INSIGHT

Financial management in government: strategic planning and budgeting

NAO
National Audit Office

Good practice guide

September 2023

This guide aims to provide insights and good practice on strategic planning and budgeting for better financial management in government.

We are the UK's independent public spending watchdog

Communications Team
DP Ref 013510

Overview

Sound financial management is vitally important to government organisations. In the public sector, financial management is pivotal in meeting policy aims, monitoring progress against goals and objectives, and ensuring scarce resources are utilised effectively. It is critical to helping government organisations set the right priorities, deliver on their responsibility to provide good value for money and exercise their responsibilities to the taxpayer, as set out in *Managing Public Money*.

Financial management – when done well – enables government organisations to:

- make more timely and well-informed decisions;
- unlock efficiencies and drive better ways of working; and
- improve financial resilience and enhance their ability to adapt and respond to shocks and disruptions.

Our guide *Enablers of success* explores the fundamental themes which underpin each stage of the financial management lifecycle, and how you can make the most of our guides.

Introduction

This guide draws on insights from the NAO's back catalogue of work, the experiences of our audit teams, and the thoughts of a range of senior finance decision-makers. It is designed as a helpful reference point and outlines five ways finance leaders can plan strategically and realistically:

Aligning strategy and planning

Making planning inclusive

Planning dynamically

Addressing optimism bias

Dealing with risk and uncertainty

Strategic planning and budgeting

Government is dealing with long-term fiscal pressures and needs to plan for the effective and efficient delivery of public services and provide value for money to the taxpayer. This is often in the face of uncertainty and a complex delivery landscape. Operating as a department or arm's-length body within central government has unique challenges and it is not always the case that organisations have certainty on future policy directions or funding. Planning in a strategic and realistic way gives organisations the best chance to thrive in this challenging environment – to help inform trade-offs and operate in an effective and efficient way.

Strategic planning and budgeting is an area the National Audit Office (NAO) has reported on in the past. In 2013 we outlined strategic planning as one of the strategic challenges for financial management: "departments often do not integrate financial management with strategic and operational planning. An absence of planning prevents departments from optimising the link between resources and outcomes."[1]

In 2018 we set out the need for longer-term planning in government including examples on how the absence of long-term plans can adversely affect value for money and outlined the steps HM Treasury had made to support longer-term planning.[2]

1 Comptroller and Auditor General, *Financial management in government*, Session 2013-14, HC 131, National Audit Office, June 2013, paragraph 13.

2 Comptroller and Auditor General, *Improving government's planning and spending framework*, Session 2017–2019, HC 1679, National Audit Office, November 2018, paragraphs 1.14 to 1.19.

Key takeaways

Summary of key takeaways

	What good looks like	Key actions for finance leaders
Aligning strategy and planning	Financial planning aligns with the medium-term and long-term strategic objectives of the organisation.	• Explicitly align financial plans to strategic objectives. • Ensure the structure of the finance function supports long-term financial planning. • Sustain strong medium-term baselines, which are regularly updated to reflect policy decisions.
Making planning inclusive	Financial planning is integrated throughout the entire organisation, and all individuals understand how it contributes to the success of the organisation.	• Establish clear expectations for the role played by executives during the financial planning process. • Make financial planning an inclusive and collaborative process across the entire organisation. • Build accountability for realistic financial planning directly into the performance evaluation of individuals across the organisation. • Use simple data visualisations to make it easy for individuals to engage with their own budgets.
Planning dynamically	Planning assumptions and forecasts are regularly updated to enable timely decision-making.	• Work with other leaders in the organisation to develop a culture where planning is continuous and individuals are incentivised and accountable for keeping financial information up to date. • Use technology as an enabler and make it easy for individuals to manage their budgets and financial plans. • Provide targeted and quality support to budget-holders.

Summary of key takeaways *continued*

	What good looks like	Key actions for finance leaders
Addressing optimism bias	The organisation analyses past performance and challenges optimism bias to generate a realistic financial plan.	• Evaluate actual financial performance against previous budgets and financial plans. • Share typical examples where optimism bias has resulted in unrealistic planning. • Be impartial, objective and alert to bias when analysing financial plans.
Dealing with risk and uncertainty	Finance leaders are aware of areas of risk and uncertainty within financial plans and present financial information in a way which aids decision-makers.	• Work closely with other functions to identify any areas which could introduce uncertainty into financial plans. • Be clear with decision-makers on which aspects of the budget are more prone to uncertainty. • Incorporate scenario ranges into financial plans.

