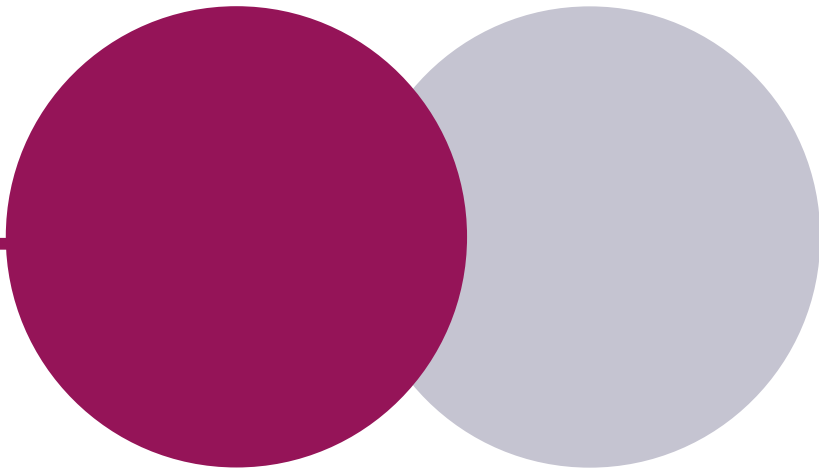




National Audit Office



NAO strategy: Progress update and estimate memorandum for 2024-25

The Public Accounts Commission

FEBRUARY 2024



**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 2022, the NAO's work led to a positive financial impact through reduced costs, improved service delivery, or other benefits to citizens, of £572 million.



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Foreword

We are pleased with the good progress we have made with our five-year strategy since 2020. We are supporting Parliament more effectively in its scrutiny of government spending; we are increasing our impact on value for money; and we are systematically sharing our insights and broadening our range of outputs so that lessons from our work are more accessible.

Our investments since 2020 to transform our audit approach and develop skills and capabilities have been effective, and we are confident about the on-going benefits they will deliver. In our value-for-money reporting, we have focused on the long-term 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 and its legacy effects on public services.

The NAO's priorities for our programme of audit work in 2024-25 are to:

- ensure that the quality of our financial audit work consistently meets enhanced regulatory standards;
- make further progress towards restoring the timeliness of audit certifications to pre-pandemic levels by summer 2025;
- support Parliament and the public by reporting on the most significant risks to value for money in public spending; and
- continue to report thematically on the lessons arising from our work and provide good practice guidance.

Subject to the Public Accounts Commission's approval, we will increase our staffing levels to ensure we have the capacity needed to carry out our audit work to meet enhanced standards, including in new government departments and public bodies. We will also increase our graduate intake to build our future capacity, in anticipation that we will outsource fewer audits from 2025 at lower overall cost.

As this will be the final year of our five-year strategy period, we will be consulting with our stakeholders in a strategic review to consider how we can best fulfil our role and continue to increase our influence to support Parliament and help improve the value for money of public services.

Gareth Davies
Comptroller and Auditor General

Dame Fiona Claire Reynolds DBE
Chair

Summary

1 The National Audit Office (NAO) 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 meant we needed to modernise how we carry out our audit work.

2 We have made good progress with our strategy despite the disruption caused by the COVID-19 pandemic. We have responded successfully to the additional demand for our work and continue to deliver benefits that far exceed our cost. In 2022, our work led to a positive financial impact through reduced costs, improved service delivery, or other benefits to citizens, of £572 million, as well as substantial non-financial impacts.

3 We are supporting Parliament more effectively in its scrutiny of government spending and are on track to publish around 62 major reports for Parliament and will certify more than 400 accounts by the end of this financial year. We are having more success in influencing government's approach to value for money, targeting the most significant long-term risks, and improving how we communicate so that people engage more effectively with our work.

4 In 2024-25, the last year of our current strategy, our priorities, subject to the Public Accounts Commission's (TPAC) approval, are to:

- **Ensure that the quality of our financial audit work consistently meets enhanced regulatory standards.** Our audits are becoming more complicated as external reporting and auditing requirements increase. The public bodies we audit are also grappling with these changes. The need for our ongoing programme of investment in our audit approach was reinforced by the findings of internal and external reviews of our 2021-22 audits which identified areas for further improvement. We are addressing this by streamlining and strengthening the management and governance of our financial audit service line and through our Audit Transformation Programme which brings standardisation and automation and will realise sustained benefits. In 2024-25, we will embed the use of our new digital audit platform, adding new quality assurance mechanisms and data analytics and automation technologies. Recent reviews of our financial audit work indicate that we also need to increase our resourcing to address quality. We will implement in 2024-25 a comprehensive quality plan that sets out the leadership, operational and technical changes needed to ensure that quality is consistently at the heart of everything that we do.

- **Restore the timeliness of audit certifications to pre-pandemic levels by summer 2025.** Before the pandemic, 78% of audits were certified by the summer Parliamentary recess. In 2023, we certified 60% of audits before the summer recess, compared with 53% in 2022. Factors such as delays in local government pension fund audits carried out by firms have made timely audit certification more challenging. Our planning work indicates that a target to complete 70% of our 2023-24 financial audits before the summer Parliamentary recess in 2024 is a realistic ambition, to be built on in future years.
- **Gradually reduce outsourcing of audit work to improve value for money.** To help us manage our financial audit programme we contract out around 20% of our work to audit firms. This gives us access to specialist expertise as well as additional capacity. In 2022-23 and 2023-24, the cost of using external audit firms to carry out some of our audits and to provide specialist advice increased by an average of nearly 9% each year. In December 2023, the NAO's Board endorsed our plan to gradually reduce the outsourcing of audit work over the medium term, to improve value for money.
- **Respond to the needs of Parliament and the public.** We will provide a balanced programme of value-for-money reports in 2024-25 which covers all the main spending departments and addresses the long-term challenges and opportunities for government. We will maintain a focus on efficiency, resilience and the delivery of core public services:
 - **Efficiency:** Constrained public finances demand that government extracts as much value as possible from every pound it spends. That requires choosing well and delivering well. In 2024-25, we will audit government customer service, measures to reduce tax evasion, commercial engagements and procurement, government's approach to regulating and supporting innovation, digital transformation, and consider financial sustainability in key sectors, also identifying wider lessons learned for government.
 - **Resilience:** Our programme addresses long-term risks to resilience of government operations, public services and critical national infrastructure, and assesses how well-placed government is to respond to unforeseen events or emergencies. In 2024-25, our programme will consider aspects of nuclear decommissioning, government property maintenance, pandemic preparedness and government's cyber security strategy, also drawing lessons learned from our past work on government interventions to achieve net zero.

- **Core public service delivery:** In the year ahead, we will examine government interventions to support the attainment of disadvantaged children, support children and young people with special educational needs and disabilities, manage demand in the prison estate, manage the points-based system for migration, prevent cardiovascular disease and tackle violence against women and girls.

The lessons from our work are relevant across the whole public sector. We will always look for impacts from our analysis, engaging with government audit committees and senior officials. For the first time, we will produce a summary for the new Parliament of our past work on factors critical to the effective delivery of public services. We will develop a comprehensive plan for engaging with MPs following the election.

- **Build our capacity to carry out a growing range of audit responsibilities.** The creation of new government departments in February 2023 and other additions to our audit portfolio, including within the Nuclear Decommissioning Authority group, will increase the volume of audit work we will do in 2024-25. To build our current financial audit capacity and to initiate our plan to reduce outsourcing over the medium term, we expect to recruit more auditors in 2024-25, including more trainees. We also plan to recruit additional value-for-money (VFM) staff, enabling our financial auditors to focus on their core work while ensuring that we can provide wider support to Parliament and departments in the most cost-effective way. The combined effect of these plans is to increase our number of audit staff by 38 full-time equivalent (FTE) personnel in 2024-25, including an additional 15 trainees.
- **Build our capacity in critical business support areas such as digital and technology.** We are strengthening our digital and cyber security capability in response to the increased digitisation of audit, growing use of government data, data analytics tools, and rising cyber risks. We are adding capacity to our external communications team to support better digital communication of our work. We will ensure that over 80% of our expenditure remains on front-line audit. We will build on our recent success in letting our surplus London office space to further reduce our resource requirement and will continue our expansion in Newcastle where staffing costs are lower.
- **Plan for our new five-year strategy from 2025.** We will complete a strategic review in 2024-25, using findings from an evaluation conducted in 2023-24 and consulting internally and externally, including with TPAC, to set our strategic priorities for 2025 to 2030.

5 Our budget for 2024-25 includes a net resource requirement of £101.9 million, after allowing £28.6 million of income which is a 7.5% increase on 2023-24 (**Figure 1**). Our budget also includes a smaller sum of £4.3 million of capital spending, an increase of around a third on 2023-24, to start the refurbishment of our London office, as well as complete the development of our new audit software. Capital spending will vary year on year depending on when we need to make investments in our asset base.

Figure 1
Summary of budgets, 2023-24 to 2024-25

	2023-24	2024-25	Variance	
	Estimate	Estimate		
	£mn	£mn	£mn	%
Audit and assurance work	121.0	130.5	9.5	7.9
Income	26.2	28.6	2.4	9.2
Net resource expenditure	94.8	101.9	7.1	7.5
Net capital expenditure	3.2	4.3	1.1	34.4
Net cash expenditure	94.4	101.5	7.1	7.5

Notes

- 1 Proposed budgets shown for 2024-25, subject to approval by the Public Accounts Commission. Figures may not sum due to rounding.
- 2 Parliament authorises separate resource, capital and cash budgets, which form totals within which the National Audit Office must manage. The figures in bold are the control limits, which will be voted by Parliament.
- 3 2023-24 Estimate includes the Supplementary Estimate approved by the Public Accounts Commission.

Source: National Audit Office

Part One

Our 2020-21 to 2024-25 strategy

Context for our strategy

1.1 When formulating our five-year strategy, we considered how best to serve Parliament and respond to changes in the external environment that affected us and the bodies we audit. We launched our strategy as the COVID-19 pandemic started. Four years on, the environment for government departments and public services remains challenging. There are the residual pressures of the pandemic, cost-of-living increases and recent industrial relations disputes, and higher borrowing costs. Government departments and other public bodies are also confronting longer-term challenges of growing demand, building resilience, and working towards net zero by 2050.

