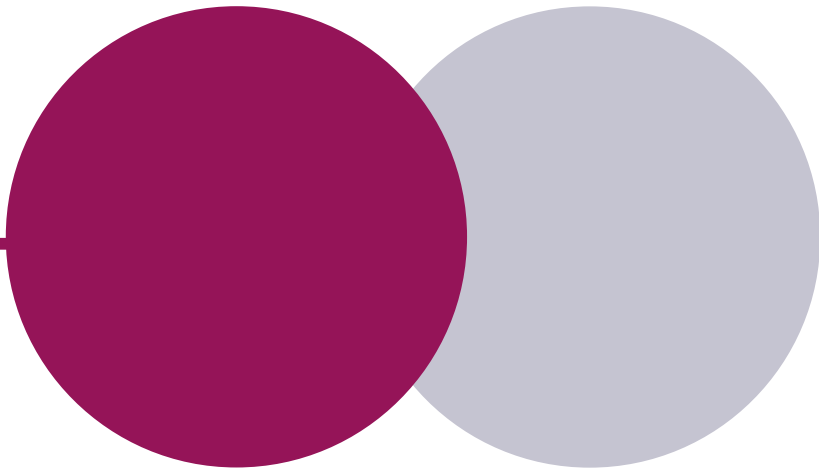




National Audit Office



National Audit Office Estimate memorandum for 2025-26

The Public Accounts Commission

FEBRUARY 2025



**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 2023, the NAO's work led to a positive financial impact through reduced costs, improved service delivery, or other benefits to citizens, of £1.59 billion. This represents around £17 for every pound of our net expenditure.



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National Audit Office website at
www.nao.org.uk


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Summary

1 The National Audit Office (NAO) is the UK's independent public spending watchdog. We play an essential role in our democracy, providing independent assurance to Parliament on government accounts and evidence-based insights on how well public money is spent. Parliament, the media and the public use our work to hold government to account, and the government uses it to improve its efficiency and effectiveness. We continue to deliver benefits that far exceed our cost. In 2023, our work led to a positive financial impact through savings, improved service delivery, or other benefits to citizens, of £1,588 million, as well as substantial non-financial impacts.

2 Our strategy from 2025 to 2030 is to increase our impact on the productivity and resilience of public services and the quality of financial management and reporting in government. These themes, alongside economic growth, climate change, technological development and the wider international and domestic security context are all critical issues confronting government today. Our work shows that there are significant opportunities for government to achieve better value for money.¹

3 This memorandum outlines the context for our work in 2025-26 and how our resource request takes account of this. We are being asked to audit a substantially increased number of government bodies over the next three years. This growth coincides with greater expectations on the auditing profession with ongoing developments in financial reporting and auditing standards. The memorandum outlines the steps we are taking to ensure that we are well-placed to provide consistently high-quality audit work, increase our productivity, harness opportunities from technology and build our resilience. The memorandum also includes our budget (Estimate) for 2025-26.

¹ Comptroller and Auditor General, *Making public money work harder, Learning from recent NAO work*, Session 2024-25, HC 131, National Audit Office, July 2024. Available at: <https://www.nao.org.uk/wp-content/uploads/2024/07/making-public-money-work-harder.pdf>

4 In 2025-26, we will:

- **Build our capacity to meet the higher demand for our work and reduce our reliance on contracting out to audit firms.** We expect the number of organisations we audit to grow substantially over the three years from 2025-26 in response to the creation of new government bodies and other changes. We need to increase our average staffing levels by 58 people in 2025-26 to ensure we have the capacity required to take on this work. This will also support our plans to provide better value for money by contracting out fewer of our whole audits and bringing more of our routine work in-house, ensuring greater consistency of approach and reducing our exposure to further fee increases by contracted audit firms. These plans are expected to save between £1 million and £1.5 million per year from 2026-27, compared with our existing approach.
- **Make further improvements to ensure consistently high-quality audit work in the context of new and enhanced standards for financial reporting and audit.** Our work needs to respond to both greater complexity in the accounts we audit and feedback from our regulator. We are continuing to implement our Quality First plan by further increasing capacity and capability in our specialist centres of expertise, strengthening our internal quality review and further tailoring audit approaches according to risk. We also expect to commission a higher volume of specialist audit advice from firms in 2025-26 in areas where it is not feasible for us to develop this expertise internally.
- **Support improvements in financial management with the aim of increasing the timeliness of financial reporting so that 70% of audited accounts are published before the summer 2025 Parliamentary recess.** In 2024, 55% of the bodies we audit published their accounts before the summer recess, well below pre-pandemic levels (78% in 2019). We want to significantly improve the timeliness of reporting and certification, working with HM Treasury (HMT), professional bodies, the government finance function and audit committees. We will also develop our work on government sustainability reporting where standards are evolving rapidly, building our own assurance capability.

- **Deliver a relevant and timely programme of value-for-money (VFM) and wider assurance work.** Our programme will respond to the needs of Parliament and the public, will cover all the main spending departments and government's cross-cutting ambitions, and will be firmly focused on helping government to innovate, exercise better financial management and deliver more productive and resilient public services. It will include work on:
 - **Financial management:** The government faces a challenging fiscal context and it is vital that it extracts as much value as possible from every pound it spends. For example, in 2025-26, we will examine efficiency within the family court system, the use of data analytics to detect and prevent fraud, the costs of clinical negligence, lessons learned from government's use of consultants and evaluating how the Ministry of Defence is managing changes in defence costs and the affordability pressures which arise from them.
 - **Productivity:** For example, our programme will set out the importance of establishing baseline costs of key services identified for further transformation, evaluate how effectively the Department for Work & Pensions manages debt, and examine key digital transformation programmes at the Bank of England and National Savings and Investment, also drawing together lessons learned from our past work on customer service across government.
 - **Resilience:** We will continue to assess how resilient the government is to key risks on the national risk register and examine the resilience of regulated industries. We will audit the government's preparedness for an animal disease outbreak, the regulation of the water industry, the construction of Sizewell C nuclear power plant and the market and regulation of children's care homes.
 - **Innovation:** We will consider how the government is innovating to improve value for money as an underlying theme in our work programme. In 2025-26, we will build on our past work by examining the government's support for innovation in public services and the wider economy, assessing its approach to managed risk-taking and identifying good practice, and evaluating its oversight and support for key elements of the UK's science infrastructure.

- **Realise productivity and quality improvements from our new audit platform and associated digital and data-driven approach.** Our new audit software, Apex, provides the foundation for more efficient and higher-quality audit work by standardising and automating many of our audit processes. In 2025-26, we will implement a new data strategy for how we access, collect, manage and analyse data, and we will invest in further improvements to our data analytics tools and technologies, including AI. These approaches have the potential to streamline and automate routine tasks, enabling our teams to focus their time and expertise on audit judgements that really matter. We will also work with the government to exploit opportunities to test controls in its IT systems, increasing audit coverage and quality, and will further build our ability to audit the government's own emerging use of AI.
- **Increase our influence** by providing strong support to the new Parliament, to the Committee of Public Accounts (PAC) and other select committees and by engaging systematically with the government, making our findings and insights available as it implements its priorities. We will continue to support the efforts of the government and other system participants to address the severe backlog of local audits and will participate in international public sector audit forums. We will develop our communication channels further, sharing our findings more widely at events, providing greater support and training to our staff in their role as NAO ambassadors, and enhancing our stakeholder research programme to gain more feedback. We will also review our approach to producing and publishing VFM reports to improve efficiency and quality and consider how we can develop our outputs so that they are more accessible and usable on digital platforms.
- **Support sustainable high performance of all our staff.** Our staff costs are driven by our overall numbers and our annual pay award. We need to increase our average staffing levels by 58 people in 2025-26 to ensure that we have the capacity required to take on significant new work. Our plans include an annual pay award of 3.5% in 2025-26. This is a balanced figure taking into account our responsibility to use public funds appropriately and ensure that we continue to attract and retain the people and specialist skills we need (see paragraph 3.13).
- **Enhance the productivity and resilience of our support operations and our London office.** We will ensure that at least 80% of our budget is spent on front-line audit and will explore the use of AI to make our operations and business support functions more productive. We will maintain and enhance our information security in the face of rising threats. We will continue the refurbishment of our London office to make our smaller operating space work more effectively, helping us to rent out around half our useable space and reduce our running costs to Parliament. We are also pursuing a decarbonisation project that aims to lower our longer-term heating and cooling costs and make our heritage London building net zero, in line with government targets to significantly reduce direct emissions from public sector buildings over the next few years.

