Round-up for
Audit Committees

October 2016

NAO
National Audit Office

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This interactive round-up comes out in spring and autumn, providing an overview of the NAO reports and communications most relevant to the needs of Audit Committees, generally. See 'Further information' to find reports relevant to specific sectors or issues.

Sir Amyas Morse launches this first edition with an introduction and overview.

We encourage you to discuss how our work can help you with your NAO Director.

For queries about this publication, please contact:

✉ NAO.Communications@nao.gsi.gov.uk

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A round-up for Audit Committees

It's been a summer of contemplating the implications of the vote to leave the EU and the subsequent departmental and Ministerial changes. As we all prepare for a period of extensive change, the NAO is seeking to do all we can to support Chairs of Audit (and Risk) Committees – including creating this resource. It begins with a summary of all our reports for your department and its 'family' of bodies, overleaf.

As the inaugural edition, this Round-up outlines our useful publications and resources over the last year. I know you really want our view of the coming year – or years. Although we have no crystal ball, our historical perspective, as we celebrate the 150th anniversary of the role of Comptroller and Auditor General, gives some pointers to The next 150 years, stressing the great importance of maintaining accountability as government embarks on this period of huge and rapid change. As I outlined in my speech at the Institute for Government, I believe the civil service is over-committed – and even more so since the Brexit vote. There is now an historic opportunity to build a set of national priorities for government.

The NAO will continue to scrutinise public spending for Parliament and hold government to account for how it uses public money. Crucially, we will continue to help the public sector to improve performance and service delivery. To this end, we hope you have received an invitation to provide feedback through the survey being conducted for us by Ipsos MORI and we invite you to contact us at any time to discuss ways we can provide you with further support.

Sir Amyas Morse
Comptroller & Auditor General

Click here for summary of
Home Office related reports

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Home Office related reports

The Syrian Vulnerable Persons Resettlement programme, Sep 2016

Upgrading emergency service communications: the Emergency Services Network, Sep 2016

The work of the National Audit Office in the police and fire sectors, Jul 2016

Local public service reform, Sep 2016

Yarl's Wood Immigration Removal Centre, Jul 2016

Confiscation orders: progress review, Mar 2016

Use of temporary staff and consultants, Jan 2016 – includes a Home Office case study

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Accountability and reporting

Accountability to Parliament for taxpayers' money, summarised in our post Spending your money wisely, provides directly helpful guidance for Chairs, as well as for Accounting Officers.

We examine Government's management of its performance: progress with single departmental plans and set out a framework for strategic business planning and management.

Our blog post Great ideas for annual reports summarises good practice, presented in Building Public Trust Awards: Examples of good practice in annual reports, 2015.

In Driving sustainability: how to check your speed we highlight criteria and questions organisations can use to review their own progress to environmental sustainability – also useful for annual reports.

Guidance resources

Our 'how to' guides and frameworks are on Self-assessment resources, which also links to our wider technical guidance resources. Our associated blog post explains how they can help you avoid reinventing the wheel.

One new resource on this page is our Framework to review models. Our blog post Beautiful models: robust and reasonable summarises this guidance and other related reports, such as Forecasting in government to achieve value for money and Over-optimism in government projects.

Summaries of departments

Over autumn–winter we will publish our Departmental Overviews, updating last year's Short Guides to the departments.

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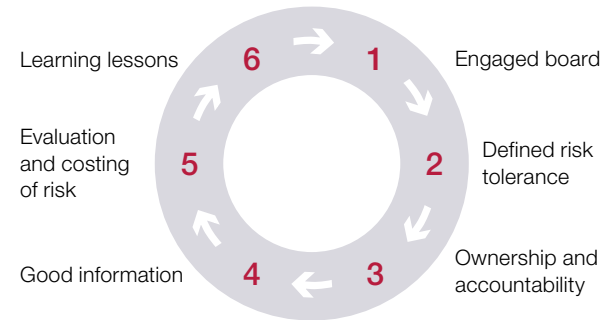Management good practice

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Risk Management resources

Taking appropriate oversight of risk management is key to every Board and Audit (and Risk) Committee. Most of our reports address one or more aspects of risk management and relevant reports can be found through the 'Sector' and 'Topics' tabs on our website. Here we summarise some of the learning points in reports that provide particularly useful lessons for key aspects of risk management.

The principles and benefits of risk management, and challenge questions for the Board, are detailed in our earlier guide: Managing Risks in Government.

