



National Audit Office

Annual Report 2009



Our vision is to help the nation spend wisely.

We promote the highest standards in financial management and reporting, the proper conduct of public business and beneficial change in the provision of public services.

The National Audit Office scrutinises public spending on behalf of Parliament. The Comptroller and Auditor General is an Officer of the House of Commons. He is the head of the National Audit Office which employs some 900 staff. He and the National Audit Office are totally independent of Government. He certifies the accounts of all Government departments and a wide range of other public sector bodies; and he has statutory authority to report to Parliament on the economy, efficiency and effectiveness with which departments and other bodies have used their resources. Our work leads to savings and other efficiency gains worth many millions of pounds: at least £9 for every £1 spent running the Office.

Annual Report 2009

Contents

Key results and achievements	4	Report on our health and safety policy and performance	38
Chairman's introduction	6	Statement on maintaining the quality and independence of our audit work	40
The Comptroller and Auditor General's overview	8	Resource accounts	44
Our role	11	Statement of National Audit Office financial impacts for 2008	106
How we manage our business	16	Independent statement to the Public Accounts Commission	111
What we have achieved	18	Contact us	112
People, resources and performance	24		
Corporate responsibility	30		
Major reports	35		



Key results and achievements

- 448 accounts audited and we completed the audit of the opening balance sheets under IFRS conversion;
- 60 major reports to parliament covering topics as diverse as speeding up planning permissions, progress in improving adult literacy and numeracy, prison procurement, reducing harm from alcohol and the nationalisation of Northern Rock;
- Expanded our support to parliamentary select committees in addition to our work for the Committee of Public Accounts;
- Contributed to improving governance and accountability in developing countries and other nations; and
- Secured £768 million of financial impact, more than £10 for every £1 spent running the National Audit Office.



Chairman's introduction



I am delighted to have been appointed to the new role of non-executive Chairman of the National Audit Office, and to have the opportunity to introduce this Annual Report.

In taking up the position of Chairman, my first challenge will be to translate the new governance arrangements, agreed with Parliament's Public Accounts Commission, into practice. A new Board, with a majority of non-executive members, is being appointed and will begin work during 2009.

The National Audit Office aims to be at the leading edge of public service accountability and, in my first few months here, I have been impressed by the calibre of staff and their appetite for continuous improvement. They have shown me that the National Audit Office is an organisation that while holding government to account effectively can also work with others to help secure lasting change.

I would like to thank the current Comptroller and Auditor General, Tim Burr, and I look forward to developing a strong working relationship with the incoming Comptroller and Auditor General, Amyas Morse, from 1 June 2009. The independence and discretion of the Comptroller and Auditor-General is important. As non-executive Board Members, our role is to act as a critical friend and provide challenge and encouragement to assist the Comptroller and Auditor General in his decision-making, and to help guide the strategy and governance of the NAO.

As custodian of taxpayers' interests, the National Audit Office plays a key role in British public life and is moving to a new phase in its history. I look forward to being part of it.

Sir Andrew Likierman



The Comptroller and Auditor General's overview



The past year has been a period of transition for the National Audit Office. I am pleased to have had the opportunity to oversee that transition, and am grateful to all those, in Parliament, in the Office itself and elsewhere, who have played such a constructive part in promoting the necessary changes.

I was appointed as Comptroller and Auditor General on 1 February 2008, immediately following a review of governance arrangements in the Office. The review was initiated by the Public Accounts Commission, the parliamentary body which oversees the governance and funding of the Office, and conducted by John Tiner, former Chief Executive of the Financial Services Authority. Once decisions had been taken on the shape of the new arrangements, a competition was to be held for a full term appointment to the post, which duly took place in the latter part of the year. I will be handing over to my successor, Amyas Morse, from 1 June, and wish him every success.

The timing has enabled me to lead the Office through 2008-09, as well as to make the Request for Resources beforehand and account for the outcome afterwards. I am pleased to say that we were able to make good use of those resources in our audit and assurance business, auditing 448 accounts (a record 357 of them before the parliamentary Summer Recess), and producing 60 value for money reports to Parliament on topics across the whole range of government activity, including the nationalisation of Northern Rock. We also put in hand a new series of reports on financial management in major government departments, three of which have since been published; and we have worked with government on the introduction of International Financial Reporting Standards. I proposed, and the House of Commons agreed, that the scope of our audit of Members' expenses and allowances should be extended, and this work is in hand.

A key measure of our success has been our audited financial impact, which measures the monetary benefit of our work. We achieved a record figure of ten times the cost of the Office, exceeding our target of nine times.

On the governance reforms, the Public Accounts Commission proposed, and the Government agreed, that the National Audit Office should be constituted as a nine-strong statutory Board. The Board will have a non-executive majority comprising the Chairman, appointed from 1 January, and four of the members, who will take up their appointment from 1 July. I was particularly pleased to welcome Sir Andrew Likierman as Chairman of the Board, which is already benefiting from his leadership and oversight.

In parallel with the overhaul of our governance, we have also been undertaking a major refurbishment of our headquarters building during the year. Initial problems with asbestos, and issues with floors and roofing, caused three months' delay and extra costs of nearly £6 million, but the project has since been advancing well with completion due in six months' time.

Also during the year we completed, on schedule in December, a three year programme to expand our Newcastle office from some 20 to around 100 staff, while closing our office in Blackpool. The office in Newcastle now has the capability to undertake the full range of the Office's work. We are grateful to colleagues in Blackpool for maintaining an effective service in Blackpool right up to closure. Our northern presence is now on a firm and sustainable footing.

Finally, I have now completed many years of personal engagement with the House of Commons Committee of Public Accounts, both in the National Audit Office and previously in the Treasury. I can attest to the mutual benefits of the strong partnership which exists between the Committee and the Office, and thank the Committee for their continued support through the year.

Tim Burr

Comptroller and Auditor General

28 May 2009





Our role

The service we provide

The National Audit Office seeks to hold government to account for the way it uses public money, and to help public service managers improve performance. In doing so, we aim to safeguard the interests of citizens who as taxpayers are responsible for paying for public services, and to promote the interests of citizens as users of public services.

Our independence

The Comptroller and Auditor General is an Officer of the House of Commons, appointed by the Queen on an address proposed by the Prime Minister with the agreement of the Chairman of the Committee of Public Accounts and approved by the House of Commons.

He appoints the professional staff, currently numbering around 900, of the National Audit Office. They are not civil servants and are independent of government. The Comptroller and Auditor General has statutory duties in relation to much of his financial statement audit, and the discretion to decide which value for money examinations and other work he will undertake.

Our budget is set directly by Parliament. The Public Accounts Commission, a Committee of the House of Commons, appoints our external auditors and scrutinises our performance. It challenges us in the same way we challenge others.

Our value for money reports for Parliament

We published 60 major reports this year for Parliament, focusing on how specific government projects, programmes and activities have been carried out, and whether they have achieved value for money. Our recommendations aim to identify how services can be improved by developing and identifying good practice. Following up our recommendations makes a significant contribution to our target of achieving audited financial impact equivalent to nine times the running cost of the NAO.

A value for money examination assesses performance, identifies good practice and recommends improvements to economy (keeping costs down), efficiency (getting more output for what is spent) and effectiveness (delivering the desired results).

Our value for money reports are presented to Parliament. Most are considered by the Committee of Public Accounts (PAC) at hearings, in which it takes evidence from the senior officials involved. The PAC publishes its own report and recommendations, to which the government then responds.

In 2008-09, major reports presented to Parliament covered many issues of significant public interest, including reviewing aspects of the government's response to the challenges facing the financial sector by reporting on the nationalisation of Northern Rock. Other reports addressed major programmes including the NHS National Programme for IT, the 'building schools for the future' programme and issues such as adult literacy and numeracy, and end of life care.



We help Parliament hold government to account, we support improvements to public services, and we seek to safeguard taxpayers' interests

We have sought to improve our value for money work. This year we have embedded explicit standards for this work in our audit approach, and are introducing 'cold reviews' of studies once complete to determine how well audit work has been carried out against the standards. To improve our data analysis capability we have recruited a number of analysts with specialist knowledge of economics, statistics and operational research. We continue to face challenges in meeting our target of nine months elapsed time to complete our studies. Partly as a response to these challenges, we have recently completed a detailed process review to identify ways to reduce the time it takes to deliver studies.

Our financial audit work

The Comptroller and Auditor General has a statutory responsibility to audit the financial statements of all central government departments, agencies and trading funds, and to report the results to Parliament. He is also the auditor (statutorily or by appointment) of most other public bodies, and from 1 April 2008 has been appointed as the auditor of 48 public sector companies incorporated under the Companies Act.

We audited 448 accounts in 2008-09, providing independent assurance that public bodies' accounts present a true and fair view of their financial situation, comply with the relevant reporting requirements and that the transactions which underlie the financial statements comply with Parliamentary and other authorities.

We also aim to help government generally and departments individually to embed strong and robust financial management practice and prepare accounts which are meaningful to those who use them. In 2008-09, we worked closely with the bodies we audit to ensure the smooth introduction of International Financial Reporting Standards on the revised deadline of 1 April 2009.

If, in the course of any audit, we consider that the accounts do not present a true and fair view or that expenditure and income have not been applied to the purposes intended by Parliament, the Comptroller and Auditor General will qualify his opinion on the accounts. Last year, the Comptroller and Auditor General qualified 14 of the accounts for 2007-08. In these cases, or where there are significant matters arising, we make a report to Parliament which can be considered by the Committee of Public Accounts.

At the end of an audit, we send a management letter to the audited body to outline our findings and, where necessary, recommend improvements to their systems. We also undertake wider reviews in the field of corporate governance and financial management and in this way seek to spread the best practice which we identify in the course of our work.

Our wider work

In addition to the two core workstreams and our improvement agenda, we have a programme of discretionary work focused on key aspects of public service performance.

This year we have developed a new series of reports on financial management in departments. The first two of these reports, on the Department of Children, Schools and Families and the Home Office, have now been published. Another two reports are due for publication shortly. We have also extended our work to validate the systems underpinning performance reporting in government to include the new Departmental Strategic Objectives. We review the quality of Regulatory Impact Assessments, and published a compendium report reviewing how regulators had adopted the principles set out in the Hampton Report on establishing proportionate and effective inspection regimes. We are also providing the UK Commission for Employment and Skills with an assessment of each Sector Skills Council against a re-licensing framework.

Achieving efficiency savings is an important part of the Government's response to current pressures on public expenditure. We have been asked to validate the savings claimed under the Government's value for money savings programme and are currently piloting our methodology.

We aim to support parliamentary scrutiny, and in particular the work of Select Committees, by providing a range of services from formal reviews of aspects of public policy delivery to informal briefings drawing on our core expertise in public sector financial management. This work included providing several Performance Briefings to Select Committees based around departments' annual reports.

Finally, our wider work includes a programme of international work covering the audit of international bodies to which the UK contributes, such as the World Meteorological Organisation, and contributing to projects aimed at building up the financial management and audit capability in developing countries and countries intending to join the European Union. The costs of this work are met by the agencies concerned or international funding bodies.



We published 60 value for money and other major reports to Parliament, covering the work of all major government departments





How we manage our business

Introduction

The Comptroller and Auditor General is head of the National Audit Office, appointed by Parliament to carry out the external audit of central government. Following a review commissioned by the Public Accounts Commission, the parliamentary body which considers the NAO's resource estimates and accounts, a number of legislative changes to the governance of the National Audit Office have been agreed between the Public Accounts Commission and the government. These changes are expected to be included in a forthcoming Constitutional Renewal Bill. The Comptroller and Auditor General intends, as far as possible, to operate as though these provisions are already in place and has begun to implement key governance changes.

The current Comptroller and Auditor General, Tim Burr, was appointed on 1 February 2008. The House of Commons has approved the appointment of Amyas Morse as the next Comptroller and Auditor General, to take up post in June 2009. As part of our governance reforms, Professor Sir Andrew Likierman was appointed on 1 January 2009 as the first Chair of the National Audit Office. Sir Andrew has chaired the current Management Board since his appointment, and a further four non-executive members are being appointed to serve on a restructured Board along with the Comptroller and Auditor General and three executive members.

Once established, the revised Board will develop the strategy and direction for the Office, and ensure that the NAO operates to the highest standards of governance. Audit judgments and decisions on undertaking individual value for money reviews will remain those of the Comptroller and Auditor General alone. The new Board will establish a reconstituted Audit and new Remuneration Committees. In March 2009, the Chairman and Comptroller and Auditor General appeared jointly before the Public Accounts Commission for the first time to present the NAO resource estimate for 2009-10.

The Board advises the Comptroller and Auditor General on our business strategy and internal controls

Details of our current governance approach are contained in the management commentary to our resource accounts. In brief, the current Management Board of the National Audit Office advises the Comptroller and Auditor General in the discharge of his statutory duties and other duties. The Board is made up of the Chairman, senior executives and a Non-Executive Director who chairs the Audit Committee of the National Audit Office. The Board considers the Office's strategy; monitors progress against the delivery of programmes and the quality and impact of audit work; and assesses the status of key corporate risks. The Board meets monthly, and is supported by four executive Committees, and the Audit Committee.

The Audit Committee has a majority of non-executive members and provides the Comptroller and Auditor General with advice on internal controls and risk management within the NAO. In line with the Cabinet Office's review of data handling procedures in Government, the NAO Audit Committee maintains oversight of information risk. During the year the Committee has reviewed the Office's approach to risk management, and kept in view the risks arising from the refurbishment of the National Audit Office headquarters building. The Chairman of the Audit Committee continues to review planned expenses of the Comptroller and Auditor General in line with the framework agreed with the Public Accounts Commission.

Actions to manage risk and enhance governance

This year, the Board decided to establish data handling and security as a separate strategic risk from April 2009, reflecting the ongoing importance of information assurance across the public sector. We recognise that members of the public, and the public bodies whose data we access and hold, need to have confidence that information is securely and appropriately managed. The National Audit Office voluntarily complies with the Cabinet Office Security Policy Framework. We have introduced a network of Information Asset Owners with responsibility for approving, and providing assurance on, arrangements for managing data and information. All staff have received training in data protection and information security, and the hard drives of all laptops have been encrypted.