1.2 There are significant opportunities for government to address these challenges through productivity improvements from better managed major projects, more efficient asset management, better use of competition in procurement, digital transformation and reducing fraud and error. These are themes that the Comptroller and Auditor General (C&AG) set out in his annual speech in Parliament in January this year. More broadly, advances in Artificial Intelligence (AI) have potential to transform public services and the economy. This backdrop, alongside 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 the government's policy objectives are being implemented.

Components of our strategy

1.3 Our strategic priorities are to provide effective support to Parliament in examining public sector performance, to increase our impact on outcomes and value for money and to make our insights more accessible (**Figure 2** overleaf). Our work addresses the cross-cutting nature of the government's priorities, as well as the performance of individual departments. We use our remit across public spending to provide high-quality audits and objective evidence and analysis for Parliament. To help us to achieve our priorities, we have identified three enablers: attracting, retaining and developing high-quality people; using data, technology and knowledge more effectively; and being an exemplar organisation in how we operate.

Figure 2

National Audit Office'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

Progress with our strategy

1.4 **Figure 3** on pages 11 and 12 summarises our progress in 2023-24, the fourth year of our strategy. Part Two gives more detail on these measures and our plans for 2024-25.

Planning for our new strategy, 2025–2030

1.5 This year, we will carry out a strategic review to evaluate our progress and to consider our objectives and plans for our next five-year strategy from 2025. We will provide a further update on our progress in our annual report and accounts later this year. We will engage our key stakeholders in Parliament in 2024-25, including the Public Accounts Commission, to support us in refining our new strategy.

Figure 3**Progress with our strategic priorities in 2023-24**

Improving our support for effective scrutiny and accountability

- On course to publish at least 62 major reports and certify more than 400 accounts by the end of the financial year.
- We expect to support around 60 evidence sessions of Parliament's Committee of Public Accounts by the end of the financial year.
- Members of Parliament (MPs) are increasingly aware of our work, with 78% saying that they knew the National Audit Office (NAO) very well or a fair amount, the highest score since we started the annual survey. Of those MPs who knew about the NAO, some 94% said that we are effective in supporting Parliament.
- We published good practice guides for government audit and risk committees and senior decision-makers on topics to support effective scrutiny and benchmarking of department and public body performance.¹ We covered topics such as the quality assurance of business-critical models, the questions decision-makers should ask in an uncertain environment, and what makes for successful financial management in government.
- We implemented our new audit platform, Apex, as part of our programme to improve our financial audit approach so that it meets the highest standards of audit quality and effectiveness. This platform brings increased standardisation, efficiency and automation. We have started on our next steps for audit transformation, using data analytics and other automation technologies.

Increasing our impact on outcomes and value for money

- We strengthened our focus on government plans that have long-term implications for public spending, publishing a wide range of reports examining efficiency and productivity, public service resilience, core public service delivery and other cross-government themes.
- We examined key enablers of efficiency across government, including on themes such as cross-government working and progress on digitising the tax system. We published a good practice guide on the enablers of success in financial management in government.²
- We published reports on resilience themes including in relation to extreme weather events: critical infrastructure including flood defences, school buildings and new hospitals, and also the examined government's support for innovation to deliver net zero. We published a good practice guide for senior leaders on managing risks in government. We expect to publish work on digital infrastructure and mobile connectivity shortly.³
- Our work on core public service challenges looked at adult social care reform, access to unplanned or urgent care, resettlement support for prison leavers, harm reduction from illegal drugs, progress in implementing Universal Credit, and the Homes for Ukraine programme.⁴

Providing more accessible independent insight

- We published 12 insight reports, including four lessons learned reports in the first nine months of 2023-24, to make it easier for others to find, understand and apply lessons from our work.
 - We launched our new website in 2022, which now includes a recommendations tracker recording departmental and public body progress in implementing our report recommendations.⁵
 - Audited bodies accepted or partially accepted 97% of our recommendations (to 30 September 2023).⁶
 - We received 8,500 views per month of our insight webpages in 2022-23, compared with 4,800 views in 2019-20.
 - We presented at some 280 external speaking events between April 2021 and December 2023.
 - We are publishing different outputs to increase the visibility of, and engagement with, our work, such as the interactive data visualisation on waste management practices in England.⁷
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Figure 3 *continued*

Progress with our strategic priorities in 2023-24

Notes

- 1 For example, National Audit Office, *Quality assurance of models: a guide for audit committees*, May 2023 and National Audit Office, *Managing uncertainty: questions for decision-makers to ask in an uncertain environment*, August 2023.
- 2 National Audit Office, *Cross-government working: Good practice guide for leaders and practitioners*, July 2023; Comptroller and Auditor General, *Progress with Making Tax Digital*, Session 2022-23, HC 1319, National Audit Office, June 2023; and National Audit Office, *Financial management in government: enablers of success, Good Practice Guide*, July 2023.
- 3 Comptroller and Auditor General, *Condition of school buildings*, Session 2022-23, HC 1516, National Audit Office, June 2023; Comptroller and Auditor General, *Resilience to flooding*, Session 2023-24, HC 189, National Audit Office, November 2023; Comptroller and Auditor General, *Progress with the New Hospital Programme*, Session 2022-23, HC 1662, National Audit Office, July 2023; Comptroller and Auditor General, *Support for innovation to deliver net zero*, Session 2022-23, HC 1321, National Audit Office, May 2023. *Overcoming challenges to managing risks in government: Good practice guide*, December 2023. On forthcoming work see: *Supporting mobile infrastructure*, available at: www.nao.org.uk/work-in-progress/supporting-mobile-infrastructure/.
- 4 Comptroller and Auditor General, *Access to unplanned or urgent care*, Session 2022-23, HC 1511, National Audit Office, June 2023; Comptroller and Auditor General, *Reforming adult social care in England*, Session 2023-24, HC 184, National Audit Office, November 2023; Comptroller and Auditor General, *Improving resettlement support for prison leavers to reduce reoffending*, Session 2022-23, HC 1282, National Audit Office, May 2023; Comptroller and Auditor General, *Reducing the harm from illegal drugs*, Session 2022-23, HC 1864, National Audit Office, October 2023; Comptroller and Auditor General, *Investigation into the Homes for Ukraine scheme*, Session 2022-23, HC 1863, National Audit Office, October 2023.
- 5 Our recommendations tracker is available at: www.nao.org.uk/nao-recommendations-tracker/.
- 6 For recommendations where an update had been provided by the audited body.
- 7 National Audit Office, *Waste management: data visualisation*, June 2023, available at: www.nao.org.uk/reports/waste-reforms-visualisation/.

Source: National Audit Office

Part Two

Our plans for 2024-25

Our strategic priorities

2.1 This section covers how we will deliver against our three strategic priorities in 2024-25, the final year of our 2020-25 strategy:

- Improving our support for effective accountability and scrutiny.
- Increasing our impact on outcomes and value for money.
- Providing more accessible independent insight.

A. 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 is conducted in accordance with international auditing standards, providing assurance, through the Comptroller and Auditor General's (C&AG's) opinion, to Parliament and other stakeholders that financial statements are true and fair, and for most of our audits, that income and expenditure are in accordance with Parliament's intentions, known as the regularity opinion.

2.3 We are shaping our financial audit work to respond to a changing environment.

- Regulatory requirements are increasing and financial reporting standards for public bodies are becoming more complex which means additional audit assurance work and, frequently, additional support to the bodies we audit (**Figure 4** overleaf).

Figure 4

Recent changes to accounting and auditing standards

Our audit quality plans are responding to these significant developments

Standard	Audit cycle effective from	Implications for our financial audit
ISA (UK) 315: Identifying and assessing the risks of material misstatement	From our 2022-23 audits	Changes to an audit risk assessment based on a deeper understanding of audited body business, systems and processes.
IFRS 16 (adapted by the FReM for public sector): Leases	From our 2022-23 audits	Introduces major changes to the accounting treatment of leases.
ISA (UK) 220: Quality management for an audit of financial statements	From our 2023-24 audits	Revises quality management at the audit engagement level, with additional requirements on the Audit Engagement Director and new protocols for contracted out work with firms. ²
ISQM1: Quality management for firms that perform audits or reviews of financial statements, or other assurance or related services engagements	From our 2023-24 audits	Introduces a new risk-based approach to quality management at the firm level.
ISQM2: Engagement Quality Reviews	From our 2023-24 audits	Building on ISA (UK) 220, sets firm level requirements for engagement quality reviews, linking with ISQM1.
ISA (UK) 600: Audits of Group Financial Statements (Including the work of component auditors)	From our 2024-25 audits	Strengthens responsibilities of Group financial auditors in areas such as professional scepticism, planning and performing the audit, communicating with component auditors, and documentation.
ISA (UK) 250: Consideration of Laws and Regulations in the context of an audit of financial statements (subject to a consultation by the Financial Reporting Council)	From our 2025-26 audits	Expected to introduce a risk-based approach to identifying the laws and regulations that may have a material effect on the financial statements, and likely to increase those laws and regulations included as part of the audit.
IFRS 17: Insurance (revisions to FReM requirements in respect of non-investment assets)	From our 2025-26 audits	Further planned changes to accounting standards that will require early preparatory engagement with audited bodies.

Notes

- 1 ISA = International Standards on Auditing (UK); ISQM = International Standard on Quality Management; IFRS = International Financial Reporting Standard; FReM = Government Financial Reporting Manual.
- 2 See Institute of Chartered Accountants in England and Wales (ICAEW) at: www.icaew.com/technical/audit-and-assurance/audit/quality-management-in-audit-firms/overview-of-standards.
- 3 For more information, see the National Audit Office's *Transparency Report 2022-23*, available at: www.nao.org.uk/wp-content/uploads/2023/11/nao-transparency-report-2022-23.pdf.
- 4 These regulatory developments build on earlier changes such as to International Financial Reporting Standard (IFRS) 9 (financial instruments), IFRS 15 (revenue) and ISA 540 (estimates).

Source: National Audit Office, Institute of Chartered Accountants in England and Wales and Government Financial Reporting Manual

- The National Audit Office (NAO) is being invited to take on audits of public bodies in cases where it has been challenging to renew private sector audit firms' contracts.

The fees charged by audit firms in response to higher regulatory standards and wider inflationary pressures are increasing. Across the Big Four firms, fees increased by over 14% between 2020 and 2022, before the impact of the most recent auditing standards changes.¹ The net effect of all these developments on our resource budget and staffing needs is set out in Part Three.