Aligning strategy and planning

What good looks like

Financial planning aligns with the medium-term and long-term strategic objectives of the organisation.

Why this is important

Having clear strategic priorities that align with the organisation's mission and purpose must go hand-in-hand with the development of financial plans. If strategy and finance are not aligned, annual budgets may be inconsistent with the organisation's strategic direction and fail to support the delivery of the organisation's strategic outcomes, through a lack of funding or resources.

Our report on improving government's planning and spending framework set out a number of pre-requisites for long-term strategic planning, medium-term business planning and short-term budget and performance management (right).

By planning for the long term – and aligning strategy with planning – finance can manage trade-offs between the short-term and long-term impacts of events arising from the external environment. This allows finance to address the immediate challenge while at the same time keep in view the impact on the strategic goals and resilience of the organisation over a longer timeframe. As a result, long-term strategic objectives such as achieving net zero and building workforce capability and capacity can be properly addressed within annual budgets which contribute to multi-year strategies and spending review periods.

Pre-requisites for effective planning and spending

Short-term budget and performance management (annual and in-year)

- Annual budget
- Performance goals
- In-year monitoring
- Ability to make adjustments and stay on track

Medium-term planning (3 to 5 years)

- Multi-year allocations of funding
- Robust realistic plans integrated with resources
- Clear priorities
- Milestones and medium-term outcome measures
- Performance metrics

Long-term strategic planning (> 5 years)

- Long-term clarity on funding, to support sustainable cross-government working and protect value
- Clarity on desired long-term outcomes
- Understanding of high-level objectives and their relative priority

Source: Comptroller and Auditor General, *Improving government's planning and spending framework*, Session 2017–2019, HC 1679, National Audit Office, November 2018, Figure 1

Aligning strategy with planning *continued*

How finance leaders can address this

- **Explicitly align financial plans to strategic objectives.** Board-approved strategies should be underpinned by robust financial information so there is a clear vision of how the organisation will have the resources to achieve its aims. Departments use Outcome Delivery Plans to set out how they will translate their allocated budgets into outputs and outcomes, and finance leaders can integrate financial planning as part of this process.[3]
- **Ensure the structure of the finance function supports long-term financial planning.** Strategic finance teams play a fundamental role for departments in balancing finance and policy objectives. For all organisations, finance leaders should ensure finance business partners focus on long-term planning and policy objectives as part of the challenge and support they provide to the wider business.
- **Sustain strong medium-term baselines, which are regularly updated to reflect policy decisions.** The OECD (Organisation for Economic Co-operation and Development) reflects that – on a national level – baselines illuminate the multi-year implications of spending decisions and act as an early warning of emerging expenditure trends.[4] On a departmental and organisational level, baselines can help bridge a gap between short-term budgets and the strategic goals of the organisation.

3 Cabinet Office and Modernisation and Reform, Outcome Delivery Plans (viewed on 12 September 2023).
4 OECD, *OECD Spending Better Framework*, OECD Publishing, Paris, 2022.

Aligning strategy with planning *continued*

Quote

"It's important to look several years ahead and plan for various scenarios, to connect finance and strategy and to align objectives across the organisation. This means we can look at how resources are allocated to different priorities within the corporate plan, and which deliveries are particularly resource-intensive. At the highest level we can then discuss whether our planning feels right, or if any rebalancing is required."

