

OCTOBER 2010

NAO Transparency Report

Contents

Foreword by the Comptroller and Auditor General	3
Part One: Who we are	4
History and background	4
Governance and structure	5
NAO governance arrangements	5
Our work	6
The C&AG's responsibilities for financial statement audit and the examination of tax systems	6
The C&AG's responsibilities for value for money audit	7
Working with audit partners	8
Part Two: Our system of quality control	9
Overview	9
Leadership responsibility for quality	9
Ethical requirements	10
Quality assurance for financial audit	11
Accepting and continuing client engagements	11
Human resources	12
Engagement performance for financial audit	12
Monitoring of financial audit	13
Audit reporting	14
Quality Assurance for Value for Money Audit	14
Monitoring of VFM audit	15
Human Resources	16
Quality Assurance of other NAO products	16
Part Three: Remuneration and Financial Information	18
Appendix One	20
Membership of NAO Board, Leadership Team and committees as at 31 March 2010	20
Appendix Two	22
Statutory basis for the C&AG's audits	22

Foreword by the Comptroller and Auditor General

It is my great pleasure to introduce this first Transparency Report on the audit work carried out by the National Audit Office (NAO).

The current climate of a volatile global economy and unprecedented fiscal pressure reinforces the importance of external audit to scrutinise expenditure and hold Government to account for maximising the value obtained from public spending. Against this background, our aim is to fulfil the potential of the NAO by applying the unique perspectives of public audit to help Government and Parliament drive lasting improvement in public services.

I believe that this Transparency Report demonstrates our commitment to the adoption of best practice within the UK and international auditing profession. Indeed we play an active role in the development of these standards, both in the public sector context within the UK and internationally, and in the wider auditing profession. By opting to comply with the transparency reporting requirements to which UK professional audit firms are subject, we show that we continue to meet best practice for our profession.

Ultimately it is the professionalism and judgement of my audit staff, underpinned by the policies and systems outlined in this report, which ensure the quality of our audits. Based on my assessment of the adequacy of this framework and the findings of the quality monitoring and review programmes, I remain satisfied with the operation of the internal quality control system within the NAO. Of course, in any organisation there is room to improve, and over the next year we will take actions to advance further the quality of our work.

Amyas Morse
Comptroller and Auditor General

Part One: Who we are

History and background

1 The office of the Comptroller and Auditor General (the C&AG) was created by the Exchequer and Audit Departments Act 1866. The C&AG is the head of the National Audit Office (NAO), which was established on 1 January 1984 by the National Audit Act 1983. He and the NAO are totally independent of Government.

2 The C&AG is appointed by the Queen on an address proposed by the Prime Minister with the agreement of the Chairman of the Committee of Public Accounts and approved by the House of Commons. The C&AG appoints the staff of the NAO and determines their numbers, grading, remuneration and other terms and conditions of service.

3 The 1983 Act also established the Public Accounts Commission of the House of Commons to oversee the work of the NAO. This committee is separate from the Committee of Public Accounts, although there is some overlap in membership. Its functions are to:

- Examine the annual bid for resources for the operation of the NAO submitted by the C&AG. The bid is contained in the NAO's Corporate Strategy¹.
- Appoint the NAO's external auditors and consider their reports. RSM Tenon Audit Ltd (Chartered Accountants and Registered Auditors) were appointed as our current auditors for 3 years commencing 1 June 2006 with a possible 2 year extension.
- Publish its own reports as appropriate.

4 The Public Accounts Commission published its report on the corporate governance arrangements of the National Audit Office in March 2008, following a review established by the Commission and carried out by John Tiner, former Chief Executive of the Financial Services Authority².

5 We expect that the Government will be bringing forward legislative changes to address the Commission's recommendations, and the National Audit Office continues

¹ NAO Strategy 2010-11 to 2012-13 http://www.nao.org.uk/publications/0809/nao_strategy_2010-11_to_2012-1.aspx

