value for money handbook

a guide for building quality into VFM examinations

vfm development

NAO
NATIONAL AUDIT OFFICE

Contents

Preface

We first published a VFM handbook in 1997. At that time, we needed a handbook to encourage conformity with standards and to foster confidence in the way we do our work. We have since responded in a number of ways. Our VFM work focuses more on outputs and outcomes, and less on processes. The methods that we use are more soundly based, our reports are shorter, and we secure more positive media coverage than ever before.

But six years on we face new challenges. Study cycle times remain too long and too high a proportion of our resources are locked up in work in progress. We urgently need to drive down study times by re-engineering our working practices, short-cutting some of our established procedures where appropriate. And we need to build a culture of strong project management, in which studies are delivered as contracts with senior management underpinned by firm project plans and realistic budgets.

Shorter study times do not mean delivering studies more cheaply. We should be ambitious and bold in designing our work, seeking where we can to add new light, based on original evidence, which results in life-changing recommendations. To achieve this, we must be ready to spend upwards of £250,000 on more challenging topics, offsetting this by low cost studies on more straight-forward issues. This means we need to be flexible and strategic in the way we deploy our resources. We must design and manage projects with rigour and intelligence, employing the wide range of resources at our disposal creatively and efficiently, so that the end product clearly justifies the investment. In brief, we must develop smarter ways of doing VFM work.

This handbook is intended to help VFM teams work in smarter ways: more efficiently, more flexibly and more creatively in tailoring the work to the subject, based on an assessment of likely impact and risk. It invites VFM teams to embrace new ways of working and seeks to strip away the less productive elements of our established approach. We have, for example, taken away the expectation that teams should produce elaborate internal documents, such as Preliminary Study Reports which rehearse the likely findings of the study based on speculation rather than firm evidence. Instead, we set out alternative approaches to reaching agreement on the way forward with the emphasis on strong project planning.

Part 1 of the handbook sets out our approach to VFM work, the constitutional and legal background, and our relationship with the Committee of Public Accounts and others.

Part 2 illustrates some of the components that make for a good VFM study, and suggests how teams can satisfy themselves that they are applying the right range of techniques to manage and undertake the work, and are consulting the right people.

Part 3 provides a step-by-step guide for delivering the kind of quality product outlined in Part 2. It introduces a series of five "Quality Thresholds" at different points in the lifetime of the study. These thresholds are expressed as simple questions, to which one needs to be able to answer "yes" before moving on to the next phase of the work. We illustrate the Quality Thresholds by suggesting the type of evidence you might put together to answer each question. The aim is to provide a quality assurance framework from which study teams can tailor their work to the needs of the subject, rather than follow slavishly all of the traditional stages of the "typical" VFM study.

This handbook can necessarily only introduce the themes and techniques that are common in VFM work. It should therefore be read in conjunction with the topic-specific VFM guides and other material available in hard copy form and on the NAO intranet. The handbook is also available in electronic form.

Part 1: What is VFM?
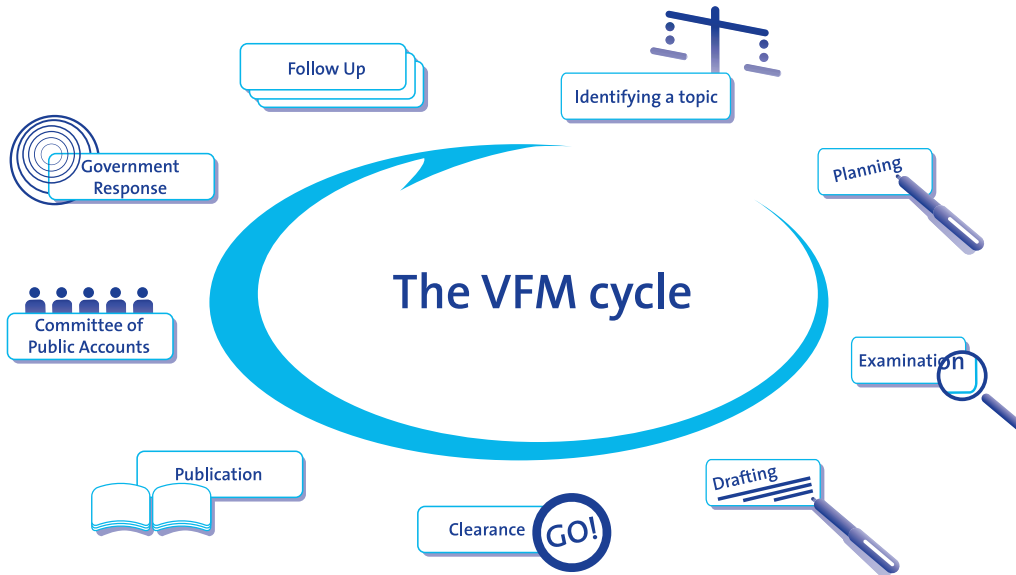
This part of the handbook covers:

- our approach to VFM work; and
- the constitutional and legal framework.

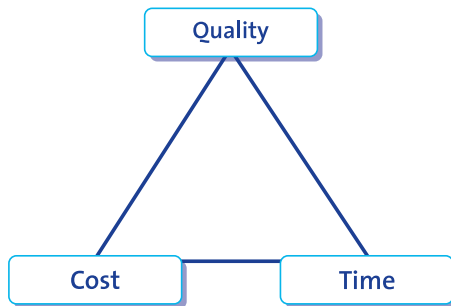## Our approach to VFM work

Remaining flexible and creative

1.1 The types of VFM study that we undertake today are the result of many years of evolution and adaptation, a process which began long before VFM reporting was given statutory recognition in the 1983 National Audit Act. The origins of VFM work are important to remember: it developed from our responsibility to report on accounts laid before Parliament. It has evolved a long way into substantial VFM reports that form an important part of Parliament's accountability framework, and also receive wide media coverage. But we should be conscious of its roots in financial audit work, and not lose sight of the benefits to be gained from working closely with financial audit colleagues to establish a good understanding of the VFM risks associated with each government department's business.

1.2 The evolutionary process has been characterised by flexibility and creativity, rather than by a highly prescribed or codified approach to designing, undertaking and reporting the results of VFM studies. This handbook does not set out to introduce a uniform or standardised approach. On the contrary, it seeks to reinforce the benefits of remaining flexible and responsive to the needs of Parliament, client departments and our wider stakeholders, and of embracing creativity and innovation in the way we deliver the work.

1.3 VFM work does not suit a "one-size-fits-all" approach. Different types of study require different approaches, different budgets and different reporting styles. And we have tried through this handbook to reinforce this message. However, it is also important to recognise that we measure our professionalism against a set of principles which inform all of our VFM work. These principles are set out at Appendix 1, which illustrates each one with a practical example. They are consistent with and link closely to the Code of Ethics proposed by the International Organisation of Supreme Audit Institutions (INTOSAI) and to the NAO's corporate values. This framework of principles underlying our VFM work is described in detail in the NAO guide "A Code of Principles for the VFM Profession".

1.4 Figure 1 sets out the critical stages in the life of a VFM study. This cycle applies to all studies, with the exception of a small number for which the Committee of Public Accounts (PAC) decides not to have a hearing. But within this broad framework, there is a need for careful thought about how we undertake each study.

1.5 As auditors, we should take a risk-based approach to designing our studies. Where the issues are obvious, we know that the evidence will be easy to acquire and analyse, and we have buy-in from all stakeholders, the risk associated with the study is probably low. Conversely, a study focusing on a new, complex or politically sensitive topic, where there is little primary evidence, and where stakeholders may prove difficult, will be high-risk. Study teams should recognise these factors at the outset, and determine the timeframes, costs and resource demands of the study accordingly.

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Figure 1 – The VFM study cycle

The VFM cycle

- Identifying a topic
- Planning
- Examination
- Drafting
- Clearance GO!
- Publication
- Committee of Public Accounts
- Government Response
- Follow Up

1.6 In every VFM study, we have to draw a balance between time, cost and quality (Figure 2). If we decide that the study is time-critical and the report needs to be published quickly, then we may need to deploy a large study team or use external assistance, to carry out the fieldwork in the shortest possible time. If, however, the study uses cutting-edge methodologies or is very complex in nature, we will need to acknowledge this in terms of timing and costs and the steps we take to manage the risks.

Figure 2 – The Time-Cost-Quality triangle

Quality

Cost

Time

VFM auditors must find the right balance between these three elements. It should be possible to deliver a suitably high quality product while taking only a reasonable amount of time and remaining within budget.

1.7　Parts 2 and 3 of this handbook provide a guide on how to build a risk-based, intelligent and adaptive approach into the design of studies. We suggest the questions that Directors and study teams should be asking themselves at each step along the way in order to ensure that a high standard of quality is built into each stage in the study life-cycle and the published report.

A diverse range of products

1.8　Our main VFM outputs are the C&AG's reports to Parliament. But we also produce a broad range of other outputs which often bring the work of VFM and financial audit staff together. They perform important functions in communicating the findings of our work and helping to promote efficiency and beneficial change in public services. The main categories of output are set out at Figure 3.

Figure 3 – Types of VFM output

C&AG's reports – These are published reports, presented to Parliament and (in most cases) subject to PAC hearings throughout the parliamentary year. The published report is the main product by which our VFM work is known.

Reports to management – In many VFM examinations, we visit a department's regional offices, or the constituent parts of a sector (such as universities, NHS trusts or prisons) in order to gather evidence. We sometimes send a letter or a fuller report to their management after the fieldwork visit, setting out our findings and suggesting where they might implement good practice that we have found elsewhere.

Memoranda to PAC – On occasion, we may report on a VFM topic by means of a memorandum submitted directly to PAC. Such a route is most often taken because the topic is confidential or particularly urgent.

Responses to letters – MPs and members of the public often write to the C&AG about VFM related issues. The C&AG replies to these letters directly, and in some cases the correspondence prompts a VFM examination leading to a report to management or a full C&AG's report to Parliament.

Investigative audit outputs – Investigative audit is a hybrid, encompassing some of the elements of VFM and financial audit. Topics for examination often arise from analysis of risk carried out by financial audit teams. Investigative audits are normally shorter and more tightly focused than traditional VFM studies, and the form of output may vary according to the subject matter. They often involve VFM and financial audit staff working together and sharing knowledge.

International Comparisons – We publish pieces of international benchmarking, often as a separate volume to a C&AG report, in order to encourage debate and discussion about the relative performance of UK public bodies.

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1.9   It is important that, working with financial audit colleagues, we continue to diversify the range of products in order to meet the needs of our various clients. Our outputs need to reflect the broad spectrum of our work, from opinions on the accounts at one end to full VFM reports at the other. In the case of the C&AG's reports to Parliament, we should look to vary the length and style to suit the subject matter. For example, we should produce a number of short reports each year on more straightforward issues, alongside the more detailed reports of around forty pages. We should also develop the ways in which we use electronic and other means to publish supplementary material. Above all, we should design our work, our products and the way we disseminate them so as to increase the likelihood of achieving positive change in the bodies that we audit.

The evolving nature of VFM work

1.10   Public service delivery is always evolving. Governments seek to improve the quality of service that citizens receive by:

- delivering services more quickly;
- using technology more widely;
- involving partners, such as the private sector, in the funding and delivery of services;
- making services more accessible; and
- delivering in a more joined-up way, such as through "one-stop shops" offering several services in one location.

1.11   When new approaches are introduced, we have to ensure that reliable accountability arrangements exist for reporting to Parliament on how taxpayers' money is being spent and on whether VFM is being achieved. This may mean following public money regardless of whether it is a public or private sector organisation delivering the service. At the same time, these approaches involve some heightened risk, and the audit function has often been seen as a disincentive to risk-taking. We therefore need to demonstrate that external audit and independent reporting to Parliament is an agent for beneficial change.

