



National Audit Office

NAO Strategy 2010-11 to 2012-13

Our vision is to help the nation spend wisely.

We promote the highest standards in financial management and reporting, the proper conduct of public business and beneficial change in the provision of public services.

The National Audit Office scrutinises public spending on behalf of Parliament. The Comptroller and Auditor General, Amyas Morse, is an Officer of the House of Commons. He is the head of the National Audit Office which employs some 900 staff. He and the National Audit Office are totally independent of Government. He certifies the accounts of all Government departments and a wide range of other public sector bodies; and he has statutory authority to report to Parliament on the economy, efficiency and effectiveness with which departments and other bodies have used their resources. Our work leads to savings and other efficiency gains worth many millions of pounds: in 2008 over £10 for every £1 spent running the Office.



National Audit Office

NAO Strategy 2010-11 to 2012-13

Applying the unique perspective of public audit to help Parliament and Government drive lasting improvement in public services.

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For further information about the
National Audit Office please contact:

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

Tel: 020 7798 7400
Email: enquiries@nao.gsi.gov.uk

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Introduction by the NAO Chairman and Comptroller and Auditor General

1 On 1 July 2009, the new National Audit Office (NAO) board structure took effect. For the first time in the history of the NAO, we have a Board with a non-executive Chairman and a majority of non-executive members, a Chartered Accountant as Comptroller and Auditor General (C&AG), and a genuine Leadership Team. This strategy is our first joint submission, with the support of the Board, under the new governance arrangements. It sets the strategic objective of carrying out our statutory responsibilities to the full by driving lasting improvements in value for money during this period of challenge for public services.

2 The current pressure on public finances presents significant challenges for government departments as they seek to contain and reduce costs while meeting demands for accessible and high quality public services. As a unique resource of accounting and professional skills with the ability to look across the full breadth of government activities, the NAO will focus on the issues which bear most strongly on the use of resources across government, and which therefore drive value for money. This strategy outlines our intention to apply the NAO's knowledge and expertise to help drive change in government and support Parliament.

3 The core activities of the NAO will continue to be the financial audit of government departments and the provision of value for money reports to Parliament. Holding Government to account for its spending and for providing value for money in public services will remain a key focus. As an independent body, the NAO will continue to deliver a quality service to Parliament and audited bodies. We will pursue our strategic ambitions in parallel with a programme of work looking at responses to the economic downturn.

4 The strategy will require real change within the NAO, and we have ambitious expectations. Recognising the pressure on public finances, and the importance of the NAO demonstrating its own efficiency, we will generate the resources necessary to support the strategy through cost reductions and greater productivity. We therefore intend to deliver the strategy without seeking an increase in resources in 2010-11. Beyond 2010-11 our planning assumption is for a one per cent increase in each of the remaining two years of the strategy.

5 We will demonstrate greater added value through identifying financial impacts arising from our work equivalent to ten times our running cost. We believe this strategy will ensure that the NAO continues to be a vital institution of which we can be proud, achieving its full potential to serve the public and Parliament by helping government use public money better.

Professor Sir Andrew Likierman
Chair of the NAO Board

Amyas C E Morse
Comptroller and Auditor General

Part One

Public audit in a changing landscape

The economic environment presents significant new challenges for the public sector

1.1 The background of a volatile global economy and fiscal pressure reinforces the importance of external audit scrutinising expenditure and holding Government to account for maximising the value obtained from public spending. The UK continues to experience a tough economic environment which has presented direct financial and delivery challenges to the public sector, as reduced tax revenues and income combine with increased demand for some services.

1.2 Government has taken on new responsibilities arising from the provision of financial support to banks and insurance on private company assets. Four financial institutions are now in temporary public ownership and there is substantial public investment in others. The Government has also brought forward £3 billion of public spending from 2010-11 with the aim of reducing the impact of the recession. These interventions present significant, and in some cases new, financial management challenges for government.

1.3 The impact of the recession on the wider economy has increased demands on employment and benefit services with implications for public services that will continue through economic recovery. For example, the number of people unemployed and seeking work has risen substantially, and the number of claimants for Jobseeker's Allowance is predicted to rise further.¹ Pressures on other locally delivered services are anticipated as the social effects of economic conditions are felt. Fiscal pressure creates risks and opportunities to value for money, including risks to the interests of those using public services if service quality is compromised in the search for greater efficiency.