² <http://www.publications.parliament.uk/pa/cm/cmacccom.htm>

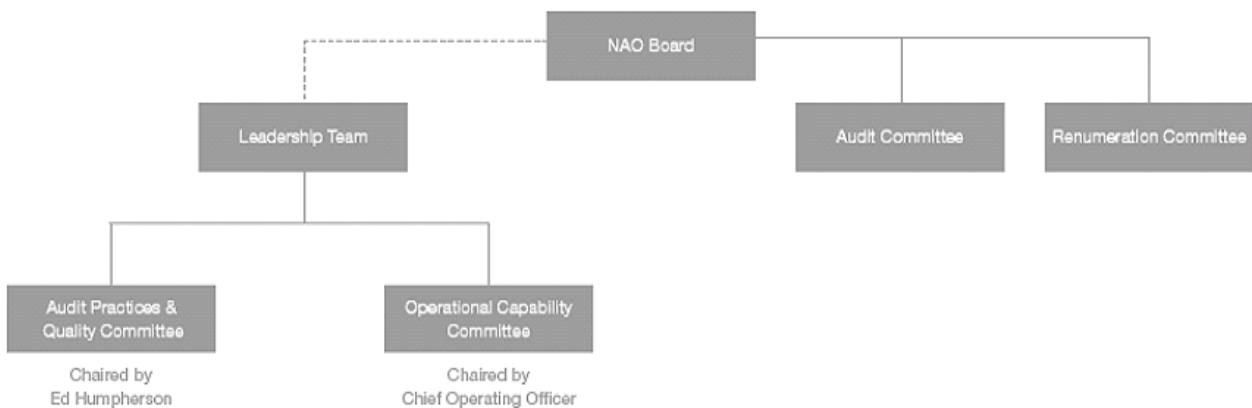
to work with the Commission and Government on the detail and implications of the changes.

Governance and structure

6 The Board of the NAO advises the C&AG on the strategic direction for the NAO, including its objectives and plans, and the governance of the NAO. The Board comprises an independent non-executive Chairman, Professor Sir Andrew Likierman, four other non-executive members drawn from outside the NAO, the C&AG, the Chief Operating Officer and two Assistant Auditor Generals. The C&AG has sole responsibility for all audit judgements and conclusions reached, and for determining the methodology applied to our audit of financial statements.

7 The governance arrangements supporting the Board are summarised below and full details of those holding positions on each of these bodies are shown at Appendix 1.

NAO governance arrangements



8 The Board of the NAO advises the Comptroller & Auditor General on the strategic direction for the NAO, including its strategic objectives and plans, and the governance of the NAO. The Board comprises an independent non-executive Chairman, four other non-executive board members drawn from outside the NAO, the C&AG, the Chief Operating Officer and two Assistant Auditors General.

9 The Board has two sub-committees, the Audit and Remuneration Committees whose membership is entirely non-executive. The Audit Committee supports the Board and the C&AG by reviewing the comprehensiveness, reliability and integrity of the assurances provided to the Committee regarding the NAO’s internal controls, risk management processes and governance. The Remuneration Committee’s remit is described in more detail at Section 3 of this report.

10 The C&AG is also supported by the Leadership Team which is an executive group responsible for running the NAO and chaired by the C&AG.

11 The Audit Practice and Quality Committee is responsible for the technical quality of the NAO's work; its on-going development so that audit and evaluative approaches are fit for purpose and comply with good practice, and the design and implementation of quality assurance arrangements.

12 The Operational Capability Committee is responsible for delivering appropriate resources, infrastructure and human capital to achieve the NAO's business objectives, including the efficient and cost-effective running of the NAO.

Our work

13 Our audit work consists of the independent audit of financial statements, the examination of tax systems, value for money audits on the efficiency, effectiveness and economy of central government spending and the provision of other audit services. We also provide best practice and other guidance to central government. The vast majority of our audit work is a requirement under statute, and the C&AG has complete discretion in the discharge of these requirements.

The C&AG's responsibilities for financial statement audit and the examination of tax systems

14 Through his responsibilities as Auditor General of Public Accounts, the C&AG provides Parliament with independent assurance on the way in which the Government has used and accounted for funds voted by Parliament and on the examination of tax systems. The importance Parliament attaches to his independence is reflected in the fact that, for the vast majority of audits, he is appointed by statute and cannot be replaced as auditor by the management or political head of the audited body.

15 Appendix 2 sets out the legislation requiring the preparation and audit of the accounts of each type of entity for which the C&AG undertakes the audit by statutory appointment.

16 The C&AG sets the standards which he will apply in the conduct of these audits. He has determined that the NAO will follow the 'International Standards on Auditing (UK and Ireland)' issued or adopted by the UK Auditing Practices Board, or the International Standards on Auditing and other international standards issued by the International Audit and Assurance Board, depending on the type of engagement being conducted. In applying ISA (UK and Ireland) to the public sector, our methodology also follows the requirements of Practice Note 10 – the audit of Public Sector Bodies in the United Kingdom, issued by the UK Auditing Practices Board.

