

NOVEMBER 2011

NAO Transparency Report 2011

Our vision is to help the nation spend wisely.

We apply the unique perspective of public audit to help Parliament and government drive lasting improvement in public services.

The National Audit Office scrutinises public spending on behalf of Parliament. The Comptroller and Auditor General, Amyas Morse, is an Officer of the House of Commons. He is the head of the NAO, which employs some 880 staff. He and the NAO are totally independent of government. He certifies the accounts of all government departments and a wide range of other public sector bodies; and he has statutory authority to report to Parliament on the economy, efficiency and effectiveness with which departments and other bodies have used their resources. Our work led to savings and other efficiency gains worth more than £1 billion in 2010-11.

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Foreword by the Comptroller and Auditor General

This transparency report covers the audit work carried out by the National Audit Office (NAO).

At a time when the public sector is implementing a stretching programme of reform and significant cost reduction there is greater focus than ever on financial management and the importance of securing value for money from public spending. The work of the National Audit Office is vital in supporting Parliamentary and public scrutiny of government expenditure, and it is crucial that Parliament and other stakeholders are confident in the quality of the audit of government and the judgements reached. It is essential that our audits, whether of financial statements or our value for money reports, are subject to appropriate professional best practice that ensures their quality.

In our approach to audit quality and by opting to comply with the transparency reporting requirements to which UK professional audit firms are subject, we demonstrate our commitment to meeting best practice in the audit profession both in the UK and internationally. We play an active role in developing auditing standards in the UK public sector, internationally and in the wider profession

Our stakeholders have high expectations of us, and the quality of our work, and it is the professionalism and judgement of my audit staff, underpinned by policies and systems outlined in this report, which ensure the quality of our audits. I am confident that the quality monitoring and review programmes and the framework of internal quality controls enable us to meet these expectations. In any organisation there is room to improve, and over the next year we will continue to take action to advance further the quality of our work.

Amyas Morse

Comptroller and Auditor General

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 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. He is an officer of the House of Commons.

2 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. The National Audit Office scrutinises public spending on behalf of Parliament and employs some 880 staff. The C&AG certifies the accounts of all government departments and a wide range of other public sector bodies; and he has statutory authority to report to Parliament on the economy, efficiency and effectiveness with which departments and other bodies have used their resources. He and the NAO are totally independent of government.

3 The Budget Responsibility and National Audit Act received Royal Assent in March 2011, and will come into force during the current financial year. The Act establishes the NAO as a corporate entity and establishes the processes by which Board members are appointed. The Act formalises the current governance arrangements, which have been operating in shadow form since 2009.

4 The Act sets out the role of the Board and recognises that the C&AG has sole responsibility for all audit judgements and conclusions reached, and for determining the methodology applied to the NAO's audit of financial statements. The relationship between the Board of the NAO and the C&AG is formalised within the Code of Practice, which is agreed by the Board and approved by the Public Accounts Commission.

5 The work of the NAO is overseen by the Public Accounts Commission, a body established under the National Audit Act 1983. The Commission's principal duties under the Act are to examine the National Audit Office Estimates contained in the NAO corporate strategy, to appoint the NAO's external auditors and consider their reports, and publish its own reports as appropriate.

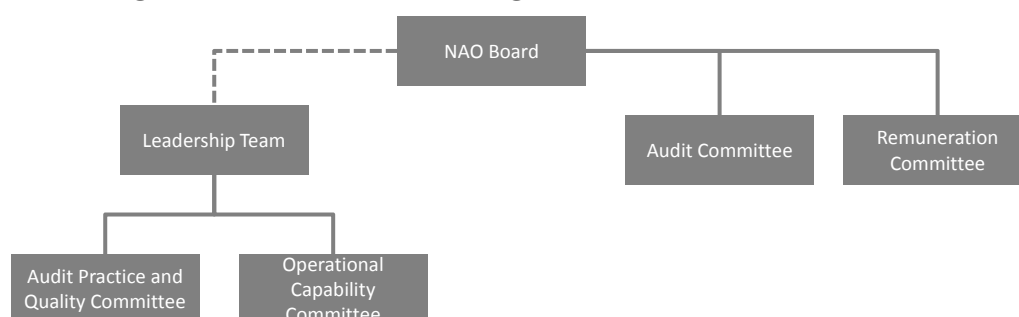
Governance and structure

6 The NAO Board agrees the strategy and resource estimate of the NAO, and submits them to the Public Accounts Commission for approval; it also provides support and independent advice to the C&AG in exercising his functions and overseeing the management of NAO resources.