¹ Office for National Statistics (2009) Labour Force Survey and DWP data; <http://www.statistics.gov.uk/pdfdir/lmsbrief0809.pdf>

The projected fiscal position is likely to have significant implications for public service delivery

1.4 The 2009 Budget projected an increase in government spending for 2010-11 from £671.4 billion in 2009-10 to £701.7 billion in 2010-11,² an increase of 4.5 per cent in cash terms. Current spending levels and alternative approaches to managing fiscal pressures are the subject of ongoing political debate. Planned efficiency gains of £35 billion for 2010-11 will need to be delivered, but other reductions in public expenditure are expected as government seeks to contain the public borrowing requirement, estimated at £178.1 billion for 2009-10 and £183.3 billion for 2010-11.³ These challenges will place a higher premium on the ability of government to reach objective, evidence-based judgements about the use of public funds, to evaluate and measure results, and to control the use of resources efficiently.

Underlying public service trends remain, and continue to have implications for delivery

1.5 In June 2009, the Government announced in *Building Britain's Future* a series of entitlements to specific public services and a delivery plan setting out public service priorities. In addition to these shorter-term priorities, government faces broader challenges such as changing demographics and an ageing population, public health and lifestyle issues, and climate change and sustainability. These challenges are likely to require a range of solutions, including encouraging citizen behaviour change, and government departments will need to work across traditional boundaries, and with a range of local providers. Such approaches have implications for accountability and scrutiny, as do the increasing use of delivery chains made up of public, private and third sector providers.

1.6 Recent Capability Reviews suggest that central government's capability to deliver has improved. Nonetheless, only 40 per cent of Public Service Agreement targets from the 2005-08 period were met.⁴ Improvements to service delivery have been secured alongside sustained increases in overall levels of public expenditure, while public sector productivity has failed to keep up with private sector productivity increases.⁵ Encouraging solutions to some of the underlying issues constraining public sector delivery performance and productivity will add value to taxpayers and consumers of public services, in particular given the public expenditure context over the period covered by this strategy.

² HM Treasury (2009) Budget 2009: *Building Britain's Future*.

³ HM Treasury (2009) Forecasts for the UK Economy: *A comparison of independent forecasts*, August.

⁴ Parker, S., Paun, A. and McClory, J. (2009) *The State of the Service: A review of Whitehall's performance and prospects for improvement*. London: Institute for Government.

⁵ Office for National Statistics (2009) Total Public Service Output and Productivity, 14 August 2009 revision.

Scrutiny and transparency have important roles in supporting trust in democratic institutions

1.7 Recent developments have underlined the importance of scrutiny of the executive by Parliament. Trust in the system and institutions of government has reduced, both in the UK and internationally, and there is great interest in public spending and public sector performance stimulated by the implications of economic circumstances. Parliament's role in scrutinising public spending is particularly important, therefore, in the current climate. Based as it is on robust independent public audit, Parliamentary scrutiny can provide assurance to the public, serve as a catalyst for improvement, and can help support public trust in democratic institutions and processes.

Part Two

The NAO's strategy and approach

2.1 The National Audit Office will continue to support the C&AG in working with Parliament to hold the Government to account for public spending within the broader framework of Parliamentary accountability for public finance in the United Kingdom. The core activities of the NAO will continue to be the financial audit of government departments and providing value for money reports to Parliament.

Core activities and key dynamics

2.2 The NAO acts as external auditor to all central government departments and many other publicly funded bodies, supporting the C&AG in developing his 'true and fair' opinion on published accounts; assessing whether expenditure was 'regular' and in accordance with parliaments authorisation; and providing assurance on Accounting Officer Statements on Internal Control. The NAO will continue to publish 60 major reports to Parliament each year, examining the economy, efficiency and effectiveness with which public funds have been used and assessing whether or not they represent 'value for money'. Many of these reports will support the activities of the Public Accounts Committee (PAC). The NAO will focus its other activities to help improve the performance of government in delivering cost-effective public services, including providing advice to government departments and wider support for Parliamentary scrutiny, as well as work on EU programmes.

2.3 The NAO's independence comes with unique access to government bodies and information, and the ability to question, investigate, report and influence. NAO teams build up considerable experience and insight into specific areas and underlying issues affecting government performance and the use of public money. In recent years, NAO reports have increasingly addressed delivery across several bodies, where problems of coordination and control are greater. The NAO's core skill base is that of an accounting organisation, with some 60 per cent of staff members of, or trainees with, the main accountancy institutes, allowing the NAO to meet the professional standards required of all external auditors. This base is supplemented by other staff with relevant professional and research skills, and by contractual partnerships with other bodies. The NAO provides a significant concentration of professional expertise which does not exist elsewhere in the central government sector. The current challenges to the public finances mean that the NAO's core disciplines will be particularly important to government and to Parliament over the period of this strategy and beyond.

