



National Audit Office

NAO Finance Manual

May 2009

This is the external version of the Finance Manual. The internal manual contains links to NAO servers which cannot be accessed outside of the NAO and have therefore been removed.

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Section A - General Introduction

A1. Overview

Introduction

1. Under the National Audit Act 1983, the Comptroller and Auditor General (C&AG) is the legally appointed Head of the National Audit Office (NAO). Each year the C&AG prepares a Corporate Plan which sets out the NAO's proposed work and expenditure programmes. The Corporate Plan is used as a bidding document to obtain from Parliament (via the Public Accounts Commission, TPAC) the financial resources the NAO needs to undertake its work programmes.
2. The Comptroller and Auditor General prepares an Estimate for each financial year of the use of resources by the National Audit Office; and the Commission examine that Estimate and lay it before the House of Commons with such modifications, if any, as the Commission thinks fit.
3. This Finance Manual sets out the policies, principles and responsibilities that underpin the NAO's management of these financial resources. All staff are expected to be familiar with it, and apply it in a responsible and appropriate manner.
4. **Staff should refer any queries regarding the Finance Manual to the Director of Finance.**

Policies and Principles

- As the appointed Accounting Officer for the NAO, the C&AG has personal responsibility for :
 - the propriety and regularity of the NAO's finances for which he/she is answerable;
 - the keeping of proper accounts;
 - prudent and economical administration;
 - the avoidance of waste and extravagance;
 - the efficient and effective use of all available resources.
- The C&AG has endorsed, and the NAO operates to, a set of financial management policies and principles that are appropriate to the NAO's circumstances and which meet Managing Public Money and Parliament's expectations for the proper conduct of NAO business.
- An Assistant Auditor General has been appointed as Board Member for Finance to be directly responsible to the Accounting Officer for financial and related matters in the NAO.
- All of the C&AG's and the NAO's financial business are to be conducted in an entirely proper, transparent and professional

manner, with full regard to the highest public sector corporate governance standards.

- Public resources in the C&AG's care must not in any way be abused, misspent, misappropriated or defrauded. Any member of staff who breaches this policy will be subject to disciplinary proceedings which may lead to dismissal and prosecution.

Responsibilities

The C&AG

5. The C&AG's personal responsibility for the proper stewardship of NAO resources derives from his appointment by TPAC as the NAO's Accounting Officer and is set out in the Accounting Officer's Memorandum issued by the Commission. As Accounting Officer the C&AG must:
 - sign off the NAO's Resource Accounts;
 - ensure that proper financial procedures are followed;
 - ensure that public funds for which he is responsible are properly and well managed;
 - ensure that NAO assets are properly controlled and safeguarded;
 - ensure that all relevant financial considerations are considered in policy proposals relating to income and expenditure.
6. The C&AG is required to ensure that effective management systems including financial monitoring and control systems that enable the NAO to achieve its objectives.
7. The C&AG is also required, annually, to make a formal statement regarding the adequacy of the NAO's system of internal control. This statement is subject to review by the NAO's external auditors.

The Management Board

8. The Board Comprises:
 - Comptroller and Auditor General (Chairman);
 - the Assistant Auditors General of the NAO; and
 - the Chairman of the Audit Committee.
9. The Board is responsible for advising the C&AG on:
 - the strategic direction for the NAO, including its strategic objectives and plans;
 - governance, including a transparent method of decision making and disclosure and appropriate internal controls and

accountability arrangements, and implementing and overseeing them;

- quality assurance procedures;
- policies and programmes in line with the strategic direction;
- annual resource allocations (priorities and budget/spending reviews) and significant expenditure/investment decisions;
- accountability and monitoring arrangements and overseeing performance against corporate plans budgets and targets;
- corporate change, leading the process, encouraging innovation and where appropriate enterprise, and overseeing its implementation to enhance the Office's capacity to deliver;
- new business and new workstreams as appropriate;
- appropriate measures for the health and well-being of staff, and for the safety of staff and visitors, ensuring they are in place and followed;
- measures to protect and enhance the Office's reputation both as an audit institution and as an employer;
- risk management arrangements, establishing and overseeing the necessary procedures and ensuring organisational learning from the management of significant risks;
- the resource accounts;
- the annual report;
- reports and matters arising from the Committees of the Board;
- any other matter as deemed appropriate.

10. The Board meets monthly.

11. The Management Board is supported by 5 committees, the remits of which are summarised in the Appendix.

The Board Member for Finance

12. The responsibilities of the Board Member for Finance are equivalent to those set out in Managing Public Money for departmental Finance Directors. The Board member for Finance is directly responsible to the Accounting Officer for all financial and related matters, including:

- planning and control : the NAO's resource and capital expenditure planning and allocation process, including the corporate and operational planning process;
- regularity : that income and expenditure are dealt with in accordance with authorising legislation, other delegated authorities and Managing Public Money;

- propriety : that income and expenditure are dealt with in accordance with Parliament's intentions and the principles of Parliamentary control;
- accounting : all aspects of the NAO's Supply and Vote procedures; preparation of Resource Accounts; compliance, where appropriate, with Managing Public Money and the Government Financial Reporting Manual (FReM); maintenance of proper records of the NAO's financial affairs; ensuring that management accounting systems are consistent with and support resource based planning and control and cash management; advising line managers on the use of these systems; and maintaining asset records;
- vote controls : ensuring that expenditure is kept within control totals and cash limits; ensuring that systems are in place to draw attention to possible breaches in control figures, and proposing options for remedial action; ensuring that an adequate budgeting system is in place, and that delegated authorities are in place and properly managed;
- banking and cash management;
- fees and charges : that fees and charges are properly set and promptly recovered;
- value for money : ensuring that managers pay proper regard to the need to obtain value for money; and that systematic arrangements exist for the costing and appraisal of all proposals with resource implications;
- procurement and contracting out : that procurement strategies, procedures and responsibilities are clearly set out and understood by all staff; that the obligations of European Union Directives for procurement are complied with; and that best possible value for money is obtained from procurement and contracting out activities;

13. The Board Member for Finance is also responsible for providing the evidence on which the C&AG's annual statement on internal control is based (see above). Part of this evidence is drawn from the work of internal and external audit, but additionally the Board Member responsible for Finance is responsible for ensuring that other sufficient, positive evidence is available to the C&AG.

The Director of Finance

14. The Director of Finance is responsible to the Board Member for Finance for:
- the NAO's financial accounting, management accounting and corporate and operational planning functions. This includes acting as main sponsor for the NAO's financial accounting and management accounting systems;
 - the day to day implementation of and adherence to NAO financial and budgetary control policies;
 - maintaining adequate systems of books and accounts forming the basis of the resource accounts;
 - making payments and bringing receipts to account;
 - monitoring and investigating all losses;
 - monitoring income and expenditure against budgets, and providing advice on action to avoid overspending or significant underspending;
 - the operation of sound, well controlled, financial accounting and financial management systems;
 - co-ordinating the evidence that will provide positive assurances regarding the soundness of NAO control systems for the statement on internal control;
 - ensuring that the control environment evolves to meet new challenges and requirements.

All Staff

15. The NAO's Code of Conduct provides staff with clear guidance on the standards of corporate and personal conduct expected of them. Staff are required to familiarise themselves with the provisions of the Code and provide an annual signed statement confirming that they have complied with these provisions in the previous twelve months.
16. Staff are expected to be aware of and abide by NAO financial control policies and procedures as enshrined in this Finance Manual and other relevant NAO documents as set out in paragraph 21.
17. Staff are expected to know about and apply those sections of the Finance Manual and other supporting guidance that are relevant to their day to day responsibilities.
18. Staff are responsible for following laid down and approved financial procedures. Any proposed departure from set procedures should be clearly documented and submitted to the Director of Finance before the action is taken.
19. Where applicable staff are also expected to follow external guidance such as:
- codes of conducts for their professional bodies;

- Treasury, Cabinet Office and Accounting Standards Board guidance on the Proper Conduct of Public Business and Regularity and Propriety;
- Nolan Report;
- 1993/94 8th Report from the Committee of Public Accounts, which reported on the proper conduct of public business.

Further Advice and Guidance

20. Staff should consult the Director of Human Resources if they need guidance or clarification about the applicability of Codes of Conducts. Likewise the Director of Finance should be consulted on any questions about the applicability of the Finance Manual, financial guidance and procedures.
21. Managing Public Money (in particular Chapter 3) provides full details of the expected roles and responsibilities of Accounting Officers and departmental Finance Directors (Board Member for Finance).
22. Although the Finance Manual is the primary source of rules and guidance on financial control, it is complemented by other Office manuals and policy statements such as:
 - Personnel Manual;
 - Security Manual;
 - Vision, Mission and Values Statement;
 - The NAO's Code of Conduct;
 - NAO Finance Memoranda;
 - NAO Purchasing Guide;
 - NAO T&S Guide.
23. Those responsible for producing local desk instructions and/or guidance should ensure that they do not replace or contradict the Finance Manual, which takes precedence.

Appendix: Remit of the 5 committees supporting the Management Board

Audit Practice and Quality Committee (focusing on delivery)

24. The Committee is responsible for overseeing and advising the Board as necessary on:

- the strategy for developing financial and VFM audit, including good governance work;
- the nature and scope of the forward VFM programme;
- the nature and scope of the forward good governance programme;
- the development of new areas of audit business, including the audits of international bodies and new opportunities to provide international technical co-operation;
- the development of policy for outsourcing financial audit, VFM audit, good governance and other audit activity and the implementation and monitoring of arrangements for outsourcing;
- financial audit methodologies;
- VFM audit methodologies;
- the delivery of audit work in accordance with the agreed forward programmes (including International work, wider support to Parliament and all other outputs);
- delivery of the PAC programme, in particular, and wider support to Parliament;
- the design, implementation and reporting on financial audit and VFM audit quality assurance arrangements, including responding to the conclusions of external quality assurance exercises and relevant external audit reports; and
- the arrangements for identifying, monitoring and reporting on the NAO's financial impacts target; and the same for wider, non-financial impacts.

25. The Committee reports at least annually to the Board on the following:

- the annual financial audit quality assurance exercise;
- the VFM quality assurance work;
- performance against the financial impacts target;
- non-financial impacts, including client feedback exercises; and
- an annual report on the business of the Committee, highlighting key issues to be drawn to the attention of the Board.

26. The Committee meets monthly.

Operational Delivery Committee (focusing on resources and infrastructure)

27. The Committee is responsible for overseeing and advising the Board as necessary on:

- the annual process for producing the Corporate Plan, its content and direction, and the delivery of the Operational Plan;
- the content and direction of the Annual Report;
- the annual budgeting process and annual resource allocations (priorities and budget/spending reviews), including the delivery and monitoring of efficiency gains;
- corporate strategies on finance, information/knowledge management, marketing and communications, HR, IT, security and business continuity and the Office's assets and their management and delivery;
- corporate policies (e.g. Freedom of Information, complaints) and programmes in line with the strategic direction agreed by the Board;
- key areas of improvement from the external Auditors' Management Letters;
- the management of the allocation system;
- the delivery of Corporate Change initiatives against milestones;
- the resource requirements of the Office in terms of grading ratios for delivering audit work;
- ad hoc reviews delegated by the Board, including reviews of areas of poor performance identified by the Board through its monitoring of the Business Management Report.

28. The Committee is responsible for reporting to the Board the following:

- an annual report on the work and achievements of the Committee;
- an annual report on communications activity.

29. The Committee meets monthly.

Staff Performance and Remuneration Committee (focussing on staff management)

30. The Committee is responsible for overseeing and advising the Board as necessary on:

- negotiations with the Unions and staff side for annual pay awards and the resulting annual pay award;
- the content and direction of the HR strategy (in conjunction with the Infrastructure and Resources Committee) and the training and development strategy;
- the appraisal process for staff and the operation of the annual appraisal round;
- changes to the grade mix and the number of Director posts and promotions to director following a successful recruitment process;
- implementation of the recruitment policy, including revisions to the number of trainees to be recruited, the recruitment process and the delivery of the secondments policy;
- implementation of the training and development strategy;
- contracts for external support for HR work;
- the timing of promotion rounds and the target number of promotees for Manager/Grade 7 and below;
- compliance with the Code of Conduct
- developments in employment law and the need for changes to Office procedures;
- key HR and training and development performance information;
- the corporate awards process.

31. The Committee is responsible for reporting to the Board the following:

- an annual report on the work and achievements of the Committee;
- an annual report on diversity;
- an annual report on the delivery of the HR strategy;

- an annual report on the delivery of the training and development strategy.

32. The Committee meets monthly.

Audit Committee

33. The Audit Committee's primary focus is on the adequacy, findings and performance of the Office's internal and external audit services and the Office's risk management and internal control processes. The main duties of the Audit Committee are:

With regard to Internal Audit to:

- ensure that the Internal Audit function is adequately resourced and has appropriate standing within the Office;
- consider the implications of, and approve, Internal Audit's resource needs assessment, strategic work programme and costed annual workplan, prioritising tasks and the use of internal audit resources, as appropriate;
- consider the results of Internal Audit reviews and the adequacy of management responses;
- provide a forum for discussion to identify areas worthy of investigation by Internal Audit;
- advise the Comptroller and Auditor General and the Principal Finance Officer on the appointment and removal of internal auditors.

With regard to External Audit to:

- consider the External Auditor's management letter and management responses;
- review the Office's financial statements in the light of the External Auditor's report and management letter before the documents are submitted to the Comptroller & Auditor General;
- provide a forum to consider potential topics for the annual value for money report undertaken by external audit for the Public Accounts Commission, and monitor implementation of VFM report recommendations;
- advise the Comptroller and Auditor General on the effectiveness of external audit;
- review the process for appointing the external auditors in order to advise the Public Accounts Commission.

With regard to risk management and internal control to:

- review with the Principal Finance Officer, internal audit, external audit and others as relevant, on a regular basis, the adequacy and effectiveness of the mechanisms for identifying, evaluating and managing significant risks to the Office;
- review the systems of control used to manage significant risks;
- review the NAO's anti-fraud policy, fraud response plan, whistle-blowing policy and fraud register;
- consider whether appropriate risk management, control, and review processes are in place to support the Statement on Internal Control made by the Comptroller and Auditor General as the Accounting Officer. The Committee should take into account the full range of processes contributing to assurances about the internal control environment including returns on compliance with the Office's Code of Conduct exercise and risk management processes.

With regard to internal audit, external audit and internal control generally to:

- monitor the implementation of recommendations relating to internal audit reports, external audit management letters on the resource account, external audit's value for money studies, and any other reports relating to significant internal control matters;
- encourage liaison between internal and external audit;
- review in Committee, at least annually, the effectiveness of internal audit, external audit, risk management and internal control work.

34. Meetings are held not less than three times a year. The internal or external auditors may request a special meeting if they consider one necessary.

35. The Comptroller and Auditor General may ask the Audit Committee to convene further meetings to discuss particular issues on which he wants the Committee's advice.

Health and Safety Committee

36. The NAO Health and Safety Committee is a Committee of the Management Board and is chaired by Jim Rickleton. The Board will discuss a formal report from the Committee at least once a year.

37. Membership of the Committee includes representatives from across the Office. The Committee has the following objectives and responsibilities:

- To provide a forum for discussing health and safety issues for management and staff side representatives;
- To monitor compliance with Health and Safety legislation and regulations;
- To review reports produced by the Health and Safety Officer, the appointed Staff Health and Safety Representatives and enforcing authority Inspectors (from the relevant Local Authority or the Health & Safety Executive) and recommend appropriate action;
- To review safety audit reports and reported accidents and investigate trends, in order to report to Senior Management on unsafe or unhealthy conditions and practices, along with recommendations for action;
- To review and monitor work safety rules and safe systems of work to ensure that they meet statutory requirements and best practice; and
- To review the provision and effectiveness of health and safety communications, guidance and training for NAO staff.

38. The Committee meets twice a year.

A2. NAO Ethical Standards and Core Values

Introduction

1. In 1995 the Nolan Committee set out seven principles of ethical standards in public life; see the [Appendix](#) to this chapter. The principles have been endorsed by the Government and now form the benchmark against which the NAO's framework of ethical standards is measured.
2. Parliament and the public naturally expect the NAO to have high ethical standards. All staff should aim to act and behave at all times in a manner which meets these expectations. The NAO should "practice what it preaches" to audited bodies.

Policies and Principles

- The NAO's core values are set out in the Statement of "Vision, Mission and Values". These values are deemed to be as relevant to internal NAO matters as to the Office's work in reporting to Parliament and client bodies.
- The NAO has a Code of Conduct that all staff must adhere to, and confirm annually that they have understood and followed. The Code of Conduct takes precedence over other external codes. There are three crucial values which must underpin the work of staff in the NAO:
 - Accountability - everything done by those who work in the NAO must be able to stand the test of parliamentary scrutiny, public judgements on propriety, and professional codes of conduct.
 - Probity - there should be an absolute standard of honesty and integrity in handling NAO work and resources.
 - Objectivity and impartiality - The C&AG's independence is secured in statute. This underlines the need for us to be objective and impartial in all our work, including accurate, fair and balanced reporting.
- NAO staff should behave in a manner consistent with recommendations made to audited bodies. Staff should therefore seek to ensure that the NAO itself spends public money wisely; operates to the highest standards of financial management and reporting; and exercises due care and diligence in conducting its business.
- The NAO formally subscribes to the professional and ethical standards set by the International Federation of Accountants and the INTOSAI Code of Ethics for Auditors in the Public Sector.

Responsibilities

All Staff

3. Staff are responsible for familiarising themselves with:
 - The NAO's Statement of Vision, Mission and Values;
 - Ethical guidance contained within the NAO's Code of Conduct;
 - Any professional ethics applicable to professional bodies they may belong to in whatever capacity.
4. Staff must confirm when they join the NAO that they understand the requirements of the Code of Conduct. Staff must also declare annually that they have complied with the NAO Code of Conduct. Senior staff and those in certain key positions are required to make additional annual declarations about interests.

Staff Performance and Remuneration Committee

5. Amongst its other duties, the Committee is responsible for overseeing and advising the Board on compliance with the NAO Code of Conduct.

The Director of Human Resources

6. The Director of Human Resources is responsible for:
 - preparing and updating the NAO Code of Conduct;
 - obtaining through the HR team annual declarations from staff and following up non-compliance;
 - ensuring new staff are familiar with and agree to abide by the NAO Code of Conduct;
 - acting as a point of reference for any guidance required concerning the Code of Conduct.

Further Advice and Guidance

7. Staff requiring further clarification on the NAO Code of Conduct e.g. if they believe that there are apparent conflicts with the requirements of their professional bodies, should discuss the matter with the Director of Human Resources.
8. The following guidance is also relevant :
 - NAO Vision, Mission and Values Statement;
 - NAO Personnel Manual;
 - Professional Institutes' Code of Ethics;
 - 1993-94 8th PAC Report - Proper Conduct of Public Business;
 - Standards in Public Life - the Nolan Report.

Appendix: Nolan Report - Principles of Ethical Standards in Public Life

Selflessness

Holders of public office should take decisions solely in terms of the public interest. They should not do so in order to gain financial or other material benefits for themselves, their family, or their friends.

Integrity

Holders of public office should not place themselves under any financial or other obligations to outside individuals or organisations that might influence them in the performance of their official duties.

Objectivity

In carrying out public business, including making public appointments, awarding contracts, or recommending individuals for rewards or benefits, holders of public office should make choices on merit.

Accountability

Holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.

Openness

Holders of public office should be as open as possible about all the decisions and actions they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands.

Honesty

Holders of public office have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest.

Leadership

Holders of public office should promote and support these principles by leadership and example.

A3. NAO Anti-Fraud Policies

Introduction

1. The Fraud Act 2006 defines fraud as activity aimed at securing a gain, causing a loss, or exposing somebody to the risk of a loss, through false representation, failing to disclose information, or through abuse of position.
2. This Chapter is concerned with occupational fraud i.e. fraud committed by NAO employees or contractors in the course of their work. Guidance on issues arising from the private and personal activities of staff which may impinge on the performance of their duties or risk bringing discredit to the Office is contained in Section 6 of the Code of Conduct.
3. Occupational fraud and abuses fall into four main categories:
 - theft, the misappropriation or misuse of assets for personal benefit;
 - bribery and corruption;
 - false accounting and/or making fraudulent statements with a view to personal gain or gain for another: for example falsely claiming overtime, travel and subsistence, sick leave or special leave (with or without pay);
 - externally perpetrated fraud against an organisation.

Policies and Principles

- The NAO is committed to preventing fraud and corruption from occurring and to developing an anti-fraud culture. To achieve this the NAO will comply with the requirements of Managing Public Money to
- develop and maintain effective controls to prevent fraud;
- ensure that if fraud occurs a vigorous and prompt investigation takes place;
- take appropriate disciplinary and legal action in all cases, where justified;
- review systems and procedures to prevent similar frauds;
- investigate whether there has been a failure in supervision and take appropriate disciplinary action where supervisory failures occurred; and
- record and report all discovered cases of fraud.

The following policies and principles apply in the NAO.