The principles of risk management

- 6 Learning lessons
- 1 Engaged board
- 2 Defined risk tolerance
- 3 Ownership and accountability
- 4 Good information
- 5 Evaluation and costing of risk

Managing risk across a portfolio of reform programmes	Welfare Reform: Lessons learnt [May 2015] addresses risks relating to handling large reforms and a portfolio of programmes, while also reducing costs and reorganising the department. Our report covers monitoring and designing-in management information, using scenario planning and addressing possible failure, setting clear responsibility for risk, understanding risk tolerance, taking an integrated view of portfolio risks, and transfer of risks to third party providers.	
Managing a portfolio of high-risk projects	In Management of the BBC's critical projects [May 2016] we review the BBC's oversight of the portfolio of projects it considers to be most strategically important, complex and high-risk. We look at the BBC's framework for accountability and performance reporting, including how well issues are identified and escalated early, and the need for standardised metrics. Our report considers the interdependency between the projects and the need to manage the projects as a coherent portfolio, and recommends that the BBC describe senior accountability for project delivery more clearly.	
Avoiding inappropriate interventions and unintended consequences	Financial services mis-selling: regulation and redress [Feb 2016] considers how the Financial Conduct Authority (FCA) organises its activities to respond effectively to the risks of mis-selling of financial services products to consumers. It notes the risk that regulatory action itself could have unintended consequences, for example by reducing product innovation. The report recommends that the FCA should develop a more strategic view of the risks of mis-selling and its approach to tackling them, drawing together more effectively information on where mis-selling is taking place and the effectiveness of its regulatory interventions on the behaviour of firms and consumers. This will increase confidence that its interventions and resources are targeted where the risks of mis-selling are greatest.	

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Digital transformation

In addition to Protecting information across government, summarised in 'Management good practice', Early review of the Common Agricultural Policy Delivery Programme [Dec 2015] identifies lessons for implementing major new digital service delivery systems, especially when responsibility is spread across a number of bodies. Key lessons relate to:

- Achieving wider organisational transformation, not just procuring IT systems.

- Concurrent introduction of multiple changes to the Programme that individually have potential value, but together significantly increase delivery risk.

- Shortage of skills and experience to implement change.

- A 'good news culture' that limits contingency planning and monitoring for early warning of potential failure.

- Multiple SRO changes resulting in frequent changes in direction, uncertainty and confusion for staff.

Overseeing financial and service sustainability

Our reports on financial and service sustainability over the last year included several regarding a range of local services and Overseeing financial sustainability in the further education sector [July 2015].

Key lessons for risk management include:

- Central cost reductions can both increase risks and reduce the capacity needed to address them. Organisations need to understand the risks and find ways to maintain the capability to handle the peak demand during high-risk events (e.g. terrorist attacks or epidemics).

- Optimistic forecasting by service providers can delay the identification of problems; good monitoring and data analysis is needed to reduce this risk.

- Strong support and intervention by central bodies is needed where high-risk service providers are identified.

- Consider training to improve management – including Board – capability to manage risks; and/or pairing high-performing providers with those performing less well.

Integrated risk, control and assurance framework

Strategic financial management in the Ministry of Defence (MOD) [July 2015] sets out how the MOD is developing an integrated risk, control and assurance framework to provide assurance on the operation of internal controls and help keep the defence budget balanced, while maintaining military capability. The MOD is also running internal training to improve forecasting skills. Our report covers improving understanding of the benefits, risks and interdependency of decisions across spend categories; managing contractors; managing the risks regarding infrastructure and the MOD estate; and avoiding the risk of unintended behaviours. Our recommendations include ensuring robust governance arrangements, including managing the risks arising from new ways of working.

Forecast-dependent policies

Managing the welfare cap [April 2016] looks at this cap mechanism, introduced in 2014, to increase departments' oversight of spending on benefits and tax credits, which is highly dependent on accurate forecasts. Our report addresses risk-management issues such as the reporting environment, allowing time to run policy measures through models, avoiding dependency on individuals' knowledge – rather than comprehensive documentation, ensuring appropriate baseline data for comparisons, independent review of forecasts – including to address potential optimism bias, and consistency and clarity in cross departmental implementation.

Training New Teachers [Feb 2016] also looks at risks arising from the use of a model to forecast numbers, particularly of generating incorrect targets. With uncertainty around inputs, the Department for Education does not calculate the probability of different scenarios occurring, so it cannot say which was the most likely. It does not have a reliable measure of teacher shortages and its model does not take into account targets that had been missed in previous years. The focus on the national view of recruitment also creates a risk that valuable information about local patterns of demand and supply is ignored.

