



National Audit Office

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# National Audit Office Annual Report and Accounts 2012-13

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The National Audit Office scrutinises public spending for Parliament and is independent of government. The Comptroller and Auditor General (C&AG), Amyas Morse, is an Officer of the House of Commons and leads the NAO, which employs some 867 staff. The C&AG certifies the accounts of all government departments and many other public sector bodies. He has statutory authority to examine and report to Parliament on whether departments and the bodies they fund have used their resources efficiently, effectively, and with economy. Our studies evaluate the value for money of public spending, nationally and locally. Our recommendations and reports on good practice help government improve public services, and our work led to audited savings of almost £1.2 billion in 2012.



National Audit Office

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# National Audit Office Annual Report and Accounts 2012-13

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# Foreword



In providing assurance to Parliament for the way public money is spent, the National Audit Office has a role of critical importance, particularly at a time when money is tight and the public sector is going through substantial change.

We continued to play this vital role in 2012-13, developing our insight into the critical, systemic issues facing our clients, and seeing a real impact from our work. For example, insight and advice from our work on financial management in government continues to help shape the government's Finance Transformation Programme. We examined plans for civil service reform, supporting Parliamentary scrutiny and influencing government practice. We published 63 value-for-money reports on a wide range of topics, all helping to improve efficiency, reinforce Parliamentary accountability and protecting value for taxpayers and citizens. We increasingly focused on issues facing local government and other local public services. More details of our work are in this Annual Report.

But the challenges facing government are ever more complex and we intend to develop our skills and expertise to keep raising our game. Building on our good work in 2012-13, we will implement a transformation programme during 2013-14 so that we use our insight to deliver even more value to the bodies we audit.

In practice we will:

- deepen our understanding of the strategic challenges facing government and build expertise in response;
- use this deeper insight to deliver more value and an integrated programme of work for the bodies we audit;
- respond more quickly to issues raised with us by delivering a wider range of assurance outputs;
- expand our capability to conduct investigative work where Parliament and members of the public raise concerns; and
- continue to review projects and programmes at an early stage so that we can help maximise the potential for achieving value for money.

I expect all our work to be of high quality, timely and demonstrate real expertise so that we are an authoritative, independent source of assurance to Parliament and help drive real improvements in public services with the bodies we audit.

This Annual Report shows that we start from a high base. The challenges within government show that we must make an even greater contribution to improved public services in the years ahead.

**Amyas C E Morse**

Comptroller and Auditor General  
National Audit Office

# Chairman's report



2012-13 was a landmark year in the history of the National Audit Office, with the Budget Responsibility and National Audit Act taking full effect from 1 April 2012. The Act modernised the NAO's governance arrangements and established the NAO as a corporate entity for the first time.

During 2012-13, the NAO set out to develop its capability in new areas. In particular the organisation embarked on an ambitious transformation programme and one of the Board's key roles will be to guide and monitor the programme while ensuring that performance standards are maintained.

The Board has to ensure that the NAO operates within a framework of good governance. As such, it has focused on the NAO's strategic direction and its programme of work in key areas. For example, it has made sure that the approach to diversity, communications and performance management is effective, and an external value-for-money review of the NAO's management information has been commissioned. But most significantly, as noted above, the Board has overseen the initiation and development of the NAO's transformation programme so that the organisation is well positioned to tackle the challenges of the future. In all this, it has sought to ensure that the NAO practises what it preaches – managing its own resources to best effect and finding cost efficiencies while meeting high-quality standards.

Two of our founding non-executive board members, Ruth Evans and Richard Fleck, reached the end of their appointments in 2012. I thank them for their dedication and commitment to the establishment of the NAO's new governance arrangements. As new non-executives, we welcomed Naaz Coker and Gillian Guy to the Board. They bring additional insight and experience, including from local government, health and the voluntary sector.

During 2012-13, we carried out an external evaluation of our own performance as a Board. This showed that we are working well overall, but the evaluation drew our attention to areas where improvements could take place. Further details of the evaluation report are in the Governance Statement.

Set out in the pages that follow are details of how the NAO performed against its key performance measures in 2012-13. Over the year, the NAO has achieved impact in many areas of public services. More now needs to be done to enhance the depth and breadth of its expertise and in building capability to deal with austerity and reform. I know the Board is looking forward to playing its part in meeting that challenge.

**Professor Sir Andrew Likierman**

Chairman  
National Audit Office

# About the NAO

The National Audit Office's public audit perspective provides assurance to Parliament, and adds value to government by supporting its drive to improve public services.

## Our role

The National Audit Office (NAO) helps Parliament to hold the government to account for the way that public money is spent. We are totally independent of government.

## The Comptroller and Auditor General

The head of the NAO, the Comptroller and Auditor General (C&AG), is an officer of the House of Commons, and a Crown appointee. He reports the findings of the NAO's work to Parliament.

## Our organisation

Our budget is set by Parliament. The Public Accounts Commission, a House of Commons Committee, scrutinises our performance, examines our budget proposals and appoints our external auditors.

## Our Board

The non-executive board members are appointed by the Public Accounts Commission, and are independent of our management. The Board develops the strategy with the C&AG and also provides oversight of our resources.

## Our strategy and our objectives

Our strategy for 2013-14 to 2015-16 was approved by the Public Accounts Commission in November 2012. It sets out how we focus our expertise on the key strategic challenges faced by government and produce a wide range of outputs to support Parliament and add value.

Our vision is to help the nation spend wisely. Our public audit perspective helps Parliament hold government to account and improve public services. To achieve our vision and aim, our objectives are:

- to increase our influence on the key challenges faced by government and the way that policies are implemented;
- to develop and apply our knowledge by building our expertise and focusing on the strategic issues that public bodies face; and
- to deliver high performance by transforming the NAO and practising what we preach.

Our values are to be independent, authoritative, collaborative and fair. These underpin all our work and the way that we engage with our stakeholders in government and Parliament.

## Our work

**Parliament** – our work informs the scrutiny of government by parliamentary select committees, particularly the Committee of Public Accounts. We provide the Committee with a wide range of reports, briefings and other analysis to support their hearings into the value for money of public spending. We support other select committees' annual reviews of government departments on issues where we have expertise relevant to their inquiries.

**Financial audit** – we provide high-quality financial audit services to all government departments, as well as non-departmental agencies and other public bodies. We give assurance to Parliament that all financial statements have been properly prepared and give a true and fair view, and that public funds have been spent on purposes approved by Parliament.



**Value-for-money audit** – we provide Parliament with independent information and analysis of the economy, efficiency and effectiveness of public expenditure. In 2012-13, we supported the hearings of the Committee of Public Accounts with our reports, briefings, reviews and recommendations on how publicly funded services can be improved.

**Insight and investigations** – we develop and maintain our insight of the operating environment of the bodies we audit and draw on this in all our work. We provide in-depth analysis into the systemic issues faced across government, including the effective use of information and ICT, good practice in financial management, and how government policies can be implemented successfully. We also carry out investigations into areas of concern raised with us by Members of Parliament or members of the public.

**International** – we carry out work overseas, auditing multilateral international organisations such as the United Nations; we also work with colleagues from other national audit institutions to develop global standards in public audit and accountancy.

**Comptroller function** – the C&AG has a statutory responsibility to approve the issue of all public funds from the Exchequer to central government departments.

## Our staff

In 2012-13, we averaged 867 full-time equivalent permanent staff based in our London and Newcastle offices. The majority of our staff are qualified or trainee accountants who work with specialists in statistics, economics, ICT and other relevant disciplines.

We outsource some audit work to a number of professional services firms. We also have a few inward secondees from other organisations including some from the bodies we audit.

## Our performance

We measure our performance through a number of quantitative and qualitative performance indicators. These indicators show that in 2012-13 we:

- helped government save public money. Our work directly led to savings to the public purse of almost £1.2 billion in 2012-13;
- contributed to positive change. Sixty-three per cent of the bodies we audit consider that our work improves their approach to financial management and control;
- were acknowledged by the bodies we audit for the value of our work. Ninety-five per cent told us that their overall relationship with us is good and 51 per cent say that our expertise extends beyond financial management; and
- maintained Parliament's confidence in the independent assurance we provide. Eighty-five per cent of the Members of Parliament we surveyed think the NAO acts impartially and independently; 81 per cent think we operate with honesty and integrity.

# The distribution of National Audit Office resources in 2012-13

We deliver a comprehensive programme of work, providing insight and supporting accountability for the use of public funds. This diagram shows how we cluster our activities by department, focus our resources on areas of importance, and gives examples of our impact.



# Our work

We have five dimensions to our work

## 1

### Financial audit

#### **We are the statutory auditors of central government**

In 2012-13, we certified 437 accounts in 355 individual organisations using our professionally-qualified staff. It cost us £50.8 million to conduct this financial audit work. In 2011-12, we certified 458 accounts for £51.3 million.

Within the figure of £50.8 million is the cost of our international audit work. Further details of this work can be found on page 18.

The bodies we audit range from large central government departments to smaller arm's-length bodies. Their combined expenditure and revenue account for over £1 trillion. We also audit HM Treasury's Whole of Government Accounts, a group account for the public sector covering central government, local government, the National Health Service, Devolved Administrations and public corporations.

Through our financial audits, we provide independent assurance to Parliament on how public money is being spent, how income and taxation have been raised, and the assets and liabilities of the organisations we audit.

We inform the organisations we audit of the issues that we find during our work, giving our independent view on areas where the audited body could improve its governance, controls and financial management. For example, in 2012-13, we supported the Ministry of Justice in producing its group accounts before Parliamentary recess by working closely with them throughout the year, providing our insight on risks, project management and capability.

In 2012-13, we became responsible for auditing certain bodies for the first time, including 34 probation trusts, and prepared for the audit from April 2013 of the bodies in the new financial regulatory framework, including the Financial Services Compensation Scheme, the Financial Ombudsman Service, the Money Advice Service, the Prudential Regulation Authority and the Financial Conduct Authority. We are also working with government and other stakeholders to prepare to take on new responsibilities for overseeing the Code of Audit Practice for auditors of local authorities when the Local Audit Bill completes its passage through Parliament.

We conduct our work in accordance with International Standards on Auditing and professional best practice. The quality of our work is externally reviewed by the Audit Quality Review Team, part of the Financial Reporting Council.

OUR IMPACTS

Developing the audit approach to probation trusts

In 2012-13, the C&AG became responsible for auditing 34 English probation trusts. We worked with trusts and sector organisations to develop the framework for our audit. We identified innovative approaches to streamline the audit process, making a ten per cent reduction in audit fees to trusts this year, compared with previous arrangements. The sector welcomed our approach, which has helped to build our credibility as an auditor for local public service bodies.

Supporting enhanced financial accounting and assurance within the Department for Communities and Local Government

The Clear Line of Sight initiative required a considerable acceleration of audit timetables, and that all parties work more closely together. In support of last year's audit, we have worked collaboratively with the Department for Communities and Local Government to underpin improvement in the Department's financial reporting and its assurance and governance arrangements. The improvements delivered as a result of this work have increased senior officials' confidence in the process. The Director General commented that the "high level of trust ... critical challenge and joint governance ... led to a really, really strong productive relationship." The Permanent Secretary and Chair of the Audit and Risk Committee thanked the audit team for the "professional and cooperative way in which (we) have worked with the Department."

KEY FACTS

437 accounts certified

355 organisations

£1 trillion Combined revenue and expenditure of government

## 2

## Value for money

**During 2012-13, the Committee of Public Accounts met regularly to consider our work, including our value-for-money studies that examined how public funds are used.**

Our reports provide independent assurance to Parliament and to taxpayers on whether value for money is being achieved, and make recommendations for improvement. Our value-for-money study cycle is shown opposite.

In 2012-13, 60 value-for-money reports were published at an average cost of £197,000, against a target of £218,000, a saving of nine per cent. An additional three reports on local services (funded separately by Parliament) were published at an average cost of £303,000. Further details of the costs associated with our value-for-money work can be found on page 39.

Our studies focused on key government initiatives and the current challenges that departments face. When appropriate we look at programmes at an early stage to identify potential risks and provide comment on whether they are developed to optimise value for money. As part of our 2012-13 programme of studies we have:

- focused on the major strategic challenges facing government, including how to improve central government procurement, the management of suppliers and the critical role of ICT through our reports on Digital Britain;
- looked at cost reduction programmes in major departments, including in HM Revenue & Customs, and continued to produce financial management reports to assess government departments against best practice;
- undertaken early reviews of critical initiatives such as civil service reform and those specific to major departments such as the defence transformation programme, the academies programme and funding for new school places. We have reported on progress but also identified themes and issues of broader relevance;
- reported on changes in social housing and housing benefit and how these changes impact on the public;
- explored local issues, including through our reports on financial sustainability of local government, on communication between central and local government and on the provision of out-of-hours primary care services in Cornwall; and
- increased our focus on the management of public services by looking at business planning and financial resilience in reports that are designed to be relevant both to Parliament and to public bodies themselves.

## OUR IMPACTS

## InterCity West Coast franchise competition

In December 2012, we published our review of lessons from the Department for Transport's decision to cancel the InterCity West Coast franchise competition. Our review gave Parliament prompt independent assurance on the events that led the Department to make its decision. It allowed the Committee of Public Accounts to hold the Department to account for errors in its procurement process within three months of the errors coming to light. We worked alongside the Department's own review, and used a common evidence base. This minimised the burden of our review on the Department while preserving our independence. We were also able to draw on wider lessons, based on our knowledge of the Department and past reports.

## Financial sustainability of local authorities

We examined central government's approach to local authority funding, and reviewed local authorities' financial sustainability against a background of recent funding changes. We recommended that the Department for Communities and Local Government improve its evaluation of the impact of funding changes on local authorities' financial sustainability. The report made an important contribution to the debate on local authority financial health and was welcomed by both the national and local government and by influential sector bodies, such as the Local Government Association, London Councils and the Chartered Institute of Public Finance and Accountancy.

During 2012-13, we increasingly focused on the issues facing local government and other local public services. We implemented the first phase of our work with the local government sector to build links and understanding between local public services and the NAO. In particular, we worked with government and others on the draft legislation on the future local audit arrangements including providing evidence to the committee undertaking pre-legislative scrutiny of the draft bill. We also set up a local government reference panel to help us plan our value-for-money work in this sector. We published reports on the financial sustainability of local authorities, community budgets, new homes bonus and central government's communication and engagement with local government. We are developing our knowledge and understanding of local health trusts and we have reported to the Committee of Public Accounts on issues at Peterborough and Stamford NHS Trust. (See page 17 for case study.) We also shared our expertise in process management with a number of local bodies to explore how our knowledge can help them to improve the provision of local services.

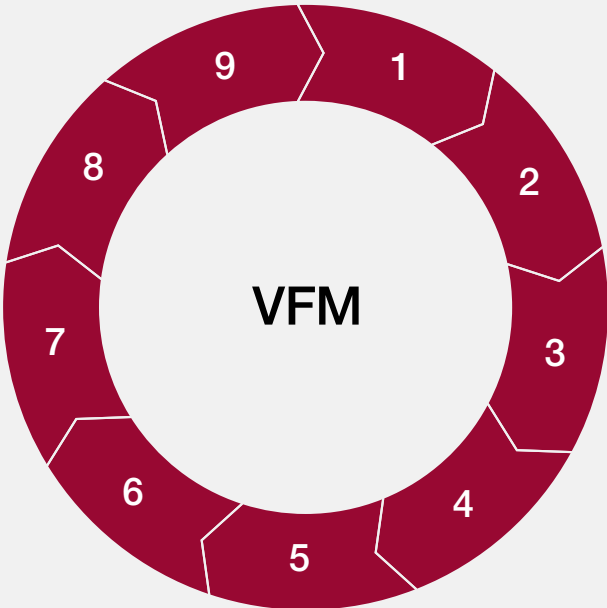
A full list of our 2012-13 publications can be found on our website: [www.nao.org.uk/publications.aspx](http://www.nao.org.uk/publications.aspx)

KEY FACTS

£197,000  
Average study cost

72%  
of studies delivered  
within nine months  
against target of 70%

The VFM study cycle



- STAGES OF THE CYCLE
- 1 Study selection
  - 2 Planning
  - 3 Fieldwork
  - 4 Analysis of audit evidence
  - 5 Drafting
  - 6 Clearance
  - 7 Publication
  - 8 Committee of Public Accounts
  - 9 Follow-up

## 3

Insight and investigations<sup>1</sup>

**In addition to major reports for Parliament, we conduct a range of other work designed to add value to the bodies we audit, identifying barriers to good performance and deepening our insight and understanding of the issues that they face.**

We also conduct investigations where issues relating to value for money or financial probity have been raised with us by Members of Parliament or members of the public. In 2012-13, we spent £8.6 million on insight and investigations work. See page 39 for more details. In 2011-12, we spent £7.7 million.

We focused in particular on developing insight and deep expertise in three cross-cutting thematic areas:

- good financial management and reporting;
- effective use of information including greater linkages with our expertise in ICT in government; and
- the capability of public bodies to implement their policies cost-effectively.

During 2012-13, we undertook detailed investigations into concerns raised about:

- contracting out language services in the justice system;
- the progress of the Work Programme;
- the severance payment given to the outgoing Director General of the BBC;
- preventing fraud in contracted employment programmes; and
- the medical services contract let to Atos by the Department for Work & Pensions.

Other examples of specific work we did for bodies we audit included:

- a review of shared services at HM Revenue & Customs and the Ministry of Defence to improve the effectiveness and efficiency of their processes;
- reviews of how the Department for Work & Pensions and HM Revenue & Customs dealt with fraud and error in welfare benefits, and how they could improve their processes and procedures;

- reviews of the data systems used by central departments to monitor and improve their performance. We recommended improvements to departments' transparency of reporting and to their internal controls so that decisions are based on robust data; and
- a review of the effectiveness of the House of Commons management board. We explored with the board how they could act more effectively together and further improve their decision-making.

## OUR IMPACTS

## Investigating concerns on contracting out the provision of language services for use in courts by the justice system

In response to concerns raised by Members of Parliament, interpreters and the public, we investigated the Ministry of Justice's contracting out of language services to Applied Language Solutions. Our work brought these issues to Parliament's and the public's attention and raised important learning points for the Ministry's procurement and contract management processes. The Committee of Public Accounts held two hearings to question those involved, and the Ministry accepted all the recommendations in the Committee of Public Accounts' subsequent report.

## Implementation of the transparency agenda

The government has accepted several recommendations we made about improving data transparency, and implemented a range of improvements incorporating some of the concepts into its Open Data White Paper, including:

- improvement of descriptive data to ensure users understand the quality, frequency and scope of the data released;
- establishing external user groups to review data held by government to identify and provide business cases for the most beneficial datasets;
- further expansion of sector boards to look at developing markets for data;
- review of the market for public sector information, including the role of current charging models and their impact on existing and new business use; and
- appointment of privacy experts to the Public Sector transparency board and individual sector boards.

<sup>1</sup> Before 1 April 2013, our insight and investigations work was referred to as performance improvement work.



## 4

## Support to Parliament

**We provide independent support to Parliament so that it can hold government to account for its financial management and the value for money that it provides to the taxpayer for the public funds it spends. The way in which this process of accountability works is shown opposite.**

We work particularly closely with the Committee of Public Accounts and develop our programme of work to support its scrutiny of the management and value for money of public spending. The work of the Committee greatly enhances our ability to influence government through our major reports as well as through the other briefing and analysis we provide to the Committee.

This Committee meets twice weekly when Parliament is sitting, and takes evidence from the full range of our work from published value-for-money studies and memoranda for the Committee to significant issues arising from our financial audit work. The Committee hears evidence from senior government officials and others.

After their hearings, the Committee of Public Accounts publishes its own reports based on the evidence presented, and makes recommendations to government. The government is obliged to respond to all the Committee's recommendations and we monitor the departments' implementation of all these recommendations. In 2012-13, the government wholly or partially accepted 82 per cent of all the recommendations made by the Committee.