1.12   We have responded to changes in the way services are delivered and the expectations of Parliament and citizens by:

- **adopting a positive approach to new forms of service delivery –** for example, carrying out a range of studies, and becoming acknowledged as experts, on Private Finance Initiative (PFI) deals;
- **encouraging well-managed risk taking,** by highlighting successful innovation and good practice in risk management;
- **focusing more on outcomes and less on processes,** so that our reports reveal the impact that the work of departments and agencies has on hospital patients, students, benefit recipients and other customers of public services;
- **extending the focus of our examinations –** for instance, by publishing a series of reports on the work of the regulators of the gas, electricity, water and telecommunications industries;
- **addressing cross-cutting issues** such the development of e-services, or the way that the public sector procures construction projects;
- **promoting improvements in performance reporting –** including the independent validation of performance against targets and the identification of good practice in performance reporting;
- **supporting the drive for information-age government,** by publishing a series of reports on the electronic delivery of services; and
- **looking to extend the impact of our work –** for example by marketing our reports to key stakeholders, and running conferences on high-profile topics that we have examined.

The constitutional and legal framework

The 1983 National Audit Act

1.13   While VFM work has been an important aspect of the Comptroller & Auditor General's (C&AG's) activities since the time when the organisation was called the Exchequer and Audit Department, it was first given statutory expression in the National Audit Act 1983.

The Act states that the C&AG may:

"..carry out examinations into the economy, efficiency and effectiveness with which any [government department or other relevant body] has used its resources in discharging its functions" - Section 6(1), National Audit Act 1983.

The Act does not seek to define economy, efficiency and effectiveness, but Figure 4 gives some textbook definitions and examples from real-life VFM work.

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Figure 4 – What is meant by economy, efficiency and effectiveness?

Economy

Minimising the cost of resources used for an activity, while having regard to appropriate quality

Example

Did the hospital purchase supplies of the specified quality at the cheapest price?

Did market testing of an IT function result in a reduced price for the service while maintaining quality?

Efficiency

The relationship between outputs, in terms of goods, services or other results, and the resources used to produce them. An efficient activity maximises output for a given input, or minimises input for a given output and, in so doing, pays due regard to appropriate quality.

Were waiting times reduced, at no extra cost and with no reduction in quality of service?

Were the costs of running a repair depot minimised while increasing the number or vehicles serviced to satisfy safety and operational standards?

Effectiveness

The extent to which objectives have been achieved and the relationship between the intended impacts and actual impacts of an activity.

Has a departmental programme had a clear and positive impact on the quality of service received by citizens?

Have improved management practices helped to lower sickness absence levels within the organisation?

What environmental impacts have emerged from a change in departmental policy?

1.14   In practice, the C&AG exercises his powers by:

- deciding whether, when and how any VFM examination shall be carried out;
- determining whether, when and in what terms the results of an examination are reported to Parliament; and
- using rights of access at all reasonable times to all documents reasonably required, and seeking such additional information and explanation as are reasonably necessary.

1.15   Our VFM work plays a critical role, then, in providing accountability to Parliament (and thereby to the taxpayer) and assuring them that public resources are being used well. But if we are to add value, the ultimate goal of VFM work must be to promote beneficial change within audited bodies. Such change might involve:

- improvements in quality of service;
- more cost-efficient achievement of stated objectives;
- financial savings;
- better ways of working; and
- avoidance of waste.

We should identify, design, undertake and disseminate VFM examinations explicitly to promote these kinds of beneficial change.

1.16   The Act also states that, in carrying out VFM examinations, the C&AG may not question the merits of policy objectives. This is an important safeguard to our independence and ensures that we are able to remain free from political influence. It is therefore important to distinguish between the purpose of a particular policy objective (which we may not question), and the economy, efficiency and effectiveness with which the policy objective is being implemented (which we may examine). However, this distinction does not mean that we should not be interested in how policy is formulated. We need to understand why policies have been introduced and we have also established precedents for examining aspects of the policy-making process. For example, VFM studies have examined the commissioning of research upon which policy is founded, the quality of measures for determining a policy's success, and the arrangements for formal evaluation of policy.

Our audit field

Public audit responsibilities in the United Kingdom

1.17   The responsibility for public audit in the United Kingdom is divided between:

- The National Audit Office
- The Northern Ireland Audit Office (NIAO)
- The Audit Commission
- The Auditor General and the Accounts Commission for Scotland, served by Audit Scotland
- The Auditor General for Wales

1.18   As the government's external auditors reporting to Parliament in Westminster, the National Audit Office has responsibility for the financial and VFM audit of all central government departments and executive agencies, and of non-departmental public bodies and other organisations in England which operate at arms-length from central government. Figure 5 sets out the ground covered by each of the UK's public audit bodies.

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Figure 5 – Public audit in the UK

Organisation	Audit coverage	Reporting to
National Audit Office www.nao.gov.uk	Central Government departments and executive agencies; the NHS in England and Wales; statutory audit of NDPBs that are not companies; VFM access rights to those and to NDPBs that are companies	Parliament
Northern Ireland Audit Office www.niauditoffice.gov.uk	Northern Ireland government departments Executive agencies and NDPBs in Northern Ireland Northern Ireland Office, local government and Northern Ireland Court Service (on behalf of NAO)	Northern Ireland Assembly (when in operation, and otherwise to Parliament)
Audit Commission www.audit-commission.gov.uk	Local Government in England and Wales Health authorities and trusts in England and Wales (although local health bodies in England and Wales are soon to be audited by the Commission for Health Audit and Inspection) Police forces in England and Wales	Local authorities, police authorities, relevant Secretaries of State and the Welsh Assembly
Audit Scotland www.audit-scotland.gov.uk	Scottish Executive NDPBs, health trusts and boards, local authorities, fire and police boards in Scotland	Scottish Parliament
Auditor General for Wales www.agw.wales.gov.uk	Monies spent by the Welsh Assembly and sponsored bodies, such as the Welsh Development Agency Inspection rights on Welsh NHS bodies and further and higher education institutions	Welsh Assembly

The Committee of Public Accounts

1.19   The Committee of Public Accounts (PAC) is the primary recipient of our reports (Figure 6). The PAC is the senior Select Committee of the House of Commons. It ensures that the sums granted by Parliament to meet public expenditure are properly accounted for, that public money has been spent in the way Parliament intended, and that value for money has been achieved.

Figure 6 – Role of the Committee of Public Accounts (PAC)

PAC
Senior Commitee of the House of Commons
Chaired by a senior member of the Opposition

NAO

- Provides Parliament with C&AG's reports and memoranda
- C&AG and NAO staff attend PAC hearings as witnesses
- Provides PAC with further information on request
- Discusses forward VFM programme with PAC and may act on PAC's request for particular topics to be examined

PAC

- Meets about 50 times a year
- Takes evidence from Accounting Officers on the C&AG's reports and memoranda
- Reports its findings to the House of Commons
- Makes recommendations

Audited bodies/Government

- Accounting Officer appears before PAC at hearings to represent the audited body
- Treasury Officer of Accounts also appears as a witness at hearings
- Government responds to all PAC recommendations. Formal response comes in form of a brief report called a "Treasury Minute"
- Government replies to the annual PAC debate

1.20   In practice, PAC bases almost all its examinations on the C&AG's reports. To assist PAC before a hearing, the NAO briefs the Chairman and members of the Committee on lines of enquiry which might be pursued. In addition, PAC may seek advice and/or take evidence from the C&AG and NAO staff on the content of the report. PAC hearings and subsequent recommendations are key sanctions against failure to spend taxpayers' money properly and wisely, and act as a catalyst for beneficial change in public services.

1.21   Periodically, during the Parliamentary Session, the PAC determines its programme of hearings by identifying dates when it will meet to take evidence from Accounting Officers based on the C&AG's reports. We inform PAC of:

- reports likely to be available for examination by the Committee in the next Parliamentary Session;
- the provisional list of the main investigations which we plan to carry out and which are expected to lead to a report which might be considered by PAC in due course; and
- proposals for any PAC or NAO action to follow up commitments that departments have made in response to PAC recommendations.

This is in keeping with the National Audit Act 1983 which requires the C&AG, when determining whether to carry out VFM examinations, to take into account any proposals made by PAC.

1.22   It is important to plan and manage VFM examinations tightly, in order to set timetables for the critical stages and publish reports in accordance with those timetables. Such discipline enables the PAC's programmes to be drawn up on a reliable basis, and ensures that we provide up-to-date reports in good time for the Committee's hearings.

Providing the Committee with agreed reports

1.23   There is a long-standing convention that we agree (or "clear") with Accounting Officers the facts and presentation of VFM reports before publication. We do this so that PAC is not distracted by disputes over facts when it takes evidence on reports. That way, the Committee can focus on the issues raised in the report and carry the debate forward with the Accounting Officer on a mutually informed basis.

1.24   Accounting Officers may have some reservations about the contents of the report or manner of their presentation, or they may not accept the report's conclusions. In rare cases where such differences cannot be resolved in discussion, we are careful to explain them in the report, with the reasons for the differences of opinion clearly stated.

1.25   Since our published reports are in the public domain, and in the majority of cases are likely to be the subject of a PAC hearing, clearing reports can take some time. It is therefore important that we manage the clearance process to minimise its duration while maintaining a constructive relationship with audited bodies.

1.26   The key stages in the clearance process are:

- **Principal Finance Officer Clearance.** Clear drafts first with the Principal Finance Officer (PFO) and other staff he or she may nominate. Clearance at this level usually involves several stages as drafts are discussed and revised.
- **Accounting Officer Clearance.** Once the draft is agreed at working level in the audited body, or where any differences of view remain but have been clearly defined, it can be submitted to the C&AG for formal clearance with the Accounting Officer (AO). At this stage the C&AG also clears a draft press notice with the Accounting Officer.

1.27   In some circumstances, particularly with studies which have an accelerated timetable (fast-track studies), different clearance approaches may be agreed with the audited body. But the basic principle of agreeing all facts and reflecting the audit body's views still applies.

1.28   In order to ensure that our reports are fair and balanced, we almost always refer them to third parties as well as the audited body. Third parties may be individuals, companies, representative bodies, or other bodies operating at arms length from government. Their views are important because they can have a key role in the subject being reviewed and can often provide valuable insights and further our understanding of the subject. In these circumstances, it is only fair that those who are referred to should be given the opportunity to see the draft and to comment on what is said about them and their actions or views.

1.29   In giving third parties an opportunity to comment on draft reports we need to be alert to potentially conflicting considerations. On the one hand we could face criticism unless third parties are given an opportunity to comment on the accuracy and fairness of the report as far as it concerns them. On the other hand, we need to be alert to the risk that the contents of the draft report could give rise to criticism, and possibly legal action for defamation by an aggrieved party, for example where we are revealing information to one third party about another. Where such a situation is likely to arise, teams should consult the Policy Unit about the best way to proceed.

Our relationships with others

Other audit agencies

1.30   Given the shared responsibilities for public audit in the United Kingdom set out in Figure 5 (page 11), it is very important that we liaise regularly and constructively with the other audit agencies to ensure that our work complements, but does not duplicate, theirs and that we maximise the scope for fruitful collaboration. For this reason, VFM directors and their teams need to have a good understanding of the forward study programme of each of these audit bodies in their relevant sector(s), and to consult them about their work routinely when planning NAO studies.

1.31   At a more strategic level, the national audit agencies set out in Figure 5 have established the Public Audit Forum to provide a focus for developmental thinking in relation to public audit. Its brief is to:

- provide a strategic focus on issues cutting across the work of the national audit agencies;
- build visibly on the existing co-operation between the national audit agencies;
- establish definitions of what constitutes public audit;
- advise on the application of standards and the practices of the auditors of bodies delivering public services;
- develop standards for use by auditors of bodies delivering public services where none have been issued by the Auditing Practices Board;
- advise on the resolution of common technical problems and disseminate good and innovative practice in tackling common issues; and
- provide the considered view of the national audit agencies on any developments or proposals which impact on public audit, whilst avoiding comment on the merits of Government policy objectives.

