	100.0	1.1	4.2

Note

1 Figures may not sum due to rounding.

Source: National Audit Office

3.38 We charge fees 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. Accordingly, our fees will increase over the next few years in line with our costs of individual audits. Increases in fees are partly offset by reductions in the scope of our EU Agricultural Funds audits, where the assurance work we provide is reducing.

3.39 We would need to seek ministerial agreement to charge audit fees to non-commercial entities such as government departments. Consequently, long standing practice has been that the costs of these audits are met from our annual Parliamentary funding. This means that should unplanned audit costs arise late in the year, we have the challenge of re-prioritising our work to make sure that we manage within our annual appropriation.

Rental income

3.40 We now have 12 floor areas of our London office available for rental (which comprises some 50% of useable office space of this building). Our budget for next year only assumes that we will have rented out some 60% of the areas we have made available. We anticipate renting out more space in future years.

3.41 This is a more prudent assumption than we have had previously but is reflective of our experience of the London property market over the last 12 months. Despite a lot of interested parties viewing the space, we have had few firm offers, as greater home working in general has led to more surplus office space on the market and a more competitive environment in which to be a landlord.

Other income

3.42 We carry out small interventions overseas designed to strengthen governance and accountability for UK taxpayers' money spent overseas. We charge fees to cover any associated costs of this work.

3.43 Secondment income is the recovery of costs where we place people with external organisations or overseas audit offices. We typically do this when we see an opportunity for our staff to develop new skills and experiences. However, we do not seek to recover costs where staff are attached on a short-term basis to Parliamentary committees.

Budget allocation by type of work

3.44 Figure 14 shows how we intend to apportion our resources to our main work streams in 2023-24. These are planning assumptions. Because the nature of our work is often responsive to fast moving external events, our final allocation may differ within any given year. More information and details on our plans for our main workstreams are set out in Part Two.

Financial audit

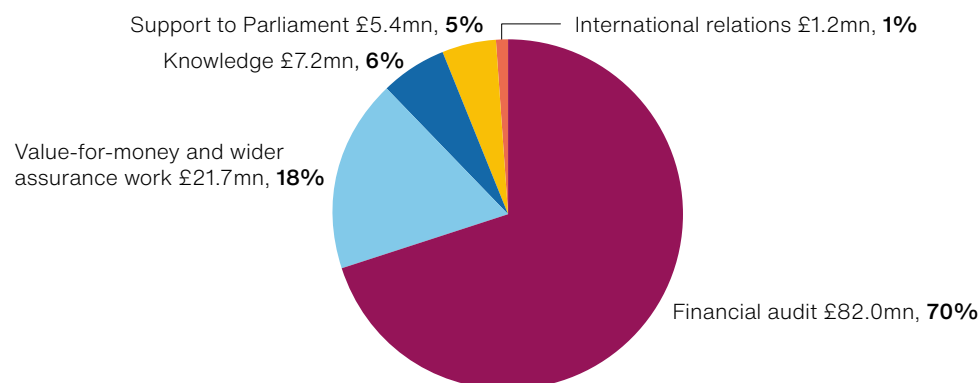
3.45 Our financial audit work covers around 400 accounts. We plan to spend around £82 million compared to a current budget of £74 million on our audit work. The budget increase reflects the increased volume of audit work we are required to do to comply with updated auditing standards on planning and risk assessment, and to continue to improve our audit quality scores.

Value-for-money and wider assurance work

3.46 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. We will maintain a budget allocation of £21.7 million, which is directly comparable with the prior year, although the actual spend can vary depending on the timing and scope of individual studies.

Figure 14

Budget allocation by type of work, 2023-24



Source: National Audit Office

Knowledge

3.47 Our knowledge work 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. We plan to continue to spend around £7 million a year on this.

Support for Parliament

3.48 Our direct support to Parliament reflects the amount of time we spend with Parliamentary committees and evidence sessions, as well as our programme of secondments to select committees. We plan to continue to spend around of £5.4 million to support both PAC and select committees.

International relations

3.49 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 remains around £1.2 million. This budget includes us fulfilling our role on the governing board of the European grouping of audit offices, as well as carrying out peer to peer support to strengthen the capability of audit offices in countries who are recipients of UK taxpayer's funds in the form of overseas development aid.

Comptroller function

3.50 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. We have budgeted for around £0.2 million next year for this, which is comparable with previous years' expenditure on this function.

Capital expenditure

3.51 Figure 15 sets out our capital spending proposals for 2023-24, and our expectations for the three years up to and including 2025-26.