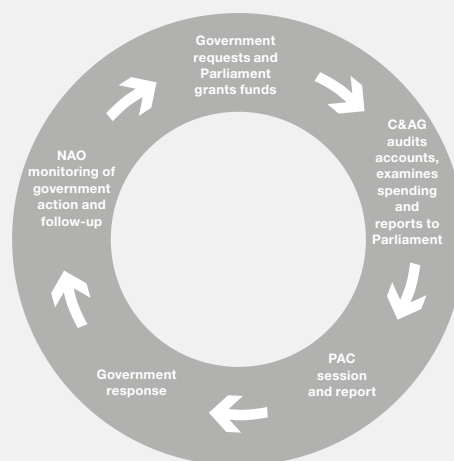
As new concerns about public expenditure are raised with us by the Committee or by the wider public, we consider how these issues might benefit from our assurance work and a subsequent committee hearing.

In addition to our support for the Committee of Public Accounts, during 2012-13, we supported other Parliamentary select committees in their annual reviews of government departments by providing 15 committees with an overview of our work in that policy area. We also produced briefings for select committees on issues where we have expertise relevant to their inquiries. In 2012-13, this included a review of charity regulation for the Public Administration Select Committee and a review of sustainable procurement in government for the Environmental Audit Committee.

We have also continued to provide expert support to the Energy and Climate Change Committee, for example by providing briefings on the nuclear energy landscape, but also being seen as a proactive expert partner that can be called upon to provide advice and guidance.

We offer briefings on our reports to all Members of Parliament where there is a constituency interest in our findings. We also offer briefings to all Members of Parliament and peers who are interested in or who reference our work to support them in their scrutiny work.

## Government accountability cycle



## OUR IMPACTS

## Securing the future financial sustainability of the National Health Service

In July 2012, the Committee of Public Accounts asked us to look further at the circumstances underlying Peterborough and Stamford NHS Trust's serious financial difficulties.

We found that the Trust Board's poor financial management and procurement of an unaffordable Private Finance Initiative scheme had left the Trust in a critical financial position. As part of a package of measures to be taken forward, Monitor, the sector regulator of NHS-funded healthcare services, has appointed a contingency planning team, who will recommend a long-term solution for the financial viability of the Trust.

## New approaches to funding for flood risk management

Our 2011 report on flood risk management in England explained how a new funding approach was introduced, as well as the requirement for increased partnership provision and funding from external sources. In 2012, we provided an update of progress made against our recommendations, at the request of the Parliamentary Select Committee for Environment, Food & Rural Affairs. We provided a written submission and also presented our findings to the Committee, which informed their discussions and questioning of subsequent witnesses as part of their inquiry into flood funding and management. Their report is due to be published later in 2013.



## 5

## International

**We audit several multilateral international organisations, including the United Nations, and contribute to the development of global standards in public audit and accountancy.**

**Our international work enables us to:**

- Audit the accounts of international bodies to which the United Kingdom and others contribute funds. Our international audit appointments currently include the United Nations (UN) Board of Auditors where, with China and Tanzania, we audit the UN Headquarters and the UN High Commission for Refugees. On 1 January 2013, the Comptroller and Auditor General succeeded his Chinese counterpart as Chairman of the Board for a period of two years.
- Promote better financial management, governance and accountability in line with international auditing standards. We work with European Union (EU) audit bodies to raise standards of financial management of EU funds and to help the European Court of Auditors' audits of EU expenditure in the UK. We work with the International and European Organisations of Supreme Audit Institutions (known as INTOSAI and EUROSAI) to set public audit standards and shape the future of audit institutions around the world.
- Share our expertise with others, while learning from others' experiences to benefit the bodies we audit in the UK. We provide technical and managerial advice, to a wide range of national audit bodies and legislatures. During 2012-13, we helped the Audit Service of Sierra Leone to strengthen its audit of revenue and helped improve the Serbia Audit Office to introduce modern approaches to financial audit. The cost of our international audit work is included in the financial audit costs set out on page 41.

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**OUR IMPACTS**
**Sharing expertise across the world**

Through our role with the Capability Building Committee of the International Organisation of Supreme Audit Institutions (INTOSAI) we have overseen the Committee producing a series of good practice guides. These guides give senior managers in international audit offices advice and cover themes such as human resource management, professionalisation of audit staff, increasing the use and impact of audit reports, and preparing for emergencies. Different audit offices share the cost of this activity and guides have been translated into many languages including Arabic, Chinese, French, German and Spanish. The guides are disseminated through regionally-based training workshops funded by the UK's Department for International Development and managed by the Norwegian-based INTOSAI Development Initiative.

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**“The NAO has made a significant contribution to strengthen financial oversight within the Parliament of Montenegro”**

Mr Damir Davidović, Secretary General of the Parliament of Montenegro

# Our performance

Our performance management framework measures six aspects of our work and how well we are delivering our strategy. Our first two measures report on the impact of our work and demonstrate where we have helped make lasting improvements to public services. We have three measures which assess our level of credibility with our most important stakeholders in Parliament and in the bodies we audit, including where our expertise is most valued. Finally, we report on our own use of public funds and how cost-effective we are. The framework comprises both qualitative and quantitative measures, drawing on a range of independent data, including from monitoring Parliament, and from surveying MPs and the bodies we audit.

The table overleaf describes our six performance measures and gives examples of the impacts achieved in 2012-13. Case studies with examples of our impact in each of our six performance measurement areas follow in subsequent pages.

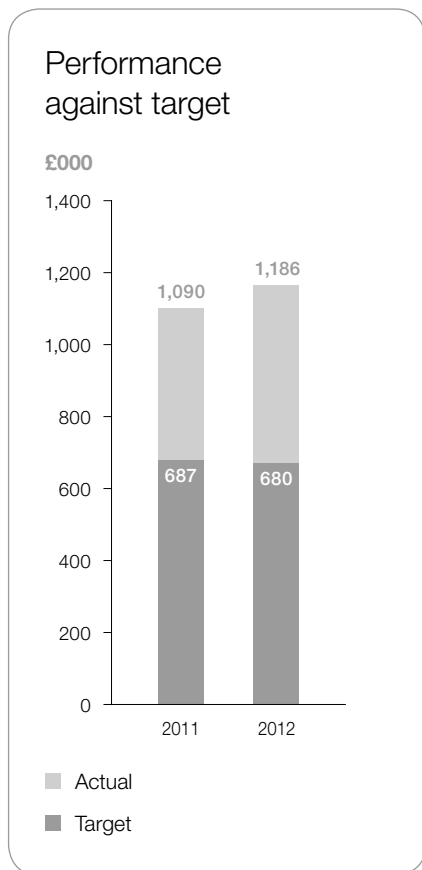
Like all performance measures, ours still only provide a partial picture of our contribution to improved public services. A strong public audit framework contributes towards stronger public financial management, good governance and accountability and has a deterrent effect on fraud and corruption. The impact of this is hard to quantify but we seek to maintain this strong public audit framework, for example through guidance and support to the bodies we audit and through the expert counsel we provide to Parliament in its scrutiny of public finance.

## The NAO's strategic performance framework

IMPACT	MEASURES	INDICATOR	SNAPSHOT OF PERFORMANCE 2012-13
Our work saves public money	Savings achieved as a direct result of our work	Performance against target	<b>ACHIEVED</b> Almost £1.2 billion against target of £680 million
Our work leads to positive change	Qualitative assessment of where we have influenced improvements in public services	Case studies where our contribution has been agreed with the bodies we audit	<b>LARGELY ACHIEVED</b> We have demonstrated our impact across most sectors and areas of our work. Examples of these impacts are on pages 22 to 27
Parliament has confidence in the independent assurance of the NAO	We survey MPs and monitor parliamentary references	Performance against a range of measures from this data	<b>LARGELY ACHIEVED</b> NAO work gets 4.5 references per day in Parliament; 66 per cent of MPs know about our work
The bodies we audit acknowledge the value of our work	Independent interviews with senior civil servants and chairs of audit committees to ascertain their views of our work	Performance against a range of measures from this feedback	<b>ACHIEVED</b> Ninety-two per cent of bodies we audit think they have had appropriate contact with the NAO
The NAO is a recognised authority in its core areas of expertise	We assess our impact in our core areas of expertise	Qualitative assessment of progress in core areas building on feedback from stakeholders	<b>PARTIALLY ACHIEVED</b> Although 99 per cent of bodies we audit think financial audit is an area of expertise, we need to demonstrate further our impact across our other areas of expertise, for example systems analysis at 33 per cent
We use funds cost-effectively	We assess our own cost-effectiveness	Dual measure of aggregate cost savings and the proportion of resources used between front-line and back-office functions	<b>ACHIEVED</b> £0.5 million saved against our approved net resource requirement On track to save 15 per cent by 2014-15 Spent 82 per cent of funds on front-line costs

## Our work saves public money

Summary: In 2012-13, we set ourselves a target to help the bodies we audit make savings of £680 million (ten times our net cost) as a result of our work. We exceeded this target, achieving validated savings to government of almost £1.2 billion. As it takes time to confirm and quantify the benefits which result from our work, some of these impacts arise from work from previous years. Our other performance measures are better indicators of whether we are achieving influence with current work.



## OUR IMPACTS

### NAO helps the Ministry of Defence reduce excess stock

We found that the Ministry of Defence was keeping its inventory levels at an unnecessarily high level, tying up resources. The Permanent Secretary and the Chief of Defence Materiel reported that the Department had changed its inventory policy because of our report, using our analysis to plan new stock levels. We estimate that the Department made £253 million of savings on inventory purchases in 2011-12 because of our recommendations.

### NAO work helps the Home Office to clear the asylum backlog

Since 2005, the NAO and the Committee of Public Accounts have highlighted the backlog of asylum cases. We recommended that more be spent on case management to deal with the backlog, and in 2009 the Home Office responded by developing 'project advance' to speed up the case process. In 2012, the Home Office wrote to the Committee of Public Accounts to confirm that the backlog of legacy cases had been cleared. We estimate that £200 million of the savings the Home Office made on support costs for asylum seekers are attributable to our work.

Further details of all our financial impacts are on pages 86–88.

## KEY FACTS

### 82%

of PAC recommendations accepted in 2012-13

### 59%

of the bodies we audit think the NAO brings insights they would not have acquired through other means

### 63%

of the bodies we audit think the NAO's work leads to changes in their approach to financial management and control

**“They bring a wider perspective and objectivity in terms of the way we operate. The NAO are a good vehicle through which best practice can be shared.”**

Audit Committee Chair,  
arm's-length body

**“Their recommendations do lead to improvements. I've found their recommendations a very useful paradigm when dealing with similar issues.”**

Accounting Officer, major department

## Our work leads to positive change

**Summary:** We continue to influence improvements in public services, particularly in areas where government needs to make systemic change. For example, we have supported improvements in financial management in many of the bodies we audit, including the Ministry of Defence, the Ministry of Justice, and the Department of Health. We are working with government to shape the Finance Transformation Programme to strengthen financial discipline and help achieve a fundamental improvement in the culture of money management in the public sector.

We are still working to ensure that the government responds faster and more positively to our work, and to maximise the impact of our cross-government insight in other areas of systemic weakness in the public sector.

We influence government directly through our work with departments, and also through our support to the Committee of Public Accounts. We monitor the government's responses to ensure that individual departments have accepted and implemented NAO and PAC recommendations (further details of this process are on page 17).

During the 2010-12 Parliamentary session the government reported that it had implemented 265 of the 455 recommendations made by the Committee, with a further 146 still being implemented. And, during 2012-13, 82 per cent of recommendations made by the Committee have been accepted by government.

OUR IMPACTS

Protecting consumers through better regulation of consumer credit

Our December 2012 report on regulating consumer credit found that around £450 million of financial harm to consumers is currently unaddressed and that the current regulatory regime under the Office of Fair Trading lacks the capacity and powers to tackle consumer harm effectively. In March 2013, the Minister for Consumer Affairs, along with the Economic Secretary to the Treasury, confirmed in a statement in the House of Commons that the government has drawn on our analysis as it develops a new regulatory regime for consumer credit markets.

Promoting growth through apprenticeships

Our 2012 report on the adult apprenticeships programme found that the programme could benefit the economy by £18 for every £1 spent. However, the Department for Business, Innovation & Skills could get better value for money by targeting its spending on sectors that produce the most economic benefit. In response to our report, and subsequent Committee of Public Accounts recommendations, the Department has taken actions, including:

- commissioning research on which areas give the greatest economic returns;
- the Skills Funding Agency reviewed whether, and where, providers were making excess profits; and
- the National Apprenticeship Service revised its rules from August 2012, so that apprenticeships would normally be expected to last between one to four years.

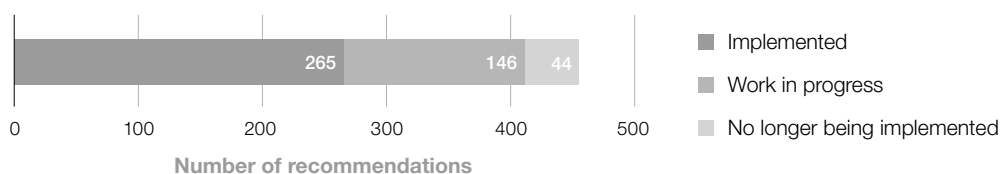
Securing better value for money from Private Finance Initiative (PFI) investment in social housing

The Department for Communities and Local Government has responded to the recommendation for programme evaluation made in our 2010 report on PFI in social housing. In particular, the Department has been undertaking a value-for-money review of all PFI projects in procurement since the Spending Review 2010 which will continue up to the financial close of individual projects. The rigorous assessment of the financial support they are prepared to give to projects has enabled the Department to negotiate better deals on its social housing contracts, resulting in savings of £96 million in today's prices, or a cash saving of £180 million over the lifetime of the contract with scope identified for further savings.

Improving customer service

In 2012, we reported on HM Revenue & Customs customer service performance and made several recommendations aimed at improving customer service. This is part of a continuing focus on customer service by the NAO and the Committee of Public Accounts. Within the programme of improvement already started by the Department, the NAO helped ensure that, in January 2013, HM Revenue & Customs committed to making significant improvements. For example, the Department now plans to answer 80 per cent of calls within five minutes, introduce more online services and replace expensive 0845 helplines with 03 numbers.

Progress on implementing recommendations from September 2010 to February 2013



NOTE

There is a time delay on the reported data as it is not reported until the Treasury Minute has been published covering the Committee of Public Accounts reports which were published 12-18 months previously.

KEY FACTS

4.5

references to the NAO, per sitting day

Parliament has confidence in the independent assurance of the NAO

Summary: Parliamentary confidence in our work remains high. Our work has continued to support parliamentary scrutiny by providing independent insight to MPs, including by supporting the Committee of Public Accounts' investigations into tax avoidance and its investigation of the InterCity West Coast franchise competition.

We need to further develop our capability to investigate the concerns of Members of Parliament and to support all Parliamentarians who demonstrate interest in the issues we examine.

OUR IMPACTS

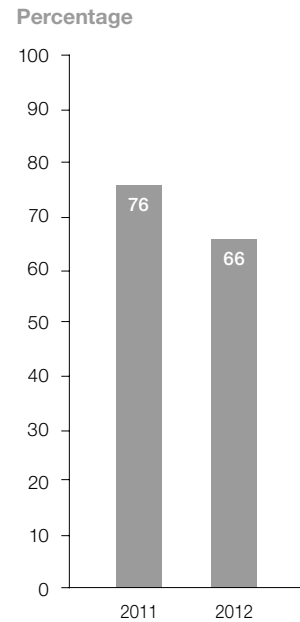
Investigating concerns about the Department for Work & Pensions' medical services contract

Following correspondence received from Members of Parliament and members of the public, we reviewed how the Department has managed its medical services contract with Atos Healthcare. As a result, we recommended ways in which the Department could strengthen its oversight of the contract. The Department agreed with a number of the recommendations, and it has made, or is considering, a number of changes to improve its oversight of contractor performance.

Supporting the Committee of Public Accounts to scrutinise the tax system

We have continued to support the Committee of Public Accounts in reviewing the administration of the UK's tax system. We reported on mass-marketed tax avoidance schemes in November 2012, and supported the Committee's hearings on tax issues with Google, Starbucks and Amazon and the big four accountancy firms. This has given the Committee the evidence to demand stronger action from HM Revenue & Customs to tackle tax avoidance; greater transparency in the tax affairs of multinational companies; and that the UK government look to reform international tax law to prevent multinationals transferring profits overseas to minimise their tax liabilities. The government has responded by making more resources available to tackle tax avoidance and evasion and by committing to reform of international tax law in collaboration with other G20 governments.

Percentage of MPs who know very well/fair amount about NAO



“The work carried out by the C&AG and the NAO has brought into sharp relief the poor management and financial information in the MoD.”

James Arbuthnot, Chair of Defence Select Committee

## The bodies we audit acknowledge the value of our work

Summary: We continue to strengthen our relationships with the bodies we audit. Ninety-five per cent of the bodies we audit report that they consider their relationship with us to be good.<sup>2</sup>

We will be making improvements in the service we provide to these bodies by raising awareness of the wider insight we can bring and by making sure that we maximise the impact we achieve from all our work.

### KEY FACTS

**83%**

of the bodies we audit think we provide an appropriate level of constructive challenge

**95%**

of the bodies we audit report the overall relationship is good, up from 84% in 2011

## OUR IMPACTS

### Promoting good financial management in government

In 2012, we continued to deliver a programme of financial management reports, highlighting key financial management issues in individual departments and suggested areas for improvement. We reviewed financial management in the Department for Business, Innovation & Skills which contributed to several improvements in the Department's practices. The Permanent Secretary sent a letter to all the Department partner organisations' accounting officers stating that he supported the NAO's findings and setting out plans for improving financial management under the 'finance for the future programme'.

### Helping government save money through shared services

We have carried out several reviews of shared services that have helped the bodies we audit to better manage these services. The Executive Director for Shared Services at the Cabinet Office has acknowledged that "the independent review of shared services in government performed by the NAO articulated many useful insights and lessons learned, which have subsequently supported the Cabinet Office's strategic plan". The Department for Business, Innovation & Skills also confirmed that it made several improvements in managing its shared services, which we had helped to identify. Alongside this work, our 2011-12 financial audit of the Department for Work & Pensions identified a number of areas where the Department could work with its shared services function to enhance the quality and efficiency of shared services processes and outputs and improve the alignment of shared services' work with the Department's expectations and needs.

"The NAO enabled the organisation to change. They shocked it into change. We were trying to do this internally, but having an NAO review which said: 'Look, this has to happen!' as an independent voice made the difference."

Finance Director, major department

<sup>2</sup> 2012 independent survey of 40 bodies we audit.



## The NAO is a recognised authority in its core areas of expertise

Summary: We are recognised by 99 per cent of those we audit as an authority in financial audit. We have used our expertise to help make improvements in areas of systemic weakness in government. For example, government is changing its approach to programme management and evaluation in key sectors where we have reported, including the government's drug strategy, plans to reduce re-offending, the Work Programme, and the Academies programme.

However, among audited bodies there is limited awareness of all areas of our expertise or the wider support that we can provide to help improve public services. As well as deepening and developing our expertise, in 2013-14 we will also focus on improving our communication and engagement with the bodies we audit in these areas.

**“Yes, the NAO provide access to the wider resources, but only where we ask for it. They need to be a little bit more proactive.”**

Accounting Officer, arm's length body

## OUR IMPACTS

### Improving oversight of financial management in local authority maintained schools

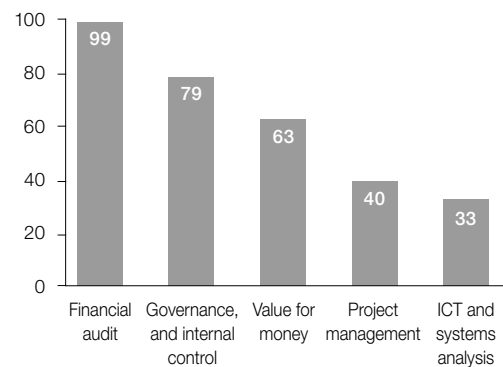
In direct response to our 2011 report on oversight of financial management in local authority maintained schools, the Department for Education changed the assurance system for schools' financial management. Accepting our finding that it needed to strengthen its response where it has evidence that local authorities are not dealing with financial management of their schools effectively, in 2012, the Department established new criteria for intervention. Where data suggests that there is a reason for concern, the Department will now approach authorities to understand the issue and confirm that the authority is addressing it.

### Helping the Department of Health to produce its accounts more quickly and efficiently

In recent years, the Department of Health has not been able to produce its accounts to the government's timetable. We worked closely with the Department to identify the root causes of the delays, examining particularly its process management. As a result of this in-depth review, the Department has begun a two-year programme to improve its financial management and radically overhaul the processes for producing accounts.