5 Our budget for 2025-26 (**Figure 1**) therefore includes a net resource requirement of £111.0 million, after allowing £34.5 million of expected income. The budget is set to make sure that we have the capacity and capability to manage our growing audit responsibilities. It includes £4.0 million of capital spending, most of which will be used to complete the refurbishment of our London office. Capital spending varies year on year depending on when we need to invest in the maintenance of our asset base.

Figure 1
Summary of budgets, 2024-25 to 2025-26

	2024-25	2025-26		
	Estimate	Estimate	Variance	
	£mn	£mn	£mn	%
Audit and assurance work	130.5	145.5	15.0	11.5
Income	28.6	34.5	5.9	20.6
Net resource expenditure	101.9	111.0	9.1	8.9
Net capital expenditure	4.3	4.0	-0.3	-7.0
Net cash expenditure	101.5	110.5	9.0	8.9

Notes

- 1 Proposed budgets shown for 2025-26, 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.

Source: National Audit Office

Part One

Our strategy

1.1 This part sets out who we are and what we do and describes our strategy for the next five years.

Who we are and what we do

1.2 The National Audit Office (NAO) is the UK's independent public spending watchdog. We play an essential role in our democracy, providing independent assurance to Parliament on government accounts and trusted insights on how well public money is spent. Parliament, the media and the public use our work to hold government to account, and the government uses it to improve its efficiency and effectiveness. Among other impacts, our work saves public money. In 2023, the NAO's work led to a positive financial impact through reduced costs, improved service delivery, or other benefits to citizens, of £1.59 billion, around £17 for every pound of our net expenditure.

1.3 The Comptroller and Auditor General, Gareth Davies, leads the NAO. He is an officer of the House of Commons with statutory authority to:

- audit and report on the financial accounts of all government departments and many other public bodies; and
- examine and report on the value for money of how public money has been spent.

1.4 Our work is guided by our four values: we act with courage and integrity, we are curious and seek to learn, we are inclusive and we strive for excellence.

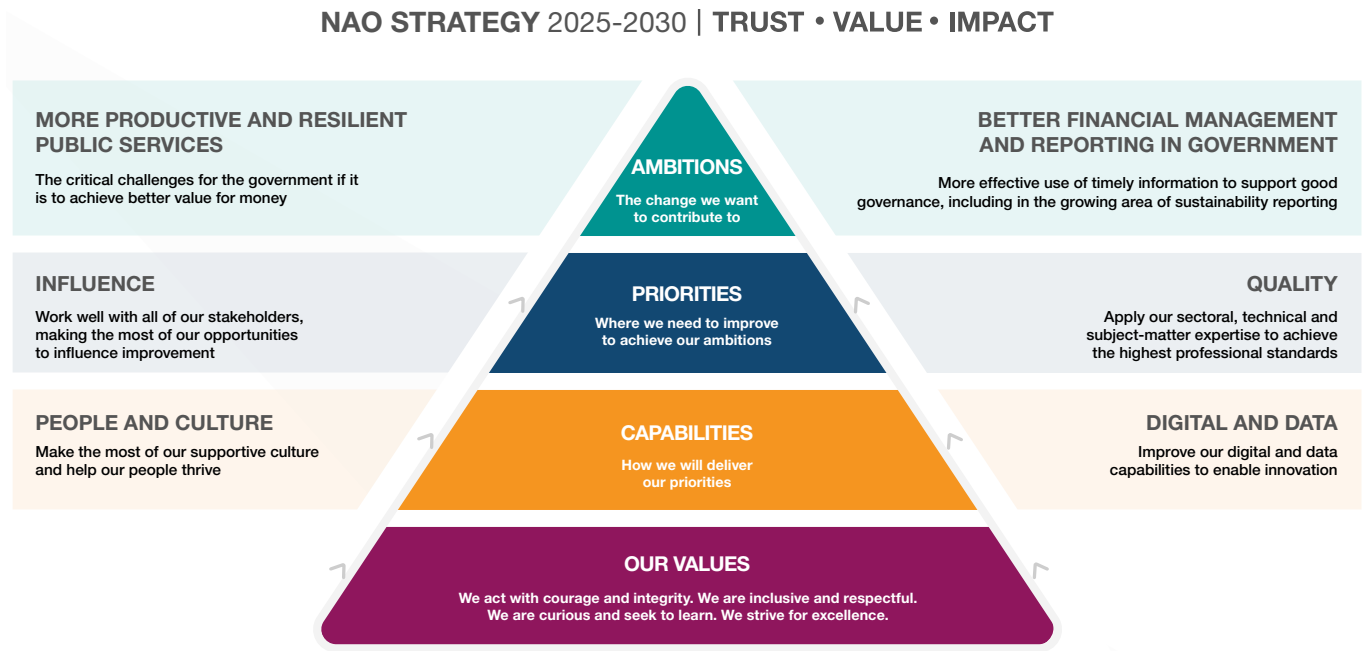
Our strategy for 2025-30

1.5 Public finance sustainability, productivity and service resilience, climate change and the wider international and domestic security context are all critical issues confronting government today. Our work shows that there are significant opportunities for the government to achieve better value for money, including through well-managed innovation and new transformative technologies.² Our strategy from 2025 to 2030 is to increase our impact on the productivity and resilience of public services and the quality of financial management and reporting in government (**Figure 2**).

Figure 2

National Audit Office (NAO) Strategy, 2025 to 2030

From 2025 to 2030, we will increase our impact on the productivity and resilience of public services and the quality of financial management and reporting in government



Source: National Audit Office

1.6 This memorandum is the first of our new strategy. Part Two describes the context for our work, sets out what we are doing to increase our productivity and resilience in response, and outlines the measures we are taking in 2025-26 to improve further the quality of what we do and the influence we have. Part Three presents our budget for 2025-26 based on the latest profile of audit responsibilities.

² Comptroller and Auditor General, *Making public money work harder, Learning from recent NAO work*, Session 2024-25, HC 131, National Audit Office, July 2024. Available at: <https://www.nao.org.uk/wp-content/uploads/2024/07/making-public-money-work-harder.pdf>

Part Two

Our plans for 2025-26

2.1 In this part we set out how we are:

- responding to the significant increase in demand for our audit services and strengthened regulatory standards by increasing our workforce capacity and making further improvements to ensure consistently high-quality audit work;
- building our influence and strengthening the capability of our people; and
- enhancing the productivity and resilience of our support operations and London office.

A Building our capacity to meet higher demand and continuing to improve to ensure consistently high-quality audit work

Growth in public audit

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. We conduct our financial audit 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 on course to certify 434 accounts in 2024-25 and expect the number of organisations we audit to grow substantially over the next three years in response to the creation of new government bodies and other changes. This is a further significant increase in our audit operation, following developments in 2024-25 that saw us take on the audit of four nuclear site companies over two years, part of the Nuclear Decommissioning Authority group, and Pool Reinsurance Company Limited. **Figure 3** on pages 12 and 13 sets out the new developments based on our understanding at the start of 2025. The precise scheduling of audits, the detailed nature and scale of work involved and engagement acceptance are still to be confirmed in many cases. We will continue to liaise closely with the Treasury Officer of Accounts.

Figure 3

Potential new audit responsibilities, 2025-26 to 2027-28

We expect the number of organisations we audit to grow substantially over the next few years. We will need to build our capacity in the meantime

Public body	Function	Status, at time of drafting	Anticipated size (and timing of first audit cycle)
Existing organisation where ownership structure or public body classification is changing			
Directly Operated Holdings Limited and 14 train operating companies	Train companies	Passenger Railway Services (Public Ownership) Act 2024 makes provision for passenger railway services to be provided by public sector companies instead of by franchises	Individually large (likely to be a phased appointment between 2025-26 and 2027-28)
New organisations in legislative programme in 2024 King's Speech			
Great British Railways	Rail infrastructure and operator (will include Network Rail)	Railways Bill referred to in King's Speech but not yet introduced to Parliament	Large (2025-26)
Great British Energy	Energy company	Great British Energy Bill progressing through Parliament	Medium (2025-26)
Passenger Standards Authority	Passenger watchdog (will incorporate Transport Focus)	Railways Bill referred to in King's Speech but not yet introduced to Parliament	Small (2025-26)
Fair Work Agency	Regulator of employment practices (will incorporate the Gangmasters & Labour Abuse Authority and other bodies)	Employment Rights Bill progressing through Parliament	Small (2025-26)
Independent Football Regulator	Regulator of football	Football Governance Bill progressing through Parliament	Small (2025-26)
Other new organisations			
Infected Blood Compensation Authority	Administering compensation scheme	Recently established	Medium (2024-25)
Great British Nuclear	Support to UK's nuclear industry	Recently established	Medium (2025-26)
UK Industrial Fusion Solutions Ltd	Delivery of UK's prototype fusion energy plant	Recently established	Medium (2024-25)
Global Combat Air Programme	Multinational initiative to develop a new fighter jet	Recently established	Small (2025-26)
Warm Homes Agency	Energy efficiency within domestic housing	Yet to be established as an agency	Medium (2025-26)

