



National Audit Office

**MEMORANDUM FOR THE  
PUBLIC ACCOUNTS  
COMMISSION  
MARCH 2011**

---

# National Audit Office Resource Estimate for 2011-12

Our vision is to help the nation spend wisely.

We apply the unique perspective of public audit to help Parliament and government drive lasting improvement in 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: £890 million in 2009-10.

This report has been printed on Consort 155

Design & Production by NAO Communications  
DP Ref: 009553-003 | Printed by Precision Printing





National Audit Office

# National Audit Office Resource Estimate for 2011-12

---

MEMORANDUM FOR THE PUBLIC ACCOUNTS COMMISSION  
MARCH 2011

The National Audit Office is the external auditor of all government departments and a wide range of other public sector bodies. The Office's aim is to apply the unique perspective of public audit to help Parliament and government drive lasting improvement in public services.

The role of the National Audit Office is to scrutinise public spending on behalf of Parliament. The Comptroller and Auditor General, Amyas Morse, is an officer of the House of Commons and heads the NAO, which is totally independent of government and has the largest concentration of financial skills in the central public sector. The Comptroller and Auditor General and his staff certify around 470 accounts of public bodies, including all government departments, all non-departmental public bodies and a range of other public sector organisations. In 2010, the NAO was also appointed to the Board of Audit of the United Nations.

In addition, the NAO has statutory authority to report to Parliament on the value for money of government expenditure. The 60 major reports published each year are available to the Committee of Public Accounts of the House of Commons, which draws on the Office's findings to question the government on the implementation of its spending decisions. The NAO also offers its expertise to government in response to other financial and delivery challenges. This has recently included published advice to departments on reducing their costs in a structured way.

# Summary

**1** The Public Accounts Commission is required to examine the National Audit Office's annual spending proposals as set out in its Estimate. The Office is seeking endorsement to reduce its net resources for 2011-12 by 10.3 per cent from its approved Estimate for 2010-11 and 7.3 per cent from its forecast for 2010-11, as approved by the Commission in the Office's Strategy for the period 2011-2014 in November 2010. This forms the first stage of the Strategy to reduce net resources by 15 per cent from the forecast outturn position for 2010-11 over three years.

**2** The Strategy remains ambitious and in addition to core work, over the next three years, the Office will continue to focus strongly on three systemic drivers of performance in public sector organisations: informed government; professional financial management; and cost effective delivery, to increase the impact of its work in helping to achieve lasting beneficial change in public services.

**3** Since the Commission approved the Strategy in November, the Office has finalised a detailed business plan to ensure that its key objectives are delivered. The Office aims to practice what it preaches and has set tough but achievable efficiency targets for front line work and corporate support activities.

In addition, the National Audit Office will support the extension of Parliamentary Scrutiny by:

- developing an integrated programme of financial audit and value for money work to ensure the transparency of government actions to reduce public expenditure while maintaining public service delivery;
- continuing to take on audits of public service companies and other new public bodies including the Office for Budget Responsibility and the Independent Aid Watchdog, and additional Trust Statements used to account for revenue collected by organisations on behalf of the Consolidated Fund; and
- responding to the changing landscape for accountability in local government and the wider Health Service following the planned abolition of the Audit Commission.

**4** The National Audit Office will continue to provide support on other important developments including the consolidation of the income and expenditure and assets and liabilities of non-departmental public bodies within Departments' Estimates and Resource Accounts, and with the alignment of voted supply with Treasury set budgets.

## National Audit Office Resource Estimate for 2011-12

**5** The National Audit Act 1983 requires the Public Accounts Commission to examine the National Audit Office's annual Estimate and to lay it before the House of Commons.

**6** The National Audit Office's 2011-12 Resource Estimate has been prepared on a Clear Line of Sight (Alignment) basis. The National Audit Office is not subject to the spending controls imposed on Departments by HM Treasury and the Resource Estimate does not therefore provide a breakdown of 2011-12 resources in terms of DEL and AME.