### What do our clients think we are experts in?

Percentage



## We use funds cost-effectively

Summary: We are on track to attain the target set in 2010-11 to reduce our costs by 15 per cent in cash terms over three years. In 2013-14, we will reduce our budget by a further £2.7 million on existing work thereby reducing our overall costs by 15 per cent in cash terms (and 22 per cent in real terms) over the three years since 2010-11. We have also exceeded our target to focus at least 80 per cent of our resources on front-line activity.

### KEY FACTS

COSTS RATIO  
FRONT-LINE: BACK-OFFICE

**80:20**  
Target

**82:18**  
Actual

### OUR IMPACTS

#### Reducing the cost of our financial audit

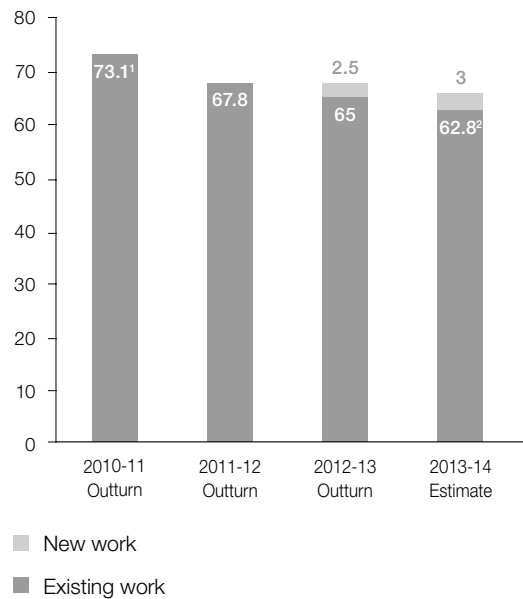
We have worked closely with the Nuclear Decommissioning Authority to revise our approach to the annual audit. We have focused on the Authority's work to strengthen its internal control and assurance mechanisms, so that it can better support the financial information recorded in the accounts. We have aligned our audit testing to the new way in which the Authority operates and obtained greater assurance from internal controls. We have been able to save more than £0.5 million on the cost of the annual audit, as well as redeploying more than 5,000 hours of auditor time to support our other work.

#### Reducing our publishing costs

We design and produce our reports in-house as market testing found this to be better value for money than an outsourced service. Since April 2012, we have used digital printing technology to produce the value-for-money reports instead of lithographic printing which we used previously. This has enabled us to produce reports on demand and reduce expenditure on printing and publishing by £169,000, while continuing to produce high-quality reports to tight deadlines.

### Net expenditure 2010-11 to 2013-14

Net expenditure (£m)



**NOTES**

- 1 Our baseline was set at £74.1 million in 2010-11.
- 2 Does not include expected restructure costs of up to £4.7 million in 2013-14.

# Our people

The skills, insight and expertise of all our people are at the centre of our work. In addition to auditors, we employ specialists including economists, project managers and experts in statistics. To remain a high performing organisation, we wish to retain talented and motivated staff from a wide and diverse talent pool. Our values are to be independent, authoritative, collaborative and fair in everything that we do. Each year, all staff sign a code of conduct, which provides clear guidance on the standards of corporate and personal conduct expected of them.

In 2012-13, we averaged 867 full-time equivalent staff. This is ten full-time equivalent staff more than in 2011-12 due to the 38 per cent reduction in our use of contractors and the decline in our use of temporary staff. These changes have reduced our outsourcing costs and reliance on external suppliers and have built our internal capability and effectiveness at an overall reduced cost.

## Training and development

As a professional organisation, we invest heavily in training and development. In 2012-13, we recruited 67 graduates for the Institute of Chartered Accountants in England and Wales (ICAEW) graduate training scheme and three school leavers for financial training run by the Association of Accounting Technician Scheme (AAT).

During 2012-13, two of our trainees, Daniel Morris and Rachel Sheehy, won prizes for the quality of their work in the Financial Accounting examination. Both joined us through the AAT scheme. The pass rates of all our trainees are consistently at or above the national average. In 2012, more than 84 per cent of our trainees passed their first stage exams compared with under 72 per cent nationally, and more than 80 per cent passed their professional exams, again better than the national average.

All staff participate in continuous professional development throughout their careers and are set a target of 120 hours training over a rolling three-year period. As well as the formal accountancy training, we provided training for our non-financial audit staff including continuous professional development in economics, statistics and related analytical disciplines and in support functions including human resources, IT and knowledge management. Staff are able to develop their business, interpersonal and management skills through courses to enhance personal effectiveness, or via work shadowing or mentoring. On average during 2012-13, staff undertook 5 days of structured training and trainees undertook 44 days.

## Staff survey

We undertake an annual staff survey and benchmark our results against government and private sector partners. In 2012, 86 per cent of our staff responded, compared with an average 63 per cent response rate in other public sector bodies.

Overall, our staff report positively on many aspects of their work at the NAO. Relative to other organisations, the NAO is in the top decile for satisfaction with learning and development and with working conditions. There have also been significant improvements in views of leadership so that scores are now comparable with other public sector bodies. The NAO's values are well understood too.

We are committed to addressing areas where improvements are necessary. For example, only half of staff think their skills and experience are used effectively at work and we need to improve the way feedback is given and performance evaluated. Our staff think we need to improve the way we collaborate internally too. Only 57 per cent of staff say that they have a good work-life balance.

We have already started tackling these issues. For example, we developed and implemented a new performance management system in order to help us tackle issues around fairness and feedback, and promote the behaviours we need to cultivate among our staff such as collaboration and giving thanks and praise. We also have continued to improve leadership visibility by establishing open forums for all staff which more than 100 people attend. Ninety-three per cent thought this a useful way to engage with the NAO's leadership and 97 per cent thought it a useful opportunity to discuss important internal issues. We will continue to address these issues through 2013-14 as we transform the NAO, building greater collaboration into all our work.

## Diversity

We have increased the diversity of our staff since adopting a formal diversity strategy in 2000, but there is still more to be done. Although our staff profile is now more diverse there are some key areas where we need to take specific action. We now have a greater number of ethnic minority staff joining us at the graduate level, but overall the number of ethnic minority staff has decreased by 1 per cent in the last year and few ethnic minority staff progress through to our more senior grades. We have a greater number of disabled staff, but we are still below the public and private sector benchmark. Overall the number of women in the NAO has decreased since 2011, but there are more women in senior posts than in 2011.

We have developed an action plan and set some stretching targets to continue to improve the diversity of the organisation. By 2014, we are expecting a year-on-year increase in the number of ethnic minorities in more senior positions. We expect the number of women in manager grades to increase to 40 per cent and we expect that up to 8 per cent of our staff will record that they have a disability.

## KEY FACTS

### STAFF SURVEY

**54%**

of staff are satisfied with their total pay and benefits (19 points higher than the benchmark average for other organisations)

**49%**

of staff think the Leadership Team is sufficiently visible

**76%**

of staff understand our values

**69%**

of staff say that they are proud to work for the NAO

**68%**

of staff think that the NAO respects differences



## Diversity in the National Audit Office

GROUP	2011 (%)	2012 (%)
Women (percentage of workforce)	45	43
Women managers	33	35
Women directors and above	30	32
Ethnic minority (percentage of workforce)	16	15
Ethnic minority managers	7	6
Ethnic minority directors and above	5	6
Disability	6	6
Part-time (percentage of workforce)	11	10

## OUR IMPACTS

## Diversity

We value the people who work here as individuals. In order to ensure that we are making the most of our people, we have set up a Diversity Delivery Board to lead an ambitious diversity programme that helps attract the best talent and encourages everyone to contribute fully. The Diversity Board chaired by a member of the Leadership Team, is made up of people from across the organisation with an interest in diversity issues. We have a number of staff diversity network groups including: women; ethnic minority; lesbian, gay, bisexual and transgender; disability; religion and belief. For the fourth consecutive year, we are in the Stonewall Workplace Equality ranking of the top 100 organisations. In January 2013, we were also recognised as a Race for Opportunity top 10 employer in the public sector. In 2012-13, we provided a wide range of training to all staff, including raising awareness about disability, diversity and to combat unconscious bias. We launched a mentoring/ personal effectiveness scheme for ethnic minority staff to support career development. We support an internship programme for undergraduates with a disability or from an ethnic minority background to identify potential recruits.

## Health and Safety

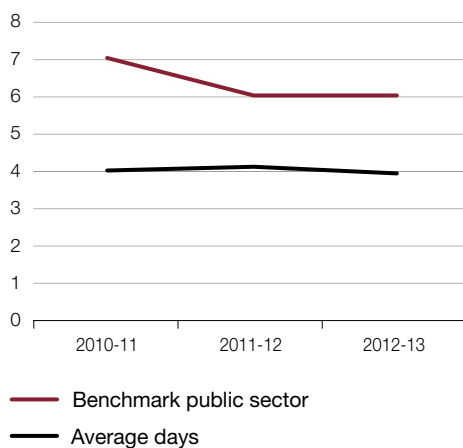
Our health and safety policy complies with all relevant legislation and is reviewed annually. It is overseen at board level. During 2012-13, we recorded nine minor incidents, one of which was reported under the reporting of injuries, diseases and dangerous occurrences regulations (RIDDOR) because a member of staff dislocated their shoulder while using the on-site gym equipment.

## Sickness absences

We are committed to the physical and mental health of our people and we have a comprehensive sickness management policy. We review our occupational health policies on an ongoing basis to ensure that sickness absence rates remain low compared to public sector benchmarks.

Sickness absence rates are low compared to public sector benchmarks

Average days



## KEY FACTS

### DIVERSITY

**43%**

of our staff are female compared with 45% in 2011

**32%**

of our senior staff are women, compared with 30% in 2011

**6%**

of our staff have a disability, the same as in 2011

**15%**

of our staff are from an ethnic minority, down from 16% in 2011

# Our governance and risk management

We uphold high standards of governance in our operations and decision-making. In April 2012, the Budget Responsibility and National Audit Act 2011 took full effect. The Act modernised governance arrangements and established the NAO as a corporate entity with a statutory board. We had been operating with a shadow board in this form since 2009.

To inform its work during 2012-13, the Board agreed clear objectives for the year:

- to discharge its formal responsibilities and be confident that it has fulfilled the requirements of the Public Accounts Commission;
- to provide effective oversight of the NAO's resources, with a specific focus in 2012-13 on skills, workforce risks and culture and values; and
- to provide support and advice to the C&AG, with particular regard to the NAO's role in the revised arrangements for local government audit.

During 2012-13, we commissioned an independent external review of the effectiveness of the NAO Board and its Committees. The review found that the new governance arrangements were well established with a good mix of skills and experience represented on the Board. The review concluded that there was an evident desire from both non-executives and executives to have a successful board that supports and contributes to the organisation, and that the non-executive members add value. The review also recommended that members of the Board should be more visible to NAO staff. This recommendation has been implemented through a series of meetings with staff.

We have also undertaken a voluntary review of our governance against the Code of Good Practice for Governance for Central Government, published by HM Treasury in July 2011. Further details of this assessment can be found on pages 48 and 49.

During 2012-13, two of our founding board members, Ruth Evans and Richard Fleck, reached the end of their three-year appointments and stood down on 30 June 2012. On the recommendation of the Chairman, the Public Accounts Commission appointed Naaz Coker and Gillian Guy to the Board from 1 July 2012.

To reflect the need to transform the NAO and ensure that strategic and managerial coherence is achieved in our new working practices, the role of Assistant Auditors General has been refocused from April 2013 to support and sustain transformation. The title Assistant Auditor General has changed to Executive Leader to reflect this. In addition, our Director of ICT, Sally Howes, has joined the Leadership Team. She will have responsibility for overseeing our work on digital technology and innovation.

The table opposite shows the governance structure for the NAO during 2012-13.

## Risk management

Our internal controls accord with HM Treasury guidance and professional best practice. Seven areas of operational risk are reviewed monthly and are also included as a standing item on the Board meeting agenda. These risks cover: financial management; professional standards; the quality of our work; propriety; workforce capacity; security of assets; and business influence.

The Board also considers external strategic risks which could affect the achievement of our policies, aims and objectives. These risks cover: external changes and events including changes in local government arrangement; changes in audit profession; events in central government; parliamentary actions and events; and the localism agenda. These risks are all managed by the executive leadership of the NAO. Further information on our approach to risk management can be found on pages 50 and 51.

## National Audit Office governance structure

### THE PUBLIC ACCOUNTS COMMISSION

Is formally responsible for: the approval of the NAO's strategy and setting the NAO's budget; the appointment of the non-executive members of the NAO Board; and the appointment of the NAO's external auditor.

### NAO BOARD

The role of the Board is to:

- develop the NAO's strategy with the C&AG;
- provide oversight of the management of NAO's resource; and
- support and advise the C&AG in the exercise of his functions.

### LEADERSHIP TEAM

The C&AG is supported in his role by a Leadership Team which:

- provides executive management; and
- provides governance to the operations delivery of the NAO.

The team is chaired by the C&AG and includes the Chief Operating Officer and the four Assistant Auditors General.<sup>3</sup>

### REMUNERATION AND NOMINATIONS COMMITTEE

The Committee is responsible for:

- determining the framework for the remuneration of the three executive members of the Board;
- overseeing major changes in NAO employee benefits; and
- the remuneration of the executive members of the Board.

### AUDIT COMMITTEE

The Committee supports the Board by:

- reviewing the internal controls;
- reviewing risk management processes;
- reviewing governance arrangements of the NAO; and
- reviewing the quality and reliability of financial reporting.

### AUDIT PRACTICE QUALITY COMMITTEE

The Committee exists to:

- review the comprehensiveness, reliability and integrity of the framework supporting the technical quality of the NAO's audit work.

### OPERATIONAL CAPABILITY COMMITTEE

The Committee's function is to:

- support the Leadership Team in delivering appropriate resources; and
- support the NAO in achieving its business objectives.

<sup>3</sup> As mentioned on page 32, the title Assistant Auditor General has been replaced with Executive Leader from 1 April 2013.



# The NAO Board and Leadership Team



## 1. Sir Andrew Likierman

### Chairman of the NAO

Andrew Likierman is Chairman of the NAO Board. He is also Dean of the London Business School. In the course of his career, Andrew has been Head of the Government Accountancy Service and was a Managing Director of the Financial Management, Reporting and Audit Directorate at HM Treasury.

## 2. Amyas Morse

### Comptroller and Auditor General and member of the NAO Board

Amyas Morse was appointed Comptroller and Auditor General on 1 June 2009, and is a member of the Institute of Chartered Accountants of Scotland. Amyas was Global Managing Partner (Operations) at PricewaterhouseCoopers before he joined the Ministry of Defence in 2006 as Commercial Director. He has also served as a member of the Major Projects Review Group and the Public Sector Board of the Chartered Institute of Purchasing and Supply, and on a National Health Service Project Board.

## 3. Michael Whitehouse

### Chief Operating Officer and member of the NAO Board

Michael Whitehouse was appointed Chief Operating Officer in July 2009. Michael is CIPFA-qualified and has extensive experience of value-for-money work across government. Michael has responsibility for the strategy, capability and operational performance of the NAO, and leads the NAO's work on cross-government issues. Michael is Chair of the Operational Capability Committee.

## 4. Gabrielle Cohen

### Assistant Auditor General and member of the NAO Board<sup>4</sup>

Gabrielle Cohen has been an Assistant Auditor General since 2005 and is CIPFA qualified. She was appointed to the Board in July 2009. Gabrielle is responsible for leading our stakeholder relations, governance, corporate policy, and relations with Parliament.

## 5. Naaz Coker

### Non-executive member of the NAO Board

Naaz Coker joined the NAO Board in July 2012. She started her career in the National Health Service working as a pharmaceutical officer before becoming a clinical director and general manager. She served as a director at the King's Fund and was Chair of the British Refugee Council for eight years. She served as Chair of the St George's NHS Trust until 2011 and was named Asian Woman of the Year in 2000 and 2003.

### Key to committee membership

- NAO Board
- Audit Committee
- Remuneration Committee
- Leadership Team
- Operational Capability Committee
- Audit Practice and Quality Committee

<sup>4</sup> As mentioned on page 32, the title Assistant Auditor General has been replaced with Executive Leader from 1 April 2013.



## 6. Gillian Guy

### **Non-executive member of the NAO Board**

Gillian Guy joined the NAO Board in July 2012. She is the Chief Executive of Citizens' Advice and has experience in both the public and voluntary sectors. She began her career as a lawyer in private practice before moving to local government. She served as Chief Executive of the London Borough of Ealing for 12 years and was Chief Executive of Victim Support between 2006 and 2010.

## 7. Paula Hay-Plumb

### **Non-executive member of the NAO Board**

Paula Hay-Plumb is an experienced board director in both the public and private sectors, and is currently a Non-Executive Director of Hyde Housing Association. She is a Chartered Accountant and a Member of the Association of Corporate Treasurers. Paula is our Senior Independent Director and Chair of the Remuneration Committee.

## 8. Ed Humpherson

### **Assistant Auditor General and member of the NAO Board**

Ed Humpherson has been an Assistant Auditor General since 2007. He was appointed to the NAO Board in July 2009. He is responsible for the NAO's work on business and economic affairs, including the audits of many key government departments, and the NAO's work on private finance, the third sector, and the government's response to the financial crisis. Ed is Chair of the Audit Practice and Quality Committee.

## 9. Dame Mary Keegan

### **Non-executive member of the NAO Board**

Mary Keegan was Head of the Government Finance Profession and Finance Director at HM Treasury until March 2008. She has also been Chair of the UK Accounting Standards Board, and was the first female partner in the UK audit practice of PricewaterhouseCoopers. Mary is Chair of the Audit Committee.

## 10. Lynda McMullan

### **Assistant Auditor General**

Lynda McMullan has been an Assistant Auditor General since 2011 with responsibility for the NAO's work on local government, education and health. Lynda joined the NAO from Kent County Council where she was Director of Finance and Procurement. She has also held positions at the London Boroughs of Southwark and Hammersmith and Fulham, and for six years at Nottingham City Council.

## 11. Martin Sinclair

### **Assistant Auditor General**

Martin Sinclair has been an Assistant Auditor General since 1999. He is responsible for the audit of a broad portfolio of clients, including many major government departments. He is a member of the Council of the Chartered Institute of Public Finance and Accountancy (CIPFA) and is Chair of CIPFA's Accounting and Auditing Standards Panel.

# Resource accounts 2012-13

Presented pursuant to Paragraph 25(8), Schedule 2 of the Budget Responsibility and National Audit Act 2011.

## Budget Responsibility and National Audit Act 2011

The Budget Responsibility and National Audit Act 2011 established the National Audit Office (NAO) as a body corporate on 1 April 2012 and on this date, the Comptroller and Auditor General transferred property, rights and liabilities to the NAO. Paragraph 24(1), Schedule 2 of the Act requires the NAO to prepare resource accounts. Details of the Act can be found at: [www.legislation.gov.uk/ukpga/2011/4/enacted/data.pdf](http://www.legislation.gov.uk/ukpga/2011/4/enacted/data.pdf)

## Auditor of the NAO

RSM Tenon Audit Limited was appointed by the Public Accounts Commission as the external auditor of the NAO for a period of three years (with provision for two one-year extensions) from 1 April 2011.

All relevant audit information has been made available to the external auditor and the Comptroller and Auditor General has taken steps to ensure that he is aware of any relevant audit information and has made the external auditors aware of that information.

In addition to its work to form an opinion on the financial statements, RSM Tenon Audit Limited provides value-for-money reports on the NAO to the Public Accounts Commission, reviews the NAO's statement of financial impact, and provides assurance to funding organisations on the NAO's claims for the reimbursement of costs related to the provision of advice and training under its international technical cooperation programme. Details of the cost of external audit services are disclosed in Note 8 to the accounts on page 68.