Further details on the Public Audit Forum can be found at www.public-audit-forum.gov.uk

Select Committees

1.32   Departmental Select Committees examine a wide variety of subjects each year. The Standing Orders of the House of Commons give Select Committees the power to send for persons, papers and records as they consider appropriate. The departmental committees differ from PAC in that it is part of their role to examine issues of policy. PAC can communicate to any Committee such evidence as it may have received from the NAO (having been agreed between us and the Government Department or Departments concerned), but which has not been reported to the House. Our reports may be taken by Select Committees with the agreement of PAC. The Committees' reviews often touch on issues relevant to achieving VFM. We keep in regular contact with the Clerks of relevant Select Committees to discuss each other's envisaged work programmes, and we provide the Select Committees with an increasing amount of support.

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Central Government organisations

1.33   In carrying out VFM examinations, we frequently liaise with those parts of central government with an over-arching remit to secure efficiency and encourage innovation across the public sector. These include HM Treasury, the Cabinet Office's Strategy Unit, the Prime Minister's Office of Public Services Reform, and the Office of Government Commerce. As with the other national audit bodies, it is important that our VFM work complements but does not duplicate their examinations and initiatives, and that we exploit opportunities to learn from each other's work.

Other public organisations

1.34   We engage with a wide variety of other public organisations. These include the Parliamentary Commissioner for Administration and the Health Service Commissioner, who are responsible for investigating complaints referred to them by Members of Parliament and members of the public; and also various inspection bodies, such as those for prisons and police and in the health and education sectors. During VFM examinations, we also need to gather the views of relevant stakeholder groups, voluntary bodies and academics.

Part 2: What makes for a good VFM study?

2.1 This handbook avoids being too prescriptive about what makes for a good VFM study as there are major benefits to the Office in retaining and promoting diversity, both in the way we carry out the work and in the final products we deliver to Parliament. Moreover, the ingredients that make a good study stand out from the crowd may vary considerably.

2.2 However, the elements set out in this part of the handbook should provide a common thread that runs through all our work. When working on a study, you should try to ensure that you have considered each of the key components set out below, and satisfied yourself as far as possible that you have addressed them adequately. These elements are:

(a) Setting up the study

- a suitable topic
- strong project and risk management
- a clear set of issues to be examined
- appropriate methodologies

(b) Carrying out the study

- sufficient, relevant and reliable evidence
- clarity and brevity of message
- a well managed clearance process
- effective dissemination of message

(c) Following up the study

- added value and impacts
- constructive post-project review and quality assurance work

(a) Setting up the study

A suitable topic

2.3 While MPs or the Chair of PAC sometimes ask us to examine a particular topic, most of our VFM studies cover subjects that we ourselves have identified. A suitable topic may emerge as a result of changes in policy, resource allocations or management processes. It may involve a new programme or project which merits independent scrutiny, or a new set of targets. Or it may concern an activity which has come to public attention because of apparent poor performance, waste or impropriety.

2.4 Identifying suitable topics requires access to good information. Such information may be gleaned from a number of sources, as set out in Figure 7. The Library provides a dedicated VFM Research Service to help identify background information from all the sources listed.

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Figure 7 – Sources of background information

From audited bodies:

> High level documents such as annual reports and business plans
> Resource data
> Performance results compared with targets
> Accounts
> Web pages

From external stakeholders:

> Media reports
> Academic papers
> Publications from professional bodies
> Outputs from think tanks, representative groups and charities

From Parliament and the NAO:

> Previous NAO reports
> PAC reports and evidence
> Treasury Minutes
> Material from NAO financial auditors
> Hansard and Parliamentary Questions
> Select Committee reports

From other audit or inspection bodies:

> Work done by internal audit teams
> Reports from inspectorates
> Documents from the Audit Commission, Audit Scotland or the Northern Ireland Audit Office
> Overseas Supreme Audit Institutions' reports

2.5   Most importantly, a suitable topic is one where we can add value, and hopefully secure some financial impact. It is important to involve financial audit colleagues, who have a closer working knowledge of a department's business and the main area of risk, in identifying such topics. We need to assess whether clear conclusions and recommendations are likely to emerge from our work, and whether positive change is likely to ensue. Such positive change is more likely if stakeholders are engaged with the topic. So we normally try to identify topics which are of interest to PAC, Parliament, the client department, the media and the general public.

2.6   Deciding whether a VFM examination is justified and when it should be carried out requires careful assessment. A full VFM examination may not be the most cost-effective approach. In some cases, beneficial change can be secured through other means, such as discussing with the audited body any concerns arising from our monitoring.

2.7　If we consider that a topic is suitable, its timing will depend upon a variety of factors, including the relative importance of the topic, previous NAO and PAC coverage, and action being taken by others such as internal audit or inspection bodies. In addition, there is a need for a balance of topics in the NAO's overall VFM study programme. We need to be aware that providing NAO with information, clearing the report and dealing with PAC represents a considerable workload for the audited body. We therefore try to arrange the timing of studies, and to conduct a significant number of studies on the activities of NDPBs and Executive Agencies, in order to manage the audit burden on the major departments, such as Health, Defence and the Home Office.

2.8　The VFM study programme needs to provide balanced coverage of government expenditures and revenues. It evolves over time, as planned topics are overtaken by events or new ones are taken on at short notice. VFM teams therefore need to identify a range of study options and keep some in reserve.

2.9　Some key points to consider when identifying suitable topics for VFM examination are:

- in analysing audited bodies, identify their key cost drivers, organisational priorities, stated objectives and targets.
- liaise regularly with financial audit colleagues, in order to map the audit field and consider an assessment of business risk that might lead to investigative audit or full-blown VFM examinations.
- identify key staff within audited bodies and contact them regularly to keep up-to-date with developments in the organisation's business. Such monitoring should be approached as an on-going task and not a one-off annual exercise.
- identify professional, academic and other expert bodies relevant to the sector, and consult them when developing study proposals.
- external experts and commentators, who are often used on Expert Panels to provide comment on individual studies, can also be used to analyse audit fields and suggest topics with potential for VFM examination.
- keep audited bodies informed of the work we do to identify potential topics, and discuss with them our ideas for future VFM work.
- check on work being done elsewhere – such as by inspectorates or select committees – and consider whether this affects the potential value of any planned study.

Strong project and risk management

2.10　In the past, VFM studies have too often been managed with a lack of urgency, with delivery within the planned reporting year the only serious imperative. As a consequence, elapsed times for studies have become too long, with publications bunching towards the end of the reporting year between January and March. This is not sustainable as it makes for an uneven flow of reports for PAC and puts unreasonable time pressures on departments and the C&AG. Our reports also lose impact if they are no longer timely or relevant when presented to Parliament. We therefore need to introduce stronger and more intelligent project management to drive down elapsed times and prevent this year-end bunching of deliveries.

2.11　The manager of the study plays a key role in ensuring that it is well planned and monitored. Full study fieldwork should start on the basis of a contract agreed with senior management which clearly states what product will be delivered, by when and with what resources. This means producing a strong project plan which confidently defines the project and demonstrates how resources are

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to be deployed to ensure a good quality report in the shortest feasible time. More detail on the components of a good project plan is set out in Part 3 under Quality Threshold 1.

2.12   To achieve shorter timescales, managers will need to flex resources according to the demands of different phases of the work. There may be value, for example, in accelerating fieldwork by employing a large team to collect data quickly, whereas drafting and clearance might be undertaken by a much smaller team. There are a number of ways in which project managers can achieve this flexibility. They might, for example, employ external consultants to undertake elements of the fieldwork, or they might agree to borrow staff from other teams, or employ a team of trainees, for the most intensive period of the work. An essential part of the project manager's role is to plan and co-ordinate these resources (both within and outside the NAO) effectively and to maintain the focus on delivery within the agreed time and cost.

2.13   There is a range of project management tools and activities that can help to achieve a tighter focus on delivery. These include:

- communicating to all team members a clear date for delivery of the report
- agreeing and communicating key project milestones, such as for the completion of different elements of fieldwork, producing an outline report and providing a first draft to the AAG
- a work plan which shows who will be involved on the study and the timing
- monitoring tools, such as Gantt charts, setting out key tasks and deadlines to keep the work on track
- regular review of the cost of the study to date, and the likely spend over the life of the study
- meetings to review progress and intervene where the timetable is at risk
- a clear approach to managing documents related to the study, both paper and electronic, according to records management guidance

2.14   The desire to demonstrate a "can-do" attitude often leads us to play down, or ignore, the risks to timely and high-quality delivery. Such risks might include difficulties in obtaining reliable data, a lack of prompt co-operation by the department, or unavailability of staff. At the start of the study, team members should carry out a risk assessment. The assessment should identify the key stakeholders and risks to delivery, and establish for each stakeholder and area of risk:

- what could go wrong
- how likely it is to go wrong
- what would be the consequences
- what can be done to minimise the chances of it going wrong
- how the risk should be managed, should it come to fruition

2.15   Preparing such an assessment, and referring to it as the study progresses, makes the study team much better placed to manage the risks, and respond promptly and intelligently, if problems arise. Appendix 2 provides more detail on how to carry out effective risk management.

A clear set of issues to be examined

2.16 When drafting a study proposal, teams will typically identify two or three broad issues that the study might best address. However, once detailed design of the study begins, the team should identify the full hierarchy of issues and sub-issues that need to be covered. A formal method for carrying out this issue analysis, that is now used by many study teams, is the Issue Analysis/Dinner Party (IADP) approach, which is explained more fully at Appendix 3. Under IADP rules, study issues should be:

- **mutually exclusive – they don't overlap with each other; and**
- **collectively exhaustive – between them, they cover every aspect of the topic**

2.17 For any broad study topic, there is probably a wide range of issues that could be addressed. An example is set out below:

> *A study of operating theatres in the NHS might consider one or more (but almost certainly not all) of the following:*
>
> *Design and suitability for purpose*
> *Quality of construction and lifetime costs*
> *Throughput of patients*
> *Availability of appropriate surgical tools*
> *Cleanliness*
> *Utilisation rates*
> *Arrangements for managing theatre lists*
> *Frequency and causes of cancelled operations*

2.18 Therefore, the challenge is to select the "right" issues. These are likely to be the ones for which:

- information is available
- we are able to design an appropriate methodology
- there is some parliamentary or public interest
- there is the potential to bring about positive change

Appropriate methodologies

2.19 A "methodology" is a technique for gathering or analysing data. Typical methodologies include reviewing departmental files, carrying out a survey, or running a series of focus groups. We often talk about our methodologies as being either "quantitative" (that is to say, involving numerical data) or "qualitative" (involving verbal or visual information). A good study will normally combine quantitative and qualitative data to provide rounded evidence in support of its conclusions and recommendations.

2.20 While planning the VFM study, teams normally identify the methodologies that they will apply when addressing each issue. Examples of methodologies for gathering and analysing information are set out at Figure 8.

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Figure 8 – Typical methodologies used on VFM studies

Study Issue	Methodology for gathering information	Methodology for analysing information
Are there significant differences in sickness absence levels across the Department's regional offices?	Downloading data from the Department's human resources database.	Statistical analysis of sickness levels, conditional on factors such as age, gender, grade and location
Does the Agency procure its equipment in the most efficient manner?	Interviews with key staff Tracking purchases through the system Finding out how best practice organisations procure stationery	Qualitative techniques such as grounded theory Benchmarking the Agency's practices against those of other organisations
Do financial problems force students to drop out of university?	Focus groups of existing and ex-students Review of academic research	Frequency counts Systematic review of research articles

2.21 A good VFM examination will probably include at least three or four different methodologies. Capturing a range of data and triangulating findings from different sources is an important way of building strength into the final report, and helps our position during the clearance process. The most appropriate methodologies will depend on the subject matter and the issues being addressed. Guidance on many specific qualitative and quantitative methods is available on the NAO intranet. Most guides are also available in hard copy form from the VFM Development Team.

(b) Carrying out the study

Sufficient, relevant and reliable evidence

2.22 A good report is based on evidence that is sufficient, relevant and reliable. Whether the evidence meets these criteria will rest upon:

- how independent the sources of evidence are
- how well the data have been analysed
- how carefully the evidence was gathered
- the purpose for which the evidence will be used

2.23 As a broad principle, we should take evidence from people as well as documentary sources, since useful information is not always written down and written material can quickly become out of date. Evidence from external stakeholders – such as users of public services and third parties involved in service delivery – can be just as valuable as that obtained from departments.