17 The C&AG audited 375 accounts under the statutory appointment regime in the year ending 31 March 2010, providing independent audit opinions on whether public bodies' accounts presented a true and fair view of their financial situation and complied with the relevant reporting requirements. We also provided a regularity opinion on whether the transactions underlying the financial statements complied with Parliamentary and other authorities.

18 If, in the course of any audit, the C&AG considers that the accounts do not present a true and fair view or that expenditure and income have not been applied to the purposes intended by Parliament, he will qualify his opinion on the accounts. In these cases, or where there are significant matters arising, the C&AG makes a report to Parliament which can be considered by the Committee of Public Accounts. In the case of his examination of tax systems, he reports on an annual basis to Parliament on the results of his work.

19 In addition to the statutory appointment audits, the C&AG completed audits of 97 other bodies in the year to 31 March 2010. Appointments to carry out these audits were made by the relevant appointing body, and were to carry out either a statutory audit, or an audit engagement which is not required by law or regulation. These audits include certain publicly-owned companies under the Companies Act, international bodies and other UK-based organisations, charities and pension schemes. Where this occurs, the engagement will be subject to agreed written terms of engagement with the appointing body and the audited body.

20 Our audits conducted under the Companies Act are subject to supervision by the Professional Oversight Board (PoB), and are carried out under the Comptroller and Auditor General Audit Regulations, issued by the PoB. Our other audit work is not subject to this supervision.

The C&AG's responsibilities for value for money audit

21 The National Audit Act 1983 sets out the NAO's right to carry out value for money (VFM) audit:

- The Comptroller and Auditor General may carry out examinations into the economy, efficiency and effectiveness with which any department, authority or other body (covered by the Act) has used its resources in discharging its functions.
- The Comptroller and Auditor General may not question the merits of the policy objectives of any department, authority or body in respect of which an examination is carried out.

22 The Act has been amended slightly since 1983, mainly to update: the departments and other bodies that the Act applies to; the C&AG's right of access to documents and information; and reporting to the House of Commons.

23 In recent years, the C&AG has produced around 60 major reports. Most of these form the basis for the hearings of the Committee of Public Accounts of the House of Commons. The topics are chosen by the Leadership Team, following consideration of around 100 proposals put forward by teams throughout the NAO. These proposals cover a wide range of subjects and are identified following detailed monitoring of performance across public sector bodies and an assessment of risks to value for money.

Working with audit partners

24 In addition to using our own employees, the NAO contracts with audit and other professional services firms to support us in our audit work. This helps us meet peaks in our work load, benchmark our methods and costs, and enhances the quality of our audits through engaging with specialists in the appropriate fields.

25 Our partnership arrangements typically follow one of two models:

- Partner organisations support us by carrying out audit assignments on our behalf, providing us with an audit opinion on the financial statements, or other outputs as agreed at the commencement of the engagement, as a result of the work carried out; or
- Partner organisations provide specialist support or staffing resource as part of audit assignments, but do not provide an audit opinion on a complete set of financial statements.

26 In all cases of partnership audit arrangements, the C&AG retains overall responsibility for the audit opinion. For our financial statements audits, the C&AG will personally sign the audit certificate and any report for audits where he is appointed under statute. The NAO engagement director, acting on the C&AG's behalf, operates as the 'engagement partner', as defined in International Standards on Auditing (UK and Ireland). In certain circumstances, the signing of the certificate and report may be delegated to a named NAO engagement director.

27 For value for money work, the NAO has established frameworks of 'strategic partners' to allow for easy access to specialists. The first framework ran from 2006 to 2010 and has now been replaced by a new framework, consisting of seven firms. Where VFM teams require skills and expertise not available in-house they can advertise the work and one or more partners will normally compete. A choice is made on the basis of best value for money and most appropriate skills for the job. The quality of the work undertaken is assessed by the line director responsible for the study.

Part Two: Our system of quality control

Overview

28 The work of the NAO is underpinned by rigorous quality assurance arrangements. Quality control is built into our work through our policies on recruitment, training and continuing professional development, our Code of Conduct, and through operational guidance specific to the execution of our work. The latter covers matters such as methodology and process, the level and nature of review of the work completed and consultation with peers and NAO experts. It is designed to ensure that our work complies with professional standards and compares favourably to industry best practice. Each member of an audit team has a personal responsibility for quality and is expected to comply with NAO policy and procedures which support this.

Leadership responsibility for quality

29 The responsibility for the NAO's system of quality control ultimately rests with the C&AG. However, the Chief Operating Officer has been appointed as the Board member responsible for the quality of all our work. The Director General of Financial Audit and the Director General of VFM Audit, hold operational responsibility for quality within financial audit and VFM audit respectively and are jointly responsible for ensuring quality in our other assurance engagements. They report to the C&AG and the Chief Operating Officer.