Elizabeth Bushell,
Director of Corporate Services, Historic England

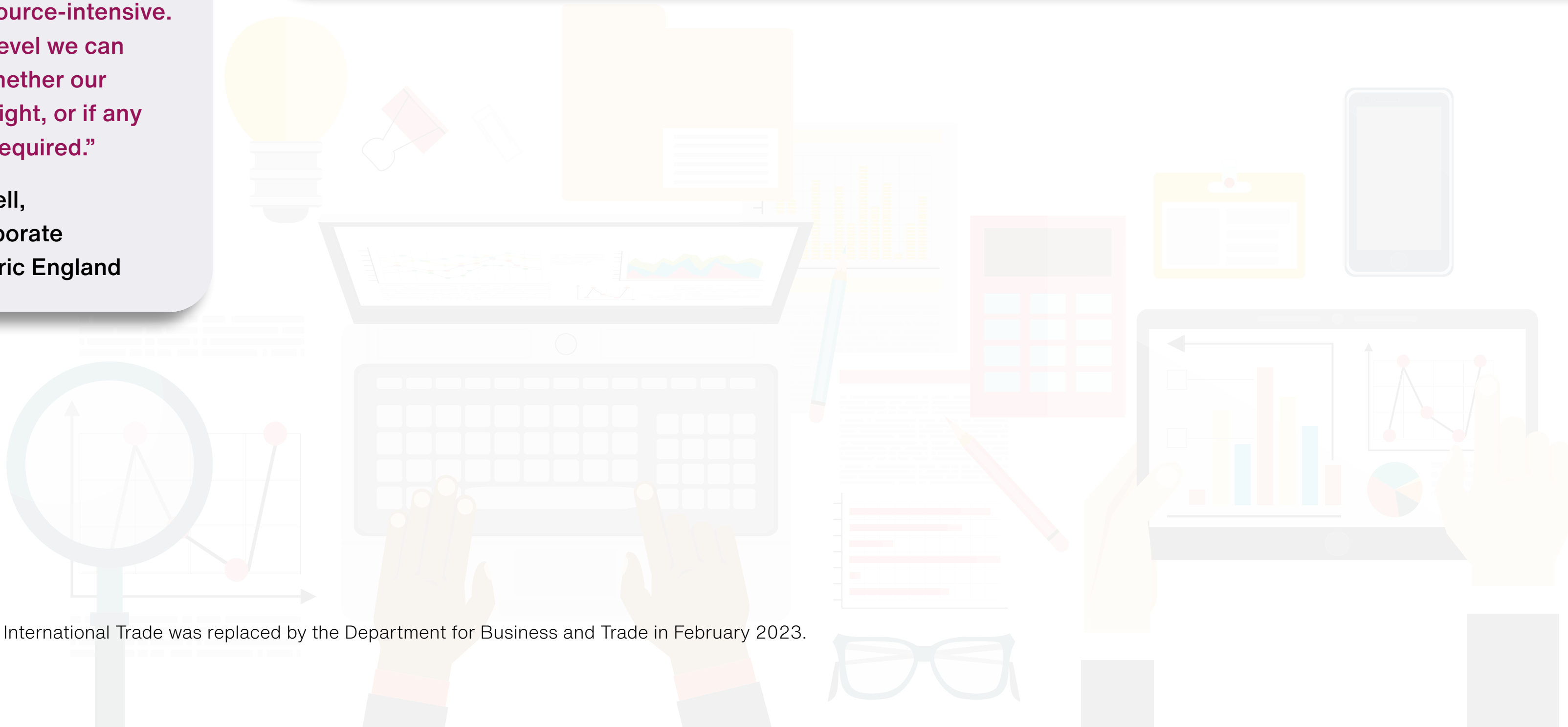
Case study

Background: The Department for International Trade (DIT) was identified as an example of good practice in the NAO's *Good practice in annual reporting* guide in recognition of how it presented financial performance.[5]

Approach: In its annual report, DIT makes clear links between its in-year financial information and strategic priorities. Each priority is supported with a detailed explanation regarding strategic approaches to each outcome. For each strategic priority, DIT outlines figures relating to expenditure and workforce. DIT also presents its future plans for each strategic priority.

Benefit: Strategic priorities are linked to financial outcomes and future plans, which provides transparency and clarity to internal and external stakeholders.

Source: National Audit Office, *Good practice in annual reporting*, page 37



5 The Department for International Trade was replaced by the Department for Business and Trade in February 2023.

Making planning inclusive

What good looks like

Financial planning is integrated throughout the entire organisation, and all individuals understand how it contributes to the success of the organisation.

Why this is important

As established in *Enablers of success* the responsibility for the financial wellbeing of the organisation belongs to everyone and not just the finance function. By fostering a culture where financial planning is important, executives and budget holders feel empowered for their role in financial planning and budgeting.

Some of the finance leaders we talked to discussed the importance of making the planning process organisation-wide. This encourages budget-holders to think carefully about their cost drivers and the assumptions which underpin their budgets and plans. It enables a positive discussion with finance business partners from the outset of the financial management lifecycle, which makes continual monitoring a lot more efficient and effective.

Inclusive planning can help organisations take early action to mitigate risks and seize opportunities, particularly when it comes to workforce planning. Ultimately a culture where everyone feels responsible and accountable for their roles in financial planning results in greater collaboration and lessens the risk of significant over- or underspends. It breaks down silos by encouraging individuals to better understand the whole organisation.