Reports produced by RSM Tenon on the NAO are available on the Public Accounts Commission's website: [www.parliament.uk/business/committees/committees-a-z/other-committees/public-accounts-commission/](http://www.parliament.uk/business/committees/committees-a-z/other-committees/public-accounts-commission/)

## NAO Estimate

The Budget Responsibility and National Audit Act 2011 requires the NAO to prepare a Supply Estimate for each financial year. Supply Estimates are the means by which authority is sought from Parliament for spending each year. Once the Public Accounts Commission has examined the NAO's strategy and endorsed plans for resources, usually in November, the NAO prepares its Estimate which is usually considered by the Commission in March. Parliament normally authorises the Estimate towards the end of July, when the Appropriation Act is passed. The NAO's Estimate for 2013-14 was approved by the Public Accounts Commission on 12 March 2013 and provides for a total net resource requirement of £70.5 million for existing and new work and for restructuring the NAO's business. Before including the costs of new work and restructuring, the approved net resource requirement of £62.8 million for 2013-14 is 4 per cent lower than the net resource requirement for existing work in 2012-13, which was £65.5 million. Copies of the Estimate are available from The Stationery Office and on the Official Documents website at: [www.official-documents.gov.uk/document/hc1213/hc10/1070/1070.pdf](http://www.official-documents.gov.uk/document/hc1213/hc10/1070/1070.pdf)

## Management Commentary

### Review of performance

2012-13 was the second year of the NAO's three-year cost reduction programme. The NAO's net resource outturn for 2012-13 was £67.5 million which is £0.5 million or 0.7 per cent lower than the net resource requirement approved in the 2012-13 Estimate. The following table provides a more detailed comparison of the NAO's 2012-13 outturn with the 2012-13 Estimate:

### Comparison of 2012-13 outturn with the 2012-13 Estimate<sup>1</sup>

Resources	2012-13 Estimate	2012-13 Outturn	(Saving)	
	£m	£m	£m	%
Gross resource requirement	88.3	89.0	0.7	0.8
Income	(20.3)	(21.5)	(1.2)	(5.9)
<b>Net resource requirement</b>	<b>68.0</b>	<b>67.5</b>	<b>(0.5)</b>	<b>(0.7)</b>
Capital expenditure	1.1	1.1	–	–
Net cash requirement	67.0	61.8	(5.2)	(7.8)

<sup>1</sup> Figures are presented here to the nearest £0.1 million. Note 2 on page 64 provides figures to the nearest £1,000.

### Savings achieved against the approved net resource requirement

The variance against the net resource requirement is mainly due to a combination of savings on outsourcing and an increase in income. A significant part of the savings on outsourcing arose due to a change in the mix of resources on value-for-money work, which was largely delivered with in-house resources. In addition, more IT audit work was delivered with internal resources following the appointment of a specialist IT audit director, which led to a review of our approach to auditing IT systems.

### Income

In the UK, the NAO earns income on fees charged from non-departmental public bodies and from other clients where audit engagements are approved by the NAO Board. The NAO also undertakes a significant amount of international work and earns income from work on the United Nations Board of Auditors (UNBOA), to which the NAO was appointed for a six-year term in 2010, and from work on international technical cooperation projects. In addition, the NAO earns income by renting out spare capacity in the London headquarters building and through recoveries of salary costs for staff seconded to other public sector bodies. Fees on UK audit income represent around 70 per cent of total annual income and are set to meet the costs of the audit, not to generate a profit. Fees for the UNBOA work are set on a biannual basis and are shared equally among the three board members.

In 2012-13, the NAO generated £21.5 million income, which was £1.2 million or 5.9 per cent higher than the 2012-13 Estimate (see note 9 on page 69). The increase in income is due to fee-generating work being brought forward, an expansion of the external secondment programme and rental income increasing because the NAO was able to lease floorspace earlier than expected.

The first biennium of work on the UNBOA concluded in 2012-13. The second biennium is now in progress and the current board members sharing the work are Tanzania, China and the United Kingdom. In 2012-13, the NAO earned a total of £3.0 million from the UNBOA (£1.9 million in 2011-12) with £1.3 million relating to the first biennium and £1.7 million relating to the second biennium. The increase in the period is due to income earned on additional work for the board and an increase in fees for the second biennium. The contract is denominated in US dollars and the exchange rate position is actively monitored.

In 2012-13, the NAO expanded its outward secondment programme and, in doing so, earned income of £1.1 million, an increase of £0.4 million from the initial budget of £0.7 million. The NAO continued to seek ways to maximise the use of the London headquarters building as an income-generating asset and has now sublet all surplus space to tenants, generating £1.3 million income in 2012-13 (2011-12: £0.7 million).

### Capital expenditure

The NAO invested £1.1 million in 2012-13 to improve the efficiency of business operations. Included within this was £0.3 million for developing and implementing new audit software to help generate further efficiencies in financial audit and value-for-money work. £0.3 million was also spent on developing document management software and £0.1 million on developing business intelligence software. These are reported as assets in the course of construction in Note 11 on page 73. The balance of £0.4 million was spent on the purchase of IT equipment and furniture and the renewal of software licences.

### Capital employed

The following table summarises the movements in assets and liabilities since 2008-09:

### Capital employed since 2008-09

	2008-09 £m	2009-10 £m	2010-11 £m	2011-12 £m	2012-13 £m
<b>Assets</b>					
Non-current assets					
Property plant and equipment:	34.3	76.7	77.9	74.6	<b>74.6</b>
<i>land and buildings</i>	22.4	55.5	58.2	56.1	<b>57.7</b>
<i>plant and machinery</i>	0.5	16.5	15.8	14.9	<b>14.1</b>
<i>IT equipment</i>	2.3	2.1	1.5	1.4	<b>0.9</b>
<i>furniture, fixtures and fittings</i>	0.4	2.6	2.4	2.2	<b>1.9</b>
<i>asset in course of construction<sup>1</sup></i>	8.7	–	–	–	<b>–</b>
Intangible assets	1.2	1.5	1.3	1.3	<b>1.5</b>
<i>software and other licences</i>	1.2	1.5	1.3	1.1	<b>1.1</b>
<i>asset in course of construction<sup>2</sup></i>	–	–	–	0.2	<b>0.4</b>
Other non-current assets	0.6	0.5	0.5	0.6	<b>0.6</b>
Current assets	11.8	10.7	10.7	9.1	<b>6.2</b>
<b>Liabilities</b>					
Current liabilities	(6.4)	(5.2)	(6.1)	(4.7)	<b>(6.0)</b>
Provisions	(2.5)	(3.5)	(5.3)	(3.4)	<b>(2.9)</b>
<b>Net capital employed</b>	<b>39.0</b>	<b>80.7</b>	<b>79.0</b>	<b>77.4</b>	<b>74.0</b>

1 Between December 2007 and December 2009, the NAO refurbished the London headquarters building and reported the costs during that time as an asset in the course of construction.

2 Intangible assets in the course of construction included new audit software in 2011-12 and document management software and business intelligence software in 2012-13.

### Financial position

The Statement of Financial Position on page 57 shows that, as at 31 March 2013, total assets less total liabilities were £74.0 million, £3.4 million lower than as at 31 March 2012.

Non-current assets increased in net terms by £0.3 million, mainly due to an increase in the value of the London headquarters building, following a professional revaluation, and an increase in the value of intangible assets.

Current assets decreased by £2.9 million due to a reduction in accrued income and trade debtors. Building on the success of 2011-12, the NAO continued to issue interim invoices to improve the management of working capital and reduce balances owed by clients at the year end.

In total, liabilities increased by £0.8 million due to an increase in trade and other payables mainly as a result of the voluntary early departure programme, which was agreed in the final quarter of the financial year. The most significant liability was the provision of £2.9 million, mainly for payments made to former employees who left the NAO under the terms of the Civil Service Compensation Scheme prior to October 2010. This is £0.5 million lower than it was at 31 March 2012 and the balance will continue to reduce until it is fully depleted. From October 2010, new early departure costs are recognised in-year and any balances due are reported within accruals rather than provisions in accordance with the Government Financial Reporting Manual.

### Key NAO achievements in 2012-13

- **Financial audit** – 437 accounts were certified against a target for the year of 450. Deliveries of the remaining 13 audits have been postponed to the 2013-14 financial year due to client-related issues; the NAO undertook a significant amount of additional work due to the first full year of the alignment project.
- **Value for money** – 60 reports were delivered at an average cost of £197,000, against a target of £218,000 in line with existing work responsibilities, a saving of 9 per cent. An additional three reports were delivered on local services at an average cost of £303,000. The NAO managed to deliver its existing and new work programme at the same total cost as in 2011-12. The total cost of its value-for-money work in 2012-13 was £19.7 million and also included studies in progress, the central costs of technical support and external quality reviews.
- **Performance improvement** (insight and investigations from 2013-14) – 196 outputs and outcomes were delivered including a range of outputs, to help the bodies we audit to improve, for example by supporting more effective governance including with the House of Commons management board.
- **Other work programmes** – the NAO supported the Committee of Public Accounts in 57 hearings and worked with 20 select committees.

The NAO also identified financial impacts of some £1.2 billion, more than 17 times its net running cost.

### Payment of suppliers

The NAO is an Approved Signatory to the Better Payment Practice Code ([payontime.co.uk](http://payontime.co.uk)). The calculation of payment performance for the 2012-13 financial year was based on continuous monitoring of payments since the start of the year and 94 per cent of payments were made within 30 days of receipt of the invoice (31 March 2012: 96 per cent). The NAO also monitored payments against a ten day target, in recognition of the government's commitment to pay suppliers within this period wherever possible and 81 per cent of payments were made within ten days of receipt of the invoice (31 March 2012: 81 per cent).

### Resources required in 2013-14

The NAO's Estimate for 2013-14 was approved by the Public Accounts Commission on 12 March 2013. The Estimate provides for a total net resource requirement of £70.5 million – £62.8 million for existing work, £3.0 million for new work arising mainly due to the planned abolition of the Audit Commission, and additional funding of up to £4.7 million for restructuring the NAO. The table on page 41 provides a summary of outturn from 2008-09 to 2012-13. The outturn for 2012-13 has been re-presented following a change in the structure of NAO work to enable a more meaningful comparison with 2013-14.

### Financial audit

Resources required for financial audit work for 2013-14 are expected to decrease to £47.2 million. This follows the full effect of the new machinery of government changes, and the closure of some 50 audited bodies. The majority of these bodies are fee-paying and there will be a corresponding fall in audit fee income. In addition, several new initiatives have been implemented to make further efficiencies in the NAO's audit work, including the full roll-out of new audit software which will streamline review and reporting procedures and help drive further efficiencies in future years.

### Value for money

Resources required for value-for-money work are expected to be lower than in 2012-13 by £0.3 million as the NAO will deliver value-for-money outputs in a number of different ways in response to the needs of the Committee of Public Accounts in an effort to be more flexible and timely in the support provided. There is also continued focus on reducing outsourcing because the NAO's internal expertise in areas, such as information technology and economic analysis, has increased in recent years. In addition, a number of studies are becoming shorter and more focused as the NAO responds more quickly to Committee of Public Accounts' requirements. Work in this area will also cover wider assurance products for other key stakeholders.

### Insight and investigations

From 2013-14, activities relating to engagement with audited bodies will be brought together under insight and investigations to increase understanding of, and expertise in, key issues affecting the delivery of public services. The NAO will build its capacity to investigate issues highlighted to it by Members of Parliament and the public. Overall resources required for insight and investigations (formerly included within performance improvement work) are expected to be £2.1 million lower than the re-presented figure of £15.0 million in 2012-13. Resource requirements will be lower due to efficiencies from new ways of working under the Transformation Programme.

### Support to Parliament

Resources to support the Committee of Public Accounts and parliamentary select committees in the House of Commons are forecast to increase to £8.1 million to strengthen our support for parliamentary accountability.

### New work

Included within the resource totals described above, the net resource requirement for new work that will be undertaken by the NAO in 2013-14 is £3.0 million (2012-13: £2.5 million) and comprises gross costs of:

- £1.3 million to cover the cost of a full year of audit of 34 probation trusts and detailed planning of five new financial services regulatory bodies; these costs will be recovered through audit fees of £1.1 million;
- £1.9 million to produce six major reports – four on locally delivered services and two on foundation trusts – and for developing our future programme; and
- £0.9 million for other work including developing the audit codes of practice, preparing for legislative change and other investigatory activities. The current codes of audit practice for local government and health sectors run until 2015. The NAO will take on this work from 2015, looking in particular at the requirement for auditors to carry out value-for-money work locally.

### Restructuring the NAO

The NAO is implementing a transformation programme. As part of this, the NAO will reduce the total number of staff in post. Some reduction is expected through natural turnover, but this is not sufficient to achieve a fundamental change in its operations. The NAO has therefore been allocated additional funding of up to £4.7 million for the early release of up to 40 staff. Around ten posts will be replaced with staff with new skills and expertise to enhance the NAO's future capability.

## NAO voted expenditure 2008-09 to 2012-13 and resource requirements 2013-14 to 2014-15<sup>1</sup>

	2008-09 Outturn	2009-10 Outturn	2010-11 Outturn	2011-12 Outturn	2012-13 Outturn	2012-13 Outturn re-presented <sup>2</sup>	2013-14 Estimate	2014-15 Assumption
	£m	£m	£m	£m	£m	£m	£m	£m
Financial audit	47.3	50.1	51.2	51.3	<b>50.8</b>	49.3	47.2	46.6
Value for money	26.7	21.6	19.1	19.7	<b>19.7</b>	17.4	17.1	16.5
Performance improvement/Insight and investigations	9.0	12.0	10.5	7.7	<b>8.6</b>	15.0	12.9	12.5
Support for Parliament and international organisations	10.6	10.7	11.6	9.0	<b>9.7</b>	7.1	8.1	7.9
Comptroller function	0.2	0.2	0.2	0.2	<b>0.2</b>	0.2	0.2	0.2
Restructuring the NAO	–	–	–	–	–	–	4.7	–
Refurbishment of NAO HQ <sup>3</sup>	20.7	16.2	–	–	–	–	–	–
Temporary accommodation	8.3	5.9	–	–	–	–	–	–
<b>Total gross resource requirement</b>	<b>122.8</b>	<b>116.7</b>	<b>92.6</b>	<b>87.9</b>	<b>89.0</b>	<b>89.0</b>	<b>90.2</b>	<b>83.7</b>
Income	(19.9)	(19.9)	(19.5)	(19.9)	<b>(21.5)</b>	(21.5)	(19.7)	(19.3)
<b>Total net resource requirement</b>	<b>102.9</b>	<b>96.8</b>	<b>73.1</b>	<b>68.0</b>	<b>67.5</b>	<b>67.5</b>	<b>70.5</b>	<b>64.4</b>
<b>Capital expenditure</b>	<b>8.9</b>	<b>11.9</b>	<b>1.3</b>	<b>1.2</b>	<b>1.1</b>	<b>1.1</b>	<b>1.5</b>	<b>1.5</b>

1 All expenditure is deemed to be equivalent to resource DEL (Departmental Expenditure Limit) and capital DEL.

2 The outturn for 2012-13 has been re-presented following changes to the way the NAO will work to allow a more meaningful comparison with 2013-14.

3 Between December 2007 and December 2009, the NAO refurbished the London headquarters building and incurred significantly higher capital and resource expenditure in this period.



# Remuneration Report

## Remuneration policy

### Comptroller and Auditor General

The remuneration of the Comptroller and Auditor General is determined jointly by the Prime Minister and the chair of the Committee of Public Accounts prior to appointment. In accordance with the provisions of Paragraph 13(5), Part 2 of the Budget Responsibility and National Audit Act 2011, the remuneration of the Comptroller and Auditor General is charged on, and paid out of, the Consolidated Fund. The remuneration and associated National Insurance contributions are disclosed in Note 8 on page 68.

### NAO Chairman

The remuneration of the NAO Chairman is determined jointly by the Prime Minister and the chair of the Committee of Public Accounts. In accordance with the provisions of Paragraph 6(2), Schedule 2 of the Budget Responsibility and National Audit Act 2011, the remuneration of the NAO Chairman is charged on, and paid out of, the Consolidated Fund. The remuneration and associated National Insurance contributions are disclosed in Note 8 on page 68.

### Non-executive Board members

The Public Accounts Commission approves the remuneration of the non-executive Board members. The remuneration paid to non-executive board members is non-pensionable.

### Executive Board members

The Remuneration Committee determines and agrees the remuneration of the three executive Board members.

### NAO staff

In accordance with the provisions of the Budget Responsibility and National Audit Act 2011, the NAO is responsible for employing staff. The Act further provides that, in determining the terms of employment for staff, the NAO must have regard to the desirability of keeping the terms broadly in line with those applicable in the Civil Service.

NAO staff normally hold appointments which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Factors which are taken into consideration in determining senior executives' levels of remuneration are the:

- need to recruit, retain and motivate suitably able, qualified and high-calibre people;
- type and weight of the portfolios of work managed;
- level of performance and contribution made to the organisation;
- funds available to the NAO;
- current and prospective rates of inflation; and
- relevant legal obligations including equality and anti-discrimination requirements.

The following table provides details of the remuneration and benefits of the NAO Board and Leadership Team. The information on pages 43 to 45 has been subject to audit.

	Date of appointment	Notice period	2012-13				2011-12			
			Salary	Bonus	Benefits in kind to nearest £100 <sup>2</sup>	Total Remuneration	Salary	Bonus	Benefits in kind to nearest £100	Total Remuneration
			£000	£000		£000	£000	£000		£000
Professor Sir Andrew Likierman (Chair)	01-01-09	3 months	50–55	–	–	50–55	50–55	–	–	50–55
Amyas Morse Comptroller and Auditor General	01-06-09	None	205–210	–	–	205–210	205–210	–	–	205–210
Michael Whitehouse Chief Operating Officer	01-04-02	3 months	160–165	–	200	160–165	160–165	–	–	160–165
Gabrielle Cohen	01-04-05	3 months	140–145	–	200	140–145	135–140	–	–	135–140
Ruth Evans (to 30 June 2012)	01-07-09	3 months	5–10 (full year equivalent: 20–25)	–	–	5–10 (full year equivalent: 20–25)	20–25	–	100	20–25
Richard Fleck CBE (to 30 June 2012)	01-07-09	3 months	5–10 (full year equivalent: 20–25)	–	–	5–10 (full year equivalent: 20–25)	20–25	–	–	20–25
Paula Hay-Plumb	17-03-10	3 months	20–25	–	800	20–25	20–25	–	900	20–25
Ed Humpherson	16-07-07	3 months	135–140	–	200	135–140	135–140	–	–	135–140
Dame Mary Keegan	01-07-09	3 months	20–25	–	1,500	20–25	20–25	–	1,600	20–25
Gillian Guy	01-07-12	3 months	15–20 (full year equivalent: 20–25)	–	–	15–20 (full year equivalent: 20–25)	–	–	–	–
Naaz Coker	01-07-12	3 months	15–20 (full year equivalent: 20–25)	–	100	15–20 (full year equivalent: 20–25)	–	–	–	–
Lynda McMullan	01-10-11	3 months	145–150	–	200	145–150	70–75 (full year equivalent: 140–145) <sup>1</sup>	–	–	70–75 (full year equivalent: 140–145) <sup>1</sup>
Martin Sinclair	29-01-99	3 months	145–150	–	200	145–150	140–145	–	–	140–145
Banding of highest paid individual (Comptroller and Auditor General)						205–210				205–210
Median Total Remuneration based on full-time equivalent staff						45,331				43,982
Ratio						4.6				4.8

1 Full year equivalents are shown for 2011-12 because Lynda McMullan was appointed on 1 October 2011.

2 There are no comparatives for benefits in kind paid to members of the Leadership Team for 2011-12, because HM Revenue & Customs rules relating to payments of tax for death in service benefit changed during 2012-13.

## Salary

'Salary' includes gross salary and any other allowance to the extent that it is subject to UK taxation.

## Benefits in kind

The monetary value of benefits in kind covers any expenditure incurred by the NAO and treated by HM Revenue & Customs as a taxable emolument. As part of the remuneration package the NAO provides all employees with additional death in service benefit equivalent to one year's salary. Following a change in HM Revenue & Customs rules, NAO staff became responsible for the payment of the associated tax liability in November 2012. The cost to the NAO of providing the death in service benefit to members of the Leadership Team is shown within the benefits column in the Table on page 43.

The benefits in kind disclosed for non-executive members of the Board relate to travel to the NAO for board and other committee meetings and include the associated tax liability which was met by the NAO. The NAO has an agreement with HM Revenue & Customs to meet income tax and National Insurance on these benefits on behalf of non-executive Board members.