Audit quality

2.4 The quality of our work is fundamental to our credibility in supporting Parliament in holding government to account. Our priority is to meet international auditing standards consistently. We will update the Public Accounts Commission (TPAC) shortly on the steps that we are taking to achieve this. We are:

- **Implementing new International Standards of Quality Management** (ISQM1 and ISQM2), this financial year and last, which involved a new management system, and a reappraisal and update of our policies and procedures in areas such as audit quality risk assessment and engagement quality reviews. As part of this, we are streamlining and strengthening our management and governance of our financial audit service line.
- **Transforming our audit methodology.** Our Audit Transformation Programme is a once in a generation investment that makes sure our audit methodology is up to date and in line with professional standards. In 2022-23, we introduced a new risk-focused methodology in the first phase of our transformation. In September 2023, we rolled out our new audit management software (NAO Apex) which standardises and automates audit processes, bringing long-term benefits to the efficiency and quality of our work. This new software provides additional quality data to help us measure and manage our performance.
- **Investing systematically in data analytics.** In 2024-25, the final year of our Audit Transformation Programme, we will implement new quality assurance, data analytics and automation technologies, and tools which permit more reliance on IT controls, enabling swifter detection of potential errors and anomalies.

¹ The Financial Reporting Council's annual review of Key Facts and Trends in the Accountancy Profession showed a 7.6% increase in fees between 2021 and 2022 and 6.5% between 2020 and 2021 for the Big Four audit firms (Deloitte, EY, KPMG, and PwC). This is before the full year implementation of ISA 315 which became effective for accounting periods beginning on or after December 2021. See: https://media.frc.org.uk/documents/FRC_Key_Facts_and_Trends_in_the_Accountancy_Profession_August_2023.pdf

- **Building the capacity and capability of our financial audit teams** by:
 - Investing in centres of expertise and specialist teams in areas such as pensions, property, fraud and propriety, IT audit, and financial instruments. These specialists provide advice, guidance and training to frontline audit teams and engage in external networks of expertise.
 - Increasing our insight and assurance to audited bodies and Parliament on sustainability reporting where standards are evolving rapidly.²
 - Enabling our financial auditors to spend more of their time on core financial audits in response to the added depth and complexity of work required.
- **Working on the cultural factors that contribute to audit quality** to get things right first time. For example, we are:
 - Conducting regular root cause analysis to learn from and respond to outstanding quality risks and issues.
 - Providing a targeted learning and development programme to our teams.
 - Increasing access to technical support and expertise.
 - Acting promptly on findings from our annual internal and external quality review programmes.
- **Supporting Parliament and increasing transparency** by publishing extended auditor's reports for government departments from 2022-23. These provide significantly more information about our audit approach for the users of these accounts.

2.5 Alongside these significant measures, our analysis shows that to deliver on our commitment to consistently provide high-quality audits in line with the latest international standards, we also need to increase the size of our financial auditor workforce in 2024-25 (see Part Three on resource budget and staffing). The greater time allocated to core financial audit work will yield deeper insights and enhance quality. At the same time, our value-for-money (VFM) audit teams continue to support Parliament, drawing together analysis from all our work and providing a wide range of accessible products and reporting. Our estimate in Part Three also reflects these additional demands.

² In June 2023, the International Sustainability Standards Board published two International Financial Reporting Standards (IFRS) sustainability standards, effective for accounting periods beginning in January 2024 (S1 sets out general requirements for disclosing information about an entity's sustainability-related risks and opportunities, while S2 covers climate-related disclosures more specifically). The International Public Sector Accounting Standards Board is now developing a climate-related disclosures standard for the public sector that is based on IFRS sustainability reporting requirements. In the UK, HM Treasury has also introduced new requirements, to be phased in over three years from 2023-24, for central government departments to report on climate-related risks and opportunities in line with the recommendations of the G20-sponsored Taskforce on Climate-related Financial Disclosures. The NAO reported on measuring and reporting greenhouse gas emissions in the public sector in June 2022: Comptroller and Auditor General, *Measuring and reporting public sector greenhouse gas emissions*, Session 2022-23, HC 63, National Audit Office, June 2022.

Timely financial reporting

2.6 Timely financial reporting is fundamental to effective accountability.

In 2023, 60% of the bodies we audit published their audited accounts before the summer Parliamentary recess. This is an increase from 53% in 2022 and 41% in 2020 but still below the 78% achieved in 2019 before the pandemic. We prioritised the delivery of financial statements for major government departments and the BBC such that 10 out of 17 major departments (and the BBC) published accounts before the summer recess. Some central government bodies, including the Department for Culture, Media & Sport, and the Ministry of Justice, continue to be affected by delays to the audits of local authority pension schemes (see below).

2.7 Our target is for 70% of the bodies we audit to publish their accounts for 2023-24 before the summer Parliamentary recess in 2024. We will build on this target in future years and expect at least 78% of audited bodies to publish their 2024-25 accounts before the summer 2025 Parliamentary recess, including all major departments. We are supporting audited bodies to help them close their accounts more quickly but this further increases the demands on our financial audit teams.

Modifying our approach to outsourcing financial audit work over time

2.8 In our 2023 update to TPAC, we said that we would consider our response to the increased cost of outsourcing our work. In December 2023, the NAO Board agreed that we should reduce the level of outsourced financial audit work cautiously over time, using the opportunity to implement updated contractual arrangements from 2026.

2.9 Our analysis shows that building in-house capacity to carry out a growing range of audit responsibilities over time will reduce our exposure to fee increases by external firms and our dependence on temporary contracts, giving us greater control and reducing our long-term outsourcing costs. We will take a balanced and incremental approach and will continue to work with audit firms to obtain benefits from contracting out, gain insights and benchmark our performance.

2.10 Our estimate for 2024-25 reflects the recruitment planning needed to implement this new model. Bringing more of our audits in-house aligns with the direction of Parliamentary oversight of audit quality, including scrutiny by TPAC. It also extends the reach of our Audit Transformation Programme, bringing greater consistency and standardisation across our audit portfolio.

Machinery of government and other audit portfolio changes

2.11 In February 2023, the government abolished two departments – the Department for International Trade and the Department for Business, Energy & Industrial Strategy – and created three new ones: the Department for Business and Trade, the Department for Science, Innovation & Technology and the Department for Energy Security & Net Zero, and modified the remit of the Department for Culture, Media & Sport. The three new departments are supported by a large number of agencies and public bodies, most of which were previously part of the Business, Energy & Industrial Strategy departmental group.

2.12 We will audit the 2023-24 accounts of the new departments for the first time in 2024-25. This follows the certification of the 2022-23 accounts of the legacy Department of Business, Energy & Industrial Strategy in October 2023. The changes mean that we will be auditing the transfer of spending from the legacy to the new departments as part of our certification of the 2023-24 accounts and planning for, monitoring, and auditing, an additional government department. The reallocation of agencies and public bodies across the three new departments also means that we will be doing more audit testing because the thresholds for determining whether expenditure is material to the accounts of the new departments will be lower.

2.13 We are also taking on new financial audit engagements in 2024-25 in response to requests from the government. In particular, we will audit the companies that form part of the Nuclear Decommissioning Authority (NDA) group because the NDA has found it challenging to renew private sector audit contracts. Our audit of these companies also permits a more efficient overall audit of the NDA group and better oversight of its decommissioning liabilities. Our portfolio is also expanding to include the Further Education Annual Report and Accounts, the Pool Reinsurance Company Limited, the Office for Place, and the Independent Commission for Reconciliation and Information Recovery in Northern Ireland. At the same time, our plans assume a reduction in audit in 2024-25 linked to the European Union Agricultural Funds and the closure of Revenue and Customs Digital Technology Services Ltd.

Wider assurance and support to Parliament

Engagement with Parliament

2.14 We support Parliament by providing MPs and committees with value-for-money (VFM) reports, investigations, knowledge products and briefings, as well as facilitating scrutiny of the annual reports and accounts of government departments. Our primary relationship is with the Committee of Public Accounts (PAC). In 2023-24, to the end of December, we had:

- Supported 41 PAC evidence sessions (and expect to support around 60 by the end of 2023-24).
- Held 63 meetings or briefings with PAC members.
- Provided 11 oral or written briefings for select committees.
- Published eight departmental overviews for select committees, and before the end of 2023-24 will have published overviews on the new departments created following the machinery of government changes. These overviews combine financial audit and VFM insights and support departmental select committees in their scrutiny of government performance.
- Given evidence to the House of Lords Industry and Regulators Committee as part of its inquiry into UK regulators.
- Attended 40 meetings with individual MPs or Lords.
- Seconded 10 members of staff to support select committees and the House of Commons Scrutiny Unit.
- Held 47 other engagements with select committees and House staff, including training sessions on how we work with Parliament and how to make best use of departmental accounts to support parliamentary scrutiny, receiving excellent feedback.

2.15 Our annual survey of MPs, conducted by Ipsos Limited in 2022-23, found that, of those MPs who knew at least a little about the NAO, 94% said that we were effective in supporting Parliament to hold government to account and scrutinise public services (90% in 2021-22). MPs were also asked to compare us with other major organisations and say whether we are above average on a range of characteristics (**Figure 5** overleaf).

2.16 Our MPs' survey also tells us that they would value even more regular face-to-face contact with us (around half said that we were above average in this area compared with other major organisations in 2022-23). We are working to address this in 2024-25 and will also be developing our plans for communicating with MPs in the new Parliament once the timing of the General Election has been announced.

Figure 5

Example results from surveys of Members of Parliament (MPs)

These surveys invite MPs to compare the National Audit Office (NAO) with other major organisations. Scores have improved in some important areas since the start of our current strategy

Characteristic	Percentage of respondents 2019-20	Percentage of respondents 2022-23
	(%)	(%)
Authoritative	89	94
Acting impartially and independently	80	93
Acting with honesty and integrity	74	88
Quality of products or services	66	77

Note

1 Results shown are of those MPs who knew at least a little about the NAO.

Source: National Audit Office analysis of Ipsos Annual Survey of Members of Parliament

Local audit

2.17 We are continuing to support the government in its work to reform local audit arrangements in England, using our guidance publication and engagement work. The government intends to transfer responsibility for the Code of Audit Practice, which sets the framework for the audit of local public bodies in England, from the C&AG to the Audit, Reporting & Governance Authority, the body planned to replace the Financial Reporting Council (FRC), subject to primary legislation.

