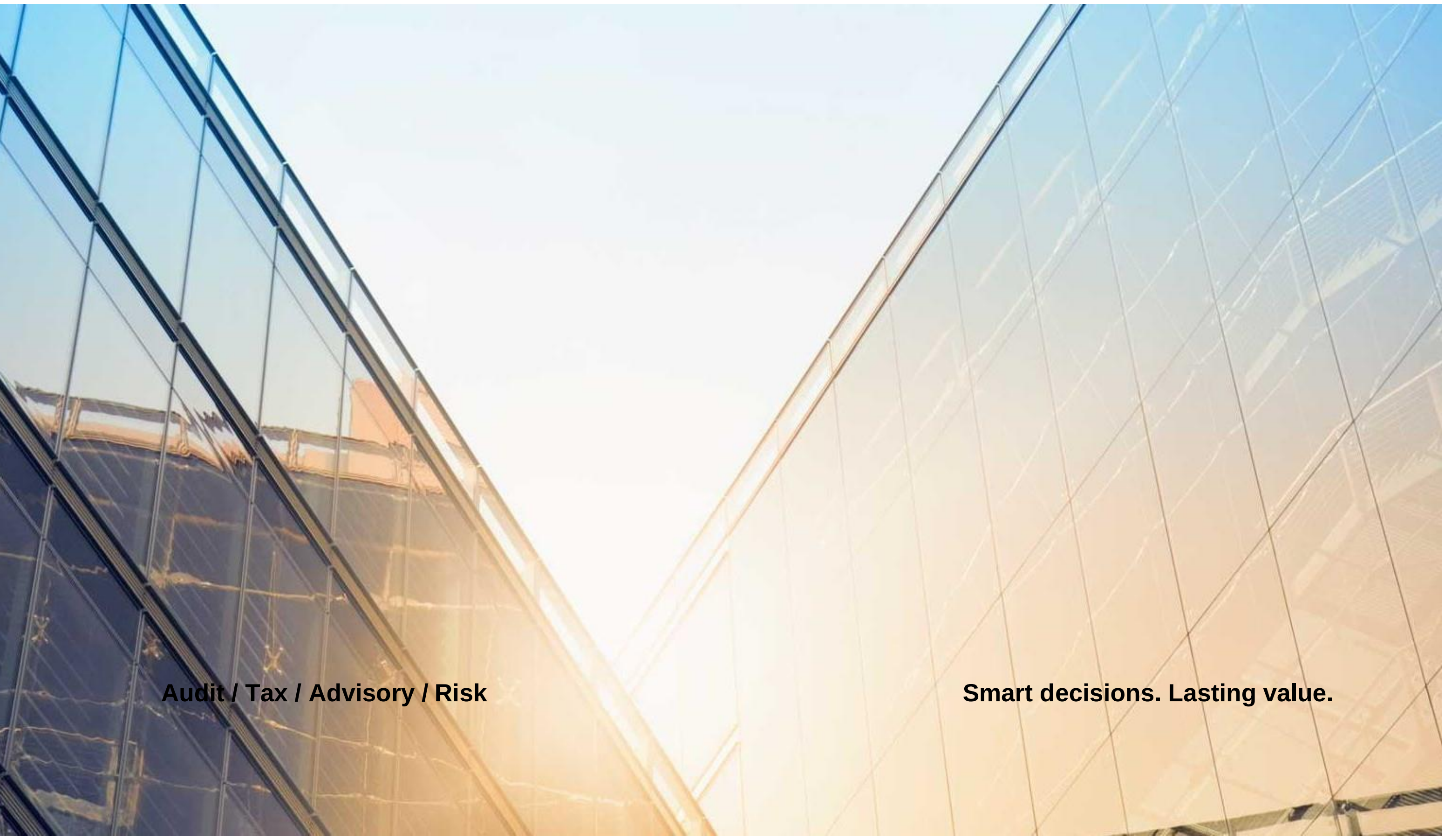
National Audit Office

Value for Money Review

Impact Reporting

March 2020

HC 227



Contents

Summary of findings

1. The National Audit Office (NAO) supports Parliament in holding government to account for spending public money. In doing so the NAO helps to improve the way public services are delivered. The NAO audits the financial statements of all central government departments, agencies and other public bodies and reports the results to Parliament. Its value for money reports conclude on the effectiveness, efficiency and economy of government spending.

2. As part of its own external scrutiny, the Board of the NAO commission its external auditors, Crowe U.K. LLP (hereafter referred to as "Crowe"), to undertake an annual Value for Money ("VFM") study to assess the extent to which the organisation is achieving VFM in its use of resources. This year the review focused on the NAO's Impact Reporting.

3. In accordance with the 2018/19 to 2021/22 NAO Strategy the NAO's long-standing objectives are to apply knowledge, increase its influence and be a high-performing organisation. Aligned to this, the NAO has had to change in order to continue to deliver value and add value in a changing environment.

4. The more recent annual reports (from 2016) include commentary regarding the wider quality responses and influence of the NAO. Within the 2019 Report this is as referenced below:

   - *We seek feedback on our work through an independently conducted survey and interview programme. We draw on this feedback to support continuous improvement in our practice.*
   - *Respondents have a high regard for our financial audit work. Ninety per cent agreed it is of high quality; 70% said that our financial audit work brings valuable insights; and 89% said that they would actively seek our feedback on accounting and financial control issues.*
   - *Of those respondents directly involved in value-for-money studies (41 respondents), a higher proportion were positive about our work than in 2017. Seventy-six per cent rated the technical quality of their most recent value-for-money study as good or very good; 73% agreed that it aligned with their organisation's strategic priorities; and 76% said that it covered the right issues.*
   - *Overall, 55% of respondents said that our recommendations led to improvements and 73% said that, during our work with them, they had made changes prompted by our engagement.*

5. The NAO's current Financial Impact measure was developed a number of years ago. From the time the metric and approach was introduced both the external environment in which the NAO operates, and the role of the NAO, has changed and developed. Given the manner in which the metric is produced, theoretically this could focus the VFM related activity to purely financial drivers, rather than achieving the wider strategic objectives.

6. The 2018-19 annual report detailed the financially quantifiable impact of the NAO's work as £539 million, referencing a saving of approximately £8 for every £1 spent by the NAO (with a figure of £741 million and a saving of £11 for every one £1 spent in 2017/18). This figure is subject to confirmation by the audited bodies concerned and assured as part of the external audit process.