## Salary multiples

The Comptroller and Auditor General was the highest-paid individual in the NAO in 2012-13. His salary was in the range £205,000 to £210,000 (2011-12: £205,000 to £210,000). This was 4.6 times the median salary paid which was in the range £45,000 to £50,000 (2011-12: £40,000 to £45,000). The Comptroller and Auditor General's salary is paid by the Consolidated Fund and is reported in Note 8 to the Accounts on page 68. In 2012-13, remuneration ranged from £18,372 to £210,000 (2011-12: £16,597 to £210,000).

## Pension liabilities

### Comptroller and Auditor General

The pension arrangements for the Comptroller and Auditor General are covered by the Superannuation Act 1972 and are analogous to those of a member of the Principal Civil Service Pension Scheme which is unfunded. The Act provides for defined pension benefits to be met from the Consolidated Fund and no liability rests with the NAO. On taking up his appointment as Comptroller and Auditor General on 1 June 2009, Amyas Morse waived his defined pension benefit entitlement.

### NAO staff

Past and present employees of the NAO are covered by the provisions of the Principal Civil Service Pension Scheme. The scheme is a defined-benefit scheme and liability rests with the Scheme, and not the NAO. Benefits are paid from the Civil Superannuation Vote to which the NAO makes contributions calculated to cover accruing pension entitlement for staff employed. Details of the scheme can be found at [www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)

The pension entitlements of the most senior managers of the NAO were as follows:

Name and title	Accrued pension at age 60 at 31 March 2013 £000	Accrued lump sum at age 60 at 31 March 2013 £000	Real increase in annual pension £000	Real increase in lump sum £000	CETV at 31 March 2013 £000	CETV at 31 March 2012 <sup>1</sup> £000	Real increase in CETV £000
Michael Whitehouse Chief Operating Officer	69	208	3	8	1,385	1,267	118
Gabrielle Cohen	45	136	2	6	804	729	75
Ed Humpherson	40	47	4	2	499	433	66
Lynda McMullan	60	0	58	0	600	18	582
Martin Sinclair	71	121	5	3	1,328	1,180	148

<sup>1</sup> Pension information has been supplied by My CSP, the NAO pensions administrators. The figures may be different from the closing figures in the 2011-12 Resource Accounts due to the CETV factors being updated to comply with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008.

## Employer contributions to partnership pensions

None of the above benefited from such contributions in the year to 31 March 2013.

## Cash equivalent transfer values (CETV)

This is the actuarially-capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the pension benefits they have accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. CETVs are calculated in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

## The real increase in the value of the CETV

This is the element of the increase in accrued pension funded by the Exchequer. It excludes increases due to inflation and contributions paid by the scheme member. It is worked out using common market valuation factors for the start and end of the period.

Amyas C E Morse

**Comptroller and Auditor General**  
20 May 2013

## Statement of Accounting Officer's responsibilities

Under the Budget Responsibility and National Audit Act 2011, the NAO is required to prepare for each financial year resource accounts detailing the resources acquired, held, or disposed of during the year and the use of resources by the NAO during the year. The resource accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the NAO, and of its net resource outturn, resources applied to objectives, income and expenditure, changes in taxpayers' equity and cash flows for the financial year.

In preparing these resource accounts, the Comptroller and Auditor General has adopted the *Government Financial Reporting Manual* issued by HM Treasury, and in particular has:

- observed the relevant accounting and disclosure requirements, and applied suitable accounting policies on a consistent basis;
- made judgements and estimates on a reasonable basis;
- stated whether applicable accounting standards, as set out in the *Government Financial Reporting Manual*, have been followed and disclosed and explained any material departures in the resource accounts; and
- prepared the resource accounts on a going concern basis.

The Public Accounts Commission has appointed the Comptroller and Auditor General as Accounting Officer for the NAO. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the NAO's assets, are set out in the Accounting Officer's Memorandum issued by the Public Accounts Commission.

# Governance Statement

## Introduction

As Accounting Officer and working together with the National Audit Office (NAO) Board I have responsibility for maintaining effective governance and a sound system of internal control that supports the achievement of the NAO's policies, aims and objectives, while safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me by the Public Accounts Commission.

## The governance structure of the National Audit Office

The Budget Responsibility and National Audit Act 2011 took full effect on 1 April 2012. The Act revised the NAO's governance arrangements, establishing the NAO as a corporate entity. The governance arrangements reflect the unique statutory position of the NAO and the wish of Parliament that the NAO's governance should provide independent controls and oversight of its own operations, while preserving my independence as C&AG in respect of audit judgements.

The Act formally established the NAO Board, with a majority of non-executive members including the Chairman. The non-executive members are appointed by the Public Accounts Commission, with the exception of the Chair, who is appointed by the Queen under letters patent, upon the recommendation of both the Prime Minister and the Chair of the Committee of Public Accounts. This ensures that the non-executive members are independent of the NAO's management, and that the Chair has the confidence of both the government and opposition in Parliament. The exercise of audit judgements and the opinions I reach are my sole preserve.

The NAO must uphold the highest standards in its own operation, and, as such, the Board voluntarily assesses our governance arrangements against the central government Code of Good Practice for Corporate Governance. The Board is satisfied that the NAO is compliant with the requirements of the Code where they are relevant to the Office and its statutory position, in most cases complying with the letter and the spirit of the Code's provisions. Where the requirements of the Act and the Code differ, the NAO will always seek to comply with the Act, which reflects the wishes of Parliament.

There is one area where to comply fully with the Code would result in the NAO's governance arrangements being in conflict with the intention of Parliament. The Code requires boards of departments to be chaired by the lead minister and for membership to be balanced, with an equal number of ministers, senior officials and non-executive members (Provision 3.3). The composition of the NAO Board is determined by the Act which requires that the Board should be chaired by a non-executive Chairman with a majority of non-executive members.

Provision 2.5 provides for some activities to be exercised by committees of the Board including, as a minimum, committees responsible for audit and risk assurance, and nominations and governance. During 2012-13 the NAO Board agreed to expand the scope of the Remuneration and Nominations Committee to include an advisory role to the Chairman and me on board appointments, alongside its formal role in the remuneration of the executive members of the Board.

The NAO is accountable to Parliament via the Public Accounts Commission. The role of the Public Accounts Commission is defined by both the National Audit Act 1983 and the Budget Responsibility and National Audit Act 2011. In addition to appointing the non-executive members of the board, the Commission's principal duties under the Acts are to examine the NAO Estimate and lay it before the House, to consider the NAO's strategy, to appoint the external auditor of the NAO and to receive the reports of the NAO's external auditor.

## National Audit Office Board

The role of the NAO Board is defined by the Act, and is given practical application in the Code of Practice approved by the Public Accounts Commission.

The Board provides effective support and challenge in improving the NAO's operations, providing additional rigour and discipline in decision-making. It brings insight from the wider experience of the non-executive members to inform the thinking of the NAO and support improvement.

The Board meets eight times a year to discharge its responsibilities which are set out in the Act and which complement my responsibilities as C&AG. Together with the Board, I prepare a strategy for the NAO, an estimate of the NAO's resources for each financial year, and an annual report on the NAO's activities. The Board must also recommend the external auditor for appointment by the Public Accounts Commission.

The Board has five non-executive members and four executive members. In accordance with the Act, I am a permanent member of the Board and the other executive members are appointed for a fixed term by the non-executive members, upon my recommendation.

The Board is supported by two Committees, both of which consist solely of non-executive members:

- the Audit Committee supports the Board by reviewing the internal controls, risk management processes and governance arrangements of the NAO, as well as the quality and reliability of our financial reporting. It is also responsible for considering the external auditor's annual value-for-money report on the NAO; and
- the Remuneration and Nominations Committee determines the framework for the remuneration of the three executive members of the Board. See page 42 for further details. The Committee also oversees any major changes in NAO employee benefits, and advises the Chair and me on issues of succession planning for the Leadership Team and Board.

There is a clear division of responsibility between the Chairman and myself; the Chairman is responsible for the leadership and effective working of the Board and I am responsible for implementing the strategy, making audit judgements, deciding a programme of value-for-money examinations and reporting the results of this work to Parliament.

The NAO maintains a register of interests to ensure potential conflicts of interest can be identified and addressed in advance of board discussions. Where potential conflicts exist they are recorded in the Board minutes, along with any appropriate action taken to address them. During 2012-13, a board member declared a conflict of interest on one occasion; Richard Fleck declared a potential conflict of interest relating to his role with the Financial Reporting Council (FRC) on those occasions where the Board discussed the NAO's engagement with the FRC or the Audit Quality Review team. It was agreed that this interest should not prevent Richard Fleck participating fully in the Board's discussion on these occasions.

## Board performance and effectiveness review

The NAO Board undertakes a review of its performance each year, and in 2012-13, this was done by an independent reviewer. The review found that the NAO Board has a good balance of skills, further enhanced by the two recently-appointed non-executive members, and that the structures and processes in place to support the NAO's governance are operating effectively.

The report also identified areas for potential improvement, in particular the need to ensure that the Board receives information appropriate to its role, that the Board makes more time to take a long-term view of the NAO's strategy, and that the Board should be more visible within the NAO. The Board has agreed an action plan to respond to each of the recommendations.

As noted above, the Board is supported by the Audit, and the Remuneration and Nominations Committees and the table opposite shows attendance at Board and Committee meetings held during 2012-13.

Members (NE) Non-executive	Board Meetings (8 in year)	Audit Committee (5 in year)	Remuneration and Nominations Committee (2 in year)
(NE) Andrew Likierman (Chair)	8	4*	2
Amyas Morse (C&AG)	8	1*	2*
Michael Whitehouse	8	5*	*
Gabrielle Cohen	8	*	*
(NE) Naaz Coker**	6 (of 7)	3 (of 3)	1 (of 2)
(NE) Ruth Evans**	0 (of 1)	0 (of 2)	0
(NE) Richard Fleck**	1 (of 1)	2 (of 2)	0
(NE) Gillian Guy**	5 (of 7)	2 (of 3)	1 (of 2)
(NE) Paula Hay-Plumb	8	5	2
Ed Humpherson	8	*	*
(NE) Mary Keegan	8	5	2

\* Not members of the Committees.

\*\* On 30 June 2012, terms of office ended for Ruth Evans and Richard Fleck and they were replaced as non-executive members of the NAO Board by Naaz Coker and Gillian Guy who were appointed by the Public Accounts Commission for a term of three years.

The Audit Committee met five times during 2012-13. In addition to providing me with assurance over the preparation and audit of the NAO's Resource Account for 2012-13, the Committee considered the findings contained in 11 reports prepared by the Director of Internal Audit based on an audit programme agreed in advance by the Committee. These reports covered a range of risk management and governance issues including reviews of the timeliness of performance appraisals and feedback, and the basis for budgeting and accounting for the NAO's work with international bodies, in addition to regular reviews of our core financial systems, and risk management processes. In all cases the reports identified areas for improvement, but the Board was pleased to record that no major control failures or unmanaged risks were reported.

The NAO's external auditors (RSM Tenon) undertake annually a value-for-money review of a particular aspect of the NAO's activities or systems. The Audit Committee considers the audit report before it is presented to the Public Accounts Commission. In May 2012, RSM Tenon presented their report following a review of the NAO's approach to financial management (closely aligned to one of the seven operational risks, see page 51). The overall conclusion from this study was that "the financial management processes in the NAO are sound and that there is a high level of engagement and ownership by the Board and Leadership Team, with good levels of engagement by other managers and staff." Supporting this overall conclusion, RSM Tenon presented a series of recommendations to improve the reporting of financial information and the level of training and support available to budget holders across the business, and these have been accepted and are being implemented by management.

During the early part of 2013, RSM Tenon undertook a review of management information in the NAO. Their report was discussed by the Board in May 2013, and will be presented to the Public Accounts Commission later in the year. RSM Tenon concluded that management information in the NAO is generally fit for purpose, and made a number of recommendations to make the preparation and use of information more efficient and effective. These recommendations have been accepted by management and will be followed up during 2013-14 as part of the NAO's programme to transform its operations.



The two meetings of the Remuneration and Nominations Committee focused on approving a framework for deciding the remuneration of the other executive members of the Board. The Committee also advised on wider issues of remuneration and reward for NAO staff and the succession planning and talent development for senior management roles within the NAO in an advisory capacity.

## Leadership Team

I am supported by an executive Leadership Team which meets monthly and provides executive management and governance of the operations and delivery of the NAO. During 2012-13, my Leadership Team was supported by two committees: the Operational Capability Committee, which is responsible for providing appropriate financial and human resources, systems and infrastructure for the NAO to achieve its objectives, and for overseeing the sustainability of its operations; and the Audit Practice and Quality Committee, which ensures that audit and evaluative approaches are fit for purpose and comply with good practice, and scrutinises the design and implementation of quality assurance arrangements.

In April 2013, I strengthened my Leadership Team. Further details are on page 32.

## Risk and control

As the auditors of government, we assess how the achievement of our policies, aims and objectives might be affected by the risks we face. We design a system of internal controls which mitigates those risks. The system is not designed to eliminate all risk but to strike a balance between control, cost of control and appropriate risk taking. A system of internal control which accords with HM Treasury guidance and professional best practice has been in place for the whole of 2012-13.

We manage risks in a structured manner. For each identified business risk we have set our risk tolerance in line with our strategic objectives. Given the nature of our business, our tolerance of risk in areas of professional audit judgement, regularity and propriety, and financial management is low. In other areas such as enhancing knowledge management, we are prepared to accept more risk in order to take advantage of opportunities to pursue our objectives. Risk tolerances for the different identified risks are reviewed by the Leadership Team and the board each quarter.

As a supplier of audit services employing a large number of qualified accountants, my staff are bound by the ethical requirements of their professional bodies. The NAO conforms with International Standards on Auditing. In particular, the International Standard on Quality Control 1 is applied to all our financial statement audit engagements and consideration is currently being given to the application of this standard to all other areas of our professional audit activity.

Control over the quality of audit products is managed through a system of internal and independent external reviews. The independent external review of financial audit quality is provided by the Audit Quality Review team which is part of the Financial Reporting Council. Both the internal and external reviews identified some areas for improvement, including for example the need for better documentation of how conclusions had been reached. There were no matters identified that would indicate that the audit opinion was at risk or that the audit files required significant improvement.

For our value-for-money work, the independent external review function is shared between Oxford Business School and Risk Solutions. Their reviews found good evidence of strong methodologies, good study design and data collection and analysis. However, they also identified scope for improvement in financial analysis and the presentation of quantitative information.

The outcomes of these review processes are reported annually to the Board.

## Capacity to handle risk

We have identified seven operational risks which are reviewed by my Leadership Team each month and are included as a standing item on the agenda of each board meeting. Each of these seven risks relate to one of the following areas: financial management; professional standards; propriety; workforce capacity; security of assets; and business influence.

To ensure that we are able to respond to our changing environment, the NAO's overall strategic objectives are translated to our operations through a detailed business plan for the year ahead, with clearly defined accountabilities over the delivery of outputs and outcomes.

In response to the pace and scale of change to the ways in which public services are delivered, in January 2013, the NAO Board endorsed proposals to transform the way the NAO will conduct its business. Working with the NAO Board and Leadership Team colleagues, I have commissioned a detailed programme of activity over the next 12 to 18 months to transform the NAO so it is better able to focus on the most important strategic issues faced by government, examining the operation of government in the present rather than examining past performance, so that the NAO can help to drive sustainable improvement in public services. The programme will include detailed reviews of the NAO's business processes and organisational structure including corporate support services to ensure that they remain efficient and proportionate to the needs of the transformed business.

In March 2012, the Board identified a number of external strategic risks which could affect the achievement of our policies, aims and objectives which need to be managed actively. These risks covered: changes in local government arrangements; changes in the audit profession; events in central government; Parliamentary actions and events; and the localism agenda. Within the NAO, the Leadership Team manages these risks supported as appropriate by the Operational Capability Committee and the Audit Practice and Quality Committee.

## Statement of information risk

Together with the staff of the NAO, I have privileged and wide-ranging access to data and information to support the discharge of the audit function and ensure that my reports to Parliament are factual, accurate and complete. The NAO has a duty to respect this privileged access and to ensure that the personal information entrusted to it is safeguarded properly.

The NAO has opted to comply with the requirements of the Cabinet Office's Security Policy Framework which includes requirements covering information security. As required by the Security Policy Framework, the NAO uses the Government Protective Marking System and has policies and controls in place to ensure that access to information is correctly managed and safeguarded throughout its life cycle including creation, storage, transmission and destruction. I am responsible for ensuring that information risks are assessed and mitigated to an acceptable level. I am supported in the discharge of this responsibility by the Board level Senior Information Risk Owner, the Departmental Security Officer, IT Security Officer, and a network of Information Asset Owners who cover all the information assets held.

In 2011, the Board agreed that, resources permitting, the NAO should seek to achieve and maintain Level 2 (information assurance processes are institutionalised) on the government's Information Assurance Maturity Model (IAMM). In March 2013, and in accordance with Cabinet Office guidance, we completed an annual self-assessment of our progress against this target. The outcome of this self-assessment process was then independently reviewed by the Director of Internal Audit and Assurance.

The self-assessment shows that the business is at or above Level 2 in all of the six domains in the model. This outcome shows a steady improvement across all six domains since last year and confirms the NAO's continuing focus on information risk.

## Personal data-related incidents

There were no protected personal data-related incidents reportable to the Information Commissioner's Office in 2012-13. Neither were there centrally recorded protected personal data-related incidents not formally reported to the Information Commissioner's Office in 2012-13. Unlike government departments, the NAO is not required to report significant incidents relating to personal data to the Cabinet Office. If it were required to do so there would be no incidents to report.

## Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control.

My review is informed by the work of the Director of Internal Audit and Assurance and the executive managers within the NAO who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports.

The Director of Internal Audit and Assurance submits regular reports on the management of key business risks and the effectiveness of the NAO's system of internal control and makes recommendations for improvement. All recommendations made in 2012-13 have been accepted by management and have been implemented or are being progressed in accordance with agreed timetables. The status of these recommendations is regularly reported to the Audit Committee.

The Board keeps its internal control arrangements under review in response to internal and external developments. The Board is independently advised by the Audit Committee which met five times during the year and received assurance on the NAO's systems of corporate governance, risk management and internal control.

The Director of Internal Audit and Assurance's assessment of internal control in 2012-13 concluded that there were no significant weaknesses.

## Significant internal control weaknesses

I am able to report that there were no significant weaknesses in the NAO's system of internal controls in 2012-13 which affected the achievement of the NAO's key policies, aims and objectives.

Amyas C E Morse

**Comptroller and Auditor General**  
**20 May 2013**

## Independent Auditors' Report to the House of Commons

We certify that we have audited the financial statements of the National Audit Office (NAO) for the year ended 31 March 2013 under the Budget Responsibility and National Audit Act 2011. The financial statements comprise the NAO's Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity, and the related notes. We have also audited the Statement of Parliamentary Supply and the related notes. These financial statements have been prepared under the accounting policies set out within them. We have also audited the information in the Remuneration Report that is described in that report as having been audited.

### Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, certify and report on the financial statements in accordance with the Budget Responsibility and National Audit Act 2011. We conducted our audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the NAO's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accounting Officer; and the overall presentation of the financial statements. In addition we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our certificate.

We are required to obtain evidence sufficient to give reasonable assurance that the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals and that those totals have not been exceeded. For the NAO, the voted Parliamentary control totals are all equivalent to Departmental Expenditure limits (Resource and Capital) and Net Cash Requirement. We are also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

### Opinion on regularity

In our opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2013 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

## Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the NAO's affairs as at 31 March 2013 and of the NAO's net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the Budget Responsibility and National Audit Act 2011.

## Opinion on other matters

In our opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with guidance issued by HM Treasury; and
- the information given in the Annual Report which includes the unaudited part of the Remuneration Report, and the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which we report by exception

We have nothing to report in respect of the following matters which we report to you if, in our opinion:

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- we have not received all of the information and explanations we require for our audit; or
- the Governance Statement does not reflect compliance guidance issued by HM Treasury.

## Report

We have no observations to make on these financial statements.