2.24   Researchers and VFM auditors often talk about "triangulation" of evidence. This means forming findings and conclusions that are supported by different strands of evidence from more than one source. Quite simply, such conclusions are likely to be more reliable than those based upon one source of evidence. An example is given below.

> Conclusion: Prisons offering over 20 hours per week of formal education and training tend to suffer far fewer disciplinary problems among inmates
> Sources of evidence: Prison Service statistics, a survey of 100 prison governors, and review of academic research, all of which led to the same conclusion.

2.25   It is easy to get too close to the topic, and lose perspective on the quality of the evidence. It can therefore be helpful to obtain the views of independent observers, such as internal reference partners or members of an Expert Panel. Constructive discussion of initial findings with the audited body is another important way to establish the quality of the evidence gathered, whilst also preparing the audited body for the clearance process.

2.26   Most VFM examinations produce a mass of evidence on paper. Teams should therefore ensure that a simple audit trail exists. This is particularly helpful when findings are challenged during the clearance process. Although time consuming to produce, the key item of the audit trail is simply a draft report cross-referenced to the evidence. We must record and retain key documents including:

- major decisions influencing the examination and its management
- key correspondence and other contact with the audited body
- the main items of evidence, their source, and the analysis undertaken

2.27   Documents relating to a VFM study are public records and should be retained for five years. Key documents will be retained permanently. You should refer to records management guidance for more information about managing and retaining documents, both in paper and electronic formats.

Clarity and brevity of message

2.28   There is general recognition that, in order to serve PAC effectively and increase the impact of our work, we need to make our reports shorter and more punchy in style. Reports should not be longer than 40 pages, plus appendices. And within those 40 pages, there should be a good balance of text and figures. Many reports will be shorter than this – "less is more".

2.29   Beyond these basic rules, a good report will include:

- an Executive Summary (of no more than five pages) that conveys key messages as succinctly as possible
- conclusions and recommendations that flow logically from the findings
- a logical structure, so that the reader is guided easily through the content
- simple prose that the general reader can follow – technical terms and jargon specific to the sector in question should be avoided as far as possible
- figures, tables and diagrams that are high-impact, are easy to interpret, and bring the subject alive for the reader
- the use of photographs, to provide a visual theme running through the report and perhaps to illustrate specific points.

A well managed clearance process

2.30   Teams should identify as early as possible:

- the parties to be involved in clearing the report
- the timetable for clearance
- how potential points of difference with the department will be managed
- how communications will be handled – options include e-mailing or posting versions of the report (although, for the former, you should be sensitive to security issues), presenting findings orally, and having "real-time" clearance meetings where changes are agreed and the report amended during the meeting

2.31   In all cases, we begin from a stronger position if our reports are based on sound evidence and are well argued. We should maintain contact with key staff in the audited body while the work is going on, so that they know our emerging findings. That way, the draft report is unlikely to contain any surprises that could derail the clearance process and damage client relations.

2.32   Before clearance meetings, the team should agree its objectives and establish how any contentious issues will be handled. We should work hard to retain critical comments that we think are important and supported by the evidence. However, points made by departments often add balance to the report and provide a firmer base for PAC examination. Equally, unless crucial to the report, it may be better to omit small sections of the draft rather than engage in a time-consuming debate which results in an ambiguous or weak message. Compromise drafts can often confuse the reader and detract from other parts of the report.

Effective dissemination of message

2.33   It is not enough to assume that the mere publication of a VFM report will be enough to spread the key messages to all of the right audiences. In a good VFM study, the team will have compiled a communications strategy at an early stage, and updated it as necessary through the life of the study. This encourages the team to think about:

- how to maximise the impact of the report
- the likely messages
- the main audiences for the report
- the strategies for reaching key audiences
- the risks and sensitivities
- tactics for handling the media
- liaison arrangements with audited bodies and other contacts
- the overall communication objectives

2.34   Close to publication, the press notice is designed to attract attention from the media and make it more likely that the report will receive prominent coverage. In addition, AAGs, directors and audit managers often take part in press interviews so that the report (and indeed the NAO itself) has a "human face".

2.35   All VFM reports are placed on the NAO website. But there are other ways to communicate our findings – such as electronically publishing additional items, or sending additional, more specific reports to bodies visited during the examination.

2.36   After publication, teams can maintain the profile of the topic, and stimulate further debate by:

- running workshops for practitioners
- holding a conference, or speaking at similar events run by other organisations
- writing articles in relevant publications
- presenting our findings to interested parties

(c) Following up on the study

Added value and impacts

2.37   Clearly our VFM work should set out to secure beneficial change in the audited body. Indeed, we should select and develop studies in a way that maximises our chances of achieving impact. And throughout the process, we should consider carefully what the examination is capable of achieving.

2.38   Measuring the impact of VFM examinations is an integral part of our standard procedures. The purpose is to:

- identify the extent to which audited bodies have implemented the changes promised in response to recommendations in PAC and C&AG reports;
- determine the impacts which can be attributed to our VFM examinations;
- demonstrate the added value of our work.

2.39   Impacts can arise at various stages in the VFM examination cycle:

Before an examination is proposed. Even before we consider carrying out an examination there may be a positive impact. Audited bodies may speculate that an examination will be critical of certain actions. Also, the publicity given to PAC and C&AG reports may encourage other organisations to make improvements and this is a legitimate impact achieved by our work (though hard to measure).

Notification that the examination will go ahead. In response to our intention to mount an examination an audited body may announce an internal review. We should be alert to the impacts arising from an audited body adopting our proposed methodology or drawing on our preliminary work and analysis. In such circumstances we may be entitled to claim a share in any beneficial impact achieved.

During the examination. During the fieldwork and initial discussions with the audited body, we may identify the scope for improvements. Some of these may not feature in our final report, but we should not lose sight of them. If the audited body takes action to implement improvements, a share in them can be attributed to our work.

After the published report. Audited bodies may take action following the publication of the C&AG's report, so that they can provide evidence of progress at the PAC hearing.

Post-PAC. If PAC takes evidence and publishes its own report, the Treasury Minute will record the audited body's response to the Committee's recommendations. These need to be carefully assessed for impacts.

2.40 Our VFM examinations generally result in three types of impact:

- **quantified financial impacts.** These consist of savings in expenditure or increased revenue. They arise from improving economy, for example identifying the scope for cheaper procurement, or efficiency, producing more outputs for the same expenditure, or by reducing waste. Similarly, improvements in management information that flow from our recommendations may lead to the audited body recovering more costs or increasing revenue.
- **quantified non-financial impacts.** Examples of these include an increase in the number of clients satisfied with a service, reduced waiting times, and increases in the number of claims processed within a time-frame. In such cases, there is likely to be some measure with which to quantify at least in part the extent of the improvement.
- **qualitative impacts.** Examples of these include improvements in management procedures such as planning, setting objectives and allocating resources, service delivery, and evaluation and appraisal systems. Such impacts may not be quantifiable.

Constructive post-project review and quality assurance work

2.41 There are four types of post-project review which provide information on the quality of our VFM examinations:

- press and media coverage
- external reviews;
- feedback from the audited body; and
- team review

Press and media coverage

2.42 Just after publication, the Press Office provides a summary of the media coverage that the report attracted. It sets out the amount of coverage, the types of media that showed interest, and the tone of the coverage. It may also suggest ways of improving the media impact of similar studies in the future.

External reviews

2.43 In order to obtain an independent perspective on the quality of our work, we appoint an external organisation to review our published reports. The external reviewer, usually an academic body recognised as a centre of expertise, draws on a panel of academic experts from a range of disciplines. The most suitable members of the panel assess the quality of each report, focusing on: administrative and management context; structure and presentation; graphics and statistics; scope; methods; conclusions and recommendations; and the overall success of the report. They provide comments in each category designed to help us learn lessons and enhance our methods. The findings from external reviews are made available to client departments. They are also summarised annually and reported to senior management, leading to an action plan for addressing common areas of weakness identified.

Feedback from the audited body

2.44   The views of audited bodies are important, including their perspective on the impact and added value achieved by the study and whether they think the study was well managed and staff acted professionally. We request feedback from audited bodies in a standard questionnaire format after the report is published. We also try to arrange meetings with the Principal Finance Officer of the relevant body, to discuss in more depth the conduct and outcome of the examination.

Team review

2.45   Teams carry out a `lessons learned' exercise once the report is published, drawing on the other three strands of quality review. The purpose of this is to determine:

- what worked well and why;
- what was less successful and the reasons; and
- lessons for the future and possible wider application for all VFM examinations.

2.46   Most VFM examinations produce genuine learning points, both for the teams involved and the wider Office. It is therefore important for teams to carry out this review work constructively, and not treat it simply as a paper exercise.

2.47   Finally the team should review all documents relating to the study, both paper and electronic. Key documents should be declared as corporate records to be retained and reviewed as appropriate. Follow the corporate guidance on records management and contact the records management team within the Information Centre for more information.

Part 3: How to do a VFM study - The "Quality Thresholds"

3.1 Over the years, we have developed ways of doing VFM examinations that have served us well. But there has been a tendency for VFM teams to take the same broad approach to each study, regardless of the subject matter, the level of risk and the timeframes involved. In this handbook, we have tried to set out the key criteria for maintaining quality in VFM work, without instilling a "VFM-by-numbers" approach.

3.2 Part 1 on "Our Approach to VFM Work" describes how VFM directors and their teams should adapt their approach to each study depending on the topic and the nature of the risks to successful delivery, rather than following slavishly the traditional stages that have come to constitute the study process. Given the demand for more outputs, there is a clear need to work smarter and avoid any unnecessary activities. We have, for example, removed the expectation that teams should produce highly polished internal documents such as Preliminary Study Reports, and have set out alternative approaches.

3.3 There are certain steps, such as securing approval for a study to proceed and allowing third parties to comment on the draft report, that are essential components of all studies. But what VFM teams must do is not so much follow a sequence of pre-defined tasks, but assure themselves that they have done sufficient research and analysis to make key decisions at certain points in the life of the study to ensure a quality product. This part of the handbook provides a guide for teams to judge their work against essential criteria which will ensure that, in tailoring the work to the demands of the subject, a high standard of quality is maintained.

3.4 To assist this judgment, we have introduced the concept of "Quality Thresholds" for VFM studies. They are designed to cut through the fog that can surround studies and to stop teams from doing what they did the last time round. The Quality Thresholds ask VFM staff to focus on the really important questions. Teams should be able to answer "yes" to the questions posed at each threshold before moving on to the next phase of their work.

3.5 This part of the handbook sets out the Quality Thresholds, and the questions associated with them. In each case, there are suggestions for the type of evidence or activity that you might use to show that you have considered the question and can confidently say "yes" to it. For example, answering *"Yes"* to the question *"Are you clear about the timetable for delivery?"* might be evidenced by a Gantt chart that demonstrates the expected life of the study and key milestones for its timely completion, and an assessment of the main areas of risk to that timetable. While this should not become a bureaucratic approach, Directors and study teams should ensure that they produce and retain documentary evidence that they have satisfied themselves that each Quality Threshold has been met.

3.6 You will see that there are no standard timeframes attached to the VFM study process. This is because each study is unique and is likely to have its own pattern of time and resources spent. For a study which is marked for a "fast-track" approach, it may be possible to pass through Quality Threshold 1 very quickly, since the need for the topic to be addressed and the timetable for delivery may be firmly established by external events. But even here, the other questions are still important, as certain risks are magnified when trying to deliver a report to an accelerated timetable. Figure 9 sets out the questions that teams should ask when planning the work and setting the timetable for a fast-track study, along with the associated risks. Figure 10 shows the five Quality Thresholds.

Figure 9 – Issues to be addressed when considering a fast-track study timetable

These are the factors that have typified successful fast-track studies in the past. You do not have to answer "yes" to each question for a fast-track study to be feasible, but it is helpful say "yes" for as many as possible.