2.4 The work of the NAO is well-regarded, but this strategy sets the ambitious goal of going further to achieve the full potential of the NAO to drive lasting improvement in public services for the benefit of our stakeholders. We will do this by making the most of the NAO's position and professionalism. By focusing on key issues in our areas of core expertise, and maintaining our independence while delivering consistent service and expert insight to Parliament and government departments we will drive change in public services and deliver greater impact.

NAO strategy

2.5 Our strategy shapes how, in the medium term, we respond to these key dynamics to yield medium and longer term results. Success will require determined implementation over time. The main elements will see us developing and applying our knowledge more effectively, increasing our influence so that government takes action on the issues we raise, and building a high performance professional culture to support our strategic objectives.

Developing and applying our knowledge

2.6 The knowledge given through our work is a valuable asset, to be deployed to enrich and strengthen our services to Parliament and government bodies. We will build our knowledge base and apply it effectively to the bodies we audit. We will build knowledge by taking a more holistic view of the issues emerging from what we do. We will apply knowledge effectively by delivering thematic and more standardised programmes of work which address common problems, and by giving a lead to the public sector in prioritised areas.

Taking a holistic view of the issues

2.7 Linking understanding from examining individual projects and programmes with the systemic and control issues we examine at departmental level, we will build up a deeper picture of cross-government performance issues and risks. Our knowledge base – built on a wide and deep work base and on our access to information – will be consistently deployed to enrich the work we provide to Parliament and others, and to better direct and prioritise our own work programmes.

Addressing common problems in government across our work programmes

2.8 We have identified three systemic issues where we believe sustained improvement across government is necessary – informed government, financial management and reporting, and service delivery. To provide demonstrable coherence, consistent quality and efficient audit, these themes will feature across our work programmes and we will apply standardised approaches to work addressing these common themes. These will be developed by subject experts, and capable of flexible application for local circumstances. We will ensure greater consistency in assessing value for money, considering whether the optimal level of resources was used for the benefits achieved, to help improve comparisons over time and between different programmes.

Giving a lead to the public sector

2.9 Beginning with our systemic themes, the NAO will make more strategic and forthright contributions on key issues thus adding to the coherence of our work and giving a lead to the public sector. Objectivity and independence are crucial to the way in which we work and what we say in public will be based on a broad, evidence-based analysis of major topics. We will be forthright and expert without being politicised.

Increasing our influence to drive change

2.10 To apply our knowledge and drive lasting improvements effectively, we need to deliver consistent quality service, build strong relationships, and forge active partnerships so that audited bodies take on board our recommendations. We will be flexible and innovative in choosing the right approach to obtain buy-in and action from audited bodies on the issues we highlight. This means developing new channels of influence as well as enhancing our traditional products.

Delivering enhanced service to Parliament and other stakeholders

2.11 We will implement a consistent, structured approach to client and stakeholder engagement across the NAO. Critical to our success is improving the service we offer the PAC and Parliament more broadly so that the outcomes which are jointly achieved from this unique relationship are enhanced. We will also seek to develop effective alliances with other organisations where our objectives intersect and where we share common agendas, including working more closely with the Audit Commission where service delivery is dependent on partnerships between central and local providers. And we will focus our international work on priority areas where we can support UK interests and apply what we learn to our core activities.

Taking the right approach to deliver the greatest impact

2.12 To achieve impact we need to do more than publish reports and reach audit opinions. Taking a holistic view of issues and enhancing our client management will help us select the right mix of activities to address underlying issues affecting cost-effective public service delivery. We will coordinate and integrate our approach across work-streams to reinforce important messages on key issues. This will see us delivering professional advice to government, but we will not compromise on our independence or our duties to Parliament.

Delivering high performance from the NAO

2.13 Our aim is to become a thriving professional services organisation focused on improving public services. We need to build a high performance, high energy culture that values skills, expertise and professionalism. We will continually develop our competences, and keep them fresh, to remain on the leading edge of international practice in what we do.

Building a high performance culture

2.14 The skills and commitment of NAO staff provide a sound base, but delivering our strategy will require major cultural change within the organisation. We will create a team-based, professional, efficient and high-performing culture based on a new deal between staff and leadership. Demanding expectations will be set and individuals held to account, but professional judgement will be supported and the best behaviour and talent recognised and rewarded appropriately and swiftly. This change will be led by example by the NAO's Leadership Team and will be carefully managed to safeguard the delivery of our work to Parliament and others.

Developing leading edge competences

2.15 We will focus on developing, and keeping fresh, deep skills and specialist knowledge in those issues and areas which naturally fall within our competency as an accountancy-based professional organisation. Our priority will be maintaining our unique concentration of financial and advisory skills to help us remain at the forefront of international practice in our field. Where necessary, we will add to our in-house expertise in high priority areas such as project and programme management, economic and financial modelling, financial markets and IT enabled change.