RSM Tenon Audit Limited  
Registered Auditors

Vantage  
Victoria Street  
Basingstoke  
Hampshire  
RG21 3BT

20 May 2013

## Statement of Parliamentary Supply

### Summary of resource outturn 2012-13

	2012-13 Estimate			2012-13 Outturn			2012-13 Voted outturn compared with Estimate: saving or (excess)	2011-12 Outturn
	Voted £000	Non-Voted £000	Total £000	Voted £000	Non-Voted £000	Total £000		
Resource	68,000	300	68,300	67,449	293	67,742	551	68,023
Capital	1,100	–	1,100	1,065	–	1,065	35	1,194
Total budget	69,100	300	69,400	68,514	293	68,807	586	69,217
Non-budget	–	–	–	–	–	–	–	–
<b>Total resources</b>	<b>69,100</b>	<b>300</b>	<b>69,400</b>	<b>68,514</b>	<b>293</b>	<b>68,807</b>	<b>586</b>	<b>69,217</b>

### Net cash requirement 2012-13

	Note	Estimate	2012-13 £000 Outturn	Net total outturn compared with Estimate: saving or (excess)	2011-12 £000 Outturn
Net cash requirement	4	66,954	61,838	5,116	67,719

### Administration costs 2012-13

	Estimate	2012-13 £000 Outturn	Net total outturn compared with Estimate: saving or (excess)	2011-12 £000 Outturn
	68,000	67,449	551	67,785

Figures in the shaded areas are voted totals or other totals subject to Parliamentary control. In addition, although not a separate voted limit, any breach of the administration budget will also result in an excess vote.

All of the NAO's resources are deemed equivalent to resource DEL or capital DEL (Departmental Expenditure Limit).

Explanations of variances between Estimate and outturn are provided in Note 2 on page 64 and in the Management Commentary on pages 37 to 41.

The notes on pages 60 to 77 form part of these accounts.

## Statement of comprehensive net expenditure for the year ended 31 March 2013

	Note	2012-13 £000	2011-12 £000
<b>Administration costs</b>			
Staff costs	7	60,591	57,508
Other costs	8	28,650	30,377
Income	9	(21,509)	(19,865)
<b>Net operating costs for the year ended 31 March 2013</b>		<b>67,732</b>	<b>68,020</b>
<b>Other comprehensive expenditure</b>			
Net (gain)/loss on revaluation of property, plant and equipment	10	(2,210)	1,534
<b>Total comprehensive net expenditure for the year ended 31 March 2013</b>		<b>65,522</b>	<b>69,554</b>

All expenditure relates to the provision of independent assurance to Parliament and other organisations on the management of public resources.

There were no discontinued operations, acquisitions or disposals during the period.

## Statement of financial position as at 31 March 2013

	Note	31 March 2013		31 March 2012	
		£000	£000	£000	£000
<b>Non-current assets</b>					
Property, plant and equipment	10	74,614		74,581	
Intangible assets	11	1,570		1,259	
Receivables falling due after one year	12	590		632	
<b>Total non-current assets</b>			<b>76,774</b>		<b>76,472</b>
<b>Current assets</b>					
Trade and other receivables	12	6,010		8,932	
Cash and cash equivalents	13	178		156	
<b>Total current assets</b>			<b>6,188</b>		<b>9,088</b>
<b>Total assets</b>			<b>82,962</b>		<b>85,560</b>
<b>Current liabilities</b>					
Trade and other payables	14	(6,011)		(4,727)	
Provisions	15	(1,251)		(1,064)	
<b>Total current liabilities</b>			<b>(7,262)</b>		<b>(5,791)</b>
<b>Total assets less current liabilities</b>			<b>75,700</b>		<b>79,769</b>
<b>Non-current liabilities</b>					
Provisions due within one year	15	(1,655)		(2,323)	
<b>Total non-current liabilities</b>			<b>(1,655)</b>		<b>(2,323)</b>
<b>Total assets less liabilities</b>			<b>74,045</b>		<b>77,446</b>
<b>Taxpayers' equity and other reserves</b>					
General fund			30,653		35,091
Revaluation reserve			43,392		42,355
<b>Total equity</b>			<b>74,045</b>		<b>77,446</b>

Amyas C E Morse

**Comptroller and Auditor General**  
20 May 2013

The notes on pages 60 to 77 form part of these accounts.



## Statement of cash flows for the year ended 31 March 2013

	Note	2012-13 £000	2011-12 £000
<b>Cash flows from operating activities</b>			
Net operating cost		(67,732)	(68,020)
Adjustments for non-cash transactions	8	2,931	2,903
Decrease in trade and other receivables	12	2,964	1,413
Increase/(decrease) in trade and other payables	14	1,262	(562)
Use of provisions	15	(481)	(1,759)
<b>Net cash outflow from operating activities</b>		<b>(61,056)</b>	<b>(66,025)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	10	(224)	(646)
Purchase of intangible assets	11	(881)	(548)
Proceeds of disposal of property, plant and equipment		40	–
<b>Net cash outflow from investing activities</b>		<b>(1,065)</b>	<b>(1,194)</b>
<b>Cash flows from financing activities</b>			
From the Consolidated Fund (Supply) current year		61,850	67,625
From the Consolidated Fund (Non-Supply) Consolidated Fund Standing Services	8	293	238
<b>Net financing</b>		<b>62,143</b>	<b>67,863</b>
<b>Net increase in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund</b>		<b>22</b>	<b>644</b>
Payments of amounts to the Consolidated Fund		–	(738)
<b>Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund</b>	13	<b>22</b>	<b>(94)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	13	<b>156</b>	<b>250</b>
<b>Cash and cash equivalents at the end of the period</b>	13	<b>178</b>	<b>156</b>

The notes on pages 60 to 77 form part of these accounts.

## Statement of changes in taxpayers' equity for the year ended 31 March 2013

	Note	General Fund £000	Revaluation Reserve £000	Total Reserves £000
<b>Balance at 1 April 2011</b>		<b>33,871</b>	<b>45,175</b>	<b>79,046</b>
<b>Changes in taxpayers' equity for 2011-12</b>				
Total comprehensive expenditure		(68,020)	(1,534)	(69,554)
Realised element of revaluation reserve		1,286	(1,286)	–
<b>Total recognised income and expense for 2011-12</b>		<b>(66,734)</b>	<b>(2,820)</b>	<b>(69,554)</b>
Net Parliamentary funding – drawn down		67,625	–	67,625
Net Parliamentary funding – deemed		250	–	250
Supply payable adjustment		(156)	–	(156)
Consolidated Fund Standing Services	8	238	–	238
Surrender of CFERs to the Consolidated Fund		(3)	–	(3)
		<b>67,954</b>	<b>–</b>	<b>67,954</b>
<b>Balance at 31 March 2012</b>		<b>35,091</b>	<b>42,355</b>	<b>77,446</b>
<b>Changes in taxpayers' equity for 2012-13</b>				
Total comprehensive expenditure		(67,732)	2,210	(65,522)
Realised element of revaluation reserve		1,173	(1,173)	–
<b>Total recognised income and expense for 2012-13</b>		<b>(66,559)</b>	<b>1,037</b>	<b>(65,522)</b>
Net Parliamentary funding – drawn down		61,850	–	61,850
Net Parliamentary funding – deemed	14	156	–	156
Supply payable adjustment	14	(178)	–	(178)
Consolidated Fund Standing Services	8	293	–	293
		<b>62,121</b>	<b>–</b>	<b>62,121</b>
<b>Balance at 31 March 2013</b>		<b>30,653</b>	<b>43,392</b>	<b>74,045</b>

The General Fund serves as the chief operating fund. The General Fund is used to account for all financial resources except those required to be accounted for in the Revaluation Reserve.

The Revaluation Reserve records the unrealised gain or loss on revaluation of assets.

# Notes to the resource accounts

## 1 Accounting policies, prior year restatements and key accounting estimates and judgements

### 1.1 Statement of Accounting Policies

These financial statements have been prepared pursuant to Paragraph 24(1), Schedule 2, of the Budget Responsibility and National Audit Act 2011, which requires the National Audit Office (NAO) to prepare resource accounts. In meeting this requirement the financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted and interpreted by the 2012-13 *Government Financial Reporting Manual* (FReM) issued by HM Treasury. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the NAO for the purpose of giving a true and fair view has been selected. The particular policies adopted by the NAO are described below. They have been applied consistently in dealing with items that are considered material to the accounts. In addition to the primary statements prepared under IFRS, the FReM also requires an additional primary statement, the Statement of Parliamentary Supply. This statement and the supporting notes show outturn against Estimate in terms of the net resource requirement and the net cash requirement.

### 1.2 Basis of preparation

These financial statements have been prepared under the historical cost convention modified to account for the revaluation of property, plant and equipment. Figures are presented in pounds sterling, which is the functional currency of the NAO, and are rounded to the nearest £1,000. Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Any outstanding monetary assets and liabilities at the year end are translated into sterling at the rates ruling at 31 March 2013. Translation differences are dealt with in the Statement of Comprehensive Net Expenditure.

### 1.3 Impending application of newly issued accounting statements not yet effective

The NAO provides disclosure that it has not yet applied a new accounting standard, or known of reasonably estimable information relevant to assessing the possible impact that the initial application of the new standard will have on the resource accounts. There were no new standards issued up to 31 March 2013 and not applied, that would materially affect the resource accounts. The NAO has also not adopted any standards early.

### 1.4 Financing

The NAO is primarily resourced by funds approved by Parliament through the annual Appropriation Act and treats financing in accordance with the FReM. Resources are drawn down each month to meet expenditure requirements and are credited to the General Fund. The NAO meets around 20–25 per cent of its resource requirement through charging fees for certain financial audit assignments and other services.

## Accounting policies for expenditure

### 1.5 Staff costs

In accordance with IAS 19 Employee Benefits, all short-term staff costs accrued at the year end, that will be paid within one year from 31 March 2013, are recognised in the Statement of Comprehensive Net Expenditure. These short-term benefits relate to accrued leave. Longer-term benefits, such as pensions provided to staff, are recognised in line with IAS 19 as modified by the FReM.

### 1.6 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS), which are described in Note 7b. Employees may opt to join a stakeholder pension scheme instead. The overall liability for payment of future benefits is a charge on the PCSPS, or relevant pension scheme.

The PCSPS scheme is an unfunded defined benefit scheme, the level of contribution varying in line with the individual scheme to which an employee belongs. The individual stakeholder schemes have established rates of contribution for employees and employers and are defined contribution schemes.

The NAO's costs are recognised in line with the contribution rates established annually by PCSPS or the relevant stakeholder scheme.

### **1.7 Early departure costs**

Where the NAO terminates the employment of a staff member, within the rules of the Civil Service Compensation Scheme (CSCS), the cost of that compensation is recognised in full in the year the compensation offer has been accepted by the individual.

The CSCS rules were amended from October 2010. Prior to this point, where the individual was eligible to take early retirement these costs were provided for in full when the early departure was approved. This resulted in a provision being recognised for the estimated cash payments due between the date of departure and the individual reaching scheme retirement age, adjusted by HM Treasury's discount rate applicable at the year end. At 31 March 2013, this was 2.35 per cent in real terms (2011-12: 2.8 per cent). Staff leaving the NAO after October 2010 are eligible to receive a single lump sum payment on departure. As the value and timing of compensation payments are known, they are reported within accruals in Note 14.

### **1.8 Leases**

Payments in relation to operating leases are charged to the Statement of Comprehensive Net Expenditure on the basis of rentals payable in the year.

The NAO does not have any finance lease liabilities.

### **1.9 Value Added Tax on purchases**

Expenditure is stated net of recoverable VAT.

## **Accounting policies for income**

### **1.10 Operating income**

Operating income relates directly to the operating activities of the NAO. It principally comprises fees and charges for services provided by statute or by agreement with audited bodies. Operating income is determined on a percentage completion basis less any provision for the full amount of unrecoverable fees.

### **1.11 United Nations Board of Auditors income**

In 2010, the NAO was appointed to the United Nations Board of Auditors for a period of six years. Fees for this work are fixed biannually in United States dollars and are shared in an agreed ratio between the three board members (currently Tanzania, China and the United Kingdom). Where additional tasks are required a separate fee is levied and is also shared equally between the three board members. In accordance with Note 1.10 above, income is recognised based on work completed to date across each biennium.

Due to the funding arrangements with the United Nations, payment is made in advance in quarterly instalments. These are reported as payments on account in the resource accounts until earned. The audit work on the first biennium was completed in July 2012 and the remaining funds received in advance were recognised as income.

### **1.12 Rental income**

The NAO has entered into agreements to sublet parts of its London headquarters building. Rental income is recognised within other operating income on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income over the non-cancellable term of the lease. A separate service charge is levied on an annual basis to reflect the costs borne by the NAO.

### **1.13 Value Added Tax on sales**

Where output tax is chargeable, income is stated net of VAT.

## Accounting policies for assets and liabilities

### 1.14 Property, plant and equipment and intangible assets

Expenditure of £1,500 or more on property, plant and equipment or intangible assets is capitalised.

On initial recognition, assets are measured at cost and include all costs directly attributable to bringing them into working condition.

All non-current assets are reviewed annually for impairment and are carried at fair value. Property, plant and equipment is depreciated, and intangible assets amortised, at rates calculated to write them down to the estimated residual value on a straight-line basis over their estimated useful lives. The residual values of assets are reviewed on an annual basis.

### Property, plant and equipment

Land and buildings are stated at their fair value based on an annual professional valuation as at the end of the financial year. All non-property operational assets are deemed to be short-life or low value assets and are therefore valued on the basis of depreciated historic cost as a proxy for fair value.

Asset lives are in the following ranges:

Leasehold land and buildings	64 to 99 years
Plant	5 to 25 years
Computers and other equipment	3 to 10 years
Furniture, fixtures and fittings	10 years

### Intangible assets

Intangible assets are software licences and the associated costs of installing and implementing the software.

Licences are amortised on a straight-line basis over the shorter of the term of the licence and the useful economic life (4 to 7 years).

### 1.15 Trade receivables

Trade receivables are recognised initially at fair value less provision for impairment. A provision for impairment of trade receivables is established when there is evidence that the NAO will not be able to recover all amounts due in accordance with contracts.

### 1.16 Accrued income

Accrued income mainly relates to fee-paying audit assignments and is determined on the basis of percentage completion of specific contracts, less any provision for the full amount of unrecoverable fees and payments on account received.

### 1.17 Provisions for liabilities and charges

In accordance with IAS 37, the NAO provides for legal or constructive obligations, where the transfer of economic benefit is probable but are of uncertain timing or amount at the end of the reporting period. The provision is calculated on the basis of the best estimate of the expenditure required to settle the obligation. The estimated risk-adjusted cash flows are discounted using HM Treasury's discount rate of 2.35 per cent in real terms (2011-12: 2.8 per cent).

## Accounting estimates and judgements

The development, selection and disclosure of significant accounting estimates and judgements and the application of these judgements and estimates has been discussed and agreed with the Audit Committee. Two significant accounting estimates and judgements are included in the financial statements:

- In calculating accrued income for audit services, the NAO makes certain judgements as to the stage of completion of jobs. In doing so, estimates are made on the remaining time and external costs to be incurred in completing contracts. A view is taken as to whether part of the agreed fee is unlikely to be paid by the audited body. These estimates are included in trade receivables and accrued income at the period end.
- The early departure provision represents the NAO's best estimate of future cash payments due under the scheme. However, there are a number of factors such as annual inflationary increases and the continuing eligibility of former staff members to receive a pension which can significantly affect the payments.

## 2 Net outturn

### 2.1 Analysis of net resource outturn

		2012-13 Outturn		2012-13 Estimate		2011-12
	Gross expenditure	Income	Net total outturn	Net total	Net total outturn compared with Estimate: saving or (excess)	Prior year outturn
	£000	£000	£000	£000	£000	£000
<b>Voted</b>						
Provision of audit and other assurance services	88,958	(21,509)	67,449	68,000	551	67,785
<b>Non-voted</b>						
Chair and Comptroller and Auditor General costs	293	–	293	300	7	238
<b>Resource outturn</b>	<b>89,251</b>	<b>(21,509)</b>	<b>67,742</b>	<b>68,300</b>	<b>558</b>	<b>68,023</b>

### 2.2 Analysis of net capital outturn

		2012-13 Outturn		2012-13 Estimate		2011-12
	Gross expenditure	Income	Net total outturn	Net total	Net total outturn compared with Estimate: saving or (excess)	Prior year outturn
	£000	£000	£000	£000	£000	£000
<b>Voted</b>						
Provision of audit and other assurance services	1,105	(40)	1,065	1,100	35	1,194
<b>Resource outturn</b>	<b>1,105</b>	<b>(40)</b>	<b>1,065</b>	<b>1,100</b>	<b>35</b>	<b>1,194</b>

All of the NAO's resources are deemed equivalent to resource DEL or capital DEL.

### 3 Reconciliation of net resource outturn to net operating cost

	2012-13 Outturn £000	2011-12 Outturn £000
<b>Total net resource outturn in Statement of Parliamentary Supply</b>		
Voted	67,449	67,785
Non-voted	293	238
	67,742	68,023
Gain on disposal of property, plant and equipment recognised as capital income	(10)	(3)
<b>Net operating costs in the Statement of Comprehensive Net Expenditure</b>	<b>67,732</b>	<b>68,020</b>

### 4 Reconciliation of net resource outturn to net cash requirement

	Note	Estimate £000	Outturn £000	Net total outturn compared with Estimate: saving (excess) £000
<b>Resource outturn</b>	2.1	<b>68,300</b>	<b>67,742</b>	<b>558</b>
<b>Capital outturn</b>	2.2	<b>1,100</b>	<b>1,065</b>	<b>35</b>
<b>Accruals to cash adjustments:</b>				
<i>Adjustments to remove non-cash items:</i>				
Depreciation		(2,912)	(2,941)	29
Change in provisions		(100)	(622)	522
Other non-cash items		–	10	(10)
<i>Adjustments to reflect movements in working balances:</i>				
Increase/(decrease) in debtors		(163)	(2,964)	2,801
Increase/(decrease) in creditors		(189)	(1,262)	1,073
Use of provisions		1,218	1,103	115
		<b>67,254</b>	<b>62,131</b>	<b>5,123</b>
<b>Removal of non-voted budget items:</b>				
Consolidated Fund Standing Services		(300)	(293)	(7)
<b>Net cash requirement</b>		<b>66,954</b>	<b>61,838</b>	<b>5,116</b>

### 5 Analysis of income payable to the Consolidated Fund

There was no income payable to the Consolidated Fund in 2012-13 (2011-12: £3,000).



## 6 National Audit Office operating segments

	2012-13					Total £000
	Financial audit	Value for money	Performance improvement	Support to Parliament, the public and other organisations	Comptroller function	
	£000	£000	£000	£000	£000	
Gross expenditure	50,866	19,754	8,662	9,760	199	89,241
Income from services provided	(18,227)	–	–	(2,012)	–	(20,239)
Rental income	(785)	(250)	(108)	(125)	(2)	(1,270)
<b>Net expenditure</b>	<b>31,854</b>	<b>19,504</b>	<b>8,554</b>	<b>7,623</b>	<b>197</b>	<b>67,732</b>

The NAO reports expenditure and income under five areas of work, full descriptions of which can be found on pages 8 to 9.

Gross expenditure includes staff and other direct costs incurred, plus apportioned overhead costs.

Income from services provided reported under Financial Audit consists of fees for UK and international audits. Income reported under Support to Parliament, the Public and other organisations is generated from secondments and International Technical Cooperation work.

Rental income is apportioned between strategic objectives on the same basis as the overhead apportionment.

	2011-12					Total £000
	Financial audit	Value for money	Performance improvement	Support to Parliament, the public and other organisations	Comptroller function	
	£000	£000	£000	£000	£000	
Gross expenditure	51,316	19,667	7,708	9,036	158	87,885
Income from services provided	(17,452)	–	–	(1,703)	–	(19,155)
Rental income	(413)	(158)	(62)	(73)	(1)	(707)
<b>Net expenditure</b>	<b>33,451</b>	<b>19,509</b>	<b>7,646</b>	<b>7,260</b>	<b>157</b>	<b>68,023</b>

## 7 Staff numbers and related costs

### 7a) Staff costs comprise

	Total	2012-13 Permanent staff	Others	2011-12 Total
	£000	£000	£000	£000
Wages and salaries	47,044	46,533	511	44,798
Social security costs	4,249	4,249	–	3,985
Other pension costs	9,298	9,298	–	8,725
<b>Subtotal</b>	<b>60,591</b>	<b>60,080</b>	<b>511</b>	<b>57,508</b>
Less recoveries received in respect of outward secondments	(1,058)	(1,058)	–	(761)
<b>Total net costs</b>	<b>59,533</b>	<b>59,022</b>	<b>511</b>	<b>56,747</b>

### 7b) Pension arrangements

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but the participating organisations are not able to identify their share of the underlying assets and liabilities. The scheme was last actuarially valued as at 31 March 2007 but since this date, actuarial valuations of the Scheme were suspended pending the implementation of the Hutton Review recommendations. The Scheme is now to be valued as at 31 March 2012 and the valuation will reflect the post 2015 scheme rules and benefit structures.