In 2008-09, there were no protected personal data incidents reportable to the Information Commissioner, nor were there any other significant incidents to report. To enhance our approach, we will take further action in relation to training, cultural issues and embedding good practice – including ensuring that contractors operating on our behalf comply with our information assurance policies and procedures.

We recognise that the effectiveness of our governance relies on the integrity of our staff. We are committed to carrying out our audits to the highest professional standards and we work within a strict code of conduct, which was revised in January 2009. This code regulates standards of personal behaviour as well as ensuring that we have robust information to address any conflicts of interest affecting our work.



What we have achieved

Through our work we aim to stimulate improvements in service delivery, to enhance public accountability, and to generate financial impacts in the bodies we audit. As well as the established reporting of our performance against the target to achieve a financial impact of £9 for every £1 it costs to run the Office, we are now seeking to develop wider measures of the impact our work has in increasing accountability and transparency, and in improving organisational performance and service delivery outcomes.

Financial impact

Our financial impact target focuses us on achieving quantified and beneficial change in the bodies we audit, and helps us measure our success in this area. The target is to achieve a financial impact of £9 for every £1 it costs to run the office. We have met the target with a financial impact of £768 million in 2008, representing a return of more than 10:1.

Our financial impact comprises detailed estimates of the net financial benefit of changes to government practice that arise from our audit findings. We compare this total to our actual net running cost for the relevant financial year. To ensure our financial impact figure is robust, we agree the impact estimates with the bodies concerned. Our internal and external auditors subsequently review impacts against the principles set out in the *Statement of NAO Financial Impact* (page 106). In some cases, the impact of our recommendations may not be separable from other influences. We recognise this by agreeing with the audited body a proportion of the overall impact based on an assessment of the likely level of influence of our work.

Over half of the impacts resulted in cash savings for departments through reduced expenditure, for example, through improvements to procurement practices. Another 40 per cent were from estimated increases in revenue collection, such as better-targeted investigations on large businesses resulting in higher corporation tax receipts. The remainder of the impacts were either non-cashable benefits to public sector efficiency, for example, improvements to the quality of services, or benefits to consumers.

Case study


In our 2007 report *Prescribing Costs in Primary Care*, we recommended that GPs increase the amount of generic rather than branded drugs they prescribe. We produced evidence-based guidance for all prescribing advisers on how to influence GPs to prescribe more cost-effectively, which has been used as training material by the National Prescribing Centre. We supported this by providing information to all Primary Care Trusts showing the scope for savings across a range of commonly prescribed items to enable them to manage their drugs budgets more effectively. Our share of the impact arising through changes in prescribing patterns during 2008 is estimated to have saved the NHS £157 million.

We believe that the scale of financial impact represents a significant return for taxpayers' investment in the National Audit Office, but systematic follow-up of our recommendations could generate further impacts in the future and remains challenging. We are working to ensure that all relevant workstreams generate an appropriate impact, and that impact arises from work across our full client base.

Increased accountability and transparency

Improvements in accountability and transparency may result in better scrutiny and greater understanding within Parliament, government, the media and the general public about how taxpayers' money has been used. Such improvements may arise directly as a result of our recommendations or as a result of our support to Parliament and public sector initiatives. Our audit work provides an independent and evidence-based assessment of the performance of government. The results of our work are published and presented to Parliament, thereby making an informed contribution to the debate on public policy delivery issues.

In April 2008, the Comptroller and Auditor General gave evidence to the Members' Estimates Committee of the House of Commons. He proposed to improve the scrutiny and audit arrangements for the expenses of Members of Parliament, by removing the limitations in scope of the external audit, which did not engage the auditor to seek evidence beyond the Member's signature to confirm that eligible costs had been incurred. The House of Commons subsequently agreed that the NAO should carry out a full scope audit, and we will be doing so.



We provided assurance on 448 accounts of government departments, their agencies, other public bodies and international organisations



In 2008-09 we supported 17 Parliamentary select committees in their scrutiny of public services and expenditure by providing formal evidence, informal oral and written briefings, and seconding staff with particular subject expertise to a Committee. For example, we produced a memorandum for the Work and Pensions Committee on the Department for Work and Pensions' Information and Technology Programmes. In response to a request from the International Development Committee, we provided a review of the UK's response to the 2005 South Asia earthquake. In November 2008, we provided the Children, Schools and Families Committee, at their request, with a memorandum about young people not in education, employment or training. We have also continued to support the Environmental Audit Committee with a strong programme of briefings and advice.

In the past 12 months the Government has announced a number of measures aimed at restoring financial stability in the United Kingdom's banking sector and in the markets more generally. We anticipate that these measures will result in significant increases in the assets and liabilities of the National Loans Fund and Debt Management Accounts in 2008-09. We also expect the results of other measures for which financial institutions are required to pay a fee will result in a significant increase in Consolidated Fund receipts during 2008-09. We have set out our views on how each of the measures should be accounted for at an early stage, in order that these new debts are transparent to Parliament. Our report on the nationalisation of Northern Rock provided scrutiny of one of the early government measures, and we plan to undertake further audit work relating to the government's response to the economic and fiscal environment – including a review of the Debt Management Office – in the coming year.

Within government, International Financial Reporting Standards (IFRS) are being adopted across the UK public sector to ensure government accounts remain in line with best commercial practice for financial reporting. This will enable more effective consideration of the financial performance of government bodies and, with the introduction of the whole of government account on an IFRS basis, analysis of the financial performance of the government as a whole. We have been working closely with the bodies we audit to ensure the smooth introduction of IFRS on the revised deadline of 1 April 2009. Our audit of the first stage of this initiative resulted in clear opinions for 23 of the 47 resource accounts under the timetable set for the Trigger Point process. The work completed by departments represents significant progress, and should provide a good basis for the majority of departments to move to formal statutory IFRS based accounts.

We have continued to provide support to the audit committees of the bodies we audit by providing guidance and tailored advice, and by facilitating self-assessments of their capacity to fulfil their important role. For example, we responded to a request by the Department for Transport's audit committee to provide additional information on our value for money work both in the sector and across government from which they could learn lessons. We have held workshops with four audit committees across the Business, Enterprise and Regulatory Reform Group to compare current practices of the committees with best practice, and made recommendations on areas for improvement. In the Work and Pensions Group, we provided audit committees with a best practice guide and held three events to support and train them, and to highlight best practice in corporate governance.

Through our audit work we are also able to provide clear information on the performance of major government programmes. For example, our work on the preparations for the 2012 Olympics provides a robust and independent account of progress as well as publicly flagging emerging risks which will need to be managed. We are also able to shed light on subjects which receive limited scrutiny. In February 2009, we published a report on Animal Health, including the health of honeybees. Although the budget for honeybee health was then only £1.3 million, our report provided an independent assessment of its effectiveness and contributed to a wider public debate.

Internationally, we continue to deliver a technical co-operation programme to help strengthen other audit offices. Our focus is on programmes funded by the European Union, and on these and other programmes in Commonwealth countries, especially in Africa. In 2008-09 we worked in some 35 countries including the Gambia, Kenya, Albania and Trinidad and Tobago. Strengthening transparency and accountability internationally continues to benefit developing countries and other nations, as well as contributing to the political and economic agendas of the United Kingdom government. For example, we helped improve financial audit skills in the Gambia and delivered a programme of value for money training and supervision of pilot audits in Trinidad and Tobago. We worked with the Kenyan National Audit Office and the Ministry of Education to improve value for money and financial audit work as well as quality assurance. In Albania, we are supporting the Ministry of Finance to improve internal audit and internal controls.



We have increased the support we provide Parliament and maintained our work to support improvement in audit in developing countries

Case study

Our report on the *Management of asylum applications* by the UK Border Agency recommended that the Agency should cease its First Reporting Event, at which applicants meet their case worker, which we found was often delegated to junior staff and of little benefit. The Agency agreed and these meetings are no longer mandatory, reducing the inconvenience to both case workers and applicants. As a result of the same report, the Agency introduced a new target to serve appeal determinations to the appellant within 48 hours and are meeting this target in 99 per cent of cases, whereas previously it took up to 24 days. This means that appellants know the outcome sooner and can make decisions about their future earlier.

Improved organisational performance and service delivery

Through our audit work, we aim to help improve the capability and performance of our clients, and help them achieve better value for money or better service provision for the citizen. We have developed a series of toolkits and good practice guides on aspects of government where we have collected a strong body of evidence which assists those delivering public services.

Our value for money work has made recommendations on how departments should improve project management in order to deliver better organisational performance. For example, our report on *Reducing the risk of violent crime* has led to improvements in both financial reporting and financial management within the Home Office's Violent Crime Unit of the money distributed to Crime and Disorder Reduction Partnerships for tackling violent crime. In response to our findings, the Unit brought a full time finance manager in-house and has made financial management a core competency in the appraisal process for managers. In our review of the UK's nuclear deterrent capacity, we raised concerns about project governance. The Ministry of Defence responded swiftly by establishing a project support office, reporting to the Senior Responsible Owner, and a single set of performance and cost data for the programme as a whole. This improved support to the programme board and ensured that all MOD stakeholders were using the same data sets.

Our work can directly impact on the efficiency and effectiveness of government processes. These may also have an impact on the delivery of better services to citizens.

Our work at the BBC helps secure improved value for money for the licence fee payer. In our review of *The efficiency of radio production at the BBC*, we found that the BBC had no processes for comparing costs with the commercial radio sector. It has now set up the Radio Council with commercial broadcasters which will allow it to improve cost benchmarking. Our work on the BBC's *Strategic contracts* found that the BBC did not routinely validate performance across its £700 million annual spend on strategic contracts, including where payments were linked to the levels of service achieved. The BBC is now introducing systematic sample-based validation and is requiring greater senior management involvement in under-performing contracts.

Examples of how our work can lead to changes which benefit citizens include our report on the Department for Energy and Climate Change's Warm Front Scheme, which found that over half of vulnerable families in fuel poverty do not qualify for the Scheme. Following publication, we received a number of letters from members of the public expressing concerns about the Scheme and we were able to help resolve these problems with the Department, in some cases on behalf of extremely vulnerable customers. Elsewhere, reports by the National Audit Office and the Committee of Public Accounts recommended that HM Revenue and Customs offer a facility for customers to pay tax by credit card. In 2008 the Government introduced the necessary legislation, and from late 2008 it has been possible to pay by credit card over the telephone and online. These facilities improve the service provided to citizens by giving them more convenient options for paying their tax.

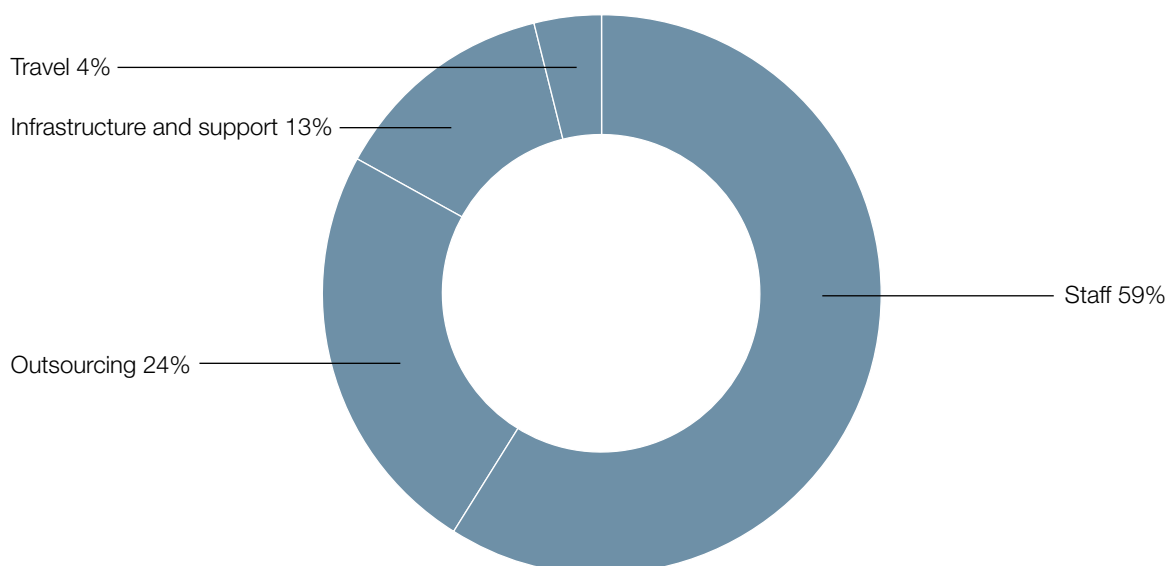


People, resources and performance

National Audit Office resources are used to employ some 900 staff, to commission work from partners, to meet the travel costs necessary to examine the use of public resources, and to provide the infrastructure and support necessary to run a modern public audit business.

The Office consumed some £93.8 million in providing audit and other assurance services in 2008-09. After allowing for £19.9 million income generated from fee paying work, the net resources supplied by the House of Commons amounted to £73.9 million, which was within 1.3 per cent of the amount authorised by the House.

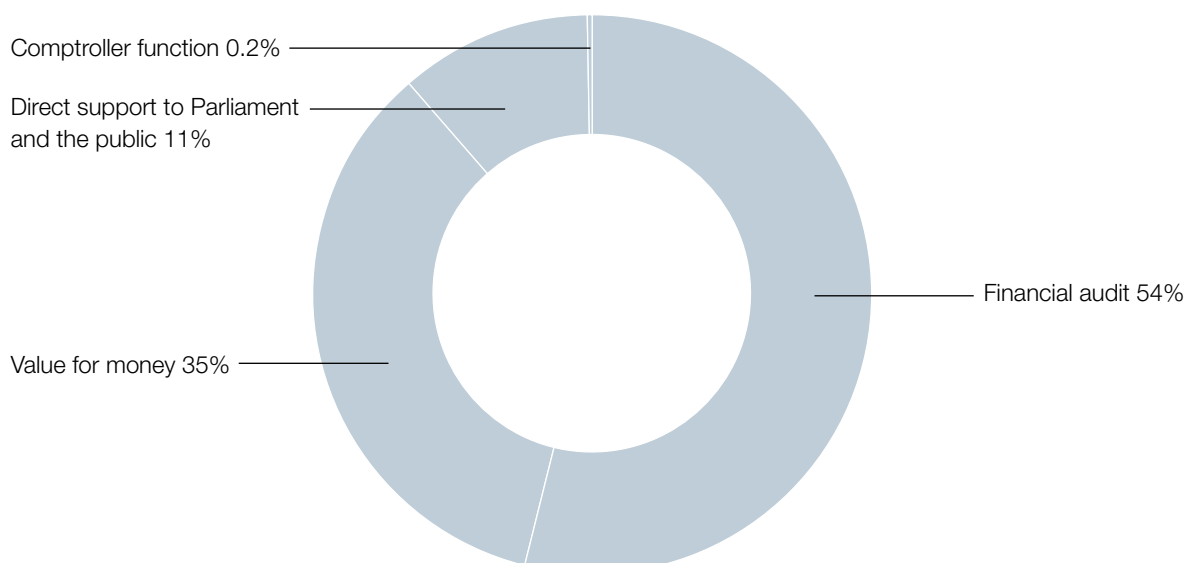
Use of resources





Our resources were used on four main objectives. As planned, over half of our resources were used on financial audit and around a third on value for money work. Direct support to Parliament, members of the public and our international responsibilities accounted for about 11 per cent of resources, with the Comptroller function making up the balance.