Key question	Associated risks
Does the proposed study team have appropriate skills for fast delivery?	• Suitable staff are unavailable • Diverting staff from other projects may cause delays in those projects
Are the study issues relatively simple and self-evident?	The team may be tempted to over-simplify the issues or scope the study too narrowly
Does the topic support a broadly descriptive, rather than analytical, approach?	An overly descriptive approach may fail to satisfy PAC
Is the audited body supportive of the study and its fast-track nature?	• Client relations may become strained as the study progresses • The audited body may demonstrate "study fatigue" in subsequent dealings with NAO
Is a clear fast-track timetable agreed at the outset?	Quality of evidence, analysis and drafting may suffer in the drive to deliver quickly
Can the team members boast some prior knowledge of the subject matter?	Other projects are deprived of suitably knowledgeable staff
Will team members be "ring-fenced" for the duration of the study?	• Pressures of other work will intrude • Members of other teams feel under-valued or over-worked
Are internal reporting arrangements streamlined and senior management engaged with the process?	• Strategic issues prevent senior management from taking timely decisions • More normal reporting lines reassert themselves as the study progresses

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Figure 10 – The five "Quality Thresholds" for VFM Examinations

Quality Threshold 1: Are you ready to proceed?

Quality Threshold 2: Have you derived clear, compelling messages supported by the evidence

Quality Threshold 3: Are you ready to clear the draft report?

Quality Threshold 4: Are you ready to spread the message?

Quality Threshold 5: Have you learnt and disseminated the lessons?

Quality Threshold 1: Are you ready to proceed?

Question (1a) Should you address this topic now?

Question (1b) What sort of output does the subject merit?

Question (1c) Will the impact of the study justify the cost?

Question (1d) Do you have a coherent and relevant set of issues?

Question (1e) Do you have a robust and practical methodology?

Question (1f) Do you have the skills?

Question (1g) Are you clear about the resource costs?

Question (1h) Are you clear about the timetable for delivery?

Question (1i) Does the client department support the study?

Question (1j) Can you manage the risks?

Question (1k) How might the messages from the study be communicated ?

Question (1l) In the light of the above, should you proceed?

Question (1m) Do you have a file structure to manage the evidence and key documents?

Role of key decision makers:
The study director should be satisfied that s/he is prepared to enter into a "contract" with senior management to deliver the study within the cost and timeframe proposed. The AAG must judge whether the likely impact measured against the proposed cost justifies proceeding with the study, and must decide on the most appropriate way to secure the C&AG's approval.

Quality Threshold 2: Have you derived clear, compelling messages, supported by the evidence?

Question (2a) Is there sufficient, relevant and reliable evidence to address each issue?

Question (2b) Have you fully analysed and interpreted the evidence?

Question (2c) Have you identified the key messages, and are they supported by the evidence?

Question (2d) Do the findings triangulate with those of wider stakeholders and experts?

Question (2e) Are the emerging messages agreed with the client? If not, do you have a clear strategy to deal with areas of disagreement?

Question (2f) Is there an agreed structure for the draft report?

Role of key decision makers:

The study director should be satisfied that key findings are sufficiently clear and well-supported by the evidence to begin drafting the report. The study team might also decide to engage the AAG at this stage in order to proceed on the basis of an agreed report structure.

Quality Threshold 3: Are you ready to clear the draft report?

Question (3a) Is there a clear and concise draft report that conveys the main messages?

Question (3b) Does the Executive Summary reflect the tone and findings of the main report?

Question (3c) Are the recommendations evidence-based and clear, and will they add value?

Question (3d) Will the report make sense to the general reader?

Question (3e) Does the draft report meet NAO standards for length and style?

Question (3f) Does the draft report make effective use of graphics and appendices?

Question (3g) Have you produced all supporting material?

Role of key decision makers:

The study director and team members should be satisfied with the clarity of the messages in the draft report before seeking the approval of the AAG. In most cases, study teams will start the formal clearance of the draft report with the audited body and third parties once the AAG is content. The AAG must judge at what stage to consult the C&AG on the draft report.

Quality Threshold 4: Are you ready to spread the message?

Question (4a) Is the draft report cleared for factual accuracy with the audited body?

Question (4b) Have you given third parties the chance to comment on the draft report?

Question (4c) Has the draft report maintained its clarity, coherence, structure and brevity during the clearance process?

Question (4d) Have you presented the draft report in a professional and attractive way?

Question (4e) Have you properly organised the physical production of the report?

Question (4f) Is an up-to-date Communications Plan in place?

Question (4g) Are actions in hand to disseminate and follow up on findings?

Role of key decision makers:

The C&AG gives his approval for publication of the report. Study directors and their teams will liaise with the Press Office and agree with their AAG arrangements for disseminating the messages in the report, handling the media, and conducting follow-up activities.

Quality Threshold 5: Have you learnt and disseminated the lessons?

Question (5a) Have you completed all aspects of internal and external Quality Assurance?

Question (5b) Have you identified lessons to be learnt and disseminated them appropriately?

Question (5c) Have you identified existing impacts, and set up mechanisms to monitor the delivery of potential impacts?

Question (5d) Have you identified the key documents related to the study and declared them as corporate records?

Role of key decision makers:

The study director should lead Quality Assurance work and ensure that lessons from the study and potential impacts have been identified and discussed with the client department. Evidence of this should then be submitted, via the AAG, to the Deputy Comptroller and Auditor General on a quality folder.

Quality Threshold 1: Are you ready to proceed?

Question (1a) Should you address *this* topic *now*?

This might be answered by evidence that:

The topic is in keeping with wider NAO priorities, such as those set out in relevant Management Circulars.

The topic matches PAC's concerns - demonstrated by issues raised in previous PAC reports and correspondence from, or the known concerns of, PAC members.

There is some parliamentary and public interest in the topic – as shown by coverage in Hansard, national and local newspapers and the specialist press.

The topic complements other studies in the current programme, and work done by other auditors or inspectors.

There are clear risks to VFM within the organisation concerned – VFM auditors can establish this through intelligent use of material relating to the audited body, research carried out by others, and the knowledge amassed by financial audit colleagues (see Figure 7).

The study is timely with respect to initiatives within the relevant policy area – it is not likely to be overtaken by events or come too soon for sensible judgements to be made about the effectiveness of a programme.

Question (1b) What sort of output does the subject merit?

This might be answered by:

Consideration of the range of VFM products available - traditional VFM reports, short single-issue reports, linked reports with common themes, good practice guides and investigative audit outputs.

Question (1c) Will the impact of the study justify the cost?

This might be answered by:

A statement of the likely cost of the study, compared with anticipated impacts. While the Office has a target of saving £8 for every £1 spent, it is not expected that each VFM examination will yield a "net gain". Indeed, many very good studies achieve qualitative impacts but do not involve direct cost savings. But you should be clear that the study has good scope to produce practical recommendations, and that these are likely to be taken up by the bodies involved.

We carry out some VFM examinations that are descriptive, and are intended to explain to Parliament how a particular activity or project has been carried out. In some cases, this type of examination is likely to produce little in the way of real change. As such, it might appear to fail the *"Is it worth the cost?"* question. But completing the cycle of accountability is an important role, and this in itself may justify the examination. We should, however, be especially careful in such cases that the cost of the study is closely controlled.

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Question (1d) Do you have a coherent and relevant set of issues?

This might be answered by:

Compiling a detailed picture of the audit field in conjunction with financial audit colleagues.
Our financial auditors' knowledge of the business and assessment of the audited body's risk management framework, under the Audit 21 approach, can provide a valuable insight into the dynamics of the organisation(s) and help to identify the risks to VFM. It is important to "map the terrain" comprehensively at the outset so as to be well placed to identify a comprehensive set of study issues. Appendix 4 provides more detail on undertaking this important stage of the work.

The outputs from a formal Issue Analysis session (see Appendix 3). One of the strengths of this approach is that it brings together the whole study team at an early stage, and secures "buy-in" from those who will later be making important decisions about the study. This has wider benefits when teams are able to involve the audited body in the session, as such openness gives the auditee some "ownership" of the study and helps to avoid any surprises that might lead them to take a more adversarial approach.

Results from applying other similar techniques, such as "Critical Thinking".

The extent to which the identified issues fit with the objectives set out in Public Service Agreements and departmental Key Performance Indicators.

Input from members of an Expert Panel – many teams use Expert Panels to review emerging findings and comment on draft reports. They can be used effectively to shape the study issues, to steer teams away from issues that might be "red herrings" or provide little added value, and to ensure our study design has credibility with the expert community.

Using the Library's VFM Research Service – the Library can provide background information from a wide range of sources, including academic, parliamentary, press and other audit bodies. They can also help identify stakeholders and experts in the field.

Question (1e) Do you have a robust and practical methodology?

This might be answered by:

Ensuring that you have a clear methodology for addressing each issue – These should be appropriate for the type of issue being addressed, and should give you the best chance of obtaining sufficient, relevant and reliable evidence. Our reports are most persuasive when we combine different types of evidence, such as both quantitative (i.e. numerical) and qualitative (i.e verbal or visual) techniques on the study.

Using a formal Issue Analysis session (see Appendix 3) to identify how we will gather the evidence to address each sub-issue.

Making a realistic assessment of the resource and financial cost that pursuing each methodology will entail. For example, if a considerable amount of interview tape transcription or data entry is required, it is often more cost-effective to contract this work out. But it is important to build in sufficient NAO staff time for ensuring that the transcriptions or data codings are accurate and complete before proceeding with further analysis.

Ensuring that innovation is supported by sufficient feasibility work to test the methodology and an appropriate budget which acknowledges the cost, and associated risks, of innovation.

Question (1f) Do you have the skills?

This might be answered by:

An assessment of the experience and technical knowledge among members of the team.
Experienced VFM staff are likely to have the skills to carry out most elements of fieldwork. But often more specialist knowledge is required – such as how to analyse complex data using SPSS, or how to understand private sector financing arrangements. In these cases, it is important to recognise a gap in the team's skills and establish how the gap could be filled. Your options include:

- arranging training for team members
- co-opting another member of staff on a short-term basis
- using the expertise of the VFM Development Team

Analysis of available expertise among consultants and academics. Where the team does not have the requisite skills, it may have to acquire them from outside. This will normally involve commissioning work from consultants, although in some cases our existing contacts and framework agreements with academics and other sector-specialists enable such assistance to be obtained efficiently or at no cost. In particular, members of Expert Panels are not normally paid, and it may be possible to use their skills and judgement to solve problems posed on the study.

Question (1g) Are you clear about the resource costs?

This might be answered by:

Drafting a realistic project plan, setting out:

- the human resources available throughout the life of the study, based upon realistic estimates of time taken to carry out elements of work. Along with regular members of the study team, these resources could include: TOPPs trainees to undertake specific elements of the fieldwork; other VFM colleagues seconded to the study team for short periods where a larger team is needed in the field; and consultants to carry out tasks that are either too specialist or too time consuming to be undertaken in-house.
- financial resources, which will cover the nominal cost of NAO personnel (at standard charge-out rates), and the cash cost of consultants, travel and subsistence, photographs and other minor items.

Question (1h) Are you clear about the timetable for delivery?

This might be answered by:

Compiling a Gantt chart with a realistic list of key milestones. It is often best to work back from the publication date, to establish when constituent tasks have to be completed if the study is to remain on-track. Key milestones are likely to include: completion of preliminary work, start and finish of evidence gathering, start and finish of evidence analysis, delivery of first draft, start and finish of external clearance, and publication date. Within the fieldwork phase there may also be specific tasks that are on the critical path and should therefore feature in the Gantt chart.

Question (1i) Does the client department support the study?

This might be answered by:

Noting the views of, or formal submissions from, the audited body. While the C&AG may examine any topic he sees fit, in practice it is helpful to secure the co-operation of the audited body. It is therefore standard practice to discuss the topic with the audited body general terms, and more specifically our proposed methodology for examining it.

Question (1j) Can you manage the risks?