30 The NAO leadership team has an overall role in ensuring quality, and members of the team provide advice and support on quality matters to NAO directors. The Audit Practice and Quality Committee (APQ) is responsible for setting the NAO's policy on the technical quality of audit work; oversight of the development of methodologies so that audit and evaluative approaches are fit for purpose and comply with good practice; and the design of quality assurance arrangements. These policies include the policy in relation to which financial statements audits are subject to Engagement Quality Control Review (see paragraph 52, below). The Director General of Financial Audit monitors compliance with policy, makes decisions on the annual Engagement Quality Control Review appointments, and manages the quality assurance programme. The APQ also sets the policy for pre-publication review of our VFM reports and our other audit work.

31 The Financial Audit Development Group is the senior technical financial audit committee in the NAO. It is chaired by the Director General of Financial Audit,

operates in an advisory capacity and reports to APQ. The Financial Audit Development Group provides professional leadership for the development, implementation and dissemination of financial audit policy and practice across the Office.

32 The VFM Audit Development Group acts in an analogous way to the Financial Audit Development Group. Chaired by the Director General of VFM Audit, the VFM Audit Development Group advises APQ on developments in methods and quality assurance, as well as helping to identify ways in which our VFM work can be made more effective.

33 The NAO Audit and Assurance Risk Management Framework sets roles and responsibilities for managing risk within the NAO, including corporate business risk and individual assignment risk.

Ethical requirements

34 The C&AG's independence is enshrined in statute. This underlines the need for his staff to be objective and impartial in all their work, including accurate, fair and balanced reporting. The NAO's Code of Conduct outlines the ethical requirements to which all NAO staff must adhere. All staff are required to complete an annual declaration stating that they have met the requirements of the Code. These requirements encompass the five fundamental principles of professional ethics: Integrity; Objectivity; Professional Competence and Due Care; Confidentiality; and Professional Behaviour.

35 The Code of Conduct also requires all staff to complete an annual declaration of interests. This declaration is made online and a register of interests is maintained by Human Resources. In addition, all NAO staff must notify the relevant engagement director and Human Resources of any possible conflict of interest as soon as it becomes apparent during the course of the year, and confirm for each audit how conflicts of interests, if any, have been managed.

36 Additional conflicts of interest can arise as a result of over-familiarity. For example, using the same senior personnel on audits over a prolonged period may create a familiarity that could impair the performance of an audit. The NAO has a policy of rotating staff between assignments to ensure that this does not arise.

37 The C&AG allocates each director the responsibility for a portfolio of clients. This allocation is based upon their capabilities, competence, authority and availability to undertake the task, and financial audit directors are subject to rotation at least every five years, except in exceptional circumstances.

38 The specific quality assurance arrangements in place for our financial audit and VFM audit work are set out below.

Quality assurance for financial audit

39 Our Financial Audit quality control processes have been developed to meet the requirements of the International Standard on Quality Control (UK and Ireland) (ISQC1) which encompasses the following key elements:

- leadership responsibilities;
- ethical requirements;
- acceptance and continuance of client relationships and specific engagements;
- human resources;
- engagement performance; and
- monitoring.

40 Our arrangements in each of these areas are described in more detail below. We also take into account the Financial Reporting Council's '*Audit Quality Framework*' which identified five key drivers of audit quality:

- The culture within the audit firm;
- The skills and personal qualities of audit partners and staff;
- The effectiveness of the audit process;
- The reliability and usefulness of audit reporting; and
- Factors outside the control of auditors.

Accepting and continuing client engagements

41 Many of the audits which the C&AG undertakes are audits by statutory appointment and in these circumstances he cannot withdraw or decline the appointment. However, the C&AG can report to Parliament on matters that might otherwise have caused him to withdraw from the engagement.

42 For all of our audits we consider, on appointment and in each successive year, issues which might increase the risk of the audit or lead us to decline, where we are able to do so, to undertake an engagement. These issues include the integrity and competency of the client's board members and senior managers as well as the competency of the NAO and the specific team to undertake the audit. These procedures aim to ensure that the team meets the ethical and professional requirements stipulated by both the NAO and the auditing profession.

Human resources

43 The NAO's core skills base is that of an accounting organisation. Some 60 per cent of staff are members of, or trainees with, the main accountancy institutes, allowing the NAO to meet the professional standards required of all external auditors. This base is supplemented by other staff with relevant professional and research skills, and by contractual partnerships with other bodies.