What we used the resources on



Repair and refurbishment project

The programme of work to repair and refurbish our headquarters building in Victoria is a substantial project with significant risks, including the age and status of the building. Cost increases required us to seek further funding from the Public Accounts Commission, which approved an additional £5.8 million in October 2008. The aggregate budget for the programme therefore increased to £83.2 million, of which £36.9 million was spent in 2008-09. This expenditure was £10.2 million less than the amount provided in our Estimate because delays earlier in the programme of work led to expenditure which had been planned for 2008-09 slipping into 2009-10.

Following these delivery challenges, the refurbishment is on track for completion against the revised target of November 2009, and all London-based staff will move back into the refurbished building by the end of 2009. The refurbishment is the first major upgrade of the building since we acquired it in 1986. The refurbishment will provide premises that are more energy efficient and the open plan environment will support higher levels of productivity in our work by encouraging communication and exchange of ideas.

Efficiency and other cost reductions

As the body charged with reviewing the value for money of government activities, it is right that we have a rigorous focus on our own efficiency. The assumptions underpinning the Office's resource bid for 2008-09 included targets for securing cost reductions in corporate services of three per cent in real terms, two per cent in value for money work, and one per cent in financial audit work. Following a major review, we achieved a cost reduction of over five per cent on corporate services and we also achieved the two per cent efficiency target on value for money work. Results for financial audit will be available when we have completed the 2008-09 financial statements audit cycle.

Corporate services cost reductions: server virtualisation project

Server Virtualisation is a technology that allows the creation of virtual servers on the same physical "box", and reduces the overall number of physical servers needed to run IT services by making use of unutilised resource capacity. In the longer term we plan to reduce the number of physical servers to around 25 from 100. We estimate that we can make significant savings in hardware costs over the next four years, that future refresh costs will reduce, and that there will be significant energy savings.

The business case estimated that we would save £0.45 million in hardware costs over the four year period of the programme, and that at by the end of the programme we would save £17,000 a year in energy costs.

Following the Public Accounts Commission's approval of the 2008 Corporate Plan, the Management Board commissioned work to assess how further cost reductions could be achieved in corporate services in order to achieve targets of four per cent in 2009-10 and five per cent in 2010-11. The Board approved plans to reduce staffing levels by 12 per cent by the end of the planning period and agreed that some low priority services could be withdrawn. All corporate services now have agreed service levels and key performance indicators will be monitored on a regular basis.

Our performance

As well as managing the effective use of our resources, we seek to meet other performance targets approved by the Public Accounts Commission and set out in our Corporate Plan. Performance in delivering financial audit work within four months of the year end, and in accordance with professional quality standards, continues to be satisfactory. There is more work to be done to reduce the elapsed time target for value for money studies, and we have undertaken a full process improvement review to identify relevant opportunities, which will be taken forward in the coming year.

Key performance indicators

	Achieved			Current Year		Targets for Planning period	
	2005-06 actual %	2006-07 actual %	2007-08 actual %	2008-09 target %	2008-09 actual %	2009-10 target %	2010-11 target %
Resource Inputs							
1. Resources used on front-line activity	69	73	73	75	75.6	75	75
2. Efficiency improvements in corporate costs, including staff, consultancy and travel	–	–	–	3	5.3	4	5
3. Efficiency improvement in financial audit work	–	–	–	1	N/A	2	2
4. Efficiency improvement in value for money work	–	–	–	2	2	2	2
5. Reduction in corporate costs, excluding staff, consultancy and travel	3.2	3.7	5.2	Replaced by targets 2 to 4			
Outputs: Speed of delivery and quality							
6. Accounts audited within four months of the year end	38	64	70	70	74	74	77
7. Independent confirmation of compliance with auditing standards	✓	✓	✓	✓	✓	✓	✓
8. Value for money elapsed time*	27	37	28	55	29	60	65
* Up to 2007-08, the elapsed time target was eight months from approval of preliminary study to publication; the current target, covering the entire process from approval of an options paper to publication, is nine months.							
Outcomes							
9. Financial impacts achieved (£m)	555	582	656	693	768	714	735



Our staff

The skills and expertise of our staff are our most valuable asset. We employ, train and develop around 900 people, including over 330 members of accountancy institutes and 200 staff training for accountancy qualifications based at either our London or Newcastle offices. In 2008 we increased the number of staff based at our Newcastle office to some 10% of the Office's total. We also increased the number of statisticians, economists, business analysts and subject experts to provide a range of quantitative skills to support our VFM work. These staff are supported by skilled and professional corporate service staff who ensure the efficient running of the National Audit Office.

Our annual intake of up to 70 graduate trainees are sponsored to study for the Institute of Chartered Accountants in England and Wales (ICAEW) qualification and continually achieve higher than average examination results. In 2008, one of our final year trainees, Amanda Simpson, achieved the highest overall marks at national level in the ICAEW Advanced Stage examinations and was awarded the Peat Prize by the Institute. Another of our trainees, Rebecca Tweedie, achieved the highest mark nationally in the Taxation examinations at the Professional Stage examinations in December 2008.

Our staff play leading roles in their professions. In June 2008, Caroline Mawhood was elected President of the Chartered Institute of Public Finance and Accountancy (CIPFA). Martin Sinclair is a member of that Institute's Council, and Andrew Baigent, our Director of Financial Audit Policy, is a member of the governing Council of the ICAEW.

We are committed to helping current employees meet their full potential by ensuring that their skills and expertise continue to be up to date. For example, we provided all our financial audit staff with in-depth training on International Financial Reporting Standards in anticipation of the implementation of the standards across government. Our Future Leaders Development Programme has improved retention and progress amongst staff with strong potential. Our programmes for leadership and management development – which all staff are eligible to attend – won a UK National Training Award in 2008. We continue to expand the breadth of experience of our staff through our secondments programme, including placements in the European Space Agency, the Environmental Audit Select Committee, and the Scrutiny Unit of the House of Commons. We also sponsor some inward secondments to enhance further our skill and experience base – with recent examples from Accenture and Siemens.



Corporate responsibility

Sustainability

We demonstrate our commitment to sustainability through the work we undertake and how we manage ourselves.

Gabrielle Cohen is the Board member responsible for ensuring that sustainability is represented and reflected in our mainstream work, and is responsible for our work on Climate Change, Sustainability and Working with the Third Sector. Jim Rickleton is the Board member responsible for the sustainability of our building and building services and for implementing and monitoring our Sustainable Development statement and Environmental Purchasing policy.

Sustainability coverage in our work

Sustainability involves living within environmental limits; ensuring a strong, healthy and just society; achieving a sustainable economy; promoting good governance; and using sound science responsibly. We address sustainability issues in many of our value for money studies, and in the support we provide to the parliamentary Environmental Audit Committee.

During the year our value for money reports addressed a range of sustainability issues including:

- fuel poverty and progress towards achieving energy efficiency targets;
- dealing with animal diseases which cause economic, social and environmental impacts;
- supporting sustainable communities; and
- preserving and enhancing our biodiversity and natural heritage.

For example, in our study of *Natural England's Role in Improving Sites of Special Scientific Interest* we found the majority of areas were in good condition or recovering. We made recommendations for better management arrangements, involving local volunteers, and better regulation of local landowners.



In 2008-09 we continued to provide a range of support for the Environmental Audit Committee in the House of Commons. For example, we provided briefing on *The European Union Emissions Trading Scheme* and the performance and systems of *The Export Credits Guarantee Department and sustainability*. We also provided briefings for the Committee on *Transport and the Environment* and *Renewable Energy*, setting out the government's key targets and performance, and suggesting topics for Committee inquiries.

We contributed to a group led by the Treasury to consider further requirements for the reporting of sustainability measures within public sector annual reports on accounts, with a view to providing full transparency of their operational impacts.

Sustainability in our operations and estate

In 2008-09 we remained in temporary accommodation, while we refurbish our permanent headquarters at 157-197 Buckingham Palace Road. The refurbishment is a major project for our organisation, and we aim that we will achieve an excellent BREEAM rating.

During the year we have:

- worked with the refurbishment contractor so that about 90 per cent of all material removed from the site has been recycled;
- prepared specifications for furniture for the refurbished headquarters to be sourced via the OGC Framework agreement, which provides for "environmentally friendly" products and services wherever possible;
- prepared specifications for new Facilities Management service contracts for the refurbished building, which should commit the successful service provider to delivering sustainable facilities management;
- met the requirements of our Environmental Purchasing Policy by ensuring that all electrical appliances purchased have an A rating;
- contracted with an environmentally accredited supplier for stationery items and overall over 54 per cent of spending on stationery items was on sustainable products;
- established new courier services with suppliers who have a strong commitment to address sustainability issues;
- reviewed our IT strategy and introduced energy and paper saving measures, including: a Server Virtualisation Project which should reduce our server numbers and reduce energy costs by some £17,000 a year; replacement of computer monitors; and use of multifunction printers; and
- joined London Green 500 with the aim of improving our approach on sustainability issues and reducing our carbon footprint.

Diversity

The National Audit Office is committed to equality for all and to recognising the diverse talents and contributions of its staff. The Office values diversity and the benefits it brings to the organisation and its work, and it monitors key activities such as recruitment, performance ratings, promotion, training, and employee representation to ensure equality of opportunity. In addition, an equal pay audit is carried out annually in relation to ethnicity, gender and age.

The Office has launched a new Diversity Strategy for 2009 to 2011 and a delivery board, chaired by a Board member, Jim Rickleton, will provide direction and monitor progress.

Consistent with the strategy the Office has progressed a number of action plans and has organised initiatives including the following:

- an internship programme for ethnic minority and disabled undergraduates;
- disability awareness seminars;
- staff networks that focus on diversity issues;
- ethnic minority mentoring programme; and
- Equality Impact Assessments for each of our corporate services functions.

The NAO continues to measure progress against the Office's Race, Disability and Gender equality schemes. The Office holds the Disability Two Ticks Accreditation, and has improved our performance on the Stonewall Workplace Equality Index. We are members of the Stonewall's Diversity Champions Programme, The Age and Employment Network and the Disability Equality Forum. We are committed to seeing further progress against our Diversity strategy and equality schemes.



**We have identified
£768 million of financial
impacts arising as a
result of our work – a
return of over £10 for
every £1 spent running
the National Audit Office**

Engaging with the community

We support staff wanting to carry out certain voluntary public duties. At present, there are 22 staff acting as school governors or magistrates.

We also encourage staff, through a community investment programme, to engage with the local community through:

- Challenge Days – staff give up half a day that is matched by half a day from the NAO to spend time helping a charity or other voluntary organisation.
- Primary School Reading Programme – staff help children at a local primary school with their reading at lunchtimes.

Demonstrating corporate responsibility, whether through sustainability, diversity or community engagement, reflects the National Audit Office's values and our public service mission. Such activities help us make a contribution which goes beyond our vision to help the nation spend wisely.



Major reports

Produced from April 2008 – March 2009

Central Finance and Treasury

HM Treasury: The nationalisation of Northern Rock HC 298

Communities, regions and regeneration

New Dimension – enhancing the Fire and Rescue Services' capacity to respond to terrorist and other large-scale incidents HC 1050

Planning for homes: Speeding up planning applications for major housing developments in England HC 15

Cross-Government and Public Administration

Central Government's management of service contracts HC 65

Assessment of the Capability Review Programme HC 123

Recruiting civil servants efficiently HC 134

Helping Government Learn HC 129

Innovation across central government HC 12

Culture, Media and Sport

Making grants efficiently in the culture, media and sport sector HC 339

Preparations for the London 2012 Olympic and Paralympic Games: Progress Report June 2008 HC 490

Maintaining the Occupied Royal Palaces HC 14

Defence

Chinook Mk3 Helicopters HC 512

Hercules C-130 Tactical Fixed Wing Airlift Capability HC 627

The Defence Information Infrastructure HC 788

The United Kingdom's Future Nuclear Deterrent Capability HC 1115

Major Projects Report 2008 HC 64

Providing Anti Air Warfare Capability: the Type 45 destroyer HC 295

Ministry of Defence Service Families' Accommodation HC 13

Education

Skills for Life: Progress in Improving Adult Literacy and Numeracy	HC 482
Widening participation in higher education	HC 725
Renewing the physical infrastructure of English further education colleges	HC 924
Department for Children, Schools and Families – Mathematics performance in primary schools: Getting the best results	HC 1151

Environment, Sustainability and Rural Affairs

Programmes to reduce household energy consumption	HC 1164
Natural England's Role in improving Sites of Special Scientific Interest	HC 1051
The Warm Front Scheme	HC 126
The health of livestock and honeybees in England	HC 288

Law, Order and Central Institutions

The procurement of goods and services by HM Prison Service	HC 943
Regulating the security industry	HC 1036
The Independent Police Complaints Commission	HC 1035
Management of Asylum Applications by the UK Border Agency	HC 124
Administration of the Crown Court	HC 290
The National Offender Management Information System	HC 292