7 The Board is chaired by an independent non-executive Chair Professor Sir Andrew Likierman, and comprises four other non-executive members, the C&AG, the Chief Operating Officer and two Assistant Auditors General.

8 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



9 The Board is supported by two committees, the Audit and Remuneration Committees which consist solely of non-executive members. 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 in his role by the Leadership Team which meets monthly and provides executive management and governance of the operations and delivery of the NAO. Meetings are chaired by the C&AG and attended by the Chief Operating Officer and the Assistant Auditors General. The Leadership Team has two committees, the Audit Practice and Quality Committee and the Operational Capability Committee.

11 The Audit Practice and Quality Committee is responsible for the technical quality and on-going development of the NAO's work. The Committee is responsible for the wider framework of quality within which the NAO operates, and which governs its financial and value for money audit work. The Committee ensures that audit and evaluative approaches are fit for purpose and comply with good practice, and it also scrutinises the design and implementation of quality assurance arrangements. Risks relating to the quality of the NAO's work and products are monitored by the Committee.

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.

The NAO's work

13 The NAO's work consists of the independent audit of financial statements, examining tax systems, value for money audits on the efficiency, effectiveness and economy of central government spending, and other audit services. It also provides best practice and other guidance to central government. The vast majority of the NAO's audit work is a requirement under statute, and the C&AG has complete discretion in discharging these requirements.

The C&AG's responsibilities for financial statement audit and examining tax systems

14 As Auditor General of Public Accounts, the C&AG gives Parliament independent assurance on how Government has used and accounted for funds voted by Parliament, and on the administration of tax systems. Parliament values his independence and, in 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 that 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)' (ISA) 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, the NAO 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 366 accounts under the statutory appointment regime in the year ending 31 March 2011. He provided 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. He 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 that can be considered by the Committee of Public Accounts. He reports on an annual basis to Parliament on the results of his work examining tax systems.

19 In addition to the statutory appointment audits, the C&AG completed audits of 104 other bodies in the year to 31 March 2011. 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 Audits conducted under the Companies Act by the NAO 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; 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 Act establishes the C&AG's right of access to documents and information deemed relevant to such examinations.
- 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 In recent years, the C&AG has produced around 60 major reports a year. Most of these form the basis for the hearings of the Committee of Public Accounts of the House of Commons. The programme is selected by the C&AG, following discussion with the Leadership Team and taking account of the views of the Committee of Public Accounts. The programme covers a wide range of subjects identified following detailed monitoring of performance across public sector bodies and an assessment of risks to value for money.

Working with audit partners

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

24 These partnership arrangements typically follow one of two models:

- Partner organisations support the NAO by carrying out audit assignments on its behalf, providing the Office 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.
- 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.

25 In all cases of partnership audit arrangements, the C&AG retains overall responsibility for the audit opinion. For our financial statement 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.

26 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.

System of quality control

Overview

27 The work of the NAO is underpinned by rigorous quality assurance arrangements. Quality control is built into the work through policies on recruitment, training and continuing professional development, the Code of Conduct, and through specific operational guidance. 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 the NAO's 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 that support this.

Leadership responsibility for quality

28 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 for Financial Audit and the Director General for VFM Audit hold operational responsibility for quality within financial audit and VFM audit respectively. They are jointly responsible for ensuring quality in our other assurance engagements and report to the C&AG and the Chief Operating Officer.

29 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) sets the NAO's policy on the technical quality of audit work, oversees developing methodologies so that audit and evaluative approaches are fit for purpose and comply with good practice, and designs 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 for 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 the NAO's VFM reports and other audit work.

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

31 The VFM Audit Development Group acts in a similar 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 how the NAO's VFM work can be made more effective.

32 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

33 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.

34 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 when it arises. For each audit the engagement lead must confirm how any conflicts of interest have been managed.

35 Additional conflicts of interest can arise from 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 happen.

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

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

Quality assurance for financial audit

38 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.

39 Arrangements in each of these areas are described in more detail below. The NAO also takes 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

40 Many of the audits that the C&AG undertakes are by statutory appointment and 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.