Figure 15

Capital spending plans, 2022-23 to 2025-26

	2022-23	2023-24	2024-25	2025-26
	Estimate	Estimate	Plan	Plan
Total expenditure (£mn)	8.6	3.7	3.7	2.0
Percentage change year on year (%)		-57.0%	0%	-45.9%
Percentage change over period (%)				-76.7%
Annual real growth rate in GDP ¹		3.2%	1.3%	0.5%
Total expenditure (adjusted using GDP) (£mn)		3.6	3.5	1.9
Percentage change year on year (%)		-58.1%	-2.8%	-45.7%
Percentage change over period (%)				-77.9%
Annual real growth rate in CPI ²		5.50%	0.00%	-1.00%
Total expenditure (adjusted for CPI increase) (£mn)		3.5	3.5	1.9
Percentage change year on year (%)		-59.3%	0%	-45.7%
Percentage change over period (%)				-77.9%

Notes

- 1 GDP deflators reflects the prices of all domestically produced goods and services in the economy. HM Treasury consider the wider coverage of the GDP deflator makes it appropriate for deflating public expenditure series.
- 2 Consumer Price Index is an index of the prices of goods and services bought by a typical household and is a common measure of inflation. Suppliers will seek uplifts in line with inflation and therefore, movements in this index are relevant to the cost pressures faced by in the NAO.
- 3 Figures may not sum due to rounding.

Source: National Audit Office, with reference to the Office of Budget Responsibility's November 2022 Economic and fiscal outlook

3.52 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 will result in a capital asset.
- The completion of the fit out and refurbishment of our new Newcastle office space.
- Enhancements to our London meeting rooms and working space, to provide an inviting modern office space appropriate for flexible and collaborative ways of working.
- The installation of an energy-efficient heat pump system in 2024-25 to help us achieve our net zero goals.

Drivers of capital expenditure

3.53 Figure 16 sets out how the capital budget will be allocated to IT and property assets in 2023-24 and how this compares with the 2022-23 estimate.

Figure 16
Capital budget, 2022-23 to 2023-24

	2022-23		2023-24		Variance	
	Estimate		Estimate			
	(£mn)	(%)	(£mn)	(%)	(£mn)	(%)
IT assets	4.5	52.3	2.1	56.8	-2.4	-53.3
Property assets	4.1	47.7	1.6	43.2	-2.5	-60.1
Total capital expenditure	8.6	100.0	3.7	100.0	-4.9	-57.0

Note

1 Figures may not sum due to rounding.

Source: National Audit Office

IT assets

3.54 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.

3.55 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 up to £5 million in total over a four-year period, but with around £1 million of implementation costs falling into 2023-24, building on £3 million capitalised before then, with the balance in the subsequent year. These costs will be depreciated over the life of the contract.

3.56 However, these budgets also allow for a refresh of our video conferencing equipment (which are nearing the end of their useful life) as well as an upgrade to our large auditorium to make it more compatible with hybrid meetings. We are able to hire out our auditorium for third party events when it is not in use by the NAO.