44 The NAO seeks to recruit the best quality candidates to meet its current and future needs, using the principles of fair and open competition in line with its policy on equal opportunities. The recruitment process aims to achieve an appropriate balance between the recruitment and retention of staff on permanent contracts, fixed-term contracts and other forms of employment.

45 In addition, the Office develops the capabilities and competence of its staff through a combination of structured and unstructured training and career development. Our Financial Audit Practice and Quality team runs an annual technical update course which is mandatory for all financial audit staff.

46 The NAO is a registered trainer for the ICAEW. In addition, it provides professional training for employees undertaking the ACCA, CIMA and CIPFA qualifications.

47 All staff are required to undertake continuing professional development (CPD) and to take responsibility for updating their technical knowledge. The Office has established its own targets for CPD and staff are required to adhere to these as well as ensuring that they comply with the requirements of their respective institute. All staff are required to submit an annual CPD return and this forms part of the NAO Code of Conduct.

48 Our performance appraisal system includes a consideration of training undertaken during the period and a review of current developmental needs.

Engagement performance for financial audit

49 Overall responsibility for the audit rests with the engagement director. The NAO adopts a risk-based approach to audit and we plan and perform our work in accordance with International Standards on Auditing (UK and Ireland). The methodology is set out in our Financial Audit Manual which is designed to be used in conjunction with International Standards on Auditing (UK and Ireland) and aims to support our auditors in conducting their audits in a professional, diligent and independent way. We are in the process of refreshing our audit approach for 2010-11 audits to reflect the requirements of the clarified International Standards on Auditing.

50 We adopt a two-stage internal review process to ensure the quality of our financial audit work:

- **First Stage Review:** this requires all working papers and audit procedures to be reviewed by another audit team member who is senior to the preparer. Detailed review is the responsibility of the engagement manager but the task may be delegated to another team member, subject to the approval of the engagement director.
- **Second Stage Review:** the engagement director performs a second review to confirm that sufficient and appropriate audit evidence has been obtained to support the recommended audit opinion. This review will also consider working papers relating to any significant audit findings or issues.

51 Where an Engagement Director identifies a significant matter which requires the exercise of professional judgement, they are required to consult with peers and technical experts before concluding on the appropriate response.

52 A further peer review, an Engagement Quality Control Review (EQCR), may be completed by an independent NAO director. An EQCR will be completed if the audit planning process identifies a particular sensitivity in the audit, or a significant risk to the C&AG, for example, if it is likely that the C&AG will provide a qualified audit opinion or report on the accounts; or if the engagement director identifies that significant or difficult judgements have been made that have a direct bearing on the C&AG's audit opinion. The scope of the review will depend upon the individual circumstances of the audit and may consider the whole audit or the single issue which gives rise to the review.

Monitoring of financial audit

53 The NAO undertakes an annual quality assurance programme to consider compliance with the Financial Audit Manual and ISQC1. The Financial Audit Practice and Quality Team co-ordinate this programme and the results are considered by the Director General of Financial Audit and the APQ. Guidance is published or provided on the issues identified to staff through bulletins, technical updates and training. This helps spread good practice and ensure the continuing high quality of work.

54 The NAO also conducts a programme of internal Quality Assurance Reviews. These reviews are completed after the audit has been certified, and consider whether the audit was properly planned and conducted in accordance with International Standards on Auditing (UK and Ireland) and whether the documented audit work supports the audit opinion provided.

55 In addition, the Financial Audit Practice and Quality Team undertakes a review of whole of Office procedures on an annual basis, considering compliance with ethical requirements, including continuing professional development, team independence and

Code of Conduct returns, as well as reviewing the decisions taken to accept or continue with specific clients and engagements.

56 The NAO also has an external voluntary review conducted by an external body to provide an independent view of audit quality. For the current year, this review was performed by the Audit Inspection Unit of the Professional Oversight Board.

57 The Director General of Financial Audit reports annually on the results of the Quality Assurance process to the NAO Board.

58 Obtaining client feedback on the quality of our financial audit ensures we fully understand the needs and expectations of our clients and continue to provide the quality of audit they expect. We obtain client feedback and use it to continually improve the audit service that we offer.

59 Complaints on the standard of financial statements audit work from clients are directed to the engagement director in the first instance. Most complaints are resolved at this level, but in the rare occasions where it is not, the complaint would be raised with the Director General of Financial Audit.