**7** The National Audit Office will however include a note in its 2011-12 Resource Accounts showing outturn on a notional DEL and AME basis.

**8** The Estimate includes provision for a net resource requirement of £68.7 million, after allowing for the appropriation of £20.4 million income for services provided on a repayment basis and rent paid by sub-tenants occupying space in the Office's London headquarters building. The £68.7 million relates mainly to the provision of audit and other assurance services.

**9** The Estimate also includes provision for £1.2 million capital expenditure relating to the provision of audit and other assurance services. The net resource requirement and proposed capital expenditure equate to a net cash requirement of £68.7 million, after adjusting for non-cash items such as depreciation and movements in working capital, for example changes in the value of debtors and creditors.

**10** The Estimate comprises three parts:

- **Part I** includes the Ambit, which sets out the purposes for which the resources are required, states that the National Audit Office will account for the Estimate, and sets out the net provision sought in net resource and cash terms. The net provision includes voted and non-voted expenditure, which is met directly from the Consolidated Fund.
- **Part II** sets out the National Audit Office's request for resources in both gross and net terms, showing resource expenditure, income, and capital provision. It also provides a reconciliation between the net resource requirement and the net cash requirement.
- **Part III** comprises a series of notes including: a forecast Operating Cost Statement which shows the full costs of the Office during the year, net of the Office's income; an analysis of income; an analysis of extra receipts payable to the Consolidated Fund and an explanation of the Accounting Officer's responsibilities.

## Proposed use of resources in 2011-12

**11** The National Audit Office provides Parliament with assurance on the proper accounting for central government expenditure, revenue, assets and liabilities, and on the value for money achieved in the use of resources. The Estimate includes provision for a net resource requirement of £68.7 million, after allowing for the appropriation of £20.4 million income, in respect of the provision of audit and other assurance services. There is no change to the net resource requirement which is the same amount the Public Accounts Commission approved when it examined the National Audit Office's Strategy in November 2010. The Estimate also includes provision for £1.2 million capital expenditure relating to the National Audit Office's audit and other assurance services.

**12** The Office categorises its work under five main objectives:

- **Financial audit:** providing assurance that departments' financial statements have been properly prepared and give a true and fair view; that resources have been applied to the purposes intended by Parliament; providing assurance on the assessment and collection of tax revenue; and encouraging good governance and providing assurance on the management of risk, through reviews of financial systems.
- **Value for money:** providing Parliament with independent information and advice about economy, efficiency and effectiveness. The Office aims to produce 60 reports each year examining the whole range of services funded by Parliament and the raising of revenue under Parliamentary authority.
- **Performance Improvement:** undertaking work to maximise the beneficial impact of the Office's work by focusing on the three key drivers of public sector performance – informed government, professional financial management and cost-effective service delivery.
- **Support for Parliament and other organisations:** support for the Committee of Public Accounts, other Select Committees, responding to enquiries from Members of Parliament and members of the general public, and the provision of advice and training (on a cost recovery basis) to support effective scrutiny of public finances in other countries.
- **Comptroller function:** the Comptroller and Auditor General's statutory responsibility to approve the release of funds from the Exchequer to departments.

## Breakdown of proposed resources for 2011-12

**13** **Table 1** shows how the National Audit Office proposes to use its gross resources on its strategic objectives in 2011-12, compared with previous years.