How finance leaders can address this

- **Establish clear expectations for the role played by executives during the financial planning process** – for example, a thorough review of headline budgets at executive team meetings, where accountable executives are able to justify and explain their plans. This provides each executive with an incentive to encourage colleagues within their divisions or directorates to plan as realistically as possible. We outline the important role played by leadership over financial management in the "leadership, governance and culture" section of *Enablers of success*.
- **Make financial planning an inclusive and collaborative process across the entire organisation.** Leaders will need to create time and space for this well in advance, but it will make the discussion and challenge process between finance and budget-holders more effective and efficient. Inclusive planning creates an environment where finance can fully challenge budgets for realism at the outset rather than as a retrospective exercise when variances materialise.
- **Build accountability for realistic financial planning directly into the performance evaluation of individuals across the organisation.** This makes clear that accountability is held at an individual level, establishes the roles and responsibilities of all individuals, and promotes the importance of taking ownership for planning and monitoring budgets.
- **Use simple data visualisations to make it easy for individuals to engage with their own budgets.** Enabling, robust technology and good quality management information can help make an individual's responsibilities and actions clear. If individuals can easily see and understand their own budgets, financial planning – and ongoing financial management – will become a more intuitive and natural process.

Inclusive planning *continued*

Quote

“Accountability is key. We have introduced a percentage variance target on outturn against our budgets – for overspends *and* underspends. This gives people across the organisation a target to achieve as opposed to a single numerical figure which is easier to overlook on an ongoing basis.”

Ceri Thayer, Finance Director, The Pensions Regulator

Case study

Background: The Government Finance Function (GFF) published a budget holder forecasting handbook in January 2023.

Approach: Within the handbook, GFF outlines five budget holder behaviours:

- Leading across boundaries
- Breaking it down
- Sound judgement
- Evidence-led
- Seeks understanding

GFF’s description of “leading across boundaries” outlines key activities that budget holders can undertake. While focussed on forecasting, the principles here are relevant across the entire financial planning process:

- ensure there is join-up with teams across the business – finance, commercial, HR, analysts – and that they are inputting into the forecasting process
- foster a culture of risk identification and mitigation so that teams are constantly encouraged to escalate issues up to you
- ensure your finance business partner and management accountant are regularly engaged with the financial management of the budget, risks and opportunities so they can help identify forecasting challenges early.

Benefit: Budget holders take actions to have a more inclusive and collaborative approach to forecasting.

Source: Government Finance Function, Budget holder forecasting handbook[6]

6 Government Finance Function, *Budget holder forecasting handbook* (requires login, viewed on 21 September 2023).

Planning dynamically

What good looks like

Planning assumptions and forecasts are regularly updated to enable timely decision-making.