Figure 3 *continued*

Potential new audit responsibilities, 2025-26 to 2027-28

Public body	Function	Status, at time of drafting	Anticipated size (and timing of first audit cycle)
Existing audit with significant scope change			
Foreign, Commonwealth & Development Office (FCDO) accounts – consolidation of British International Investment (and subsidiaries) (BII)	Government department	Proposed reclassification of BII from a Public Finance Corporation to a central government body by Office for National Statistics has significant implications for the audit of FCDO	Medium (2026-27)
Skills England	Analysis of skills needs and training requirements	Launched in shadow form within the Department for Education	Small (2024-25)
BBC Britbox entities	British streaming service	Now wholly owned by BBC Studios	Medium (2024-25)

Notes

- 1 Based on information available at the time of writing, focusing on the most significant developments. The precise timing, scale and nature of audits will be confirmed in liaison with the HM Treasury Officer of Accounts and others in the government. Most audits of the bodies listed are still subject to engagement acceptance. Further changes to our audit portfolio are likely.
- 2 Audits are classified as either large, medium or small based on their estimated fee. The threshold for a large audit is greater than £400,000; medium is £100,000–£399,999; small is less than £100,000.
- 3 We also expect some limited consolidation as part of the new government's agenda, including the absorption of the Education and Skills Funding Agency into the Department for Education.

Source: National Audit Office analysis based on discussions to date with government officials

Strengthening standards

2.4 This large increase in our audit portfolio coincides with our continuing work to respond to a changing and increasingly demanding regulatory environment. Financial reporting and auditing standards have been strengthened in recent years following high-profile corporate failures (**Figure 4** overleaf). This is leading to greater complexity in the accounts of many of the organisations we audit which means that we are seeking further evidence from audited bodies. Changing regulatory standards are also affecting the fees charged by audit firms, where fees have increased by over a third between 2020 and 2023 for the Big Four.³

³ The Financial Reporting Council's annual review of Key Facts and Trends in the Accountancy Profession showed a 19.5% increase in audit fees between 2022 and 2023, a 7.6% increase between 2021 and 2022 and a 6.5% increase between 2020 and 2021 for the Big Four UK Firms, equivalent to around 37% over three years. See: Key Facts and Trends in the Accountancy Profession ([frc.org.uk](https://www.frc.org.uk)).

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.
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, and enhanced requirements for internal monitoring of the system of quality management.
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 reviewing the work of component auditors.
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 Contracts (adoption for the public sector)	From our 2025-26 audits	New standard on accounting for insurance arrangements with increased measurement and disclosure requirements.

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 ICAEW at: <https://www.icaew.com/technical/audit-and-assurance/audit/quality-management-in-audit-firms>
- 3 See also the National Audit Office's Transparency Report 2023-24, available at: <https://www.nao.org.uk/corporate-information/nao-transparency-report-2023-24/>
- 4 These 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

Building our capacity

2.5 We expect to need to increase our average staffing level by 58 full-time equivalent (FTE) people in 2025-26 to meet the anticipated significant growth in the bodies we audit. We will recruit colleagues from a range of backgrounds and experiences, including a large cohort of graduate and school-leaver accountancy trainees as well as a smaller number of qualified professionals and others with analytical and specialist skills and experience. We will recruit individuals who have an interest in both financial audit and VFM work and understand the demands of a variable audit cycle.

2.6 Our recruitment proposals also incorporate our medium-term plan to contract out fewer 'whole audits' to private firms and bring more of our routine work back in-house. This is intended to achieve greater consistency and standardisation of approach across our portfolio and, crucially, reduce our exposure to fee increases by private firms.⁴ Our in-sourcing plan is expected to save between £1 million and £1.5 million per year from 2026-27, compared with our current model.

2.7 We are taking an incremental approach to in-sourcing of audit work and while we expect to continue to increase capacity in our in-house centres of expertise, we will still use audit firms for specialist and specific advice, reflecting a growing and more complex audit portfolio. More generally, we continue to keep the balance between our in-house provision and externally commissioned specialist audit advice under review, considering developments in the bodies we audit, changing regulatory demands and the market for specialist audit services.

High-quality financial audit work

Quality

2.8 We are committed to meeting international auditing standards, but external and internal reviews completed during 2024 of our 2022-23 audits showed that we were not doing so consistently. Fewer than half (43%) of audit reviews by the Financial Reporting Council (FRC) met our target quality level (good or limited improvements required) last year. Our energy is now focused on making improvements through our Quality First Plan, launched in 2024.

2.9 Building on recent investment in our audit methodology and software, the Plan responds to recent quality review findings; strengthens our System of Quality Management; and targets how we engage externally to support high-quality public audit. The FRC's reviews of our 2023-24 audits are not yet concluded, but we expect these to indicate positive progress. In 2025-26, we will further increase the capacity and capability of our specialist centres of expertise, strengthen our internal quality review and explore options to further tailor audit approaches according to risk.

⁴ Historically, we have contracted out around 20% of our work to audit firms. In December 2023, the NAO Board agreed that we should reduce the level of outsourced audits cautiously over time, using updated contractual arrangements from 2026. Between 2021 and 2024, the audit fee rates charged by our audit firms increased by 29% in response to inflation and changes to the scope of audit work required, a pattern reflected across the industry.

2.10 In 2024-25, we commissioned more specialist audit advice in response to new complex arrangements entered into by the bodies we audit, audit review findings and in line with an increasing quality bar for audit. We expect this upward trend to continue in 2025-26 to help us achieve consistently high-quality audit.

Timeliness

2.11 We will engage further with HM Treasury (HMT), professional bodies, the government finance function and audit committees to promote improvements in financial management, including the timeliness of reporting. In 2024, 55% of the bodies we audit published their accounts before the summer recess. This was lower than the 60% achieved in 2023, as a result of the impact of the General Election, which affected timetables for ministerial approval in some cases. Some central government bodies, including the Department for Culture, Media & Sport and the Ministry of Justice, are affected by delays to the audits of local authority pension schemes, and all bodies will be affected by changing international financial reporting and auditing standards.

2.12 Our ambition this year is for 70% of audited accounts to be published before the summer 2025 Parliamentary recess, including the majority of major departmental accounts. Achieving this will depend upon the bodies we audit being able to prepare their accounts earlier and we will support them and their finance teams in this, working in collaboration with HMT and the Government Finance Function.

Our value-for-money and wider assurance programme

2.13 We support Parliament in holding government to account through our Value-for-money (VFM) and wider assurance reports. We expect all our VFM work to meet high standards, to be relevant, accurate, accessible and focused on outcomes. Our programme of work for 2025-26 will address our ambition to contribute to more productive and resilient public services, and to improve financial management in government. The programme will continue to cover all the main spending departments and assess cross-government working and target those areas where we can influence longer-term value for money.

Better financial management in government

2.14 It is more important than ever for government to extract as much value as it can from every pound it spends, given the fiscal environment. In 2025-26, we will maintain our focus on improving financial management within government. For example, we will examine efficiency within the family courts system, the use of data analytics to detect and prevent fraud, the costs of clinical negligence, lessons learned from the government's use of consultants and evaluating how the Ministry of Defence is managing changes in defence costs and the affordability pressures that arise from them.

More productive public services

2.15 In July 2024, the C&AG published *Making public money work harder* which distils recent lessons from our analysis and was intended to help new MPs and ministers access our insights. Our programme for 2025-26 will build on our past work, increasing our focus on the government's plans to improve productivity across the public sector. We will set out the importance of establishing baseline cost data for key government services previously identified for further transformation, assess the government's progress in delivering productivity gains following the reunification of probation services, evaluate how the Department for Work & Pensions manages debt, and examine key digital transformation programmes at the Bank of England and National Savings and Investment. We will also draw together lessons learned from our past work on delivering customer services across government.

Resilient public services

2.16 We will continue to assess how resilient government is to key risks on the national risk register and examine the resilience of regulated industries in 2025-26. We will review how prepared government is for a future animal disease outbreak, and assess regulation of the water industry and the construction of the Sizewell C nuclear power plant. We will also examine the government's plans to manage the impact of an aging population, improve local bus services in England, and assess the market for, and regulation of, children's care homes.