For 2012-13, employer's contributions of £9,251,373 were payable to the PCSPS (2011-12: £8,699,062) at one of four rates in the range 16.7 per cent to 24.3 per cent of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer's contributions of £26,593 were paid to one or more of a panel of four appointed stakeholder pension providers (2011-12: £23,964). Employer contributions are age-related and range from 3 to 12.5 per cent of pensionable pay (2011-12: 3 to 12.5 per cent). Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £2,957 or 0.8 per cent of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of employees (2011-12: £3,192 or 0.8 per cent). All these contributions are included in 'Other pension costs' in Note 7a above.

No contributions were due or prepaid to the partnership pension providers at the balance sheet date (2011-12: Nil).

### 7c) Average number of persons employed

The average number of full-time equivalent persons employed (including senior management) during the year was as follows.

	2012-13	2011-12	2010-11
Full-time equivalent permanent staff	866.9	857.4	869.8
Temporary staff	9.7	12.9	11.8
Contractors and inward secondees	19.1	34.9	26.5
<b>Total</b>	<b>895.7</b>	<b>905.2</b>	<b>908.1</b>

### 7d) Reporting of Civil Service and other compensation schemes – exit packages

Exit package cost band	Number of voluntary departures agreed	
	2012-13	2011-12
<£10,000	–	–
£10,001 – £25,000	1	5
£25,001 – £50,000	7	10
£50,001 – £100,000	8	6
£100,001 – £150,000	–	1
£150,001 – £200,000	–	1
£200,001 – £250,000	–	–
>£250,000	–	–
Total number of exit packages by type	16	23
<b>Total resource cost £000</b>	<b>777</b>	<b>1,163</b>

There were no compulsory redundancies in either financial year. All of the voluntary departures were accounted for within the provisions of the Civil Service Compensation Scheme. All costs of voluntary departures are included in staff costs.

## 8 Other operating costs

	2012-13		2011-12	
	£000	£000	£000	£000
Professional services bought in	11,365		13,238	
Accommodation	4,785		4,635	
Travel, subsistence, hospitality	2,564		3,080	
Office supplies and equipment	2,772		2,807	
Recruitment and training	1,613		1,640	
Staff related costs	1,395		891	
Overseas office costs for UNBOA and other international work	272		337	
External auditors' fee	42		57	
Remuneration to external auditors for other work <sup>1</sup>	63		151	
Comptroller and Auditor General costs	237		238	
Chairman costs	56		–	
Other administration costs	171		218	
Operating lease rentals	182		182	
		25,517		27,474
<b>Non-cash costs</b>				
Adjustments to early departure provisions from prior years	202		(121)	
Depreciation and amortisation	2,941		3,024	
Gain on disposal of property, plant and equipment	(10)		–	
		3,133		2,903
		<b>28,650</b>		<b>30,377</b>

1 The 2011-12 figure includes the cost of the 2012 value-for-money study which was brought forward.

## 9 Income

### 9a) Analysis of operating income by classification and activity

	Netted off gross expenditure	2012-13 Payable Consolidated Fund	Income included in Statement of Comprehensive Net Expenditure
	£000	£000	£000
Audit fees – UK	14,965	–	14,965
United Nations Board of Auditors	3,015	–	3,015
Audit fees – international	247	–	247
International technical cooperation	954	–	954
Secondment income	1,058	–	1,058
Rental of office space	1,270	–	1,270
Other income	–	–	–
<b>Total income</b>	<b>21,509</b>	<b>–</b>	<b>21,509</b>

	Netted off gross expenditure	2011-12 Payable Consolidated Fund	Income included in Statement of Comprehensive Net Expenditure
	£000	£000	£000
Audit fees – UK	15,039	–	15,039
United Nations Board of Auditors	1,892	–	1,892
Audit fees – international	521	–	521
International technical cooperation	748	–	748
Secondment income	761	–	761
Rental of office space	707	–	707
Other income	194	3	197
<b>Total income</b>	<b>19,862</b>	<b>3</b>	<b>19,865</b>

## 9 Income (*continued*)

### 9b) Analysis of income from services provided to clients

	Income	2012-13 Expenditure	Surplus (deficit)
	£000	£000	£000
Audit fees – UK	14,965	14,893	72
United Nations Board of Auditors	3,015	1,378	1,637
Audit fees – international	247	166	81
International technical cooperation	954	818	136
	<b>19,181</b>	<b>17,255</b>	<b>1,926</b>

	Income	2011-12 Expenditure	Surplus (deficit)
	£000	£000	£000
Audit fees – UK	15,039	14,895	144
United Nations Board of Auditors	1,892	1,334	558
Audit fees – international	521	358	163
International technical cooperation	748	748	–
	<b>18,200</b>	<b>17,335</b>	<b>865</b>

The NAO sets UK audit fees with the aim of recovering the directly attributable costs of the audit and overheads across all fee-paying audits. The surplus on international audits and the United Nations Board of Auditors primarily reflects the contribution to overheads required to deliver this work and favourable exchange rates over the duration of the audit.

## 10 Property, plant and equipment

	Long leasehold land and buildings £000	Plant and machinery £000	Computers and other equipment £000	Furniture fixtures and fittings £000	Total £000
Cost or valuation					
At 1 April 2012	56,239	16,750	4,023	3,081	80,093
Additions	–	–	150	74	224
Disposals	–	–	(528)	(39)	(567)
Revaluation	1,506	–	–	–	1,506
<b>At 31 March 2013</b>	<b>57,745</b>	<b>16,750</b>	<b>3,645</b>	<b>3,116</b>	<b>81,256</b>
Depreciation					
At 1 April 2012	135	1,869	2,630	878	5,512
Charged in year	569	796	688	318	2,371
Disposals	–	–	(528)	(9)	(537)
Revaluation	(704)	–	–	–	(704)
<b>At 31 March 2013</b>	<b>–</b>	<b>2,665</b>	<b>2,790</b>	<b>1,187</b>	<b>6,642</b>
Net book value					
<b>At 31 March 2013</b>	<b>57,745</b>	<b>14,085</b>	<b>855</b>	<b>1,929</b>	<b>74,614</b>
At 31 March 2012	56,104	14,881	1,393	2,203	74,581

The NAO owns all property, plant and equipment and has no finance leases or PFI contracts. The long lease of the land and buildings for the headquarters building is at a peppercorn rent.

### Notes

The FReM requires measurement at fair value for existing use. Drivers Jonas Deloitte (independent property consultants and surveyors and a member of RICS) valued the land and buildings and plant and machinery at £71,830,000 as at 31 March 2013 (31 March 2012: £71,500,000). This was on an existing use basis for parts occupied by the NAO and at open market value for the parts occupied by tenants. Drivers Jonas Deloitte assessed existing use value to be the same as market value for the part occupied by the NAO. The element relating to land and buildings was £57,745,000.

The net effect of the revaluation was accounted for through the revaluation reserve.

## 10 Property, plant and equipment (*continued*)

2011-12

	Long leasehold land and buildings £000	Plant and machinery £000	Computers and other equipment £000	Furniture fixtures and fittings £000	Total £000
Cost or valuation					
At 1 April 2011	58,205	16,750	3,475	2,985	81,415
Additions	–	–	548	98	646
Disposals	–	–	–	(2)	(2)
Revaluation	(1,966)	–	–	–	(1,966)
<b>At 31 March 2012</b>	<b>56,239</b>	<b>16,750</b>	<b>4,023</b>	<b>3,081</b>	<b>80,093</b>
Depreciation					
At 1 April 2011	–	955	1,964	579	3,498
Charged in year	567	914	666	301	2,448
Disposals	–	–	–	(2)	(2)
Revaluation	(432)	–	–	–	(432)
<b>At 31 March 2012</b>	<b>135</b>	<b>1,869</b>	<b>2,630</b>	<b>878</b>	<b>5,512</b>
Net book value					
<b>At 31 March 2012</b>	<b>56,104</b>	<b>14,881</b>	<b>1,393</b>	<b>2,203</b>	<b>74,581</b>
At 31 March 2011	58,205	15,795	1,511	2,406	77,917

## 11 Intangible assets

	Software £000	Asset in the course of construction £000	Total £000
<b>Cost</b>			
At 1 April 2012	4,774	177	4,951
Additions	174	707	881
Disposals	–	–	–
Transfers	447	(447)	–
<b>At 31 March 2013</b>	<b>5,395</b>	<b>437</b>	<b>5,832</b>
<b>Amortisation</b>			
At 1 April 2012	3,692	–	3,692
Charged in year	570	–	570
Disposals	–	–	–
<b>At 31 March 2013</b>	<b>4,262</b>	<b>–</b>	<b>4,262</b>
Net book value			
<b>At 31 March 2013</b>	<b>1,133</b>	<b>437</b>	<b>1,570</b>
At 31 March 2012	1,082	177	1,259

The NAO owns all intangible assets and has no finance leases.

### 2011-12

	Software £000	Asset in the course of construction £000	Total £000
<b>Cost</b>			
At 1 April 2011	4,403	–	4,403
Additions	371	177	548
Disposals	–	–	–
Transfers	–	–	–
<b>At 31 March 2012</b>	<b>4,774</b>	<b>177</b>	<b>4,951</b>
<b>Amortisation</b>			
At 1 April 2011	3,117	–	3,117
Charged in year	575	–	575
Disposals	–	–	–
<b>At 31 March 2012</b>	<b>3,692</b>	<b>–</b>	<b>3,692</b>
Net book value			
<b>At 31 March 2012</b>	<b>1,082</b>	<b>177</b>	<b>1,259</b>
At 31 March 2011	1,286	–	1,286



## 12 Trade receivables and other current assets

	2012-13 £000	2011-12 £000
<b>Amounts falling due within one year</b>		
Trade receivables	565	1,574
Deposits and advances	406	436
Other receivables	197	228
Accrued income	3,678	5,655
Prepayments	1,164	1,039
	<b>6,010</b>	<b>8,932</b>
<b>Amounts falling due after more than one year</b>		
Deposits and advances	311	399
Other receivables	279	233
	<b>590</b>	<b>632</b>
<b>Total</b>	<b>6,600</b>	<b>9,564</b>

Other receivable amounts due after more than one year relate to lease incentives granted to tenants.

## 13 Cash and cash equivalents

	2012-13 £000	2011-12 £000
Balance at 1 April 2013	156	250
Net change in cash and cash equivalent balances	22	(94)
<b>Balance at 31 March 2013</b>	<b>178</b>	<b>156</b>
The following balances were held at:		
Government Banking Service	112	131
Commercial banks and cash in hand	66	25
<b>Balance at 31 March 2013</b>	<b>178</b>	<b>156</b>

## 14 Trade payables and other current liabilities

	2012-13 £000	2011-12 £000
<b>Amounts falling due within one year</b>		
Amounts payable to HM Revenue & Customs	135	–
Trade payables	10	20
Other payables	94	–
Accruals and deferred income	4,902	3,722
United Nations Board of Auditors payments received on account	385	659
Other payments received on account	307	170
	<b>5,833</b>	4,571
Amounts issued from the Consolidated Fund for supply but not spent at year end	178	156
<b>Total</b>	<b>6,011</b>	4,727

## 15 Provisions for liabilities and charges

	£000	£000
Balance at 1 April 2012		3,387
Provided in the year	420	
Unwinding of discounts	57	
Change in discount rate	145	
		622
Provisions utilised in the period		(1,103)
<b>Balance at 31 March 2013</b>		<b>2,906</b>

The NAO uses HM Treasury's discount rate of 2.35 per cent in real terms to calculate this balance (2011-12: 2.8 per cent).

### Analysis of expected timing of discounted flows

	£000	All Provisions £000
Payable within one year		1,251
Payable within 2–5 years	1,477	
Payable in more than 5 years	178	
		1,655
<b>Balance at 31 March 2013</b>		<b>2,906</b>

Provisions for liabilities and charges mainly relate to the costs of early retirement programmes in prior years which were approved to generate savings for the NAO in the longer term.

## 16 Capital commitments

The NAO had no capital commitments at 31 March 2013 (31 March 2012: Nil). Future capital commitments for assets under construction are dependent on contractors delivering the NAO's requirements.

## 17 Commitments under leases

Total future minimum lease payments are as follows:

	2012-13 £000	2011-12 £000
<b>Obligations under operating leases comprise</b>		
Land and buildings		
Payable within one year	96	182
Payable within 2–5 years	–	96
<b>Total</b>	<b>96</b>	<b>278</b>

The long lease of the land and buildings for the NAO's headquarters is at a peppercorn rent.

	2012-13 £000	2011-12 £000
<b>Future income due under non-cancellable operating leases</b>		
Land and buildings		
Receivable within one year	1,193	818
Receivable within 2–5 years	2,022	2,231
Receivable in more than 5 years	152	–
<b>Total</b>	<b>3,367</b>	<b>3,049</b>

The lease information above relates to the subletting of surplus space in the London headquarters building. The NAO granted two new leases in 2012-13, and now has six tenants. The balance above reflects the cash payments expected over the remaining non-cancellable term of each lease. A separate service charge is also levied (and is included in rental income in Note 9) to cover the cost of utilities and other facilities costs borne by the NAO. This charge is not included within the figures above as it varies annually.

## 18 Other financial commitments

The NAO had no other financial commitments at 31 March 2013 (31 March 2012: Nil).

## 19 Financial instruments

The NAO's resource requirements are met from Parliament through the Estimates process and from income. The NAO has no powers to borrow money or to invest surplus funds. Other than financial assets and liabilities which are generated by day-to-day operational activities, no financial instruments are held.

### Liquidity risk

The NAO's net revenue resource requirements and capital expenditure are financed by resources voted annually by Parliament. The NAO is therefore not exposed to material liquidity risks.

### Credit risk

The NAO's clients are mainly government departments, executive agencies and other public bodies. The NAO is therefore not exposed to material credit risks.

### Foreign currency risk

The NAO has some exposure to foreign currency because fees for some international work are denominated in United States dollars or euros. Before pricing or commissioning work, the NAO seeks to identify the potential exposure to exchange rate variations and to manage the risk accordingly.

## 20 Contingent assets and liabilities

The NAO had no contingent liabilities at 31 March 2013 (31 March 2012: Nil).

## 21 Losses and special payments

No losses and special payments that require separate disclosure because of their nature or amount were incurred during the year to 31 March 2013 (2011-12: Nil).

## 22 Related party transactions

The NAO is headed by the Comptroller and Auditor General and was established as a body corporate by the Budget Responsibility and National Audit Act 2011. The NAO is independent of government and is accountable to Parliament through the Public Accounts Commission. The NAO had transactions with government departments and central government bodies, for the provision of accommodation, training courses and the hosting of seminars. Some of these transactions have been with entities which are fee paying audited bodies. The NAO also had transactions with HM Revenue & Customs to meet statutory taxation requirements and with the Cabinet Office which operates the Principal Civil Service Pension Scheme.

The Professional Standards Authority for Health and Social Care (formerly known as the Council for Healthcare and Regulatory Excellence), a central government body audited by the NAO, has occupied part of the NAO's headquarters building since October 2010. Under the terms of the lease arrangement, rental and service charge income of £267,127 was earned in 2012-13 (2011-12 £266,903).

Ordnance Survey, a central government body audited by the NAO, has occupied part of the NAO's headquarters building since January 2012. Under the terms of the lease arrangement, rental and service charge income of £236,286 was earned in 2012-13 (2011-12: £63,457).

The Sector Skills Show, a subsidiary of the Sector Skills Agency which is a central government body audited by the NAO, has occupied part of the NAO's headquarters building since 1 December 2012. Under the terms of the lease, rental and service charge income of £93,682 was earned in 2012-13 (2011-12: Nil).

## 23 Events after the reporting period

There have been no significant post balance sheet events.

# Sustainability report

The NAO is committed to addressing issues of sustainability where these are relevant to its value-for-money work. It also provides support on issues of sustainability to Parliamentary select committees such as the Environmental Audit Committee.

The NAO aims to practise what it preaches and so manage its business in an environmentally responsible manner and comply with applicable environmental legislation and any other relevant requirements.

The NAO assesses the environmental impact of its activities regularly and uses an environmental management system to provide a framework for setting and reviewing environmental targets, and to support continuous improvement.

NAO Board members have individual and collective responsibility for providing environmental management leadership. The Board has appointed Ed Humpherson as the board member with particular responsibility for environmental risk management issues.

## Sustainability in the NAO's operations

The London headquarters building represents the majority of the NAO's estate. Following the NAO's return to the refurbished building in December 2009, it reviewed and strengthened sustainability governance arrangements in its estate operations.

The environmental policy is available from the website: [www.nao.org.uk/about-us/role-2/what-we-do/governance-of-the-nao/environmental-system-policy-and-statement/](http://www.nao.org.uk/about-us/role-2/what-we-do/governance-of-the-nao/environmental-system-policy-and-statement/)

Recent work on issues of sustainability has included:

- establishing policies for biodiversity, business travel, environmental management and procurement;
- setting up management information systems to collect data and monitor performance in estate operations;
- measuring performance against a challenging range of environmental targets based on the main material impacts of estate/facilities management and business travel; and
- a review of procurement policy to ensure that suppliers support sustainable operations as appropriate to the size of their organisation.

The NAO has made progress on other work:

- The environmental management policy, which was agreed in March 2011 (details of which are available from the website), continues to achieve ISO 14001:2004 certification and was most recently reviewed and re-certified by the external auditors on 3 December 2012.
- The biodiversity action plan, which was agreed in June 2010, included landscaping in the grounds of the London office. The plan was approved by an ecological clerk of works in March 2011 and is subject to six-monthly review. In 2012-13, the review has shown that, although the area was affected by high rainfall in summer 2012, it has continued to flourish and provides a haven for wildlife in the area.
- The travel policy has been reviewed to ensure that staff use public transport wherever possible in undertaking official duties and that domestic flights are kept to a minimum.
- The NAO has reduced paper usage levels further.

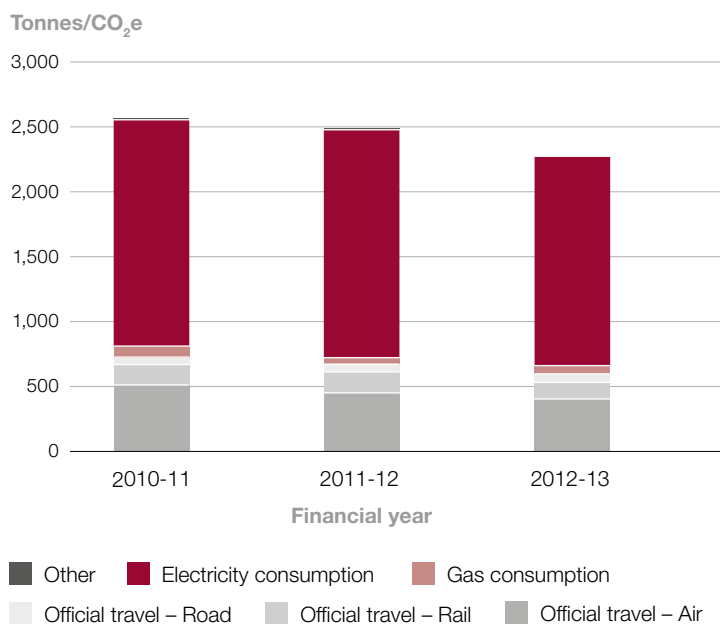
The following tables and commentaries provide details of the NAO's greenhouse gas emissions, waste disposal and water consumption up to December 2012:

Greenhouse gas emissions		2010-11	2011-12	2012-13
<b>Non-financial indicators (CO<sub>2</sub>e in tonnes)</b>	Total gross emissions for scopes 1 and 2	1,836	1,823	1,675
	Total net emissions for scope 1	0.4	0.4	0.4
	Total net emissions for scope 2	1,836	1,823	1,675
	Gross emissions scope 3 – business travel	726	663	589
<b>Related energy consumption (kWh)</b>	Electricity: non-renewable	3,011,414	2,924,112	2,679,575
	Electricity: renewable	314,160	305,748	273,545
	Gas	388,832	297,899	314,210
<b>Financial indicators (£000)</b>	Total expenditure on energy	387	418	407
	Total expenditure on electricity	362	403	371
	Total expenditure on gas <sup>1</sup>	25	15	36
	CRC licence expenditure			
	CRC income from recycling payments			
	Expenditure on accredited offsets			
	Total expenditure on official business travel (excluding accommodation costs and subsistence)	930	797	781

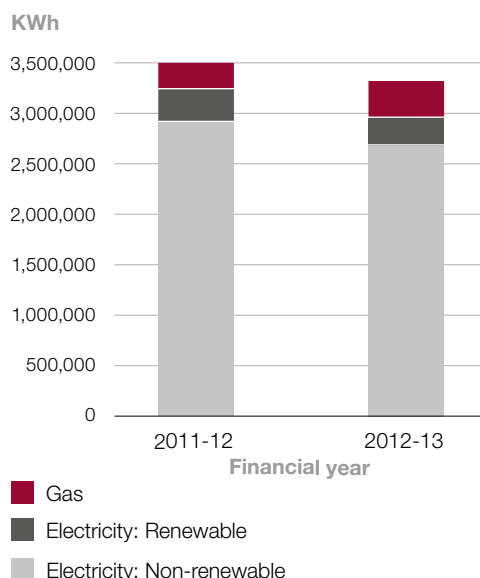
The NAO does not participate in these schemes due to the low value of CO<sub>2</sub> emissions.