- NAO staff must have, and be seen to have, the highest standards of honesty, propriety and integrity in the exercise of their duties.
- The NAO will not tolerate fraud, impropriety or dishonesty and will investigate all instances of suspected fraud, impropriety, or

dishonest conduct by NAO staff or external organisations (contractor or client).

- NAO staff must not defraud the NAO, other NAO staff, NAO clients or NAO contractors, in any way.
- The NAO will take action - including dismissal and/or criminal prosecution - against any member of staff defrauding (or attempting to defraud) the NAO, other NAO staff, NAO clients or contractors.
- The NAO will take action - including criminal prosecution - against external organisations defrauding (or attempting to defraud) the NAO, NAO staff in the course of their work, NAO clients or contractors.
- The NAO will co-operate fully with an external investigating body.
- The NAO will always seek to recover funds lost through fraud.
- All frauds will be reported to Internal Audit.

Action to be taken in the event of discovery or suspicion of fraud

4. The NAO has established arrangements for staff to report any concerns they may have without fear of prejudice or harassment. This applies to concerns relating to fraud and to any other concerns within the context of the Public Interest Disclosure Act 1998.
5. Concerns which should be reported include, but are not limited to, staff committing or attempting to commit:
 - any dishonest or fraudulent act;
 - forgery or alteration of documents or accounts;
 - misappropriation of funds, supplies or other assets;
 - impropriety in the handling or reporting of money or financial transactions;
 - profiting from an official position;
 - disclosure of official activities or information for advantage;
 - accepting or seeking value from third parties by virtue of official position or duties; and
 - theft or misuse of property, facilities or services.
6. External organisations' actions which should be reported include:
 - being offered a bribe or inducement by a supplier;
 - receiving fraudulent (rather than erroneous) invoices from a supplier;
 - reported allegations of corruption or deception by a supplier.

7. The NAO has established and maintains a Fraud Response Plan, which sets out guidance to senior staff in the event of fraud being discovered or suspected. Under the Plan:
 - incidents will be logged in a Fraud Register, which contains details of allegations, investigations and conclusions;
 - frauds and allegations of fraud will be investigated by an appointed suitably qualified senior member of staff independent of the area under suspicion;
 - progress on investigations will be reported to the Audit Committee as a standing item on the agenda.

Responsibilities

8. The creation of an anti-fraud culture underpins all work to counter fraud. All NAO staff should understand the risk of fraud faced by the office, that fraud is serious and diverts resources away from the NAO's primary objectives.

Accounting Officer and Board Member for Finance

9. The Accounting Officer (C&AG) and the Board Member for Finance are responsible for establishing the internal control system designed to counter the risks faced by the NAO. Together they are accountable for the adequacy and effectiveness of these arrangements. Managing fraud risk should be seen in the context of the management of this wider range of risks.
10. The Board Member for Finance is responsible for making arrangements for investigating allegations of fraud. These arrangements include the appointment of a suitably qualified senior member of staff to lead the investigation.
11. The Board Member for Finance will be responsible for receiving the report of the investigating officer and considering an appropriate response.

The Director of Finance

12. The Director of Finance is responsible for assisting the Accounting Officer and the Board Member for Finance to develop and maintain effective controls against fraud.

The Director of Human Resources

13. The Director of Human Resources will be responsible for enforcing NAO anti-fraud policies, including:
 - instigating disciplinary and legal action (both civil and criminal) against the perpetrators of fraud;
 - taking disciplinary action against supervisors where supervisory failures have contributed to the commission of fraud;

- providing confidential advice to staff who suspect a member of staff of fraud.

Appointed investigator

14. The appointed senior member of staff will be responsible for investigating allegations of fraud including:
- carrying out a thorough investigation if fraud is suspected, with the support of Internal Audit, where necessary;
 - gathering evidence, taking statements and writing reports on suspected frauds;
 - liaising with the Director of Finance and the Board Member for Finance where investigations conclude that a fraud has taken place;
 - identifying any weaknesses which contributed to the fraud; and
 - if necessary, making recommendations for remedial action.
15. To carry out these duties the appointed member of staff will have unrestricted access to the C&AG, the Board Member for Finance, the Management Board Member responsible for Human Resources, the Director of Finance, the Director of Human Resources, the Audit Committee, the NAO's Internal and External Auditors, and the NAO's legal advisers.

Managers and Directors

16. Managers are the first line of defence against fraud. They should be alert to the possibility that unusual events may be symptoms of fraud or attempted fraud and that fraud may be highlighted as a result of management checks or be brought to attention by a third party. They are responsible for:
- being aware of the potential for fraud;
 - ensuring that an adequate system of internal control exists within their area of responsibility, appropriate to the risk involved and those controls are properly operated and complied with;
 - reviewing and testing control systems to satisfy themselves the systems continue to operate effectively.
17. Managers should inform their Director if there are indications that an external organisation (such as a contractor or client) may be trying to defraud (or has defrauded) the NAO or its staff carrying out their duties.
18. They should also inform their Director if they suspect their staff may be involved in fraudulent activity, impropriety or dishonest conduct.
19. Directors should contact the Board Member for Finance immediately on being alerted to such suspicions. Time is of the essence in reporting suspicions. Managers should therefore inform the Board

Member for Finance direct if their Director is absent. In the absence of the Board Member for Finance, the Director of Finance should be informed. In turn, they will ensure that the C&AG is kept informed of developments.

20. Managers and Directors should take care to avoid doing anything which might prejudice the case against the suspected fraudster. Separate advice on dealing with fraud is contained in a fraud response plan circulated to designated staff involved in reporting or investigating individual allegations of fraud.

All Staff

21. NAO staff must have, and be seen to have, the highest standards of honesty, propriety and integrity in the exercise of their duties. NAO staff are responsible for:

- acting with propriety in the use of official resources and in the handling and use of public funds whether they are involved with cash or payment systems, receipts or dealing with contractors or suppliers;
- reporting details of any suspected fraud, impropriety or other dishonest activity immediately to their line manager or the responsible manager (or using the complaints hotline (x7999)). More guidance on how to report concerns can be found in the NAO policy on reporting concerns about the proper conduct of National Audit Office business;
- assisting in the investigation of any suspected fraud.

22. Staff reporting or investigating suspected fraud should take care to avoid doing anything which might prejudice the case against the suspected fraudster. Separate advice on dealing with fraud is contained in a fraud response plan circulated to designated staff involved in reporting or investigating individual allegations of fraud.

Further Advice and Guidance

23. The Director of Finance will provide advice where line managers are unavailable or unable to give advice.

24. The following guidance is also relevant :

- a. NAO Code of Conduct;
- b. NAO Personnel Manual;
- c. Codes of Ethics for staff members of Professional Institutes;
- d. The 8th Report from the Committee of Public Accounts, 1993/94 - Proper Conduct of Public Business;
- e. Managing Public Money Chapter 4 (particularly annex 4.7);
- f. Managing the Risk of Fraud - A Guide for Managers (HM Treasury);
- g. NAO Combating Fraud Position Statement (see PC 01/07)
- h. NAO Whistleblowing Policy: Reporting concerns about the proper conduct of NAO business (see MC 12/04)

Section B - Resource Planning, Management and the Accountability Cycle

B1. Overview

Introduction

1. The NAO operates within a strategy set out annually in its corporate plan which covers the next three financial years and its approved annual Supply Estimate for the current financial year. The NAO has developed a framework to oversee the planning, application and monitoring of resource use and product delivery and an internal annual cycle of events and activities to support that framework.
2. The main components of the framework are:
 - a business strategy, followed by the Corporate Plan covering the Office's work and resource requirements for the next three financial years [usually March to June].
 - examination and endorsement of the Corporate Plan by the Public Accounts Commission (TPAC) [usually July].
 - the production of area strategies by client groups, practice networks, corporate services and other areas prepared by Principal Budget Holders setting out aims, outputs and budget requirements for each area. These are used as the basis for the Operational Plan (financial year budget).
 - based on the Corporate Plan and area strategies, production of the Supply Estimate for the next financial year, and the internal allocation of resources [September to January].
 - examination and endorsement of the Supply Estimate by the Committee of Public Accounts and the Public Accounts Commission [January / February].
 - final review and allocation of the resources approved in the Supply Estimate and confirmation of expected outputs and deliveries [March].
 - monitoring of deliveries and the use of resources throughout the financial year and reallocation of resources where appropriate [April to March].
 - Area Strategies will form the basis of accountability at the end of the financial year since they will be the means of assessing what has been achieved against plans in terms of outputs and outcomes and the use of resources. Accountability meetings between Principal Budget Holders and AAGs will follow the year end [May to June].

Policies and Principles

- The NAO's resource planning and management cycle reflects Parliament's appropriation and supply timetable (see [Section D1](#)).
- The NAO produces a Business Strategy document prior to production of the Corporate Plan and Area Strategies. The Business Strategy analyses changes in the environment and assesses the future work programme.
- A Corporate Plan is produced which sets out the NAO's business strategy and direction over a three year period from the start of the next financial year. The plan sets out the environment within which the Office will operate, likely resource needs, and summarises the outputs and the benefits to be delivered.
- Area strategies are produced which set out the aims, outputs and budgetary requirements for each area and underpin the Operational Plan setting out the budget for the following financial year.
- The Corporate Plan is submitted to the Public Accounts Commission (TPAC) for approval of the resources required by the NAO.
- The Supply Estimate sets out the resources required for the year ahead, based on the forecast included in the Corporate Plan. It is presented to TPAC for approval.
- Following approval of the Supply Estimate, resources are allocated to Principal Budget Holders and their accountabilities (resources made available to them and what they are expected to deliver) are formally set out.
- Throughout the financial year, regular monitoring of resource use and deliveries is undertaken by the Management Committee.
- A formal accountability review is carried out after the financial year end by the AAGs, who produce a report for the C&AG.

Responsibilities

The C&AG

3. The C&AG approves the Business Strategy, Corporate Plan, and Supply Estimate, and is personally responsible for presenting the Corporate Plan and Supply Estimate to TPAC and persuading it to make the appropriate resources available to the NAO.

The Management Board

4. The Board, under the leadership of the C&AG, is responsible for providing an overall strategic vision for the Office including the current and likely environment the NAO will need to operate in. This informs the Business Strategy, Corporate Plan and Area Strategies. The Board contributes to strategic risk assessments and to any assumptions which need to be made for setting business direction. The Board also takes

advice from the Board Member for Finance regarding any financial issues that may affect the Corporate Plan.

Operational Delivery Committee

5. The Operational Delivery Committee is responsible for overseeing and advising the Management Board on the process for producing the Corporate Plan and its content and direction, the delivery of the operational plan, including the annual budgeting and resource allocation process.

The Board Member for Finance

6. The Board Member for Finance is responsible for :
 - the NAO's resource planning, allocation, and monitoring process;
 - ensuring that the appropriate mechanisms and systems are in place to facilitate the corporate business planning and management process;
 - influencing and overseeing production of the Corporate Plan and Supply Estimate and ensuring that they are delivered on time and to the standard required.

Assistant Auditors General

7. AAGs are responsible for:
 - being alert to the challenges and opportunities confronting or likely to confront the NAO;
 - overseeing programmes of work and taking a corporate view of delivery of outputs and resources used across the Office.

Principal Budget Holders

8. Principal Budget Holders are responsible for:
 - identifying and developing suitable options to meet the challenges and take the opportunities which are faced by the office, and estimating the resource implications of those options;
 - preparing business plans and resource bids, making appropriate and realistic judgements and assumptions regarding future business activities (the advice of the Board Member for Finance regarding any financial issues or constraints should be given appropriate consideration when preparing these plans);
 - agreeing budgets and planned deliveries as reflected in the annual resource allocation circular;
 - monitoring the use of resources to ensure that planned products and benefits are delivered;
 - identifying changes in planned deliveries and changing resource requirements;
 - meeting annual accountability targets;

- Budget holders are also responsible for contributing to the planning process, and once resources are allocated and targets are set, for monitoring progress to ensure that their areas meet their targets. They are also responsible for providing information on any changes to resources required to meet agreed deliveries.

The Director of Finance

9. The Director of Finance is responsible for:

- analysing and evaluating (in conjunction with colleagues such as the Director of Human Resources) factors likely to influence the NAO's resource requirements;
- providing the financial information relevant to the Business Strategy;
- preparing the Corporate Plan based on the agreed Business Strategy;
- providing budgeting and operational planning guidance to budget holders;
- providing the systems and procedures needed to facilitate operational planning;
- providing analysis and briefing on proposed Principal Budget Holder resource allocations;
- monitoring the Office's progress, throughout the year, in earning income, using resources, and delivery of products/benefits;
- providing monthly reports to the Management Committee and regular reviews of budget.

All Staff

10. All staff are expected to be aware of, and understand, the NAO's business planning and monitoring cycle; and to recognise that they should seek to make an appropriate contribution.

Further Advice and Guidance

11. The Corporate Planning and Business Management Teams within the Finance Directorate will provide further advice and guidance where required.

B2. Business Strategy, Corporate Plan and Area Strategies

Introduction

1. The Business Strategy sets out the high level corporate direction of the office. This underpins the area strategies which set out more specific aims across the Office. The Corporate Plan is the Office's three year rolling plan and is presented by the C&AG to the Public Accounts Commission (TPAC) as a bidding document for funding over the period of the plan. The Corporate Plan contains resource and capital forecasts for each of the next three years.

Policies and Principles

- The Business Strategy is developed by the Management Board in consultation with the Operational Delivery Committee. The Business Strategy will:
 - consider developments in the Office's business and professional environment;
 - outline likely, potential and possible trends in the wider political environment, the NAO's role, types of business, products, workload, skills and needs;
 - consider in broad terms, the implications for income, expenditure and planned related outputs and benefits;
 - provide a sound basis for production of area strategies, the Corporate Plan and subsequent operational planning guidance;
- Final decisions on the Business Strategy are taken by the C&AG, and these will inform judgements on whether adjustments to funding are needed from the allocations approved in the previous year's Corporate Plan.
- The Corporate Plan normally contains a:
 - summary of the achievements and outturn for the previous year;
 - commentary on current and future factors likely to affect the NAO work programmes;
 - statement of the NAO's key objectives for the forthcoming three years;
 - an indication of staffing and other resources required.
- The Corporate Plan also contains forecasts of income, resource and capital expenditure for the next three years.
- The Corporate Plan is presented personally by the C&AG to the Public Accounts Commission (TPAC) which decides whether to endorse it.
- The forecast resource requirement for the first year of the approved Corporate Plan forms the basis for the Supply Estimate to secure resources for the next financial year.

- Area Strategies are prepared by client groups, practice networks, corporate services directorates and other areas based on the Business Strategy. They sets out the aims, outputs and proposed budget requirements of each area, and so represent planning, budgeting and accountability documents for each area.

Responsibilities

The C&AG

2. The C&AG is responsible for:
 - making decisions on future direction to inform the Business Strategy review and production of the Corporate Plan;
 - giving evidence to the Public Accounts Commission when they consider the Corporate Plan.

The Management Board

3. The Management Board is responsible for approving the Business Strategy and the Corporate Plan.

Operational Delivery Committee

4. The Operational Delivery Committee provides oversight of the planning process, and advises the Management Board on the content and direction of Corporate and Area Strategies.

Staff Performance and Remuneration Committee

5. The Staff Performance and Remuneration Committee is responsible for the content and direction of the HR strategy, which will feed in to corporate and area strategic planning.

The Board Member for Finance

6. The Board Member for Finance is responsible for the corporate planning systems and process, and for advising the Management Board of any financial imperatives or constraints that need to be considered, addressed and reflected in the Corporate Plan.

The Director of Finance

7. The Director of Finance is responsible for:
 - preparing the Corporate Plan
 - preparing a full and detailed brief to support the C&AG when he gives evidence to the TPAC;
 - overseeing the process by which the approved Plan is communicated to staff.

Principal Budget Holders

8. Each Principal Budget Holder must prepare an area strategy detailing aims, outputs and budgets. These are used to inform the Corporate Plan

and the detailed Operational Plan for the year ahead. Principal Budget Holders must consult with all directors within their area in order to draw together a detailed strategy for financial audit, VFM, good governance and other work streams under the high level steer given by the Business Strategy.

Other NAO staff

9. Staff are expected to contribute indirectly to the business strategy and corporate planning by notifying management of developments affecting audited bodies and areas of interest; and by providing information on likely resource requirements. Staff should be alert to the possibility of generating business for the office, and the risk of losing existing business. Staff in corporate services should equally be alert to the effect on resource requirements arising from changes in levels of service provision and the effects of external factors. The process depends on accurate data on outturn and outputs etc. being maintained within the Resource Management System (RMS).
10. Staff are expected to familiarise themselves with the contents of the Corporate Plan when it is issued. Staff will then be well positioned to ensure that their own work related initiatives are in line with the Office's strategy.
11. Staff are encouraged to make suggestions about the Business Strategy and the Corporate Plan to the Director of Finance, the Director of Corporate Affairs, the Financial Audit Support Team, the VFM Audit development teams or other interested parties (Human Resources, ITRC etc.).

Further Advice and Guidance

12. The Director of Finance is the main contact regarding the Business Strategy and the Corporate Plan.
13. The following guidance/information is also available:
 - Corporate Plans;
 - Corporate Planning and Governance pages on Merlin.

B3. Operational Planning

Introduction

1. The operational planning process follows TPAC's approval of the Corporate Plan. The area strategies used to compile the Corporate Plan (see [section B2](#)) underpin the detailed allocation to areas. Once budgets have been set budget holders are held accountable by the C&AG.
2. Operational planning is usually undertaken between September and December each year. The resource allocation circular is normally issued in March and shows how NAO resources are allocated in the next financial year, the level of income expected to be generated and the outputs to be delivered.

Policies and Principles

- Following the approval of the Corporate Plan, work commences on the allocation of resources for the year ahead and the identification of outputs to be delivered. The aim of the operational planning process is to:
 - allocate resources to National Audit Office objectives (as reported in the annual resource account) in line with the priorities set out in the Corporate Plan and other business commitments;
 - allocate resources on a consistent basis, based on area strategies and agreed planning assumptions,;
 - set out the likely fee income;
 - confirm the deliveries for which Principal Budget Holders will be accountable.
- The proposed resource allocation is agreed by the Management Committee and approved by the C&AG.
- Once the Supply Estimate has been approved by TPAC, the Management Board, supported by the Operational Delivery Committee, approve the resource allocation circular, which is issued by the Board Member for Finance. The resource allocations are used as the basis for accountability.

Responsibilities

The C&AG

3. The C&AG approves the resource allocation prior to the commencement of the financial year.

The Management Board

4. The Management Board, with advice from the Operational Delivery Committee, is responsible for:
 - approving the annual operational planning approach and timetable;
 - seeking the C&AG's approval of the proposed resource allocation;
 - approving the annual resource allocation circular prior to issue.

Operational Delivery Committee

5. The Management Committee is responsible for:
 - agreeing the planning assumptions to be used in the allocation of resources;
 - agreeing the proposed resource allocation.

The Board Member for Finance

6. The Board Member for Finance is responsible for:
 - ensuring the robustness of the Office's operational planning process;
 - oversight of the Director of Finance's role and operational aspects of resource allocation;
 - issuing the annual resource allocation circular.

Principal Budget Holders

7. Principal Budget Holders are responsible for:
 - preparing reasonable and robust bids for resources for the following financial year based on the area strategies;
 - providing information in a timely manner to the Director of Finance in the requested formats, particularly where this may have an impact on the proposed resource allocation, for example the impact of machinery of government changes on the certification client base, which may require revisions to previous income and expenditure forecasts;
 - ensuring that reliable information, for example, on income and expenditure forecasts for income-generating activity, is provided within operational planning timetables;
 - confirmation of the delivery of agreed work programmes within the indicative resource allocations;

- ensuring that Project Managers and staff know what resources they have available and what they are accountable for delivering.

The Director of Finance

8. The Director of Finance is responsible for:

- preparing and issuing guidance on the operational planning process;
- analysing bids for resources from Principal Budget Holders and adjusting the overall allocation where appropriate to ensure the issued budget reconciles to the Resource Estimate and Corporate Plan submitted to the Public Accounts Commission;
- preparing a proposed resource allocation for approval by the Management Committee, taking into account Principal Budget Holders' submissions of requests for resources;
- preparing the annual resource allocation circular for approval by the C&AG.

Further Advice and Guidance

9. Enquiries about operational planning should initially be made to line management. The Corporate Planning team within the Finance Directorate will provide a central point of reference and will normally issue further detailed guidance on Merlin.

B4. Monitoring and Accountability

Introduction

1. Monitoring and accountability is an integral feature of resource management. It operates at several levels:
 - **corporate level (external):** the C&AG is personally accountable to the Public Accounts Commission (TPAC) for the resources and assets used by the NAO, and the products and benefits he has contracted to deliver;
 - **corporate level (internal):** the C&AG holds AAGs, Principal Budget Holders and other Directors accountable for the way resources are used and the products and benefits that are delivered;
 - **Management Board level:** the Management Board monitors progress on meeting delivery targets and the use of resources, and holds Principal Budget Holders and Directors accountable for the quality and cost of their deliveries;
 - **Directorate level:** Directors hold managers accountable for cost, timeliness and quality of project and task deliveries.
2. The Office uses two main systems to monitor and manage resources:
 - RMS: the NAO's corporate database and reporting facility;
 - PARIS: the NAO's financial accounting and human resources system.