This might be answered by:

Preparing a risk analysis - setting out what could go wrong, how likely it is to go wrong and how serious the consequences would be, and how the risks can best be managed (see Appendix 2). Most study teams want to demonstrate their competence by showing that nothing can go wrong. But there are risks on every study, and identifying them early gives you a better chance of managing them and planning for contingencies if the worst should happen. The risks to successful delivery are greater under certain circumstances, for example where:

- new methods are being tried out
- the subject matter is inherently controversial
- relations with the audited body are already strained
- there are multiple departments or wider stakeholders involved
- the timetable is accelerated

Using the knowledge acquired by financial audit colleagues, from their Team 21 approach, on the inherent strengths and weaknesses of the audited body, and the risks to delivery of a successful VFM study arising from such an assessment.

Recognising the specific level of risk that late publication might present. Late publication might be a problem in terms of:

- failing to meet Unit or corporate targets for delivery of reports each year
- jeopardising the timing of the PAC hearing
- over-loading the Accounting Officer, who may have to deal with other VFM studies being delivered to similar timeframes

Question (1k) How might the messages from the study be communicated?

This might be answered by:

Drawing up a Communications Plan – following liaison with the Press Office. At this stage, the Plan should aim to:

- provide clarity about the overall key messages that our report is likely to contain
- identify the key groups that we want our messages to reach
- decide broadly what different channels and methods we will use to communicate our messages to the key groups
- think through any possible risks to our reputation and how we can manage those risks

From this point on there should be a regular dialogue with the Press Office as issues emerge.

Question (1l) In the light of the above, should you proceed?

Directors and their teams should arrive at an objective judgement on the merits of proceeding to Full Study stage, having balanced the factors analysed in responding to the above questions. They should present their findings to the AAG, who will form a view and decide (depending on previous discussions) on the most appropriate way to consult the C&AG.

The document that the study team presents will form a contract with senior management for the type of product to be delivered, and the timing and cost of delivery. The precise form of this submission to the AAG will depend on the nature of the study proposed, and will itself take account of any prior discussions with senior management. It may also be supplemented by a presentation to the AAG. It may take the form of:

- **a simple project initiation document**– suitable for instances where we will inevitably do the study, or where the methodology is well-tested and low-risk.
- **a business case** – suitable for when the study is higher risk or uses an untested methodology, or where the audited body might be unhappy about the study.
- **a more comprehensive report** – the exception rather than the rule, used where substantive preliminary research has been required to draw out likely findings in an area which is little known.

The main difference between these options is the amount of background research and methodological thought presented within them. However, the common element is that each should contain a strong project plan. Such a plan will confidently define the project and demonstrate how resources are to be deployed to ensure a good quality report in the shortest feasible time. In more detail, a good project plan should set out the following:

- the proposed cost, based on a realistic assessment of resources to be used rather than just a broad assumption of the size of the study
- the staff available to work on the study including, where appropriate, how the team might be flexed by using staff from other areas, financial audit staff or trainees on a short-term basis
- the external resources to be used, and the timing and proposed cost of these resources
- a breakdown of tasks – allocating them to individuals, detailing elapsed times for each task and flagging up dependencies
- key milestones, to allow for effective tracking of study progress
- the risks to delivery within time and budget – covering the likelihood of occurrence, the potential impact if the risk came to fruition, and proposals for managing each risk

Question (1m) Do you have a file structure to manage the evidence and key documents?

Once a study has been approved you should set up a structured file plan to manage all documents related to the study. Further guidance on records management is available from the Information Centre and on the intranet.

Quality Threshold 2: Have you derived clear, compelling messages, supported by the evidence?

Question (2a) Is there sufficient, relevant and reliable evidence to address each issue?

This might be answered by:

The study Director carrying out a formal review of existing evidence, and comparing this with the evidence expected at planning stage.

Conducting an exercise, with all team members present, to establish how convincing the evidence is for each study issue, and whether any further work is needed (this activity can be covered within the Dinner Party approach – see Appendix 3).

Team members compiling a list of sources and types of evidence, matched against study issues. This should flush out instances where the findings on a number of related issues are likely to be supported by only one narrow raft of evidence. In such cases, the team might need to triangulate with other types of evidence to better support the potential findings.

A mapping exercise (see Appendix 4) – perhaps supported by appropriate software.

Seeking the views of Expert Panel members, who will form judgements on the credibility of existing evidence, and may be able to suggest additional sources of evidence (perhaps from recent work that has been done within the audited body or by other stakeholders) where necessary.

Question (2b) Have you fully analysed and interpreted the evidence?

This might be answered by:

Setting aside time to formally assess the results from quantitative and qualitative data analysis. A common problem on VFM studies is that fieldwork activities over-run, and teams lose the chance to evaluate the evidence collected. Wherever possible, directors and managers should ensure that proper thinking time is built into the timetable.

Seeking guidance from the VFM Development Team's statisticians or other experts around the Office. Teams may sometimes need help in interpreting complex statistical or other types of technical data. They should ensure that the relevant experts are available to provide this help and have some advance notice of the timings involved.

Carrying out team activities to discuss and evaluate evidence. As with many VFM activities, a whole-team approach can often be more effective.

Formally analysing qualitative data, perhaps by using Atlas or Nud.ist software, to demonstrate a systematic approach to the distillation of key messages.

Question (2c) Have you identified the key messages, and are they supported by the evidence?

Many studies involve gathering a large amount of evidence from a wide range of sources. By the time that teams finish their fieldwork, they are frequently under pressure to keep the rest of the study process on track. Given such pressure, it is tempting to start drafting quickly, in the hope that the key messages will emerge as the draft evolves. The danger is that important points might be missed, or that teams might give undue weight to issues that have arisen towards the end of fieldwork and are therefore fresh in the mind.

While some parts of the draft report (such as the background or methodology appendix) can be written as the work progresses, it is crucial that the team pauses to formally consider what it has found. Useful techniques include:

Conducting a Dinner Party exercise (see Appendix 3) or similar team-based activity.

Producing a logic map, connecting conclusions and evidence. A logic map is helpful because it sets out in a clear and visual form these connections and (depending on the level of detail) the thinking behind them. In order to maintain consistency, the logic map might set out each study issue and sub-issue, and the key messages for each. That way, the team can quickly see where the strength of their argument lies and where further analysis might be necessary.

Allocating responsibility for specific parts of the topic to individual team members, and asking them to examine very closely the emerging findings.

Question (2d) Do the findings triangulate with those of wider stakeholders and experts?

In carrying out VFM examinations, we should maintain independence from Government, political parties and other organisations. We should not show political or any other form of bias in our reports. However, almost every topic that we examine is of direct interest to certain stakeholders, whose views could be helpful to us. We should therefore ensure either that our findings are consistent with those of other relevant groups, or that, where our findings diverge, we are confident that our work is well-founded. We might answer this question by:

Comparing the team's findings with material from internal audit, other inspection bodies and academia. In most cases, the team will have identified at an early stage the work done by other bodies that has read-across to the VFM study. It is important, though, to retain independence and to avoid placing undue reliance on evidence that seems to match the findings of others.

Soliciting the views of Expert Panel members. If chosen carefully, members of the Expert Panel will represent a cross-section of the stakeholders and experts whose views the team needs to understand. They should provide a wider perspective than that of the audited body alone.

Running workshops for stakeholders. Such workshops might establish common views on the topic, areas of concern and priorities for change.

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Question (2e) Are the emerging messages agreed with the client? If not, do you have a clear strategy to deal with areas of disagreement?

Formal agreement on the factual content of the report comes during the clearance stage of the study. But teams can make the clearance stage much more straightforward by exposing the audited body to their findings, and seeking general understanding on the messages that will appear in the report. Teams might do this by:

Conducting meetings or presentations with the client before drafting begins, to set out the emerging messages and establish the tone of the report.

Running a Dinner Party (see Appendix 3) or similar exercise with the client present.

Assessing the level of risk to successful and timely delivery that any disagreement poses, and agreeing a proportionate level of response.

Question (2f) Is there an agreed structure for the draft report?

Teams are much more likely to draft efficiently if they are confident about the preferred structure of the report as well as its content and tone. It is therefore helpful to engage the AAG at an early stage in order to agree the report structure. Teams might do this by:

Running a Dinner Party (see Appendix 3) or similar exercise with all NAO stakeholders (and perhaps the audited body) present.

Making a presentation (perhaps using "storyboarding" techniques) or a written submission to the AAG and/or internal reference partner, setting out their preferred report structure.

Providing the AAG with a more detailed outline or skeleton report for approval.

Quality Threshold 3: Are you ready to clear the draft report?

Question (3a) Is there a clear and concise draft report that conveys the main messages?

This might be answered by:

Looking at the read-across from the results of a Dinner Party exercise (see Appendix 3) or similar.
One of the benefits of the Dinner Party approach is that it provides the team with an agreed structure for the draft report. If drafters follow the structure closely, they are likely to produce a concise report that conveys the messages that have been validated by the team. It should be straightforward to ensure that the two outputs are consistent.

Seeking the views of an internal reference partner. A very powerful technique is to secure the help of an experienced person outside the study team (most commonly another VFM Director, although you could use a less senior person if they had specific skills and knowledge that would be useful) to review the draft report. Their independent stance will help to identify:

- jargon or use of language that will not be transparent to the general reader
- weaknesses in argument
- general errors
- inconsistency in tone or style where more than one person has been involved in drafting the report

It will help if they have been involved in discussion of emerging findings, perhaps as part of an Expert Panel. Teams should try to ensure swift co-operation in order to avoid increasing elapsed time.

Seeking the views of an Expert Panel. Again, Expert Panel members can make an important contribution. At this stage, they are particularly useful as a "safety check" to ensure that the draft report does not include anything that is plainly incorrect or risks being inconsistent with messages emerging from other bodies.

Question (3b) Does the Executive Summary reflect the tone and findings of the main report?

The Executive Summary should not be a simple repetition of sections from the main body of the report. Without being too detailed, it should provide the main messages in plain English and should be highly accessible. It should effectively introduce and support the man conclusions and recommendations.

This question might be answered by:

A consistency check between the Executive Summary and main report. Teams have varying approaches to drafting Executive Summaries. Some draft it early in the process, and update it as the structure and detailed content of the main report evolve. Others leave it until the main report is finalised. Since teams often have to draft in a hurry, they may need to make changes right through to

the point where clearance begins. It is therefore a challenge to ensure that the Executive Summary is fully up-to-date.

Seeking the views of Expert Panel members or an internal reference partner. Again, those outside the core study team can provide useful insights on consistency of message and tone.

Employing a copy editor or another type of writing professional, to provide an independent view on the consistency of the draft.

Question (3c) Are the recommendations evidence-based and clear, and will they add value?

This might be answered by:

Convening a discussion among the whole team to focus specifically on the draft recommendations. This is a useful way to trace the recommendations not only back to the points made in the main body of the report, but also to the supporting evidence gathered during fieldwork.

Seeking the views of Expert Panel members or an internal reference partner.

Discussing proposed recommendations with the client department. Our approach to the audited body should be based on consensus. Since our ultimate aim is to encourage beneficial change, it may often be helpful to establish whether proposed recommendations will be welcomed by departments. Indeed, in cases where senior departmental staff are keen to promote change, they may even ask for additional recommendations or for existing recommendations to be strengthened.

Ensuring that common mistakes identified in external quality reviews are not repeated. These reviews include a section specifically commenting on the quality of conclusions and recommendations. Examining a range of quality reviews, or the documents produced by the VFM Development Team to summarise the key criticisms arising from them, should help the team to avoid common pitfalls.

Question (3d) Will the report make sense to the general reader?

Team members will have learnt a great deal and become familiar with concepts and language specific to the study topic. While this is generally a good thing, team members may find it difficult to avoid using such concepts and language when drafting. Teams should ensure that the report is accessible to the general reader. They might do this by:

Seeking the views of an internal reference partner, who will be able to provide the insights of an experienced VFM practitioner combined with an independent perspective on the subject matter.