Innovation in government operations and public services

2.17 Our work shows that there are significant opportunities for the government to get better value for public money through well managed innovation and improvements in productivity. In 2025-26, we will consider how the government is pursuing these opportunities as an underlying theme in our work programme and will highlight positive examples in our reporting. We will review the government's support for innovation in public services and the wider economy, considering its approach to managed risk-taking and identifying good practice, and evaluating its oversight and support for key elements of the UK's science infrastructure.

Sustainability reporting and assurance

2.18 Standards in sustainability reporting are developing rapidly. The International Public Sector Accounting Standards Board is working on a climate-related disclosure standard for the public sector, to be finalised by the end of this year. In the UK, HMT has also introduced new requirements from 2023-24, phased over three years, for central government departments and larger arm's-length bodies to report on climate-related risks and opportunities in line with recommendations from the G20-sponsored Taskforce on Climate-related Financial Disclosures (TCFD). We have recently established a dedicated environment and climate change Insights Team to build our assurance capability and influence developments in this important area, and expect to draw on this expertise in 2025-26 as we start to report on departments' early progress in implementing TCFD-aligned disclosures.

Innovating our digital and data-driven approach

2.19 Our new audit software, Apex, provides the foundation for more efficient and higher-quality audit work by standardising and automating many of our audit processes. In 2025-26, we will implement a new data strategy for how we access, collect, manage and analyse data, and we will invest in further improvements to our data analytics tools and technologies, including AI. These approaches have the potential to streamline and automate routine tasks, enabling our teams to focus their time and expertise on audit judgements that really matter, and improving our productivity.

2.20 Our new data strategy will also draw on our experience of trialling and implementing a range of data analytics techniques in 2024-25, and further work planned for 2025-26.

- We began implementing an updated journal analytics tool which automates more of the process (including the introduction of a machine learning algorithm) to support a more systematic and simplified approach to analysing the level of fraud risk for each journal line in the general ledger.
- We used a new approach to auditing complex government models drawing on code-based reproductions to reduce the time to complete reviews of these models by around two thirds.
- We trialled IT controls testing techniques on individual audits where we had confidence in the controls used by management. This meant that we could reduce the level of detailed sample testing needed and cover more transactions than is possible traditionally, leading to improved audit quality and recommendations targeting government's financial management and control.
- In 2025-26, we will continue to explore use of digital techniques and AI to automate and to support 'difficult to audit' areas where there are large volumes of data. We will invest in our own and third-party technologies to acquire, process and analyse efficiently the data needed for our work. We will identify further opportunities to test controls within audited body IT systems, subject to achieving a deep understanding of operations and risks, and will build our ability to audit the government's emerging use of AI.

B Increasing our influence and strengthening the capability of our people

Increasing our influence in 2025-26

2.21 We will increase our influence in 2025-26 by supporting the new Parliament, engaging effectively with audited bodies, with government on local audit issues and with international audit organisations, and by strengthening our communications.

Supporting the new Parliament

2.22 We support Parliament in holding the government to account through our independent, impartial and expert reporting. We do this in several ways, including sending copies of our VFM reports, investigations, reports on accounts and departmental overviews to Members of Parliament (MPs) and select committees. We also provide regular newsletters about our work to Parliamentarians and offer advice and briefings to the whole of Parliament. We know from our past research how much MPs value regular face-to-face contact with us and that remains a priority.

2.23 Our key relationship is with the Committee of Public Accounts (PAC) where, typically, we support twice-weekly evidence sessions when Parliament is sitting. Nevertheless, our role and wide remit means that our relationship with other select committees, individual MPs and wider Parliament, including the House of Lords, is also vital to us in supporting Parliament effectively.

2.24 Since the general election, we have worked to build and strengthen our relationship with Parliamentarians, acknowledging that many MPs and their staff were new to their roles, and select committees have only recently formed. We have written to all MPs about our role and the support that we can offer (including training on topics such as scrutinising government annual reports and accounts), and are adapting our further engagement, according to needs and interests. To that end, we continue to meet with individual Parliamentarians to discuss our work and provide select committees with oral and written briefings. We have also restarted our programme of providing 10 secondees to support select committees and other teams in Parliament.

2.25 As an officer of the House of Commons, the C&AG is particularly keen to engage with Members of both Houses to maximise the value from our insights. Between the start of the new Parliament and the end of March 2025, we expect to publish 21 Overviews to support newly formed select committees and individual Parliamentarians in their scrutiny of government. Informed by our recent audit and analysis, these will cover individual government departments and address cross-cutting topics such as climate, regulation, good governance and fraud and error. We continue to monitor our progress in supporting Parliament and will conduct an annual survey of MPs to gain feedback.

Engaging with audited bodies

2.26 We will take a structured approach to engaging with our audited bodies in 2025-26 to create the best conditions for high-quality and timely audit. This will involve working with their management teams to ensure that there is clear understanding of the key risks and judgements impacting the financial statements, including new developments or changes, that the audit requirements are understood, and that departments and other audited bodies are ready to work with us on a joint plan for completion of the audit, an essential step if we are to achieve our ambition that 70% of certified accounts are published pre-summer recess. We will strengthen our processes for monitoring and escalating emerging issues in audits and for timely engagement of Audit and Risk Committees.

2.27 Achieving our aim to make much greater use of data and digital techniques in our audit work depends on close collaboration with audited bodies over a sustained period, and may require improvements to government financial management, controls and data quality. In 2025-26, we will work with the Government Finance Function and with government shared services to facilitate more efficient and cross-government approaches and will prioritise work with larger and complex audited bodies who are keen for us to make use of digital methods.

Supporting the government to address local audit challenges

2.28 External audit firms are responsible for reporting their opinion on whether local public bodies' financial statements give a true and fair view, and for concluding on whether the body has made proper arrangements for securing value for money. The C&AG has statutory responsibility for setting the Code of Audit Practice which governs the work of these local auditors. Other leadership responsibilities for auditor procurement, regulation and quality currently rest in other bodies. The local audit system has been in crisis for several years with only around one per cent of local authority audits delivered on time in 2023. We have supported the government and others in their work to establish statutory deadlines for publishing audited accounts that should address the bulk of the backlog but will lead to a significant number of audits where the auditor has been unable to provide any assurance on the accuracy of the accounts. Local authorities and auditors will now need to work together to ensure the system recovers as quickly as possible. The government has said it will establish a single specialist body to lead the local audit system in England, with responsibilities for the Code of Audit Practice transferring as part of this. In the meantime, the NAO will maintain the Code and, where necessary, develop fresh statutory guidance to support the reset and recovery of the local audit system.

Participating in international audit forums

2.29 We work with colleagues in other Supreme Audit Institutions and related international organisations to support our domestic work.⁵ 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, good practice on implementation of auditing standards, data analytics and other innovative technology such as AI, and helps strengthen accountability and transparency in international institutions and countries in receipt of UK taxpayer funding.

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

2.30 There are three main components to our international work.

- **International relations:** We are members of international forums, including the Governing Board of the European Organisation of Supreme Audit Institutions (EUROSAI), and collaborate with our equivalents in other countries on global themes, methods and standards, participating in working groups specialising in environmental audit, IT audit and the development of financial and performance quality standards. We are also developing a programme of inwards and outwards short-term secondments with overseas national audit offices.
- **International audit:** We are the external auditor of some of the international organisations that receive UK funding, including the International Telecommunications Union. These appointments provide membership of the United Nations Panel of External Auditors where we gain insight on international audit issues.
- **Technical cooperation:** We participate in funded projects to help national audit offices overseas improve their professional public audit service, sharing our technical knowledge and assurance expertise. We prioritise our support to countries that receive UK aid, including Kenya, Rwanda, Tanzania, Ghana, and the Gambia and we partner with the Commonwealth Parliamentary Association and the Government Internal Audit Agency to support the UK's Overseas Territories.

2.31 We are also considering whether to submit our candidacy for a position on the United Nations Board of Auditors between 2028 and 2034. This six-year, fully funded and high-profile appointment would enhance the UK's role in providing technical expertise to the United Nations external audit system and improving the UN's financial procedures and systems.

Strengthening our communications

2.32 We will continue to improve our communications with Parliament, government, and others in 2025-26 by:

- further developing our channels so that they help us get our messages across in an engaging way, innovating how we summarise our work, for example through 'bite-sized' packages for sharing on social media and through other channels, and increasing our participation in relevant events;
- providing more support and training to our staff, enabling them to feel confident and competent acting as ambassadors for the NAO, promoting our work and core messages; and
- strengthening our stakeholder research programme through which we gain valuable and regular feedback to improve our service, and continuing to refine our correspondence and Freedom of Information handling approach.