Other systems, such as StudySmart, are used to monitor progress on specific activities.

The integrity of the management information produced by the Office's systems depends on the input and maintenance of complete, accurate and up to date information.

Policies and Principles

- The C&AG and the NAO demonstrate accountability to Parliament through:
 - an Annual Report highlighting the NAO's work, including audited accounts reporting the performance of the NAO against the approved Estimate;
 - appearances before the Public Accounts Commission (TPAC) at Corporate Plan and Estimate hearings;
 - reports to Parliament, which may be considered by the Committee of Public Accounts (PAC).
- Principal Budget Holders are accountable to the Management Board for delivery of their agreed work programmes to time, quality and budget, and should aim to manage their budgets within their agreed resource allocation.

- Individuals are accountable, at the appropriate level, to their managers, for the time and costs that they charge to the activities and deliveries in approved work programmes. This principle applies to all staff.
- There are formal internal mechanisms to support the management and monitoring of resource use and products and benefits delivered. Each month a business report is prepared based on RMS and PARIS data. Each month the Management Committee meets to consider corporate progress based on the latest report, and to agree any actions considered necessary to ensure that plans are achieved within approved budgets.
- At regular intervals during the financial year, budget holders are required to reassess the resources needed to deliver the products and benefits for which they are accountable. Any savings in resources and bids for additional resources are considered by the Management Board which may approve adjustments to budgets. Budgets should not be exceeded without prior approval.
- Staff should ensure that, where they are responsible for information input to RMS, PARIS and other systems, that it is complete, accurate and timely. This includes completing timesheets, sending travel & subsistence claims to Finance for payment, and acknowledging receipt of the delivery of goods and services by external suppliers so that the expense can be recorded. RMS input also includes wider job related data, outputs and performance information which should similarly be input promptly and accurately.

Responsibilities

The C&AG

2. The C&AG as Accounting Officer is responsible to Parliament for delivering the NAO's programme of outputs within the resources granted.

The Management Board

3. The Management Board plays a major part in assuring the C&AG that the NAO is on track to deliver its programme of outputs within budget.
4. The Management Board, supported by the Operational Delivery Committee will hold Principal Budget Holders to account.
5. The Board will also monitor the Office's progress in delivering the programme of outputs and income and expenditure compared with budget through monthly consideration of the Business Management Report. It is also responsible for approving the reallocation of resources, where appropriate. Following the end of each financial year, it undertakes a review of corporate performance.

Principal Budget Holders

6. Principal Budget Holders are accountable and responsible to the C&AG and the Management Board for resources allocated to them, including staff, and for delivering agreed output programmes.
7. Principal Budget Holders should aim to manage their portfolio of work within the agreed resource allocation.
8. This responsibility requires Principal Budget Holders to review project plans to ensure that work will result in the delivery of assignments to time, quality and budget, to monitor progress, and review completed work.
9. Principal Budget Holders are required to provide timely and accurate information on income and expenditure accruals and forecasts in line with the timetable issued by Finance.

Subsidiary Budget Holders

10. In practice, a number of Directors and Managers will work together to deliver the programme of work agreed for each area. Each assignment will be the responsibility of an individual Project Director and Manager, with a specific resource allocation from within the approved budget.
11. Project Directors and Managers will therefore be responsible for ensuring that they support the Principal Budget Holder by managing resources effectively on the projects which they are leading, for providing information on the use of budgets, and for maintaining reliable management information.

Assignment Managers

12. Assignment managers are accountable and responsible to their Director for resources used, and for delivering the agreed outputs linked to the assignments for which they are lead manager. They are also responsible for:
 - preparing plans for delivery of approved assignments to time, budget and quality;
 - regularly monitoring charges to jobs to ensure the costs are complete, appropriate and authorised;
 - ensuring individual staff are aware of the budgets available to them to undertake specific tasks;
 - keeping their own line management and the Business Management Team within Finance informed of any significant overspends and underspends, and seeking approval for any revisions to budgets;
 - maintaining accurate and up to date data on RMS for each assignment, including lifetime budgets, milestones and, where appropriate, fee quotes, forecasts of likely income and expenditure and achievement of milestones, and outputs and impacts information.

The Business Management Team

13. The Business Management team is responsible for ensuring that:
 - deliveries and costs are monitored throughout the year against agreed budgets and work programmes;
 - the Management Committee is informed when corrective action should be taken to manage risks to the achievement of objectives;
 - resource budgets and forecasts are monitored and reported;
 - monthly business reports from data held on RMS and PARIS showing corporate performance against planned output targets and resource budgets are produced on a timely basis;
 - reviews of the forecast use of resources and generation of income are coordinated and managed and changes in resource

requirements are reported to the Management Committee for approval of any reallocation of resources;

- briefing is available in support of the C&AG's annual accountability reviews where performances are considered against plans set out in the annual resource allocation circular and Area Strategies.

All Staff

14. All members of staff are expected to be aware of budgets for assignments before commencing work. They should work within those budgets and inform the assignment manager concerned where variances are likely.
15. Staff should book their time accurately and promptly to RMS. They should also ensure that the correct RMS codes are included with their travel claims and when ordering or purchasing any goods or services used directly on the assignment.

Further Advice and Guidance

16. Any queries regarding monitoring and accountability should initially be directed to the Business Management Team in Finance.

Section C - The Resource Management System

C1. Management of NAO Resources

Introduction

1. The NAO maintains a Resource Management System (RMS) which is used to help the office plan, monitor and report its use of resources: staff costs and travel & subsistence costs, consultancy and other direct to job costs. RMS is a suite of modules that allow data entry to an Oracle database and reporting on the contents. The database contains information on all assignments, including budgets and forecasts, income and expenditure, progress against milestones, and outputs. The data can be analysed on various levels to provide information on staff costs and other costs at different organisational levels down to individual assignments, and on the use of resources by work types. Summarised information from RMS helps the NAO to report to Parliament how it has used resources to achieve its objectives.
2. All staff will have access to some of the modules so they can maintain or interrogate the RMS database, given their particular needs. Access to RMS is through the NAO's computer system.
3. RMS includes a timesheet entry facility. Other transactions charged to jobs in the accounting system, such as consultancy costs, are included in reports from the RMS system.

Policies and Principles

- RMS is the NAO's primary corporate management information system to record :
 - Budgets and forecasts;
 - Outturn (staff time and resource costs directly attributable to assignments);
 - Progress against milestones;
 - Outputs;
- RMS provides managers at all levels with the facilities and functionality to enable them to:
 - record data relating to their assignments;
 - monitor the progress of assignments;
 - extract appropriate and timely information via screen, spreadsheet and printed reports;
- Each assignment (account audited, VFM study, good governance work, etc.) must be allocated a unique job code. This enables the Office to monitor input costs (including staff, travel and

consultancy costs) against lifetime budgets, progress against milestones, and record outputs.

- Lifetime budgets are input into RMS for each assignment when the plan is approved. The data input to RMS includes the overall budget for each job, key dates and, where appropriate, fee information. RMS is then used to monitor progress against plans, together with information about milestones.
- RMS data should be up to date and accurate so that it can be used to support high level business decisions and to monitor and report corporate and area performance.

Responsibilities

The Director of Finance

4. The Director of Finance has overall responsibility for :
 - the maintenance and development of RMS as a business management tool;
 - agreeing RMS training and guidance needs;
 - overseeing and prioritising any RMS change programmes;
 - seeking input from users about the operation of RMS.

The Business Management Team

5. The Business Management Team is responsible to the Director of Finance for:
 - ensuring that RMS continues to function properly;
 - providing support to users of RMS through an operational level agreement with ITRC;
 - suggesting improvements to RMS and considering improvements suggested by others;
 - devising specifications for improvements to RMS;
 - testing new RMS products;
 - monitoring the RMS database to identify inaccurate or incomplete data;
 - inputting standing details onto the system such as fee rates and organisational codes; and
 - using RMS data to :
 - produce reports for senior management;
 - support the NAO's operational and corporate planning process;
 - prepare the NAO's accounts.
 - maintaining guidance on use of RMS;
 - organising RMS training;

- notifying users of changes via the RMS News page on Merlin and other media.

ITRC

6. ITRC are responsible for providing the host computer and network which RMS runs on. ITRC have written the current products within RMS and may be engaged to write new products or modify existing products. ITRC will provide technical support to the Business Management Team and support on training. ITRC are also responsible for network privileges such as log-ins.

Directors and Managers

7. All Directors and Managers are responsible for ensuring that:
 - all their assignments are accurately entered in RMS;
 - lifetime budgets, job ownership and target dates for their assignments are correctly entered at the appropriate time;
 - staff costs, other costs, fee information, targets achieved and outputs are input accurately and on a timely basis;
 - costs charged to their assignments are regularly and promptly reviewed, and corrections made where appropriate.

All Staff

8. Staff should ensure that RMS codes are correctly entered on to travel claims and when ordering or approving goods and services.
9. Suggestions on the improvement or operation of RMS should be sent to the Business Management Team in Finance.

Further advice and guidance

10. Further advice and guidance is available from the Business Management Team, the help screens in RMS and the RMS Pages on Merlin. Guidance will also be issued at appropriate times, such as during operational planning.

C2. Assignment Management

Introduction

1. Principal Budget Holders are responsible for the delivery of portfolios of work for their area as agreed in the operational planning process. In conjunction with other Project Directors and Managers, Principal Budget Holders must ensure that individual assignments within the portfolio are appropriately managed and key management information recorded and reported.
2. To support Project Directors and Managers, RMS provides extensive reporting and analytical tools to support NAO resource management and is one of the NAO's main sources of management information. The effectiveness of RMS depends on the quality of the data relating to individual assignments, which must always be entered accurately and promptly by staff. Project Directors and Managers should check the accuracy and completeness of RMS information on at least a monthly basis for jobs for which they are responsible.
3. RMS holds assignment management information: assignment ownership, lifetime budgets and fee quotes, milestones and target dates, outturn costs and forecasts, delivery date, and outputs. Collection of data starts with Project Director approval of the lifetime budget while outturn, forecast and delivery information is collected continuously throughout the year.

Policies and Principles

- The annual operational planning exercise is the starting point for identifying the portfolio of assignments which must be delivered by Principal Budget Holders
- Finance provides detailed guidance to help managers record information within RMS about assignments scheduled for delivery each year within the resources allocated
- Every assignment should be set up in RMS and lifetime budgets, ownership and milestone information should be entered as soon as the Project Director has approved the plan.
- Project Directors should seek to manage assignments to time, budget, and quality standards. Exceptionally, where there is a significant change in the scope of an assignment, an amendment may be justified.
- Timesheets provide the basis of RMS staff related information and should be input on at least a weekly basis using the correct job codes. Staff away from the office should ensure that they input their timesheets in advance.
- Output information, including critical dates, should be entered promptly and accurately using the appropriate input screens in RMS.

- Reporting progress against budgets and milestones helps the Office to identify and manage risks. Assignment managers therefore need to review the position at least monthly.

Responsibilities

Principal Budget Holders

4. Principal Budget Holders are responsible for ensuring that:
 - plans are prepared in line with annual operational planning guidance;
 - RMS information on all assignments within the area portfolio is accurate and complete.

Project Directors

5. Project Directors, through their Project Managers, are responsible for ensuring that:
 - All assignments for which they are accountable are appropriately planned taking account of all relevant risks, and appropriate authority has been granted for the work, particularly in the case of new income generating activity (see section I1 for further details).
 - Assignment plans, budgets and target dates are reviewed and approved promptly, and are realistic; unless circumstances significantly change assignments should be delivered to time and within lifetime budget.
 - All assignments are set up in RMS as a unique job, correctly classified, and showing who is responsible for the work.
 - Lifetime budgets for assignments and, where appropriate, fee quotes are entered in RMS, as soon as plans have been approved.
 - Target dates for delivering assignments are entered in RMS when plans have been approved.
 - If the scope of an assignment changes after initial approval of the lifetime budget, revised budgets and, where appropriate, revised fee quotes are formally approved and entered in RMS. Where significant changes (over 10 per cent) are proposed, approval should be sought from the relevant AAG.
 - Costs attributed to assignments are reliable and up to date by checking time booked to assignments in RMS and accruals information is supplied when requested.
 - Forecast costs and progress against milestones are reviewed at least at each month-end and any changes are recorded on RMS (StudySmart in the case of progress on value for money investigations).
 - At the end of an assignment, outputs are recorded and the assignment is shown as completed in RMS. This enables the Office

to demonstrate to Parliament what has been achieved with the resources provided.

The Business Management Team

6. The Business Management Team is responsible for monitoring overall performance and the quality of RMS data. As part of this responsibility, the Business Management Team will inform Directors of missing timesheets and other missing information before the production of monthly business reports.
7. The team is also responsible for :
 - providing operational planning requirements guidance;
 - providing helpful, timely and accurate guidance on RMS facilities and functions;
 - maintaining RMS data standards and integrity;
 - ensuring costs on jobs from the NAO's accounting system, PARIS, for example travel and consultancy costs, are recorded promptly and accurately in RMS.

All Staff

8. Staff are responsible for entering their timesheets accurately and promptly at least on a weekly basis using the correct job codes.

Further Advice and Guidance

9. Further advice and guidance is available from the Business Management Team, help screens in RMS, the RMS pages on Merlin and in particular the RMS Guidance documentation.

C3. Business Management

Introduction

1. Section E1 of the Finance Manual provides guidance on the management of the financial budget. This section provides guidance on broader business management issues, including the delivery of approved programmes to time, cost and quality, and the use of resources in line with corporate plan priorities. Approved programmes and budgets are established by Client Directors, Practice Leaders and Corporate Service Directors as part of the planning process and these individuals have primary responsibility for managing resources to meet programme objectives. Senior management are provided with regular information about progress through monthly business reports.

Policies and Principles

- NAO senior management are provided with regular reports on progress towards achieving key objectives.
- the Business Management Team within the Finance Directorate is responsible for the collation of management information including provision of business management reports to senior management;
- the Programme Office Group is responsible for analysing information about the use of resources, delivery of approved programmes of work and identifying risks and reporting these to the Management Committee;
- Client Directors, Practice Leaders and Corporate Service Directors are responsible for business management in respect of their budgets, and should make arrangements for monitoring risks to the delivery of approved programmes to time, cost and quality.

Responsibilities

2. Principal Budget Holders, supported by Client Directors, Project Directors, Practice Leaders and other Corporate Service Directors are responsible for the following core activities :
 - **Operational planning:**
 - preparing strategies and operational plans, incorporating budgets for staff, travel, consultancy, and other expenditure, and agreeing budgets with assignment managers;
 - providing planning information in the required formats;

- **RMS Job Codes set up and monitoring:**
 - setting up codes for all appropriate assignments;
 - entering information on approved lifetime budgets, milestones and delivery dates;
 - monitoring costs, progress against milestones, and weekly outputs recorded by teams in RMS;
 - ensuring that staff input their timesheets;

- **Budgets and Monitoring:**
 - monitoring commitments and expenditure against the delegated budgets (via PARIS and RMS) to ensure budgets are not exceeded;
 - updating forecast of costs on a monthly basis on RMS and reporting to Finance when requested.

- **Internal Audit:**
 - acting as a liaison point for internal audit, providing information as requested and responding to internal audit reports and recommendations.

- **Quality Assurance:**
 - monitoring the quality of management information and taking action in response to quality issues

- **Consultancy Contracts:**

The Central Procurement Team, see Chapter G, manage the contracting process.

3. The Business Management Team is responsible for:

- **Reporting:**
 - producing financial information for the monthly business reports required by the Management Committee;
 - providing management information to AAGs as required (eg. monthly, quarterly or ad-hoc reports);
 - undertaking regular reviews of income and expenditure and summarising the results for the Management

Committee, including recommended revised budget allocations.

Further Advice and Guidance

4. Any queries regarding business management should be addressed to the Business Management Team in Finance.

Section D - Authority for NAO Expenditure

D1. Parliamentary Approval

Introduction

1. To maintain independence, the NAO's bid for resources is considered by the Public Accounts Commission (TPAC) as required under the National Audit Act 1983. The bid contained in the Corporate Plan, normally reviewed and approved by TPAC in their pre-summer recess meeting held in June/July, then forms the basis for the NAO's Resource Estimate, which is considered by the Commission and also the Committee for Public Accounts (PAC) usually in January/February before the start of the financial year. [Appendix A](#) sets out the key milestones in the process.
2. The annual Supply Estimate sets strict controls on the NAO. The Office must use resources only up to the approved Net Resource Requirement, against which only a certain level of income can be offset as Appropriations in Aid. In addition, the Estimate sets a Net Cash Requirement which specifies the amount of cash we can draw down from the Treasury in the financial year.
3. Parliament enacts an annual Appropriation Act that summarises and approves departmental Estimates, and provides authority for supply monies to be made available. The Appropriation Act is normally approved in July. As a result of this timing, the period April - July cannot be covered by the Appropriation Act. Authority to incur funds for the early part of the year is therefore covered by the Vote on Account system whereby departments are allowed to draw down sufficient funds to carry on functioning until the Appropriation Act has been passed. The Vote on Account is normally approved by Parliament in November prior to the financial year and is based on 45% of the current financial year Estimate.
4. The NAO stands outside of the normal process whereby departments bid and negotiate for funding with HM Treasury. The NAO's funding requirements are, however, included in reports on the outcome of Spending Reviews.

Policies and Principles

- In general terms the NAO follows the same procedures as Government departments in respect of Supply Estimates, Votes on Account and Appropriation Acts; but is accountable to the House of Commons through the Public Accounts Commission rather than through the Financial Secretary to the Treasury.
- The NAO prepares a Supply Estimate for submission to the Public Accounts Commission under section 4(2) of the National Audit Act 1983. The Estimate is normally based on the figures in the approved Corporate Plan.

Responsibilities

The C&AG

5. As Accounting Officer the C&AG is responsible for:
 - formally approving the Estimate submitted to the Committee of Public Accounts, the Public Accounts Commission and the Treasury;
 - providing evidence to the Committee of Public Accounts and to the Public Accounts Commission when they examine the Estimate;
 - approving the Vote on Account submission.
6. The Accounting Officer receives advice from the Board Member for Finance on the financial implications of the Estimate.

The Board Member for Finance

7. The Board Member for Finance is responsible for reviewing and approving Estimate and Vote on Account documentation and briefing material before their submission to the C&AG.
8. The Board Member for Finance formally submits the Estimate to the Management Board for approval and the C&AG for signature.

The Director of Finance

9. The Director of Finance is responsible for:
 - preparing and submitting the Estimate and Vote on Account request, based upon the Corporate Plan;
 - undertaking all liaison with HM Treasury over the Estimate and Vote on Account;
 - providing briefing documentation to the C&AG prior to his appearances before the Committee of Public Accounts and the Public Accounts Commission.

Further Advice and Guidance

10. Managing Public Money Chapter 5 describes the Supply procedure. Managing Public Money is supplemented by Public Expenditure Survey (PES) papers issued by Treasury. The Director of Finance is the main point of contact.

Appendix A

OUTLINE TIMETABLE FOR APPROVAL OF NAO SUPPLY ESTIMATE

March - June	Preparation of NAO Corporate Plan
July	TPAC hearing and approval of Corporate Plan
Nov - Jan	Preparation of NAO Supply Estimate
Mid-Nov	Laying of Vote on Account in House of Commons by the Chairman of TPAC
Jan-Feb	Submission of NAO Supply Estimate to PAC and TPAC
Feb	PAC hearing
Feb	TPAC hearing and approval of NAO Supply Estimate
March	Laying of NAO Supply Estimate in House of Commons by TPAC Chairman (timed to coincide with Main Estimates laid for all other Government Departments by Treasury)
July	Appropriation Act

D2. Authority and Powers to incur expenditure on behalf of the NAO

Introduction

1. Earlier Chapters set out the process by which the NAO is provided with resources by Parliament. It is important however to state the legal basis which underpins the NAO's right and authority actually to spend those resources.

Policies and Principles

- As a matter of law, the Appropriation Act itself is sufficient authority for the NAO to spend its Parliamentary grant, whether or not there is specific statutory authority for the service being provided or delivered.
- However, as a matter of constitutional propriety, the Public Accounts Committee have said that where services are of a continuing nature and therefore being provided beyond a single financial year, then departments should operate from within a specific statute rather than just the Appropriation Account.
- In the case of the NAO, the National Audit Act 1983 is the main specific relevant statute. Other Acts, such as the Exchequer & Audit Departments Acts also contain provisions relating to the C&AG's duties.
- The annual Appropriation Act contains the ambit for NAO expenditure and the wording is consistent with the Supply Estimate. The NAO reviews the ambit each year to ensure that it covers any new services.
- The salary of the C&AG is a charge on and issued out of the Consolidated Fund. The Consolidated Fund would also meet any liability for breach of duty by the C&AG.