Fraud and error

Managing the risk of fraud and error should be based, as detailed in our report Fraud and error stocktake [July 2015], on an assessment of the root causes, risk profiling, improved use of data, access to new data sources, built-in controls in day-to-day processes and monitoring that identifies the effective and ineffective measures to address the problems. Our Fraud landscape review [Feb 2016] looks across government, beyond the tax and benefits examined in our 'Stocktake' report, recommending that departments undertake thorough fraud risk assessments of all new policies and programmes, and that the quality and comprehensiveness of data is improved to both formulate appropriate responses and evaluate the relative effectiveness of measures.

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Commercial and contracting

In addition to the commercial and contracting issues in Management good practice, several reports address specific aspects of risk management in contracting, including Upgrading emergency service communications: the Emergency Services Network [Sept 2016], Contracted-out health and disability assessments [Jan 2016], Outcome-based payment schemes [June 2015] and E-borders and successor programmes [Dec 2015] and Reform of the rail franchising programme [Nov 2015].

Risk management issues covered in these reports relate to:

- The importance of being realistic about assumptions and issues, and the value of verifying assumptions where possible.

- The need to avoid a 'good news culture' and ensure that concerns raised (including by those bidding for contracts) trigger reviews as appropriate.

- The impacts that might result should risk transfer to suppliers, or through the delivery chain, be unrealistic.

- The need for alignment between operational responsibility and commercial levers.

- Shortage of commercial skills within the contracting organisation.

- The need to match contracts' risks with the degree of control needed – requiring good performance data.

- The risk that commissioning approaches, such as payment by results, can reduce innovation.

- The value of piloting.

- Potential legal challenge.

In addition, Open book accounting and supply chain assurance [July 2015] recommends that every major contract have a strategy for collecting and using information about the cost and profit of supplying outsourced public services: open-book accounting. Our report sets out five approaches, explaining potential benefits and risks of the different approaches to ensuring supply-chain assurance, covering issues such as quality, regulatory compliance, working conditions, security, protection of vulnerable persons and health matters. See also our blog-post: Contracting: A minimal open book approach.

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Achieving VfM

We've blogged and spoken at events about The art of spending public money wisely. We look at four pervasive issues and ways they can be addressed: handling conflicting priorities; confronting inconvenient facts; out of sight, but avoiding being out of mind; and learning from mistakes.

Managing business operations

Managing business operations – what government needs to get right details four areas to focus performance improvements, as summarised in our blog post Improving services for citizens. Our post The glue to managing change provides further comment on effective management systems.

Commercial and contracting

Delivering public services through contracts can be complex and high risk, and very high profile if providers fail. Government Commercial and Contracting: an overview of the NAO's work highlights some of the key challenges faced by government and brings together findings from our work across these challenges. This is summarised in our blog post Joining the dots: the picture from government contracting, which also references poor progress in achieving targets in Government's spending with small and medium-sized enterprises.

Protecting information

Where government holds information, the responsibility for protecting it from unauthorised access or loss must increasingly be balanced with the need to make information available to other organisations, users and citizens via new digital services. Protecting information across government considers the effectiveness of government in managing the risk of information loss, including cost, breach reporting and deployment of the right skills.

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Major projects

The challenges of major projects summarises our report Delivering major projects in government, both outlining the lessons we've identified from our review of hundreds of major projects over many years. This shows that performance shortfalls are most likely to be due to a lack of or poor quality in one or more of five key areas: early planning and testing options; portfolio management; collection of clear and consistent data; capacity and capability; and/or clear accountability.

Fraud and error

Our blog post Confronting fraud and error head-on summarises types of fraud, the key factors in addressing fraud and error successfully, as detailed in our recent Fraud and Error Stocktake report, and the scale of the problems across government, demonstrated in our Fraud Landscape review.

Shared services

To share or not to share: that is the question that many organisations are asking. This blog post summarises our report on Shared service centres.

Temporary staff

We recommend ways to ensure value for money in the Use of consultants and temporary staff.

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# Further information

Find useful resources on NAO's website and blog:

- NAO blog: our experts summarise issues and challenges facing government, drawing on insight from across our reports to outline what you should look out for and how organisations have addressed issues.

- The 'Topics' tab on our website links to the reports of most wide-spread value for the specified topics, such as financial management, operational and programme delivery, oversight of service delivery, strategic centre of government, accountability in local service delivery and performance measurement.

- The 'Reports by sector' tab provides access to all reports by sector.

- Departmental Overviews – which will be updated over the autumn-winter.

- Support for Audit Committees.

- Self-assessment resources: our 'how to' guides and frameworks.

- Technical guidance: materials on technical accounting, audit and internal control information, and good practice resources for boards and audit committees.

Ways to be kept informed
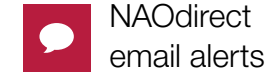
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