Reviewing our approach to VFM reporting

2.33 We are proud of our VFM reports which receive very positive feedback, but we want to maximise their value and effectiveness for the new Parliament. We will review our approach to producing reports, and explore opportunities to introduce new tools and working practices to improve efficiency and quality, while also assessing how we can develop our outputs so that they are more accessible and usable on digital platforms.

Increasing the productivity of our people and supporting their resilience

2.34 Our new strategy makes clear that we will improve the productivity of our people by investing in their development, and in the development of our managers and leaders. Our priority in 2025-26 is to ensure that all our audit staff are equipped to realise the benefits of our investment in Apex. This will be supported through targeted technical learning interventions and broader business, leadership and professional skills development. Arrangements for 2025-26 will build on the results of a current review of our financial audit curriculum, intended to make sure that our learning programme reflects best practice. In our VFM work, more of our people will support our internal quality reviews.

2.35 We will build on our progress in creating a diverse and inclusive workplace. We are on course to eliminate the gender pay gap by 2027 but in some other areas we have more to do.⁶ Our ethnic minority pay gap was 14.5% at 31 March 2024, an improvement of around 0.8 percentage points on the year before. Most of our recruitment is of more junior grades, this means that as we improve the diversity of our new recruits it has the effect of widening rather than narrowing the pay gap in the short term. We expect to make more progress in reducing this gap over the next few years through our plan to improve ethnic minority retention and progression following professional qualification.

2.36 Since the pandemic, we have experienced higher rates of sickness absence. In the 12 months to September 2024, the average number of working days we lost to sickness was 8.2 compared with 6.6 days in 2019-20. Data from the Chartered Institute of Personnel and Development shows that the national average level of employee absence increased from 5.8 days in 2019 to 7.8 days in 2023.⁷ Government data shows that civil servants had an average 8.1 days of sickness in the year ending March 2023 (the latest data available), up from 7.0 days in 2019.⁸ We are proactively managing sickness levels and are building our well-being approach with absence rates lower in the second half of last year than over the same period in 2023. A whole-day reduction in average sickness per person is equivalent to the productive capacity of around five full-time employees.

6 See National Audit Office Diversity pay gap reports on our website at: <https://www.nao.org.uk/about-us/governance/transparency/#diversity-inclusion>

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>

8 Cabinet Office, *Civil Service sickness absence 2023 report*, February 2024. Available at: <https://www.gov.uk/government/publications/civil-service-sickness-absence-2023/civil-service-sickness-absence-2023-report>

C Enhancing the productivity and resilience of our support operations and London office

Benchmarking our operations

2.37 We use a range of indicators to measure our own productivity and resilience. We ensure that at least 80% of our budget is spent on front-line audit and that our senior audit practitioner grades (senior auditor and senior analyst) spend 85% to 90% of their day on chargeable work, keeping time allocated to administrative tasks to the minimum necessary. High-quality productive corporate support teams enable us to achieve these high levels of utilisation. We will explore the potential use of AI to further increase the productivity of both our operations and business support functions.

2.38 The Public Accounts Commission (TPAC) also gives its consent to an independent annual study by our external auditors (Crowe UK), to assess the efficiency and effectiveness of a key aspect of our operation, including our in-house business support. Crowe UK's recent assessments of our finance and procurement and HR functions found that these were working efficiently and effectively compared with similar organisations, and its examination of ATP, our audit transformation programme, in 2024 concluded that, in many ways, this was an “exemplar in programme delivery and partnership working”.⁹

Securing and managing our information

2.39 Data is a vital part of our business. We will maintain and enhance our information security in the face of rising threats. We will continue to refine our knowledge and information management approaches, deploying best practice in labelling and accessing our information and considering how we use collaboration technology to create and share knowledge in the NAO more effectively.

Future-proofing our London estate

2.40 Our main assets are our London office, held on a very long peppercorn lease until 2111, and our Newcastle office, held on a 10-year lease from 2023. Our Newcastle office is newly constructed, and provides excellent environmental standards, low-carbon energy and modern building and waste management.

⁹ We publish these external auditor reports on our website at: *Governance and transparency* – National Audit Office. In spring 2025, Crowe UK will report on the value for money of our investment in Insights Teams, whose role it is to develop and marshal our learning and share this with audited bodies and other key stakeholders.

2.41 Our London building is owned by Network Rail following its transfer from British Airways in 1997. We have occupied the building since 1986. To further maximise the productive use and value we get from our London office, and reflecting changing working practices since the pandemic, we recently took the decision to increase the space we rent out to around half its useable area. To make this possible, we are updating our London office to make a smaller operating space function better for hybrid ways of working. Full occupancy of the space we have available to rent would generate at least £3 million per year to off-set the running costs of the NAO to Parliament, subject to market demand.

2.42 The current refurbishment will increase the number of workstations and 'hybrid' meeting rooms, improve internal acoustics and provide better IT equipment. We have taken a staged approach to minimise operational disruption, temporarily decanting teams to other parts of the building. Our assessment is that we can make improvements without more wholesale modifications and expect the work to be substantially complete by the end of 2025-26. We are taking lessons from the success of our recent Newcastle relocation where our teams now benefit from a modern working environment that promotes efficient, collaborative and integrated team-based working.

2.43 In keeping with government targets to significantly reduce direct emissions from public sector buildings, we aim to make our London building net zero by delivering a decarbonisation project which integrates principles of circular economy, heritage conservation and sustainability, and lowers our longer-term heating and cooling costs. We have established a *Decarbonisation of Buckingham Palace Road Governance Board* to oversee this work, which includes the C&AG, the Chair of the NAO Board, the Chief Operating Officer and an independent Senior Advisor with extensive experience of installing modern energy technology into heritage properties. The transformation of our London building to meet climate goals and objectives is, nevertheless, a new and challenging programme of work. We will brief TPAC separately on this programme in due course. We will establish clear success criteria, apply rigorous project management and ensure that strong benefits management and realisation arrangements are in place. We will maximise the learning from this experience, sharing lessons learned with our equivalents in government.

A new performance framework

2.44 Our new five-year strategy aims to increase our impact on the productivity and resilience of public services and the quality of financial management and reporting in government. We are developing a performance framework to measure our success, drawing on a range of methods to present a comprehensive account of our progress and the difference we make. We will set out this framework in more detail over the coming year and expect to report against it in our Annual Report and Accounts for 2025-26. We will continue to review the framework over the next five years to see if we can make further improvements.

Measuring our financial impact

2.45 Our approach to measuring our financial impact is an important component of our performance framework. 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 and publish our assessment in our annual report. In 2023, our work led to a positive financial impact through reduced costs, improved service delivery, or other benefits to citizens, of £1.59 billion, £17 for every £1 we spend. Our financial impact varies year on year, and we do not expect to achieve this level every year.

2.46 In response to external audit recommendations, we have recently reviewed and updated our methodology for attributing and validating financial impacts. Previously, audited bodies were required to 'agree' assessments of causation and attribution which led to concerns about the process of arbitration, delays, and underreporting of impacts. Under the new methodology, audited bodies will confirm the reasonableness of data and calculations used, and a panel that includes a non-executive member of the NAO Board will assess evidence of impacts against our methodology. Our external auditors will continue to provide an independent review of our annual statement.

Part Three

Our estimate for 2025-26

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 2025-26, 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.

Uncertainty

3.4 Our Estimate is based on our latest understanding of our 2025-26 audit programme. This programme remains uncertain, however, because it depends on:

- for new audits, the dates of the transfer of audit responsibilities to us, further analysis of the nature and scale of audit work involved and formal engagement acceptance; and
- for existing audits, the progress of fieldwork for 2024-25 audits and, from autumn 2025, planning for the 2025-26 audit cycle. The nature of audit means that issues can arise at any stage which require more work or additional expertise to resolve, or that require the audited body to provide further evidence to satisfy us before accounts can be certified in line with international audit standards.

3.5 As agreed with the previous TPAC, our Estimate does not include any contingency or allowance for these potential changes to audit costs. Consequently, we may need to return to TPAC during 2025-26 to request an in-year adjustment to our budget using the Supplementary Estimate process to ensure that we have the appropriate resources to carry out the full range of work on behalf of the Comptroller and Auditor General (C&AG).

Resource budget

3.6 Our Estimate includes a net resource requirement for 2025-26 of £111.0 million, after allowing for £34.5 million of income, an overall change in net resources of 8.9% on 2024-25 (**Figure 5**). This is a 6.4% increase in real terms (adjusting for the effect of inflation). These budget changes are necessary to make sure that we have the people, digital and technical capacity and capability to manage the expected growth in our audit work and respond adequately to greater expectations on the auditing profession from developments in financial reporting and auditing standards.