Summary

2.16 Our aim is to fulfil the potential of the NAO to apply the unique perspectives of public audit to help government and Parliament drive lasting improvement in public services. This strategy outlines how we will make the most of the NAO's position and professionalism for the benefit of our stakeholders, and our intention to develop a thriving professional culture for our staff. By developing and applying our knowledge on focused issues, maintaining our independence and increasing our influence, and building a high performance organisation we will drive change and deliver impact. Our success will ensure that the NAO continues to be a vital institution of which we can be proud, will improve the support we provide for Parliament's scrutiny of government, and will, overall, see government work better for those who use public services and for the taxpayers who fund them.

Part Three

Delivering the strategy: holding to account and helping to improve

3.1 Part two set out how we intend to respond to the changing public sector landscape and the key objectives of our strategy. This part sets out the key priorities and the outputs we will use to achieve these objectives. First, we will continue to report to Parliament on the actions the Government has taken to address the impact on the UK economy of the recent financial crisis and recession, and the implications this has for the nation's finances. Second, we will focus on the thematic issues introduced in Part two which impact on individual departments' performance in achieving value for money and have implications more widely across government. This part also considers other developments in the public sector where the NAO will respond as necessary to support Parliamentary scrutiny over the use of public funds.

Providing assurance on the Government's response to the recession

3.2 The recent financial, economic and fiscal downturn has seen:

- instability in the credit and capital markets;
- a downturn in economic output and increase in unemployment, putting stress on businesses and consumers; and
- a widening gap between Government expenditure and revenues, leading to a need for fiscal retrenchment.

Our objectives, as external auditors working on behalf of Parliament and taxpayers, are to provide transparency around the actions being taken to address these issues; assurance on key value for money risks; and insight into Government's capacity to handle the challenges. As the economy recovers, the assets, liabilities and contingent exposure on the Government's balance sheet will remain significant.

3.3 We are examining specific government interventions to support the economy, which started with our March 2009 report on the Nationalisation of Northern Rock. Our financial audits will provide assurance on taxpayers' liabilities resulting from the Government's banking liquidity and guarantee schemes, on the valuation of other guarantees and contingent liabilities, and will include thorough consideration of nationalised assets. We will be publishing an overview report setting out the areas of Government intervention in the financial sector. We will also report on the design and implementation of the Government's exit strategies as these take place, for example, on sales of shareholdings in Royal Bank of Scotland and the Lloyds Banking Group.

3.4 Our work will also look at how different parts of government are handling the effects of the recession covering, for example, a report addressing whether the recession has affected the performance of private sector providers working for Jobcentre Plus to help people move into work. With departments across government being required to make additional value for money savings to respond to the fiscal crisis, we are scrutinising – and will report on – the achievement of these savings. Finally, our work on HM Revenue and Customs' accounts will continue to examine the impact of the economic downturn on aspects of the tax system, in particular, examining performance in the recovery of tax debt and the changing risks to compliance across the tax system.

Focusing on common barriers to improving performance

3.5 Maximising the impact which the NAO can have requires focus on the drivers of public sector performance where our unique skills have most relevance and potential to add value by making robust judgements about whether departments are achieving value for money and how they need to develop to get a tighter grip on costs and maintain and enhance service quality. This capability is enhanced by our ability, as the auditor of all departments, to look across government. Our strategy is to use this breadth of view to help ensure that good practice is replicated, greater standardisation is achieved to reduce costs, and systemic barriers to better performance are quickly identified and remedied.

3.6 The three systemic drivers of performance we intend to focus on have been derived from a structured analysis of departments' performance and risks to value for money drawn from our annual assurance work and ongoing value for money assessments. The themes comprise a number of more specific issues which we intend to cover over the next three years, but the key focus will be on:

- **Informed Government.** The life blood of a successful organisation is the quality of information on which it makes decisions and monitors and assesses performance. Poor quality information leads to inefficiency and waste, poor performance, undermines the confidence of key stakeholders, and can result in excess or unnecessary costs. Departments need more reliable information on which to design and deliver services and monitor quality; be confident about their productivity and efficiency; and to drive continuous improvement.

For example, decision makers need a much deeper analysis of the drivers of productivity to make decisions about the cost-effective allocation of resources. We will develop a programme of cross-cutting work on productivity and productivity measurement.

- **Professional financial management and reporting.** While departments have made progress in improving their financial management, the ability to control costs and drive out waste will require further enhancement in all areas of public service delivery. In particular, departments will need to be better at linking costs to services and benchmarking performance to determine whether costs are justified and whether value for money can be improved.