41 Where the NAO is appointed to audits other than by statutory appointment, the NAO Board is responsible for agreeing and approving the programme of work, and the resources used. The C&AG must be confident that the terms and scope of the work are appropriate and that adequate resources are available and has sole responsibility for all audit judgements and conclusions reached including the right to decline or withdraw from any of these engagements.

42 For all of its audits the NAO considers, on appointment and in each successive year, issues which might increase the risk of the audit or lead it to decline, where it is 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. The Financial Audit Practice and Quality team runs an annual technical update course that 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 The NAO's 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 used in conjunction with International Standards on Auditing (UK and Ireland). The manual supports our auditors in auditing in a professional, diligent and independent way.

50 The NAO adopts a two-stage internal review process to ensure the quality of its 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 that requires professional judgement, they are required to consult with peers and technical experts before deciding 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. This might be, 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 affect 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.

53 For certain sensitive or high-risk engagements we introduced for 2010-11 audits a review by our Compliance and Quality Unit (see paragraph 54) of the quality of audits before signing the audit report. The decision to carry out this review depends on the circumstances of the audit and the significance of the financial statements.

Monitoring financial audit

54 The NAO undertakes an annual quality assurance programme to consider compliance with the Financial Audit Manual and ISQC1. During 2011 it established a Compliance and Quality Unit (CQU), which reports to the Chief Operating Officer, to co-ordinate this programme. 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.

55 The CQU also conducts a programme of internal quality assurance reviews. These reviews are completed after the audit has been certified. The review considers 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.

56 In addition, the NAO undertakes a review of *whole of office procedures* annually, considering compliance with ethical requirements, including continuing professional development, team independence and Code of Conduct returns. It also reviews the decisions taken to accept or continue with specific engagements.

57 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.

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

59 Obtaining feedback on the quality of its financial audit ensures the NAO fully understands the needs and expectations of audited bodies and continues to provide the quality of audit they expect. The NAO therefore obtains feedback and uses it to continually improve the audit service that it offers.

60 Complaints about the standard of financial statements audit work from audited bodies 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 for Financial Audit.

Audit reporting

61 Good communication is an essential feature of all NAO audits, both financial and Value for Money, and helps us to deliver an efficient and effective audit. It is important that it maintains a two-way dialogue with the audited body. Open communication helps understanding of the audit process and helps the NAO achieve beneficial change in the bodies' financial management and accounting.

62 Formal communications, such as the audit certificate and report, are carried out in accordance with auditing standards. The NAO communicates with the relevant 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 the NAO has identified and how these have been addressed through its audit work. The reports present the NAO's audit findings and make recommendations for improvements to systems and processes where appropriate.

63 On VFM audit the NAO discusses study proposals with the organisations it audits as part of wider discussions about the audit strategy. On individual studies, it consults on the proposed methodology. Teams are expected to advise the department of emerging findings during the audit. When the NAO has its provisional audit findings it discusses them with the department and seeks their comments on the facts and their presentation. This is done initially at Finance Director level and subsequently, with the Accounting Officer. The NAO aims to write reports which are succinct and balanced in tone, with recommendations for improvements and a clear VFM conclusion.

Quality Assurance for Value for Money Audit

64 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.

65 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 (International Organisation of Supreme Audit Institutions), 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. In 2011 the Standards were reviewed and updated to take account of recent developments in VFM audit.

66 VFM studies are subject to a multi-stage quality assurance process, which was refined in the summer of 2011. These processes include the following elements:

- A review of the study concept by the C&AG.
- Appointing a 'Partner Director' to provide critical challenge to the team throughout the study, and provide assurance to the C&AG on the quality of the work.
- Allocating a specialist internal case manager from outside the study team to ensure that work meets VFM standards, and provide advice and technical guidance throughout the study.
- A review of the planned study by colleagues who are independent of the study.
- A technical review of methods, statistics and presentation by an experienced member of the VFM Practice and Quality team.
- A review of the findings by a panel made up of the Partner Director and two other colleagues who are independent of the study in an Internal Challenge Meeting. The Partner Director 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 review.

Monitoring VFM audit

67 The quality of our VFM reports is monitored in a number of ways. For nearly 20 years the NAO has had arrangements whereby reports have been reviewed by external specialists. Currently, 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 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. Since September 2010 they have done this on a sample basis and have also reported to the NAO on specific quality issues such as VFM

conclusions and recommendations. These reviews have been used by APQ as the basis of discussions on quality.