7. As part of the review, we evaluated whether the NAO is achieving and demonstrating value for money from its Impact Reporting process, focusing on the following key questions:
   - Is there a clear relationship between the Performance Framework of the NAO and the reporting of impact?
   - Does the NAO's current approach to reporting its impact fully reflect the impact that it delivers in line with its strategy and performance framework?
   - Given the period from its inception and the changes to the work of the NAO:
     - is the current methodology for the financial impact metric the right approach to reflect the objectives of the NAO?
     - Does it support the right approach to the determination of work?

- Subject to the above, are there additional impact measures that should be considered for recommendation to more effectively capture the NAO's impact?
- Is the medium of presentation sufficient to communicate the NAO's impact to key stakeholders and the wider public?

Key findings

8. **Overall, the NAO articulates its impact through a combination of narrative case studies, the financial impact metric and information on people recruitment, equality and diversity and environmental impact.**

9. **This is comparable to the impact reporting within the Framework Partners reports and to corporate reporting. In terms of capturing impacts, the NAO compares favourably to the reporting and approaches adopted by the Supreme Audit Institutions (SAIs).**

10. There is an established process to collate and communicate a financial impact measure for the NAO as part of the annual reporting process. This metric is easily understood by a range of stakeholders and clearly articulated and communicated. Furthermore it is subject to audit annually. However there is more that the NAO can report and the process for the financial impact measure should be updated to reflect the NAO's ways of working.

11. From the work undertaken, the existing reporting does not capture the full range of impacts achieved by the NAO across its current activities and its future strategic aspirations. The NAO's impact measurement should be expanded to more clearly capture the wider impacts of the NAO.

12. When considering Impact Reporting, there is a need to balance the costs of identifying and measuring the impact against the benefit of demonstrating the NAO's impact. For this reason, it will not be cost effective for the NAO to allocate large amounts of resources to measuring and demonstrating the impact of *all* its work. Furthermore, due to the challenges of attribution and contribution it may not be possible to demonstrate a clear causal relationship which can be quantified between the work of the NAO and the impact; in effect identifying the difference in the indicator of interest with and without the intervention.,. This is particularly relevant to the influencing work which the NAO carries out.

13. Whilst it is important to acknowledge this, it is nevertheless important to consider the benefits of identifying, recording and reporting on what matters even if, when considering the resources to quantify those impacts, the decision is taken to not report on the whole performance chain. These elements should be considered by the NAO and its stakeholders when decisions are made as to broadening the impact measures.

14. There is an emerging body of work to help consider the impact of advocacy work, which is aligned to the "Increasing our Influence" work strand and a range of assignments undertaken by the NAO. Given that established models are not in place, we recommend that developments in this area continue to be monitored and considered for specific assignments. We have observed organisations who are developing advocacy models for their internal use in assessing the effectiveness of their campaigns which are not externally published.

15. This report details a range of potential approaches for consideration in determining the future of impact reporting at the NAO. These are intended to provide a starting point for considering changes to the approach to impact reporting for the NAO, balancing reflecting the full spectrum of activities and impacts, with the resources to produce and assure the information.

Performance Framework

16. **The Performance Framework which is reported in the Annual Report, provides the structure for the annual process to capture the activities of the NAO.** The evidence to report against the Performance Framework is compiled on an annual basis as part of the Annual Reporting cycle.

17. **The Performance Framework informs the reports presented to ELT and Board, although not all of the measures are reported at each meeting, reflecting the timing of the metrics being produced.** There are a suite of reports which are produced on a regular basis although these are not captured within a single consolidated reporting framework. This Performance Framework is to be reviewed as part of the NAO's current strategic review.

Financial Impact

18. **The value of a Financial Impact metric is recognised across stakeholders as an effective means of providing one measure of aspects of the NAO's impact. The benefit of this metric is that it is clearly understood by a range of stakeholders and easily articulated and communicated.** However the methodology and approach to the determination of the Financial Impact metric should be reviewed and updated.

19. **Whereas causation of the financial impact should be relatively clear, the current approach requires agreement as to the attribution of impact between the NAO, the Department and other stakeholders.** This is challenging because the need for an agreement involves a degree of arbitration with the relevant department, including discussion regarding the party responsible for the financial impact.

20. **The current process can act as an extension to the wider report close out process. It can also mean that the NAO will not be able to take the "full credit" for the financial impact it has actually achieved.** This issue has been identified by the NAO although has not yet been addressed. The current process, which requires resources during the agreement of the impact, as well as subsequent processes to track, capture and validate the financial impacts also potentially acts as an inhibitor to the NAO in seeking to claim impacts.

21. **Given that the current forecast pipeline of financial impacts is declining, in the future there may be an unintended bias of focussing on the largest departments and areas of spend.** Therefore, it is key that this metric should be seen as an integrated element of the impact of the NAO. There is a risk that the focus of work plans on financial impact may become the generation of Financial Impacts, rather than delivering the most effective and impactful work overall for the benefit of Parliament and the wider public services.

Communication of Impact

22. **The MP's IPSOS MORI survey provides a clear indication of the strong reputation of the NAO across parliamentarians.** The survey also reflects how positively MPs feel about the NAO and its position against comparator organisations. Across all its reputation KPIs, the NAO is well above average compared with the other organisations measured.

23. **The survey also reflects a potential opportunity to consider the wider dissemination of the NAO's findings and potential impact.** Reflected in the MPs survey is a desire for the NAO's reports to include an element of how this applies locally. This can be explored either at a regional or a constituency level, allowing the MP to more easily translate the key messages and impacts to their constituency.

Comparison to Framework Partners and Building Public Trust Impact Reporting

24. **In line with the Framework Partner comparators, the NAO reports people impacts through the recruitment and development of staff as well as progression in representation and diversity within the workplace.** A number of the Framework Partners report on the training undertaken that has led to a better qualified and more able workforce. A common feature among organisations' reporting was a focus on the composition of the workforce, for instance gender ratios in senior management and percentages of staff in offices with diversity initiatives. The NAO benchmarks favourably with this, reporting progress against the three year Diversity and Inclusion Strategy.

25. **Environmental welfare and impact is increasingly reported across a range of corporate organisations.** Whilst the direct environmental welfare is less significant when compared to many aspects of the corporate sector there is the potential to capture more effectively the environmental impact arising from the recommendations in the work of the NAO. The Annual Report details the Environmental Impact of the NAO, although this focusses on the operation of the NAO itself rather than the wider impacts arising from its work.

SAIs Benchmarking

26. **Benchmarking with a number of SAIs indicated that impacts are not measured and reported in the majority of cases.** Whilst a number of those reviewed measure the 'performance' of their service this tends to focus on outputs rather than a wider assessment of outcomes and quantification of impacts.

27. **There is a level of commonality between all SAIs sampled and the performance measures used**. This included presence in the media, follow up of audit recommendations, surveys of MPs and monetary measures, utilising the SAI's own performance measurement criteria.