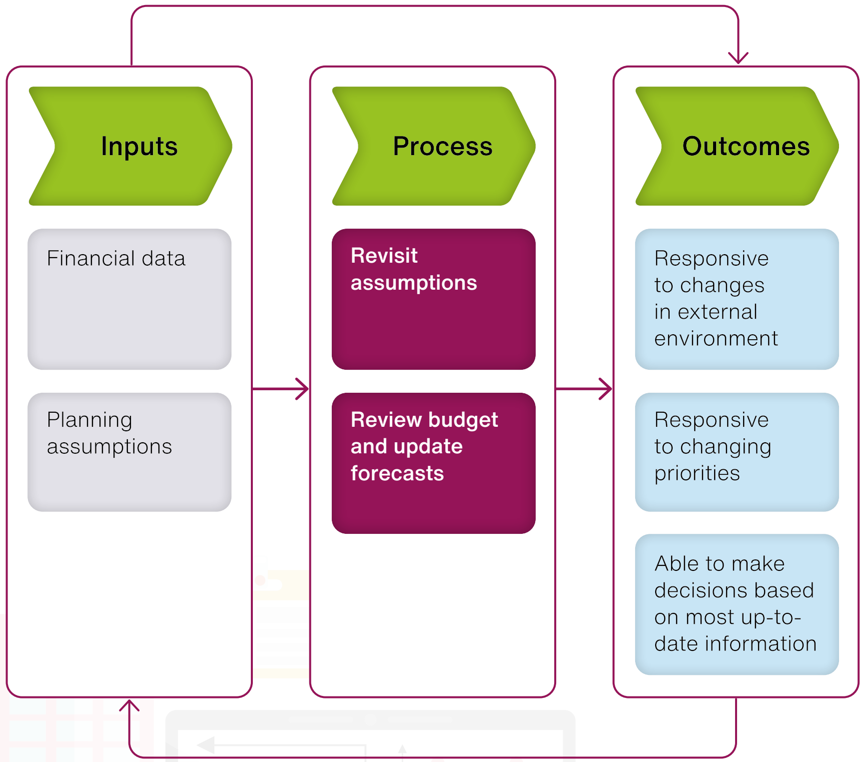
Why this is important

Government organisations operate in a rapidly changing environment. Not only does this create significant uncertainty with assumptions that feed into planning, but it means budgets and plans can very quickly go out of date. As we outlined in page 18 of *Enablers of success* – when considering lessons learned from the government's response to COVID-19 – being able to respond quickly and responsibly to changes in the external environment is vitally important to the modern finance function.

HM Treasury sets out a budgeting system to control public spending and incentivise departments to manage spending effectively.[7] There is clear guidance for departments to follow when considering updates and changes to budgets.[8] Within the context of this framework, the financial planning process should be dynamic. Many of the finance leaders we talked to discussed the importance of viewing financial planning as a continual process, which allows their teams to respond to changes in the external environment and provide timely and accurate information to decision-makers.

Not only does re-assessing and updating plans provide decision-makers with a more up-to-date and accurate picture, it means that annual budgeting is less likely to be perceived as such a resource-intensive set-piece event. Establishing a dynamic process in which assumptions are revised and forecasts are updated on an ongoing basis means finance teams are regularly in touch with the organisation. It means that finance can readily support the organisation in adapting to changing circumstances and the business has accurate information against which it can assess its priorities.

Dynamic budgeting approach



Source: National Audit Office

7 HM Treasury, *Consolidated Budgeting Guidance: 2023-24*, paragraph 1.5 (viewed on 12 September 2023).
8 As above, 1.54.

Planning dynamically *continued*

Quote

"The finance function has to understand what the cost drivers are and the economic context. We need to quickly understand the impact of things like inflation and energy costs and how they impact on our estate and supply chain, for example. We join up with other functions to get a picture of what's going on in the external environment. What is obvious to us in the finance function may not be obvious to others – being able to communicate the impact to others quickly helps a lot."

Joan Lewis, Management Accounting and Future Finance Programme Director, Ministry of Justice

How finance leaders can address this

- **Work with other leaders in the organisation to develop a culture where planning is continuous and individuals are incentivised and accountable for keeping financial information up to date.** Emphasising and demonstrating the benefits of up-to-date information – for example, more timely decision-making or realising efficiencies – will be critical to generating buy-in across the organisation.
- **Use technology as an enabler and make it easy for individuals to manage their budgets and financial plans.** This could range from dashboards which individuals see on a daily basis to reducing the number of steps or clicks required to update budgets and financial plans. This should help individuals identify potential underspends or overspends earlier.
- **Provide targeted and quality support to budget-holders.** Focus the finance team on how they can add value and support the rest of the organisation towards a dynamic approach to financial planning. The methods will vary but the tone from the finance team to the business should be open and supportive.

Case study

Background: VisitBritain (part of the British Tourist Authority) is the national tourism agency, responsible for marketing Britain worldwide and developing Britain's visitor economy. Like many government organisations, it operates in a constantly changing environment.

Approach: Rather than regular big set-piece exercises, VisitBritain has adopted a rolling budgetary process for forecasts, which are managed on an ongoing basis. Business teams update their forecasts within the financial planning system, which integrates with the core finance system so budgets, actuals and forecasts can be viewed and reported on together. This is accompanied by ongoing conversations between finance business partners and budget-holders as well as between the organisation and its sponsoring department.

Benefit: Through this approach, the organisation is more routinely involved in the budgeting and forecasting process. There are regular opportunities for open engagement between finance and individual budget-holders, and decision-makers are able to draw on up-to-date and timely information. Forecasts are becoming more realistic and reliable, which allows the organisation to redeploy funds and make best use of limited resources.

Source: Interview with Serena Jacobs, Finance Director, VisitBritain (part of the British Tourist Authority)

Addressing optimism bias

What good looks like

The organisation analyses past performance and challenges optimism bias to generate a realistic financial plan.