3.7 We have also set out our preliminary budgetary expectations for the period until 31 March 2028.

Figure 5

Resource spending plans, 2024-25 to 2027-28

	2024-25	2025-26	2026-27	2027-28
	Estimate		Plan	
Total expenditure (£mn)	130.5	145.5	150.9	153.9
Income (£mn)	28.6	34.5	37.6	40.2
Net expenditure (£mn)	101.9	111.0	113.3	113.7
Percentage change year on year		8.9%	2.1%	0.4%
Percentage change over period				11.6%
Annual real growth rate in GDP ¹		2.4%	2.0%	2.0%
Net expenditure (GDP-adjusted) (£mn)		108.4	108.5	106.7
Percentage change year on year		6.4%	0.1%	-1.7%
Percentage change over period				4.7%
Staff numbers	1,010	1,068	1,111	1,127

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 Figures may not sum due to rounding.

Source: National Audit Office, with reference to the Office of Budget Responsibility's Economic and fiscal outlook October 2024

Main components of resource budget

3.8 **Figure 6** shows the change in resource budget between 2024-25 and 2025-26 in more detail. **Figure 7** summarises the components that are driving the change, with each described in more detail in the sections on staff and non-staff costs below.

Figure 6

Resource budget by type of expenditure, 2024-25 to 2025-26

	2024-25		2025-26		Variance	
	Estimate		Estimate			
	£mn	%	£mn	%	£mn	%
Staff costs	91.6	70.2	102.2	70.2	10.6	11.6
Non-staff costs	34.6	26.5	38.8	26.7	4.2	12.1
Depreciation	4.3	3.3	4.5	3.1	0.2	4.7
Total expenditure	130.5	100.0	145.5	100.0	15.0	11.5
Income	28.6		34.5		5.9	20.6
Net expenditure	101.9		111.0		9.1	8.9

Source: National Audit Office

Staff costs

3.9 Staff costs comprise around 70% of total budgeted expenditure. **Figure 8** on page 30 provides a breakdown of staff costs and changes between 2024-25 and 2025-26.

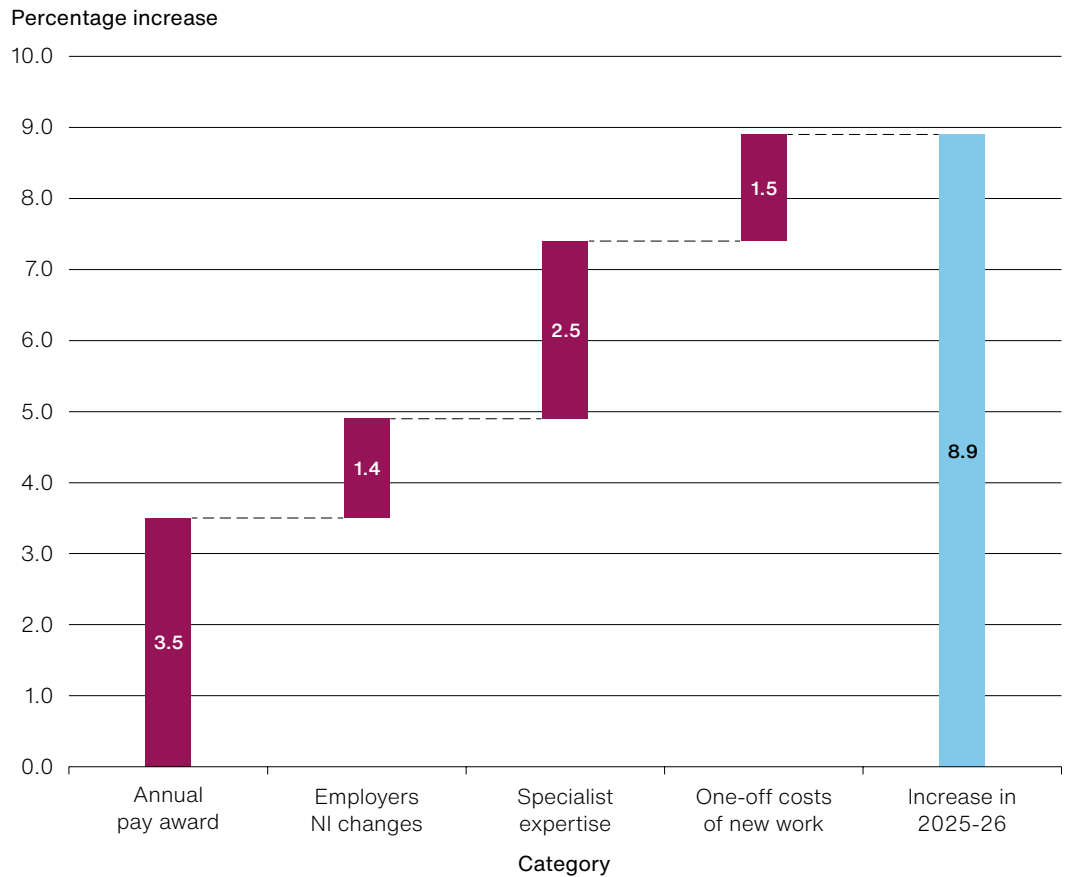
Staff numbers in 2025-26

3.10 Staff costs are driven substantially by the number of staff employed. In Part Two we outlined the major additions to our audit responsibilities next year and beyond. Extra staff are needed to complete the volume of new work and manage the transitional costs associated with taking on new audits (set-up and familiarisation, system documentation and first-year risk assessment; and in some cases, liaison with previous auditors). The growth in audit staff for new work will also increase the demand for office space and business support functions in areas such as training, digital and information security. We will keep our core efficiency principle that at least 80% of our spending is on front-line audit.

3.11 The increase in our staffing position is significant, and a recruitment challenge in a competitive marketplace. Our approach will be to meet most of our staffing needs by recruiting around 100 graduates and around 15 to 20 school leavers over the year, supporting them in their professional development and accountancy training and giving us a future pipeline of qualified accountants.

Figure 7

Main components of the percentage increase in net resource expenditure, 2024-25 to 2025-26



■ Individual components of the increase in 2025-26

■ Overall increase in 2025-26

Notes

1 Key movements shown only. NI = National Insurance.

2 Components are described further in the sections on staff and non-staff costs.

Source: National Audit Office

3.12 We will supplement our trainee recruitment with ongoing campaigns for qualified or part-qualified accountants, including those transferring from the private sector, as well as targeted recruitment of others with analytical and specialist skills and experience. At the same time, our aim is to keep turnover at or below target levels for key practitioner grades. We are also making more use of temporary audit staff to manage peak workflows in the busy audit season.

Figure 8
Staff costs, 2024-25 to 2025-26

	2024-25		2025-26		Variance	
	Estimate		Estimate		Variance	
	£mn	%	£mn	%	£mn	%
Wages and salaries	62.7	68.4	68.8	67.3	6.1	9.7
Social security costs	7.4	8.1	9.4	9.2	2.0	27.0
Pension costs	18.1	19.8	19.7	19.3	1.6	8.8
Direct staff costs	88.2	96.3	97.9	95.8	9.7	11.0
Staff-related costs	2.6	2.8	3.5	3.4	0.9	34.6
Staff benefits	0.5	0.5	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	91.6	100.0	102.2	100.0	10.6	11.6
Staff numbers	1,010		1,068		58	5.7

Notes

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

Source: National Audit Office

Pay approach

3.13 In 2023-24 we changed our pay framework to make sure that we are a competitive employer, with career progression opportunities that reflect practices in the private firms. We want to retain our competitiveness, and to that end we monitor our recruitment and retention rates, and consider wider conditions in the labour market including pay awards in the civil service and private sector, and the prospects for inflation.

3.14 Taking these factors into account, we have assumed an annual pay award of 3.5% for all colleagues in 2025-26. An award of this level is balanced and realistic, and considers our responsibility to use public funds appropriately and our future staffing needs in a market where the people and specialist skills we are looking for remain in high demand. Our pay award proposals are agreed with the NAO Board before being included in our budget.

3.15 Our budget also reflects the latest statutory changes to Employer National Insurance contributions introduced in the Autumn budget and effective from 1 April 2025. We estimate that these changes will increase our payroll costs by around £1.4 million in 2025-26.

Non-staff costs

3.16 Non-staff costs comprise just under 30% of total expenditures. **Figure 9** shows changes in non-staff costs between 2024-25 and 2025-26.

Professional services – contracted-out audits

3.17 A large part of our spending on professional services is with audit firms. We use audit firms to provide specialist and sector expertise in areas such as pension schemes or charities. The firms also provide general resourcing support and deliver whole audits on our behalf at the most demanding points in our audit cycle. We have traditionally contracted out around 20% of our work. Using firms also means that we can benchmark our audit approach and costs.