For example, public bodies need to be confident that the resources for which they are responsible are appropriately managed and controlled. To provide assurance that these requirements are being met organisations have to publish statements on internal control with their annual financial statements. We intend to strengthen the work we do on statements of internal control to ensure that they are supported by robust evidence that controls are sufficiently reliable.

- **Service Delivery.** Public services are different in the way they are delivered but their overall quality and cost effectiveness depends on a number of common minimum requirements. For example, service delivery requires sound programme and project management, strong commercial skills, effective IT enabled business change and a real understanding of customer needs. Drawing on the unique perspectives of our work, we will focus on potential solutions to these systemic problems.

For example, money is increasingly provided by central departments, through one or more intermediary organisations, to local bodies to deliver services. While there are clear benefits in local organisations having discretion to deliver services which best meet the needs of their communities, appropriate governance is needed to ensure accountability and minimise complexity. We intend to focus more of our work on the effectiveness of delivery and governance arrangements for delegated expenditure.

Our core activities will continue to assist Parliament in holding government to account

3.7 Public reporting is an important principle of public audit. The NAO's activities play a crucial role in the cycle of accountability which begins and ends with Parliament. We will continue to provide independent assurance on the annual financial statements of some 500 public bodies, including government departments, agencies, non-departmental public bodies and publicly-owned companies, reporting to Parliament on important issues arising from our work.

3.8 Our annual programme of 60 major reports to Parliament will continue to support the PAC and will cover all main government departments. Our programme of work will respond to the changing economic and political landscape and cover the three key themes: informed government; financial management and reporting; and service delivery, as well as other issues of public and Parliamentary interest.

Developments in financial reporting to Parliament have implications for scrutiny

3.9 Over the period of the strategy, a number of developments in financial reporting will help strengthen scrutiny and assist Parliament in holding Government to account.

- **International Financial Reporting Standards (IFRS)** – central government financial statements will be prepared on an IFRS basis for the first time in 2009-10. We are supporting departments by carrying out a full audit of restated 2008-09 financial statements by December 2009, which will provide comparative information for the 2009-10 IFRS-based accounts that will be prepared and audited by July 2010. The adoption of IFRS is the most significant development since the introduction of resource accounting in 2001, and will provide clearer comparisons on the use of resources and the financial position of public sector organisations.
- The **'clear line of sight project'** should improve Parliamentary oversight of funding and the timing of the presentation of documents to Parliament. In July 2009, the House of Commons Liaison Committee accepted government proposals for a better-aligned spending framework. We are working with the Treasury on implementing the proposals, under which there will be simplified and more consistent financial reporting to Parliament in line with the fiscal rules at three stages in the spending process – on plans, Estimates and expenditure outturns.
- **Trust accounts** – planned changes to financial statements in 2010-11 include the requirement for 'Trust Accounts' to be used to account for revenue collected by organisations on behalf of the Consolidated Fund. These will require a separate audit opinion. We will also be providing advice in preparation for more substantial changes to 2011-12 accounts. These include major changes to the Statement of Parliamentary Supply, as voted Estimate figures will be on the basis of budgetary amounts, and departments' Estimates and accounts will consolidate non-departmental public bodies.

New opportunities to hold organisations to account for the use of public money will continue to emerge

3.10 The NAO's strategy is to respond positively to requests to use its skills and expertise to provide assurance in areas of concern to Parliament and government. For example, in 2008 and 2009, we carried out work to assess the performance of some 25 Sector Skills Councils. Over the strategy period (2010-2013) we will be developing our work in a number of areas to provide assurance to Parliament, enabling it to hold departments to account.

- The **Operational Efficiency Programme**⁶ launched by the Treasury in July 2008 builds on the Comprehensive Spending Review 2004 Efficiency Programme and focuses on delivering greater efficiency in a number of cross-cutting areas – back office operations and IT, collaborative procurement, asset management and sales, property and local incentives and empowerment. In the autumn 2008 Pre-Budget Report, the Government outlined its intention to increase its Value for Money (VFM) savings target to £35 billion by 2010-11.⁷ The NAO is committed to providing assurance on these VFM savings, the final year of which will include savings from the Operational Efficiency Programme. There are likely to be similar opportunities to provide assurance on savings programmes in future spending periods.
- **Sustainability reporting** – the Treasury is consulting on proposals for new reporting requirements on sustainability in departments' annual reports and accounts. The preferred option would lead to the introduction of mandatory sustainability reporting by central government bodies as a dry run in 2010-11 and formally in 2011-12. We are well placed to provide assurance on sustainability reports and plan to develop our capability further. We are currently considering the types of assurance that might be provided.
- **Audit of public service companies** – the provisions of the Companies Act enabling the NAO to audit companies came into force for the 2008-09 accounting period. The Office has so far been appointed auditor of 25 profit making companies and we estimate this number to increase to 50 by the end of the strategy period.
- **Members' expenses** – in response to a request from the House of Commons authorities, the NAO will also scrutinise Members' expenses in more detail than we have been asked for to date.