Why this is important

Many of the organisations we talked to reflected that optimism bias continues to be a barrier to realistic financial planning and budgeting: individuals sometimes have a bias to overestimate what they are able to deliver and underestimate how much time and resources will be required to deliver it. A specific trend was noted within resourcing and recruitment where there can be a lack of realism in terms of how quickly and effectively gaps will be filled.

Optimism bias within budgets can mean that delivery risks and overspends are identified late, which can result in rushed responses that are poor value for money. It is critical that finance teams develop effective ways to counter this trend in order to create plans based on the most realistic outcome, not the best or worst case scenarios.

The NAO has regularly noted optimism bias as a feature of public spending – both in terms of individual projects and planning more generally.[9] In 2014 we stated: "optimism bias is a well-established concept, with a substantial body of research showing that forecast costs and benefits are generally highly inaccurate".[10] More recently our work showed over-optimism was still an entrenched problem in government.[11]

The NAO has previously outlined which factors contribute to over-optimism from a project perspective – these factors are relevant for financial planning, too (see next page).

9 National Audit Office, *Over-optimism in government projects*, December 2013.
10 Comptroller and Auditor General, *Forecasting in government to achieve value for money*, Session 2013-14, HC 969, National Audit Office, January 2014, paragraph 4.9.
11 Comptroller and Auditor General, *Improving government's planning and spending framework*, Session 2017–2019, HC 1679, National Audit Office, November 2018, paragraph 18.

Addressing optimism bias *continued*

Factors that contribute to over-optimism

Source: National Audit Office, *Over-optimism in government projects*, December 2013, Figure 1

Addressing optimism bias *continued*

Quote

"We aim to foster a culture of realism in our workforce – encouraging people to recognise the limitations and constraints of recruitment, limiting over-optimism, and encouraging the use of alternative measures when planning."

Helen Gibson,
Finance Director,
Gambling Commission

How finance leaders can address this

- **Evaluate actual financial performance against previous budgets and financial plans.** Finance teams can assess project spend, past market trends, previous performance data or historical workforce recruitment and retention patterns. Working with other functions like human resources to identify where unexpected or unforeseen additional costs have arisen or where timelines have slipped will help finance teams challenge budget-holders on where issues could arise in future.
- **Share typical examples where optimism bias has resulted in unrealistic planning.** Ideally these should be examples which resonate with the type of projects and risks that the organisation can relate to, so budget-holders can apply these lessons as part of their financial management. Being transparent across the organisation drives continual improvement and can open up opportunities for efficiencies and savings through the budgeting process.
- **Be impartial, objective and alert to bias when analysing financial plans.** There are a number of reasons why financial information may be presented with optimism bias: individuals presenting business cases may present risks, opportunities, benefits and costs in a positive light, and budgets may not capture areas which often lead to overspends. It is vital for finance leaders to exercise healthy scepticism and probe plans and budgets for signs of bias.[12]

Case study

Background: To plan its spending and to comply with financial reporting requirements, the Government Internal Audit Agency (GIAA) needs to understand what proportion of its internal audit plan teams expect to deliver in a given financial year and what proportion will fall in the following years.

Approach: Instead of solely relying on estimates from the business, the finance team uses previous years' data to challenge the realism of the GIAA's internal audit delivery plans. The team compares the plans for specific projects with the past performance of similar projects, and uses this as the basis for internal challenge and discussions.

Benefit: This approach allows the GIAA to mitigate the risk of optimism bias, formulate more credible delivery and spending plans, and provide senior decision-makers with more accurate forecasts.

Source: Interview with Paul Sayce, Finance Business Partner, Government Internal Audit Agency

12 The Green Book requires proposals to be adjusted to reflect optimism bias. HM Treasury, *The Green Book: Central government guidance on appraisal and evaluation*, November 2022, paragraphs 5.43–5.46 (viewed on 12 September 2023).

Dealing with risk and uncertainty

What good looks like

Finance leaders are aware of areas of risk and uncertainty within financial plans and present financial information in a way which aids decision-makers.

Why this is important

Government organisations operate in an uncertain and volatile environment, dealing with a wide range of complex risks with the potential to have a significant impact on the accuracy of financial plans. Understanding uncertainty enables finance leaders to quickly identify significant risks to potential funding shortfalls – or areas where the organisation may struggle to meet its objectives.[13]

It is always important for finance leaders to have an up-to-date understanding of the relative uncertainty of all aspects of their financial plans: for example, from the long-term implications for asset valuations as a result of climate change to the shorter-term impact of pay awards to employees.[14] Finance leaders can then place a clear focus on the aspects of their budgets which could be subject to the most significant fluctuations. This will allow finance teams to focus their planning and budgeting efforts as efficiently as possible, and work with budget-holders in a targeted and risk-based way.