Convening a readers' panel. Where we are examining a "quality of service" topic, we often consult recipients of the service (for example NHS patients, students or visitors to museums) as part of our fieldwork. We might also consult appropriate represen tative groups. It is possible to also seek their opinions on the readability of the draft. Teams should, however, stress the confidentiality of the draft and take steps to minimise the risk of leaks.

Question (3e) Does the draft report meet NAO standards for length and style?

This might be answered by:

Ensuring that the report is no longer than 30 pages of text and 10 pages of figures and tables. This page limit includes the Executive Summary, but excludes appendices and photographs, and equates to around 13,000 words. Appendices should be no longer than 10 pages in total, although teams may present more detailed material by including it on the NAO website. In general, we should aim for less narrative and more informative graphics in order to convey our points clearly.

Maintaining consistency with the NAO Style Guide. The Guide sets out a range of advice on report drafting, in terms of:

- principles, style and structure
- linguistic conventions
- alternative words

Question (3f) Does the draft report make effective use of graphics and appendices?

This might be answered by:

Ensuring that you have avoided the pitfalls identified in external reviews of other VFM reports. These reviews often comment on weaknesses in the use of graphics and information in appendices. Examining a range of quality reviews, or the documents produced by the VFM Development Team to summarise the key criticisms arising from them, should help the team to avoid common mistakes.

Seeking input from the NAO's Design Group – who apply all of the design and layout to the report, leading up to printing. They have a great deal of accumulated experience, and can provide crucial advice on the "look" of the report.

Question (3g) Have you produced all supporting material?

This might be answered by:

Ensuring that all of the material that supports the main narrative is complete and of sufficient quality. The types of material that are often left until the end of the drafting process are:

- the statement of methodology used (which is normally included as an appendix)
- a glossary of terms
- a bibliography
- references to previous PAC recommendations related to the topic, and steps taken to implement those recommendations
- case studies
- material designed specifically for e-publication, such as academic papers or detail on specific methodological points

Quality Threshold 4: Are you ready to spread the message?

Question (4a) Is the draft report cleared for factual accuracy with the audited body?

Evidenced by:

Submissions to and from the audited body – typically letters setting out the amendments requested by the audited body and our responses to them. In some cases, VFM teams follow a "real-time" approach, conducting clearance meetings and re-drafting on a laptop as decisions about the report are made.

Question (4b) Have you given third parties the chance to comment on the draft report?

Evidenced by:

Submissions to and from third parties – we typically send a covering letter with relevant sections of the report attached, and accept written, e-mail or telephone responses. Since many reports involve a large amount of third party work, we usually give a deadline for comments, and take nil responses by that date to mean that the parties are content.

Question (4c) Has the draft report maintained its clarity, coherence, structure and brevity during the clearance process?

Clearance may bring significant changes to the draft report. In particular, the audited body often asks for points of clarification to be inserted, thus increasing the length of the text. In addition, the tone may change in some parts of the report but not in others. It is therefore crucial to ensure that the draft retains its quality once all changes have been made. This might be done by:

Directors, and other members of the study team, submitting the draft to high level review, with particular reference to structure, balance between sections, and consistency.

Seeking the views of Expert Panel members and internal reference partners.

Employing external experts – some teams have used professionals with journalistic or publishing experience, to tidy up the draft report.

Question (4d) Have you presented the draft report in a professional and attractive way?

VFM reports increasingly use visual aids – photographs, imaginative graphics and graphic design – to present our findings in a more compelling style. Teams should consider the design quality of the report by :

Seeking timely input from the NAO Design Group.

Ensuring that the use of graphics and photographs helps to enliven the report – again the views of staff outside the study team would be useful.

Making an early decision on the cover photograph. While it may be obvious what kind of image will best convey the theme of the report, there are many potential problems in selecting a cover photograph. There may be copyright issues, for instance. Where images of people are used, you should try to ensure that the appearance of the individuals is suitably diverse.

Question (4e) Have you properly organised the physical production of the report?

It is important to ensure that the report is proof-read, signed off and published in accordance with the established timetable. Many VFM teams find that the last few weeks before publication are fraught and difficult. While Appendix 5 provides more detailed on the physical production of reports, teams should ensure that they:

Agree a publication timetable with the Publications Manager. During the clearance process, the team should establish an expected publication date which will help to determine when the final Word version of the report should be submitted to the Design Group. It will also provide timings for the other steps that have to be taken to ensure timely printing and publication. The Publications Manager will also arrange to present copies of the report before the House of Commons to generate Parliamentary Privilege for the document.

Question (4f) Is an up-to-date Communications Plan in place?

Evidenced by:

Liaison with the Press Office, who can advise on drafting the Press Notice and the Communications Plan. The key points to follow for these documents are:

- press Notice – should be a free-standing document, giving an up-beat message and conveying a flavour of the full report
- cv ommunications Plan – should reflect clear thinking on the news lines that we want the media to pick up, the strategy for reaching all key audiences (such as through interviews and press conferences), and options for dealing with potential mis-reading of our intended messages

Question (4g) Are actions in hand to disseminate and follow up on findings?

Evidenced by:

Arrangements for sending out copies of the report. In cases where there is a large immediate audience (such as NHS trusts or universities and colleges), the team should ensure that this audience will be sent a copy of the report immediately upon publication, in order ensure the immediacy of the messages conveyed.

Consideration of the potential for follow-up activities, such as holding a conference or similar event, writing articles in relevant publications, formally presenting our findings to interested parties, and conducting a follow-up examination in due course.

Quality Threshold 5: Have you learnt and disseminated the lessons?

Question (5a) Have you completed all aspects of internal and external Quality Assurance?

Evidenced by:

The Department completing a Quality Assurance questionnaire, giving it the chance to comment on the impact and added value achieved by the study and whether the study was well managed and staff acted professionally.

The team itself reviewing the study process, in order to identify what went well and badly, and learning lessons for the future.

Meeting with the Principal Finance Officer, in order to gather first-hand feedback from the audited body on the conduct and outcome of the study. This should take the form of a semi-structured interview, and a record of the meeting should be placed on file.

Sending the external Quality Assurance review to the audited body and HM Treasury expenditure team.

Question (5b) Have you identified lessons to be learnt and disseminated them appropriately ?

Evidenced by:

Documenting the results from Quality Assurance activities – teams are required to compile a Quality Assurance working paper folder, which is submitted to senior management once all relevant activities have been carried out. Given the need to move on to the next piece of work, it is tempting for study teams to pay only lip service to the idea of learning and sharing lessons. But for the process to work properly, it is important that teams approach these tasks with integrity and not treat them merely as a paper exercise.

Producing articles for the Office's internal publications, such as the house magazine or the VFM Development Team's new updates, setting out key learning points from the study

Holding training events or presentations, at team, area, unit or corporate level to reflect on lessons learnt.

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Question (5c) Have you identified existing impacts, and set up mechanisms to monitor the delivery of potential impacts?

Evidenced by:

Evaluating the steps taken by the audited body during the course of the examination that can be attributed to the NAO's attention to the topic.

Reviewing recommendations arising from NAO and PAC reports, and comparing these with the audited body's response contained in the Treasury Minute. While the audited body may take some action in the short-term, the Treasury Minute normally accepts PAC's recommendations and sets out the intention to take appropriate action in the future. We can only count such action as an impact once it has been taken and beneficial change has occurred.

Continuing to communicate with the audited body, to establish the steps being taken to improve practices and procedures. In many cases, the audited body may still be implementing some changes a number of years after the NAO's examination. It is therefore important to take a long-term approach to impacts work.

Documenting and validating impacts. The NAO compiles its impact returns early in the Spring of each year, so that results can be set out in corporate publications (such as the Annual Report and Corporate Plan) in the Summer. But monitoring and gathering information on potential impacts should happen all year round.

Question (5d) Have you identified the key documents related to the study and declared them as corporate records?

Key documents are a valuable source of information not only during the study process but afterwards as well. You can ensure that this information continues to be accessible in two ways:

Following records management guidance or consulting the Information Centre for advice regarding managing documents throughout the course of the study.

As part of the final team review, the team should review all documents related to the study, both in paper and electronic formats, in accordance with records management guidance.

Appendix 1

The VFM principles

What are the VFM principles?

The eight principles sum up the fundamental qualities and characteristics that should mark our VFM work:

- competence
- integrity
- rigour
- objectivity and independence
- accountability
- adding value
- perseverance
- clear communication

The principles provide a guide to NAO staff, Parliament, audited bodies and the wider public on the key factors which underpin our VFM work. They set out what is expected of us and what we should strive to achieve, providing a framework of good practice within which we should operate.

The principles are intended to guide us in maintaining and improving the quality of our work. They are the VFM examiner's code of good practice.

Competence

VFM examinations should be carried out by teams with appropriate competence in terms of skills and experience. Collectively the team should be:

- experienced in conducting VFM work;
- familiar with the topic under examination and the nature of Government and Parliamentary procedures;
- sufficiently competent and expert to identify and apply the appropriate techniques for collecting, analysing and interpreting evidence, or to arrange for this to be done; and
- able to deliver work to cost, time, and quality requirements.

> A study team might consist of an experienced Audit Manager, a newly qualified Senior Auditor, and a TOPPs trainee with recent postgraduate research history. In order to familiarise themselves with the topic, the team might spend a period of time observing practitioners. Later, they might focus their efforts on gathering quantitative data, while commissioning consultants to run focus groups and manage a postal survey.

Integrity

We should act with integrity, fulfilling our responsibilities with honesty, fairness and truthfulness. We should explain our reasons for collecting evidence; and our findings should refer to stated criteria consistently applied.

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We might form a critical view of performance late in a series of audit visits that did not seem justified on earlier visits. This might mean that the offices visited at the end are performing less well. Or it might simply mean that our understanding of the topic has deepened. In such cases, we should not try to generalise the points and apply them to the organisation as a whole. Instead, we should either confine our critical comments to the later visits, or do extra work to establish whether there is genuine variation in performance.

Rigour

We should approach our VFM examinations with thoroughness and assess critically the information on which we base our findings and conclusions. The evidence supporting our examinations should be sufficient, relevant and reliable.

On many VFM examinations, time pressures make it difficult to carry out the depth of data analysis that we would like. We should work hard to ensure that such time is available, and use suitable techniques (including those set out under Quality Threshold 2) to ensure that evidence used in report is soundly based.

Objectivity and Independence

In carrying out VFM examinations, we should maintain independence from Government, political parties and other organisations. We should not show political or any other bias in our examinations or reports.

We normally seek the views of all stakeholders in order to achieve a balanced report. But we should be aware that lobbying groups, campaigning organisations and bodies allied to political parties might want to use the NAO report as a vehicle to achieve their objectives. We should therefore try to avoid being unduly influenced by any one group.

Accountability

Our main concern is accountability to Parliament and ultimately the taxpayer - to assure them that public funds and resources are used properly and to good effect. We do this by providing Parliament with independent information and advice about how economically, efficiently and effectively the bodies we examine have used their resources and by highlighting instances where the proper conduct of public business may be at risk. We also help audited bodies provide better VFM.

We sometimes examine a topic that is firmly in the public eye and has been subject to considerable scrutiny through the media or studies commissioned by Government – for example a major construction project that has suffered serious delays and cost over-runs. But our involvement completes the cycle of accountability, as we are reporting back to Parliament on the use of monies that it granted in the first place.

Adding Value

VFM examinations should provide added value both to Parliament and to audited bodies. Added value includes:

- independent information on the extent to which Government departments and other public bodies achieve VFM in the management of their resources;
- evidence collection and analysis that adds to all parties' knowledge and understanding of an important topic;
- identifying the scope for financial savings through improvements in economy, efficiency and effectiveness; and
- new insights into the way an audited body manages its resources, delivers its programmes and achieves its objectives, including how cost-effective improvements might be identified and achieved.

> An NAO report might bring together pieces of academic research for the first time, provide practical recommendations for the department, and suggest ways to save money. Each of these is an instance of added value.

Perseverance

We should be polite but determined in carrying out VFM examinations. Although always open minded, we should not be deflected from collecting and analysing the evidence needed to produce worthwhile findings and conclusions.