3.18 Between 2021 and 2024, the audit fee rates charged by our audit firms increased by 29% in response to inflation and changes to the scope of audit work required, a pattern reflected across the industry. In December 2023, and in response to these cost increases, the NAO Board endorsed our proposal to gradually build our in-house capacity and reduce outsourcing of whole audits over the medium term, instead using the firms for more complex and specialist audits of insurance-related entities, pension schemes and other unusual functions where it is not cost-effective for the NAO to hold the required skills routinely.

Figure 9
Non-staff costs, 2024-25 to 2025-26

Our biggest costs are for contracted-out audits and business support

	2024-25		2025-26		Variance	
	Estimate		Estimate			
	£mn	%	£mn	%	£mn	%
Contracted-out audits	10.9	31.5	11.3	29.1	0.4	3.7
Specialist expertise	3.8	11.0	6.3	16.2	2.5	65.8
Other audit support	1.3	3.8	1.3	3.4	0.0	0.0
Professional services	16.0	46.2	18.9	48.7	2.9	18.1
Travel	1.5	4.3	2.1	5.4	0.6	40.0
Audit technology	2.4	6.9	2.4	6.2	0.0	0.0
Business support	14.7	42.5	15.4	39.7	0.7	4.8
Total non-staff costs	34.6	100.0	38.8	100.0	4.2	12.1

Note

1 Figures may not sum due to rounding.

Source: National Audit Office

3.19 For the 2024-25 audit cycle, nine audits that were previously outsourced and are relatively straightforward will now be delivered by NAO teams. We expect this change in outsourcing strategy – which depends on building our in-house capacity – to improve value for money over the medium term because we can deliver more routine audits in line with quality standards at lower cost than the partner firms. However, we will continue to outsource audits where these require significant specialist expertise that is not cost-effective for us to retain in-house.

3.20 The net effect of all these developments in 2025-26, including the ongoing response of audit firms to enhanced quality expectations and annual inflation, is to increase our contracted-out audit costs year-on-year, but by a lower amount than would have been the case under our previous outsourcing model. We expect a more significant change from 2026-27 as our current contracts with the audit firms come to an end and we agree reduced, more targeted, arrangements, with savings expected of between £1 million and £1.5 million per year, compared with our previous approach.

Professional services – specialist expertise

3.21 As well as contracting out some whole audits, we commission audit firms to provide expert advice on specific technical matters to support key audit judgements. In line with a rising quality bar for audit, we are making more use of this specialist expertise in our current audit work, sometimes in response to new accounting standards. We are commissioning input on matters such as the valuation of financial instruments, insurance contracts, commercial property management, deferred tax balances and other sector-specific issues such as shipbuilding provisions and the future costs of decommissioning nuclear power stations. The introduction of the new standard IFRS 17 Insurance Contracts is particularly important for UK Export Finance (UKEF) and we anticipate commissioning significant additional specialist advice on this for this body.

Professional services – other audit support

3.22 We use this budget to pay for external technical input to our value-for-money assurance work and our Insights Teams, as well as to pay the Financial Reporting Council for its review of a sample of our audit work for quality review purposes.

Travel

3.23 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. The increase in 2025-26 reflects the expected wider growth in our audit work referred to in Part Two.

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

Audit technology

3.25 Our audit technology budget covers the cost of trialling new approaches as well as continuous investment in technologies to support our audit and assurance work, so that we can respond to the government's increasing use of IT and digital in its operations and service delivery. This budget covers:

- trial of Microsoft Copilot to innovate and improve the productivity with which we carry out routine administrative tasks;
- running costs of our core audit software platforms, including Apex, so that we can transfer and store audited bodies' data safely and automate audit testing;
- development of new audit tools and techniques to acquire, process and analyse data for our work, drawing on and harnessing developments in data analysis and AI, and integrating with audited body systems;
- buying in of technical expertise and provision of external training for our IT audit teams so that they can assess the audit risks of IT changes and adequately test systems in the bodies we audit; and
- enhanced end-to-end software to support more efficient report production and publication.

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; and
- technical support for business change projects, such as the ongoing refurbishment of our London office and the de-carbonisation of our operations.

3.27 We expect business support costs to increase in line with inflation and in line with the growth in the volume of front-line colleagues in post to conduct a larger portfolio of audit work (see Part Two).

Depreciation

3.28 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.

Income

3.29 We earn income from some of our UK and international audit work, renting surplus office space, supporting overseas bodies and seconding a small number of staff to other organisations (**Figure 10**).

Audit fees

3.30 We expect to audit around 434 accounts in 2024-25. Our audits are either carried out under statute (where it is a requirement of the legislation) or by agreement, which is at the discretion of the C&AG and with the NAO Board's approval.

3.31 While funded principally by Parliament, statute permits the NAO to charge fees for audits in accordance with a Scheme of Fees approved by TPAC. The current scheme was approved by TPAC at its evidence session in March 2019 (see Appendix One). In practice, we do not charge departments a cash fee for their audits. We do, however, charge trading funds, non-departmental public bodies and government-owned companies where the body is operating in a commercial environment or at arm's-length from the government. We also charge for the audit of any international body where we have been appointed auditor following a competitive process.

Figure 10

Income, 2024-25 to 2025-26

Our biggest sources of income are our audit fees and the rent from our London building

	2024-25		2025-26		Variance	
	Estimate		Estimate			
	£mn	%	£mn	%	£mn	%
Audit fees	25.4	88.8	31.5	91.3	6.1	24.0
Rental of office space	2.6	9.1	2.3	6.7	-0.3	-11.5
Other overseas work	0.4	1.4	0.5	1.4	0.1	25.0
Secondment income	0.2	0.7	0.2	0.6	0.0	0.0
Total income	28.6	100.0	34.5	100.0	5.9	20.6

Note

1 Figures may not sum due to rounding.

Source: National Audit Office

3.32 Where cash audit fees are charged, these are recognised as income and reduce the direct costs of the NAO to Parliament. The Scheme of Fees requires that 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. New hourly rates are introduced each year in September in advance of the annual audit planning round.

3.33 We expect our total audit fees to increase in 2025-26 because of the increase in audit work described in Part Two and an increase in the hourly rate. However, this increase will not cover all the costs associated with new audit work (see Figure 7). New audits require significant investment to understand the entity, perform a full risk assessment, and document controls and systems to inform our audit approach. Where we take on audit responsibilities for an existing body, we also need to complete handover procedures with the previous auditors. Where our audit portfolio expands into sectors which are relatively new for our teams, then we will need to invest further in building sector and industry-specific knowledge. Where necessary, and in line with our Scheme of Fees and previous practice, we seek funding directly from Parliament for these up-front transitional costs so that we can plan effectively and avoid a significant additional one-off fee to the audited body.

Rental income

3.34 We will have 11 floor areas in our London office available for rent once our current refurbishment work is complete. This is equivalent to around half the useable space.

3.35 We continue to actively market our premises to private sector clients using a property marketing agent, and to eligible public sector bodies via the Government Property Agency.

3.36 Our budget for 2025-26 assumes that we will let out eight floor areas by the end of the year, and to work towards full occupation by the end of the new strategy period, earning at least £3 million per year and reducing the running cost of the NAO to Parliament. Our expectation is that the commercial rental market in central London will be buoyed by the current trend to encourage employees to spend more time in the office.

Other income

3.37 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.

3.38 Secondment income relates to the recovery of our costs where we place colleagues 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 colleagues are attached to Parliament's committees on a short-term basis.