28. **There is evidence that a number of the SAIs are aiming to include measures to ensure that the work undertaken ultimately has created value for society.** Given the challenges that exist in measuring social impact this area appears in the early phases of development across SAIs.

Conclusion on value for money

29. **Based on the work undertaken, we consider that impact reporting at the NAO is generally fit for purpose and provides value for money when compared to the activities it undertakes.**

30. **Notwithstanding this, there are opportunities for the NAO to consider additional approaches to the articulation of its impact. The financial impact metric has been in place for a period of time in which both the work of the NAO and the environment in which it operates have changed considerably. The new C&AG and consideration of a refreshed strategy present an ideal opportunity to review the metric and wider measurements of the impact of the NAO.**

31. **In addition, this review should consider the underlying approach to the attribution of the impact of the NAO. There are inherent limitations in the process of agreeing the impacts with the Department/ Stakeholder which from review of the sample of outputs are resulting in an underreporting of the NAO's wider impact.**

Recommendations

Our overarching recommendation is the creation of a working group to consider and reflect on our more detailed findings aimed at enabling the NAO to have a more effective Impact Reporting process. These are regarding the process to collate impacts and the performance management framework, which should be considered in parallel to the wider consideration of impact.

- **Impact Working Group**

  The NAO should convene a working group of key internal stakeholders across the Executive, the NAO Board and Audit Committee, to review the current approach to Impact Reporting.

  The working group should consider both the Financial Impact Metric and the wider reporting of the NAO's impact.

  The working group should also consider the underlying approach to impact attribution and whether this requires the agreement of the relevant Department/ Stakeholder or instead, a methodology and associated data is used to support the impact which can be subject to independent audit.

  As a second phase of work there should be engagement with the Public Accounts Commission ("TPAC") as to the proposed approach, its value to TPAC and Parliament, prior to developing finalised proposals for development.

  In order to aid development of the working group agenda, this report sets out a series of issues identified during the work and a number of options as a starting point to inform debate. **These are further expanded upon at Appendix 1 of this report.**

- **Performance Framework Review**

  As part of the current (as at September 2019) wider Strategic Review of the NAO the Performance Framework should be reviewed, along with views as to how this can translates to consolidated reporting to the Board. This should include, subject to cost/ benefit consideration of options, the introduction of dynamic reporting, utilising data visualisation tools.

- **Timing of Impact**

  The impact assessment should be undertaken earlier in the assignment process and subject to review and revision throughout the assignment, to support the tracking and forecasting of quantifiable impact for the year.

- **Communication of Impact**

  Wherever possible, the dissemination of the findings of assignments should be considered for reporting on a regional or constituency basis. It is recognised this may not be practical for all assignments, but wherever possible this should be considered utilising the data tools available.

Detailed Findings

1. Performance Framework

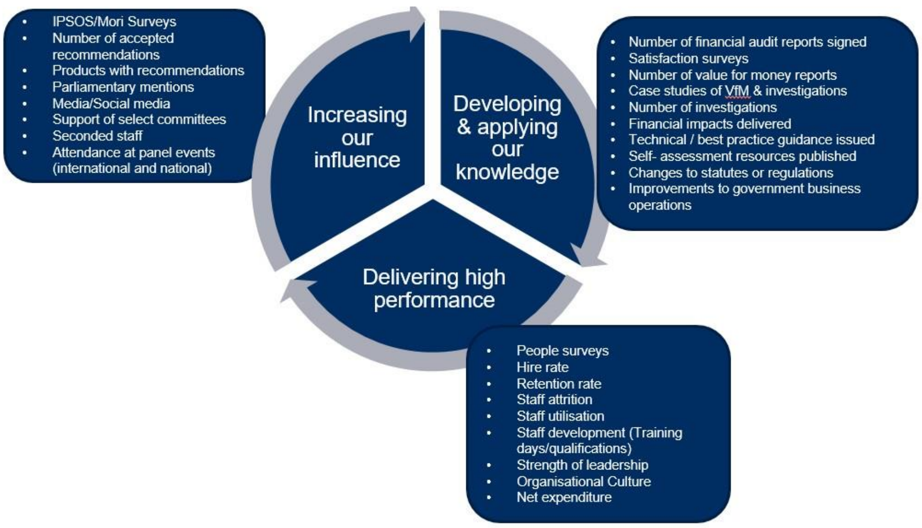
1.1. The Performance Framework, which is reported in the NAO's Annual Report, provides the structure for the annual process to capture the activities of the NAO. The evidence to report against the Performance Framework is compiled on an annual basis as part of the Annual Reporting cycle. The Performance Framework is aligned to the strategy of the NAO and contains a summary of:

- Strategic Objectives
- What the NAO wants to achieve
- What success looks like
- How the NAO measures success.

1.2. The Performance Framework informs the reports presented to ELT and Board, although not all of the measures are reported at each meeting, reflecting the timing of the metrics being produced. There are a suite of reports which are produced on a regular basis although these are not captured within a single consolidated reporting framework. This Performance Framework is to be reviewed as part of the NAO's current strategic review. This review should also consider the opportunities from the introduction of dynamic reporting for ELT and Board, considering a range of data visualisation tools to present the performance data.

1.3. In Chart 1 we have produced an illustrative example of a range of potential performance measures across each of the NAO's strategic objectives which builds on that reported in the Performance Framework in the Annual Report. Whilst this is a summary of some of the outputs or output measures of the work of the NAO, it does demonstrate the broad range of the NAO's activities and how these can be plotted against its strategic objectives. This can be used as a starting point for considering the broader impact of the NAO and which impacts the NAO would want to consider measuring bearing in mind the cost benefit and attribution/ contribution challenges.

Chart 1: Potential performance measures aligned to the Performance Framework



1.4. Within the NAO Annual Report, the "How we measure this" section in relation to the Performance Framework is more reflective of a series of outputs rather than the impact of the NAO's work. Challenging and extending the assessment of "How we measure this" to further consider the impacts of delivering the elements of the Performance Framework provides a structure for the consideration and reporting of impact.

1.5. As part of the annual reporting process, there is an assessment and summary of a number of case studies which represent examples of the impact of the work of the NAO (14 in 2018/19). These include references to cases where the work of the NAO has contributed towards better public services or there is a financially quantifiable net benefit.

1.6. In reviewing the 2018 Annual Report, from our work and comparison to benchmarked annual reports, the case studies themselves can be further expanded upon to be more definitive and reflect the wider impact of the role of the NAO. Additionally there may be an opportunity to more clearly articulate the impact of the implementation of the recommendations raised by undertaking additional analysis, although it is recognised that this has an associated cost element which may make such analysis prohibitive on a case by case basis.