68 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.

69 In addition to these quality assurance procedures, study teams seek formal feedback from audited bodies on all VFM studies, and carry out an internal post-project review shortly after the VFM report is published. Post-project reviews allow the NAO to capture learning from its VFM audit work and, if appropriate, share knowledge with others.

70 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. They are then reported by the Director General of VFM Audit 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

71 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.

72 The NAO also employs specialists in such disciplines as economics, statistics, business analysis and ICT. They are generally recruited as researchers or senior analysts. The latter compete for Audit Manager posts with staff who have been trained as accountants. The Office has focused on the continued development of its skills base by creating internal knowledge 'hubs' to support networking of experts in analytical methods, economics and statistics, and we are building our capacity in ICT and systems analysis.

Quality Assurance of other NAO products

73 In line with the NAO strategy, it is committed to producing a more diverse range of products including good practice guidance. It is, therefore, just as important that the Office has effective quality assurance arrangements for new products as for its 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.

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

Remuneration and financial information

75 The NAO's financial information is included in its annual report and accounts www.nao.org.uk/publications/1011/nao_annual_report_2011.aspx. In summary:

Statement of operating costs by strategic objective for the year ended 31 March 2011.

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

	2010-11					
	Financial Audit	Value for Money	Performance Improvement	Support to Parliament, the public, & other organisations	Comptroller Function	Total
	£000	£000	£000	£000	£000	£000
Gross Expenditure	51,114	19,126	10,466	11,564	212	92,482
Income	(16,062)	-	(336)	(3,837)	-	(20,235)
Net Expenditure	35,052	19,126	10,130	7,727	212	72,247

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.

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.

Performance improvement: providing demonstrable coherence, consistent quality and efficient audit through three systemic drivers – informed government, financial management, and cost-effective delivery. The Office develops and promotes guidance on best practice including toolkits (for example, on board reporting and risk management) and promotes best practice via events and publications. Performance improvement work also includes securing and measuring impacts and work to follow-up the recommendations of particular financial audits or value for money studies.

Direct support to Parliament, the public, and other organisations: 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.

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

76 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. This is 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.

77 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. If dismissal is as a result of redundancy or agreed early severance individuals would receive compensation under the Civil Service Compensation Scheme. Staff dismissed for all other reasons, including misconduct and under performance, receive no compensation. There is no formal performance pay or bonus scheme. The pay of NAO staff is directly related to their performance, which considers a broad range of factors including the quality of work undertaken.

78 The Office's 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 2011 the individuals carrying out this role were:

Andrew Baigent, Bryan Ingleby, Chris Bedford, Claire Rollo, Colin Wilcox, Damian Brewitt, Dean Parker, Helen Booth, Helen Dixon, Helen Feetenby, Jacqui Smillie, Janet Angus, John Thorpe, Kate Mathers, Keith Lloyd, Maggie McGhee, Mandy Measures, Marcia Lant, Mark Babington, Martin Daynes, Mike Suffield, Neil Sayers, Nick Bateson, Paul Keane, Sajid Rafiq, Dabinderjit Singh Sidhu, Steven Ardron, Steven Corbishley, and Susan Ronaldson.

Appendix One

Membership of NAO Board, Leadership Team and committees as at 31 March 2011

NAO Board

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

Remuneration Committee

- Ruth Evans, Chair of the Remuneration Committee (non-executive member)
- Richard Fleck CBE (non-executive member)
- Paula Hay-Plumb (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)
- Martin Sinclair, Assistant Auditor General (National Services)

Audit Practice and Quality Committee

- Ed Humpherson, Committee Chair, Assistant Auditor General (Economic Affairs)
- Michael Whitehouse, Chief Operating Officer
- Andrew Baigent, Director General, Financial Audit
- Jeremy Lonsdale, Director General, VFM Audit
- Michael Kell, Director (Economic Analysis)
- Marcia Lant, Director (Financial 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 and Commerce
- Marcial Boo, Director, Strategy, Knowledge and Communications
- John McCann, Director, Human Resources
- Phil Gibby, Director (VFM Audit)
- Aileen Murphy, Director (VFM Audit)
- Sid Sidhu, Director (Financial 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	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