**Table 1**

Proposed use of resources by strategic objective 2011-12

	2009-10 Outturn		2010-11 Estimate		2010-11 Forecast		2011-12 Estimate	
	(£m)	(%)	(£m)	(%)	(£m)	(%)	(£m)	(%)
Financial audit	50.1	53	48.8	51	48.7	52	47.6	53
Value for money	21.6	23	24.4	25	22.6	24	21.1	24
Performance Improvement	12.0	12	11.9	12	11.3	12	10.2	11
Support for Parliament etc	10.7	11	10.7	11	10.7	11	9.9	11
Comptroller function	0.2	<1	0.3	<1	0.3	<1	0.3	<1
<b>Total</b>	<b>94.6</b>		<b>96.1</b>		<b>93.6</b>		<b>89.1</b>	

**14** The table shows that the National Audit Office's forecast for the 2010-11 financial year is £2.5 million lower than the 2010-11 Estimate in gross terms. The National Audit Office is committed to practising what it preaches and early in the 2010-11 financial year, changes were made to the way in which work was delivered which generated the forecast savings. A significant saving was achieved by reducing reliance on outsourced resources, particularly on the VFM programme, as the Office was able to deliver more of its work with in-house resources which is more cost effective. The National Audit Office's Estimate for 2011-12 is a further £4.5 million lower than its 2010-11 Estimate in gross terms due to a structured cost reduction programme that has been put in place.

**15** The National Audit Office's work programme in 2011-12 will assist Parliament in examining issues arising from the continued pressures on public sector finances and the Government's response. In July 2010 the Office published a report on assessing the impact of proposed new government policies and an update report on maintaining the financial stability of UK banks in December 2010. Going forward, the Office's financial audits will continue to provide assurance on taxpayers' liabilities resulting from the Government's banking liquidity and guarantees and contingent liabilities. The Office will also publish a series of reports on the implementation of departmental cost reduction programmes supporting the Government's commitment to reduce the budget deficit.

**16** Within the resources requested, the National Audit Office will be focusing its efficiency work both within individual departments and more widely across government towards: improving financial management; helping government make better use of information; and ensuring that services are delivered cost-effectively.

## Analysis of 2011-12 gross resource requirement

**17** Before allowing for the appropriation of £20.4 million income, the National Audit Office's gross resource requirement is £89.1 million. The resources requested by the National Audit Office are used to employ staff and buy in outsourced services, to pay for the travel costs associated with audit work, and to provide the infrastructure and support necessary to underpin the delivery of the Office's work. **Table 2** shows how the Office plans to use resources in 2011-12 compared with previous years.

**Table 2**  
Planned use of resources 2011-12

	Gross resources			
	2009-10 Outturn (£m)	2010-11 Estimate (£m)	2010-11 Forecast (£m)	2011-12 Estimate (£m)
Staff	57.8	60.0	58.6	58.2
Outsourcing	17.6	19.6	15.7	15.0
Travel	3.4	3.6	3.4	3.3
Other cash costs	10.1	10.0	10.0	9.6
Other non-cash costs	5.7	2.9	5.9	3.0
<b>Gross resource requirement</b>	<b>94.6</b>	<b>96.1</b>	93.6	<b>89.1</b>
Income	(19.9)	(19.5)	(19.5)	(20.4)
<b>Net resource requirement</b>	<b>74.7</b>	<b>76.6</b>	<b>74.1</b>	<b>68.7</b>

**18** In 2011-12 the Office will secure a further saving of £5.4 million in net terms through a cost reduction programme across all its activities and this will be achieved by:

- **utilising staff more efficiently** – a new staff allocation system has been implemented to better align available staff resources with planned work. In addition, planning is now led by senior staff which leads to efficiencies across all areas of the Office's work;
- **reducing outsourcing requirements** – the Office will continue to reduce its reliance on outsourced resources and plans are in place for further reductions over the next three years;
- **reducing corporate overheads** – reduced budgets have been set for all corporate activities and a review is currently being undertaken of corporate support with the aim of making further reductions; and
- **utilising office space more effectively** – the Office monitors its space requirements and has concluded that more space can be made available for sub-letting which reduces the Office's reliance on parliamentary funds.

**19** Around 65 per cent of the Office's gross resources will be used to meet the salaries and related costs of its staff. The Office will employ some 890 staff, of whom some 60 per cent will be either qualified accountants or training for accountancy qualifications.