6 HM Treasury (2009) Operational Efficiency Programme: http://www.hm-treasury.gov.uk/vfm_operational_efficiency.htm

7 HM Treasury, (2008), Pre-Budget Report statement to the House of Commons, delivered by the Rt Hon Alistair Darling MP, Chancellor of the Exchequer; http://www.hm-treasury.gov.uk/prebud_pbr08_speech.htm

3.11 We will continue to review opportunities to safeguard Parliamentary scrutiny of public money and to support the PAC in making the case for extending the C&AG's remit as appropriate. Public organisations that are not currently subject to full scrutiny include the **BBC** and the **Financial Services Authority**, and school **Academies**. While the NAO has carried out some evaluation work on these organisations, Parliament's ability to hold these organisations to account is limited because the C&AG does not audit the annual financial statements. The absence of full accountability for the FSA is particularly problematic at a time of potential changes to the structure and content of financial services regulation. **Academies** are state schools independent of local authority control. Their accounts are currently audited by private firms, providing assurance at local level but not to Parliament, which provides the bulk of the £1.2 billion academy funding.

We will strengthen our support for the Committee of Public Accounts and other Select Committees

3.12 One of the NAO's key roles is to support the PAC in its scrutiny of departments. We will work with the Committee to secure sustainable improvements in public service performance through the provision of major reports examining government programmes. We are setting up a dedicated team to develop the support we provide to the Committee with the aim of further improving accountability and value for money in central government.

3.13 While the NAO's priority is to support the PAC, we will also continue to develop our work with other Select Committees where we can add value to a Committee's inquiries. The NAO supports Committees in a number of ways ranging from formal reviews of aspects of public policy delivery to informal briefings drawing on our core expertise in public sector financial management. We also provide performance briefings on individual departments and will develop this work with greater focus on our key systemic themes.

We will work in partnership with others to achieve our objectives

3.14 To be successful, we must influence government to change. As well as working in a closer partnership with the PAC, we will seek to develop closer working relationships with the Audit Commission, Treasury, Cabinet Office and individual departments to improve public service delivery while maintaining our independence and objectivity.

3.15 The strength of our recommendations will continue to be based on our authoritative reporting, but we will also seek to provide further guidance and support to departments. We will encourage departments to implement our recommendations and share best practice. We will continue to develop a broader range of outputs and activities to encourage improvements in cost-effective delivery and to highlight our messages in the wider public sector arena. We recognise the power of cross-government networks in promoting best practice, and we will support initiatives which promote better value for money, such as the benchmarking of corporate services in the public sector.

Part Four

Our resources and performance

We are committed to demonstrating, and improving, our efficiency

4.1 There will be significant pressure on public finances over the strategy period, and we are committed to demonstrating that the NAO can lead by example. We have carried out a thorough examination of our cost base and have identified scope to reduce costs without compromising our work in support of Parliamentary scrutiny of public services. Our strategy is ambitious, but following this review we are confident that we can implement the strategy without any increase in resources in 2010-11.

4.2 On frontline audit and assurance work, we are aiming to reduce input costs by a minimum of two per cent a year by streamlining processes and making better use of staff resources. We will similarly reduce the cost of value for money work in 2010-11 through adopting a more thematic approach and by making more targeted use of external expertise. Internal restructuring has reduced the number of senior management posts and driven efficiencies in our corporate services. We have reviewed our use of office space and have decided that we can reduce our space requirements and sublet surplus office accommodation to a suitable tenant. The income will be retained by the NAO in support of its audit and assurance work and will reduce the net resource requirement. We are committed to further cost reductions which will see corporate costs fall by five per cent a year.

NAO can implement its strategy without needing an increase in resources in 2010-11

4.3 Following the examination of our cost base, we propose implementing our strategy with no increase in resources in 2010-11. We propose provisional one per cent increases in 2011-12 and 2012-13, reflecting the need to respond to significant changes in the public finances which have given rise to new risks which need to be examined. This level of resource supports the continuation of our financial audit and value for money programmes, which provide assurance to Parliament while responding to the need to go further to achieve the full potential of the NAO to drive lasting improvements in public services.