National Health Service

The National Programme for IT in the NHS: Progress since 2006	HC 484
Feeding back? Learning for complaints handling in health and social care	HC 853
Reducing Alcohol Harm: Health services in England for alcohol misuse	HC 1049
End of life care	HC 1043
Financial Management in the NHS: Report on the NHS Summarised Accounts	HC 63-I
NHS Pay Modernisation in England: Agenda for Change	HC 125

Other Reports

The efficiency of radio production at the BBC: review by the Comptroller & Auditor General presented to the BBC Trust's Finance and Strategy Committee	no HC
The BBC's management of strategic contracts with the private sector	no HC

Overseas Affairs

The British Council: Achieving Impact	HC 625
Operating in insecure environments	HC 1048
Investing for development: the Department for International Development's Oversight of the CDC Group plc	HC 18

Public Private Partnership

The Procurement of the National Roads Telecommunications Services	HC 340
The Regeneration of the Greenwich Peninsula: A Progress Report	HC 338
The Department for Transport – Letting Rail Franchises 2005-2007	HC 1047
Allocation and management of risk in Ministry of Defence PFI projects	HC 343
Department for Environment, Food and Rural Affairs: Managing the waste PFI programme	HC 66
The Building Schools for the Future Programme: Renewing the secondary school estate	HC 135

Regulation

Progress report on maintaining competition in markets	HC 127
---	--------

Revenue Departments

Tackling the hidden economy	HC 341
HM Revenue & Customs 2007-08 Accounts	HC 674
HM Revenue & Customs' transformation programme	HC 930
The Control and Facilitation of Imports	HC 942
Management of Tax Debt	HC 1152

Third Sector

Building the capacity of the Third Sector	HC 132
---	--------

Transport

Shared services in the Department for Transport and its agencies	HC 481
The Maritime and Coastguard Agency's Response to growth in the UK Merchant Fleet	HC 131

Work and Pensions

Handling Customer Complaints	HC 995
Supporting Carers to Care	HC 130



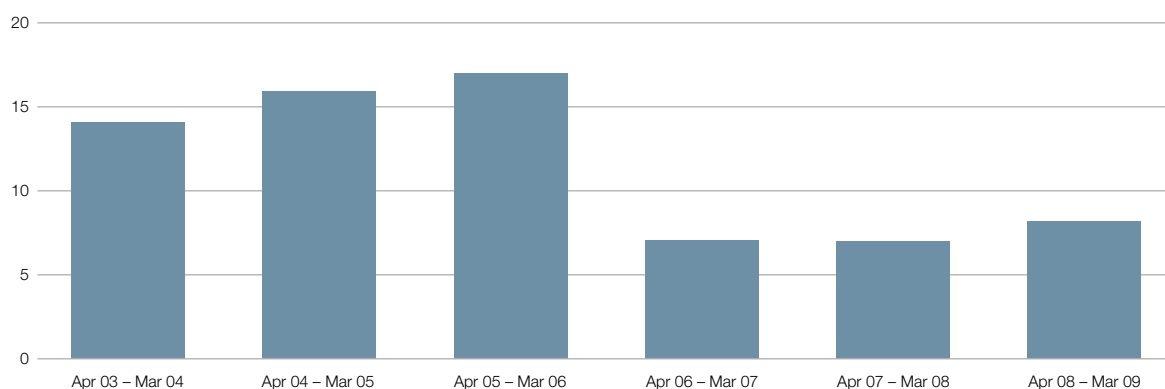
Report on our health and safety policy and performance

The National Audit Office is committed to effective health and safety management. Our Policy Statement, signed by the Comptroller and Auditor General, reflects our view that health and safety is an integral part of managing the total risks faced by the NAO. The Policy is reviewed annually to ensure its relevance and compliance with legislation.

During the period 1 April 2008 to 31 March 2009, we recorded a total of eight accidents, none of which involved any lost time from work. As a result of initiatives to ensure that all accidents are reported, no matter how minor, there was a marginal increase over the previous year, as shown in the chart below.

NAO Staff Accident History at London, Newcastle and Blackpool

(The Blackpool office was closed in December 2008)





The provisional figure for staff absence as a result of physical and mental illness including injuries, disability or other health problems was 5.2 days per employee compared with 4.6, 4.9 and 5.7 for the previous three years, respectively.

We have an extensive risk management programme, which, in addition to the normal building management controls, fire risk assessments and regular fire warden training, includes awareness training on workstation ergonomics and risk assessment training for Directors, senior managers and other staff. A series of risk assessment workshops was launched in conjunction with the current two-year campaign led by the European Agency for Safety and Health at Work and we are focussing particularly on minimising the risks to our staff when visiting client sites in the UK and abroad, including Iraq, Afghanistan and various developing countries.

275 Display Screen Equipment (DSE) assessments were carried out during the year along with 10 home working assessments, and 65 New or Expectant Mothers risk assessments. New arrangements for staff working abroad were embedded, and developments have been made to our e-Learning programme. We continue to use the services of external specialists in a number of areas, notably to provide assurance on air and water quality and for our occupational health and welfare arrangements, including our Employee Assistance Programme.

The NAO has a Health and Safety Committee, which meets twice a year. The Committee includes staff and Trade Union representatives and is chaired by an Assistant Auditor General, reporting to the Management Board, in recognition of the importance attached to it.



Statement on maintaining the quality and independence of our audit work

We recognise the crucial importance of maintaining our professional reputation and ensuring that we have safeguards in place to manage any risks to the quality and integrity of our work. In common with the wider accountancy profession, our financial audit work complies with the International Standards on Auditing (UK and Ireland) and International Standard on Quality Control 1, and we set and adopt policies that meet professional standards and regulatory and legal requirements. For all financial audit and related work, these policies are set down in our Financial Audit Manual.

In our value for money work, we have a set of explicit standards. They consolidate existing guidance and also draw on good practice from other audit institutions. We are introducing a “Cold Review” process in 2009, in which a proportion of our value for money studies each year will be assessed by experienced practitioners from within the Office to determine how well the study team has carried out the audit work against the standards. This will complement the long standing review by academics of the detail of each of our draft reports.

The International Standard on Quality Control and the Auditing Practices Board’s Ethical Standards provide a framework for maintaining and monitoring independence and quality.

Leadership responsibilities

The Comptroller and Auditor General is an Officer of the House of Commons, and independent of Government. He leads the National Audit Office, and is ultimately responsible for the quality of our work.

We have embedded defined responsibilities for risk management within all of our work, including procedures to assess independence and objectivity, as well as whether we have the appropriate skills and resources to undertake engagements. Where appropriate, we seek external, professional advice to support our work.

Ethical requirements

Independence and objectivity are fundamental principles applied within our work. All staff are required to sign annual code of conduct declarations, stating compliance with professional ethical requirements, and attesting to appropriate personal and professional conduct. The code includes procedures to avoid any conflicts of interest.

Ensuring high calibre and competent staff

Our policies and procedures on staff recruitment, retention and performance management ensure an appropriate mix of competent high calibre staff. Where appropriate, we draw on external expertise or other resources, including from partner audit organisations.

We develop the capabilities and competence of staff through a combination of structured and unstructured career development. All staff are required to undertake a minimum of 220 hours of continuing professional development over a three-year rolling cycle. We are an approved ICAEW trainer, and we also support employees pursuing ACCA (Association of Chartered Certified Accountants), CIPFA and CIMA (Chartered Institute of Management Accountants) qualifications. We undertake regular assessment of individual performance and future development needs against a defined set of professional competencies.

Maintaining quality in our work

We have policies and procedures designed to provide reasonable assurance that engagements are performed in accordance with professional standards and regulatory and legal requirements and to ensure that the appropriate audit judgements are made. The quality of our financial audit work is underpinned by the following framework:

- A financial audit methodology, set down within our audit manual, and compliant with International Standards on Auditing (UK and Ireland);
- Internal documentation standards and systems to ensure we gather sufficient, appropriate evidence to support our opinion;
- Formal assignment briefing and feedback for all staff; and
- A two-stage review process for each assignment to review the evidence obtained and to review all key judgements prior to completing the audit report.

Key supporting mechanisms monitor and help maintain quality across the whole organisation, and include:

- a financial audit support team providing advice on technical auditing or accounting issues, or areas of particularly complex judgements;
- provision of training and guidance to support staff in their work;
- for high profile clients or high risk audits, an independent director undertakes a review of key judgements;
- a financial audit development group, comprising a cross-section of directors, to advise on our audit policy and its application, and to monitor audit quality; and
- an audit practice and quality committee as a sub-committee of the board, to consider audit policy and quality matters.

Similar processes are applied to our value for money work, with studies subject to scrutiny at various stages from design through to publication at which risks and quality are fully considered by management before the work proceeds further. Our reports are approved personally by the Comptroller and Auditor General before publication, following a process in which our audited bodies are asked to agree the facts in the report, and other stakeholders are asked to comment. Many of our value for money reports are informed by a broad panel of experts on the subject in question, who comment on the scope of our reports, the issues addressed, and the methodology we employ.

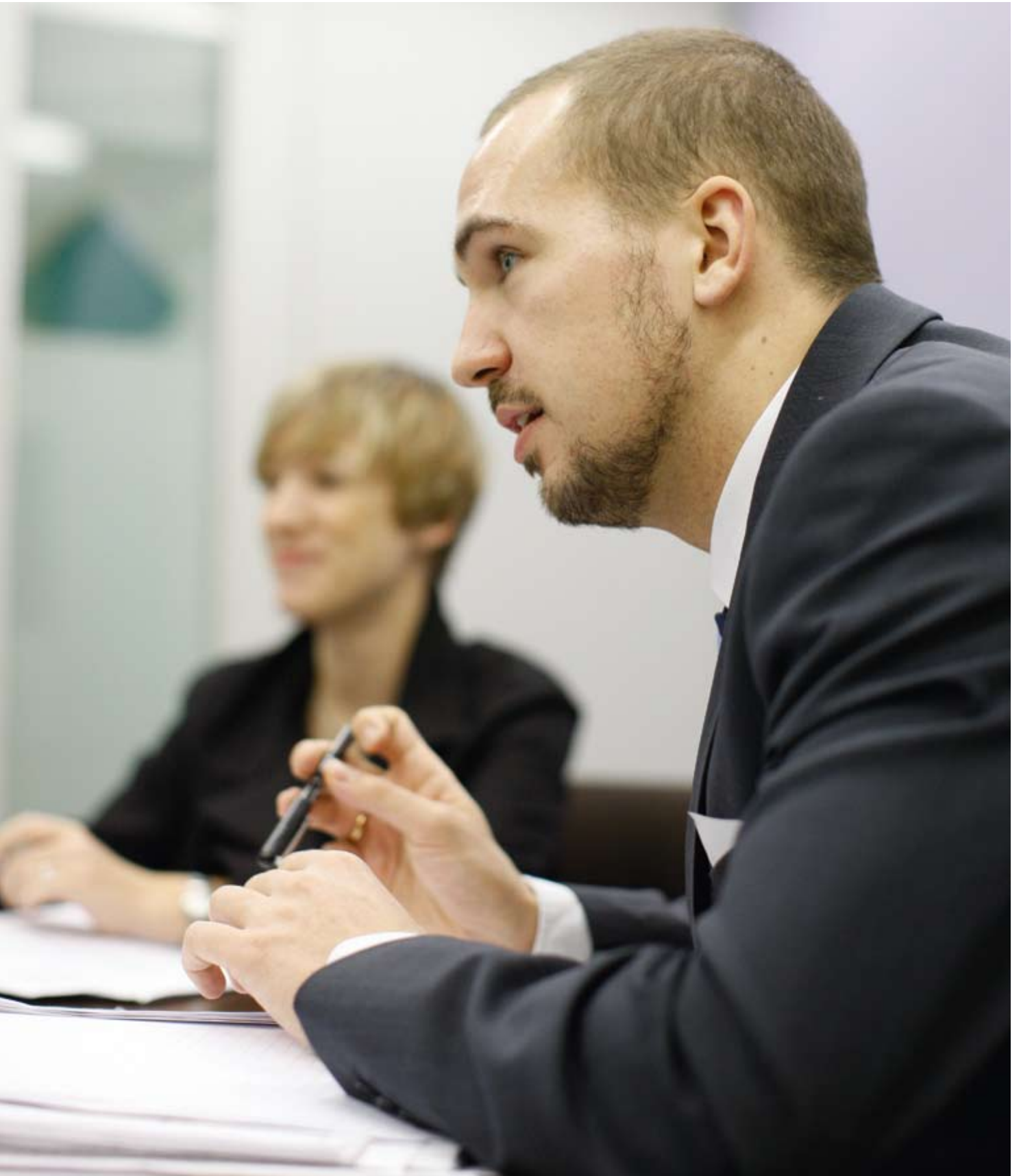
Quality assurance review

For financial audit, we undertake an annual programme of independent reviews of completed audits. Each review is undertaken by a director and audit manager not involved in the original audit to assess whether the audit was in compliance with our audit methodology. The programme aims to ensure all directors and managers are reviewed on a cyclical basis.

We are also subject to an annual review by the Quality Assurance Directorate of the ICAEW, which reviews a sample of audits for compliance with International Standards on Auditing (UK and Ireland).

Each proposed value for money study is peer reviewed by a panel of staff outside the study team before the study plan can be signed off. The study is also subject to independent external review by either the London School of Economics or Oxford University at draft report stage. These processes are designed to enhance the methodological foundations of the study, and to ensure that the published report is of the highest possible quality.

Where appropriate, additional guidance is provided to staff as a result of these reviews to spread good practice and enhance our audit work.



Resource accounts

Management commentary

The National Audit Office is headed by the Comptroller and Auditor General, an Officer of the House of Commons appointed to carry out the external audit of central Government departments, executive agencies and other public bodies. The Comptroller and Auditor General is wholly independent of Government.

The financial statements on pages 76 to 105 have been prepared by the National Audit Office as required by statute, on a resource basis. In preparing the accounts, the Office has opted for early adoption of the 2009-10 Government International Financial Reporting Manual. The 2008-09 reporting year is the first year of adoption of International Financial Reporting Standards, and the date of transition is 1 April 2007.

Aim and Objectives

The National Audit Office's aim is to help the nation spend wisely.

There are two parts to this aim: firstly the formal statutory duty to provide independent information, assurance and advice to Parliament on the use of public resources. Secondly the National Audit Office has a wider role helping to promote better financial management and value for money, and improve public services.