2.18 We published an update on the Department for Levelling-Up, Housing & Communities’ (DLUHC) progress with reforms and the timeliness of local government audits in England in January 2023, describing the steps taken since we and the PAC last reported on these issues in 2021 and 2022.³ In its earlier analysis, the PAC said that DLUHC had not set out an overarching plan to address pressing problems with the local government audit market and described a pattern of “shockingly late audit opinions”.⁴ Data from the Public Sector Audit Appointments body showed that as at the statutory deadline of 30 September 2023, only five out of 467 local government body 2022-23 audit opinions had been given, with 918 audit opinions now delayed, including for years prior to 2022-23.⁵

3 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; Committee of Public Accounts, *Local auditor reporting on local government in England*, Eleventh Report of Session 2021-22, HC 171, July 2021; and Committee of Public Accounts, *Local government finance system: overview and challenges*, Thirty-fourth Report of Session 2021-22, HC 646, February 2022.

4 Committee of Public Accounts, *Local government finance system: overview and challenges*, Thirty-fourth Report of Session 2021-22, HC 646, February 2022.

5 Public Sector Audit Appointments, *Audit Contract Monitoring Report Data Pack PSAA Board Quarter 2 – September 2023*. Available at: Contract Monitoring Data Pack: Quarter 2 for 2023/24 – PSAA.

2.19 In response, the C&AG has committed to consider using his Code powers as part of a wider set of actions co-ordinated by DLUHC, with the FRC, to support the local audit market, address the backlog of uncompleted audits, and implement any agreed reforms.

International work

2.20 We have regular engagement with our colleagues in other Supreme Audit Institutions (SAIs) and related international organisations.⁶ While relatively modest in expenditure terms, this work is valuable and important and improves our offer to Parliament by:

- Bringing global perspectives and access to comparative data to inform our UK work, providing insights into how different countries tackle relevant issues, such as climate change, sustainable development and national disaster preparedness and response.
- Sharing knowledge and importing good practice, in particular on data analytics and other innovative technology.
- Strengthening accountability and transparency in international institutions and countries in receipt of UK taxpayer funding.
- Developing our people to give them new 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.

2.21 There are three main components to our international work:

- **International relations:** We contribute to international forums and work with other organisations to collaborate on global themes, methods and standards. For example, we have invited national audit institutions from Norway and the Netherlands to conduct reviews of strategically important areas of our work in preparation for our new strategy from 2025.
- **International audit:** The NAO is the external auditor of some of the international organisations that receive UK funding. These appointments provide membership to the United Nations Panel of External Auditors, where we use our insight to influence the quality of assurance and gain intelligence on common issues across the UN system.
- **Technical cooperation:** We participate in projects to help national audit offices overseas improve their professional public audit service. We strengthen accountability to taxpayers by prioritising our support to countries that receive UK aid.

⁶ For example, through the International Organization of Supreme Audit Institutions (INTOSAI) and its European regional working group, the European Organization of Supreme Audit Institutions (EUROSAI).

2.22 Our future aims and plans for this work include:

- Maintaining an influential role on the Governing Board of the European Organization of Supreme Audit Institutions (EUROSAI) and participating in international working groups specialising in environmental audit, IT audit and the development of financial and performance quality standards.
- Establishing and leading a Project Group of European (and North Atlantic) audit offices to coordinate assistance to the Accounting Chamber of Ukraine (ACU). The ACU is expected to have a significant audit responsibility with respect to the cost of reconstruction of damaged infrastructure and public institutions in Ukraine and will need support.
- Growing a programme of inwards and outwards short-term secondments with overseas national audit offices. These exchanges offer interesting overseas work for our staff, while also introducing more capacity to our office during our busier months. We have successfully piloted arrangements in New Zealand and aim to expand the programme to South Africa.
- Increasing our external audit responsibilities in the UN 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.
- Managing a programme of work with overseas audit offices, including Kenya, Rwanda, Tanzania, Ghana, and the Gambia, as well as supporting the UK's Overseas Territories. This work is funded directly by the Foreign, Commonwealth & Development Office.

B. 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 use our analytical and audit expertise to identify how public services can be improved, drawing more insightful and practical recommendations that lead to better outcomes.

Our programme of work for 2024-25

2.23 We will keep our focus on the long-term value-for-money (VFM) challenges and themes we identified in our 2020 strategy, targeting the significant opportunities for further efficiencies in government expenditure, measures to promote resilience and the delivery of core public services. We will ensure proportionate coverage of the main spending departments, including those created by recent machinery of government changes. We will identify learning from successes as well as from programmes that have gone less well. For the first time and for the new Parliament, we will draw together in a single report our key insights on delivering public services and projects effectively and efficiently.

2.24 We will invest in change projects to make our publications even more efficient, accessible and engaging for our stakeholders. We will do this using new digital capabilities and by simplifying and modernising the tools and processes we use to develop and publish our reports. We will continue to enhance our core learning and development offer for our VFM staff, supporting our teams to engage audited bodies as effectively as possible, synthesise evidence and communicate our findings in the best possible way.

Targeting efficiency themes

2.25 Constrained public finances demand that government extracts as much value as possible from every pound it spends. That requires choosing well and delivering well. In 2023-24, we examined key enablers of efficiency across government including the civil service workforce, cross-government working, competition in public procurement, and progress on digitising the tax system. We published a good practice guide on the enablers of success in financial management in government, investigated the issuing of grants and loans by the Student Loans Company and set out lessons learned on managing fraud and corruption risks. We audited the Cabinet Office's approach to reporting efficiency savings delivered by the cross-government functions, published our insights on how the government delivers value from its major programmes and expect to report shortly on the government's use of artificial intelligence.

2.26 Our programme of work for 2024-25 keeps a focus on efficiency and productivity in government and public bodies. We will audit the Department for Work & Pensions' approach to customer service, examine HM Revenue & Customs' approach to tackling tax evasion in retail, review the BBC's commercial activities, and assess efficiency in central purchasing. We will consider regulator effectiveness in supporting innovation across the UK economy, assess government progress in digitally transforming 75 key services and review financial sustainability in the NHS and in local government, building on earlier work. We will produce lessons learned outputs, including from our past work on the government's planning and spending framework.

Targeting resilience and environmental themes

2.27 Our programme addresses long-term risks to the resilience of government operations, public services and critical national infrastructure, and considers how well-placed government is to respond to unforeseen events or emergencies. In 2023-24, we published reports on the government's use of regulation to achieve its environmental objectives and on its resilience to extreme weather events. We reported on how the government is investing in the resilience of critical infrastructure including flood defences, school buildings, the new hospital programme, and digital infrastructure and mobile connectivity. We examined the government's support for innovation to deliver net zero and for biomass fuel, progress on the roll out of smart meters and on waste reforms, and work to promote active travel in England. We published a guide for senior leaders setting out the challenges to managing risks in government, acknowledging the need to balance short-term demands with long-term preparedness planning. We will publish further work on resilience shortly, including on decarbonising home heating and the UK Health Security Agency's plans for a new science hub.

2.28 We will continue our work on resilience in 2024-25 through audits of how well prepared the government is for a future pandemic and how it is building cyber resilience across the wider public sector. We will review progress on risk reduction at Sellafield and assess government's approach to property maintenance. We will identify lessons learned from our past work on government interventions to achieve its net zero and wider environmental goals. We will also examine progress on the Future Farming and Countryside Programme.

Targeting themes relating to core public service delivery

2.29 We will maintain our focus on the performance of core public services, on the persistent delivery challenges facing the government and the areas of greatest risk to value for money. Our 2023-24 work covered key public service challenges including those relating to adult social care reform, access to unplanned or urgent care, resettlement support for prison leavers, harm reduction from illegal drugs, progress in implementing Universal Credit, and the Homes for Ukraine programme.

2.30 In the year ahead we will examine government interventions to support the attainment of disadvantaged children, support children and young people with special educational needs and disabilities, manage demand in the prison estate, manage the points-based system for migration, prevent cardiovascular disease and tackle violence against women and girls.

Identifying other areas of audit interest

2.31 In addition to work on our three core themes, we will continue to look at risks to service and programme delivery across government, as well as key spending commitments. In 2024-25, we will report on the Buckingham Palace Reservicing programme, provide an update on modified plans for High Speed Two (HS2), examine government support for the UK's priority industry sectors and assess the Bank of England's digital transformation of its operations and systems.

C. 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.

Progress since 2020

2.32 We have made our insights much more accessible since we launched our strategy in 2020 by:

- Establishing six specialist hubs covering functional areas that are priorities for government: analysis; digital; commercial; project and programme delivery; people and operations management; and financial and risk management. The hubs are working well, building our expertise, producing new insight products to support senior decision-making in government and promoting effective scrutiny by departmental audit committees and Parliament. Together with our centres of expertise, the hubs support frontline audit teams and engage in cross-government learning communities.
- Launching a new website in 2022, with improved accessibility, branding and categorisation to help information searches; and publishing a recommendations tracker and rigorously following up on implementation progress with departments and their audit and risk assurance committees.
- Hosting Insights from the Auditor General speeches. In January 2024, the C&AG gave his second annual speech to MPs and civil servants in Parliament, focusing this time on efficiency and productivity in government.

2.33 The last opinion survey commissioned by us in March 2023 shows that public understanding of the NAO's responsibilities has increased, with 69% of respondents saying correctly that we audit government spending, up from 59% in 2022.

Priorities for 2024-25

2.34 We will continue to develop our insight outputs, channels and communications in 2024-25 so that our work reaches those responsible for governing and delivering public services and the wider public. Our priorities are to:

- Develop a new approach to managing the impact of what we do across the lifecycle of our published work and recommendations, increasing the emphasis on impacts in the early stages of our work.
- Make best use of digital opportunities to communicate our work.
- Increase the profile and targeting of NAO-sponsored events including through bespoke seminars for Audit and Risk Committee Chairs.
- Use our insights products to deepen specialist media interest in our work.

Our strategic enablers

2.35 The building blocks of our success are the things that we need to get right in the background if we are to continue to drive high performance. Our work in 2024-25 will target further progress on what we call our strategic enablers:

- We will attract, retain and develop high-quality people.
- We will make more effective use of technology, data and knowledge.
- We aim to be an exemplar organisation.