Figure 1

Proposed resource requirement (FY 2009-10 to FY 2012-13)

	2009-10 (£ million)	2010-11 (£ million)	2011-12 (£ million)	2012-13 (£ million)
Net resource requirement	79.3	79.3	80.1	80.9
Increase		Nil	0.8	0.8
		Zero per cent	1 per cent	1 per cent

4.4 Figure 2 shows how the NAO plans to use its resources over the planning period.

Figure 2

Proposed use of resources

	2008-09 Outturn (£ million)	2009-10 Plan (£ million)	2010-11 Forecast (£ million)	2011-12 Forecast (£ million)	2012-13 Forecast (£ million)
Staff	55.2	58.9	60.0	61.8	63.5
Outsourcing	22.6	23.2	22.8	21.8	21.0
Travel	3.6	3.9	4.0	4.1	4.2
Other cash costs	8.4	9.1	10.0	9.8	9.5
Non-cash costs	4.0	3.9	5.0	5.1	5.2
Transfer to repair and refurbishment	2.2	1.3	–		
Gross resource requirement	96.0	100.3	101.8	102.6	103.4
Income	19.9	21.0	22.5	22.50	22.5
Net resource requirement	76.1	79.3	79.3	80.1	80.9

4.5 There will be a significant increase in non-cash costs in 2010-11 reflecting the increased value of our headquarters following the refurbishment, which will be completed later this year. The increased value results in higher capital charges and depreciation. We therefore expect to deliver the strategy without requesting an increase in our cash requirements over the next three years.

4.6 Around 60 per cent of the Office's gross resources will be used to meet the salaries and related costs of its staff. We plan to employ about 900 staff, of whom some 60 per cent will be either qualified accountants or training for accountancy qualifications. Their marketable expertise is essential to support the provision of assurance on financial statements and to provide rigour and financial skills in our value for money and other assurance work.

4.7 The NAO will continue to recruit up to 80 graduates a year under its professional training scheme, leading to an accountancy qualification with the Institute of Chartered Accountants in England and Wales. We will need to ensure that starting salaries keep broadly in line with other employers and that, after qualification, salaries remain within striking distance of its main competitors, whilst also having regard to public service pay guidelines.

4.8 In addition to employing staff, we have productive relationships with partner organisations in the private and academic sectors. These partnerships, established following open competition, support both financial audit and value for money assurance work. Looking ahead over the strategy period, there will be a progressive reduction in the proportion of resources used to buy in external support, reflecting the need to prioritise limited resources and the capacity of external suppliers to provide the skills required to deliver value for money work. Our intention is to develop our in-house expertise.

4.9 Resources are also required to provide the infrastructure necessary to support the provision of audit and assurance services to Parliament, including accommodation, IT, training and personnel. The completion of the repair and refurbishment project of the NAO's headquarters in November 2009 will support business improvements and help generate cost reductions. Although the higher valuation of the headquarters following the refurbishment will lead to significantly higher business rates, capital charges and depreciation, we plan to meet this additional expenditure without needing an increase in resources in 2010-11.

Analysis of resources by objective

4.10 NAO costs are attributed to the various types of work undertaken. **Figure 3** shows how total resources, including overheads, are likely to be deployed across the Office's main objectives. It shows that a greater proportion of resources will be focused on improving performance in line with the strategy, and that there will be a reduction in international work, reflecting the decision to focus more of our overseas work on the audit of financial statements of the international bodies for which the C&AG is the appointed auditor.

Figure 3

Analysis of resource requirement by objective

	2008-09 Outturn (£ million)	2009-10 Plan (£ million)	2010-11 Forecast (£ million)	2011-12 Forecast (£ million)	2012-13 Forecast (£ million)
Financial audit	48.4	51.5	53.4	54.1	54.0
Value for money	27.4	27.3	26.1	25.6	25.4
Performance improvement	9.2	10.7	11.6	12.9	13.7
Support for Parliament, the public, international work etc	10.8	10.6	10.5	9.8	10.1
Comptroller function	0.2	0.2	0.2	0.2	0.2
Gross resource requirement	96.0	100.3	101.8	102.6	103.4
Income	19.9	21.0	22.5	22.5	22.5
Net resource requirement	76.1	79.3	79.3	80.1	80.9
Statutory work	69.7	72.0	72.4	71.1	70.9
Non-statutory work	26.3	28.3	29.4	31.5	32.5

Figure 4

Analysis of resource requirement by objective (percentage)

	2008-09 Outturn %	2009-10 Plan %	2010-11 Forecast %	2011-12 Forecast %	2012-13 Forecast %
Financial audit	51	51	53	53	52
Value for money	28	27	26	25	25
Performance improvement	10	11	11	12	13
Support for Parliament, the public, international work etc	11	11	10	10	10
Comptroller function	< 1	< 1	< 1	< 1	< 1
Statutory	73	72	71	70	69
Non-statutory	27	28	29	30	31

4.11 Figures 3 and 4 include an analysis of our resource requirement for statutory and non-statutory work. Statutory work includes most financial audit and value for money work; non-statutory work includes our work on performance improvement and support to Parliament. The C&AG decides what resources are needed for statutory work. The non-statutory work programme is carried out with the agreement of the NAO Board, which also approves the resources to be allocated to the programme.