National Audit Office activities in 2008-09 were attributed to the following strategic objectives:

- **Financial audit:** providing assurance that departments' financial statements have been properly prepared and give a true and fair view; that resources have been applied to the purposes intended by Parliament; providing assurance on the assessment and collection of tax revenue; and encouraging good governance and providing assurance on the management of risk, through reviews of financial systems.

- **Value for money:** providing Parliament with independent information and advice about economy, efficiency and effectiveness and validating systems underpinning Public Service Agreement targets, and work on regulation. The Office aims to produce 60 reports each year, examining the whole range of public services and a range of other outputs to support accountability and deliver performance improvement, including conferences and reports on specific issues placed on the National Audit Office website.
- **Direct support to Parliament, the public, and other organisations:** support for the Committee of Public Accounts, other Select Committees, responding to enquiries from Members of Parliament and members of the general public, and the provision of advice and (on a cost recovery basis) training to support effective scrutiny of public finances in other countries.
- **Comptroller function:** the Comptroller and Auditor General's statutory responsibility to approve the release of funds from the Exchequer to departments.

The cost, and any associated revenues, of the National Audit Office's work in meeting each of these objectives are shown in the Statement of Operating Costs by Strategic Objectives on page 82.

Main Activities

The main activities of the Comptroller and Auditor General and the National Audit Office are:

- providing independent assurance and advice to Parliament on the proper accounting for central government expenditure, revenue and assets and on regularity, through auditing the annual accounts of public bodies;
- providing independent advice to Parliament on whether public bodies have used resources economically, efficiently and effectively; and
- providing independent assurance, information and advice to other public, international and overseas bodies.

Most of these activities are funded by parliamentary grant. However, income is generated from certain audits and from the provision of other services such as advice and training.

Comptroller and Auditor General

The Office of Comptroller and Auditor General is a Crown appointment made in response to an address presented by the House of Commons. Under the National Audit Act 1983, the motion for such an address must be made by the Prime Minister with the agreement of the Chairman of the Committee of Public Accounts. The Comptroller and Auditor General is a corporation sole and retains office unless removed by a resolution of both Houses of Parliament.

The current Comptroller and Auditor General, Tim Burr, was appointed on 1 February 2008. His appointment ends on 31 May 2009. Amyas Morse will be appointed Comptroller and Auditor General with effect from 1 June 2009.

Public Accounts Commission

The National Audit Act 1983 established the Public Accounts Commission. The current membership of the Commission consists of the Chairman of the Committee of Public Accounts and eight other Members of the House. Under the Act, and in respect of the National Audit Office, the Commission is responsible for the:

- appointment of the Accounting Officer;
- examination of the Supply Estimate; and
- appointment of the auditors of the annual financial statements.

Accounting Officer

The Public Accounts Commission has appointed the Comptroller and Auditor General as the Accounting Officer for the National Audit Office. His responsibilities as the Accounting Officer are set out on page 60. As Accounting Officer, the Comptroller and Auditor General is responsible for maintaining a sound system of internal control. The Statement on Internal Control on pages 66 to 72 sets out how this responsibility has been discharged in 2008-09.

Auditors of the National Audit Office

The Public Accounts Commission appointed Tenon Audit Limited (Registered Auditors) as the auditors of the National Audit Office for a three-year term from April 2006, with the option of two one-year extensions. The Public Accounts Commission has extended the appointment for a further year, to July 2010. All relevant audit information has been made available to the external auditors and the Comptroller and Auditor General has taken steps to make himself aware of any relevant audit information and has ensured that the external auditors were aware of that information.

In addition to their work to form an opinion on the financial statements, the auditors provide value for money reports to the Public Accounts Commission, review the statement of financial impacts, and provide assurance to funding organisations on the Office's claims for the reimbursement of costs related to the provision of advice and training under its international technical cooperation programme. Details of the cost of external audit services are disclosed in Note 8 to the accounts.

The external audit value for money reports are available on the Public Accounts Commission's website:

http://www.parliament.uk/parliamentary_committees/public_accounts_commission.cfm

Corporate governance developments

In November 2007, the Public Accounts Commission commissioned John Tiner to review corporate governance within the National Audit Office. The Commission's 15th Report was published in March 2008, and set out proposals to address issues raised in the review. Progress against the proposals is as follows:

National Audit Office Board and Chairman

- Professor Sir Andrew Likierman was appointed Chairman of the Board of the National Audit Office with effect from 1 January 2009; and
- progress was made on the recruitment of four non-executive Board members and a new Management Board with a non-executive majority will be constituted from 1 July 2009.

Statutory provisions covering the National Audit Office Board, the post of Chairman, and new statutory provisions covering the appointment of the Comptroller and Auditor General will be included in the Constitutional Renewal Bill.

Management Board

During 2008-09, the role of the Management Board was to advise the Comptroller and Auditor General on the discharge of his statutory duties. Senior executives of the National Audit Office were members of the Board by virtue of their positions.

The Board was chaired by the Comptroller and Auditor General to December 2008, and by Professor Sir Andrew Likierman following his appointment as Chairman from January 2009. The non-executive Chairman of the Audit Committee and the Assistant Auditors General were also Board members.

One Assistant Auditor General was responsible for Finance whose responsibilities are the same as those set out in Managing Public Money for the Finance Directors of government departments.

In advising the Comptroller and Auditor General, the Board considers the Office's business strategy, corporate plan, and resource estimate in order to make recommendations to the Public Accounts Commission on future resource requirements. It monitored progress in delivering the Office's work programme, the quality and impact of that work, and assessed the status of key corporate risks throughout the year.

The Board monitored implementation of corporate policies on human resources, diversity and health and safety, including consideration of the continued fitness for purpose of these policies against statutory requirements. The Board received advice and assistance from the Audit Committee on the adequacy of internal control and risk management.

The Board held meetings on a monthly basis, and was supported by five functional committees:

- Audit Practice and Quality Committee, focusing on the quality and integrity of the Office's audit judgements and audit reports;
- Operational Delivery Committee, focusing on resources and infrastructure;
- Staff Performance and Remuneration Committee, focusing on staff management;
- Audit Committee; and
- Health and Safety Committee.

Except as reported in Note 22 to the financial statements, none of the Board members held company directorships or significant interests that might conflict with their management responsibilities.

Board members

The Board members during 2008-09 were:

Chairman	Professor Sir Andrew Likierman (from 1 January 2009)
Comptroller and Auditor General	Tim Burr
Non-Executive member	Steve Freer
Assistant Auditors General	Gabrielle Cohen
	Ed Humpherson
	Wendy Kenway-Smith
	Caroline Mawhood
	Jim Rickleton
	Martin Sinclair
	Michael Whitehouse (responsible for finance)



INVESTOR IN PEOPLE

Audit Committee

The Audit Committee is a committee of the Management Board, and is chaired by a non-executive member of the Board. Steve Freer, Chief Executive of the Chartered Institute of Public Finance and Accountancy, was Chairman during 2008-09. The Committee comprises the Chairman and two other non-executive members, an Assistant Auditor General and a National Audit Office Director. In 2008-09 the non-executive members were Sir Michael Davies, Christine Freshwater (to November 2008) and Professor Sir Andrew Likierman (from 1 January 2009).

In 2008-09 the Committee held four meetings to consider issues raised by the National Audit Office's internal and external auditors. The Audit Committee provides the Comptroller and Auditor General with advice and assurance on the adequacy of internal control and risk management within the Office, including the framework of internal control, risk management processes, and the quality and reliability of financial reporting.

The Comptroller and Auditor General authorises the Audit Committee to investigate any activity within its terms of reference, and to seek any information it requires to carry out its duties. It is also authorised to obtain independent legal or other professional advice, and to secure the attendance at meetings of staff or other individuals with relevant experience and expertise, as it considers necessary.

The Audit Committee advises the Comptroller and Auditor General on the effectiveness of internal and external audit, ensuring that the internal audit function is adequately resourced and has appropriate standing within the Office, and considers the results of internal audit reviews and monitors the implementation of internal audit recommendations.

Other main duties of the Audit Committee include considering external audit management letters following the audit of the resource account and statement of financial impacts, the external audit's value for money studies and any other reports relating to significant internal control matters.

It also reviews the adequacy and effectiveness of the mechanisms for identifying, evaluating and managing significant risks to the National Audit Office, and considers whether appropriate risk management, control and review processes are in place to support the Statement on Internal Control.

Under the arrangements set out in the Public Accounts Commission's 13th Report, issued in July 2007, the Chairman of the Audit Committee also has a responsibility for reviewing the planned expenses of the Comptroller and Auditor General and may discuss any issues arising with the Commission.

Code of Conduct

Consistent with his responsibilities as Accounting Officer, the Comptroller and Auditor General has issued to all National Audit Office employees:

- a Vision, Mission and Values Statement – the purpose of the Statement is to ensure that each employee undertakes the work of the Office by reference to a clear set of core values which include integrity and professional excellence; and
- a Code of Conduct – the purpose of the Code is to provide all staff with clear guidance on the standards of corporate and personal conduct expected of them. The Code includes statements on the conduct of National Audit Office work, confidentiality, conflicts of interests and personal conduct. The Code of Conduct was revised in January 2009, and all National Audit Office staff are required to sign the Code on an annual basis.

Copies of both statements are available from the National Audit Office upon request.

Travel expenditure

Full details of travel expenditure incurred by members of the National Audit Office Management Board can be found on the Office's website at:

http://www.nao.org.uk/freedom_of_information/publication_scheme/what_we_spend_and_how_we_spend/travel_and_hospitality_expendi.aspx

Staff Issues

The Office has a policy of close cooperation and consultation with the National Audit Office branch of the Public and Commercial Services Union over matters affecting staff. The Director of Human Resources meets regularly with the Chair of the Trade Union Side to exchange information on issues of current interest. Formal negotiations are held on the annual pay award and a range of other issues are discussed on a more informal basis. Staff involvement is also actively encouraged as part of the day-to-day process of line management, and information on financial results and current and prospective developments is widely disseminated.

Diversity

The National Audit Office is committed to equality and to recognising the diverse talents and contributions of its staff. The Office values diversity and the benefits it brings to the organisation and its work, and monitors key activities such as recruitment, performance ratings, promotion, training, and employee representation to ensure equality of opportunity. In addition, an equal pay audit is carried out annually in relation to ethnicity, gender and age.

During 2008-09 Jim Rickleton was the Board Member with overall responsibility for providing direction and for monitoring progress. A number of initiatives were taken forward, including:

- disability awareness seminars;
- carer's workshops;

- staff networks that work on aspects of diversity;
- ethnic minority mentoring programme;
- an internship programme for ethnic minority and disabled undergraduates; and
- equality impact assessments for each of the Office's corporate services functions.

The National Audit Office continued to measure progress against its race, disability and gender equality schemes. The Office holds the Disability Two Ticks Accreditation and is a member of Stonewall's Diversity Champions Programme, the Age and Employment Network and the Disability Equality Forum.

During the year, the Office reviewed its diversity strategy. In January 2009, the Management Board approved a new strategy for 2009 to 2011. This sets out the Office's vision for diversity, which is to be an organisation which provides:

- clear and positive leadership on diversity issues – to maximise the business benefit of a diverse workforce delivering diverse products to a diverse audience;
- consistent and effective people management – where managers are equipped to get the best out of the diverse range of people they manage;
- support for all staff – so that everybody feels confident to be themselves and to play a full role in the Office, and people feel valued and treated fairly; and which
- resources the business to best effect – by recruiting and retaining people from the widest talent pool which is modern Britain, and by making the most of the unique skills, experience, and ideas each person brings; and
- maximises the impact of its value for money and good governance work – because it supports positive change in the delivery of public services to everyone in our diverse and changing society.

The strategy sets out the Office's broad goals, actions to be taken and its expectations in terms of progress or success.

Sickness absence

During 2008-09, National Audit Office employees incurred an average of 5.2 days sick leave. This compares with a figure of 4.6 days in 2007-08 which was an exceptionally low result. Although sick leave increased, the level remained below the level across the civil service as a whole, which is expected to be around nine days per employee. The National Audit Office is committed to the health and well being of its staff and as such has a comprehensive sickness absence policy. The Office provides occupational health services, an employee assistance programme and a health screening service. During 2008-09 the contracts for the external health providers were re-tendered. In addition to this support, ad hoc health awareness events are organised such as a Health and Safety week and presentations on specific issues. The Office continues to review its occupational health policies and practices to ensure that sickness absence remains at low levels.

Financial planning

The National Audit Office's workload and resource needs are influenced by the value and type of public expenditure and revenue under scrutiny, the financial and value for money risks likely to arise, machinery of government changes, structural changes in the provision of services, requests to extend the scope of the Office's scrutiny, and the expectations of Parliament and other stakeholders.

The National Audit Office produces a Corporate Plan that sets out developments in its work programme for a three-year rolling period and the related resource requirements. The Office updates its Corporate Plan annually for review by the Public Accounts Commission.

Supply Estimates are the means by which authority is sought from Parliament for spending each year. Once the Public Accounts Commission has examined the corporate plan and endorsed the resource bid, the National Audit Office prepares its Estimate which is usually considered by the Commission in February. Parliament normally authorises the Estimate towards the end of July, when the Appropriation Act is passed.

The resources approved by the House of Commons are allocated to budget holders in support of the National Audit Office's four objectives. The main types of expenditure are salaries, outsourced services, travel and corporate costs. During the year the Office monitors the consumption of resources compared with budgets.

The total net resource requirement sought by the National Audit Office for 2008-09 was £107.7 million. This included £32.9 million for a project to repair and refurbish the Office's London headquarters building, the business case for which was approved by the Public Accounts Commission in July 2006.

Copies of the National Audit Office's corporate plan are available on its website at http://www.nao.org.uk/about_us/nao_governance.aspx

Copies of the Estimate are available from The Stationery Office website at <http://www.official-documents.gov.uk/document/hc0708/hc04/0488/0488.asp>

Risk

The National Audit Office's position as Parliament's auditor means that it has to maintain the highest standards of propriety and regularity, make effective use of its resources, and produce high quality work for Parliament. Failure to do so would damage the organisation's reputation and the confidence placed in it by Members of Parliament. The Office manages the risk through its recruitment of staff, through effective professional training and development programmes, quality assurance arrangements, and monitoring of programmes and impacts.