1.7. A further aspect in relation to this involves the timing of the impact reporting process. Whilst there is an initial investment to establish a revised impact process, giving consideration to the potential impact of the work at the outset of the project presents an opportunity to assess the impacts during the work and capture key data to support the determination of impact through the project. This applies to both the process for capturing financial impacts (discussed at section 2) and the impacts from the wider work of the NAO.

1.8. Presentation of evidential findings rather than subjective opinion supports the understanding of TPAC and Parliament which facilitates debate and action. This can be more clearly articulated in the impact reporting process. When considering impact in this regard one potential approach is a comparison to a control situation. This can be used by organisations to assess how effective their actions have been within a specific environment or within a target demographic.

1.9. For the NAO, whilst a “control” comparable situation may not be possible, a proxy for the impact of the work can be viewed as the actions taken which were not in train following either the commencement of the work or the publication of the report. An example of this type of impact is evidenced by the ‘Handling of the Windrush Situation’ report (December 2018), and the timing and action by the Home Office following the publication of the report.

1.10. However, a challenge with such an approach is that the NAO currently validates its impact and attribution of the NAO’s impact with the relevant stakeholder. In many instances the relevant Department or stakeholder can indicate that actions were already commencing prior to any review taking place and as such there would be no impact. One option for consideration in this area is to adopt an approach similar to that of the GAO, whereby impacts are not necessarily subject to agreement with audited entities, but there is a supporting approach which can be subject to independent audit.

1.11. The consideration of impacts, both non-financial and financial is in general, completed at the end of the assignment. There are KPIs and VfM Impact measures considered at the start of planning for VfM reviews, although these are not always consistently carried through to the completion of the assignment. As such, the potential impact of the assignment, how this aligns to the wider NAO strategy and how this is to be assessed, is not consistently undertaken at the outset as part of the planning of the assignment.

1.12. As part of the current (as at September 2019) wider Strategic Review of the NAO the Performance Framework should be reviewed, along with views as to how this can translates to consolidated reporting to the Board. This should include, subject to cost/ benefit consideration of options, the introduction of dynamic reporting, utilising data visualisation tools.

1.13. Within the working group, the underlying approach to the "claiming of impacts" should be considered whereby impacts are not subject to agreement, but there is a supporting approach/methodology and data in respect of the impact which can be subject to independent audit.

1.14. Whilst subject to any changes in the Impact Reporting process proposed following the workshop, the impact assessment should be undertaken earlier in the assignment process and subject to review and revision throughout the assignment, to support the tracking and forecasting of quantifiable impact for the year.

2. Financial Impact

2.1. The value of a Financial Impact metric is recognised across stakeholders as an effective means of providing one measure of aspects of the NAO's impact. The benefit of this metric is that it is easily understood by a range of stakeholders and easily articulated and communicated. However the methodology and approach to the determination of the Financial Impact metric should be updated.

2.2. Whereas causation of the financial impact should be relatively clear, the current approach requires agreement as to the attribution of impact between the NAO, the Department and other stakeholders. This is challenging because the need for an agreement involves a degree of arbitration with the relevant department, including discussion regarding the party responsible for the financial impact.

2.3. The current process can act as an extension to the wider report close out process. It can also mean that the NAO will not be able to take the "full credit" for the financial impact it has actually achieved. This issue has been identified by the NAO although has not yet been addressed. The current process, which requires resources during the agreement of the impact as well as subsequent processes to track, capture and validate the financial impacts also potentially acts as an inhibitor to the NAO in seeking to claim impacts.

2.4. Given that the current forecast pipeline of financial impacts is declining, in the future there may be an unintended bias of focussing on the largest departments and areas of spend in order to realise financial impacts. Therefore, it is key that this metric should be seen as an integrated element of the impact of the NAO as there is a risk that the focus of work plans may become the generation of Financial Impacts, rather than delivering the most effective and impactful work overall for the benefit of Parliament and the wider public services.

2.5. Of the Supreme Audit Institutions (SAIs) reviewed only the US Government Accountability Office ("GAO") includes an annual assessment of Financial Impact. The financial benefits noted relate to the work undertaken by the GAO and for which their recommendations (provided in their reports of audited entities or other similar reports) produced benefits that can be estimated in monetary terms across the following:

- Better services to the public.
- Changes to statutes or regulations.
- Improvements to government business operations.

2.6. The results disclosed by the GAO relate to those identified as being net benefits to society (those achieved after costs are deducted associated with taking the action). All past and future year estimates are converted to net present value to calculate their financial claim. The financial benefits are calculated by all staff filing an accomplishment report documenting:

- The actions taken as a result of their work that have been completed or substantially completed.
- That the actions were generally taken within two fiscal years prior to the filing of the accomplishment report.
- That a cause-and-effect relationship exists between the benefits reported and their recommendations or work performed.
- The estimates of financial benefits were based on information obtained from non-GAO sources.
- The rationale and methodology for each financial benefit estimate is then verified and validated by multiple independent reviewers across, and in some cases outside, GAO to ensure adherence to GAO policy and related quality assurance standards.

2.7. The current NAO financial impact measure only references the savings to government and not the net benefits to society, reflective of the different strategic remit of the two SAIs, with the GAO more society focused. The process GAO uses to ensure data quality for its performance measures, including financial benefits, is publicly available in its annual Performance and Accountability Report. However, the GAO metrics are not generally subject to external review and independent audit – this is a key difference in the methodology and approach.

2.8. As an example, the Investigation into penalty charge notices in healthcare, which was undertaken following concerns in the media (published in May 2019), details findings regarding the financial position. This has generated wider action, such as consideration of the complexity of the charging scheme and comments from both the Public Accounts Committee Chair and the British Dental Association.

2.9. The NAO should convene a working group of key internal stakeholders across the Executive, NAO Board and Audit Committee, to review the current approach to Impact Reporting.

2.10. The working group should consider both the Financial Imperial Metric and the wider reporting of the NAO's impact.

2.11. As a second phase of work there should be engagement with TPAC as to the proposed approach, its value to TPAC and Parliament, prior to developing finalised proposals for development.

2.12. To aid development of the working group agenda, this report sets out a series of issues identified during the work and a number of options as a starting point to inform debate. **These are further expanded upon in Appendix 1 of this report.**

3. Communication of Impact

3.1. The current approach to the communication of impact, via the Annual Report, is in line with a range of organisations in the public, non profit and commercial sectors. In general, impact is incorporated into the organisation's annual report or in an accompanying impact report.

3.2. The MPs' IPSOS MORI survey provides a clear indication of the strong reputation of the NAO across parliamentarians. The survey reflects how positively MPs feel about the NAO and its position against comparator organisations. Across all its reputation KPIs, the NAO is well above average compared with the other organisations measured.