Property assets

3.57 Our main physical asset is our London office, 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.

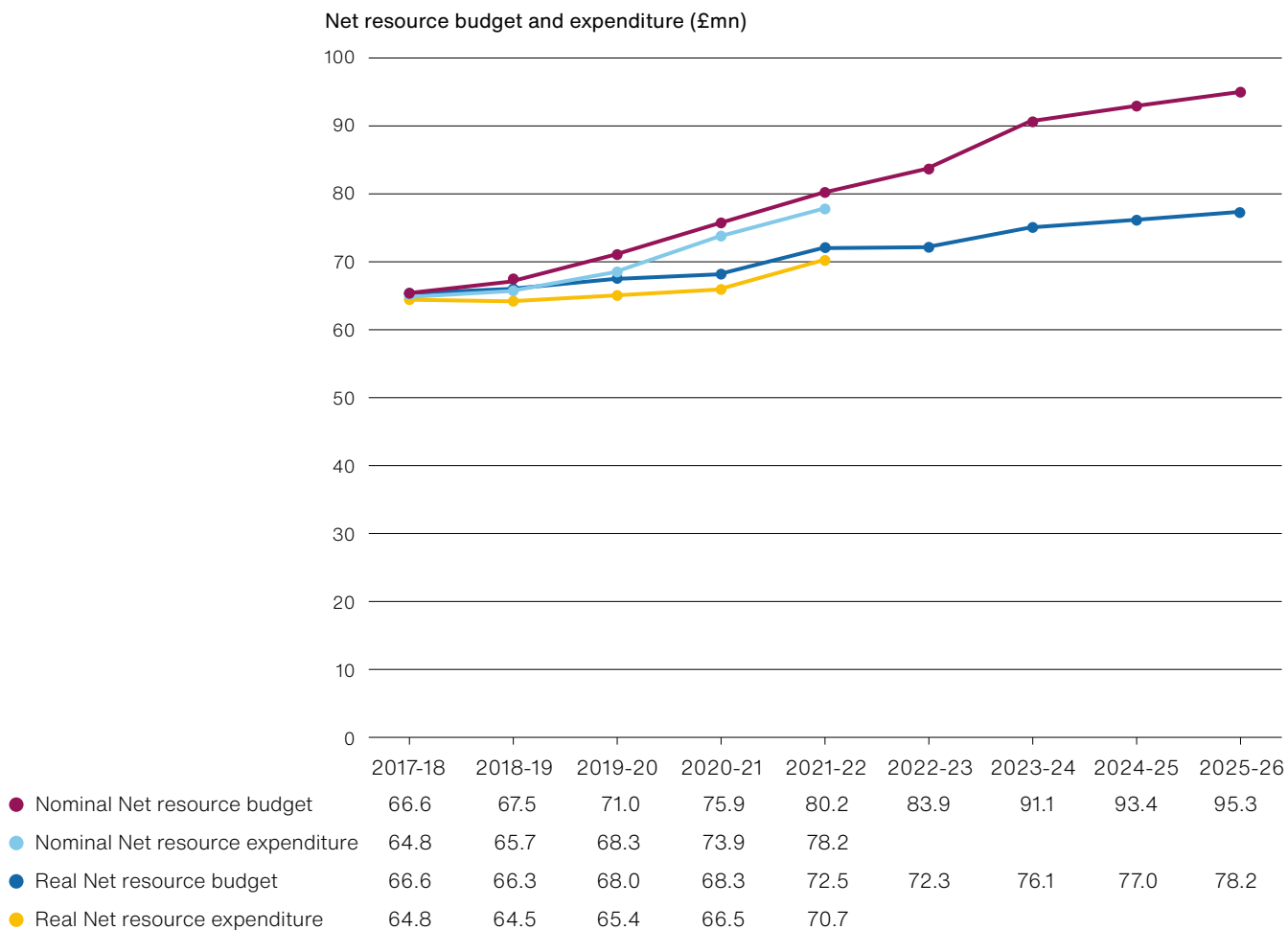
3.58 Projected capital expenditure includes £0.6 million for the completion of the fit out and refurbishment of our new Newcastle office space. It also includes enhancements to the London building, including an installation of a new fire alarm system (which following development of specifications and assessment of procurement routes has been rescheduled to take place in 2023-24).

Supplementary financial information

3.59 HM Treasury financial reporting guidance notes that the provision of five years of comparative data is consistent with best practice for illustrating financial trends within a clear narrative.