A. 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.

2.36 We want to develop 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. Our new Chief People Officer who is part of our Executive Team will build on this strong foundation and will lead our work to attract, retain and develop high-quality people. In 2024-25, our focus will be on:

- Refining and communicating what we offer as an employer.
- Continuing to implement our Diversity and Inclusion Strategy.
- Supporting our people with their well-being.

Refining and communicating our employment offer

2.37 Our review of pay frameworks over the last two years was a first step to improving our offer to colleagues. This year, we will continue to refine and articulate the elements that make the NAO a great place to work, including our support for staff health and well-being; flexibility to balance people's work with caring and other responsibilities; development opportunities and support for career progression; and the purpose-driven organisational culture and physical work environment.

2.38 In 2023-24, we negotiated and secured agreement with the Trade Union on new pay frameworks for our audit and corporate staff. As part of the new audit framework, we introduced a new Financial Audit Manager grade to mirror practices in the audit firms. The changes we have made address long-standing variation and inequity in pay within grades and provide clearer progression in the early years. TPAC also approved an in-year £1,500 non-consolidated, non-pensionable payment to our more junior colleagues, in line with the 2023 Civil Service pay remit guidance and in response to cost of living pressures. Our external benchmarking confirms that our pay is now competitive with other relevant organisations. We also reached our 2023-24 target for recruiting new accountancy trainees in contrast to the year before, and our turnover rates at the senior auditor grade are at target levels.

2.39 In 2024-25, we will build on our significant progress by doing more to communicate the full benefits of our reward package and to supplement this with measures that promote the supportive and inclusive working environment we are aiming for. On pay specifically, we expect to offer a 3% increase in line with forecast inflation for 2024-25. We continue to monitor our employment offer carefully, recognising that the people and specialist skills we are looking for remain in high demand.

2.40 A key strand of our learning and development offer to staff in 2024-25 will be to ensure that the changes to ways of working prompted by our Audit Transformation Programme are properly embedded into business as usual. Our focus on technical audit quality through our transformation programme will be complemented by training and development that targets, among other things, team building, project management, stakeholder influencing, and time management. Our training for VFM staff will build on the core learning and development pathway introduced last year, and will target how we engage audited bodies, synthesise evidence and communicate our findings consistently in line with our quality standards. We will use personal development plans and learning needs analysis to refine leadership, project management and data literacy skills, and are creating clearer expertise pathways for members of our hubs.

2.41 Many of our staff are members of the Institute of Chartered Accountants in England and Wales (ICAEW). In November 2023, the ICAEW updated its Continuing Professional Development (CPD) requirements. We have aligned our processes for doing and recording training and development activity with the revised requirements.

Continuing to implement our diversity and inclusion strategy

2.42 Our 2021-2025 Diversity and Inclusion Strategy sets clear and ambitious targets to increase diversity across the organisation and to promote an inclusive work environment. We have made good progress:

- The proportion of colleagues from an ethnic minority background increased from 23% to 25% in the year to March 2023.
- Women in middle management grades increased from 48% to 51% in the year to March 2023.
- The proportion of colleagues with a disability was 15% in 2023 (exceeding our target of 13%), with 13% of senior leaders (directors and above) reporting a disability.
- Our gender pay gap to March 2023 reduced by 1.95 percentage points to 4.44%. We are on track to eliminate the gap by our target date of 2027.
- Our disability pay gap reduced by 0.95 percentage points to 5.05%.

2.43 There are areas where we can improve further. Our ethnic minority pay gap increased by 0.87 percentage points to 15.36% in the year to 31 March 2023. This reflects our recent success in recruiting more ethnic minority trainees. We are implementing a plan to improve ethnic minority retention following professional qualification, a key first step to their progression and reducing the pay gap. Our priority is also to attract more women accountancy trainees in our 2024 recruitment round (38% of those joining in September 2023 were women). At the same time, we will increase our focus on inclusion activities to drive retention and engagement from our diverse staff.

Supporting our people with their well-being and attendance

2.44 Since the pandemic, we have experienced higher rates of sickness absence. Data from the Chartered Institute of Personnel and Development (CIPD) shows that we are not alone with the national average level of employee absence increasing to 7.8 days in 2023 from 5.8 days in late 2019. In the 12 months to August 2023, the average number of working days we lost to sickness was 7.9 days compared with 6.6 days in 2019-20. Our rates remain well below the CIPD average for the public sector (10.6 days in 2023).⁷

2.45 As an exemplar employer, we want to do more to support our colleagues and reverse the recent trend in sickness absence. We are reviewing our management approach and the quality of occupational health provision.

⁷ Chartered Institute of Personnel and Development, *Health and wellbeing at work* Survey Report, September 2023. Available at: <https://www.cipd.org/globalassets/media/knowledge/knowledge-hub/reports/2023-pdfs/8436-health-and-wellbeing-report-2023.pdf>

B. 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.

Technology and data

2.46 In 2023-24, and following rigorous piloting and user-testing, we introduced, on time and on budget, Apex, our new audit management software, as part of our Audit Transformation Programme. This has been an exceptional effort by our NAO teams and suppliers and ensures that our people have technology that supports and guides them in their work. We are using this platform for all our 2023-24 financial audits. We also refreshed our digital plan for the final two years of our current strategy, with work streams targeting digital audit, a digital workplace, and our people and knowledge.

2.47 Our priorities for 2024-25 include the successful completion of our Audit Transformation Programme, expanding and testing of third-party data analytics tools and techniques, and further development of our VFM workflow software, including new digital publishing arrangements, and testing business process and software solution options to enable more efficient report development. We will build on our new cloud platforms, decide our preferred route for the development of our resource management systems and continue to experiment with emerging technology such as artificial intelligence. We will further develop core controls, “detect and respond” and cloud security capabilities, targeting the main information security risks of data loss and system compromise. Finally, we will refresh and expand our digital training curriculum for our people.

Knowledge and information management

2.48 We formed a dedicated knowledge management function early in the implementation of our strategy to professionalise the way we manage information. Our knowledge team has sought to restructure how we collect, organise and share knowledge to ensure compliance with good practice in records management. In 2024-25, our knowledge team will finalise their review of how we access content across Office 365 (MS Teams and SharePoint) and will develop a new internal model and associated governance that standardises access, promotes collaborative working and improves capacity for enterprise search.

C. 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 through our impacts

2.49 Among other impacts, our work saves public money. Each year, we assess the financial impact of our work and influence by identifying where this has resulted in improvements with financially quantifiable benefits. We aim to achieve £10 of financial impact for every £1 the NAO costs the taxpayer. For every financial impact claimed, the audited body involved confirms our specific contribution and these are subject to review by our external auditors.

2.50 In 2022, the NAO's work led to a positive financial impact through reduced costs, improved service delivery, or other benefits to citizens, of £572 million, around £7 for every pound of our net expenditure. We are confident that we will achieve an even higher level of financial impact in 2023, as well as other wider impacts.

Demonstrating how we are optimising our own productivity

2.51 We continue to deliver improvements in our own productivity, benchmarking against audit firms where appropriate. We are:

- Maximising the focus on chargeable work, ensuring that 85% to 90% of our senior auditor and senior analyst grades spend their working day on front-line audit work, rather than on administrative tasks.
- Ensuring that at least 80% of our budget is spent on frontline audit in 2023-24.
- Conducting budget challenge meetings with the C&AG for all our major audits to ensure that the resources allocated to them are realistic and lean.
- Maximising any income potential from our London building – we are on track to increase the number of floors rented out from five to nine in 2024-25.
- Reviewing our skills mix and distribution of work (for example, between financial auditors and VFM auditors) as well as testing new audit technologies (using automation, artificial intelligence and data analytics).

2.52 TPAC now gives its consent to an independent study, undertaken each year by our external auditors (Crowe UK), on the efficiency and effectiveness of a key aspect of our operation. Crowe UK has assessed the business support functions of finance and procurement and HR in recent years, concluding that these were working efficiently and effectively compared with similar organisations. In 2022-23, Crowe UK assessed our financial management of financial audit work and said that arrangements delivered value for money for the organisation.

2.53 We have reviewed our performance framework for 2024-25 and have proposed additional measures to give a more rounded picture of our efficiency and effectiveness (see Part Four).

Natural resources and building refurbishment plans

2.54 We aim to achieve net zero carbon emissions by 2029. In 2022-23, we developed our Carbon Reduction Action Plan, implemented new policies for travel, waste, energy and water, and procurement. In 2023-24, our contract managers worked with our supply chain to drive carbon reductions. We added new reduction requirements into supplier service level agreements and improved our own carbon data collection. In May 2023, we moved Newcastle offices, switching successfully to a new building that promotes excellent environmental standards, draws on low-carbon energy sources, and uses data analytics to manage the building and minimise waste.

2.55 In 2024-25, we plan to refurbish our London office. The current configuration was completed in 2009 before the decision to rent out some of our space, and the more recent decision to increase the amount that we rent out to around half of our useable office area. Fifteen years on, we now need to update our London office to make our smaller operating space work better and reflect the changes to working practices since the pandemic. Our Newcastle experience has shown that we need a wider variety of spaces including small rooms for one-to-one in person and virtual meetings, and other areas that promote collaboration and team-working. The changes made in the 2009 refurbishment mean that we need to do little to alter the overall configuration of each office floor. Our assessment is that we can make significant improvements such as better soundproofing, adding smaller meeting rooms and making changes to office furniture without more wholesale modifications. We continue to benefit from very favourable long-term lease arrangements for our London office.

2.56 We will also consider the findings of a feasibility study to examine whether air source heat pump technology can replace our existing gas boilers by providing sufficient heating to our buildings in the coldest months of the year.

Part Three

Our estimate for 2024-25

Introduction

3.1 This section includes our Estimate memorandum to the Public Accounts Commission (TPAC) which provides explanation for the budgets that we are requesting for the next financial year (the Estimate).

3.2 Each year, Parliament is asked to approve a resource budget that covers the annual running costs of the National Audit Office (NAO), a capital budget which permits the NAO to buy assets used for more than one year, and a cash requirement, which covers resource and capital cash spending in-year. These budgets are summarised in Figure 1 and are referred to in more detail below. They are also set out in a format requested by HM Treasury in the accompanying NAO Main Supply Estimate 2024-25, to be laid in Parliament.