<sup>1</sup> This does not include Newcastle Office gas expenditure as it is included in the service charge.

### Greenhouse gas emissions



### Electricity and gas consumption 2011-12 and 2012-13



## Performance commentary

The NAO returned to its London headquarters in December 2009 after a two-year refurbishment project. The refurbished building achieved a BREEAM (Building Research Establishment Environmental Assessment Method) 'Excellent' Rating and an EPC (Energy Performance Certificate) rating of C for providing a number of energy saving initiatives including a passive chilled beam system for office cooling, high efficiency gas fired condensing boilers, extensive metering and high efficiency lighting and lighting controls throughout.

## Plant and equipment

The 2010-11 baseline provides data on the energy consumption and emissions from plant and equipment. The data excludes tenants' consumption which is separately metered.

Target:

- 20 per cent reduction against 2010-11 base year by 2015.

Progress:

- 8.8 per cent decrease compared to 2010-11 consumption.

## Business travel

As auditors for the UK Parliament and the United Nations, NAO staff undertake audit visits to a wide range of geographically dispersed government bodies and other organisations within the United Kingdom and internationally. The NAO's travel policy aims to minimise the impact business travel has on the environment and promotes the use of sustainable means of transport – rail and other public transport – wherever possible.

Target:

- A reduction of 20 per cent on domestic flights using 2009-10 as the baseline (546 flights) by 2015.

Progress:

- NAO staff travelled on 434 domestic flights during 2012-13, a reduction of just over 20 per cent.

## Carbon Reduction Commitment Scheme (CRC)

The current annual consumption is less than the CRC threshold so we are not a full participant of the scheme.

## Controllable impacts commentary

One of the main impacts in relation to energy consumption is the running of the NAO's two offices.

Actions to reduce energy consumption in 2012-13 include subletting 11,514 square feet of surplus office space, removing laptop docking stations from desks and shutting down two underused lifts in the London office.

The removal of laptop docking stations has been successful in reducing energy consumption. The NAO's IT department monitored energy usage and identified that electricity was still being used when the office was empty at night and at weekends. On further investigation, it was established that laptop docking stations continued to draw power even when a laptop was not docked to them. As a result of removing the docking stations in September 2012, there has been a decrease in electricity consumption of around 15 per cent.

The NAO updated door opening mechanisms for three lifts, achieving a reduction in electricity of around 20 per cent compared with their previous year's consumption.

The NAO has planned a number of initiatives for 2013-14 and beyond to further improve sustainability. These include, but are not limited to:

- investigating the feasibility of implementing IT software which automatically powers down laptops and monitors if they are not in use;
- training on-site engineers on the lighting control system so that changes to schedules can be completed immediately rather than using external contractors;
- investigating if car park lighting can be powered by solar panels;
- exploring whether the temperature in the secondary equipment rooms can be raised to use less energy to cool them;
- introducing an out of hours lighting scheme and a reduced lighting mode for cleaning and out of hours security patrols;
- additional insulation to calorifiers to reduce heat losses further;
- investigation of the installation of a specific summer boiler to reduce the cost of running main pumps; and
- investigating the feasibility of removing one calorifier from service and keeping it as a backup only.

## Overview of influenced impacts

Staff behaviour can have a significant impact on energy consumption. To date only minor projects have addressed this. One has been the trial of two energy monitoring units which provide real-time electricity consumption data for office floors and allow staff to see 'at a glance' the impact of their activities on power usage. It is expected that these units and the appointment of an environmental champion to help staff to change their behaviour will lead to positive change.

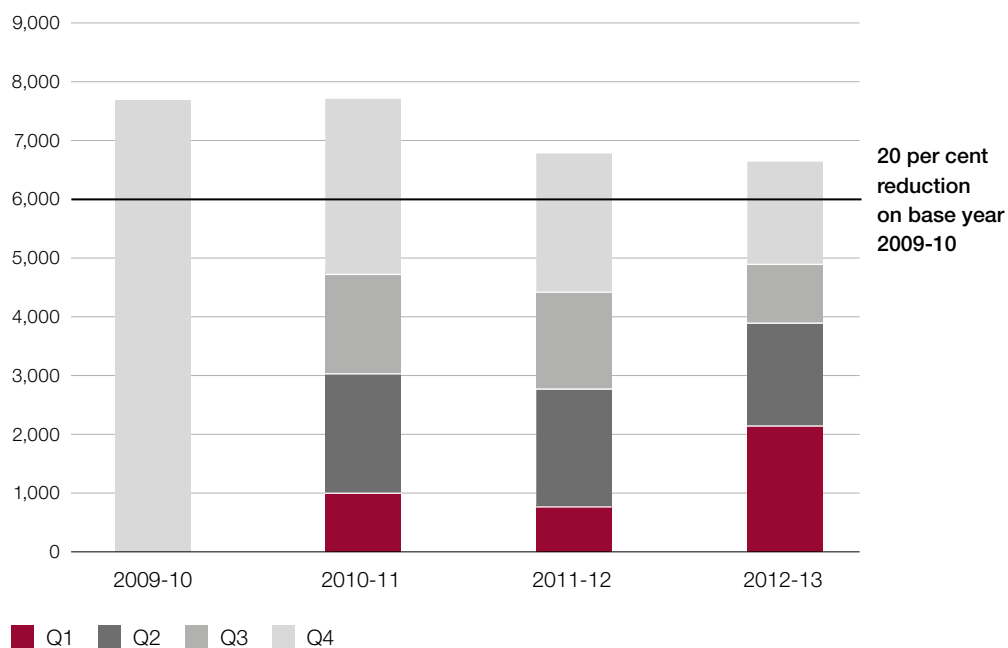


## Waste

Waste		2010-11	2011-12	2012-13	
<b>Non-financial indicators (tonnes)</b>	Total waste			132.8	
	Hazardous waste total			1.0	
	Non-hazardous waste	Landfill	Not available (see explanation under 'Absence of waste data' on next page)		0
		Reused/recycled			126.8
	Incinerated/energy reused			5.0	
<b>Financial indicators (£000)</b>	Total disposal cost	39.0	39.8	30.9	
	Hazardous waste – total disposal cost			0.5	
	Non-hazardous waste – total disposal cost	Landfill			Nil
		Reused/recycled	Not available		16.5
	Incinerated/energy reused			13.9	

## Paper consumption

### Paper in reams



## Performance commentary

During 2012, all waste from the London office was collected by a waste carrier and taken to a Materials Recycling Facility (MRF) where it is sorted into cans, glass, plastics, paper and card. Any items placed into 'general waste' bins are also put through the MRF process so that as much waste is recycled as possible. The remaining waste is then sent to the south-east London combined heat and power plant where it is burned to produce heat and electricity for the National Grid. Waste at the Newcastle office was disposed of by the landlord's waste provider.

### Absence of waste data

The NAO utilised an industry-standard metric for calculating waste produced based on estimating the weight of bin collections. In November 2011, two compactors were acquired for use at the London office, and on analysing the data for the first three months of operation, the NAO concluded that the estimation method was significantly inaccurate. Data from 2012-13 will therefore be used as a baseline against which to set targets for future years. Using compactors has already had a positive impact as the number of waste collections has reduced from daily to fortnightly, which means a lower level of vehicle emissions.

### Waste consumption

Target:

- 25 per cent reduction against 2012-13 base year by 2015. This data includes tenants' consumption as it is not possible to separate this.

### Paper consumption

Target:

- 20 per cent reduction against 2009-10 base year by 2015. The data includes tenants' consumption as it is not possible to separate this.

Progress:

- 13.5 per cent decrease in 2012-13.

## Controllable impacts commentary

The NAO's main waste impacts relate to paper and cardboard utilised in the London and Newcastle offices.

The generation of waste paper is minimised by using electronic methods wherever possible, such as issuing staff payslips. Double-sided printing is used as standard and in 2012, the NAO campaigned to raise awareness of individuals' printing costs to reduce the volume of paper utilised.

Wi-Fi in meeting rooms was introduced in 2012. When appointed, the environmental champion will promote behaviour change initiatives to reduce printing by encouraging staff to review meeting documents on screen, to take minutes on laptops and to display meeting agendas using audio visual equipment.

Food waste from on-site catering facilities is recycled using an anaerobic digestion process. This involves processing food waste to produce methane which in turn generates electricity for the National Grid. The liquid by-product is used as an organic fertiliser for agriculture. In April 2012, 'kitchen caddies' were placed in tea points so that other food waste, which would normally be disposed of in the 'non-recycling' bins, could be included in this process.

## Overview of influenced impacts

The NAO now has six tenants occupying space in the London office. It is not possible to separate the waste that they generate from the NAO's data but tenants are being encouraged to adopt similar waste policies. All tenants have adopted the food caddies for their tea points and all but one tenant has abolished the use of under-desk bins, thereby promoting the use of segregated recycling bins.

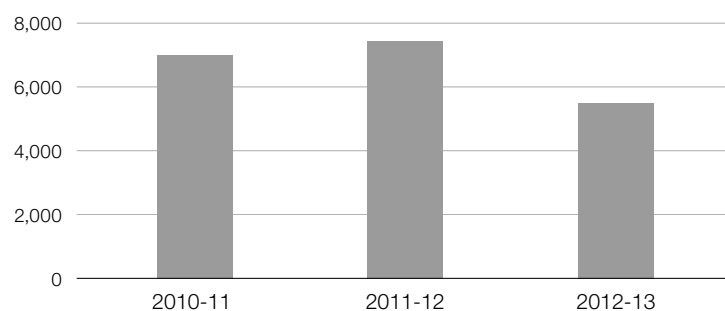
## Water

Finite resource consumption			2010-11	2011-12	2012-13
Non-financial indicators (m <sup>3</sup> )	Water consumption	Supplied	7,038	7,172	5,520
		Abstracted	–	–	–
Financial indicators (£000)	Water supply costs <sup>1</sup>		17.6	15.4	16.7

1 This does not include Newcastle office water expenditure as it is included in the service charge.

## Water usage

### Actual water usage (m<sup>3</sup>)



## Performance commentary

The London office incorporates a number of water saving initiatives including rainwater harvesting which is utilised to supply lavatories.

The first full year's data on water consumption was 2010-11 and this has been established as the base year against which water consumption targets will be set.

Target:

- To achieve a good practice ratio of 4m<sup>3</sup> to 6m<sup>3</sup> per full-time equivalent building user by 2015. The data includes tenants' consumption as we are unable to separately meter consumption.

Progress:

- In 2012, the ratio for the London office decreased to 5.4m<sup>3</sup> but the ratio for the Newcastle office increased to 5.3m<sup>3</sup>.

## Controllable impacts commentary

Use of water has decreased in the period due to higher than average rainfall in the south-east of England, which has resulted in more water than anticipated being available from rainwater harvesting.

During a recent audit of the NAO's water treatment regime, a recommendation was made to install a valve which could significantly reduce consumption over the winter months. This is being reviewed and, if suitable, will be implemented in 2013.

## Overview of influenced impacts

As the Newcastle office is leased and consists of one floor of a four-storey building, the overall water reduction initiative lies mainly with the landlord. As a tenant, the NAO can only encourage the improvement of water consumption and is in discussion with the landlord about the condition of the building, its plant and equipment.

As parts of the London office are sublet, the consumption of mains water has increased due to additional numbers of people in the building. The NAO can only partially influence the impact of this by ensuring that lavatories, showers and taps are maintained to prevent drips and leaks and by encouraging building users to consider their water consumption.

### Limitations on sustainability data

There are limitations on the accuracy of financial and non-financial sustainability data:

- The NAO is only able to set targets from 2010-11 as prior to this there was no baseline data available due to the period of refurbishment of the London office. Sustainability targets will be published on the NAO's website and progress will be reported annually. This information will be available from: [www.nao.org.uk/about-us/role-2/what-we-do/governance-of-the-nao/environmental-system-policy-and-statement/](http://www.nao.org.uk/about-us/role-2/what-we-do/governance-of-the-nao/environmental-system-policy-and-statement/)
- Data for official travel does not include an estimate for the CO<sub>2</sub> cost of hotels used by staff on official business because there is currently no standard metric available that can be applied. Data will be included in future if a standard metric becomes available.

### The NAO's wider contribution to the sustainability agenda

In addition to monitoring the impact of activities on the environment, the NAO addresses a range of sustainability issues within its value-for-money programme and supports the House of Commons Environmental Audit Committee's scrutiny of the government's performance in addressing sustainable development and environmental protection. Details of this work can be found at: [www.nao.org.uk/sector/environment-energy-and-sustainability/](http://www.nao.org.uk/sector/environment-energy-and-sustainability/)

In 2012-13, in response to a request from the Environmental Audit Committee to examine sustainability reporting in central government, the NAO advised that government had complied with the requirement to produce a separate sustainability report in public bodies' Annual Report and Accounts and that most public bodies had gone beyond the mandatory requirements by incorporating elements of best practice.

The NAO also supported the Committee's scrutiny of progress towards the government's Greening Government Commitments, including their commitment to buy more sustainable and efficient products and embed buying standards in government procurement contracts. The NAO advised the Committee that there was limited monitoring and reporting against the procurement commitment, but there was some evidence of progress. The NAO will continue to address sustainability issues within its work with the Environmental Audit Committee in 2013-14.

During 2012-13, the NAO continued to work with PricewaterhouseCoopers to recognise best practice in sustainability reporting in government, through an award for Sustainability Reporting at the Building Public Trust Awards.

Amyas C E Morse

**Comptroller and Auditor General**

# Financial impact

## Statement of National Audit Office financial impact for 2012

The statement of financial impacts represents our estimate of the financial benefits achieved in 2012 following implementation of the NAO's recommendations to government. Financial impacts arise where there is a direct link between its work and a beneficial change in an audited body. Financial impacts must be either cashable, reducing expenditure or increasing revenue through improved efficiency or effectiveness; non-cashable, leading to improvements in public sector efficiency through improved quality or service delivery; or represent benefits to third parties.

The NAO records an impact only when the related benefit has been brought about, when it has data to substantiate the benefit, and when the audited body gives its agreement. As a result of this high threshold, there is usually a time lag between making its recommendations and the impact being recorded. In calculating the value of impacts, the NAO deducts any implementation costs incurred directly by the audited body or indirectly by other parties.

Not all impacts can be quantified precisely including those that relate to qualitative efficiency gains and wider economic benefits. In these instances, the NAO bases the financial impact on careful judgement and estimation. The NAO recommendations are not always separable from other influences. In these cases it agrees a proportion of an overall financial impact with the audited body, based on an assessment of the likely level of influence of its work.

The statement of impacts has been prepared in accordance with internal guidance. Estimates are subject to internal quality assurance review by senior management and internal audit. The Leadership Team endorses all impacts. The NAO reports impacts on a calendar year basis. A summary of the principles it applies is below:

**Causation** – There must be a causal link between work conducted by the NAO and the benefit.

**Realisation** – Impacts must have been realised within, or before, the calendar year in which they are reported.

**Valuation** – Reliable evidence and/or data supports claims and implementation costs are acknowledged. There must be a robust methodology to value the impact.

**Attribution** – The proportion of impact claimed should reflect the NAO's degree of contribution to the benefit realised.

**Validation** – All impact claims need to be validated by the audited body concerned (at sufficiently senior level) and approved internally.

## Independent statement to the Public Accounts Commission

The Comptroller and Auditor General has asked us to carry out an independent review of the Statement of Financial Impacts for 2012.

### **Respective responsibility of the Accounting Officer and the Auditors**

The Accounting Officer is responsible for the measurement, assessment and reporting of the financial impacts achieved by the National Audit Office and ensuring that the principles for claiming impacts are applied in arriving at the total impact. We examine whether the information reported is reliable and fairly presented based on these principles and methodologies.

### **Basis of validation work**

The validation includes an examination, on a test basis of impacts claimed, of evidence relevant to the amounts and disclosures included in the Statement.

It also includes an assessment of the significant judgements made and whether the agreed principles have been appropriately applied by the National Audit Office in the Statement's preparation.

We have also taken assurance from the work of the NAO's internal audit service.

### **Opinion**

In our opinion:

- The underlying principles as outlined in the Statement of Financial Impacts have been applied appropriately in the preparation of the Statement.
- The impacts noted are reasonably stated based on the underlying methodologies and assumptions under which the calculation is made, and have been agreed by the clients of the National Audit Office to which the impacts relate.
- Any impacts claimed over a period of more than one year have been reassessed and confirmed by the National Audit Office that the impacts remain appropriate.

RSM Tenon Audit Limited  
Registered Auditors

Vantage  
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20 May 2013

## 2012 NAO impacts valued at more than £5 million

Description	Impact identified (£m)	Nature of impact	Year of claim	Audited body with whom impact agreed	Year of original work
<b>Central government's use of consultants and interims</b> New controls on contracting for consultants and interims	335	Recurring	2 of 3	Cabinet Office	2010-11
<b>Managing the defence inventory</b> Savings arising from improved understanding of inventory requirements	253	Recurring	1 of 3	Ministry of Defence	2011-12
<b>Returning failed asylum seekers; management of asylum applications by the Home Office</b> Reduction in support costs arising from clearance of asylum legacy cases	200	One-off	1 of 1	Home Office	2005-06
<b>Management of large business corporation tax</b> Increased tax yield resulting from improved focus on higher amounts of tax at risk	138	Recurring	5 of 5	HM Revenue & Customs	2006-07
<b>Train to Gain: developing the skills of the workforce</b> Redeployment of funds from Train to Gain	125	Recurring	1 of 2	Department for Business, Innovation and Skills	2009-10
<b>Improving procurement in further education colleges in England</b> More cost-effective procurement	27	Recurring	3 of 3	Department for Business, Innovation and Skills	2006-07
<b>HM Revenue &amp; Customs: managing tax debts</b> Improved tax debt collection	23	Recurring	2 of 5	HM Revenue & Customs	2007-08
<b>Renewables Obligation banding</b> Revision to the banding of support for renewable electricity generation	22	One-off	1 of 1	Department for Energy and Climate Change	2011-12
<b>Legal Services Commission Fund Accounts 2011-12</b> Reduction in irregular expenditure relating to legal aid	16	Recurring	2 of 3	Legal Services Commission	2008-09
<b>Department for Vehicle Licensing Authority</b> Improved compliance with vehicle licensing legislation	10	Recurring	3 of 3	Department for Transport	2008-09
<b>Community Care Grants</b> Improved consistency in the grant amount awarded	6	Recurring	2 of 3	Department for Work and Pensions	2010-11
<b>Subtotal</b>	<b>1,155</b>				
Impacts below £5 million	31				
<b>Total financial impacts</b>	<b>1,186</b>				

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