> We only rarely encounter genuine obstruction in our VFM work. But typical frustrations, often caused by heavy workloads for all parties, include: difficulties in tracing documentation; delays in arranging meetings; poor quality data; and unavailability of key staff. Teams should ensure that such problems do not jeopardise the successful completion of the study. In extreme circumstances, we may need to remind audited bodies of our rights under the 1983 National Audit Act.

Clear Communication

Our reports should be objective, balanced in content and tone, reliable, clear and persuasive.

> While we spend great effort on planning, fieldwork and analysis, we are ultimately judged on the quality of the published report. The most successful reports have a strong message throughout and are presented in a bright, attractive and accessible style.

Appendix 2

Risk management

What is it?

Many textbooks define risk as:

"The chance of exposure to the adverse consequences of future events".

In plain language, it is the chance of things going wrong. Risk management is therefore an attempt to minimise the chance of things going wrong, and to establish clear tactics to deal with problems arising if they do.

In a VFM study it is tempting to push on with the "real" tasks, in the hope that working fast will reduce the chance of anything going wrong. But it is worth taking the time to think about the risks to successful delivery, not least because they will be different for each study and the options for managing them will vary too.

How is it done?

In order to contain risks, they must be approached in a disciplined manner. This discipline consists of:

Risk analysis – which involves identifying each risk, establishing how important it is (based on an assessment of its likelihood and consequences) and deciding whether the magnitude of the risk is acceptable.

Risk management – which involves planning, monitoring and controlling activities that will address the risks identified, so as to improve the likelihood of successful delivery.

Good risk management comes about through intelligent debate, and many benefits arise from team members discussing what could go wrong and having their awareness raised accordingly. But it is crucial to document the risks and the agreed steps to manage them. It is equally important to review the risk management material regularly through the course of the study, so that risks are actively managed and not just listed in a token fashion.

Risk management does not have to be complex. Indeed, it is best to state risks in everyday language, and set out the management actions in a way that can be understood and accepted by all.

A worked example

Risks will vary, depending on the nature of the study, the abilities of the team conducting it, and a range of external factors. But typical risk management material might look like this:

Risk 1: Insufficient data are available to draw reasonable conclusions

Likelihood: Low
Impact: High
Managed by: Early liaison with the Department's statistics branch, and development of other sources of data via the Expert Panel
Responsibility of: Principal Auditor on the study

Risk 2: TOPPs trainees required to complete fieldwork in a timely manner become unavailable

Likelihood: Medium
Impact: Medium
Managed by: Obtaining a formal decision from the relevant HR manager about availability
Responsibility of: Audit Manager on the study

Risk 3: Legislative changes render the study irrelevant

Likelihood: Low
Impact: High
Managed by: Liaising with the Department about likely future legislation, and reviewing Hansard
Responsibility of: Senior Auditor on the study

Risk 4: Consultants on the study fail to deliver their work on time

Likelihood: Unknown
Impact: Medium
Managed by: Carefully selecting consultants, agreeing a clear set of milestones with them, and working with them to ensure that they are making adequate progress
Responsibility of: Audit Manager on the study

Appendix 3

The "Issue Analysis/Dinner Party" (IADP) approach

Issue Analysis

What is it?

Issue Analysis is a highly focused approach to designing a VFM study, based around the identification of a single high-level question, associated sub-questions, and specific audit tasks to help answer these questions.

Most study teams do something similar to IADP. Indeed, it would be difficult to approach a VFM study sensibly without establishing what the study is meant to examine and how it might be carried out . But the strengths of IADP are its rigour and the fact that it is a team-based approach.

How is it done?

The study team (along with the AAG, and even a representative from the audited body in some cases) meets to discuss and agree on the best direction for the study. The first task is to frame the overall question that the study will answer. IADP theory states that this should be a "Yes/No" type question (such as, *Is sickness absence a significant problem for the agency?* or *Did the Department get a good deal in its procurement?*), although clearly the answer will often be more complex than a simple "Yes" or "No".

Once the overall question is agreed, the team should identify a hierarchy of sub-questions that help to answer the overall question. This process should continue until the subsidiary questions are simple and manageable enough to be answered by conducting a particular piece (or pieces) of audit work. For example, the question *"Is sickness absence a significant problem for the agency?"* is at too high a level to be addressed meaningfully on its own. A possible sub-question, such as *"Does the agency have appropriate absence management procedures in place?"* might also be too high-level. But at one more level of iteration, a question such as *"Does the agency carry out return-to-work interviews?"* is clearly answerable, perhaps through a review of agency policy and visits to regional offices to check on local practice.

Another important rule is that the sub-issues should be:

Mutually Exclusive – they do not overlap with each other; and
Collectively Exhaustive – between them, they cover the whole topic

In practice, it takes a lot of effort to ensure that these rules have been followed, but such effort should produce an approach to the study that is well-conceived and actionable.

Dinner Party

What is it?

The Dinner Party is a team meeting which organises audit evidence into a series of statements that could easily be understood by a hypothetical guest at a dinner party. Organising the evidence in this way also allows the team to formulate a structure for the draft report. If done well, writing the report should become a relatively straightforward task.

How is it done?

The study team (perhaps with other stakeholders, including the audited body) meets for the session, led by a facilitator. The facilitator asks those who worked on the study to give a headline finding from their work, phrased in simple terms that a non-expert could understand. At this stage, other team members are asked not to challenge what is being said.

Once the headline points have been made, team members can add subsidiary points, and suggest the evidence that supports these conclusions. Statements can be challenged, and a general discussion might ensue, in order to reach an agreed set of conclusions and supporting evidence. If done rigorously, the output from the Dinner Party will form a skeleton for the report that is agreed by all parties.

vfmdevelopment

Appendix 4

Mapping the terrain

Why do it?

It is important to understand the dynamics of the policy arena in which the study is based. Before framing the study issues, it is therefore useful to map the terrain, drawing on the most relevant documents and the knowledge of experts, such as the financial auditors of the departments or agencies concerned.

The aim of mapping the terrain is to acquire and demonstrate an understanding of the policy objectives and the indicators of success for the initiative or organisation being examined, and of the key players and their interactions. It is often helpful to map these elements of the study in diagrammatic form as a "conceptual framework". Such maps or frameworks can provide a valuable base from which to determine the VFM issues that will offer comprehensive and coherent coverage of the audit field.

Mapping the terrain is an important stage in designing studies because:

It provides a focus to gather the knowledge, and enlist the help, of other experts in the policy area being examined – financial auditors, for example, will normally possess a more detailed and extensive knowledge of the audited body than their VFM colleagues, and it is a wasted opportunity not to tap into this knowledge at an early stage. Under the Audit 21 approach, they should have undertaken an analysis of the department's risk management framework and identified key areas of business and VFM risk, which might inform the study. Similarly, it is helpful to hold discussions with the audited body, wider stakeholders and potential expert panel members before the study issues are too clearly defined;

It is democratic and team-centred – all team members are encouraged to contribute ideas, so that the output is an agreed team product;

It is an efficient way of obtaining information – it often enables teams to recognise what they already know about a topic and what gaps they need to fill. The completed framework increases confidence that the team is focusing on the right issues;

It assists project planning – acting as a guide on how to structure fieldwork, showing both "hot spots" where there may be many sources of evidence, and areas where original research needs to be concentrated in order to gather compelling evidence;

It adds value – allowing for original thinking, new insights and the discovery of interconnections;

It may assist clearance – agreeing a conceptual framework or map of the study terrain with NAO colleagues and the audited body can help the process of challenge and verification of the team's thinking.

How is it done?

The approach to mapping the terrain will vary considerably depending on the nature of the subject and the amount of knowledge that the study team possesses at the outset. The emphasis should always be on building a good understanding of the topic under examination in the shortest possible time. This might involve a single brainstorming session where a great deal is already known (such as where we are following up on previous work), or a much larger data gathering exercise where the topic is new or complex. The process will often start with a literature search and analysis of key departmental documents and relevant papers by external commentators. This may then be supplemented by some primary research, such as by sending members of the study team into the field to hold interviews with key players, followed by a meeting of the whole team to compare and map results.

One technique that may be helpful in putting together a good conceptual framework is based around the theory of "cognitive mapping". A broad outline for a cognitive mapping exercise is set out below.

Stage 1 – Framing the study question

The terrain should be mapped around a clear question which expresses the overall purpose of the study. This helps participants to understand the scope of the exercise and the central issue on which research needs to be focussed. Typical questions might be:

- does the project offer good VFM?
- how could the Ministry of Defence's approach to e-procurement be improved?
- has the Department of Health implemented the NHS Cancer Plan effectively?

The framing question can be posed in different ways, so you should be clear about exactly what the study is setting out to demonstrate. The wording of the question may, of course, change depending on the outcome of the mapping exercise.

Stage 2 – Brainstorming

Stages 2, 3 and 4 are iterative. The team might go through these stages several times during the mapping process.

During a brainstorming session, participants provide answers to the framing question. They may use post-it notes to place their thoughts on a large board. They should consciously try to develop the picture that is emerging, as well as opening new areas. The session works better if:

- contributions are written in large letters, using as few words as possible
- only one contribution is placed on each post-it note
- contradictory views are expressed by writing new post-it notes, rather than defacing or removing existing ones – it can be illuminating to see diverging views being developed

Stage 3 – Grouping the ideas

The next stage is to number the ideas and group them into clusters covering similar themes. Participants should feel free to add ideas if the grouping process flushes out areas that have been neglected.

Stage 4 – Linking the ideas and establishing relationships

The final stage is for the team to develop and explore the connections that exist between the groups of ideas. Specialist software can be used to help with this process. Participants should debate the links they have identified and make further contributions as appropriate.

Some practical tips for successful Cognitive Mapping

Use a facilitator – it is helpful to have an independent person to manage the process and keep the session on track

Limit the number of participants – with more than ten participants, a session will probably become unmanageable

Encourage all of the team to contribute – it is important that the resulting output is a team product and not just the combined thoughts of one or two influential members

Broaden the range of contributors – it is often helpful to conduct the exercise with others such as financial audit colleagues, VFM staff from another part of the Office, representatives of the audited body or potential expert panel members

Use flexible visual aids – Writing on post-it notes may seem a little low-tech, but they allow ideas to be moved around the board and encourage participants to think laterally

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Appendix 5
Taking a draft report to print

General Design

There is no set template for a published VFM report. Teams should therefore arrange a meeting with the Design Group once the draft report has begun to take shape, to discuss the best approach.

The front cover is a very important element of the report. Teams should show their favoured cover design to the C&AG for approval as soon as possible.

Checking and proof-reading

Teams should check the final word processed draft closely for spelling, grammar and consistency errors before sending it to Desk Top Publishing (DTP). Typical mistakes include inconsistent use of:

- abbreviations
- punctuation on bulleted lists
- hyphens
- "per cent" (as opposed to %)
- references to figures
- numbering

The Publications Manager will have provided you with a publication timetable of key dates including when you need to sign off the DTP version to go to the printers. Once they have completed proofing the report, the team should sign off the DTP version, to the scheduled date. If the report is signed off after this time it could affect the publication date and will incur extra print costs. In normal circumstances, no further changes are permitted once the DTP version has been signed off. Only in extreme cases can any changes be made, and these will be at the discretion of the Publications Manager.

Timetable for publication: a four-week process

Week 1
DTP lay out the first draft of the report. According to their Service Level Agreement, this should take no more than five days based upon the standard length report. DTP then send the draft back to the authors.

Week 2
DTP carry out amendments and re-drafts, as advised by the study team. The study team signs off the report at the end of Week 2. The C&AG sends out a final version of the report to the Accounting Officer.

Week 3
DTP prepare the files and send them to the printers. The printers check the files and deliver the book proof. VFM teams have a brief opportunity to review the proof before clearing it for printing.

Week 4
Three or four days before publication, the report is laid before the House of Commons and on the same day the NAO receives printed advance copies. On the day prior to publication, copies are available for MPs to read.