3.3. The survey reflects a potential opportunity to consider the wider dissemination of the NAO's findings and potential impact. Reflected in the MPs' survey is a desire for the NAO's reports to include an element of how this applies locally. This can be explored either at a regional or a constituency level, allowing the MP to more easily translate the key messages and impacts to their constituency.

3.4. The media and communication team track media and social media mentions, as well as references to the NAO in Parliament. These, together with the support that the NAO provides Select Committees and attendance at national and international events, are clear indicators of how the NAO is meeting its strategic objective of "increasing its influence".

3.5. It is recognised that these are output measures but act as a proxy measure demonstrating the quality of the work carried out by the NAO. It would be complex and costly to measure the impact of this part of the work of the NAO but there may be an opportunity to explore the reporting of the outcome of the NAO's work on a select basis.

4. Comparison to Framework Partners and Building Public Trust Impact Reporting

4.1. **In line with Framework Partners, the NAO reports people impacts through recruiting and developing staff as well as progression in representation and diversity within the workplace.** Impacts through recruiting and developing staff are reflected across the Framework Partner impact reporting. A number of the Framework Partners report on the training undertaken that has led to a better qualified and more able workforce. Developing staff, for example, through ACA apprenticeships, is an area which demonstrates positive social returns from the investment.

4.2. Within the NAO Annual Report (2018/19) it references both the People Survey and ACA pass rates. The NAO reports higher than average pass rates for the advanced stage of the examinations (94.3% compared to 85.2%) and an 83.4% pass rate for the professional stage (in line with the national average). It also references the recruitment of graduates and school leavers. The annual report also summarises the results of the people survey, however, whilst this is included, in comparison to the Framework Partners, there is not as strong a presentation in tone and reporting in respect of people impact.

4.3. Aligned to the consideration of people impact, there is wider reporting of measures that indicate progress towards better representation and diversity in the workplace. A common feature among organisations' reporting was a focus on the composition of the workforce, for instance gender ratios in senior management and percentages of staff in offices with diversity initiatives. This is detailed within the NAO's Annual Report which reports the progress against the three year Diversity and Inclusion Strategy.

4.4. Environmental welfare and impact is reported increasingly across a range of corporate organisations. Whilst the direct environmental welfare is less significant when compared to many aspects of the corporate sector there is the potential to capture more effectively the environmental impact arising from the recommendations in the work of the NAO. The Annual Report details the Environmental Impact of the NAO, although this focusses on the operation of the NAO itself rather than the wider impacts arising from its work.

4.5. The use of modelling, applying direct and indirect costs and a multiplier effect to estimate the long-term total value of an activity is an area being increasingly considered across the corporate sector. There are examples where a Social Return on Investment (SRoI) has been applied to assess the impact of a programme of work. This includes the value of expenditure, the projected SRoI the multiplier effect formed from the identified direct and indirect costs and a breakdown of the associated methodology.

4.6. Whilst the approach to SRoI has been considered during this exercise, for the NAO we do not consider this to be a feasible option to pursue at this point. In general SRoI modelling applies to an organisational level activity. For the NAO this would be challenging, (and in our view, prohibitive at this point in time in terms of resources) due to the different types of activities the NAO undertakes. Under the SRoI model this would potentially require consideration at an individual report/ assignment level, and as such the cost of assessment would potentially be a significant multiplier of the review cost itself.

4.7. As part of the working group, the potential to develop the reporting of environmental impacts should be developed (refer to Appendix 1).

5. Benchmarking to SAIs

5.1. When considering the approaches to impact reporting across the SAIs, the NAO compares favourably, both in terms of the breadth of activities undertaken and in the reporting of impact.

5.2. In all cases the SAIs considered the key activity for the SAI to excel at as the demonstration of value through the published audit reports of government departments. The priorities of the nature of reports produced varied between SAIs, with a number of SAIs identifying the importance of performance audits undertaken. The latter was viewed as contributing to the role of the SAIs in providing accountability of public services to the public. The regular engagement of Parliament and associated committees was also indicated as key activities in the demonstration of value.

5.3. For the majority of SAIs, their critical measure of success was viewed as being the increase in public trust in government bodies and a cost efficient delivery of an audit programme that meets the requirements of stakeholders. However, the means by which this is assessed was not detailed. A number of SAIs also referenced a more "narrow" focus on success in the completion of audits and addressing the action points raised.

5.4. All SAIs reported the use of an established Performance Framework. For those which provided further details, KPIs focussed on outputs were noted as being utilised in the majority of cases with only one SAI using a balanced scorecard. The use of the balanced scorecard contributed to a value creation model and distinguished between outputs and impact. One SAI provided an illustration of a performance framework that identified impact and noted its commitment to establishing impact reporting metrics. Such reporting departed from the majority of SAIs which only considered outputs in their performance framework.

5.5. The SAI Performance Framework which included impact outlined the relationship between its resources, activities specifically detailing management objectives and strategy culminating in the output-outcome framework, with a focus on the creation of value at each level. This set out the chain of effect through its visual representation as a pyramid. The overall outcome of Parliament and the public having trust and confidence in the public sector is the peak of the pyramid. However, whilst also noting the SAI is smaller in scale and scope than the NAO, when reviewing the annual report of the SAI, this does not reference the wider impacts from its work and outputs, referencing the intention to do so in the future.

5.6. The majority of the SIAs referenced their use of the SAI Performance Measurement Framework (SAI PMF) in relation to ISSAI12 Objectives/ Benefits to the Citizens[1] in developing their own performance management framework. A number of the SAIs utilise the self-assessment element of the SAI PMF, with one SAI considering a peer review. The option of being subject to peer review has been considered at Appendix 1, as this has benefits in being independently assessed and capacity building elements of the peer review group.

5.7. A methodology to measure financial impact is not generally applied by SAIs, with a view that the attribution of savings from the SAI's work was difficult to establish. One SAI highlighted that in pursuing financial impacts other impacts would be perceived to be 'undermined,' or even more significantly 'ignored.' A risk identified was that the focus of work plans may become the generation of Financial Impacts, rather than the delivery of the most effective and impactful work overall for the benefit of

[1] Developed by International Development Initiative INTOSAI, which included the contribution of the NAO, and is utilised as a model to develop the performance framework of a developing SAI.

Parliament and the wider public services. In our view this risk is one that can be managed effectively with the right systems and processes.

5.8. Whilst not a measure of financial impact, a benchmarking exercise is currently being undertaken by one SAI to review audit costs, relating to both public sector transactions and public sector assets. This has not been considered further in this report as whilst a potential indicator of the efficiency of process any work in this area would need to consider the complexity of the body subject to audit.