It is important that financial planning provides decision-makers with the right level of information. Some finance leaders reflected on the importance of integrating scenario planning within annual budgets. This illustrates areas where there are lower levels of confidence and allows for robust consideration of the risks associated with key assumptions. Presenting a range of scenarios within financial plans or business cases allows for a measured approach and reducing the risk or likelihood of an organisation entering into activity that is out of line with their priorities, regularity and value-for-money requirements.

How finance leaders can address this

- **Work closely with other functions to identify any areas which could introduce uncertainty into financial plans, for example risk management or human resources.** This provides a holistic approach to the realism of financial plans and shines a light on areas where financial plans may be underplaying the impact of risks materialising.
- **Be clear with decision-makers on which aspects of the budget are more prone to uncertainty.** Finance must communicate their perception of certainty and uncertainty in a clear and understandable way – this will allow Accounting Officers and Boards to engage with the organisation's financial plans on a risk-basis.
- **Incorporate scenario ranges into financial plans.** Decision-makers benefit from understanding at least a most-likely, best-case and worst-case range to contextualise financial information. This allows decision-makers to understand the risk of variability associated with plans, visualise and challenge different assumptions and projections, and have more informed strategic conversations and monitor progress over time.

13 The NAO has a guide on questions decision-makers should ask in uncertain environments. National Audit Office, *Managing uncertainty*, August 2023.

14 National Audit Office, *Climate change risk: a good practice guide for Audit and Risk Assurance Committees*, August 2021, page 6.

Dealing with risk and uncertainty *continued*

Case study

Background: Personal tax credits are benefit payments to people with children and people who are in work but on low income. In 2020-21, HM Revenue and Customs (HMRC) spent £15 billion in personal tax credits payments. Some of these payments were made as a result of fraudulent or erroneous claims.

Analysis of personal tax credits expenditure

	Child Tax Credit	Working Tax Credit	2021-22 £m Total tax credits	Child Tax Credit	Working Tax Credit	2020-21 £m Total tax credits
Tax credits	8,379.3	2,069.0	10,448.3	11,776.7	3,179.1	14,955.8
Movement in impairment of receivables	104.8	22.6	127.4	41.9	12.4	54.3
Remissions/write-offs	21.2	8.6	29.8	36.7	16.4	53.1
Total personal tax credits	**8,505.3**	**2,100.2**	**10,605.5**	**11,855.3**	**3,207.9**	**15,063.2**

Fraud and error may result in overpayments, where claimants received more than their entitlement, and underpayments, where claimants received less than their entitlement. Overpayments increase costs for taxpayers and reduce the public resources available for other purposes. Underpayments mean that claimants do not get the support they are entitled to.

Approach: HMRC estimates overpayments and underpayments by investigating a random sample of awards. HMRC notes that these estimates are subject to two types of uncertainty: variance, which is a consequence of the sample size, and potential bias affecting decisions in those cases where customers did not respond to HMRC's communications. HMRC quantifies the effect of these uncertainties by producing a range around its estimate. HMRC's best estimate for the financial year 2020-21 is that overpayments represented 5% of finalised personal tax credit entitlements. HMRC estimated that there was a 95% probability that overpayments were between 4.4% and 5.7%, represented by the grey band in the figure on page 18.

Estimated value of personal tax credits error and fraud and as a percentage of final award value

	Lower bound	Central estimate	2020-21 awards £m Upper bound	Lower bound	Central estimate	2019-20 awards £m Upper bound
Overpayments to claimants	690 (4.4%)	780 (5%)	880 (5.7%)	850 (4.8%)	940 (5.3%)	1,040 (5.9%)
Underpayments to claimants	100 (0.6%)	120 (0.8%)	140 (0.9%)	140 (0.8%)	170 (0.9%)	200 (1.1%)

Benefit: Every estimate is subjected to a degree of uncertainty. By disclosing a range along with its best estimate, HMRC is transparent about the level of uncertainty that affects personal benefit payments. By acknowledging the limits of its analysis, HMRC increases public confidence in its work and alerts the public to the complexity of estimating fraud and error.