Responsibilities

The C&AG

2. The C&AG is responsible for formally delegating the power to incur expenditure on behalf of the National Audit Office to named members of staff. The C&AG has delegated this responsibility to the Board Member for Finance, who ensures that all delegations are recorded - details can be found on the Finance Directorate pages on Merlin.

The Board Member for Finance

3. The Board Member for Finance has overall responsibility for:
 - ensuring that all NAO expenditure is covered by the Appropriation Act. These responsibilities will usually be discharged through the Director of Finance, in consultation with the Director responsible for Corporate Affairs.
 - authorising, on behalf of the C&AG, appropriate delegations of power to incur expenditure on behalf of the National Audit Office;

The Director of Finance

4. The Director of Finance is responsible for:
 - ensuring that all NAO expenditure is covered by the Appropriation Act and, where expenditure is of a continuing nature, that consideration is given to securing specific statutory approval. The Director of Finance will liaise with AAGs, the Director of Corporate Affairs and others as appropriate;
 - ensuring that total NAO expenditure is within the gross and net resource requirements approved by Parliament;
 - monitoring and maintaining delegations of power to incur expenditure on behalf of the NAO;

Budget Holders

5. Opportunities will arise for the NAO to provide new services outside the Office's existing product range. Before committing resources to new services, the Director of Corporate Affairs should be consulted to ensure that the activities fall within NAO's statutory remit.
6. More frequently, opportunities will arise for undertaking extra or different activities beyond those originally planned. Where these cannot be contained within existing budgets and require additional resources budget holders should consult the Director of Finance to ensure that required resources can be made available before committing the NAO to provide the additional service. Principal Budget Holders should not commit the NAO to expenditure beyond agreed budgets without consultation.

Authority for corporate projects and non-statutory work

7. Budgets for individual financial audit and value for money assignments are subject to formal approval as part of the assignment management process.

In the case of other projects, including non-statutory work, the approval of the relevant Committee of the Board, or the Board, should be gained for any large commitment of expenditure.

8. For projects with either a potential lifetime resource requirement in excess of £250,000 or which carries significant business risks, project directors should present a business case to:
 - the Operational Delivery Committee, for projects which do not relate to staff training and development; or
 - the Staff, Performance and Remuneration Committee, for projects relating to staff training and development.

For projects with a potential lifetime resource requirement in excess of £500,000, the relevant Committee will refer the business case to the Management Board.

9. Business cases should be presented in sufficient time to allow proper consideration and discussion of the proposals before the Office needs to enter into commitments.
10. Detailed guidance on the format and content of business cases is available here [[link to Corporate Secretariat Merlin pages](#)]. Amongst other things, business cases should provide appropriate costings; set out the proposed options; identify clearly the timetable for delivery; explain the risk and project management arrangements; set out how performance will be measured; and the benefits expected. It is essential that Finance are consulted when business cases are being developed and confirmation received that funds are available for the proposed project.
11. If there are any significant increases to the costs (over 10 per cent of the costs submitted in the original business case) of the project after initial Committee/Board approval, then further approval by the relevant Committee or the Board is required and a revised business case setting out the reasons for the changes should be submitted, again allowing sufficient time for consideration and discussion by senior management.

Reporting decisions to award large contracts

12. The National Audit Office's delegated financial authorities set out the extent to which individual members of staff can commit the Office to expenditure. To provide visibility to new financial commitments, decisions in excess of £250,000 will be reported to the Operational Delivery Committee; those in excess of £500,000 will be reported to the Management Board.

Further Advice and Guidance

13. Managing Public Money (Chapter 2) contains information on powers to incur expenditure. Any queries should be directed to the Director of Finance.

Section E - Budgetary Control

E1. Budgetary Responsibility

Introduction

1. [Section D1](#) explains how the NAO receives Parliamentary authority to spend public money. This section describes how Parliamentary funds are allocated to internal budgets, and how those budgets are operated and controlled.
2. The resource and capital funds provided by Parliament via the Estimate and Appropriation Act are managed by allocating them to a number of different budgets. The largest of these relate to staff salaries and associated costs, and the other main budgets include:
 - outsourced work;
 - travel expenses;
 - accommodation expenses;
 - equipment maintenance (including IT);
 - publishing and other communication expenses;
 - recruitment and training;
 - temporary agency staff;
 - capital expenditure on building works, equipment and furniture and fittings.
3. The NAO has developed a number of mechanisms for setting, managing and monitoring these budgets. These include:
 - formally delegating responsibility for individual budgets to named Principal Budget Holders;
 - undertaking regular reviews of income and expenditure against budgets, and reallocating resources in response to changing business needs.

Policies and Principles

- The overall resources made available by Parliament will be used as the basis for allocating budgets. Budgets will therefore normally match the Parliamentary allocation of resources. Formal budgets will normally apply for a Financial Year;
- Budgets will be allocated to Principal Budget Holders who will be accountable to the C&AG through AAGs for their use of budgets.
- Principal Budget Holders will devolve resource allocations to subsidiary budget holders who are best placed to oversee and manage them. There may be several layers of accountability

between a principal budget holder and the subsidiary budget holder for certain budgets (eg travel);

- Budgets should not be exceeded without prior reference to, and formal agreement from, the person who delegated the budget. Budgets allocated to Principal Budget Holders should not be exceeded without the prior written permission of the Director of Finance;
- Budget holders should always consider the wider objectives of the NAO. Any resources no longer needed for their original purpose should be offered for release, and not spent merely to use up a budget. On occasions, business needs may require budget holders to give up funds;
- Budget holders at all levels are expected to actively contribute to the budget setting process.

Responsibilities

The Management Board

4. The Management Board, taking advice from the Operational Delivery Committee, is responsible for agreeing the allocation of resources to budget holders.

The Board Member for Finance

5. The Board Member for Finance is responsible for ensuring the propriety and regularity of expenditure, including the application of delegated authorities and responsibilities and controls over them.

The Director of Finance

6. The Director of Finance, as well as being a Principal Budget Holder, is responsible for:
 - supporting the Board Member for Finance in the discharge of his responsibilities;
 - setting and communicating formally delegated budgets in accordance with Management Board decisions;
 - preparing appropriate financial delegations to authorised staff for the Board Member for Finance's approval, so they may order goods and services and commit the Office to expenditure, and enforcing these delegations;
 - setting up appropriate systems and mechanisms for controlling, monitoring and revising budgets as appropriate. This includes any decisions regarding reallocating funds between budget headings (virement);
 - providing management information to budget holders.

Budget Holders

7. Principal Budget Holders are responsible and accountable for formally delegated budgets. They are responsible for ensuring that budgets for their area are managed efficiently and effectively, and used for the purposes intended. They are also responsible for ensuring that any assets for which they are responsible are controlled and safeguarded.
8. As part of their responsibilities, Principal Budget Holders are required to provide forecast information to Finance during the financial year relating to the income and expenditure under their control. They should ensure that they do not enter into commitments beyond approved budgets and report potential underspends promptly to enable the Office to make best use of corporate resources.
9. Where they have been further delegated to subsidiary budget holders, budgets must be managed by staff in accordance with the instructions provided by the original budget holder.

Further Advice and Guidance

10. Queries should normally be directed to the principal budget holder. General queries about budgets should be directed to the Director of Finance.

E2. Budgets: Monitoring of Income and Expenditure

Introduction

1. The NAO is subject to resource, cash and income controls imposed through the annual Supply Estimate (see [section D1](#)). The Office must therefore monitor and control income and expenditure continually throughout the year.

Policies and Principles

- budgets should be set taking into account bids made by budget holders in the corporate and operational planning processes, corporate priorities and the resources made available by Parliament.
- budget holders are notified of their resource budget prior to the start of the financial year and should monitor income and expenditure on a regular basis. They should not enter into commitments in excess of the budget without prior approval.
- budgets will be set centrally at the client, practice network and strategy level. Budgets will also be allocated to corporate services Directors. Budget holders will then be able to allocate their budget across agreed programmes of work or at the account code level.
- outturn against budget is monitored as the year progresses and, where appropriate, budgets are revised subject to resource availability.
- these principles also apply to capital expenditure.

Responsibilities

The Director of Finance

2. The Director of Finance, and his staff, are responsible for:
 - consulting budget holders about resource and capital budgets for forthcoming years, through the corporate and operational planning processes;
 - securing senior management's approval of budgets and notifying them to budget holders;
 - providing appropriate and timely information to budget holders on income and expenditure recorded against individual budgets;
 - co-ordinating regular reviews of forecast income and expenditure;
 - considering any requests by budget managers to increase or reduce budgets or to vire between budgets.

Principal Budget Holders

3. Principal Budget Holders are responsible for :
 - contributing to the setting of budgets through the operational and corporate planning processes;
 - profiling their expenditure and income over the financial year at the beginning of the year to assist monitoring during the year;
 - monitoring outturn against the profiled budget, and taking steps to ensure that they remain within their allocated budgets;
 - ensuring that no commitments are entered into which will breach the budget without prior approval;
 - providing explanations for any significant variances, both above or below the budget;
 - submitting timely returns in the income and expenditure reviews;
 - obtaining Director of Finance approval before viring between two budgets held by the same budget holder.
 - giving Finance the earliest possible warning of an overspend or underspend so that the resources can be reallocated.

Further Advice and Guidance

4. Any queries should be directed to the Director of Finance.

E3. Supplementary Estimates and Excess Vote Arrangements

Introduction

1. The NAO has rarely needed to use the Supplementary Estimate procedures built into the Parliamentary Supply process. The option is available should an unexpected demand for resources arise during a year for which the original estimate proves insufficient.
2. The NAO has never incurred an excess (ie. an overspend against the resources or net cash requirement approved in the Supply Estimate). Given the potential damage to the NAO's reputation that would arise from an overspend, an excess vote must be avoided. Nevertheless there are standard procedures to deal with an excess vote and this chapter briefly describes them.
3. It should be noted that Supplementary Estimates and excess votes may arise from both unexpected increases in expenditure and shortfalls in income to be appropriated in aid.

Policies and Principles

- The NAO aims to manage its operations within the funds allocated to it by Parliament. In the event of a possible excess vote, action should be taken to reduce or defer expenditure, although the NAO should not seek to avoid recognising expenditure which has been properly incurred nor avoid making payments which are properly due.
- If unexpected costs or resource requirements occur for which the original estimate is insufficient, the C&AG should seek further funding from Parliament in the form of a Supplementary Estimate.
- The NAO should follow the same procedures that apply to Government Departments, should an excess vote occur or a Supplementary Estimate be necessary. The Public Accounts Commission are responsible for considering an excess vote or Supplementary Estimate.

Responsibilities

The C&AG

4. The C&AG, on advice from the Board Member for Finance and Management Board, will determine whether or not the Office should submit a Supplementary Estimate to Parliament. If it is too late for a Supplementary Estimate the C&AG would need to be fully appraised of any strategy designed to ensure that unexpected resource requirements were managed so as to avoid an excess vote.

The Board Member for Finance and Operational Delivery Committee

5. The Board Member for Finance and Operational Delivery Committee are responsible for providing the C&AG and the Management Board with advance warning and full briefing of any financial situation that might lead to an excess vote or the need for a Supplementary Estimate. The Board Member for Finance and the Operational Delivery Committee would need to provide options for managing the risk, backed up by fully costed proposals.

The Director of Finance

6. The Director of Finance and his/her staff are responsible for monitoring the financial situation so as to avoid the need - in the normal course of events - for a Supplementary Estimate or an excess vote. If the need arises, the Director of Finance is responsible for advising the Board Member for Finance at the earliest possible moment.
7. The Director of Finance is also responsible for :
 - ensuring that the corporate and operational planning processes take as wide a view as possible of likely demands on NAO resources during the financial period in question;
 - monitoring income and expenditure on a regular basis;
 - undertaking reviews of forecast outturn throughout the financial year to ensure that NAO spending is proceeding according to profile;
 - revising budgets, or issuing instructions to reduce expenditure, where it is necessary to protect the overall NAO position and also to allow transfers of budget so that underspends and overspends can be offset;
 - determining whether there is likely to be any requirement to seek further funding from Parliament;
 - providing Treasury with the necessary information on forecast outturns, Supplementary Estimates and excess votes;
 - acting quickly to advise the Board Member for Finance if a Supplementary Estimate is needed or if budget monitoring suggests there is a risk of an excess vote;
 - providing the Board Member for Finance with costed options to avoid an excess vote or Supplementary Estimate;
 - providing the Board Member for Finance with appropriate advice and briefing for Senior Management, the Public Accounts Commission or Parliament in support of any bid for additional funding.

Principal Budget Holders

8. Principal Budget Holders' responsibilities for monitoring income and expenditure are set out in [section E2](#) of the Manual.

Further Advice and Guidance

9. Any queries about Supplementary Estimates and excess vote procedures should be directed to the Director of Finance.

Section F - NAO Published Accounts

F1. Resource Accounts

Introduction

1. The NAO prepares an annual resource account to demonstrate its stewardship over the funds voted to it by Parliament. The financial statements are signed by the Comptroller & Auditor General as Accounting Officer and are independently audited.
2. The resource account is prepared in accordance with the Government Financial Reporting Manual (FReM) produced by HM Treasury.

Policies and Principles

- The C&AG is the Accounting Officer for the NAO and personally signs the NAO's financial statements.
- The National Audit Act as amended by the Government Resources and Accounts Act 2000 requires the NAO to prepare resource accounts. In meeting this requirement the NAO follows the Government Financial Reporting Manual (FReM) issued by the Treasury, Generally Accepted Accounting Practice (UKGAAP) and other Treasury guidance.
- The NAO's accounting year runs from 1 April until 31 March, in accordance with Parliamentary practice.
- The NAO's financial statements are independently audited. The Public Accounts Commission appoints the NAO's external auditors.
- The NAO's resource accounts are presented to Parliament as required by statute. The external auditors express an opinion on the NAO's accounts and submit them to Parliament through the Public Accounts Commission.
- After formal presentation to Parliament the financial statements are published.

Responsibilities

The C&AG

3. The C&AG, as Accounting Officer, is responsible for formally signing the NAO's financial statements once the external auditors have completed their work and the Audit Committee has reviewed the financial statements and considered the findings of the auditors.
4. The C&AG may be required to give evidence on the financial statements to the Public Accounts Commission.

The Board Member for Finance

5. The Board Member for Finance is responsible for:
 - overseeing the Director of Finance's preparation of the financial statements;
 - advising the Comptroller and Auditor General and Audit Committee about the financial statements.

Operational Delivery Committee

6. The Committee is responsible for overseeing and advising the Board as necessary on the content and direction of the Annual Report including the Resource Accounts.

The Director of Finance

7. The Director of Finance, and his staff, have day to day responsibility for:
 - maintaining the NAO's financial systems;
 - maintaining the NAO's accounting records;
 - preparing financial statements from the NAO's accounting records and other sources as appropriate;
 - liaising with and assisting the external auditors throughout their audit of the financial statements;
 - briefing the Board Member for Finance on the financial statements;
 - preparing responses to management letter points raised by the external auditors;
 - arranging for publication of the financial statements.

All Staff

8. In order for the Director of Finance, and his staff, to prepare NAO Financial Statements NAO staff are responsible for:
 - following the proper financial procedures;
 - assisting Finance staff in preparing the financial statements by providing information as required;
 - inputting timely and accurate information into the NAO's Financial Accounting System. Staff will need to ensure that all commitments, goods and services ordered, goods and services received and invoices received are recorded or reported to Finance;
 - inputting timely and accurate information into RMS. Staff will need to record time worked, milestones, outputs and impacts.

Further Advice and Guidance

9. Any queries about financial statements should be directed to the Director of Finance.
10. Staff may also refer to standard texts on preparation of accounts:
 - HM Treasury Managing Public Money;
 - HM Treasury Financial Reporting Manual;
 - HM Treasury DAO Letters, and other guidance;
 - UK Generally Accepted Accountancy Practice (GAAP);
 - Extant Accounting Standards Board Accounting Standards (SSAPs, FRSs, FREDs and UITFs);
 - Previous Resource Accounts.

F2. General Ledger

Introduction

1. The general ledger is the core of the NAO's accounting system and holds information from various subsidiary systems, such as Accounts Payable, Accounts Receivable, Purchasing and Fixed Assets.
2. The Finance Directorate is responsible for controlling the general ledger and ensuring that it reflects the transactions, assets and liabilities of the Office.

Policies and Principles

- The NAO maintains a chart of accounts in the general ledger which is appropriate to the financial statements it is required to produce and sound financial management of the resources allocated by Parliament.
- Changes to the chart of accounts and account codes should be authorised by the Director of Finance.
- The general ledger is monitored on a regular basis to ensure that it provides an accurate reflection of the NAO's financial position.
- Finance should ensure that all general ledger reconciliations are undertaken promptly and correctly, any errors or omissions discovered are resolved without delay, and should document this work properly.

Responsibilities

The Director of Finance

3. The Director of Finance is responsible for:
 - Maintaining a sound system of internal control over the general ledger and input streams;
 - Setting up and maintaining a chart of accounts that is appropriate to the NAO's business activities, and which enables rigorous monitoring of financial transactions;
 - Ensuring that the general ledger is based on the authorised chart of accounts;
 - Ensuring the chart of accounts is made available for staff to refer to;
 - Ensuring that input streams to the general ledger are accurate and timely. This includes the proper use and authorisation of general ledger journals;
 - Undertaking promptly the reconciliations which ensure that the general ledger reflects the NAO's transactions, assets and liabilities. This includes proper control and review of suspense accounts and their balances;

- Documenting all maintenance and reconciliation activities.

Further Advice and Guidance

4. Any queries about accounts should be directed to the Director of Finance.

F3. Retention and Disposal of Financial Records

Introduction

1. As a public body the NAO has a statutory obligation under the Public Records Act to retain information that may be of value in the future. Most accounting records do not have long term national importance so there is no need to preserve them permanently. However, the NAO needs to take into account statutory requirements, such as the Taxes Management Act 1970, the Limitations Act 1980 and the Companies Acts of 1985, 1989 and 2006 which set out how long financial records should be retained and the extent to which access to financial records may be requested under the provisions of the Freedom of Information Act. The administrative needs of the Office (such as retaining contractual documents to protect our legal rights) must also be considered. Accounting records may be retained in electronic or manual form.
2. Under the Freedom of Information Act it is possible that the Office might need to supply information on budgets and papers supporting financial decision making. Therefore staff should be similarly aware of their responsibility to keep financial records beyond those supporting the financial statements. The Freedom of Information Act does however allow the Office to determine a policy on the retention period for these types of papers.

Policies and Principles

- The NAO should comply with relevant statutory provisions relating to the retention of information which supports the Office's Financial Statements.
- The NAO should also retain information where it continues to serve the administrative needs of the Office. For example financial documents should be retained for at least as long as they might be required as evidence in court.
- Notwithstanding the above, financial records, such as documents supporting payment of claims, should generally be destroyed six years after the end of the financial year to which they relate.
- The NAO disposes of information which serves no purpose to reduce storage costs and to improve accessibility to information which does need to be retained.

Responsibilities

The Departmental Records Officer

3. The Departmental Records Officer is responsible for:
 - preparing and issuing policy and guidance on the retention and disposal of documents, and providing advice and guidance as required;

- administering the NAO archive and ensuring a catalogue of archive material is maintained;
- liaising with the Public Records Office and for ensuring that records are maintained;
- reviewing procedures and practices to ensure that the NAO meets its statutory obligations.

The Director of Finance

4. The Director of Finance, and his staff, are responsible for:
 - retaining financial information and documentation relevant to the NAO's financial statements for appropriate periods;
 - ensuring that financial information and documentation is properly archived (whether in paper, electronic or other media) and disposed as appropriate, liaising with the Departmental Records Officer as necessary.

Further Advice and Guidance

5. The "Keystone: NAO Retention/Disposal Schedules" contains fuller details of retention or disposal of documents.
6. Finance will act as point of contact for all financial records.
7. The Departmental Records Officer will act as the point of contact for non financial records, and for maintaining disposal schedules for all records.

Section G - General Principles of Procurement of Goods and Services

G1. Overview and General Principles of Procurement of Goods and Services

Introduction

13. The NAO procures a wide range of goods and services. Given its unique role, the NAO needs robust procurement arrangements that reflect good practice, result in demonstrable value for money and ensure the proper conduct of NAO business.
14. The NAO operates an accruals accounting system. This means that in addition to ensuring that goods and services are procured properly, staff must also ensure that the accounting system is updated with information about what is being purchased and the financial year to which the purchases relate to. Commitments and liabilities must be entered onto the system as soon as practicable.
15. The NAO has a delegated authorisation framework under which named staff have the authority to commit the NAO to expenditure. All powers to incur expenditure are delegated by the C&AG, and must not be exceeded or further delegated (see [section D2](#) of the Manual for further details). The NAO also operates a separation of duties policy under which staff who have been responsible for committing the Office to expenditure are not allowed to subsequently confirm receipt of the goods and services..