Audit reporting

60 Good communication is an essential feature of all NAO audits and helps us to deliver an efficient and effective audit. It is important that we maintain a two-way dialogue with the client during the year as open communication aids the client's understanding of the audit process and helps us achieve beneficial change in the client's financial management and accounting.

61 Our formal communications, such as the audit certificate and report, are carried out in accordance with auditing standards and we communicate with the client's Audit Committee at key stages during the audit through the Audit Strategy, Audit Completion Memorandum and Management Letter. These reports highlight the key risks to the financial statements we have identified and how these have been addressed through our audit work, present our audit findings, and make recommendations for improvements to systems and processes where appropriate.

Quality Assurance for Value for Money Audit

62 The NAO expects staff to adhere to relevant internal and external quality standards set for VFM work and to wider UK and international standards on quality control for audit. The Director General of VFM Audit is responsible for delivering compliance with these expectations by all VFM audit staff and for creating a culture of professionalism, rigour and openness to challenge through regular progress meetings and feedback.

63 The NAO's VFM Standards (published in 2008) set out the mandatory standards that all VFM studies must meet, together with guidance on current approaches to implementing the standards. These Standards are based on international standards developed for performance audit by, for example, INTOSAI, although they are tailored to meet the specific expectations and requirements of the UK public sector environment and Parliament. The Standards themselves are designed to be a relatively timeless articulation of our expectations, which should not need to be updated too often. They are accompanied by a more detailed explanation of current approaches to implementing the Standards.

64 VFM studies are subject to a multi-stage quality assurance process. These processes include the following elements:

- Review of the study concept by the C&AG;
- Allocation of a specialist internal case manager from outside the study team to ensure that work meets Quality Thresholds and VFM standards, and provide advice and technical guidance throughout the study;
- Review of the planned study work by a panel of at least three colleagues who are independent of the study in an Internal Challenge Meeting;
- Technical review of methods, statistics and presentation by an experienced member of the VFM Practice and Quality team;
- Review of the draft work by a panel of at least three colleagues who are independent of the study in an Internal Challenge Meeting. This meeting is chaired by an independent director, who is now responsible for confirming to the C&AG that the team has taken adequate steps to action the main points arising from the Internal Challenge Meeting;
- Final drafts are reviewed by the Director General of VFM Audit, before they are submitted to the C&AG for Accounting Officer clearance;

Monitoring of VFM audit

65 The quality of our VFM reports is monitored in a number of ways. For nearly 20 years we have had arrangements whereby each report has been reviewed by external specialists. Currently, our published reports are reviewed by independent experts from Oxford University Saïd Business School (trading as ISIS); and Risk Solutions, in partnership with both City University and CASS Business School. They assess the report against a set of ten criteria including the quality of methodology, statistics and graphics, the appropriateness of recommendations and the adequacy of the financial analysis. They provide a written report. From September 2010 they will do this on a sample basis and report regularly to the NAO on quality issues and recommendations for improvements.

66 In addition, an internal review of a sample of completed audits (ten a year) is conducted to check whether teams complied with the VFM Standards at each stage of the study cycle. Each team is examined every two years. The review is undertaken by a director and a manager independent of the team, and they gather evidence to allow them to reach a judgement as to whether the Standards have been met.

67 In addition to these quality assurance procedures, study teams seek formal feedback from clients on all VFM studies, and carry out a post-project review shortly after publication of the VFM report. Post-project reviews allow the NAO to capture learning from its VFM audit work and, if appropriate, share knowledge with others.

68 The results of the external reviews, the feedback from departments and other information on a study are captured by the VFM Practice and Quality team and are reported by the Director General of VFM Audit three times a year to the Audit Practice and Quality Committee. This report highlights trends in time, cost and quality of studies. The Director General of VFM Audit also reports annually on the results of the Quality Assurance processes to the Leadership Team and the NAO Board.

Human Resources

69 Many VFM audit staff are trained at the NAO as accountants as set out above. In parallel with their financial audit training, they gain experience of VFM audit working on studies. They also receive basic VFM audit training, including an Introduction to VFM, and courses on interview techniques, statistics and research methods. On qualification they have the opportunity to specialise in VFM audit and will then undergo further, more specialised training. This may include more complex technical courses, as well as workshops on VFM audit practice and e-learning modules.