Source: HM Revenue and Customs, *Annual report and accounts 2021 to 2022*, July 2022, note 5.1, pages 234–237

Dealing with risk and uncertainty *continued*

Quote

"It is really important to have an understanding of the granular detail – to be able to have transparency about how you are stacking up the choice for decision-makers. This means the budget is more than just a list of processes: the budget provides understanding of what our objectives are, where our risks lie, and where is the possible volatility."

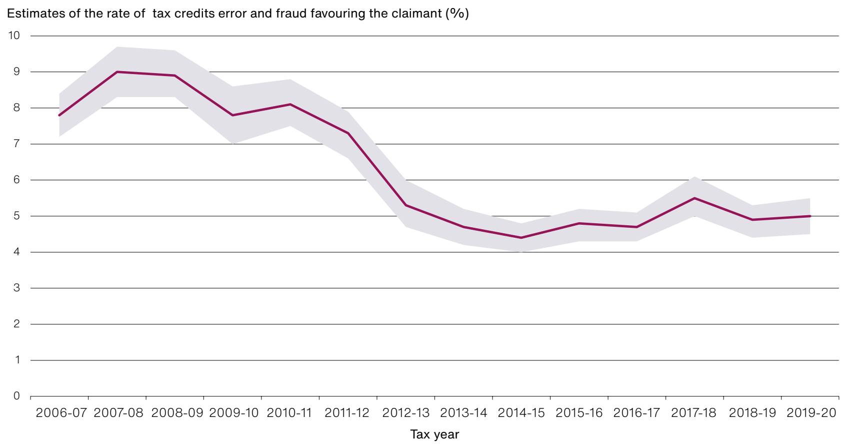
Iain King, Chief Financial Officer, Department for Environment, Food & Rural Affairs

Case study

Figure 12

HM Revenue & Customs (HMRC's) estimates of the rate of tax credits error and fraud favouring the claimant between 2006-07 and 2019-20

As part of estimating the rate of tax credits error and fraud, HMRC produces a range around its best estimate



	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Upper bound (%)	8.4	9.7	9.6	8.6	8.8	7.9	6.0	5.2	4.8	5.2	5.1	6.1	5.3	5.5
Lower bound (%)	7.2	8.3	8.3	7.0	7.5	6.6	4.7	4.2	4.0	4.3	4.3	5.0	4.4	4.5
Central estimate (%)	7.8	9.0	8.9	7.8	8.1	7.3	5.3	4.7	4.4	4.8	4.7	5.5	4.9	5.0

Notes

1 HMRC's estimates of the rate of tax credits error and fraud are based on a sample of 4,000 tax credits claimants.

2 To calculate a range around the best estimate, HMRC uses a statistical sampling methodology to calculate a 95% confidence interval. This is based on assessing the variance in values of closed cases within its sample of 4,000 tax credits claimants.

3 The 95% confidence interval does not account for other types of uncertainty, for example, measurement uncertainty. HMRC assumes that data collected, checked and cleaned on the sample of 4,000 tax credits claimants are correct and accurate.

Source: National Audit Office analysis of data from HM Revenue & Customs, *Official statistics first release on child and working tax credits error and fraud statistics 2019 to 2020*, July 2021, available at: www.gov.uk/government/statistics/child-and-working-tax-credits-error-and-fraud-statistics-2019-to-2020

Source: National Audit Office, *Financial modelling in government*, January 2022

Appendix

Our approach

We have used the following methods to generate our insights:

a **We conducted interviews with senior finance leaders from a range of our audited bodies.** We interviewed chief finance officers, finance directors, chief operating officers, financial controllers, finance business partners and other finance leaders and team members experienced in finance. Our interviews covered ministerial and non-ministerial departments, executive agencies, non-departmental public bodies, and other arm's-length bodies. We used this information to inform our themes and identify examples of good practice. Our interviews were carried out between March 2023 and June 2023.

b **We interviewed a range of financial audit teams from the National Audit Office.** We used this information to gain insights into the variation in financial management across different bodies, identify good practice examples and further our understanding of what different government bodies require for good financial management. Our interviews were carried out between December 2022 and April 2023.

c **We reviewed our back catalogue of value for money reports and Comptroller and Auditor General reports on accounts.** We used this information to identify our key themes, and why they are important to senior finance leaders in enabling sound financial management, in addition to examples of good practice.

d **We conducted wider research on financial management.** This constituted desktop research of guidance and documentation from central government and the private sector, and discussions with organisations from beyond central government.