3.3 Subject to TPAC's approval, the Estimate will be presented to Parliament for consideration and will be voted on as part of the Supply and Appropriation (Main Estimates) Bill.

Resource budget

3.4 Our budget for 2024-25 shows a net resource requirement of £101.9 million, after allowing for £28.6 million of income (**Figure 6**). This is a 7.5% nominal increase on 2023-24 which means that we can continue to invest in our capacity and skills and technology to deliver the job that Parliament wants us to do.

3.5 We have also set out our preliminary budgetary expectations for the period until 31 March 2027. However, we will consider our resourcing position in much more detail over the next 12 months as we agree priorities for our new five-year strategy from 2025-26.

3.6 Figure 6 also adjusts our future budgets for forecast inflation, using two measures:

- Gross Domestic Product (GDP) deflators used by HM Treasury, a measure of expressing future public sector spending plans in today's prices; and the
- Consumer Price Index (CPI), drawing on forecasts provided by the Office for Budget Responsibility (OBR).

3.7 Both forecasts of inflation are uncertain but are included for completeness.

Figure 6
Resource spending plans, 2023-24 to 2026-27

	2023-24	2024-25	2025-26	2026-27
	Estimate		Plan	
Total expenditure (£mn)	121.0	130.5	134.7	135.3
Income (£mn)	26.2	28.6	30.5	32.2
Net expenditure (£mn)	94.8	101.9	104.2	103.1
Percentage change year on year		7.5%	2.3%	-1.1%
Percentage change over period				8.8%
Annual real growth rate in GDP ¹		1.7%	1.7%	1.6%
Net expenditure (adjusted using GDP deflators) (£mn)		100.2	100.7	98.1
Percentage change year on year		5.7%	0.5%	-2.6%
Percentage change over period				3.5%
Annual real growth rate in CPI ²		3.0%	1.6%	1.5%
Net expenditure (adjusted for CPI increase) (£mn)		98.9	99.6	97.1
Percentage change year on year		4.3%	0.7%	-2.4%
Percentage change over the period				2.4%
Staff numbers	958	1,010	1,037	1,054

Notes

- 1 Gross Domestic Product (GDP) reflects the rate of increase in prices of all domestically produced goods and services in the economy. HM Treasury considers that the wider coverage of the GDP deflator makes it appropriate for deflating public expenditure series.
- 2 The Consumer Price Index (CPI) 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 National Audit Office.
- 3 Figures may not sum due to rounding.

Source: National Audit Office, with reference to the Office of Budget Responsibility's Economic and fiscal outlook November 2023

Main components of resource budget

3.8 Figures 7 and 8 show the make-up and movements in our resource budget between 2023-24 and 2024-25.

Staff costs

3.9 Staff costs comprise around 70% of total budgeted expenditure. A breakdown of staff costs and changes between 2023-24 and 2024-25 are shown in **Figure 9** on page 36.

Staff numbers in 2024-25

3.10 Staff costs are driven substantially by the number of staff employed. In Part Two we outlined the case for increasing the number of audit staff citing the:

- Growing complexity of financial audit linked to higher standards which means that more work is needed to certify each account.
- Continued work with departments to get financial reporting back on track after the pandemic.
- Growth of our audit portfolio prompted by machinery of government changes and other new audits.
- Plan to bring more audits in-house gradually over time, reducing our reliance on external firms and improving quality and value for money.
- Impact on our VFM service line caused by the planned reallocation of wider Parliamentary assurance work previously undertaken by financial audit.

Figure 7

Resource budget by type of expenditure, 2023-24 to 2024-25

	2023-24		2024-25		Variance	
	Estimate		Estimate		Variance	
	£mn	%	£mn	%	£mn	%
Staff costs	86.1	71.2	91.6	70.2	5.5	6.4
Non-staff costs	31.3	25.9	34.6	26.5	3.3	10.5
Depreciation	3.6	3.0	4.3	3.3	0.7	19.4
Total expenditure	121.0	100.0	130.5	100.0	9.5	7.9
Income	26.2		28.6		2.4	9.2
Net expenditure	94.8		101.9		7.1	7.5

Source: National Audit Office

Figure 8

Movements in net expenditure between 2023-24 and 2024-25

	£ million
Staff costs	
Removal of non-recurring payment to junior staff from baseline	-1.4
Additional staff	4.3
Annual pay award and change in employer pension contribution rates	2.6
Increase in staff costs	5.5
Non-staff costs	
Impact of loss of EU Agricultural funding work	-1.7
VAT adjustment following loss of EU Agricultural funding work	0.6
Increase to the scope of audit work carried out by audit firms	0.7
Increase to business support activities, investment in technology	2.1
Business change projects	0.6
Allowance for inflation	1.0
Increase in non-staff costs	3.3
Increase in depreciation following higher capital spend in recent years	0.7
Income	
Impact of loss of EU Agricultural funding work	-2.2
Increase in audit and other fees	3.4
Increase in rental income	1.2
Increase in income	2.4
Movement in net expenditure	7.1

Source: National Audit Office

Figure 9
Staff costs, 2023-24 to 2024-25

	2023-24		2024-25		Variance	
	Estimate		Estimate		Variance	
	£mn	%	£mn	%	£mn	%
Wages and salaries	57.2	66.4	62.7	68.4	5.5	9.6
Social security costs	6.7	7.8	7.4	8.1	0.7	10.4
Pension costs	15.7	18.2	18.1	19.8	2.4	15.3
Sub-total	79.6	92.5	88.2	96.3	8.6	10.8
Pay Review	2.7	3.1	0.0	0.0	-2.7	-100.0
Direct staff costs	82.3	95.6	88.2	96.3	5.9	7.2
Staff-related costs	3.0	3.5	2.6	2.8	-0.4	-13.3
Staff benefits	0.5	0.6	0.5	0.5	0.0	0.0
Apprenticeship Levy	0.3	0.3	0.3	0.3	0.0	0.0
Total staff costs	86.1	100.0	91.6	100.0	5.5	6.4
Staff numbers	958		1,010		52.0	5.4

Notes

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

Source: National Audit Office

3.11 The combined effect of all these changes is to add around 38 more staff (FTE) to our audit service lines (financial audit and value-for-money (VFM)) in 2024-25 (**Figure 10**). This includes an additional 15 graduate trainees (FTE) in 2024-25. We will target recruitment to our Newcastle office where possible to reduce costs and use available office space.

3.12 Figure 10 also sets out plans for our business support functions. Our assessment is that we need to strengthen our digital and cyber security capability in response to the increased digitisation of audit, growing use of government data, data analytics tools, and rising cyber risks. We are adding capacity to our external communications team to support better digital communication of our work. We are also strengthening our people support and training capacity to enable swifter progress on our people development agenda and in response to rising staff numbers. These developments will increase our business support FTE by 14. In line with good practice, we will ensure that over 80% of our spending continues to be on front-line audit.

Figure 10
Staff numbers, 2023-24 to 2024-25

	2023-24 Original Estimate	Supplementary Estimate	2023-24 Revised Estimate	Enhanced capacity	2024-25 Estimate
Executive Team	6	–	6	–	6
Financial audit	568	7	575	26	601
Value-for-money	172	3	175	12	187
Knowledge hubs	35	–	35	–	35
Total assurance staff	781	10	791	38	829
Business support	167	–	167	14	181
Total staff numbers	948	10	958	52	1,010

Note

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

Source: National Audit Office

Pay approach

3.13 As TPAC is aware, we made substantial changes to our pay and grade structure in 2023-24, which included introducing a new financial audit manager grade to reflect practice in the private firms. Doing so has helped us to regain our competitiveness as an employer. We are keen to retain that competitiveness and have assumed a pay award of 3% in budgeting for 2024-25. An award of this level is balanced and realistic and takes careful account of official forecasts of future inflation and our responsibility to use public funds responsibly. We will continue to assess the impact of inflation over the coming months and monitor developments in the labour market more generally, recognising that the people and specialist skills we are looking for remain in high demand.

3.14 Our budget also reflects the latest changes to employers' pension contribution rates, effective from 1 April 2024. We estimate that these changes will increase our payroll costs by around £0.2 million per year.

Non-staff costs

3.15 Non-staff costs comprise just under 30% of total expenditures. **Figure 11** shows changes in non-staff costs between 2023-24 and 2024-25.

Professional services – audit firms

3.16 Most of our spending on professional services is with audit firms and other audit offices who help us to carry out our programme of audit. We use audit firms to deliver part of our work because it gives us access to:

- general resourcing support at the most demanding points of the audit cycle;
- specialist advice in areas such as the auditing of financial instruments, and commercial property management; and
- benchmarking information so that we can test our audit methodology and approach against private sector practice.

3.17 We expect to spend more with the firms in 2024-25 as their fee rates increase in line with inflation, and as the scope of their audit work continues to grow in response to changing auditing standards. The current contracts with the firms will expire in the autumn of 2024. These contracts can be extended for a further two years but the terms of an extension are subject to agreement. No additional budgetary provision has been made for this pending further negotiation with the firms.

Figure 11
Non-staff costs, 2023-24 to 2024-25

	2023-24		2024-25		Variance	
	Estimate		Estimate		Variance	
	£mn	%	£mn	%	£mn	%
Audit firms	13.5	43.1	14.7	42.5	1.2	8.9
Other audit support	2.8	8.9	1.3	3.8	-1.5	-53.6
Professional services	16.3	52.1	16.0	46.2	-0.3	-1.8
Travel	1.5	4.8	1.5	4.3	0.0	0.0
Audit technology	1.5	4.8	2.4	6.9	0.9	60.0
Business support	13.2	42.2	14.7	42.5	1.5	11.4
Business change	0.1	0.3	0.7	2.0	0.6	600.0
VAT recoveries	-1.3	-4.2	-0.7	-2.0	0.6	-46.2
Total non-staff costs	31.3	100.0	34.6	100.0	3.3	10.5

Note

1 Figures may not sum due to rounding.

Source: National Audit Office

3.18 Our plan is to grow our in-house capacity gradually over the medium-term, reducing the proportion of audits carried out by firms by nearly half over four years (around a fifth by value), in line with current and planned contracting periods.

Professional services – other audit support

3.19 Other audit support costs relate to EU agricultural funding and other devolved bodies work undertaken by the audit offices of Wales, Scotland and Northern Ireland. These costs will fall significantly in 2024-25 as the EU schemes wind down.