As a statutory body funded by public resources approved each year by the House of Commons, the National Audit Office has limited exposure to commercial risks. It is currently carrying out a major refurbishment of its London headquarters building, which has increased the level of financial risk. The refurbishment programme is being managed with the support of professional advisers with experience of construction.

Sustainability

The UK Sustainable Development Strategy is founded on five overarching principles that seek to address environmental, social and economic issues¹. The National Audit Office applies these principles to areas of its work and activities where environmental or social concerns are tangible and significant.

The National Audit Office has assigned responsibility for sustainability issues to two Board members. The Director of Facilities has delegated authority to implement and monitor the Office's Sustainable Development statement and Environmental Purchasing policy.

During 2008-09, the National Audit Office undertook a number of initiatives including:

- working with the refurbishment contractor to maximise the recycling of waste material from the headquarters site – some 90 per cent of material removed from the site has so far been recycled;
- reviewing arrangements for the supply of stationery – the current contract is with an environmentally accredited supplier with a commitment to sustainability issues, and over 54 per cent of spending on stationery items was on sustainable products;
- sourcing furniture and equipment for the refurbished headquarters through the Office of Government Commerce furniture framework agreement which provides access to a range of sustainable and environmentally friendly products and services; and
- continuing to follow the requirements of the environmental purchasing policy by ensuring that all electrical appliances purchases have an A rating.

Key relationships

The National Audit Office buys in support for financial audit and value for money work to assist it in managing peaks in its workload and to obtain specialist skills not available in-house. Some 29 per cent of financial audit and 22 per cent of value for money work was outsourced in 2008-09.

¹ Living within environmental limits; ensuring a strong healthy and just society; achieving a sustainable economy; promoting good governance; and using sound science responsibly.

HM Government, *Securing the Future – UK Government sustainable development strategy*, 7 March 2005.

The Office worked in partnership with the following suppliers which were appointed following competitions. The Northern Ireland Audit Office also provided services in support of the Comptroller and Auditor General's certification of Northern Ireland financial statements.

Financial audit	Value for money
Deloitte	Accenture
KPMG	Arup
Mazars	KPMG
Moore Stephens	London School of Economics
PKF	Oxford University
PricewaterhouseCoopers	PricewaterhouseCoopers
	Rand Europe

The Office also had significant business relationships with Wates Construction and the Turner and Townsend Group in connection with the refurbishment of its headquarters, and with the Department for Business, Enterprise and Regulatory Reform for the supply of temporary office accommodation. Redfern Travel, Capita Business Travel and Expotel Hotel Reservations provided travel management services to the Office.

Review of performance

The National Audit Office achieved its key objectives.

- **on financial audit** – it completed the audit of 448 accounts, including 56 departmental resource accounts covering over £495 billion expenditure. Some 74 per cent of audits were completed within four months of the end of the financial reporting period, up from 70 per cent in the previous year.
- **on value for money** – it presented 60 value for money reports to Parliament, including reports on the nationalisation of Northern Rock, accommodation provided for servicemen and women and their families, improving adult numeracy and literacy, the handling of customer complaints by the Department for Work and Pensions and on preparations for the 2012 Olympic and Paralympic Games. It also produced reports on regulation, performance validation, and the assumptions underlying the budget. Some 29 per cent of reports were produced within nine months of approval of the proposal compared with a 55 per cent target. The Office recently completed a detailed process improvement review designed to identify ways of reducing the elapsed time between study approval and publication. These ideas are being taken forward.
- **on other work programmes** – it sent 148 reports to audited bodies, dealt with a wide range of inquiries, including over 700 items of correspondence from Members of Parliament and members of the public, and supported the Public Accounts Committee in 53 hearings and responded to requests for advice and assistance from 17 other Select Committees.

The Office achieved financial impacts equivalent to ten times its net running costs, compared with a target of nine times. The Public Accounts Commission approved additional resources for a number of initiatives and improvements by the National Audit Office in 2008-09.

- By the year end, the Office had been appointed as auditor to 48 Government-owned companies following enactment of the Companies Act 2006.
- Work commenced on a new series of reports on financial management in departments. The first report on the Department for Children, Schools and Families was published in April 2009 and another three reports (Department of Communities and Local Government, Foreign and Commonwealth Office and Home Office) are due for publication shortly. Work on a further six reports will commence later this year.
- The Office increased its support for Select Committees by providing informal briefings and memoranda, informal oral presentations and formal briefings in response to requests for advice from 17 Select Committees. It also produced departmental performance briefings to support Committees' scrutiny programmes.
- A second round of independent performance assessments of the Regional Development Agencies was deferred, but the Office was invited to assess the performance of 25 Sector Skills Councils.
- Performance validation work commenced on data systems underpinning Public Service Agreements, and was extended to include the new Departmental Strategic Objectives.
- The Office published a compendium report reviewing how regulators had adopted the principles set out in the Hampton Report on establishing proportionate and effective inspection regimes. It also published a second report on the impact of the Administrative Burdens Reduction Programme.
- The Office recruited 36 analysts with specialist knowledge of economics, statistics and operational research, employed a Research Fellow from the London School of Economics who provided support to a number of teams in developing economic modelling work, commissioned Oxford University to provide training to the majority of value for money staff on analysing financial and economic data, and held workshops on economic modelling for more than 50 staff.

The Office also carried out extra financial audit work following the Treasury's decision that departments will adopt International Financial Reporting Standards from 2009-10.

Use of resources

The table below compares the Office's resource, capital, and cash outturn with its Estimate.

Resources	Estimate	Outturn	(Saving)/excess	
	£m	£m	£m	Per cent
Audit and other assurance services (Estimate section A)				
Gross resource requirement	94.826	93.842	(0.984)	(1.0)
Income	(20.000)	(19.966)	(0.034)	(0.2)
Net resource requirement	74.826	73.876	(0.950)	(1.3)
Capital expenditure	1.500	1.055	(0.445)	(29.7)
Repair and refurbishment project (Estimate sections B and C)				
Repair and refurbishment	24.209	20.724	(3.485)	(14.4)
Temporary office accommodation	8.665	8.337	(0.328)	(3.8)
Net resource requirement	32.874	29.061	(3.813)	(11.6)
Capital expenditure	14.240	7.868	(6.372)	(44.7)
Net cash requirement	121.250	111.206	(10.044)	(8.3)

Provision of audit and other assurance services (Section A)

Resources

The Office used 98.7 per cent of the net resources available. It met its key objectives of providing audit opinions on more than 400 financial statements, issuing 60 major reports, supporting the Committee of Public Accounts and Select Committees in examinations of the use of public resources, and achieved a financial impact of £10 for every £1 net resources consumed.

One of the National Audit Office's financial targets was to increase the proportion of resources used on front line work. The Office achieved 75.6 per cent in 2008-09, compared with 73.1 per cent in 2007-08 and a target of 75 per cent. It also achieved a 2.4 per cent reduction in the cost of providing corporate services, equivalent to a real terms reduction of 5.3 per cent, compared with a target of three per cent in real terms. It also met its target to secure a two per cent real terms reduction in the costs of value for money work.

Income

The National Audit Office generated £19.97 million income from fee-paying work, just under the £20 million provision included in the Estimate. Revenue fell short of relevant costs by 1.8 per cent (1.4 per cent in 2007-08). The Office is seeking to bring revenue and expenditure into balance over the next two years.

Capital expenditure

During 2008-09, the National Audit Office invested in information technology assets needed for its operations, including upgrades of hardware and software to manage its work more effectively, supporting the faster production of robust business management information, and expanding the use of laptops with broadband connectivity to support mobile computing and more flexible working. The National Audit Office also invested in encryption software to help minimise data security risks and expanded its use of smart phones to support mobile working. Total capital investment amounted to £1.1 million. Expenditure was £0.4 million less than the sum provided in the Estimate because improved laptop reliability meant that some planned replacements could be deferred. In addition, the programme to replace monitors was deferred to coincide with the return to the refurbished headquarters building in November 2009.

Net assets

Total assets employed by the National Audit Office, less current liabilities, increased by £4.4 million to £41.6 million, largely reflecting the increase in value of the Office's headquarters arising from the refurbishment work.

Repair and refurbishment project (Sections B and C)

The programme of work to repair and refurbish the National Audit Office's London headquarters building is due for completion in November 2009, some three months later than originally planned. Strip-out works in the basement and sub-basement were delayed due to shortcomings in the clearance of asbestos. There was also significant unplanned demolition and restoration work needed on the concrete slab under one section of the roof top plant because of salt corrosion, and additional work was required to even out floor screed depths.

The Office submitted a request to the Public Accounts Commission for additional funding of £5.8 million for costs relating to the additional work and other factors. This was approved in October 2008, taking the aggregate budget to £83.2 million.

Section B of the Estimate included a provision of £38.4 million for the repair and refurbishment work. There was an underspend of £9.9 million because of delays in the programme which led to expenditure which had been planned for 2008-09 slipping into 2009-10.

Section C of the Estimate included a provision of £8.7 million for temporary office accommodation while the headquarters building is being refurbished. Outturn was £0.3 million less than the Estimate because facilities management costs were lower than expected.

Payment of suppliers

The National Audit Office has adopted the Confederation of British Industry prompt payment code (www.cbi.org.uk). The policy is that all bills should be paid in accordance with contractual conditions, or where no such conditions exist, within 30 days of the receipt of goods or services, or the presentation of a valid invoice, whichever is the later. The calculation of payment performance is based on continuous monitoring of payments since the start of the year. On this basis, 94 per cent of payments met the policy criteria. From January 2009, the Office also started monitoring payments against a 10-day target, in recognition of the Government's commitment to pay suppliers within this period wherever possible. During the period January to March 2009, 75 per cent of payments were paid within 10 days.

Resources required in 2009-10

The National Audit Office's Estimate for 2009-10 was approved by the Public Accounts Commission in March 2009. It provides for a gross resource requirement of £124.7 million, which, after taking account of income of £21.0 million, gives a net resource requirement of £103.7 million.

The approved net resource requirement consists of £78.0 million relating to the provision of audit and assurance services; the remaining £25.7 million relates to the repair and refurbishment of the London headquarters building and the rental of temporary accommodation for London-based staff during the refurbishment.

The National Audit Office's priorities for 2009-10 include:

- evaluating the use of public resources to counter the effects of the economic downturn;
- supporting departments' work to implement International Financial Reporting Standards by auditing a full set of shadow accounts for 2008-09 prepared under international standards;
- extending its efficiency work to carry out an annual review of departments' achievement of savings and reductions in administrative budgets;
- providing support to the new Regional Select Committees, by providing members of staff to work with the Committees on briefings and reports on regional issues;
- providing extra support for other Select Committees, in response to demands for advice;
- continuing to take on new audits of government-owned companies and extending its series of reports on financial management in departments; and
- completion of the repair and refurbishment of its headquarters.

In taking forward its work in 2009-10, the Office will seek to secure cost reductions in corporate services of at least four per cent in real terms and efficiency improvements in financial audit and value for money work of at least two per cent in real terms. To this end, the Office undertook a review of corporate services in 2008 which identified scope for securing cost reductions. It also commissioned an independent review of its procurement capability which it is taking forward in 2009. On value for money work, the Office is carrying out a “lean” review of processes with a view to identifying further scope for streamlining the way value for money reports are produced.

T J Burr
Comptroller and Auditor General

19 May 2009

Statement of Accounting Officer's responsibilities

Under the National Audit Act 1983, the National Audit Office is required to prepare resource accounts for each financial year detailing the resources acquired, held, or disposed of during the year and the use of resources by the Office during the year.

The resource accounts are prepared on an accruals basis, and must give a true and fair view of the state of affairs of the National Audit Office, and of its net resource outturn, resources applied to objectives, income and expenditure, recognised gains and losses and cash flows for the financial year.

Under the National Audit Act 1983, the Public Accounts Commission has appointed the Comptroller and Auditor General as Accounting Officer for the National Audit Office with responsibility for preparing the Office's accounts and for transmitting them to the auditor.

In preparing these accounts, the Comptroller and Auditor General has opted for early adoption of the Government International Financial Reporting Manual issued by the Treasury, and in particular has:

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

The Comptroller and Auditor General's relevant responsibilities as Accounting Officer, including responsibility for the propriety and regularity of the National Audit Office's finances, for keeping proper records and for safeguarding the Office's assets, are set out in the Accounting Officer's Memorandum issued by the Public Accounts Commission.

Remuneration report

Remuneration policy

(1) Comptroller and Auditor General

The remuneration of the current Comptroller and Auditor General is linked to Group 4 of the judicial salaries scale, which includes High Court Judges. The Exchequer and Audit Departments Act 1957 and the Superannuation Act 1972 provide for the remuneration of the Comptroller and Auditor General to be met from the Consolidated Fund. The remuneration and associated national insurance contributions are disclosed in Note 8 on page 95 as Consolidated Fund Standing Services under Other Administration Costs.

(2) Chairman

The Public Accounts Commission approves the remuneration of the Chairman. The remuneration is non-pensionable.

(3) National Audit Office staff

The National Audit Act 1983 provides that the Comptroller and Auditor General shall appoint such staff as he considers necessary for assisting him in the discharge of his functions. The Act further provides that they shall be appointed at such remuneration and on such other terms and conditions as the Comptroller and Auditor General may determine, subject to him having regard to the desirability of keeping the remuneration and terms and conditions broadly in line with those applicable in the Civil Service.

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

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

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

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

The National Audit Office has a Staff Performance and Remuneration Committee that 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 Committee comprises five members including the Assistant Auditor General with responsibility for Human Resources, the Director of Human Resources and three further Assistant Auditors General.

The following sections provide details of the remuneration and pension interests of the Comptroller and Auditor General and members of the National Audit Office Management Board. The information on pages 62 to 64 is covered by the audit opinion.