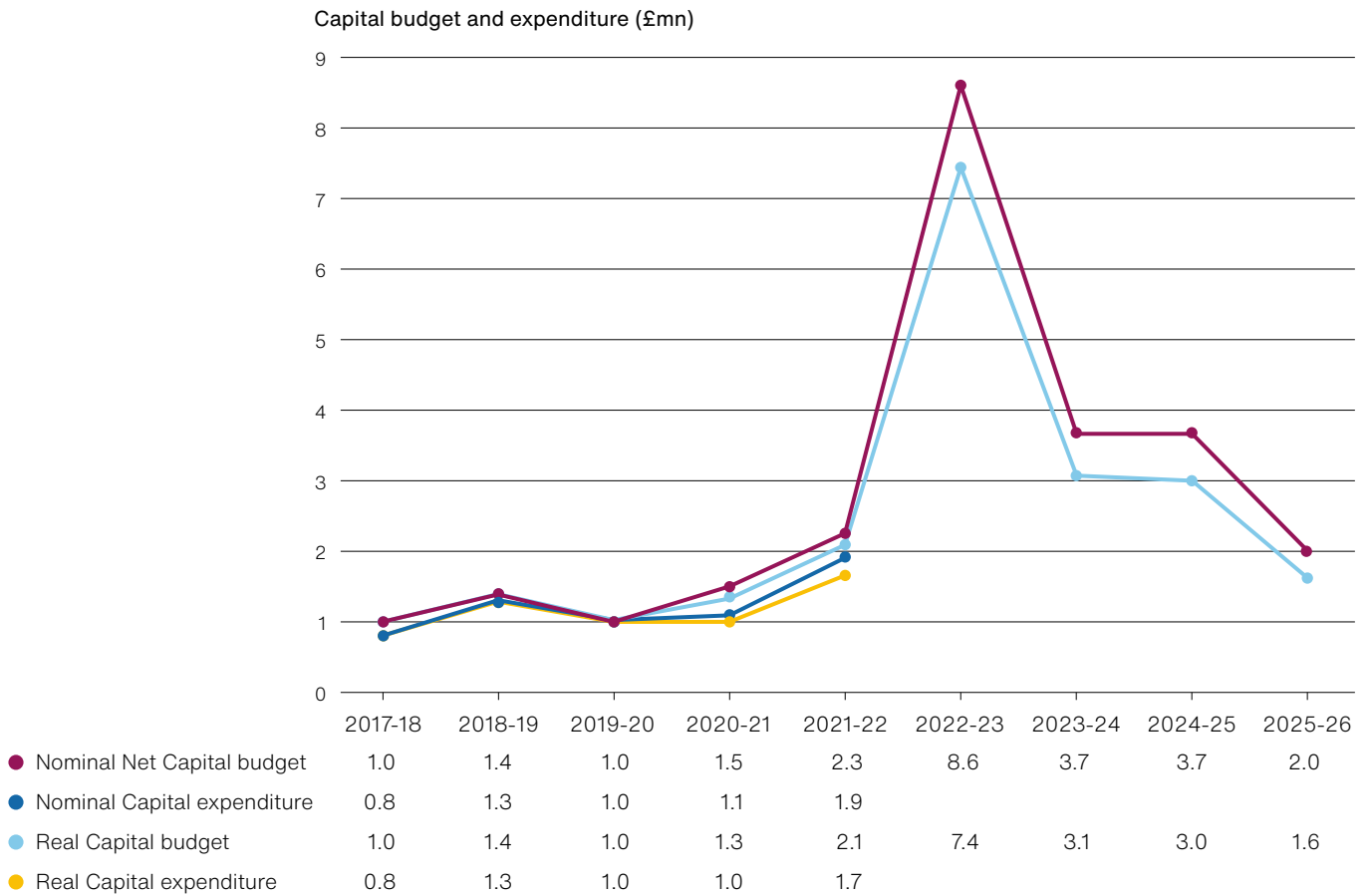
3.60 This section therefore provides supplementary historical information on budget and outturn for the last five years to demonstrate how our current 2022-23 budget and future plans compare. It is added for context only and the trends reflect the growth in our audit portfolio and responsibilities since 2017-18. **Figure 17** on page 54 and **Figure 18** on page 55 are shown in nominal terms and also in real terms, which adjusts for the impact of inflation over the same period and shows current and future budgets on the same basis as the baseline year of 2017-18.

Figure 17
Net resource budgets and expenditure, 2017-18 to 2025-26



Source: National Audit Office

Figure 18
Capital budgets and expenditure, 2017-18 to 2025-26



Source: National Audit Office

Part Four

Our performance

4.1 We have developed a new performance framework (**Figure 19** on pages 57 and 58) 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 19
National Audit Office (NAO) performance framework

Strategic priority or enabler	What success looks like	How we measure this	Target for 2023-24	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
Our work leads to better outcomes and value for money	MIPs consider that we support effective accountability and scrutiny	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
	Our work has a quantifiable positive financial impact on the public sector	MIPs agree that the NAO is effective at supporting Parliament to hold government to account and scrutinise public services	90% of MIPs agree	90% of MIPs agree
	Senior officials in the bodies we audit consider that our work leads to better outcomes	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
We provide accessible independent insight	Our knowledge and insights are clear and accessible to key stakeholders	Annually commissioned independent feedback from senior officials shows that they agree that our work leads to better outcomes	68% of senior officials agree	70% of senior officials agree
		MIPs agree that they can easily access our insights and knowledge	62% of MIPs agree	65% of MIPs agree
		Annually commissioned independent feedback from senior officials shows that they can easily access our insights and knowledge	68% 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 spokespeople and corporate messaging, and positive or negative reference to the NAO	62 out of 100	64 out of 100

Figure 19 *continued*
National Audit Office (NAO) performance framework

Strategic priority or enabler	What success looks like	How we measure this	Target for 2023-24	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 7.5	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	Reporting gender pay gap	5%	4%
We make effective use of technology, data and knowledge	There is no pay gap associated with gender or ethnicity	Reporting ethnic minority pay gap	9%	8%
	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	Quarterly surveys of NAO staff ask them to score out of 10 the extent to which: <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 8.0	Average score for the year of 8.2
We are an exemplar organisation	We demonstrate continued cost-effectiveness and efficiency	Ratio of expenditure on audit work to expenditure on business support services	Average score for the year of 7.2	Average score for the year of 7.4
	We see a sustained reduction in our environmental impact	Reduction in tonnes of carbon emissions	A minimum of 80% of our expenditure is on audit work	A minimum of 80% of our expenditure is on audit work
			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 will include data on a broader range of metrics, including senior management representation for women; staff from ethnic minority backgrounds; those with disabilities; and those from a socially disadvantaged background.

© National Audit Office 2023

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

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

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

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

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



National Audit Office