Policies and Principles

- The National Audit Office procures goods and services with a view to :
 - obtaining value for money i.e. ensuring that the Office's business needs and requirements are delivered to the required quality at the best available price;
 - demonstrating propriety and good practice, as laid down in the Procurement Manual;
 - complying with legal requirements that apply to public sector procurement activities.
- The National Audit Office has clear and comprehensive procedures to govern, guide and facilitate procurement activities in accordance with the above principles.

Responsibilities

The Board Member for Finance

The Board Member for Finance is responsible for:

- maintaining a sound system of internal control over procurement;
- setting clear standards for NAO procurement practices;
- oversight of procurement activities, to ensure good practice is followed; and if necessary invoking disciplinary procedures where NAO rules are breached or guidelines are flouted.

The Director of Finance

16. The Director of Finance is responsible for :

- ensuring that the Board Member for Finance is able to discharge their responsibilities properly;
- maintaining the Procurement Manual and other procurement guidance;
- setting up and maintaining appropriate and robust systems within which commitments, expenditure and liabilities are promptly recognised and recorded;
- overseeing the issue of Notices in the Official Journal of the European Communities;
- monitoring and enforcing the separation of duties between those who commit the NAO to expenditure, those who confirm receipt of goods and services prior to payment being made, and those who make payments;
- monitoring NAO procurement activities;
- monitoring, in co-operation with budget holders, the accuracy of recorded commitments, liabilities and expenditure information.

Head of Procurement

17. The Head of Procurement within the Finance Directorate is responsible for:

- co-ordinating the production and distribution of central guidance on procurement matters (including the Procurement Manual);
- managing the procurement of consultancy services;
- providing advice to staff on procurement and contract matters;
- obtaining advice on contract matters, where appropriate;
- reporting the results of work to monitor contract activity.

All Staff

18. NAO staff involved in procuring goods and services in whatever capacity are responsible for following procurement procedures laid down in the Procurement Manual and supplementary guidance. Procurement procedures applying to purchases made using official payment cards is set out in section G3 of this Manual.

Further Advice and Guidance

19. Any queries should be directed to the Director of Finance or Head of Procurement.

20. The following guidance is also available:

- NAO Procurement Manual;
- Procurement
- NAO Code of Conduct;
- Government White Paper "Setting New Standards - A Strategy for Government Procurement" (1995);
- OGC Successful Delivery Toolkit www.ogc.gov.uk/sdtoolkit
- European Union Procurement Regulations:
 - The Public Contracts Regulations 2006

G2. Framework Contracts

Introduction

1. Most staff will not be involved in the full procurement process, but they may wish to purchase goods or services from a contract or agreement which is already in place. Increasingly the Office has sought to make use of Framework Contracts where the likelihood of "repeat" or further procurement of specific goods or, more particularly, services is high. For example, the NAO has a Framework Agreement with a number of accountancy and audit firms to facilitate the contracting out of financial audit work and a Framework Agreement with eight organisations for contracting out VFM work.
2. The value to the Office of such arrangements is that they reduce the number and cost of individual tendering exercises that need to be carried out; they are a legitimate way of streamlining the procurement process and they help to ensure value for money.
3. Details of current framework contracts are maintained by the Head of Procurement.

Policies and Principles

- The NAO should use framework contracts where it is appropriate and efficient to do so. Good practice, and in particular European Union Procurement Directives should be adhered to, especially with regard to aggregation issues.
- Framework contracts managed by named contract managers.
- Staff wishing to order goods and services should first establish whether a framework contract already exists.
- Staff ordering goods or services under such arrangements should abide by any specific procedures which have been laid down for the proper administration of the arrangement. In doing so staff should ensure that standard procedures are followed as well (see [Section G1](#) and the NAO Procurement Manual).

Responsibilities

The Board Member for Finance

4. The Board Member for Finance has overall responsibility for :
 - issuing guidance and procedures to govern the use of framework contracts;
 - monitoring any such arrangements to ensure that they are used properly and with due regard to good practice, value for money and EU Directives.

The Director of Finance

5. The Director of Finance has day to day responsibility for ensuring that the Board Member for Finance is able to discharge their responsibilities.

Framework Contract Managers

6. Each framework contract will have a contract manager whose duties will include:
 - General liaison with the supplier(s);
 - Preparation and maintenance of guidance on use of the framework contract;
 - Gathering and maintaining information on supplier performance.

Staff requiring goods or service

7. Staff requiring goods or services are responsible:
 - For contacting the Head of Procurement to establish whether there is a framework contract for the goods or services they require, and for confirming the procedures that need to be followed;
 - For following the procedures which govern the Framework Agreement (including those rules which may allow procurement outside the arrangement);
 - For liaising with business teams and the framework manager as appropriate, including providing feedback to the framework manager over the contractors performance.

Further Advice and Guidance

8. Guidance can be obtained from the Head of Procurement.

G3. Payment Cards

Introduction

1. Payment cards provide opportunities for streamlining and speeding up the procurement process by reducing the administrative burden of raising a purchase order or submitting a standard expense claim. They also simplify the payment process. The NAO is committed to maximising the benefits that payment cards can offer.
2. The NAO uses two basic payment card types, the Government Procurement Card which assists staff in to buy goods and services associated with their role and the corporate card (American Express) which assists staff in arranging travel and subsistence.

Policies and Principles

- Payment cards will be issued to staff where it will reduce the administrative cost of purchasing services for official purposes.
- Purchases made with payment cards should follow the same principles and procedures as for other procurements, set out in section G of this Manual.
- Payment cards should only be used for business purposes and should not normally be used for private expenditure. There may be circumstances where private expenditure is incidental to official business, for example private expenditure on room service may be included in a business hotel bill settled by payment card. In these cases, individuals will make reimbursement for private expenditure.
- Payment cards should be used where they are a cost effective procurement or payment method.

Responsibilities

Payment Card Manager

3. The Payment Card Manager is responsible for :
 - maintaining NAO relations with the card issuers;
 - issuing guidance on card holding and ensuring holders accept NAO conditions of use ;
 - vetting card holder applications and setting appropriate limits on single item, overall expenditure and type of purchase;
 - supervising training of cardholders;
 - issuing cards to card holders upon receipt of a duly completed declaration;
 - reviewing card holder usage and follow up any anomalies;
 - authorising payment of card issuer invoices;
 - administration of the card holder's analysis of transactions and updating the NAO's financial records.

Card Holder

4. The Card Holder is responsible for using any card solely for official purposes. Failure to comply may lead to withdrawal of the card and/or disciplinary action (fraudulent action may result in prosecution and dismissal). In particular card holders should:
 - NOT use the card to make personal purchases except where this is incidental to the business purchase;
 - notify the Payment Card Manager if they have inadvertently used a payment card for any personal expenditure, for Procurement cards this notification should be immediate;
 - reimburse the NAO promptly for any personal expenditure (for corporate cards this may be upon checking of the statement for the personal elements of hotel bill etc.).
5. The Card Holder must:
 - Undergo appropriate training on the use of the card;
 - Use the card solely for those types of purchase, vendors, amounts and overall budgets covered by their delegations;
 - Follow any specific rules on the usage of the card issued to them;
 - Sign a declaration to state that they understand the rules governing use of payment cards and also accept the specific conditions which apply to their card;
 - Maintain records of the card's usage to allow checking of the statement;
 - Promptly check the statement and the payment which should be made;
 - Raise any difficulties about limits with their line manager, they should never request the card issuer to change these;
 - Report the theft or loss of the card to the card issuer and the payment card manager immediately and co-operate fully with any subsequent investigation;
 - Return the card to the payment card manager immediately if requested to do so.

Principal Budget Holders

6. Principal Budget Holders are responsible for:
 - identifying areas where payment cards could be used to improve efficiency;
 - identifying staff who should hold such cards and considering appropriate spending limits;
 - proposing changes in issue limits to the Payment Card Manager.

Further Advice and Guidance

7. Queries should be directed to the Payment Card Manager in Finance.

Section H - Payments

H1. Payments - Overview and General Principles

Introduction

1. The NAO makes several thousand individual payments each year to suppliers and staff. It is important that the NAO adheres to good practice and has sound and robustly controlled systems.
2. The NAO has a computerised accruals accounting system which incorporates purchasing and payment modules. Information about commitments (orders) and receipt of goods or services may be input to the purchasing module by designated staff. Payment of suppliers' invoices is managed by Finance.
3. Finance is also responsible for setting out the NAO's financial control framework e.g. delegated authorities, budgets and separation of duties.

Policies and Principles

- There should be appropriate separation of duties between authorising expenditure, confirming receipt of goods or services and paying the contractor;
- The Board Member for Finance approves delegations specifying who is authorised to commit the Office to expenditure. Expenditure commitments may only be made by members of staff authorised to do so.
- There are also clear delegations governing who is authorised to confirm receipt of goods and services. Confirmation of receipt of goods or services may only be made by members of staff authorised to do so and these delegations are also set out on Merlin.
- Payment for goods and services should always be made in accordance with contracts and NAO procedures.
- Finance are responsible for ensuring that no payments are made without proper authority. Extreme care should be taken to ensure that payments are made to the right supplier/person for the right amount at the right time.
- Cashflows should be monitored to ensure the NAO remains within the net cash requirement approved by Parliament.

Responsibilities

The Director of Finance

4. The Director of Finance is responsible for:
 - determining appropriate procedures, controls and delegations to cater for all types and methods of payments;

- setting up and maintaining appropriate and robust systems for making payments;
- providing assurance to the Board Member for Finance on the proper operation of payment arrangements.

Staff involved in the payment process

5. Staff involved in NAO payment processes are responsible for :
 - being aware of the procedures to be followed;
 - acting in accordance with laid down delegations and authorisations.

Further Advice and Guidance

6. All queries should be directed to Finance.

H2. Payroll

Introduction

1. The payroll budget is the largest single element of NAO expenditure. Human Resources are responsible for input of permanent changes to staff pay details. The Payroll team within Finance administer payroll in accordance with instructions from Human Resources, ensuring that payments are correct and timely, that payroll costs are properly reflected in the general ledger, and deductions for tax, National Insurance, superannuation, etc are in accordance with legislation and required returns are made to the tax authorities (see [section K1](#) for more details on Taxation).

Policies and Principles

- The NAO's Personnel Manual and related documentation record the NAO's personnel policies, including terms and conditions of service, conduct, disciplinary and grievance procedures;
- Pay policy and remuneration procedures are communicated to all staff;
- Staff are paid a rate of pay that is in accordance with pay policy and pay ranges;
- The pay details of individuals should remain confidential to authorised staff working in Finance (Payroll) and Human Resources who may in the normal course of business give payroll information to appropriate organisations. Any inappropriate disclosure of confidential information may be subject to disciplinary proceedings;
- Incorrect payments of salary should be dealt with fairly and appropriately in accordance with NAO procedures;
- Salary is paid monthly, in arrears on the last working day of the month, direct into a staff member's nominated bank account. Deductions are made for income tax, national insurance and pension contributions. Other deductions may be made as a result of voluntary agreements or court orders. Staff are provided with a monthly pay advice notice detailing payments and the deductions;
- The Payroll team within Finance should only make changes to the NAO's payroll database following the receipt of requests for change from authorised staff.

Responsibilities

The Director of Human Resources

2. The Director of Human Resources is responsible for:
 - preparing and maintaining the NAO's Personnel Manual;
 - advising Senior Management with regard to remuneration policy, performance and promotion arrangements;
 - administering these arrangements;
 - dealing with queries from staff or Finance;
 - resolving pay related disputes with staff;
 - making changes to the NAO payroll database with regard to staff who have:
 - been recruited;
 - been promoted (either temporarily or permanently);
 - received a pay rise and/or bonus;
 - left the NAO;
 - retired;
 - changed their employment arrangements e.g. have taken career breaks, or have decided to work part time.
 - liaising with Finance on setting payroll budgets;
 - monitoring payroll costs against NAO budgets and forecasts;

The Director of Finance

3. The Director of Finance is responsible for
 - providing a sound and robust system for administering the NAO payroll;
 - ensuring that changes to the NAO's payroll database are properly controlled and maintained, and are made only on the basis of authorised requests for change;
 - authorising transactions in respect of payroll-related matters;
 - processing payments and recoveries authorised by Human Resources;
 - ensuring that payroll transactions are promptly and accurately posted to the general ledger;
 - ensuring that payroll creditors are cleared promptly and accurately;
 - ensuring that monthly reconciliations are completed promptly after each period end;
 - agreeing the general ledger postings to payroll records on a monthly basis;

- monitoring overall compliance with statutory requirements, including those for tax and national insurance contributions, and liaising with HM Revenue and Customs;
- providing a helpful service to staff who have queries regarding their pay;
- ensuring that the payroll system is updated to reflect changes in tax and national insurance requirements;
- providing P11D and any other statutory information to staff as appropriate.

All Staff

4. NAO staff are responsible for checking that they are receiving the correct rates of pay and for informing the Payroll team in Finance of any anomalies.

Further Advice and Guidance

5. The Personnel Manual is the primary source of guidance, together with Management Circulars and General Orders which notify staff of terms and conditions. Any queries should be directed to Human Resources. Finance will provide advice on matters relating to the actual payment of salaries.

H3. Payment of invoices from suppliers

Introduction

1. Payment of suppliers is the final part of the procurement cycle. Procurement is described in more detail in [section G1](#) and in the Procurement Manual.

Policies and Principles

- Payment will only be made if staff with appropriate delegated authority confirm that the goods or services have been received and are satisfactory.
- The most appropriate method of payment should always be used. This will normally be BACS transfer for larger amounts and payment cards for smaller amounts, but depends on the particular order.
- Delegated limits set for ordering, receipting and payment of goods and services must be adhered to.
- Separation of duties rules prevent the person ordering goods and services from subsequently confirming their receipt.
- Only valid invoices should be paid, and payment should be within 30 days of receipt, or in accordance with contract conditions.
- All orders, goods and services received, invoices received, and payments made should be promptly and properly recorded on the accounting system.

Responsibilities

Staff Ordering Goods or Services

2. Staff who order goods or services (and therefore commit the office to expenditure) should:
 - have delegated powers to order those goods or services;
 - ensure a budget is available from which payment can be made;
 - ensure all appropriate documentation is properly raised (eg. formal purchase order and/or contract);
 - ensure entry of commitment data into the NAO's accounting system.

Staff Confirming Receipt of Goods or Services

3. Staff who receive goods and services should:
 - confirm receipt of the goods or services;

- ensure they have not breached separation of duty rules (ie that they did not approve the order);
 - satisfy themselves that the goods or services have not previously been receipted;
 - enter receipt data into the NAO's accounting system;
 - confirm receipt promptly to allow payment to be made;
 - in conjunction with Finance staff, follow up any invoices which cannot be matched to orders or recorded receipts, so that payment can be made, where appropriate;
 - make arrangements for receipt of goods and services when they are away from the office so that prompt payment targets are met.
4. If the supply of a service is in dispute, staff are responsible for:
- not taking actions which may compromise the Office's legal position e.g. confirming receipt of something which has not been received;
 - seeking to resolve the dispute, if necessary with help from Finance (Head of Procurement) or the framework contract manager.

All staff

5. Staff who receive invoices should pass them immediately to Finance.
6. Staff should not:
- act outside delegation limits (it is entirely possible that a staff member may have no powers to order goods and services or authorise such payments);or
 - breach separation of duty rules;
 - breach budgetary provisions; or
 - misuse a payment card (separate guidance covers the use of payment cards).

The Director of Finance

7. The Director of Finance, and Finance staff are responsible for:
- entering invoice details on the accounting system, where they will be matched with the corresponding purchase order and receipt;
 - paying matched invoices promptly and accurately;
 - following up unmatched invoices;
 - maintaining high quality documentation and accounting records, including supplier database;
 - managing and issuing payments cards;
 - providing advice to staff and suppliers when there are difficulties;

- monitoring whether 30 day and/or prompt payment targets have been met;
- monitoring payments to ensure that the NAO stays within the net cash requirement approved by Parliament.

Further Advice and Guidance

8. Further advice can be found in the NAO Procurement Manual and Finance Memoranda.

H4. Claims for travel and subsistence by NAO Staff

Introduction

1. NAO staff may claim reimbursement of the cost of travel and subsistence on official business in line with the Office's travel policy.

Policies and Principles

- The NAO has policies and procedures governing the reimbursement of business travel costs and related expenses. All travel and subsistence should be appropriate to business needs.
- Staff should familiarise themselves with the rules, rates and procedures for claiming reimbursement of official travel and subsistence.
- Subsistence rates are clearly laid down and staff should adhere to them. These rates are agreed with Inland Revenue and set at a rate which is viewed as reasonable by staff, Parliament, clients and the public.
- Staff should use the Office's agents to arrange travel, car hire and accommodation wherever possible.
- Staff should submit prompt, accurate and fully documented travel and subsistence claims in accordance with NAO Travel Policy guidance on Merlin.
- Staff who countersign claims should discharge their responsibilities promptly and fully.
- Staff who falsify or who improperly seek to profit financially from travel claims will be subject to disciplinary action, possibly including dismissal and criminal prosecution.

Responsibilities

All Staff

2. NAO staff are responsible for:
 - being familiar with NAO travel and subsistence rules;
 - ensuring that travel and subsistence proposals are agreed before making arrangements;
 - making maximum use of NAO agents for obtaining travel tickets or booking accommodation;
 - using the imprest system properly (for example, clearing imprests promptly according to the NAO Travel Policy guidance on Merlin);
 - incurring only reasonable expenses while on business;
 - submitting claims as soon as practicable on return in accordance with NAO Travel Policy guidance on Merlin;

- passing claims to a countersigning officer;
- repaying any unused imprests promptly.

Countersigning Staff

3. Countersigning officers are responsible for ensuring that:
 - travel proposals are agreed before the journey;
 - NAO travel management agents are used to arrange the travel etc. where appropriate;
 - claims are in accordance with the agreed proposals;
 - claims comply with the NAO Travel Policy guidance on Merlin;
 - imprests or travel claims relate to the appropriate budgets and that the RMS job and account codes are correctly entered;
 - the expenses claimed are correct, supported by receipts and other documentation and were incurred on NAO business;
 - they query any apparent discrepancies or missing documentation;
 - they specifically approve any unusual items;
 - approved claims etc. are passed directly to Finance;
 - any large and unusual items have been explained;
 - costs are appropriate to business need and can be met from approved budgets.

The Director of Finance

4. The Director of Finance, and his staff, are responsible for:
 - reviewing claims before payment;
 - processing payment of valid claims or issuing a request for repayment;
 - entering transactions onto NAO ledgers;
 - ensuring RMS reports transactions promptly and accurately;
 - monitoring and following up outstanding imprests;
 - settling bills from NAO agents.

Further Advice and Guidance

5. Details of rules, practices and rates are contained within the NAO Travel Policy available on Merlin.
6. Further explanation of rules, practices and rates is available from the Finance Travel Manager.

H5. Losses and Special Payments

Introduction

1. Losses and special payments are transactions that Parliament cannot be supposed to have contemplated when the Supply Estimate was approved. They are, therefore, subject to notation in the Resource Account, either individually or in bulk, if in total either losses or special payments are greater than £250,000.
2. A loss is incurred when voted monies are expended but no benefit is obtained (e.g. money stolen, unrecovered overpayment, bad debts or purchase of a useless item). Losses such as theft or damage can relate to items purchased in previous years. Some declared losses are recorded in the accounting records as write-offs. A loss such as an overpayment may have been known to have occurred, but it will only be written off when it is unlikely that the amount will not be recovered. Loss of assets recorded on the Fixed Asset Register or other formal inventories will also require formal write off.
3. A special payment occurs when monies are expended outside the objectives of the NAO. These could be ex gratia, extra contractual or compensation payments to staff or contractors. These payments either need not have been made or were avoidable. Special payments should be recorded as such when they are actually made.

Policies and Principles

- The NAO should comply with all procedures as laid down in Managing public money (chapter 4, annexes 4.10 and 4.13) and other Treasury Guidance.
- The NAO aims to minimise losses and special payments.
- The NAO does not generally take out commercial insurance against the need to cover losses or make special payments.
- The NAO should take prompt and appropriate action in the event of losses or special payments to minimise the risk of recurrence.

Responsibilities

All Staff

4. Staff are responsible for:
 - ensuring that assets in their care are properly safeguarded and promptly reporting the loss or damage to any NAO owned or managed asset;
 - ensuring that they do not overpay suppliers or undercharge clients;
 - ensuring that they comply with good practice in all areas of their office life (professional standards, staff relations, health and safety) to minimise the risk of claims against the Office

and themselves. Staff should report instances of poor practice by themselves or others so that action can be taken (e.g. health and safety hazards), in particular reporting incidents where a claim could be made either by themselves or others;

- ensuring payments relating to their own salary, travel and subsistence or other expense claims are correct. Staff should promptly notify any over or underpayment and co-operate with recovery attempts including any where they personally benefit;
 - co-operating fully with any investigation or the implementation of recommendations.
5. Staff should report losses to the Director of Finance, via an IT representative where appropriate, setting out:
- the nature of the loss;
 - an explanation of how and when it occurred;
 - an estimate of the amount involved;
 - details of those involved and the extent of blame;
 - the results of any formal (including police) investigation;
 - consideration of disciplinary or prosecution issues where appropriate.
6. Staff who have suffered a personal loss where they consider the Office may have some responsibility should submit a claim by letter or e-mail to the Director of Finance who will consider whether there are grounds for making an ex gratia payment based on the merits of the case and precedents. Such claims should not be submitted as a normal travel and subsistence claim.