	Date of Appointment	Notice Period	2008-09		2007-08	
			Salary £000	Benefits in kind (to nearest £100)	Salary £000	Benefits in kind (to nearest £100)
Professor Sir Andrew Likierman Chairman (From 1 January 2009)	01/01/09	3 months	45-50	–	–	–
Tim Burr Comptroller and Auditor General	01/02/08	None – see below	170-175	–	165-170	–
Gabrielle Cohen Assistant Auditor General	01/04/05	3 months	135-140	–	130-135	–
Ed Humpherson Assistant Auditor General	16/07/07	3 months	120-125	–	110-115	–
Wendy Kenway-Smith Assistant Auditor General	15/05/00	3 months	125-130	55,300	120-125	5,000
Caroline Mawhood Assistant Auditor General	01/01/96	3 months	135-140	–	130-135	–
Jim Rickleton Assistant Auditor General	01/06/03	3 months	130-135	–	125-130	–
Martin Sinclair Assistant Auditor General	29/01/99	3 months	135-140	–	130-135	–
Michael Whitehouse Assistant Auditor General	01/04/02	3 months	140-145	–	135-140	–

The Comptroller and Auditor General's salary is met from the Consolidated Fund. The Comptroller and Auditor General retains office unless removed by a resolution of both Houses of Parliament.

Steve Freer was the non-executive chairman of the Audit Committee and a non-executive member of the Management Board. During this period CIPFA, his employer, was paid £6,975. He received no benefits in kind and no pension entitlement.

Wendy Kenway-Smith's salary is based on a part-time four day working week.

Benefits in kind

The monetary value of benefits in kind covers any expenditure incurred by the National Audit Office and treated by HM Revenue and Customs as a taxable emolument.

In 2007 Wendy Kenway-Smith received an interest-free loan under the Office's relocation scheme on her transfer to head the Newcastle office. The balance outstanding on this loan at 31 March 2009 was £65,000 and the benefit in kind relating to the loan was £4,200. To facilitate the timing of relocation to meet business requirements, under the same scheme the Office guarantees the price of properties sold by staff who relocate. The price guaranteed is determined on the basis of professional valuations on an open market sale basis by surveyors appointed by the Office and the Office takes over control of the sale of the staff member's property. Following a deterioration in the property market between the time of Wendy Kenway-Smith's relocation and the eventual sale of the property, the sum realised was less than the guaranteed price. The value of the benefit in kind for the expenses associated with maintaining the property and the eventual loss on the sale was £51,100. The Office has provided for the tax liability of £45,000 arising on the latter benefit.

As part of its remuneration package, the National Audit Office provides all its employees with additional death in service benefit equivalent to one year's salary. The National Audit Office has an agreement with HM Revenue and Customs to meet income tax and national insurance on this benefit on an aggregate basis, so it is not practicable to disclose individual liabilities.

Payments to the Consolidated Fund

In 2007-08, the former Comptroller and Auditor General, Sir John Bourn published a book *Public Sector Audit: Is it Value for Money?* During 2008-09, Sir John remitted royalties of £152.30 to the National Audit Office generated from the sale of the book, net of the income tax liability. This receipt is payable into the Consolidated Fund and is reported in Note 6.

Pension Liabilities

(1) Comptroller and Auditor General

The pension arrangements for the Comptroller and Auditor General are covered by the Superannuation Act 1972 and are analogous to those of a member of the Principal Civil Service Pension Scheme which is unfunded. The Act provides for defined pension benefits to be met from the Consolidated Fund and no liability rests with the National Audit Office.

(2) National Audit Office staff

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

The pension entitlements of the most senior managers of the National Audit Office were as follows.

Name and Title	Accrued pension at age 60 at 31 March 2009 £000	Accrued lump sum at age 60 at 31 March 2009 £000	Real increase in annual pension £000	Real increase in lump sum £000	CETV at 31 March 2009 £000	CETV at 31 March 2008* £000	Real increase in CETV £000
Tim Burr Comptroller and Auditor General	85-90 (80-85)	255-260 (240-245)	0-2.5 (0-2.5)	0-2.5 (0-2.5)	2,029	1,866	10
Gabrielle Cohen Assistant Auditor General	35-40 (30-35)	105-110 (100-105)	0-2.5 (0-2.5)	2.5-5 (5-7.5)	587	527	16
Ed Humpherson Assistant Auditor General	25-30 (20-25)	40-45 (35-40)	2.5-5 (5-7.5)	0-2.5 (7.5-10)	295	237	33
Wendy Kenway-Smith Assistant Auditor General	15-20 (15-20)	55-60 (50-55)	0-2.5 (0-2.5)	2.5-5 (2.5-5)	339	294	17
Caroline Mawhood Assistant Auditor General	55-60 (50-55)	165-170 (155-160)	0-2.5 (0-2.5)	0-2.5 (5-7.5)	1,147	1,046	15
Jim Rickleton Assistant Auditor General	45-50 (40-45)	135-140 (125-130)	0-2.5 (2.5-5)	2.5-5 (7.5-10)	804	724	14
Martin Sinclair Assistant Auditor General	50-55 (45-50)	105-110 (105-110)	0-2.5 (2.5-5)	-2.5-0 (0-2.5)	946	844	17
Michael Whitehouse Assistant Auditor General	50-55 (45-50)	155-160 (145-150)	0-2.5 (2.5-5)	2.5-5 (7.5-10)	985	888	15

Pension information has been supplied by the People, Pay and Pensions Agency, the National Audit Office's pensions administrators.

*The figure may be different from the closing figure in the 2007-08 Resource Accounts. This is due to the CETV factors being updated to comply with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008.

Employer contributions to partnership pensions

None of the above benefited from such contributions during 2008-09.

Cash equivalent transfer values

The Cash Equivalent Transfer Value (CETV) is the actuarially capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. It is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme, or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service Pension arrangements and for which the Civil Superannuation Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

The real increase in CETV reflects the increase effectively funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

T J Burr
Comptroller and Auditor General

19 May 2009

Statement on Internal Control

Scope of responsibility

I have been appointed as the Accounting Officer for the National Audit Office by the Public Accounts Commission, which is responsible for examining the National Audit Office Supply Estimate, for appointing the auditor of the National Audit Office, and for presenting the annual financial statements to the House of Commons. I am accountable to the House of Commons through the Commission.

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

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the National Audit Office's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively, and economically. The system of internal control has been in place in the National Audit Office for the period ended 31 March 2009 and up to the date of approval of the annual accounts, and is consistent with Treasury guidance.

Capacity to handle risk

The Management Board has identified strategic risks which could affect the achievement of the National Audit Office's policies, aims and objectives and which need to be managed actively. Under the National Audit Office's risk management arrangements, senior members of the Office are personally responsible for the management of these risks.

The Office has established processes designed to:

- maintain a policy framework within which risks are identified, managed, and regularly reviewed;
- embed risk management by assigning specific responsibility for strategic risks to Board members and allocating responsibility for operational risks to specific directors;
- ensure adoption of a consistent approach to the assessment of each operational risk that helps form a judgment on the status of the strategic risks for consideration at each Management Board meeting;
- encourage identification and management of risks by Assistant Auditors General and their directors through jointly reviewing risks and promoting understanding of the importance of managing the risks to all their staff; and
- institute separate specific risk management arrangements with a Senior Responsible Officer (usually at Board level) for specific projects of significant monetary value or unique requirements.

The Office provides training and guidance to managers and staff on managing risks and further training and guidance is provided, as appropriate, in response to new risks.

There is a continuous programme of training in core financial audit and value for money work to ensure that staff have appropriate and current knowledge and skills.

The Office continued to develop its leadership and management training programme called *unlock* to support learning and development in key areas of management excellence.

The risk and control framework

The Office maintains a risk register that identifies strategic and operational risks that could affect the achievement of its aim to help the nation spend wisely. The register is reviewed by the Audit Committee and Management Board. The National Audit Office's strategic risks are:

1. not delivering audits to time and professional standards;
2. not delivering 60 major reports of appropriate quality to Parliament, spread across the year;
3. not meeting its target of identifying each year achievable quantified value for money improvements equivalent in financial value to nine times the annual net running cost of the Office;
4. incurring an excess vote or failure to utilise efficiently and effectively resources voted by Parliament;
5. not maintaining high standards of corporate governance or complying with relevant legislation, and staff failing, or being seen to fail, to act with propriety in the performance of their duties, or to exercise good stewardship in their use of resources voted by Parliament;
6. the Office's remit is curtailed or opportunities to extend its remit or acquire new business, where appropriate, are missed;
7. not delivering major corporate projects/initiatives; and
8. not managing the refurbishment project appropriately.

The Management Board reviews the strategic risks on an annual basis and considers whether they remain relevant and whether there are any new strategic risks that need to be managed. The Board decided to establish data handling and security as a separate strategic risk from April 2009.

Proper consideration and mitigation of risk is crucial to the effectiveness of the system of control. Appropriate methodologies for the Office's work and principles and policies for staff conduct are developed, maintained and communicated to staff.

The principal features of the high level controls include:

Financial audit

- policies and procedures to ensure compliance with auditing standards and auditing regulations are set out in mandatory guidance;
- access to advice provided by a specialist technical team, independent of the operational audits, who also review proposed qualified audit opinions and reports; and

- internal hot and cold review of financial audits across the Office, and external reviews by the Quality Assurance Directorate of the ICAEW with results communicated to all financial audit teams to spread best practice.

Value for money work

- value for money standards setting out what the Office expects from staff carrying out this work and enshrining good practice;
- a framework of quality thresholds to enable staff to assess progress;
- oversight of the value for money programme by a specialist team that also provides technical support to study teams;
- internal quality assurance review of all studies at the business case stage and of all completed studies; and
- independent external reviews of all studies at the draft report stage.

Corporate oversight

- regular monitoring of the execution of financial audit, value for money studies, and other work through monthly reports to the Management Board;
- an appropriate management framework and guidance to staff to ensure agreed financial impacts are achieved and independently verified;
- the production of regular business reports for the Management Board measuring key performance indicators including budget setting and monitoring; and
- horizon scanning to identify potential changes in client base and opportunities to expand influence.

Refurbishment project

- an Assistant Auditor General is the Senior Responsible Officer for the refurbishment project, providing oversight at Board level;
- specific risk management arrangements are in place for the project, including a dedicated risk register; and
- project managers provide specific expertise and additional control over the overall construction budget.

Corporate policies

There is a corporate governance and internal control system detailing the aims and principles through which the Office conducts its business. This system includes manuals setting out operational and financial procedures and delegated authorities, codes of professional conduct setting out the standards expected of staff, an anti-fraud strategy and response plan, and a whistle blowing policy to enable staff to report concerns over any aspect of the Office's business. All staff confirm annually their compliance with the code of professional conduct.

Statement of information risk

The Comptroller and Auditor General and the National Audit Office have privileged and wide-ranging access to data and information to support the discharge of the audit function and ensure that the Comptroller and Auditor General's reports to Parliament are factual, accurate and complete. The Office has a duty to respect this privileged access and to ensure that the personal information entrusted to it is safeguarded properly.

Actions taken to manage the risk

The National Audit Office has opted to follow the Cabinet Office's recommendations on information security, and is complying with the Cabinet Office Security Policy Framework and using the Government's Information Assurance Maturity Model to measure progress. The Office undertook a gap analysis of practice against the Cabinet Office data handling guidance and the Security Policy Framework, and developed an information assurance action plan to implement the recommendations from its review of data handling and any disparities identified by the gap analysis.

In early 2008, the National Audit Office produced a Statement on the Management of Personal Data setting out its key policies for protecting personal data. This statement has been sent to all clients. It also introduced a Data Protection Framework for the management of personal data to help its staff to decide the best way to request, process, store and destroy personal data. The Data Protection Framework includes guidance on the sensitivity and the volume of the data to be held and the roles and relevant responsibilities of staff in the requesting and subsequent management of that data. It applies equally to data held by the Office and data processed by contractors on its behalf.

The National Audit Office also established a network of Information Asset Owners whose role is to understand what information is held, what is added and what is removed, how information is moved, and who has access, so as to understand and address risks to the information they use. They are required to approve the arrangements for managing data and information at the start of each individual job and confirm their application on completion, and provide overall assurance quarterly on the use and security of the data for which they are responsible.

In 2008-09, all staff received training in data protection and information security through e-learning packages. This training was incorporated into induction training for new staff. The code of conduct requires staff to confirm in their annual compliance declaration they have complied with policies on requesting and handling personal data. Compliance with these policies is subject to validation through processes established by the Data Protection Officer.

The National Audit Office has also encrypted the hard drives of all laptops, in line with Cabinet Office guidance. For data that cannot be transmitted via the Government Secure Intranet, it has implemented bulk data transfer via disk using approved encryption and defined procedures.

The Cabinet Office's review of data handling procedures in government, published in June 2008, made a number of recommendations to be implemented across government. In addition, the Cabinet Office published the Security Policy Framework in December 2008 which embraces the requirements of the Data Handling Review. This framework superseded the Manual of Protective Security and set out 70 mandatory requirements for government departments on protective security, covering physical, personnel and information security.

The National Audit Office's risk register included a sub risk on data handling and information assurance. The register is considered by the Management Board and the Audit Committee on a regular basis and sets out actions to mitigate the risks. The Office has zero tolerance for information asset losses, and reinforced this through policies and procedures and staff acceptance of them through the Code of Conduct. From 1 April 2009, data handling and information assurance is being managed as one of the Office's main strategic risks.

The National Audit Office has made good progress in implementing its information assurance action plan. Actions to date include:

- the publication of an overarching information assurance policy, consolidating policy on the acquisition, use, storage and destruction of personal data, and the revision of supporting policies and procedures;
- the publication of an information charter on its website;
- the publication of clearly defined roles and responsibilities for information assurance, including a list of obligations for Information Asset Owners;
- encryption of all laptops; and
- training for all staff on data handling and information assurance.

In order to meet all the mandatory requirements of the Security Policy Framework, further action is needed in relation to training, cultural issues and embedding best practice, risk management and governance, ensuring contractor compliance with the Office's information assurance policies and procedures, and consolidation of policies and procedures on counter-terrorism. The Office is close to reaching Level 1 (awareness of the criticality of information assurance to the business and its legal requirements) on the Government's Information Assurance Maturity Model and aims to achieve it by the end of June 2009.

Personal data related incidents

There were no protected personal data related incidents reportable to the Information Commissioner's Office in 2008-09. Neither were there any centrally recorded protected personal data related incidents not formally reported to the Information Commissioner's Office in 2008-09. If the Office was subject to reporting to the Cabinet Office, there would be no significant incidents to report.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the Director of Internal Audit and Assurance and the executive managers within the National Audit Office who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Management Board and the Audit Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The effectiveness of the system of internal control was maintained and reviewed in the following ways.