3.20 We also use this budget to pay for external technical input to our VFM audit and knowledge teams, and to pay the Financial Reporting Council for its review of a sample of our audit work for quality review purposes.

Travel

3.21 Our travel budget covers hotel costs and travel, and subsistence payments to employees who work away from the office, including to carry out visits to audited body locations each year. This budget is around half the level seen historically as digital remote working has reduced some of the need for audit teams to stay at audited body sites for extended periods.

3.22 All payments are in line with our travel policy, which has regard to HM Revenue & Customs (HMRC) 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

3.23 Our audit technology budget is used to invest in new digital and technology solutions. This investment ensures that our audit approach can respond to the government's increasing use of IT and digital in the running of public services and financial processes. It helps us to meet updated regulatory standards and expectations using methods such as guided workflows and it also means we are better placed to document and assess the effectiveness of controls within IT systems, an increasingly central part of our work.

3.24 This budget is also used to:

- Pay the annual license and support costs of our core audit software platforms so that we can transfer and store data safely from audited bodies and automate audit testing and review of transaction workflows.
- Make continuous improvements to audit software and to test new tools for data analysis and artificial intelligence.
- Buy in technical expertise and to provide external training for our IT audit teams.

3.25 The budget increase year on year is because we rescheduled work from 2023-24 to 2024-25 as part of our 2023-24 supplementary estimate.

Business support

3.26 Our business support budget is used to pay for:

- Suppliers who provide payroll, HR and finance services.
- Building maintenance costs (utilities, business rates, facilities management and physical security).
- Professional accountancy training.
- IT equipment and IT support to audit teams.
- Security arrangements for our IT systems, bearing in mind that we have extensive access to government data.
- Contracts for publication and presentation of our work.

3.27 We expect business support costs to increase in line with inflation and to reflect support provided to the greater number of audit staff in the NAO.

Business change

3.28 Our budget includes resource funding for operational support for business change capital projects (see Figure 14 on capital spending plans). We will use £0.4 million of this budget to commission consultants to provide essential design and floor planning and removal services for the planned refurbishment of our London office, and to cover the costs of running the temporary decant space during the work (see Part Two). We will use the remainder of this budget to carry out early planning work to upgrade energy systems in our London building, including, potentially, the use of heat pump technology to reduce our carbon footprint.

VAT recoveries

3.29 We partially recover VAT on expenditures based on a methodology agreed with HMRC, which reflects the balance of audits carried out under statute and those by agreement. Consequently, VAT recovered cannot be attributed directly to specific expenditure and is disclosed separately in our financial statements.

3.30 The change in the composition of our audit work following the loss of EU Agricultural funds assurance work affects our overall VAT recovery position, which will reduce by around £0.6 million.

Depreciation

3.31 Depreciation is an accounting method used to allocate the cost of an asset over its useful life. It represents the reduction in the value of an asset over time due to wear and tear, obsolescence, or other factors. The annual depreciation charge is a function of capital expenditure and the value of our properties. Depreciation is expected to increase in 2024-25 because of:

- Recent higher capital spending, including on our new property lease in Newcastle (a capital asset), new audit software and replacement of laptops (see Figures 15 and 16).
- An anticipated increase in the value of our London office.

Income

3.32 We earn income from some of our UK and international audit work, renting surplus office space, supporting overseas bodies and seconding a few staff to other organisations (**Figure 12**).

Figure 12

Income, 2023-24 to 2024-25

	2023-24		2024-25		Variance	
	Estimate		Estimate			
	£mn	%	£mn	%	£mn	%
Audit fees	24.3	92.7	25.4	88.8	1.1	4.5
Rental of office space	1.4	5.3	2.6	9.1	1.2	85.7
Other overseas work	0.3	1.1	0.4	1.4	0.1	33.3
Secondment income	0.2	0.8	0.2	0.7	0.0	0.0
Total income	26.2	100.0	28.6	100.0	2.4	9.2

Note

1 Figures may not sum due to rounding.

Source: National Audit Office

Audit fees

3.33 We charge audit fees directly to the audited body for around 250 of the roughly 400 accounts that we audit. Audited bodies in this category are either operating in a broadly commercial manner, sometimes as companies, and are government owned, or are audit appointments by agreement rather than by legislation and that agreement permits a fee to be charged (for example, the audit of international bodies).

3.34 Fees are set with the aim of recovering the full cost of the audit and are calculated using standard hourly rates. These hourly rates recover the full planned cost attributable to the service that we provide, are calculated on an accruals basis and include overheads. This approach meets our obligations under our Scheme of Fees approved by TPAC at its evidence session in March 2019, and aligns with the principles of Managing Public Money. New hourly rates are introduced annually in September in advance of the annual audit planning round.

3.35 We expect our total audit fees to increase in 2024-25 in response to changes in our cost base (relating to inflation and pay), and the growth in fee-paying audits within our portfolio. This is partly offset by the loss of income from the ending of assurance work on EU Agricultural funding schemes.

3.36 The cost of auditing the rest of our portfolio, some 150 entities including all central government departments, is met from our annual Parliamentary funding. The expected cost of providing these audits, which we refer to as our Parliamentary audit portfolio, is included in this estimate. Without this arrangement, we would need to seek ministerial agreement to charge an audit fee to non-commercial entities such as government departments.

3.37 As our external auditors, Crowe UK, noted in its June 2023 review of the Financial Management of Financial Audit Work, the NAO does not build in contingency when preparing our estimate for TPAC. This is despite the potential, as Crowe UK also recognised, for our audits to incur additional costs because of external factors. In these circumstances, we would aim to recover additional audit costs through a supplementary estimate. We followed this process during the 2023-24 financial year when, in January 2024, TPAC approved extra resources to allow us to carry out additional audit work that had arisen within the financial year.

Rental income

3.38 We now have 12 floor areas in our London office available for rent, equivalent to around half the useable space. In 2023-24 we rented out five floor areas. Our budget for 2024-25 assumes that we will increase occupancy from five to nine floor areas. Our more optimistic assessment reflects strong recent interest in our space, and wider analysis pointing to a more positive outlook for centrally located, high-quality, serviced accommodation in London. Note that two floors will be removed from the market for two years from 2024-25 as we carry out the internal refurbishment of our London office.

Other income

3.39 We carry out small assignments overseas to strengthen governance and accountability for UK taxpayers' money spent overseas. We charge fees to cover the costs of this work.

3.40 Secondment income relates to the recovery of our costs where we place people with external organisations temporarily, including with audit offices overseas, to develop their skills and experience. Note that we do not recover our costs where NAO staff are attached to Parliament's committees on a short-term basis.

Budget allocation by type of work

3.41 Figure 13 overleaf shows how we intend to apportion our resources to our main work streams in 2024-25. These are planning assumptions and because our work responds – necessarily – to external events, final allocations may differ in any given year.

3.42 Most (72%) of our resource budget is allocated to financial audit work. Around a quarter (27%) is allocated to VFM and wider assurance, knowledge and other support for Parliament. The rest of our budget is allocated to international relations work and the Comptroller function.

Capital budget

3.43 Capital expenditure is a much smaller component of our total expenditure and relates to IT and property assets. Our capital budget for 2024-25 is an increase of around £1.1 million (34%) on 2023-24 (**Figure 14** on page 45). Figure 14 also summarises our initial projections for capital spending to 2026-27 and shows, in nominal terms, a 13% increase in spending between 2023-24 and 2026-27.

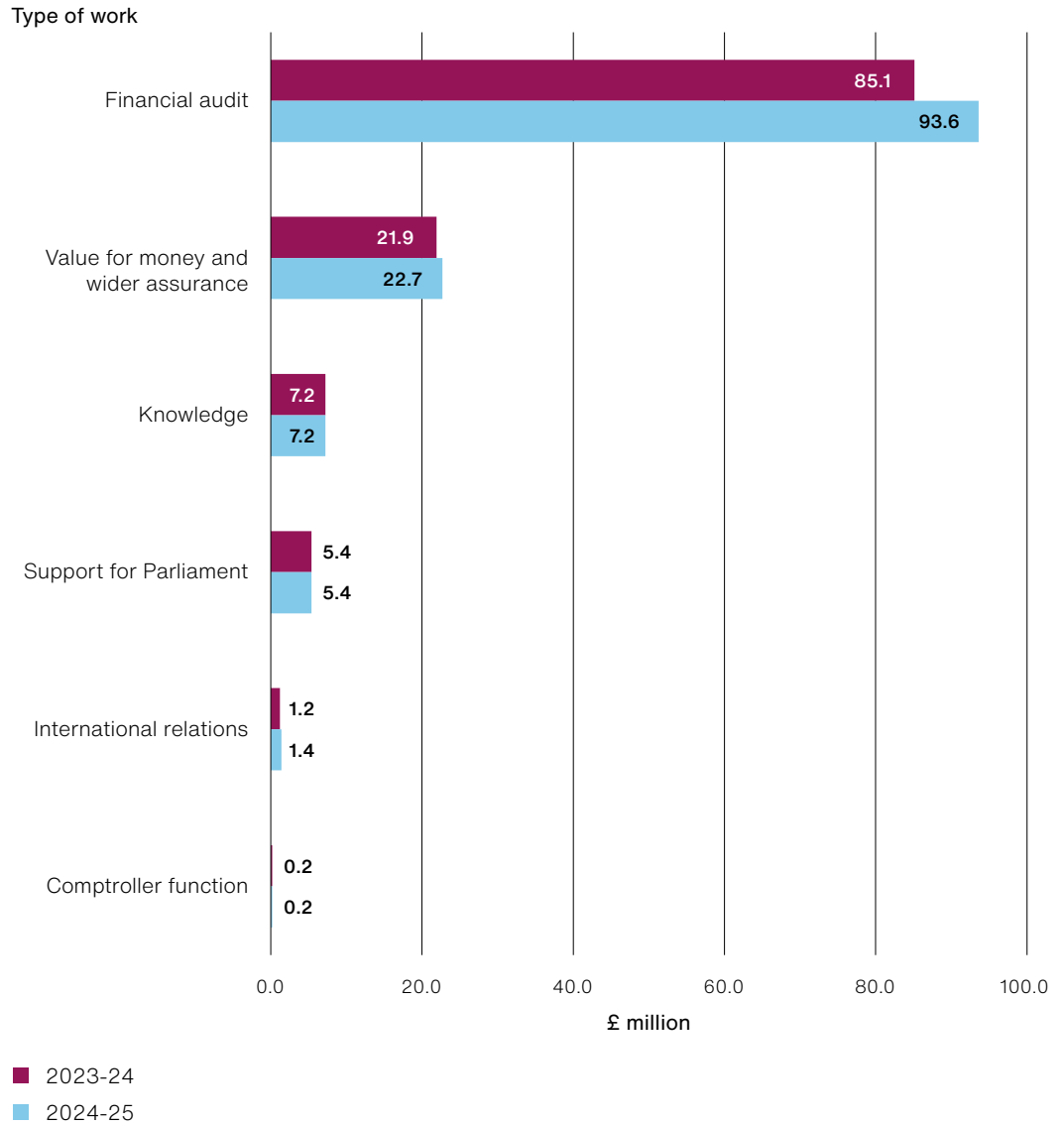
3.44 In keeping with our approach for the resource budget, Figure 14 adjusts our future budgets for forecast inflation, as measured by:

- GDP deflators used by HM Treasury, a measure of expressing future spending plans in today's prices; and
- CPI, and using forecasts provided by the OBR.