The Board Member for Finance

7. The Board Member for Finance is responsible for considering and authorising significant losses, special payments and write-offs outside those delegated to the Director of Finance, which would need to be separately noted in the NAO's financial statements.

The Director of Finance

8. The Director of Finance is responsible for:
- considering claims for ex gratia payments to members of staff and other special payments such as compensation payments or extra statutory payments and authorising payments within delegated authority limits;
 - considering the circumstances of each potential loss and either recommending further action or authorising write off within delegated authority limits. Further action may include detailed investigation and making recommendations (including disciplinary or legal action);

- advising the Board Member for Finance on any special payment, loss or write off needing to be separately noted in the annual financial statements;
- maintaining records of losses, special payments and write offs and using them in preparation of the annual financial statements;
- maintaining a register of contingent liabilities and considering the impact of potential claims against the NAO for budgeting purposes.

Further Advice and Guidance

9. The NAO follows the guidance contained with Chapter 4 of Managing public money as if it were a Government Department. As the NAO is not subject to Treasury control, all cases which should be referred to Treasury are referred to the Board Member for Finance.
10. Although the Director of Finance is responsible for write offs and losses, they will not always be the first point of contact. IT losses should be reported to ITRC representatives. Health and safety hazards should be reported to the Facilities Manager. Finance staff will provide advice if staff do not know who to contact.

Section I - Income

1. Income - Authority to Commit the NAO to Provide Income Generating Services

Introduction

1. The NAO earns income from providing a range of services. These include audit services to certain clients, the provision of training, consultancy and support to other organisations in the United Kingdom and overseas, and the secondment of staff. Chargeable activities are listed in [Appendix 1](#). Staff committing the NAO to provide services must do so within the bounds of the legislation governing the work of the Office, including the annual Appropriation Act, and confirm that sufficient appropriate resources are available to meet the potential commitment.
2. To meet these requirements, the NAO has established a delegated authorities framework under which specified staff have the authority to commit the NAO to provide services. These principles also apply to services provided on a non-recoverable basis. All such powers are delegated by the C&AG, and must not be exceeded or further delegated. The current delegations are shown in [Appendix 2](#).
3. The NAO follows resource budgeting and accounting rules. This means that where income generating services are to be provided, information on the expenditure commitment, the potential income, and payment terms must be recorded as soon as possible.
4. In charging for the provision of a service, the NAO seeks to recover the cost attributable to the service, including a contribution to overheads in line with Treasury guidance on fees and charges. Costings will normally be based on RMS hourly fee charge out rates plus other costs directly attributable to the assignment.

Policies and Principles

- The NAO charges fees for services wherever this is practicable but not where statute or convention prevents it from doing so.
- The types of services provided must fall within the scope of the legislation governing the NAO or the annual Appropriation Act. Expenditure on services provided must be regular.
- The NAO does not charge fees where levying fees will not be cost effective or where levying fees would be inconsistent with its vision of "Helping the Nation spend wisely", for example for good practice guidance.
- In charging for certification work, the C&AG needs prior Ministerial approval where accounts relate to persons/bodies whose functions are discharged on behalf of the Crown.

- In charging fees, the NAO seeks to recover the cost attributable to the provision of the service, including an appropriate contribution to overheads.
- Commitments to provide services may only be made by staff authorised to do so.

Responsibilities

The C&AG

5. All powers to commit the NAO to provide services rest with the C&AG. He is responsible for formally delegating these powers to named members of staff. The C&AG has delegated this responsibility to the Board Member for Finance, who ensures that any delegations are recorded - details can be found at [Appendix 2](#).

The Board Member for Finance

6. The Board Member for Finance has overall responsibility for ensuring that all proposals to provide services are relevant and appropriate to the office of the C&AG. This responsibility will normally be discharged by the Director of Finance.

The Director of Finance

7. The Director of Finance is responsible for ensuring that all proposals by the NAO to provide services are relevant and appropriate to the office of the C&AG. The Director of Finance will liaise with AAGs, the Director of Corporate Affairs and others, as appropriate. The Director of Finance will also work closely with directors to ensure that accurate forecasts and budgets are prepared for expenditure and income associated with income generating work and that appropriate provision is included in the annual Supply Estimate.
8. The Director of Finance is also responsible for :
 - ensuring that the Board Member for Finance is able to discharge his role properly;
 - monitoring and maintaining delegations of authority to commit the NAO to provide services;
 - monitoring, in co-operation with persons holding delegated responsibilities, the accuracy of income, expenditure, commitments and assets information within the accounting system;

and in consultation with the Director of Corporate Affairs for:

- co-ordinating the production and distribution of advice and guidance on matters relating to the provision of services;
- providing advice on whether new services are relevant and appropriate to the office of the C&AG;
- obtaining advice from others, including the Office's legal advisors, where appropriate.

Assistant Auditors General

9. AAGs are responsible for ensuring that:
- proposals to provide services are approved before firm commitments are made; in the case of a competition, this would be at the pre-bidding stage;
 - before approving services, AAGs should confirm that the proposed service is regular; that sufficient resources of appropriate quality are available to provide the service to an acceptable standard; and that risks are identified and evaluated before a commitment is entered into;
 - significant, novel or contentious proposals to provide services are notified to the Management Committee (including situations in which the Office proposes to waive a fee where it would normally expect to charge); notification should normally be in the form of a short minute prepared in advance of a Management Committee meeting to allow the Committee to discuss the proposed service prior to irrevocable decisions being made
 - the Management Committee is notified of all proposals with a potential cost or lifetime cash inflow in excess of £500,000; in the case of annual certification audits, the Management Committee should be notified of any new non-statutory audits likely to exceed £100,000 a year (new statutory audits need not be formally notified to the Management Committee);
 - formal engagement letters or contracts exist for the provision of services, where appropriate;
 - there is compliance with the NAO's resource budgeting procedures, and operate within the rules laid down by the Board Member for Finance for committing the NAO to provide services;
 - where opportunities arise for providing services which may result in expenditure or income in excess of approved budgets for the year, the Director of Finance is consulted.

All Staff

10. NAO staff involved in the provision of services in whatever capacity are responsible for following procedures as laid down in the Finance Manual and other guidance.

CHARGEABLE ACTIVITIES - RECOVERY POLICY

ACTIVITY	RECOVERY POLICY	CONTACT POINT
Chargeable audit work for central government organisations	Recovery of cost attributable to the audit, including overheads; extra work charged on the same basis	Director of Finance
Chargeable audit work for international organisations	Recovery of cost attributable to the audit, including an appropriate contribution to overheads	Director of Finance
Work requested by audit clients outside that covered by audit opinion (eg validation of performance indicators)	Recovery of cost attributable to the audit, including overheads	Director of Finance
General advice to audit clients	Where this is likely to involve a significant call on resources, recovery of cost attributable to the work, including overheads	Director of Finance
Provision of advice, training or support to third parties	Recovery of cost attributable to the audit, including an appropriate contribution to overheads	Director of Finance
Outward secondment of staff	Normally place staff on host organisation's payroll, and where this is not possible recover salary, national insurance, and pension contributions	Director of Human Resources
Outsiders attending NAO Training Courses	Full cost recovery of appropriate share	Director of Human Resources
NAO staff acting as speakers to audited bodies etc.	Normally free or included within chargeable fees	Director of Human Resources
NAO staff acting as speakers at non commercial events	Organisation to pay any staff expenses directly to staff member	Director of Human Resources
NAO staff acting as speakers at commercial events	Full cost recovery of staff time and expenses	Director of Human Resources

NAO Published Outputs	Cover price (set to recover print costs). Complimentary copies permitted	Director of Communications
Supply of information to Parliament, Public or Press	Normally free, marginal costs of reproduction may be charged	Director of Communications
Requests under the Freedom of Information Act	Free of charge	Director of Corporate Affairs and Knowledge Management
Disposal of Assets	Obtain best price	Director of Finance
Staff use of assets (e.g. Telephone)	Actual cost recovery from staff	Facilities Manager
Use of buildings/car park	Discretionary	Facilities Manager
Use of catering	Direct billing by caterers	Catering Manager
Other	Discretionary	Director of Finance

APPENDIX 2

DELEGATED AUTHORITY TO COMMIT THE OFFICE TO PROVIDING SERVICES

POSTHOLDER	INDIVIDUAL SERVICES (LIFETIME COST)	NON-STATUTORY CERTIFICATION AUDITS (ANNUAL COST)
Board Member for Finance	£700,000	£140,000
Director of Finance (Phil Woodward)	£250,000	£50,000
Assistant Auditors General	£150,000	£30,000

Note: New fee-paying certification audits where the C&AG is appointed by statute do not require approval under these arrangements.

12. Budgeting and Accounting for Income

Introduction

1. The NAO earns a significant proportion of its income from charging fees for the provision of services. This income is normally "appropriated in aid" i.e. it is used by the NAO in addition to the Parliamentary grant to support its planned activities. The annual Supply Estimate approved by Parliament specifies the amount of income the Office is allowed to appropriate in aid each year.
2. The NAO estimates and accounts for fee income on an accruals basis in accordance with resource accounting principles. Income is therefore recognised as it is earned through work undertaken on fee paying assignments. Income in any one year is the value of work invoiced during the year, **less** the value of any work in progress brought forward at the beginning of the year, **plus** the value of uninvoiced work in progress at the end of the year, to the extent that the value is likely to be recoverable. In practice, the recoverable value is normally the amount of the quote, including any changes subsequently agreed with the client.
3. Budgeting for income and ensuring that the service is provided according to plan are very important. If the NAO generates less income than estimated, it will have a shortfall of resources, and should the Parliamentary grant be fully committed the Office risks an excess vote. If the NAO generates more income than estimated, the surplus has to be surrendered to the Consolidated Fund, and the income cannot be used in support of the Office's activities. Income is monitored on a monthly basis and Principal Budget Holders are required to confirm their income forecasts periodically as part of the Office's regular reviews of income and expenditure.
4. The annual Supply Estimate also includes a net cash requirement, representing the amount of cash needed from the Consolidated Fund to finance NAO activity. As part of its work to estimate the net cash requirement, Finance estimate how much cash is likely to be collected in year from income generating work. Most income generating work is invoiced on completion of an assignment; any proposals to collect significant payments on account need to be notified to Finance so that appropriate provision can be made in the estimate of the net cash requirement.
5. The NAO normally requires payment of invoices within 30 days. Debts overdue for longer than 30 days will be subject to active pursuit.
6. The NAO aims to recover the full cost attributable to the income generating work, including a contribution to overheads (see [section 11](#) for more details). For this purpose, Finance calculate hourly charge

out rates for staff which are designed to recover the estimated full cost of activities, including overheads.

7. The NAO analyses the cost of income generating work each year, and the surplus or deficit achieved. Principal Budget Holders are held to account for their performance.

Policies and Principles

- The NAO plans and accounts for income on an accruals basis in accordance with the FReM and other Treasury guidance; and in line with UK Generally Accepted Accounting Practice.
- Income is normally accounted for as appropriations in aid. Surplus income, windfall receipts or non-operating Appropriations in Aid are surrendered to the Consolidated Fund.
- The NAO will seek to recover the cost of services being provided, including an appropriate contribution to overheads, as set out in section J1.
- Invoices are normally issued on completion of an assignment, but stage payments may be collected where significant sums are involved.
- The NAO will actively pursue debtors which are overdue by more than 30 days.

Responsibilities

The Board Member for Finance

8. The Board Member for Finance is responsible for the NAO's fee policy.

The Director of Finance

9. The Director of Finance is responsible for:
 - maintaining management information systems to monitor progress throughout the year;
 - reporting progress to senior management;
 - approving the hourly staff fee charge out rates for each year.

Finance Team

10. The Finance Team is responsible for:
 - ensuring that agreed fee rates are correctly input in RMS;
 - preparing and issuing invoices, and pursuing non-payment after 30 days;

- ensuring that transactions, including changes in the value of work in progress, are correctly accounted for on NAO ledgers;
- calculating the hourly staff fee charge out rates for each year;
- providing advice and support to Principal Budget Holders.

Assistant Auditors General

11. AAGs are responsible for:

- ensuring adherence to charging policies and approving any fee quotations which are lower than forecast chargeable costs.

Project Directors and Project Managers

12. Project Directors and Project Managers are responsible for:

- establishing reliable estimates and forecasts of income during the operational planning process and throughout the financial year.
- being aware of and properly implementing the NAO's fees policy, the opportunities for charging fees, the restrictions on charging fees, and whether VAT should be charged;
- preparing forecasts of the cost of supplying income generating services;
- forecasting the income which should be derived from supplying the service;
- referring cases to AAGs where the proposed fee quote is lower than the forecast chargeable costs;
- ensuring that fee-paying assignments are properly identified in RMS;
- checking that costs are recorded promptly and accurately on RMS;
- entering information about forecast expenditure and income on a monthly basis;
- supplying details to Finance of the amount to be invoiced on completion of supply of the service;
- clearing with Finance any proposed departure from the policy of billing on completion of an assignment, for example requesting a payment on account.

All Staff

13. All NAO staff are responsible for recording time spent on fee paying assignments promptly - at least weekly - and accurately. Failure to do so will result in misstatement of work in progress in the NAO's General Ledger.

13. Financial Audit - Determining Financial Audit Budgets and Collecting Audit Fees

Introduction

1. This chapter supplements [Section 12](#), and describes: how to set and record financial audit budgets; NAO audit fee policies; and responsibilities in setting fees in more detail. The statutory position on charging fees for the audit of accounts is laid down in [Section 5 of the National Audit Act 1983](#).

Fee Policies and Principles

- The C&AG is empowered to charge for auditing the accounts of any body or person. However, the C&AG may not charge a fee for auditing the statutory accounts of public bodies whose functions are discharged on behalf of the Crown, without the consent of a minister of the Crown.
- Fee charging policies for different types of account are set out in [Appendix 1](#).
- The costs of an audit will be estimated at the planning stage of the audit. Audit fees will also be estimated at that time and will be formally notified to the client.
- Where additional work, over and above that planned when setting the fee, is required for reasons attributable to the client, the extra cost will be recovered in fees.
- Fees will normally be set to recover the chargeable costs attributable to the service, including a contribution to overheads. All relevant staff time should be charged to the service using the appropriate hourly fee charge out rates recorded on RMS.
- Relevant costs to be budgeted as costs of the audit and those to be recovered through fees are set out in [Appendix 2](#).
- Where managers subcontract fee-paying audit work, the input VAT payable to the contractor should not be included in the costs recoverable from the audit client.

Responsibilities

Assistant Auditors General

2. AAGs are responsible for:
 - ensuring that the aggregate costs of fee-paying audits are fully recovered;
 - approving any fee quotations which will not recover the estimated chargeable costs of an audit, and agreeing strategies for achieving full cost recovery over time.

Project Directors and Managers

3. Project Directors and Managers are responsible for:

- preparing audit plans, including an estimate of the cost;
- determining whether a fee is appropriate - novel or contentious areas should be discussed with the Director of Finance;
- setting audit fees with the aim of recovering relevant chargeable costs and agreeing these with the client;
- entering the fee quote in RMS, ensuring that this is split by financial years where appropriate;
- referring any decisions not to seek to recover relevant chargeable costs to the responsible AAG for approval;
- undertaking audit work to time, budget and NAO standards;
- identifying areas where extra work may be necessary, and notifying the client that this will be charged for if appropriate actions are not undertaken by the client;
- requesting Finance to raise an invoice within one month of completion of the assignment and assisting Finance in the event of any difficulties in collecting the invoiced amount;
- providing Finance with a comparison of budgeted and actual income and costs over the lifetime of the job, with an explanation of any material variance;
- for audits which have previously made a loss, preparing a strategy for achieving break even within a period of no more than three years;
- providing a written submission from the Project Director to the Director of Finance requesting authorisation of the write off of any audit fee and for the raising of a credit note;
- undertaking similar procedures for accounts which have to publish a notional fee, where appropriate.

The Director of Finance

4. The Director of Finance is responsible, in conjunction with the Director of Corporate Affairs, for:
 - providing advice about whether fees should be charged in new or contentious cases;
 - undertaking research and providing advice about NAO's policy on charging audit fees.

Charging policies for types of Certification Audit

Type of Audit	Fee Charged	VAT Charged	Notes
Whole of government accounts/ central government accounts	NO	N/A	Notional fee shown
Statement on the use of EU funds	NO	N/A	
Audits of publicly owned companies (statutory audit under GRAA)	YES	NO	
Audits of publicly owned companies (agreement audit under the Companies Act)	YES	YES	
Resource Accounts	NO	N/A	Notional fee shown
Central Treasury Accounts (eg Consolidated Fund, Contingencies Fund, National Loans Fund, PGO)	NO	N/A	
Section 2 Revenue Audit	NO	N/A	
Executive Agencies	NO	N/A	Notional fee shown
Trading Funds	YES	NO	
Non Departmental Public Bodies	YES	NO	
International Audits	YES	NO	
UK Agreement Audits	YES	YES	Refer to Finance if no fee previously charged
Work requested by body (ie not on matters not covered by normal annual audit opinion - eg performance indicators)	YES	YES	
Dry run audits of financial statements prepared by fee- paying clients	YES	See Note:	VAT position as shown above

Determining budgets and chargeable costs for financial audit

The NAO's financial management principles are premised upon efficient and effective delivery of work budgeted in a consistent and transparent manner. To ensure consistency in setting budgets for financial audit work, the table below sets out types of cost and whether these are to be included in financial audit budgets and recovered through audit fees.

Principal budget holders should aim to recover the costs of audits through the notional or invoiced fee.

Type of Cost	Included in budget?	Recovered through audit fee?	Coded to 'non-chargeable' RMS subjob?
Costs directly attributable to forming an opinion on the financial statements, including planning, fieldwork and first and second stage review. Budgets for Planning, Fieldwork, SIC and Completion should include time for the production of management reports and letters. <u>Certification-related</u> time for client liaison, client advice and audit committees should be included.	YES	YES	NO
Additional work caused by client-related issues, including matters on which a qualification of the opinion is a possibility.	YES	YES	NO
Additional work attributable to the National Audit Office.	NO ¹	NO	YES
Additional work relating to preparation of a C&AG's report.	NO ¹	NO	YES
Client liaison relating to the audit of the financial statements.	YES	YES	NO
General client liaison. ²	NO	NO	NO
Attendance at audit committees where the	YES	YES	NO

¹ Costs should be budgeted where we expect, at the planning stage, to carry out the additional work or expect a report by the C&AG.

² General client liaison should be booked to an 'advice and liaison' jobcode.

financial statements are to be discussed.			
General attendance at audit committees	YES	NO	YES
Attendance at audit committees where the financial statements are to be discussed for contracted out audits where the contractor also attends the meeting	YES	NO	YES
Significant advice on issues relating to the financial statements	YES	YES	NO
General advice on issues relating to the financial statements	NO	NO	NO
Reviewing the work of contractors	YES	YES	NO

Section J - Banking and cash management

J1. Banking Arrangements

Introduction

1. The National Audit Office's cash requirements are met from the Exchequer and from income generating work. The NAO needs to manage its cashflow so as to remain within the net cash requirement approved in the annual Supply Estimate (see section D1) and draw down sufficient Exchequer funding each month to meet likely cash outflows.
2. The NAO's cash balance is held principally at the Office of the Paymaster General. The NAO also has an account with a commercial bank to ensure payments to suppliers can continue to be made in the event of unforeseen problems.

Policies and Principles

- The NAO should manage its cashflow so as to ensure it has sufficient funds to meet anticipated liabilities.
- The NAO should prepare a cashflow forecast, and regularly update it, with the aim of utilising 99.5 per cent of its annual Net Cash Requirement.
- The NAO should ensure all banking and cash handling arrangements are secure and safeguarded against fraud and error.
- The NAO follows best practice in the use of bank accounts as set out in Managing public money Chapter 5 and other Treasury guidance.
- The NAO should maximise the use of its principal banker, Paymaster, and minimise the use of commercial banks.
- Bank accounts must be kept in credit and balances kept to a minimum.
- No speculative activity should be undertaken when transferring monies between accounts in other currencies and sterling accounts.
- The amount of cash held should be kept to an absolute minimum, with any cash receipts being banked promptly.

Responsibilities

The Board Member for Finance

3. The Board Member for Finance is responsible for ensuring that public funds are safeguarded and that financial systems and procedures promote efficient and economical conduct of business. The Board Member for Finance has general responsibility for cash management, making payments and collecting receipts. They should ensure that

banking arrangements are secure, reviewed regularly and offer value for money.