5.9. In all cases, SAIs were actively considering their wider impacts, however the extent that this was reflected in reporting impact varied. A number of the SAIs considered outputs of their work as key measures, rather than the wider impact. As referenced at 5.4, one SAI is seeking to define its impact through the utilisation of a value creation model. This includes as an element, the impact/ influence of their work on public debate.

5.10. The SAI value chain model seeks to differentiate between outputs, subsequent benefits for stakeholders and the 'added value' the SAI seeks from its work which strengthens public trust in democracy. The model considers a number of input measures, including financial, intellectual, social (including reputation) and "natural" (environmental). These input factors are then mapped to output factors and then an overall set of target impacts.

5.11. In line with the approach of the NAO, the annual report of the SAIs was noted as the most frequent disclosure of reporting impact, with less than half of the SAIs reporting KPIs in respect of their performance.

5.12. In general, the SAIs did not consider that current impact reporting considered the full spectrum of work undertaken, though in all instances they are aware of their impact. A number of SAIs referenced performance KPIs as the proxy for measuring their impact. The majority of SAIs viewed that a broader assessment of the impact of their work would be costly both in financial and resource terms.

5.13. All SAIs considered there were opportunities for the development of impact reporting with a consensus recognising the benefits of more effectively capturing and reporting impact. One SAI is currently in the process of adding a new impact report which will follow-up on changes in the end results achieved by government organisations in areas audited. An example of the NAO's existing reporting that lends itself to this type of impact review is evidenced by 'Improving government's planning and spending framework' (November 2018) that seeks to address both the Cabinet Office and HM Treasury's contribution to improving government's planning and spending framework and associated recommendation across the short and medium/ long term.

5.14. SAIs reported that impact reporting is widely understood by Parliament and other relevant key stakeholders. Such reporting is regularly reviewed and challenged where necessary. Across the SAIs there was reference to the ongoing engagement and dialogue with their respective reporting Committee. One SAI utilises a survey of its Committee as a means of assessing performance and evidencing the perceptions of the SAI. This is in common with the approach taken by the NAO in the Ipsos MORI survey of MPs.

Appendix 1 – Working Group Options for Consideration

In this section we have summarised a series of points for the recommended working group in its consideration of Impact Reporting. These are not exhaustive and represent a starting point of options identified during discussions with NAO stakeholders and review of benchmarking material. To aid these discussions, for each option we have provided a brief commentary together with a summary of the relative advantages/ disadvantages.

1. Strategy Map Balanced Scorecard

With a new C&AG there will be consideration of the future strategy of the NAO. As the strategy is developed this should include consideration and articulation of what the impact of the NAO should be over the period of the strategy and how this can be assessed and reported upon.

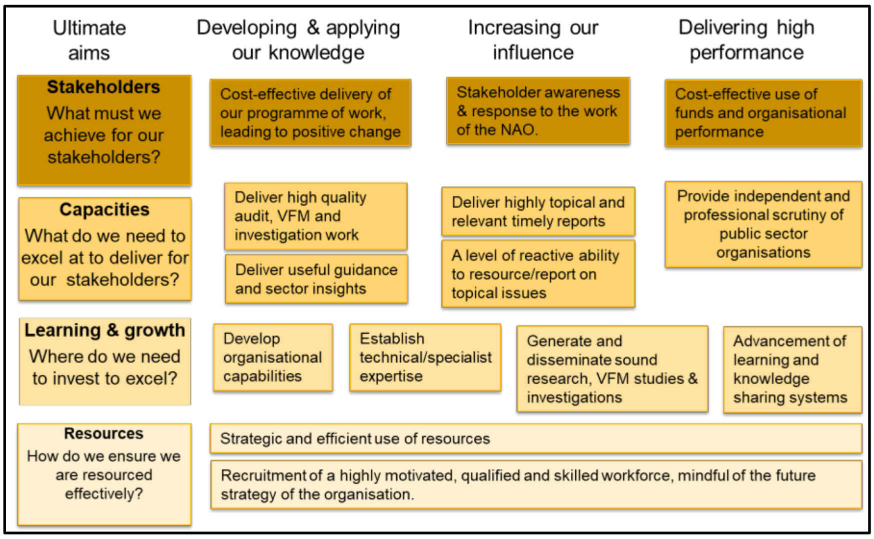
This can be developed to present a more simplified approach of the NAO's impact reporting to The Public Accounts Committee. An illustrative strategy map is provided at Chart 1 below. During the SAI benchmarking it was noted that one of the SAIs has adopted a similar structure but has not yet developed the underlying data to demonstrate and assess the measurement of the elements of the Strategy Map.

Table 1: Strategy Map Assessment

Advantages	Disadvantages
✓ *Summarises the approach to impact and performance for stakeholders* ✓ *Captures existing approach so requires limited resources to develop the model*	× *Need to define metrics to assess how each phase is being measured which whilst beneficial can be time consuming using up scarce resources* × *Does not quantify and demonstrate the wider impact of the NAO without additional measures*

Chart 2: Strategy Map

Our Vision: Help the nation spend wisely (NAO).
Our Mission: To promote independent scrutiny and increase accountability of our governing institutions.



2. Thematic Reporting

We recommend that the option of developing more thematic based reporting is considered as part of any future impact reporting. Whilst this primarily relates to the medium by which the findings are communicated and reported, there would be a change in emphasis and structure in the reporting of impacts.

Thematic reporting would allow the NAO to illustrate better its wider impact in an accessible format. The themes of the reporting can also be aligned to the new strategy of the NAO as it is developed under the new C&AG.

Given the volume of work of the NAO, it is not recommended that this needs to capture all activities, but is a means of demonstrating thematic outputs and longer term impacts arising from the work and associated recommendations.

In discussions with senior management there is a clear focus (reiterated through the C&AG) that at the heart of the work of the NAO is accountability across public services. As such, we have prepared two iterations of the thematic reporting model as a starting point for discussion. The first, is a high level model mapping the types of activities which can be considered on a thematic basis (chart 3). The second applies that model and references examples of work which align to the themes. From these assignments specific findings, outputs and impacts can be referenced for external reporting (chart 4).

A subset of the thematic reporting relates to the potential to expand the current approach to environmental reporting. The current NAO reporting can be extended further to capture the examples of the wider impacts arising from specific reviews.

Within the Annual Report 2018-19, the NAO reports on a broad range of environmental metrics including, energy use, water use, paper consumption and waste generation. Each are supported with established sustainability targets which are reviewed through the utilisation of the environmental management system.