Capital expenditure

4.12 The net resource requirement includes depreciation relating to the NAO's fixed asset base, which includes its headquarters building and information and communications technology equipment. The Office will complete the repair and refurbishment of its headquarters later this year, and has limited further capital requirements over the period of the strategy. It is, however, increasingly dependent on information technology to deliver audit and assurance services efficiently, and will need to continue to invest in its asset base to provide modern and reliable equipment. For example, over the period we will improve the capacity and efficiency of its data storage requirements, and continue to invest in software upgrades, improving audit tools and the efficiency and capacity of remote access arrangements, further enhancing the Office's knowledge sharing and information management.

4.13 Figure 5 below indicates that £1.2 million a year will be needed for capital expenditure over the plan period.

Figure 5

Capital provision 2008-09 to 2012-13

	2008-09 Outturn (£ million)	2009-10 Plan (£ million)	2010-11 Forecast (£ million)	2011-12 Forecast (£ million)	2012-13 Forecast (£ million)
Capital provision	1.1	1.5	1.2	1.2	1.2

We will demonstrate our success through performance measures covering all aspects of our activities

4.14 NAO performance measures (see appendix) address our use of resources, the speed of delivery and quality of our work, and the outcomes we achieve in terms of financial impact.

4.15 We have developed new performance indicators to assess the outcome of our strategy. We are committed to demonstrating our impact through identifying financial impacts of at least £10 saved for every £1 spent running the Office, an increase on the current year target of £9:£1. This financial measure is a clear way of demonstrating the value of the NAO's impact in improving the cost-effectiveness of public service delivery. Our financial impact target will increase to £809 million by the end of the strategy period.

4.16 Our added value is not, however, wholly captured by this indicator and we are developing our reporting of wider, non-financial impacts. Wider impacts will be subject to independent audit for the first time in 2009 and will be reported under two categories: increased accountability and transparency; and improved organisational performance and service delivery.

Examples of work falling under the increased accountability and transparency heading are:

- improvements in financial or performance reporting;
- improvements in the workings and effectiveness of Audit Committees; and
- extensions of our remit into areas not previously examined by the C&AG and PAC.

Work falling under the category of improved organisational performance and service delivery includes:

- improvements in service standards or outcomes such as reductions in waiting times or deaths from strokes;
- improvements in organisational management and processes, such as better procurement or financial management; or
- strengthened governance, for example, through better risk management.

4.17 Ongoing enhancement of the way in which we demonstrate the performance and added value of the NAO is a key priority. We will continue to develop the range of indicators which are used to ensure that our resources are deployed cost effectively and to report performance to Parliament.

Appendix One

NAO Performance Measures

Resource inputs

	Achieved	Current Year	Targets for planning period		
	2008-09 Actual %	2009-10 Target %	2010-11 Target %	2011-12 Target %	2012-13 Target %
1 Resources used on front-line activity	75	75	78	79	80
2 Efficiency improvements in corporate costs, including staff, consultancy and travel	5.3	4	5	5	5
3 Efficiency improvement in financial audit work	–	2	2	2	2
4 Efficiency improvement in value for money work	2	2	2	2	2

Outputs: Speed of delivery and quality

	2008-09 Actual %	2009-10 Target %	2010-11 Target %	2011-12 Target %	2012-13 Target %
	5 Accounts audited within four months of the year end	74	74	77	80
6 Independent confirmation of compliance with auditing standards	✓	✓	✓	✓	✓
7 Value for money studies taking 9 months or less	29	60	65	70	70

 Outcomes

	Achieved	Current Year	Targets for planning period		
	2008-09 Actual (£ million)	2009-10 Target (£ million)	2010-11 Target (£ million)	2011-12 Target (£ million)	2012-13 Target (£ million)
8 Financial impacts achieved	768	714	793	801	809
9 Improvements in departmental performance – impacts achieved	Significant audited case examples to be reported				
10 Improvements in accountability and transparency – impacts achieved	Significant audited case examples to be reported				

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