The Director of Finance

4. The Director of Finance is responsible for :
 - periodically reviewing the operation of all bank accounts to ensure proper procedures are in place and commercial bank accounts achieve value for money;
 - allocating responsibility for operation of bank accounts to individuals;
 - preparing cashflow forecasts showing inflows and outflows of cash;
 - managing cashflows to ensure that the NAO is able to use 99.5 per cent of its net cash requirement;
 - drawing down sufficient cash to meet the Office's potential liabilities;
 - dealing with operational issues such as funding bank accounts from Paymaster;
 - ensuring bank reconciliations are carried out on a regular basis (at least monthly) and discrepancies are followed up;
 - reviewing the posting of transactions on a monthly basis.

Further Advice and Guidance

5. Further details about the operation of bank accounts are available in Managing public money Chapter 5 and HM Treasury Banking Manual.
6. Matters may also be raised with Finance.

J2. Paymaster Banking Arrangements

Introduction

1. The NAO's principal banker is the Office of the Paymaster General (Paymaster). Payments are made by BACS (Bankers Automated Clearing System), Payable Orders (the equivalent of cheques), transfers to other Paymaster accounts, bills of exchange, CHAPS (Clearing House for Automated Payments Systems) and write-offs to Bank of England accounts. Receipts can be transferred electronically by BACS and cheques received can be posted or banked through commercial accounts. Paymaster is linked to the Parliamentary Supply system. Supply funding is drawn down as and when needed by appointed Finance staff.

Policies and Principles

- The NAO should use Paymaster and minimise the cost to the Exchequer of holding funds in commercial banks.
- Payments to NAO suppliers and staff are made by using BACS, or other electronic methods, wherever possible to minimise costs and the risk of fraud.
- Organisations making payments to the NAO (e.g. for audit fees) should be encouraged to make their payments electronically to Paymaster rather than by cheque.
- The Paymaster accounts should be monitored on a daily basis, and reconciled to NAO accounting records on a regular basis.
- The NAO should operate its bank accounts in accordance with the requirements of Managing Public Money.

Responsibilities

The Board Member for Finance

2. The Board Member for Finance has overall responsibility for ensuring that the NAO's banking and cash handling arrangements for payments and receipts are:
 - appropriate;
 - secure;
 - operated to high standards;
 - well managed;
 - offer value for money, taking account of the requirement to minimise exchequer financing costs.

The Director of Finance

3. The Director of Finance and Finance staff are responsible for ensuring that the above criteria are met.

Further Advice and Guidance

4. Further details about the operation of accounts are available in *Managing Public Money Chapter 5* and *HM Treasury Banking Manual*. Any queries should be directed towards the Director of Finance.

J3. Commercial Banks and Petty Cash

Introduction

7. The provisions set out in this Chapter apply to commercial bank accounts and petty cash facilities at BPR, Northern Offices and international outstations. Balances held in commercial accounts attract a cost of capital charge under resource accounting and should therefore be kept at a minimum practical level.

Policies and Principles

- The NAO should use of its principal banker, the Office of the Paymaster General (Paymaster), and minimise the use of commercial banks.
- Where it is appropriate to use commercial banks, the NAO should set up efficient and economic banking arrangements, ensuring that these arrangements are appropriate to corporate and local needs. Arrangements should be reviewed annually.
- Bank accounts must be kept in credit but balances kept to a minimum.
- Petty Cash arrangements should be appropriate to business need and balances regularly reviewed.

Responsibilities

The Board Member for Finance

8. The Board Member for Finance is responsible for ensuring that commercial banking and petty cash arrangements are secure, reviewed regularly and provide value for money.

The Director of Finance

9. The Director of Finance is responsible for :
 - providing the Board Member with advice on the operation of commercial bank accounts and petty cash facilities;
 - approving the opening and closing of bank accounts and petty cash facilities;
 - setting specific guidelines and conditions for operating commercial bank accounts and petty cash facilities. Guidelines will reflect local circumstances, especially where foreign banks and currencies are involved;
 - allocating responsibility for operation of commercial bank accounts and petty cash holdings to individuals;
10. Finance staff are responsible for monitoring the use of commercial bank accounts and petty cash holdings via:
 - bank and petty cash reconciliations or reviews of reconciliations;

- reviewing and processing the posting of documents on a monthly basis;
 - surprise inspection (where appropriate).
11. The Director of Finance may suspend the use of a commercial bank account or petty cash facility if he considers it is not being operated properly or with due care and attention; for example if reconciliations are not undertaken with appropriate regularity.

Staff Managing Bank and Petty Cash Accounts

12. Designated staff, given responsibility for management of commercial bank accounts and petty cash facilities, should:
- ensure that the accounts are operated in accordance with guidelines and conditions;
 - set up appropriate procedures for other staff who may have cause to use the accounts and maintain appropriate checks and controls that will prevent and detect misuse, fraud or error;
 - ensure bank statements and cash balances are reconciled to accounting records (and investigate and correct any discrepancies);
 - provide the required returns to Finance to help maintain accurate NAO accounting records;
 - immediately inform the Director of Finance of any irregular or fraudulent activity or loss;
 - assist any checks by the Director of Finance, Internal Audit or External Audit;
 - provide the Director of Finance with advice when new accounts or closure of existing accounts is considered.

Other Staff

13. Staff who are not formally responsible for, but are involved in the use of commercial bank or petty cash facilities should comply with the general policies and principles set out in this chapter plus any other instructions.

Further Advice and Guidance

14. Local instructions should be consulted where they exist. Further details about the operation of bank accounts are available in Government Accounting Chapter 28 and HM Treasury Banking Manual.
15. The officer responsible for managing the bank or petty cash account should be the first point of contact. Matters may also be raised with Finance.

Section K - Taxation

K1. Value Added Tax

Introduction

1. Under the legislation governing the NAO the C&AG is established as a "Corporation Sole". The effect of this is that the NAO is an independent body rather than being classified as a Government Department. HM Revenue and Customs have ruled that for VAT purposes the NAO is registered for VAT as a non profit making body and must account for this tax in line with the rules set by HMRC.

Policies and Principles

- The NAO charges, pays, reclaims and accounts for VAT in accordance with VAT regulations, HM Revenue and Customs rules and requirements, and Treasury Guidance where appropriate e.g. Managing Public Money and the Government Financial Reporting Manual.
- The NAO charges output VAT on defined taxable supplies made in the course of normal business, for example non-statutory fee paying audits.
- The NAO is charged input VAT on all taxable supplies, and recovers VAT incurred on non-statutory work. Any VAT incurred on statutory work is not recoverable.
- The NAO's financial accounting system records expenditure and the associated input VAT separately, but charges both to the expenditure head. Expenditure account codes show the full impact of VAT as the majority of VAT paid to suppliers cannot be recovered.
- The amount of recoverable input VAT is separately recorded and treated as negative expenditure in the annual Estimate and resource accounts.
- The NAO submits accurate, complete and timely VAT returns on a quarterly basis.

Responsibilities

The Director of Finance

2. The Director of Finance, and his staff, are responsible for:
 - Submitting accurate and timely VAT returns to HM Revenue and Customs;
 - ensuring that VAT is accurately and properly accounted for in all NAO planning procedures, budgeting and accounting systems;
 - including VAT on invoices raised by the NAO where appropriate;

- accounting for VAT paid by the NAO in payment of invoices from its suppliers;
- paying or reclaiming VAT as appropriate;
- ensuring that all VAT records are effectively maintained in support of the above returns;
- co-operating fully with any requests from HM Revenue and Customs for further information or explanation regarding VAT returns;
- preparing financial statements which treat VAT in accordance with the requirements of UKGAAP, the FReM and Managing Public Money.

Further Advice and Guidance

3. The general principles for VAT applying to the NAO are similar to those for a non-departmental public body, as laid out in Managing Public Money .
4. Any queries about VAT should be addressed to the Director of Finance.

K2. PAYE

Introduction

5. As an employer, the National Audit Office is responsible for making appropriate deductions from employees' pay for income tax and National Insurance Contributions, and making employer's contributions, in accordance with PAYE regulations.

Policies and Principles

- The NAO deducts income tax and National Insurance from staff salaries and remits these, together with employer's contributions, to HM Revenue and Customs in line with PAYE regulations.
- The NAO prepares returns relating to the remuneration of its employees as required by HM Revenue and Customs.
- The NAO makes an annual PAYE Settlement Agreement (PSA), for payment of tax relating to Office-wide staff benefits, for example tax on relocation expenses and life assurance.

Responsibilities

The Director of Finance

6. The Director of Finance, and his staff, are responsible for:
 - operating PAYE in line with appropriate regulations;
 - ensuring that income tax and National Insurance contributions are calculated correctly and properly accounted for;
 - paying over (or reclaiming) tax as appropriate;
 - submitting accurate returns to HM Revenue and Customs in line with PAYE regulations;
 - P11D forms relating to staff benefits;
 - ensuring that tax records are effectively maintained in support of the returns;
 - co-operating fully with any requests from HM Revenue and Customs for further information or explanation regarding returns;
 - preparing financial statements which disclose taxation in accordance with the requirements of UKGAAP, the FReM and Managing Public Money.

Further Advice and Guidance

7. Any queries about taxation should be addressed to the Director of Finance.

Section L - Management of assets

L1. Asset Management and Custodianship

Introduction

1. This chapter details the main features of asset maintenance and custodianship within the NAO. Assets includes fixed assets, which appear in the balance sheet in NAO's resource account (including the NAO Headquarters building, IT hardware and software and furniture and fittings), and other assets such as office equipment and telephones.

Policies and Principles

- The NAO should comply with good asset management practice, and guidance as laid down in *Managing Public Money* and the *Government Financial Reporting Manual (FReM)*
- All assets owned by the NAO or for which the NAO is responsible should be appropriately safeguarded.
- Inventories should be maintained of all fixed assets. Inventories should also be maintained of other assets, such as attractive and valuable items. Inventories should be maintained for other assets where the benefits of recording asset details outweigh the costs.
- Inventories should contain a detailed description of the item and a record of where it is located or who is responsible for the item. The inventories should include further information, such as serial numbers and maintenance records, as appropriate.
- The existence, location and continued use of assets on inventories should be verified regularly by the relevant managers.
- Suitable arrangements should be made for a regular impairment review of fixed assets to recognise evidence of a significant decline in the market value of the asset or obsolescence or physical damage. If impairment is recognised the existing carrying value should be written down.
- The NAO should set an appropriate capitalisation threshold, above which items are classified as being fixed assets and recorded in the balance sheet. Items of lower individual value may be grouped where it is appropriate for them to appear on the balance sheet.
- Assets should not normally be disposed of while they are still capable of performing effectively the purpose for which they were acquired.
- When an asset is disposed of, the NAO should aim to secure the best price possible. Ideally assets should be sold on the open

market by auction or tender. Assets should not be disposed of to any member of staff unless they are offered to other staff at the same time.

Responsibilities

The C&AG

2. The C&AG, as Accounting Officer, must ensure that NAO assets for which he/she is responsible are safeguarded and controlled, and checked as appropriate.

The Board Member for Finance

3. The Board Member for Finance is responsible for ensuring that appropriate policies and procedures exist for safeguarding NAO assets. Under these arrangements:
 - the Facilities Manager should acquire, issue, inspect, maintain and declare redundant non IT assets and maintain appropriate records;
 - the ITRC Manager should acquire, issue, inspect, maintain and declare redundant IT assets and maintain appropriate records;
 - the Director of Finance should advise on suitable fixed asset accounting policies and recommended useful economic lives, prepare a balance sheet of NAO assets, make disposal decisions on redundant assets, and make decisions on the value of impaired assets; and
 - both non IT and IT assets which have been declared as redundant should be reported as such in writing to the Director of Finance.
4. The Facilities Manager and ITRC Manager will be responsible for liaising with the Director of Finance and other staff as appropriate.

The Facilities Manager

5. The Facilities Manager, is responsible for:
 - acquiring non IT assets;
 - issuing assets to locations or users;
 - inspecting and maintaining assets so that they remain fit for their purpose;
 - declaring redundant assets;
 - issuing guidance on asset use;
 - advising the Director of Finance of suitable estimates of useful economic lives of assets;
 - maintaining inventories of such assets;
 - checking the inventories as appropriate:

- informing the Director of Finance where assets become impaired through obsolescence or damage such that the value of the assets falls below their carrying value;
- seeking the Director of Finance's authorisation prior to the write off or disposal of assets and determining the method of sale; and
- the Facilities Director is responsible for the disposal of those items which are classified as non-fixed assets.

The ITRC Manager

6. The ITRC Manager is responsible for:

- acquiring IT assets;
- issuing IT assets;
- inspecting and maintaining assets so that they remain fit for their purpose;
- issuing guidance on the use of IT assets;
- advising the Director of Finance of suitable estimates of useful economic life of assets;
- declaring redundant assets;
- maintaining inventories of such assets;
- checking the inventories as appropriate:
- informing the Director of Finance where assets become impaired through obsolescence or damage since that the value of the assets falls below their carrying value;
- seeking the Director of Finance's authorisation prior to the write off or disposal of assets and determining the method of sale; and
- the IT Director is responsible for the disposal of those items which are classified as non-fixed assets.

The Director of Finance

7. The Director of Finance is responsible for:

- preparing general guidance on accounting policies, suitable useful economic asset lives and the use of fixed assets;
- maintaining fixed assets information on the NAO's accounting system;
- preparing fixed asset information for the balance sheet in the NAO's resource account in co-operation with the Facilities Manager and IT Manager;
- authorising write off or disposal of assets and determining the method of sale:
- determining the value of impaired assets.

Assets held at offices other than Buckingham Palace Road

8. As a general rule the senior member of staff at offices other than Buckingham Palace Road is responsible for maintaining and checking local inventories of all assets in much the same way as the Facilities Manager and the ITRC Manager. They may also help with some of the other duties associated with the assets as agreed with the relevant manager.

All Staff

9. All NAO staff are responsible for:
 - using NAO assets with due care;
 - ensuring that assets are used in accordance with guidance given;
 - not using assets if they have no authority to do so, or do not know how to operate them;
 - assets (such as portable computers) issued to individuals, in particular:
 - safeguarding the asset from theft, loss and damage (for example laptops must be secured at all times);
 - ensuring that assets are recorded and used in accordance with guidance and instructions;
 - reporting any theft or loss immediately;
 - reporting any damage or faults;
 - returning the asset when required and co-operating with any inspections;
 - only transferring the asset to others after following proper procedures.
 - Where assets are placed in a location rather than issued to a person, staff are responsible for:
 - safeguarding assets from theft, loss and damage;
 - ensuring that assets are recorded and used in accordance with guidance and instructions;
 - reporting any loss or theft immediately;
 - reporting any damage or faults;
 - not moving assets without proper authority.

Further Advice and Guidance

10. Further advice is available from the Facilities Manager or the ITRC Manager as appropriate for each asset. Specific guidance includes:
 - Remote Working Reference Guide on Merlin;
 - Managing Public Money Section 4.10 - Management of Assets.

L2. Fixed Assets Policies

Introduction

1. The NAO has a number of fixed assets that are recorded on its balance sheet and capitalises assets in accordance with accounting guidance.
2. Items identified as fixed assets are likely to fall into the following categories:
 - land and buildings;
 - plant, including lifts and equipment;
 - computers and other office equipment
 - furniture, fixtures and fittings
 - IT software (classified as intangible fixed assets)
 - refurbishment of BPR (classified as assets in the course of construction until the project is complete)

Policies and Principles

- The NAO's accounts are prepared under the historical cost convention, modified to account for the revaluation of fixed assets at their value to the business by reference to their current costs, as set out in the Government Financial Reporting Manual (FRM)
- Land and Buildings are included in the balance sheet on the basis of current valuations to be undertaken annually by appropriately qualified professionals and depreciated over the remainder of the lease. Refurbished or renewed plant, lifts and equipment associated with the building will be separated from the building valuation and depreciated to an estimated residual value over their assessed useful lives by using the straight line depreciation method. The useful life is determined at time of refurbishment.
- Computers and office equipment, including software, are depreciated to an estimated residual value over their assessed useful lives by using the straight line depreciation method. The useful life is determined at time of purchase.
- Furniture, fixtures and fittings are normally depreciated over a ten year period by using straight line depreciation to reach their estimated residual value. Replacement of parts and maintenance is treated as current expenditure and expensed in the year of occurrence. Items subject to a finance lease are depreciated over the period of that lease.
- Depreciation is charged to assets throughout their estimated lives or lease periods. Assets are subject to annual review during which time consideration is given to the appropriateness of asset's value, its asset life and any factors impairing it's

usefulness. Significant discrepancies will lead to adjustment of the asset life or asset value.

- The normal capitalisation threshold is £1500. The following types of assets purchased below the capitalisation threshold are often grouped and included on the Balance Sheet and capitalised:
 - portable/mobile computers, including any pre-loaded software;
 - desktop docking stations to allow access to networked functions when staff are located in the NAO's offices;
 - desktop Monitors for use when staff are located in the NAO's offices;
 - desktop Monitor stands;
 - keyboards/mouse input devices linked to the above when purchased other than as a single item.
 - Note that this excludes purchases below the capitalisation threshold to replace existing individual items regarded as part of a system. This is regarded as a revenue maintenance cost and is expensed in the year of purchase.
- For other hardware systems, all purchases necessary to bring together a complete and definable system should be regarded as capital by nature, irrespective of price paid.
 - Note that this excludes purchases below the capitalisation threshold to replace existing individual items regarded as part of a system. This is regarded as a revenue maintenance cost and is expensed in the year of occurrence.
- The fixed asset policy is reviewed annually to ensure that it represents good practice and complies with Parliamentary and Treasury requirements and Generally Accepted Accounting Practice.

Responsibilities

Facilities Manager / ITRC Manager

3. The Facilities Manager and ITRC Manager are responsible for maintaining good quality records of the fixed assets in their care and advising the Director of Finance of appropriate estimated asset lives and residual values.

The Director of Finance

4. The Director of Finance and his staff are responsible for :
 - Maintaining the accuracy of the fixed asset register and preparing a fixed asset schedule to support the fixed asset

note to the annual resource account from the records held in Finance and by the Facilities Manager and the ITRC Manager;

- reviewing the appropriateness of the values of assets included within the schedule and amending the value or asset lives as appropriate;
- considering the appropriateness of the fixed asset policies, including estimated useful asset lives and suggesting amendments for agreement with senior management and auditors.

All staff

5. The NAO's auditors may require the assistance of staff to verify the existence, ownership or value of fixed assets. Staff are therefore responsible for doing all they can to co-operate with auditors' requests.

Section M - Office entertainment

M1. Gifts and Hospitality Received

Introduction

1. The acceptance of gifts, hospitality and entertainment is an area of potential risk for a body like the NAO given its role and the C&AG's position in public accountability. Staff need to be aware of the rules and standards applied by the NAO regarding the offer and acceptance/receipt of gifts and hospitality.
2. The NAO needs to have clear, unambiguous guidelines and to be seen to be above reproach. The NAO's Code of Conduct is a vital document in this particular debate and underpins this Chapter and [Chapter L2](#).
3. The Prevention of Corruption Act 1916 states that :

It is an offence for a member of staff (*of a public body*) corruptly to accept any gift or consideration as an inducement or reward for doing, or not doing, anything in his/her official capacity, or showing favour or disfavour to any person in his/her official capacity.

4. It is very important to bear in mind that the Act assumes that any gift or consideration made to an employee of a public body has been given or received corruptly, unless the contrary can be proved. It can include receiving what is intended as a bribe even if one does nothing to "earn" it.
5. Gifts and hospitality can be given to individuals and to the Office. In defining these categories it is important to set out which:
 - can be accepted;
 - cannot be accepted;
 - should be recorded in the Office's Gifts & Hospitality Register maintained by Human Resources.
6. [Appendix A](#) to this Chapter provides examples of gifts or hospitality that may be accepted without disclosure. [Appendix B](#) is a notification form that should be completed and sent to Human Resources to record the acceptance of gifts in the Central Gifts and Hospitality Register where disclosure is required.

Policies and Principles

- In accordance with the NAO Code of Conduct, staff should avoid even the suspicion of a conflict of interest. They must not give the impression that they have been or may be influenced by any gift, hospitality or other consideration to show favour or disfavour to any person or organisation while acting in an official capacity. Staff must not encourage or accept any gift, reward or benefit from any member of the public or organisation with whom they have been brought into

contact through their official duties. The main exceptions to this rule are as follows:

- isolated and inexpensive gifts (see [Appendix A](#) for more details). "Isolated" embraces timing (occasional or infrequent) and volume (for example one or two pens as opposed to 50);
 - conventional hospitality, such as occasional invitations to working lunches or dinners, provided it is normal and reasonable in the circumstances and covers a business agenda. (In deciding what constitutes "normal and reasonable" staff should also consider whether the same level and type of hospitality might reasonably be returned at NAO expense).
- Working lunches or dinners provided off client premises must be recorded in the Gifts and Hospitality Register.
 - Staff may also accept invitations to events where they are representing the Office in an official or professional capacity. This includes invitations to business dinners and events such as awards ceremonies where the Office has been nominated for an award, is judging an award, or is acting as sponsor. Events which include some form of entertainment can be accepted, provided the entertainment forms an intrinsic part of the event. Attendance at such events must be recorded in the Gifts and Hospitality Register.
 - Staff must not accept any invitation to an event or offer of corporate hospitality where attendance would normally be subject to an entry charge. This includes invitations to art exhibitions, sporting or cultural events and charity dinners.
 - Expensive gifts and significant hospitality should not be accepted. Unacceptable gifts should be returned to donors but, if this is not practicable, they should be surrendered to the Office.
 - A Gifts & Hospitality Register is maintained by Human Resources to help protect the Office and individual members of staff, should questions arise. The Register is aimed at recording expensive gifts that have been accepted on behalf of the Office where it would have been inappropriate to decline them, for example where diplomatic sensitivities or protocol would be offended, and hospitality other than working lunches or dinners provided on client premises.
 - Staff who fail to declare to the Gifts & Hospitality Register the acceptance of hospitality or gifts in accordance with the above principles may be subject to disciplinary action. If in any doubt, then staff should consult the Director of Human Resources.