As an example, the NAO could seek to review impact as a result of their important role in holding government to account for environmental performance as noted within the Annual Report in the Performance Reporting section.

There are also recommendations arising from the NAO's work which have an environmental impact. As well as those referenced at chart 4, there are clear environmental impacts which can be demonstrated in the report "The Nuclear Decommissioning Authority: progress with reducing risk at Sellafield" (completed in 2018) which tracked progress since the previous review in 2015. More recently, the report "Investigation into submarine defueling and dismantling (April 2019)" and subsequent actions have the potential for financial and environmental impacts.

It should be noted that in some instances this may involve a combination of outputs and over an extended period this translates to reporting of impact.

Table 2 – Thematic Reporting Assessment

Advantages	Disadvantages
✓ *Summarises the approach to impact and performance for stakeholders outside of the financial impact* ✓ *Allows a wider consideration of thematic impacts aligned to the NAO strategy* ✓ *Presents a clear summary of the wider non- financial impact of the NAO which can align to supporting case studies*	× *When first implemented, the reporting is potentially a combination of outputs (if recommendations are addressed) and longer term impacts and hence may be inconsistent in messaging* × *Resources to implement the decision making process in respect of areas for inclusion* × *Potentially simplifies the approach to impact* × *There is a need to define the approach to what is reportable under each theme*

Chart 3 – Potential areas for inclusion in thematic reporting

Environment

- Scrutiny of government metrics considering environmental goals
- Environmental impacts addressed following recommendations/ issues being tabled
- Identifying gaps in Government's oversight with support

Financial

- Potential savings/ financial benefits to be realised from recommendations raised
- Volume of public funds audited
- Value of audit adjustments identified

Audit Profession

- Governance and Financial Management improvements following Code of Audit Practice
- Support and engagement with Audit Committees in NAO materials – changes in Audit Committee practices

Social

- Provision of key information to inform the debate on critical issues for Parliament
- Social impacts arising from review recommendations
- SRoI assessment
- Diversity across the workforce
- Training and development of the workforce

Chart 4 – Examples of reports aligned to the thematic reporting approach

Environment

- **'Environmental metrics: government's approach to monitoring the state of the natural environment' (January 2019)** – *The study evaluates how far the government has an effective system for measuring progress towards its environmental objectives.*
- **'The packaging recycling obligations (July 2018)** – *This report identifies lessons from the management and performance of the packaging recycling obligation systems*

Financial

- **'Completing Crossrail' (May 2019)** – *The report examines the causes of the cost increases and delays to the Crossrail programme.*
- **'NHS financial sustainability' (January 2019)** – *The report examines whether the NHS is on track to achieve financial sustainability.*

Government Policy

- **'Early Review of the new farming programme' (June 2019)** – *The report examines Defra's approach to developing the Future Farming and Countryside Programme.*
- **'Improving government's planning and spending framework' (November 2018)** – *The report review government's progress in improving the planning and spending framework since the July 2016 review.*

Social

- **'NHS waiting times for elective cancer treatment' (March 2019)** – *This report examines waiting time standards for elective cancer treatment and factors associated with performance in meeting these standards.*
- **'Handing of the Windrush situation' (December 2018)** – *This study examines how the Home Office handled the impact of its immigration policies on the Windrush generation.*

3. Independent Evaluation of Impact

Once the relevant impact reporting mechanisms have been determined, the NAO can consider having an independent evaluation of its impact. An independent evaluation will provide assurance to key stakeholders that relevant impact claims have been subject to review and challenge.

Independent evaluation of impact are relatively common in the charity and voluntary sector. Examples of independent evaluations within government bodies include DFID using an independent body, ICAI for a report on DFID's approach to delivering impact[2]. The Local Government Association (LGA) commissioned Shared Intelligence, a business management consultancy, to report on the impacts of their sector-led improvement in 19 councils.

Table 3 – Independent Evaluation of Impact Assessment

Advantages	Disadvantages
✓ *Independent Assurance over the impact of the NAO* ✓ *Provides a longer term view on impact* ✓ *Flexibility in review options – this can be aligned to the strategy or in respect of specific projects and work streams* ✓ *Opportunity for fresh insights and recommendations in approach through the use of SMEs* ✓ *Potential internal resource savings as NAO staff are not involved in detailed impact assessment work*	× *Time and resources in the decision making process, and determination as to which body would appoint the independent evaluator (e.g. TPAC, the NAO) to demonstrate transparency* × *Timing of the appointment the assessor (in that a decision may need to be made some time prior to the assessment being made), and whether the evaluator would be involved at the outset of determining impact* × *An independent evaluation would cost the NAO both time (as management would need to be involved in this) as well as money.* × *Given the whole range of NAO's activities, a decision should be made as to which strands should be evaluated and to what extent. This has a bearing on costs and time resources.*

[2] https://icai.independent.gov.uk/wp-content/uploads/ICAI-report-DFIDs-approach-to-Delivering-Impact.pdf

4. Utilising SAI Peer Review

An alternative to the Independent Evaluation of Impact is a peer review process utilising the SAI PMF. One SAI reported they are considering planning to undertake a peer review against the SAI PMF following a self-assessment process, which the NAO are planned to be part of the review team.

As summarised in table 4, a key challenge in adopting such an approach is the wider role of the NAO and its activities and whether there is a feasible option across other SAIs to be able to review the impact and performance of the NAO effectively. Furthermore, given that no other SAI has undertaken such an exercise, there may be limitations in their skills and capacity for undertaking such a review.

However, this does present an opportunity for a tailored assessment of the NAO, which is also undertaken independently. Once the first review has been completed, this also serves to develop the methodology and presents an opportunity to learn from the perspectives and experience of the review team.

Table 4 – SAI Peer Review Assessment

Advantages	Disadvantages
✓ *Independent Assurance over the performance of the NAO* ✓ *Challenge and learning from the review team* ✓ *Opportunity to capacity build other SAIs*	× *Capacity and skill set of the peer review team* × *Need to define the remit for the review and approach to impact assessment*