Quality Assurance of other NAO products

70 In line with the NAO strategy, we are committed to producing a more diverse range of products including good practice guidance. It is, therefore, just as important that we have effective quality assurance arrangements for new products as for our traditional ones. For this reason, the NAO has set out four principles for the quality assurance of all NAO products as follows:

- **Principle 1:** Any material published or issued in the name of the C&AG or the NAO (e.g. audit opinions, reports, good practice guidance) must be subject to an approved quality assurance system.
- **Principle 2:** Products should be subject to the most appropriate quality assurance system, which is fit for purpose, cost-effective and constructively applied.
- **Principle 3:** Where an existing generic approach cannot be followed, teams should consult the Director Generals of Financial and VFM Audit, who will decide

on the most appropriate approach to quality assurance, in conjunction with delivery teams.

- **Principle 4:** The Audit Practice and Quality Committee must approve quality assurance systems for all generic work streams, which should be applied to all work of a particular type.

All NAO staff have been provided with guidance on selecting the most appropriate quality assurance arrangements across our product streams.

Part Three: Remuneration and Financial Information

71 The NAO's financial information is included in our annual report and accounts http://www.nao.org.uk/publications/1011/nao_annual_report_2010.aspx. In summary:

Statement of Operating Costs by Strategic Objectives for the year ended 31 March 2010

Aim: Providing independent assurance to Parliament and other organisations on the management of public resources

	2009-10					Total £000
	Strategic Objective 1	Strategic Objective 2	Strategic Objective 3	Strategic Objective 4	Strategic Objective 5	
	£000	£000	£000	£000	£000	
Gross Expenditure	50,154	21,709	11,990	10,750	186	94,789
Income	(16,305)	-	(899)	(2,692)	-	(19,896)
Subtotal	33,849	21,709	11,091	8,058	186	74,893
Repair and refurbishment of the Office's London headquarters building						16,201
Provision of temporary office accommodation						5,912
Net Expenditure	33,849	21,709	11,091	8,058	186	97,006
Total Assets	47,299	20,473	11,307	10,138	175	89,392

Objective 1 Financial audit: providing assurance that departments' and other bodies' financial statements have been properly prepared and give a true and fair view; that resources have been properly applied to the purposes intended by Parliament; and providing assurance on the assessment and collection of tax revenue.

Objective 2 Value for money: providing Parliament with independent information and advice about economy, efficiency and effectiveness. The Office's reports examine the whole range of services delivered or funded by central government.

Objective 3 Performance improvement: providing demonstrable coherence, consistent quality and efficient audit through three systemic drivers – informed government, financial management and reporting and cost-effective delivery. Performance improvement work also includes securing and measuring impacts by performing impact measurement and work to follow-up the recommendations of particular financial audits or VFM studies; reporting to clients, for example, benchmarking their performance against best practice; developing best practice guidance, such as toolkits and promoting best practice via events and publications; performance validation work, including PSA data systems validation work and value for money savings

work; and supporting better regulation, working on regulatory impact assessments and administrative burdens.

Objective 4 Direct support to Parliament, the public, and other organizations: supporting the Committee of Public Accounts and other Select Committees; responding to enquiries from Members of Parliament and members of the general public; and the provision of advice and training to support the effective scrutiny of public finances in other countries.

Objective 5 Comptroller function: the Comptroller and Auditor General's statutory responsibility to approve the release of funds from the Exchequer to departments.

The National Audit Office has recently completed the refurbishment of its headquarters accommodation. The Public Accounts Commission approved a separate budget for the refurbishment project and temporary accommodation. As it was funded separately, expenditure on the project has not been allocated to Objectives 1-5. Further details on the completion of the project can be found on page 41 of the NAO annual report.

72 The NAO annual report and accounts includes a detailed remuneration report. The National Audit Act 1983 provides that the C&AG shall appoint such staff as he considers necessary for assisting him in the discharge of his functions. The Act further provides that they shall be appointed at such remuneration and on such other terms and conditions as the C&AG may determine, subject to him having regard to the desirability of keeping the remuneration and terms and conditions broadly in line with those applicable in the Civil Service.

73 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. There is no formal performance pay or bonus scheme. Performance is one among a number of factors reflected in the overall level of remuneration.

74 Our financial statements audits are conducted under the leadership of an NAO director, who discharges the role of engagement partner described in the International Standards on Auditing (UK and Ireland). For the year ended 31 March 2009 the individuals carrying out this role were:

- Andrew Baigent, Chris Bedford; Claire Rollo; Colin Wilcox; Damian Brewitt; Dean Parker; Graham Miller; Helen Booth; Helen Dixon; Helen Feetenby; Janet Angus; John Thorpe; Keith Lloyd; Maggie Mcghee; Mandy Measures; Marcia Lant; Mark Babington; Martin Daynes; Mike Suffield; Neil Sayers; Paul Keane; Sajid Rafiq; Dabinderjit Singh Sidhu; Steven Ardron; and Steven Corbishley.