Both forecasts are uncertain, and the actual rate of inflation may be different.

Figure 13

Budget allocation by type of work, 2023-24 to 2024-25 (£ million)



Source: National Audit Office

Figure 14

Capital spending plans, 2023-24 to 2026-27

	2023-24	2024-25	2025-26	2026-27
	Estimate		Plan	
Total expenditure (£mn)	3.2	4.3	3.0	3.6
Percentage change year on year		34.4%	-30.2%	20.0%
Percentage change over period				13%
Annual real growth rate in GDP ¹		1.7%	1.7%	1.6%
Total expenditure (adjusted using GDP) (£mn)		4.2	2.9	3.4
Percentage change year on year		31.3%	-31.0%	17.2%
Percentage change over period				6.3%
Annual real growth rate in CPI ²		3.0%	1.6%	1.5%
Total expenditure (adjusted for CPI increase) (£mn)		4.2	2.9	3.4
Percentage change year on year		31.3%	-30.2%	16.7%
Percentage change over the period				6.3%

Notes

- 1 Gross Domestic Product (GDP) deflators reflect the prices of all domestically produced goods and services in the economy. HM Treasury considers that the wider coverage of the GDP deflator makes it appropriate for deflating public expenditure series.
- 2 Consumer Price Index (CPI) 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 National Audit Office.
- 3 Figures may not sum due to rounding.

Source: National Audit Office, with reference to the Office of Budget Responsibility's Economic and fiscal outlook November 2023

Main components of the capital budget

3.45 Figure 15 separates the capital budget into spending on IT assets and property assets, comparing 2024-25 with 2023-24. Our capital budgets are based on detailed asset plans showing the timetable for replacement of physical assets and will vary year on year depending on when we need to make investments in our asset base.

IT assets

3.46 The IT assets budget covers the purchase of items such as laptops, monitors, video-conferencing equipment and the development of software. The main IT capital expenditure in 2024-25 is for our audit software development. We will also install new monitors and networks in our refurbished London office space.

Property assets

3.47 Our largest physical asset with a current market value of around £100 million is our London office, held on a long lease at a peppercorn rent from Network Rail. 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. Paragraph 2.55 describes our plan to refurbish our London office, the largest component of our capital budget in 2024-25. The project overall will last for two years, and we expect to complete two floors in the first year with others refurbished in 2025-26.

3.48 Our 2024-25 budget also includes provision for the replacement of our fire alarm system, which has reached the end of its useful life and now needs to be upgraded. We had originally intended to complete this work in the final quarter of 2023-24 but amended our budgets via our 2023-24 supplementary estimate. We have received confirmation that the existing fire alarm system can be maintained safely in the meantime.

Figure 15
Capital budget, 2023-24 to 2024-25

	2023-24		2024-25		Variance	
	Estimate		Estimate			
	£mn	%	£mn	%	£mn	%
IT assets	1.6	50.0	1.9	44.2	0.3	18.8
Property assets	1.6	50.0	2.4	55.8	0.8	50.0
Total capital expenditure	3.2	100.0	4.3	100.0	1.1	34.4

Note

1 Figures may not sum due to rounding.

Source: National Audit Office

3.49 We also intend to upgrade the energy and lighting systems in our London building in future years so that they are more energy efficient. We are currently assessing the feasibility of heat pump technology to heat our London building in a more carbon efficient way. This would be a significant project, and while we have included resource budget to assist with planning for these developments, the capital cost has yet to be calculated and included in future budgets.

Supplementary financial information

3.50 Figure 16 shows our resource and capital budgets on a consistent basis over an extended period in line with HM Treasury financial reporting guidance. Budgets are presented in nominal terms and after taking into account inflation (real terms).

Figure 16

Budgets and actuals, 2018-19 to 2026-27

Resource	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
	£mn	£mn	£mn	£mn	£mn	£mn	£mn	£mn	£mn
Budget – nominal	67.5	71.0	75.9	80.2	83.9	94.8	101.9	104.2	103.1
Spend – nominal	65.7	68.3	73.9	78.2	83.0				
Budget – real	67.5	69.4	70.3	74.9	73.4	78.2	82.7	83.2	81.0
Spend – real	65.7	66.7	68.5	73.0	72.7				
Capital	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
	£mn	£mn	£mn	£mn	£mn	£mn	£mn	£mn	£mn
Budget – nominal	1.4	1.0	1.5	2.3	8.6	3.2	4.3	3.0	3.6
Spend – nominal	1.3	1.0	1.1	1.9	8.4				
Budget – real	1.4	1.0	1.4	2.1	7.5	2.7	3.6	2.5	3.0
Spend – real	1.3	1.0	1.0	1.8	7.3				
Full-time equivalent staff (FTE)	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Budget	820	825	852	940	940	958	1,010	1,037	1,054
Actual ¹	806	819	863	911	909				

Notes

- Where there are variances between budget and actual FTE the National Audit Office uses temporary staff to address the shortfall.
- Budgets presented in real terms take account of Gross Domestic Product (GDP) since 2018-19. The GDP deflator reflects the rate of increase in prices of all domestically produced goods and services in the economy. HM Treasury considers that the wider coverage of the GDP deflator makes it appropriate for deflating public expenditure series.

Source: National Audit Office, with reference to the Office of Budget Responsibility's Economic and fiscal outlook November 2023

Part Four

Measuring our performance

4.1 As part of the development of our current strategy, we established a performance framework to help measure our progress. We report our performance against the indicators within this framework through our annual report (**Figure 17** on pages 49 and 50). For this year, we have added eight additional measures to the framework to give a more complete view of our performance. These measures are shown in italics in Figure 17. Where data permit, we expect to compare our performance with the last reporting year and with how we did at the start of the current strategy period to give a clearer view of our progress over time.

4.2 We will develop a new performance framework to align with the priorities we set out in our new strategy from 2025-26. We will review how the framework is operating two to three years into the next strategy period to consider what changes might be appropriate based on a review of priorities and progress, and our assessment of the external environment at that time.

Figure 17
National Audit Office (NAO) performance framework

Strategic priority or enabler	What success looks like	How we measure this	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	62 to 65 VFM reports and around 400 audit certifications each year
		<i>Proportion of audits certified pre-summer Recess</i>	<i>70% of 2023-24 audits certified by July 2024</i>
	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
		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 external and internal standards
	MPs consider that we support effective accountability and scrutiny	MPs agree that the NAO is effective at supporting Parliament to hold government to account and scrutinise public services	90% of MPs agree
Our work leads to better outcomes and value for money	Our work has a quantifiable positive financial impact on the public sector	Total value of financial impacts generated by our work, as agreed with the audited body, against our final net outturn	£10 financial impact for every £1 of net expenditure each year
	<i>Our recommendations are accepted and implemented by government</i>	<i>Proportion of our recommendations accepted or partially accepted (where audited body has provided an update)</i>	<i>At least 90% of our recommendations are accepted or partially accepted by our audited bodies</i>
	Senior officials in the bodies we audit consider that our work leads to better outcomes	Annually commissioned independent feedback from senior officials shows that they agree that our work leads to better outcomes	70% of senior officials agree
We provide accessible independent insight	Our knowledge and insights are clear and accessible to key stakeholders	MPs agree that they can easily access our insights and knowledge	65% of MPs agree
		<i>MPs agree that our insights and reports are clear, easy to read and understandable</i>	<i>65% of MPs agree</i>
		<i>MPs who say we are above average for the quality of our products or services</i>	<i>65% of MPs agree</i>
		Annually commissioned independent feedback from senior officials shows that they can easily access our insights and knowledge	70% of senior officials agree
		Media Impact Rating (a composite measure out of 100 that covers aspects such as profile, inclusion of spokespeople and corporate messaging, and positive or negative reference to the NAO)	64 out of 100

Figure 17 *continued*

National Audit Office (NAO) performance framework

Strategic priority or enabler	What success looks like	How we measure this	Target for 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 quarterly surveys of NAO staff provide a composite engagement score out of 10	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	<i>Office-wide representation by:</i>	
		● <i>women colleagues</i>	50%
		● <i>ethnic minority colleagues; and</i>	35%
		● <i>disabled colleagues</i>	14%
	There is no pay gap associated with gender or ethnicity	Reporting gender pay gap	4%
		Reporting ethnic minority pay gap	8%
We make effective use of technology, data and knowledge	Our people say they have the right technology and tools to do their work and it is easy to find the information they need to do their work effectively	Quarterly surveys of NAO staff ask them to score out of 10 the extent to which:	
		● they have the right technology and tools to do their work; and	Average score for the year of 8.2
		● they can find the information they need to do their work effectively	Average score for the year of 7.4
We are an exemplar organisation	We demonstrate continued cost-effectiveness and efficiency	Ratio of expenditure on audit work to expenditure on business support services	A minimum of 80% of our expenditure is on audit work
	We see a sustained reduction in our environmental impact	Reduction in tonnes of carbon emission	To reduce to 880 tonnes of carbon emissions
	<i>We reply to correspondence from the public promptly, within 20 working days</i>	<i>Proportion of correspondence responded to within 20 working days</i>	<i>At least 90% of correspondence responded to within 20 working days</i>

Note

1 Our Diversity and Inclusion annual reports include further measures of our progress on diversity and inclusion.

Source: National Audit Office

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