Appendix 2 – Our Approach

The objective of the NAO	To ensure value for money is achieved in the impact reporting process, to demonstrate efficiently and effectively the impact of the NAO.
How this will be achieved	Through the production of transparent and accurate reporting which demonstrates the financial and non-financial impact of the NAO. That there is an efficient and effective process in place whereby the costs of production are proportionate to the value of the report to stakeholders.
Our review	Our review examines whether the NAO has been applying best practice principles in impact reporting, including the current approach to the preparation of the Financial Impact measure.
Our evaluative criteria	The review has sought to address the following key questions: ▶ Is there a clear relationship between the Performance Framework of the NAO and the reporting of impact? ▶ Does the NAO's current approach to reporting its impact fully reflect the impact that it delivers in line with its strategy and performance framework? ▶ Given the period from its inception and the changes to the work of the NAO: o is the current methodology for the financial impact metric the right approach to reflect the objectives of the NAO? o Does it support the right approach to the determination of work? ▶ Subject to the above, are there additional impact measures that should be considered for recommendation to more effectively capture the NAO's impact? ▶ Is the medium of presentation sufficient to communicate the NAO's impact to key stakeholders and the wider public?
Our evidence	We assessed the contract management within the NAO through: ▶ Desktop review of activities of the NAO as set out in the NAO strategy, current Performance Framework and annual report. ▶ Mapping a draft of what the potential impact of these activities are and testing these against the expectations of interviewees. ▶ Reviewing how the added value aspects of Financial Audit work are captured. ▶ Mapping the impact reporting undertaken back to the key activities of the NAO. ▶ Utilising the desk based review, we completed structured meetings with a series of stakeholders. The questions focussed on the Financial Impact metric, as well as wider considerations of the NAO's impact, how this has changed over time and how this is reported. ▶ Meeting with the NAO Board to ascertain their perspectives on the current reporting to assess the impact of the NAO. ▶ Review of the IPSOS MORI omnibus survey of MPs to assess the views on the role and impact of the NAO ▶ Benchmarked the impact reporting to the approaches undertaken by the Framework partners and other non profits, including comparison of different metrics and approaches. ▶ Benchmark the approach taken to the wider communication of the impact of the NAO and the measures to track engagement with the reporting. ▶ Identified any recurring themes in the views of stakeholders regarding the wider impact of the NAO and any key areas viewed as not being adequately captured.
Our value for money conclusions	Based on the work undertaken, we consider that impact reporting at the NAO is generally fit for purpose and provides value for money when compared to the activities it undertakes. Notwithstanding this, there are opportunities for the NAO to consider additional approaches to the articulation of its impact. The financial impact metric has been in place for a period of time in which both the work of the NAO and the environment in which it operates have changed considerably. The new C&AG and consideration of a refreshed strategy present an ideal opportunity to review the metric and wider measurements of the impact of the NAO. In addition, this review should consider the underlying approach to the attribution of the impact of the NAO and whether this requires approval or instead, can be subject to independent audit.

Appendix 3 – Evidence Gathering

Approach

1. We reached our conclusion on value for money after analysing evidence we collected between March 2019 and September 2019.

2. We reviewed the NAO's approach to achieving value for money in its impact reporting processes through the following:

   - We completed a desktop review of:
     i. Performance Framework
     ii. NAO Reports (for the period 2015/16 – 2018/19)
     iii. NAO Transparency Reports
     iv. Framework Partner Impact Reporting (within Annual Reports or standalone)
     v. Building Public Trust winners annual reports in respect of impacts and methodologies
   - We held structured interviews and workshop discussions with:
     vi. C&AG (both current and former)
     vii. NAO Board
     viii. Executive Leadership Team
     ix. Nominated NAO leadership and operational members of staff
     x. Strategy and Planning Directors
   - We completed a desktop review of a number of SAIs approach to Impact Reporting
   - A structured questionnaire was completed by eight SAIs
   - We reviewed examples of emerging approaches and views on best practice from across the non-profit and commercial sectors

Appendix 4 – Recommendation Schedule and Management Response

No.	Recommendation	Agreed/partially agreed/rejected	Management Response	Implementation date
1.	**Impact Working Group** The NAO should convene a working group of key internal stakeholders across the Executive, the NAO Board and Audit Committee, to review the current approach to Impact Reporting. The working group should consider both the Financial Impact Metric and the wider reporting of the NAO's impact. The working group should also consider the underlying approach to impact attribution and whether this requires the agreement of the relevant Department/ Stakeholder or instead, a methodology and associated data is used to support the impact which can be subject to independent audit. As a second phase of work there should be engagement with the Public Accounts Commission ("TPAC") as to the proposed approach, its value to TPAC and Parliament, prior to developing finalised proposals for development.	Agreed	As part of the wider Strategic Review of the NAO's strategy, in October 2019 we convened a working group to consider our external key performance framework of which the financial impact metric and wider impact case studies are part. As part of this, there will be detailed work by the Head of Strategy and Corporate Affairs and the Head of Reporting to consider the underlying approach to financial impact attribution and whether financial impacts still require agreement of the relevant Department, or instead whether another methodology could be used to support the financial impact metric. Parliament is our most important stakeholder. We are consulting TPAC as part of our Strategic Review including about our performance framework and the Key Performance Indicators within it.	September 2020

No.	Recommendation	Agreed/partially agreed/rejected	Management Response	Implementation date
2.	**Performance Framework Review** As part of the current (as at September 2019) wider Strategic Review of the NAO, the Performance Framework should be reviewed, along with views as to how this can translate to consolidated reporting to the Board. This should include, subject to cost/ benefit consideration of options, the introduction of dynamic reporting, utilising data visualisation tools.	Agreed	See above. The NAO introduced dynamic reporting in 2017 with the office-wide use of new business planning software. Today all our day-to-day business, compliance and project management processes take place in this business planning software. In 2018, we migrated the capture of individual financial impacts that make-up the overall financial impact metric and wider impact case studies into our business planning software. Coupled with this, our Reporting Team have begun introducing new 'dashboards' across the business to visualise the most recent data in the data warehouse in a usable format, helping us to make timely strategic and operational decisions. We will review the 'dashboard' used by the Board so that it aligns with our revised performance framework and to ensure that it uses the most recent data in our data warehouse alongside appropriate data visualisation.	September 2020
3.	**Timing of Impact** The impact assessment should be undertaken earlier in the assignment process and subject to	Agreed	We will review the existing process for agreeing financial impacts that make up the overall financial impact metric. We will	September 2020

No.	Recommendation	Agreed/partially agreed/rejected	Management Response	Implementation date
	review and revision throughout the assignment, to support the tracking and forecasting of quantifiable impact for the year.		consider if the initial agreement of whether there is a financial impact from a piece of work as well as the attribution, could routinely be agreed earlier in the process, even if the amount is not agreed until a later point.	
4.	**Communication of Impact** Wherever possible, the dissemination of the findings of assignments should be considered for reporting on a regional or constituency basis. It is recognised this may not be practical for all assignments, but wherever possible this should be considered utilising the data tools available.	Agreed.	We will investigate where it is possible to disseminate findings from NAO work on a regional or constituency basis. As the recommendation notes, there will be occasions where it will cost too much or take too much staff time to do this.	September 2020

Whilst every care has been taken to ensure that the information provided in this report is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regard to the advice and information contained herein.

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