Appendix One

Membership of NAO Board, Leadership Team and committees as at 31 March 2010

NAO Board

- Professor Sir Andrew Likierman, Board Chairman (non-executive member)
- Ruth Evans, Chair of the Remuneration Committee (non-executive member)
- Richard Fleck CBE, Senior Independent Board Member (non-executive member)
- Paula Hay-Plumb (non-executive member)
- Dame Mary Keegan, Chair of the Audit Committee (non-executive member)
- Amyas Morse, Comptroller and Auditor General (executive member)
- Michael Whitehouse, Chief Operating Officer (executive member)
- Gabrielle Cohen, Assistant Auditor General (Stakeholder Relations) (executive member)
- Ed Humpherson, Assistant Auditor General (Economic Affairs) (executive member)

Audit Committee

- Dame Mary Keegan, Chair of the Audit Committee (non-executive member)
- Ruth Evans (non-executive member)
- Richard Fleck CBE (non-executive member)
- Professor Sir Andrew Likierman (non-executive member)

Remuneration Committee

- Ruth Evans, Chair of the Remuneration Committee (non-executive member)
- Richard Fleck CBE (non-executive member)
- Dame Mary Keegan (non-executive member)
- Professor Sir Andrew Likierman (non-executive member)

Leadership Team

- Amyas Morse, Comptroller and Auditor General
- Michael Whitehouse, Chief Operating Officer
- Gabrielle Cohen, Assistant Auditor General (Stakeholder Relations)
- Ed Humpherson, Assistant Auditor General (Economic Affairs)
- Wendy Kenway-Smith, Assistant Auditor General (Local Services)
- Martin Sinclair, Assistant Auditor General (National Services)

Audit Practice & Quality Committee

- Ed Humpherson, Committee Chair, Assistant Auditor General (Economic Affairs)
- Michael Whitehouse, Chief Operating Officer
- Wendy Kenway-Smith, Assistant Auditor General (Local Services)
- Andrew Baigent, Director General, Financial Audit
- Jeremy Lonsdale, Director General, VFM Audit
- Maggie McGhee, Director (Financial audit)
- Jane Wheeler, Director (VFM audit)

Operational Capability Committee

- Michael Whitehouse, Committee Chair, Chief Operating Officer
- Gabrielle Cohen, Assistant Auditor General (Stakeholder Relations)
- Martin Sinclair, Assistant Auditor General (National Services)
- Jim Rickleton, Director General, Finance & Commerce
- Marcial Boo, Director, Strategy, Knowledge & Communications
- John McCann, Director, Human Resources
- Phil Gibby, Director (VFM audit)

Appendix Two

Statutory basis for the C&AG's audits

Type of entity	Prepared under	Audited under
Department (resource accounts)	Government Resources and Accounts Act 2000 (S5(1))	Government Resources and Accounts Act 2000 (S6(3)(a))
Supply Financed Executive Agency	Government Resources and Accounts Act 2000 (S7(1))	Government Resources and Accounts Act 2000 (S7(3)(b))
Trading Fund Financed Executive Agency	Government Trading Funds Act 1973	Government Trading Funds Act 1973 (S4(6))
Consolidated Fund and National Loans Fund	Section 21(1) of the National Loans Act 1968	Section 21(2) of the National Loans Act 1968
Revenue accounts	Exchequer and Audit Departments Act 1921(S2(3))	Exchequer and Audit Departments Act 1921 (S2(2))
Non Departmental Public Bodies (except those that are companies)	The specific statute governing the entity.	The specific statute governing the entity or, the Government Resources and Accounts Act 2000
Non Departmental Public Bodies - Non-Profit Making Companies and Subsidiary Non-Profit Making Companies	The specific statute governing the entity.	The Government Resources and Accounts Act 2000.
NHS Summarised Accounts and Special Health Authorities	National Health Service Act 2006 (S232 (Schedule 15, paragraph 3))	National Health Service Act 2006 (S232 (Schedule 15, paragraph 6))
Central accounts, including Whole of Government accounts	Government Resources and Accounts Act 2000 (S9(1))	Government Resources and Accounts Act 2000 (S11(2)&(3)(a))
Other bodies, including White Paper accounts and National Loans Fund accounts.	The specific statute governing the entity.	The specific statute governing the entity.
Company accounts	Companies Act 2006 (S394) N.B. Exemptions may apply	Companies Act 2006 (S495) for profit making companies.