**20** The National Audit Office will continue to recruit up to 70 graduates a year under its professional training scheme, leading to an accountancy qualification with the Institute of Chartered Accountants in England and Wales. In addition the Office will recruit up to ten school leavers who will also enter into professional accountancy training under the accounting technician route that is offered by the Association of Accounting Technicians.

**21** In estimating staff costs, increases in starting salaries have been assumed for graduate trainees so that they remain in line with starting salaries paid by other employers for similar roles. It has been assumed that there will be no increase in the overall pay bill. In addition to employing staff, the Office has 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.

**22** Other cash costs include accommodation, information technology, printing, and training expenditure. Non-cash costs are mostly depreciation.

### **Income**

**23** The National Audit Office's request for resources takes account of £20.4 million in income expected from UK and international fee-paying audits, from providing services to international and overseas clients, from secondments to other organisations and from renting out surplus office space. A breakdown of the Office's income is shown opposite in **Table 3**. The Office has reviewed its use of office space and has decided that it can continue to reduce space requirements and sublet surplus office accommodation. The projected income of £1.0 million will be retained by the National Audit Office in support of its audit and assurance work.

**Table 3**  
Analysis of income 2011-12

	Income			
	2009-10 Outturn (£m)	2010-11 Estimate (£m)	2010-11 Forecast (£m)	2011-12 Estimate (£m)
Fee-paying audits – UK and International	16.3	16.8	16.8	17.7
Services to international and overseas clients	2.2	1.9	1.9	1.0
Outward secondments	0.5	0.5	0.5	0.7
Rental Income	–	0.3	0.3	1.0
Other income	0.9	–	–	–
<b>Total</b>	<b>19.9</b>	<b>19.5</b>	<b>19.5</b>	<b>20.4</b>

### Capital expenditure

**24** The National Audit Office uses information technology hardware and software to deliver its services efficiently and effectively. The Office has reduced the level of capital investment by around 21 per cent and will be investing £1.2 million to continue to provide modern and reliable equipment and audit tools to support its work. A key investment will be made in new audit software to provide an increased level of support to the Office's work and improve efficiency.

### Financial impact and efficiency

**25** The National Audit Office will report performance in 2011-12 against a new set of performance measures. The new measures which are set out in the Appendix will demonstrate the impact of the Office's work, the efficiency with which it is carried out and also key stakeholders' views (including clients and MPs).

### **Net cash requirement**

**26** The combined net resource requirement and proposed capital expenditure for audit and other assurance services equate to a net cash requirement of £68.7 million, after adjusting for non-cash items such as depreciation and movements in working capital, for example changes in the value of debtors and creditors.

### **Request for resources**

**27** The National Audit Office's £68.7 million net resource requirement for 2011-12 will enable it to continue to develop and strengthen the ways in which it supports Parliament. In doing so, the Office will seek to secure savings of at least ten times its net resource costs.

**28** After adding capital expenditure, and adjusting for non-cash items and movements in working capital, the National Audit Office's net cash requirement for 2011-12 is £68.7 million.

**29** The Commission is invited to endorse the National Audit Office Estimate for 2011-12.

Amyas C E Morse  
Comptroller and Auditor General  
1 March 2011

# Appendix

## National Audit Office Performance Measures 2011-12

Aim	How success will be measured
1 The National Audit Office's work saves public money	The achievement of financial impacts – the Office's target is £10 saved for every £1 spent
2 The National Audit Office's work leads to positive change	Case studies demonstrating positive results will be reported
3 Parliament has confidence in the independent assurance of the National Audit Office	A survey of MPs' views will be undertaken and reported
4 The National Audit Office's clients acknowledge the value of its work	The results of moderated feedback will be reported
5 The National Audit Office is a recognised authority in its core areas of expertise	A qualitative assessment of progress in core areas building on feedback from stakeholders will be undertaken and reported
6 The National Audit Office uses public funds cost-efficiently	A dual measure of aggregate cost-savings and allocation between front-line and back-office functions will be reported