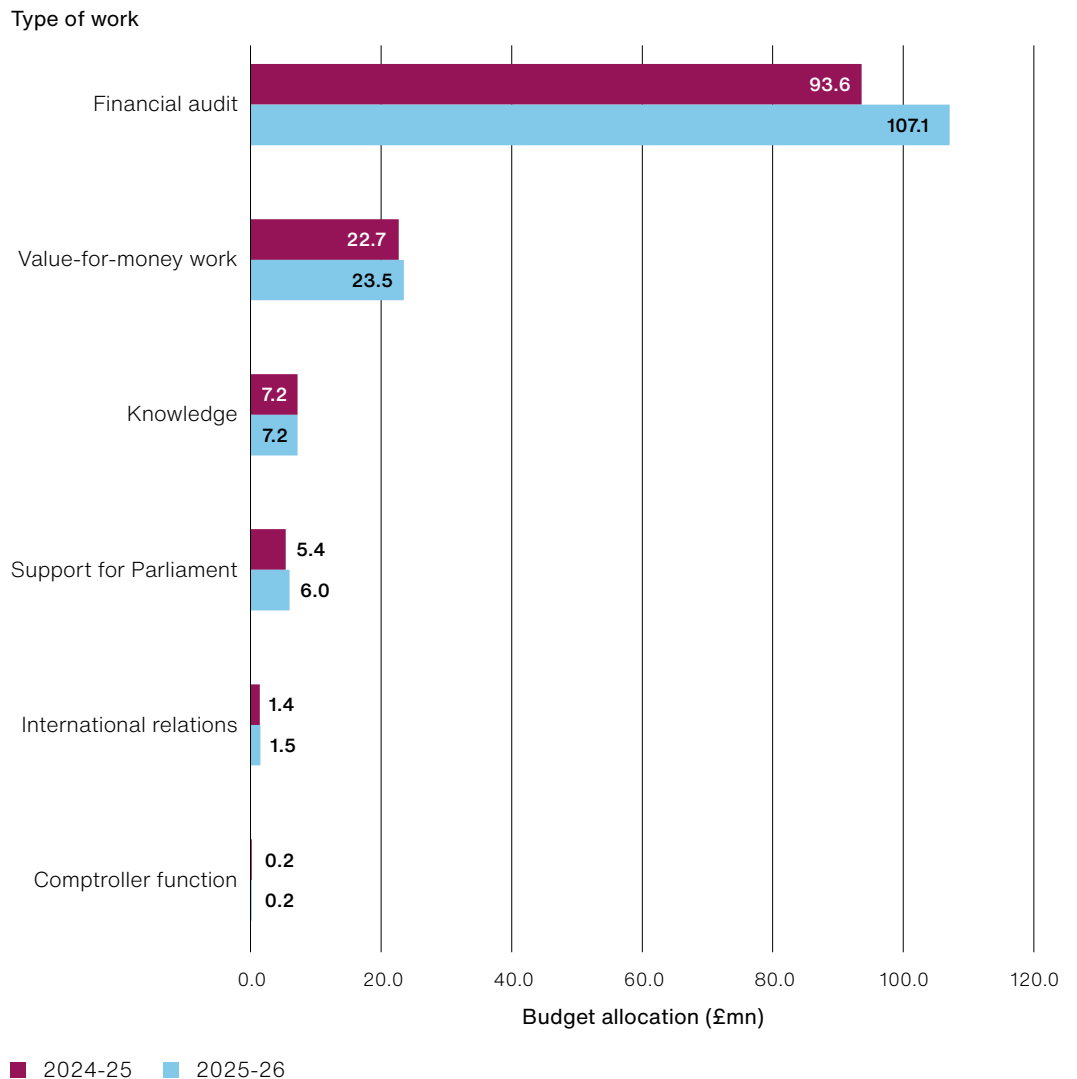
Budget allocation by type of work

3.39 Figure 11 shows how we intend to apportion our resources to our main work streams in 2025-26. These are planning assumptions and because our work responds – necessarily – to external events, final allocations may differ in any given year.

3.40 Nearly three-quarters of our resource budget is allocated to financial audit work. Nearly a quarter is for VFM and wider assurance, knowledge and other support for Parliament. The rest of our budget is for international relations work and the Comptroller function.

Figure 11
Budget allocation by type of work (£mn), 2024-25 to 2025-26

Most of our budget is spent on financial audit work



Source: National Audit Office

Capital budget

3.41 Capital expenditure is a much smaller component of our total expenditure and relates to IT and property assets. Our capital budgets are based on detailed asset plans and will vary year on year depending on when assets need replacing or if we need to make new investments. Our capital budget for 2025-26 is set out in **Figure 12**. Figure 12 also summarises our initial projections for capital spending to 2027-28.

Main components of the capital budget

3.42 Figure 13 overleaf separates the capital budget into spending on IT assets and property assets, comparing 2025-26 with 2024-25.

IT assets

3.43 The IT assets budget covers the purchase of items such as laptops, monitors and video-conferencing equipment and the development of software. The main IT capital expenditure in 2025-26 will be for the part replacement of our laptop estate, as older models come up for renewal, as well as provision for any enhancements to our audit software which we have designed and built.

Figure 12

Capital spending plans, 2024-25 to 2027-28

Our plans show a fall in spending over this period

	2024-25	2025-26	2026-27	2027-28
	Estimate	Estimate	Plan	Plan
Total expenditure (£mn)	4.3	4.0	3.6	2.7
Percentage change year on year		-7.0%	-10.0%	-25.0%
Percentage change over period				-37.2%
Annual real growth rate in GDP ¹		2.4%	2.0%	2.0%
Total expenditure (GDP-adjusted) (£mn)		3.9	3.4	2.5
Percentage change year on year		-9.3%	-12.8%	-26.5%
Percentage change over period				-41.9%

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 Figures may not sum due to rounding.

Source: National Audit Office, with reference to the Office of Budget Responsibility's Economic and fiscal outlook October 2024

Figure 13

Capital budget, 2024-25 to 2025-26

	2024-25		2025-26		Variance	
	Estimate		Estimate		Variance	
	£mn	%	£mn	%	£mn	%
IT assets	1.9	44.2	1.3	32.5	-0.6	-31.6
Property assets	2.4	55.8	2.7	67.5	0.3	12.5
Total capital expenditure	4.3	100.0	4.0	100.0	-0.3	-7.0

Note

1 Figures may not sum due to rounding.

Source: National Audit Office

Property assets

3.44 Our largest physical asset with a current market value of around £100 million is our London office. Our main spending in 2025-26 will be to complete the refurbishment of our London office space, a project which began in 2024-25 (see Part Two for details).

Supplementary financial information

3.45 **Figure 14** 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 14

Budgets and actuals, 2019-20 to 2027-28

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Resource (£mn)									
Budget – nominal	71.0	75.9	80.2	83.9	94.8	101.9	111.0	113.3	113.7
Spend – nominal	68.3	73.9	78.2	83.0	92.4	–	–	–	–
Budget – real	71.0	72.0	76.6	75.1	79.9	83.9	89.3	89.3	87.9
Spend – real	68.3	70.1	74.7	74.3	77.9	–	–	–	–
Capital (£mn)									
Budget – nominal	1.0	1.5	2.3	8.6	3.2	4.3	4.0	3.6	2.7
Spend – nominal	1.0	1.1	1.9	8.4	3.0	–	–	–	–
Budget – real	1.0	1.4	2.2	7.7	2.7	3.5	3.2	2.8	2.1
Spend – real	1.0	1.0	1.8	7.5	2.5	–	–	–	–
People numbers (FTE)									
Budget	825	852	940	940	958	1,010	1,068	1,111	1,127
Actual ¹	819	863	911	909	942	–	–	–	–

Notes

- 1 Where there are variances between budget and actual FTE, the National Audit Office uses temporary staff to address the shortfall.
- 2 Real-terms budgets take account of Gross Domestic Product (GDP) since 2019-20. 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, also referring to the Office of Budget Responsibility's Economic and fiscal outlook, October 2024

Appendix One

Scheme of fees – as approved by the Commission of Public Accounts at its evidence session on 26 March 2019

1 National Audit Office (NAO) may charge fees for audits carried out by the Comptroller and Auditor General (C&AG) and any fees must be charged in accordance with a scheme prepared by NAO. The scheme (including any revision) must also be approved by the Public Accounts Commission.

2 The agreement of a Minister of the Crown is required for the charging of a fee if the accounts to be audited are the accounts of a body or other person who acts on behalf of the Crown. This does not apply in relation to an audit carried out as part of any NAO-approved services, where the C&AG may charge fees and other amounts but only in accordance with the agreement or other arrangements under which the services are provided.

3 Our scheme of fees is developed with consideration of best practice set out in *Managing Public Money* (guidance published by HM Treasury) and comprises the following principles.

- Fees for services are set to cover the full cost attributable for the service. This makes sure that the NAO neither profits at the expense of the consumer of its services nor makes a loss for taxpayers to subsidise.
- There are proper controls over the fees and charges for services. Any change in the basis of how fees are determined is subject to the approval of the C&AG in consultation with the NAO Board where necessary.
- Costs are calculated on an accruals basis, including overheads. This includes the time that people spend on activities, which is set using a standard hourly rate.
- In the case that unplanned work is required to complete a service, this can result in higher costs to the NAO. This is especially the case when external input is brought in to provide the required support. Under these circumstances, the NAO will seek to recover the incremental costs associated with the unplanned work through its fees.

- Where Parliament requests that we carry out an audit for which we typically charge a fee to the audit body, but which require non-recurring set up or hand over costs from the previous auditors, we may request direct funding from Parliament to meet this transitional expenditure. It is normal practice within the audit profession to absorb set-up costs. These costs include liaising with the previous auditors and developing our auditing approach.

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