Responsibilities

The Director of Human Resources

7. The Director of Human Resources is responsible for:
 - maintaining and monitoring the Gifts and Hospitality Register; and
 - regularly reviewing information in the Gifts and Hospitality Register.
8. The Director of Human Resources, or in his absence the Board Member for Finance or the Director of Finance, is responsible for giving advice and ruling on:
 - the appropriateness of accepting expensive gifts and significant hospitality. Where acceptance is approved the fact that a senior staff member was consulted should be noted in the Gifts and Hospitality Register;
 - concerns that refusal to accept, or the return of, a gift or hospitality might cause genuine offence. This is more likely on international work where it is customary among certain national cultures to make gifts and offer hospitality;
 - the long term ownership of gifts that have been accepted on behalf of the Office where it would clearly have been inappropriate to decline them, for example where diplomatic sensitivities or protocol would have been offended.

Managers and Directors

9. Managers and Directors should follow the advice contained in Chapter A3 NAO Anti-Fraud Policies when:
 - notified of any offer of a gift or hospitality that a staff member felt was made with a corrupt intent;
 - notified of any instances where a staff member is known to have, or is suspected of having, received an expensive gift or significant hospitality but has failed to declare this to the Gifts and Hospitality Register.

All staff

10. All staff are responsible for:
 - thinking carefully before accepting any gift or hospitality;
 - consulting their line manager, in the first instance, or the Director of Human Resources if in any doubt as to the right thing to do;
 - being aware of the arrangements and procedures for reporting offers of expensive gifts and significant hospitality;
 - reporting, where appropriate, any expensive gifts and significant hospitality received to the Director of Human Resources for recording in the Gifts and Hospitality Register;

- informing their line manager if they suspect that they have been offered an expensive gift or significant hospitality with corrupt intent;
- informing their line manager if they suspect that a colleague may have accepted an expensive gift or significant hospitality that they should not have;
- abiding by any rulings made regarding the:
 - acceptance and subsequent ownership of any expensive gifts;
 - acceptance of significant hospitality.

Further Advice and Guidance

Should there be any queries, line management should be consulted in the first instance for advice. In cases of doubt the Director of Human Resources should be involved. Staff should also be aware of the provisions of the Code of Conduct.

Staff should also refer to [Chapter A3](#) NAO Anti-Fraud Policies

Gifts and hospitality which need not be reported

- Staff may accept isolated and inexpensive gifts that are openly distributed by suppliers and clients. These will usually incorporate that supplier's or client's logo. Staff who are offered or receive a large number of inexpensive gifts should consider refusing them or alternatively sharing them with colleagues.
 - The list below sets out the types of gifts which staff are likely to encounter and which may normally be accepted without disclosure:
 - Calendars and diaries;
 - Key Rings;
 - Umbrellas;
 - Desk Organisers;
 - Mugs;
 - Stationery and pens;
 - Coasters;
 - Commemorative Books;
 - Mousemats;
 - Badges;
 - Ties/Scarves;
 - Baseball Caps;
 - Courtesy Transport (as long as it relates to official travel).
 - Staff may accept basic hospitality from suppliers/clients and their staff such as cups of coffee and working lunches or dinners on client premises.
-

Appendix B

NATIONAL AUDIT OFFICE GIFTS AND HOSPITALITY REGISTER

SECTION A: GIFTS / HOSPITALITY ACCEPTED			
DESCRIPTION			
DONOR ORGANISATION			
ACCEPTED FOR (tick)	OFFICE		INDIVIDUAL
REASON			
GIFTS PERSON ACCEPTING	Name	Position	Date
GIFTS ACCEPTED AND RETAINED	Keeper		Location
HOSPITALITY ACCEPTED	NUMBER OF MEALS	NUMBER OF NAO STAFF	NAMES OF NAO STAFF
SECTION B: DECLARATION			

COMPLETED BY	SIGNATURE	DATE
	NAME	GRADE

**SEND COMPLETED FORM TO: Gifts Register, Director of Human Resources,
Green 3.2**

M2. Providing Official Hospitality, Gifts and Entertainment

Introduction

1. Providing official hospitality, gifts or entertainment is an area of potential risk for the NAO given its role and the C&AG's position in public accountability. The NAO therefore needs clear, unambiguous guidelines and to be seen to be beyond reproach. This chapter sets out the NAO's policy on the provision of official hospitality, gifts and entertainment.
2. In the course of its business, the following are likely to be the main groups to whom the NAO might provide appropriate official catering:
 - audited bodies;
 - public bodies (including Parliament);
 - the accountancy profession;
 - contacts within overseas governments, ministries and audit offices and those being provided with training by the NAO;
 - contractors and other interest groups.
3. Staff are expected to use in-house catering facilities; proposals to use external catering facilities need prior approval of the Director of Finance.
4. Two levels of catering have been identified:
 - minor catering (tea, coffee, water and biscuits). Requests for the provision of minor catering should be limited to meetings to which external visitors are invited.
 - major catering (meals, buffets etc.). The provision of buffets/lunch for meetings to which no external visitors are invited should be the exception.
5. The provision of entertainment and gifts is limited to international visitors or contacts. The Director of Finance has delegated some powers to provide entertainment and gifts to the Director General International and to Private Office. All other proposals to provide entertainment or gifts must be approved in advance by the Director of Finance.
6. Staff should obtain the prior approval of the Director of Finance (or in his/her absence the Board Member for Finance) before any departure from the principles set out in this Chapter. Failure to do so may result in staff being personally liable for any costs incurred. More importantly, the inappropriate provision of official catering, entertainment or gifts may damage the reputation and integrity of the Office.

Policies and Principles

- The NAO operates high standards of propriety and probity regarding the provision of official catering, gifts or entertainment.
- Official catering, gifts or entertainment should only be provided when it is appropriate to do so; and should be restricted to the minimum appropriate for the occasion. The quality and extent of any such provision should depend on the status and numbers of those being provided for.
- Before considering the provision of such items staff should consider how Parliament, the public, audited bodies and the press might view such use of NAO funds.
- Providing official catering to NAO staff should be the minimum appropriate to the occasion. And particular caution should be exercised where it is provided largely for NAO staff. The level of official catering provided must be fully justifiable and properly approved. If in doubt, staff should consult the Director of Finance in advance.
- Official catering should be contained within approved budgets.
- Staff should not use public resources for personal purposes.

Responsibilities

The Director of Finance

7. The Director of Finance is responsible for:
 - providing guidance on the provision of official hospitality, gifts and entertainment;
 - acting as contact point to advise staff about the provision of official hospitality, gifts and entertainment;
 - delegating to directors authority to approve expenditure on visitors catered for within BPR, to the AAG responsible for international activities and to the Private Secretary for the C&AG;
 - reviewing proposals that need his/her consent before they can be pursued. See the [Appendices](#) to this Chapter for more guidance.

The Director of Facilities

8. The Director of Facilities is responsible for:
 - day to day control over the NAO Catering Contractors;
 - validating invoices for official catering within Buckingham Palace Road.

All Staff

9. When considering the need to provide official catering, NAO staff are responsible for satisfying themselves that:
 - the nature of what is to be provided is appropriate and suitable;
 - the likely cost is reasonable;
 - the Director of Finance has confirmed that funds are available;
 - gaining, where appropriate, specific approval from the Director of Finance;
 - using the appropriate forms and procedures for ordering catering, and adhering to any laid down criteria for notifying the caterers.

NAO Catering Contractor

10. The NAO Catering contractor is responsible for providing:
 - catering as properly requested and authorised, and in accordance with the arrangements agreed with the NAO for notice and location;
 - the likely cost of catering in advance;
 - receipts, so that staff receiving catering can signify that catering has been satisfactorily provided;
 - invoices to cover the cost of catering supplied.

Further Advice and Guidance

11. The Director of Finance will deal with any additional queries.
-

Appendix A

When the Director of Finance's prior approval is required

1. The Director of Finance's prior authority must be sought before any expenditure on official entertainment (including catering) is incurred:
 - outside Buckingham Palace Road (BPR) - see [Appendix C](#); or
 - where the cost is likely to exceed £250; or
 - if any standing delegation is likely to be breached;

Approval should be sought from the Director of Finance for any new standing arrangement.

2. Full details of the event must be provided to the Director of Finance. These should include proposed venue, recipients, likely costs, alcohol provision, why BPR facilities cannot be used and how payment is to be made. No irreversible commitments should be entered into until the Director of Finance's authority has been granted. The Director of Finance may refuse permission or impose conditions.

3. The Director of Finance should be informed of any significant changes to the catering arrangements after his initial approval has been given.
-

Appendix B

Catering within BPR

1. When ordering catering within BPR, staff should complete the appropriate catering form and submit it directly to the caterers. The forms must be authorised at Directorate level before submission to the caterers, and may require additional approval by the Director of Finance (see [Appendix A](#)).
 2. Staff are responsible for booking rooms using the appropriate arrangements, whilst tables in the staff restaurant can be booked through the catering contractors.
 3. Catering forms must be properly authorised, by Directors or above.
 4. After official catering has been provided, the member of staff who ordered it will be asked to confirm this by checking the list supplied by the caterers and signing the receipt form. The caterers will use this form as the basis for charging the NAO.
-

Appendix C

Official Catering outside BPR

1. London based staff should only exceptionally provide official catering outside BPR at official expense because BPR has catering facilities. Staff at the Newcastle or Blackpool Offices should have their own arrangements agreed with the Director of Finance.
2. Prior approval must be sought from the Director of Finance, unless a specific standing authority has been agreed, or unless it is part of a specific training course.
3. Those organising external catering should request that venues invoice the NAO directly. If this is not possible, they may recover any costs by submitting a travel and subsistence claim or using an official payment card, taking care to ensure the correct budget is debited. All invoices/receipts should be attached to any requests for payment with a copy of the prior approval and a note on any deviations from the approval.
4. NAO staff who provide official catering outside BPR without prior approval will not normally have their claims met from public funds.

Newcastle and Blackpool Offices

5. The Director of Finance may agree standing arrangements, budgets and rules for providing official catering at the Newcastle and Blackpool Offices with the senior officer on the site. If no arrangements have been established then all official catering must

receive specific prior approval from the Director of Finance, as should anything going outside the standing arrangement. Normally the arrangements will be analogous to BPR arrangements.

Section N - Audit

N1. Overview and General Principles

Introduction

1. This chapter describes the NAO's internal and external audit arrangements, and the role of the Audit Committee in overseeing both these functions.

Policies and Principles

- The NAO's external auditors are appointed by the Public Accounts Commission.
- The NAO's Director of Internal Audit and Assurance is appointed by the C&AG.
- Audit Committee members are appointed by the C&AG.
- The Audit Committee operates within agreed terms of reference.
- The Audit Committee oversees the work of external and internal audit.
- The Audit Committee provides the C&AG and Management Board with advice and assurance regarding the operation of the Office's risk management and internal control processes, and the quality and reliability of financial reporting.

Responsibilities

The C&AG

2. The C&AG is responsible for:
 - making appropriate arrangements to secure an internal audit service;
 - appointing members of the Audit Committee;
 - signing the NAO's accounts prior to signature by external audit;
 - providing appropriate assurances and representations to external audit regarding the NAO's accounts and the NAO's internal control system.

The Audit Committee

3. The Audit Committee is appointed by the Comptroller and Auditor General (C&AG) and is a committee of the Management Board. It consists of three external members including a Non-Executive Chairman, an Assistant Auditor General and a Director.
4. The Committee's role is to provide the C&AG with advice and assurance on the adequacy of the whole framework of internal

control and risk management within the Office including the framework of financial, operational and compliance controls and risk management processes, and the quality and reliability of financial reporting.

5. In accordance with the Committee's terms of reference, it is, amongst other things, responsible for:
 - ensuring that Internal Audit is adequately resourced and has appropriate standing within the Office;
 - reviewing and advising the C&AG on the effectiveness of Internal Audit, External Audit, risk identification and management mechanisms and internal control systems;
 - considering the implications of, and approving, Internal Audit's resource needs assessment, strategic work programme and costed annual work plan, prioritising tasks and the use of Internal Audit resources, as appropriate;
 - considering the results of Internal Audit reviews and the External Auditor's management letter, and the adequacy of management responses to both;
 - providing a forum to consider potential topics for the annual VFM report undertaken by External Audit for the Public Accounts Commission, and monitoring implementation of VFM report recommendations;
 - reviewing the adequacy of financial statements in the light of the External Auditor's report and management letter before the documents are submitted to the C&AG;
 - considering whether appropriate risk management, control and review processes are in place to support the Statement on Internal Control made by the C&AG as the Accounting Officer;
 - encouraging liaison between Internal and External Audit;
 - advising the C&AG on the appointment and removal of Internal Auditors; and
 - reviewing the process for appointing the External Auditors in order to advise the Public Accounts Commission.

The Director of Internal Audit and Assurance

6. The Director of Internal Audit and Assurance (DIAA) reports to the C&AG and the Audit Committee. They have the right of direct access to the C&AG. The DIAA delivers internal audit work set out in an audit plan approved annually by the Audit Committee.

The Director of Finance

7. The Director of Finance is responsible for :
 - liaising with and assisting external audit and internal audit;
 - overseeing external audit contract arrangements;
 - paying external audit fees;

Corporate Secretariat

8. The Corporate Secretariat is responsible for providing administrative support to the Audit Committee.

Further Advice and Guidance

9. The Director of Finance is available to provide general guidance and advice regarding internal and external audit. Specific queries should be directed to the Director of Internal Audit and Assurance (DIAA).

N2. External Audit

Introduction

1. The Public Accounts Commission appoint external auditors to perform the annual statutory audit of the NAO's Resource Account in the same way as the C&AG audits the accounts of Government Departments. The NAO's external auditors also carry out value for money investigations into the use of resources by the NAO. These activities result in reports to the Public Accounts Commission and management letters to the Board Member for Finance

Policies and Principles

- The NAO's external auditors are appointed by the Public Accounts Commission under the National Audit Act 1983. The external auditors should be a firm comprising individuals belonging to any of the accountancy bodies approved by the Commission, or who have other qualifications approved by the Commission.
- The external auditors should be free from significant conflicts of interest.
- The external auditors certify and submit the NAO's accounts to the Public Accounts Commission who present them to Parliament.
- The NAO provides its external auditors with appropriate and reasonable access rights to NAO systems, documentation and personnel for the purposes of undertaking external audit functions.
- The external auditors undertake an annual value for money investigation, with an agreed report for consideration by the Public Accounts Commission.

Responsibilities

The Public Accounts Commission

2. Under the National Audit Act 1983, the Public Accounts Commission is responsible for appointing the NAO's external auditors and determining their remuneration and other terms and conditions (generally a firm is appointed for a minimum of three years and maximum of five years following a competitive tendering process).
3. The Public Accounts Commission receive the NAO's accounts as examined, certified and reported on by the auditors, and any Value For Money reports prepared by the auditors. The Commission may question the C&AG about any issues arising from the external auditors' work.

The National Audit Office Audit Committee

4. The Audit Committee is responsible for:
 - discussing the nature, scope and timing of external audit's work;
 - ensuring external audit co-ordinate their work with that of internal audit;
 - reviewing the accounts of the NAO before their submission to the C&AG for signature;
 - discussing the conduct and outcome of the audit with the external auditors;
 - considering matters arising from the external audit, including review of the auditor's management letter and the adequacy of responses thereto.

The Board Member for Finance

5. The Board Member for Finance is responsible for:
 - agreeing the terms of external audit's letter of engagement for the C&AG's signature;
 - agreeing formal NAO responses to external audit's management letter;
 - responding to the Audit Committee's review of the audit of the NAO's accounts.

Operational Delivery Committee

6. The Committee is responsible for overseeing and advising the Board on key areas of improvement from the external auditors' Management Letters.

The Director of Finance

7. The Director of Finance and his staff are responsible for:
 - agreeing timetables with external audit;
 - producing auditable accounts to the agreed timetable;
 - providing all reasonable information and documentation to external audit;
 - answering external audit's queries promptly and fully;
 - liaising with external audit with regard to audit timetables, information needed and staff to be interviewed;
 - attending to the practical administrative aspects of external audit visits;
 - considering the results of external audit's work;
 - advising the Board Member for Finance regarding audit outcomes, especially proposed responses to the management letter from external audit;

- coordinating NAO Action Plans to implement accepted recommendations from external audit.

All staff

8. NAO staff are responsible for co-operating fully with external audit. This extends to providing them with all the records and explanations required. External audit should not be misled or have relevant information withheld from them.
9. NAO staff are also responsible for implementing any external audit recommendations which have been accepted by the Board Member for Finance.
10. Staff should contact the Director of Finance if they have any doubts regarding how they should co-operate with external audit.

Further Advice and Guidance

11. The Director of Finance is the main point of contact regarding external audit.

N3. Internal Audit

Introduction

1. The role of the internal audit service is to provide management with an objective assessment of whether systems and controls are working properly. It is a key part of the Office's internal control system because it measures and evaluates the adequacy and effectiveness of other controls so that:
 - the Management Board can know the extent to which they can rely on the whole system; and
 - individual managers can know how reliable are the systems and controls for which they are responsible.

Policies and Principles

- Internal Audit should operate to standards set out in the Government Internal Audit Manual.
- The Director of Internal Audit & Assurance reports to the C&AG and the Audit Committee and co-ordinates their activities with those of external audit. .
- The Director of Internal Audit & Assurance has direct access to the C&AG and the Chairman of the Audit Committee.
- The Director of Internal Audit & Assurance has reasonable right of access to all staff and records.
- To preserve integrity, and to ensure no conflicts of interest, the Director of Internal Audit & Assurance should have no executive functions.
- The priorities for internal audit work are set out in the Audit Plan which is approved annually by the Audit Committee.
- The NAO should respond positively to internal audit findings and should implement agreed recommendations promptly.

Responsibilities

The C&AG

2. The C&AG is responsible for:
 - appointing the Director of Internal Audit & Assurance on the advice of the Management Board and Audit Committee; and
 - meeting the Director of Internal Audit & Assurance as required.

The Management Board

3. The Management Board is responsible for :

- advising the C&AG and Audit Committee on who should be appointed as Director of Internal Audit & Assurance;
- advising on internal audit work programmes;
- commissioning ad-hoc internal audit enquiries;
- reviewing the results of internal audit work;
- ensuring the internal audit service is properly resourced; and
- ensuring that agreed internal audit recommendations are implemented.

The Audit Committee

4. The Audit Committee is responsible for:
 - ensuring that the internal audit function is adequately resourced and has appropriate standing within the Office;
 - considering the implications of, and approving, internal audit's resource needs, strategic work programme and prioritising tasks and the use of internal audit resources;
 - considering the results of Internal Audit reviews and the adequacy of management responses;
 - providing a forum for discussion to identify areas worthy of investigation by internal audit;
 - advising the C&AG on the appointment and removal of internal auditors; and
 - reviewing, at least annually, the effectiveness of internal audit.

The Director of Internal Audit & Assurance

5. The Director of Internal Audit & Assurance is responsible for:
 - preparing long term and annual work programmes for the Audit Committee to consider;
 - reflecting the Audit Committee's views on the contents and priorities of internal audit's work programme;
 - undertaking the reviews agreed within the work programmes to GIAM standards;
 - preparing reports for consideration by the Audit Committee;
 - responding to management replies to internal audit recommendations; and
 - providing an annual opinion to the C&AG on risk management, control and governance.

All staff

6. All NAO staff are responsible for:

- co-operating fully, where required, with internal audit, providing them with all the records and explanations required and not misleading or withholding information;
 - considering draft internal audit reports as they might relate to their responsibilities;
 - responding to draft internal audit reports; and
 - implementing agreed internal audit recommendations.
7. Staff in any doubt regarding how to co-operate or respond to internal audit should contact the Director of Finance.

Further Advice and Guidance

8. The Director of Finance is the main point of contact regarding general Internal Audit queries. Specific queries should be directed to the Director of Internal Audit and Assurance (DIAA).
9. Other sources of guidance are:
- Government Internal Audit Manual (GIAM);
 - Government Information System Audit Manual (GISAM);