- The Management Board considered the strategic direction of the Office and performance against objectives. The Board comprised the Comptroller and Auditor General, the Chairman (from January 2009), the Assistant Auditors General and the Chairman of the Audit Committee.
- The Audit Committee, comprising three non-executive members including a non-executive Chairman, an Assistant Auditor General and a National Audit Office Director, met to monitor the operation of internal controls. Its Chairman reports to me on the work of the Audit Committee.
- The Director of Internal Audit and Assurance has direct access to the Comptroller and Auditor General and the Chairman of the Audit Committee.
- Internal audit reviews are conducted to international standards, and include an independent opinion on the adequacy and effectiveness of the Office's internal controls, together with recommendations for enhancements where necessary.
- The external auditor forms an opinion on the financial statements, validates the financial impacts claimed and reports the results of value for money examinations of the Office's activities.
- Key risks which could affect the achievement of the Office's objectives are managed actively under the risk management arrangements described above, with progress being reported regularly to the Management Board.

The National Audit Office continues to keep its internal control arrangements under review in response to internal and external developments.

The Office continued to emphasise to staff the importance of effective data security and has taken additional measures to manage the risk of accidental loss of data by enhancing security on all of the laptop computers used by its staff.

The Office continued to develop and strengthen financial management, business management, and risk management, including the implementation of recommendations made following reviews by Tenon, our external auditors. The Office delivered its key objectives using almost 99 per cent of the available resources in 2008-09.

The Director of Internal Audit and Assurance's assessment of internal control in 2008-09 concluded that there were no significant weaknesses.

Significant internal control weaknesses

I am able to report that there were no significant weaknesses in the Office's system of internal controls in 2008-09 that affected the achievement of the Office's key policies, aims, and objectives.

T J Burr
Comptroller and Auditor General

19 May 2009

Independent Auditor's report to the House of Commons

We certify that we have audited the financial statements of the National Audit Office for the year ended 31 March 2009 under the National Audit Act 1983. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement, the Statement of Financial Position, the Statement of Cash flows, the Statement of Changes in Taxpayers' Equity, the Statement of Operating Costs by Strategic Objectives and the related Notes. These financial statements have been prepared under the accounting policies set out within them. We have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and Auditors

The Accounting Officer is responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the National Audit Act 1983 and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

Our responsibility is to audit the financial statements and the part of the remuneration report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the National Audit Act 1983. We report to you whether, in our opinion, certain information given in the Annual Report, which comprises only the unaudited part of the Remuneration Report and the Management Report, is consistent with the financial statements. We also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, we report to you if the National Audit Office has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information regarding remuneration and other transactions is not disclosed.

We review whether the Statement on Internal Control reflects HM Treasury's guidance, and we report if it does not. We are not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of the National Audit Office's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our certificate if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinions

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. Our audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the National Audit Office's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

Audit Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with the National Audit Act 1983, of the state of the National Audit Office's affairs as at 31 March 2009, and the net cash requirement, net resource outturn, net operating cost, operating costs applied to objectives, recognised gains and losses and cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the National Audit Act 1983; and
- information given within the Annual Report, which comprises the unaudited part of the Remuneration Report, the Introduction and the Management Report, is consistent with the financial statements.

Audit Opinion on Regularity

In our opinion, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament, and the financial transactions conform to the authorities which govern them.

We have no observations to make on these financial statements.

Tenon Audit Limited
Registered Auditors

Clifton House
Bunnian Place
Basingstoke
Hampshire
RG21 7JE

20 May 2009

Statement of Parliamentary Supply

Summary of Resource Outturn 2008-09

			2008-09 Estimate			2008-09 Outturn		Net total outturn compared with Estimate: saving or (excess)	2007-08 Outturn Restated
	Note	Gross Expenditure £000	A in A £000	Net Total £000	Gross Expenditure £000	A in A £000	Net Total £000	£000	Net Total £000
RfR 1: Providing independent assurance to Parliament and other organisations on the management of public resources	3	127,700	20,000	107,700	122,903	19,966	102,937	4,763	80,374
Total Resources		127,700	20,000	107,700	122,903	19,966	102,937	4,763	80,374
Non Operating Cost A in A				—			—		

Outturn for 2008-09 has been presented in line with International Financial Reporting Standards. The Estimate provision was based on United Kingdom financial reporting standards and has not been restated.

Comparative figures for 2007-08 have been re-stated in line with International Financial Reporting Standards.

Reasons for variances between Estimate and outturn are provided in the Management Commentary on pages 56 to 57.

Net Cash Requirement 2008-09

	Note	Estimate	Outturn	2008-09 £000 Net total outturn compared with Estimate: saving or (excess)	2007-08 £000 Outturn
Net cash requirement	5	121,250	111,206	10,044	80,413

Summary of income payable to the Consolidated Fund

In addition to appropriations in aid, the following income related to the National Audit Office and is payable to the Consolidated Fund.

	Note	Forecast 2008-09		Outturn 2008-09		Outturn 2007-08	
		Income £000	Receipts £000	Income £000	Receipts £000	Income £000	Receipts £000
Total	6a	–	–	5	–	–	2,480

The notes on pages 84 to 105 form part of these accounts.

Operating Cost Statement for the year ended 31 March 2009

	Note	2008-09 £000	2007-08 Restated £000
Administration costs:			
Staff costs	7	55,171	53,232
Non-staff administration costs	8	67,922	45,197
Gross administration costs		123,093	98,429
Operating income	9	(19,966)	(17,831)
Net operating cost	4	103,127	80,598

There were no acquisitions or disposals during the period.

All operations are continuing.

Figures for 2007-08 have been re-stated in line with International Financial Reporting Standards.

The notes on pages 84 to 105 form part of these accounts.

Statement of Financial Position as at 31 March 2009

	Note	31 March 2009		31 March 2008 Restated	
		£000	£000	£000	£000
Non-current assets:					
Property, plant and equipment	10	34,380		31,436	
Intangible assets	11	1,204		1,431	
Receivables falling due after more than one year	12	582		495	
Total non-current assets			36,166		33,362
Current assets:					
Trade and other receivables	12	11,639		9,974	
Cash and cash equivalents	13	183		2,830	
Total current assets			11,822		12,804
Total assets			47,988		46,166
Current liabilities					
Trade and other payables	14	(6,381)		(9,007)	
Total current liabilities			(6,381)		(9,007)
Total assets less current liabilities			41,607		37,159
Non-current liabilities					
Provisions	15	(2,504)		(3,065)	
Total non-current liabilities			(2,504)		(3,065)
Assets less liabilities			39,103		34,094
Taxpayers' Equity:					
General Fund			29,169		19,660
Revaluation reserve			9,934		14,434
Total taxpayers' equity			39,103		34,094

Figures for 2007-08 have been re-stated in line with International Financial Reporting Standards.

A revised statement of financial position has not been presented as the impact of applying International Financial Reporting Standards was limited as shown in the Statement of Changes in Taxpayers' Equity on page 81.

T J Burr
Comptroller and Auditor General

19 May 2009

The notes on pages 84 to 105 form part of these accounts.

Statement of Cash Flows for the year ended 31 March 2009

	Note	2008-09 £000	2007-08 £000
Cash flows from operating activities			
Net operating cost	4	(103,127)	(80,598)
Adjustments for non-cash transactions	8	3,999	4,015
(Increase)/decrease in trade and other receivables	12	(1,752)	656
Increase in trade payables	14	21	1,592
Use of provisions	15	(1,614)	(597)
Net cash outflow from operating activities		(102,473)	(74,932)
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(8,587)	(1,857)
Purchase of intangible assets	11	(336)	(951)
From Non-Operating Income	6c	5	–
Net cash outflow from investing activities		(8,918)	(2,808)
Cash flows from financing activities			
From the Consolidated Fund (Supply) – current year		108,554	82,650
From the Consolidated Fund (Non-Supply)	8	190	185
Net financing		108,744	82,835
Net (decrease)/increase in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		(2,647)	5,095
Payments of amounts due to the Consolidated Fund	13	–	(2,480)
Net (decrease) / increase in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		(2,647)	2,615
Cash and cash equivalents at the beginning of the period	13	2,830	
Cash and cash equivalents at the end of the period	13	183	

The notes on pages 84 to 105 form part of these accounts.

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2009

	Note	General Fund £000	Revaluation Reserve £000	Total Reserves £000
Balance at 31 March 2007		19,939	19,141	39,080
Effect of changes under International Financial Reporting Standards		(1,422)	–	(1,422)
Restated Balance at 1 April 2007		18,517	19,141	37,658
Changes in taxpayers' equity for 2007-08				
Net loss on revaluation of property, plant and equipment	10	–	(4,513)	(4,513)
Non-cash charges – cost of capital	8	1,327	–	1,327
Consolidated Fund Standing Services	8	185	–	185
Transfers between reserves		194	(194)	–
Effect of changes under International Financial Reporting Standards	2	(39)	–	(39)
Net operating cost for the year		(80,559)	–	(80,559)
Total recognised income and expense for 2007-08		(78,892)	(4,707)	(83,599)
Net Parliamentary Funding – drawn down		82,650	–	82,650
Net Parliamentary Funding – deemed		215	–	215
Supply payable adjustment		(2,830)	–	(2,830)
		80,035	–	80,035
Balance at 31 March 2008		19,660	14,434	34,094
Changes in taxpayers' equity for 2008-09				
Net loss on revaluation of property, plant and equipment	10	–	(4,500)	(4,500)
Non-cash charges – cost of capital	8	1,240	–	1,240
Consolidated Fund Standing Services	8	190	–	190
Net operating cost for the year	4	(103,127)	–	(103,127)
Total recognised income and expense for 2008-09		(101,697)	(4,500)	(106,197)
Net Parliamentary Funding – drawn down		108,554	–	108,554
Net Parliamentary Funding – deemed	13	2,830	–	2,830
Supply payable adjustment	14	(178)	–	(178)
		111,206	–	111,206
Balance at 31 March 2009		29,169	9,934	39,103

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

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

The notes on pages 84 to 105 form part of these accounts.

Statement of Operating Costs by Strategic Objectives for the year ended 31 March 2009

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

2008-09	Strategic Objective 1	Strategic Objective 2	Strategic Objective 3	Strategic Objective 4	Total
	£000	£000	£000	£000	£000
Gross Expenditure	50,792	32,896	10,166	178	94,032
Income	(16,026)	(883)	(3,057)	–	(19,966)
Subtotal	34,766	32,013	7,109	178	74,066
Repair and refurbishment of the Office's London headquarters building					20,724
Provision of temporary office accommodation					8,337
Net Expenditure	34,766	32,013	7,109	178	103,127
Total Assets	25,921	16,788	5,188	91	47,988

Figures for 2007-08 have been re-stated in line with International Financial Reporting Standards.

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

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

Objective 3 **Direct support to Parliament, the public, and other organisations:** supporting the Committee of Public Accounts and other Select Committees; responding to enquiries from Members of Parliament and members of the general public; and the provision of advice and training to support the effective scrutiny of public finances in other countries.

Objective 4 **Comptroller function:** the Comptroller and Auditor General's statutory responsibility to approve the release of funds from the Exchequer to departments.

From 2008-09, the Office moved from a five-objectives structure to a four-objectives structure. The 2007-08 comparatives have been re-presented to reflect this change. The National Audit Office maintains a resource management system that links the cost of individual assignments to one of the four objectives. Indirect costs are allocated pro-rata to staff costs. For 2009-10 the Office will move back to a five-objective structure to reflect new corporate governance arrangements.

The National Audit Office is currently refurbishing its London headquarters accommodation. The Public Accounts Commission has approved a separate budget for the refurbishment project and temporary accommodation, which is included in Request for Resources under 1B and 1C. As it is funded separately, expenditure on the project has not been allocated to Objectives 1-4.

The notes on pages 84 to 105 form part of these accounts.

2007-08 Restated	Strategic Objective 1	Strategic Objective 2	Strategic Objective 3	Strategic Objective 4	Total
	£000	£000	£000	£000	£000
Gross Expenditure	48,110	29,866	10,542	199	88,717
Income	(14,008)	(181)	(3,642)	–	(17,831)
Subtotal	34,102	29,685	6,900	199	70,886
Repair and refurbishment of the Office's London headquarters building					4,351
Provision of temporary office accommodation					5,361
Net Expenditure	34,102	29,685	6,900	199	80,598
Total Assets	25,035	15,541	5,486	104	46,166

The notes on pages 84 to 105 form part of these accounts.

Notes to the resource accounts

1 Statement of accounting policies

These financial statements have been prepared in accordance with section 4 of the National Audit Act 1983. The Act requires the National Audit Office to prepare resource accounts. In meeting this requirement, the financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted and interpreted by the 2009-10 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM comply with IFRS as adapted or interpreted for the public sector context.

Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the National Audit Office for the purpose of giving a true and fair view has been selected. The particular policies adopted by the National Audit Office are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

In addition to the primary statements prepared under IFRS, the FReM also requires the National Audit Office to prepare two additional primary statements. The Statement of Parliamentary Supply and supporting notes show outturn against Estimate in terms of the net resource requirement and the net cash requirement. The Statement of Operating Cost by Strategic Objectives and supporting notes analyse the National Audit Office's income and expenditure by the objectives of the Comptroller & Auditor General.

IFRS 1 – First Time Adoption

The National Audit Office has opted for early adoption of IFRS and the Office's date of transition is 1 April 2007. IFRS 1 First-time adoption of International Financial Reporting Standards allows entities adopting IFRS for the first time to take certain exemptions from the full requirements of IFRS in the year of transition (i.e. 2008-09). The National Audit Office elected not to take any exemptions.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of property, plant and equipment.

1.2 Financing

The National Audit Office is primarily resourced by funds approved by the House of Commons through the annual Appropriation Act. Resources are drawn down each month to meet expenditure requirements and are credited to the General Fund. Some 20 per cent of the Office's resource requirement is met by charging fees for certain financial audit assignments and other services. The level of income that the Office may use in support of its activities (known as Appropriations in Aid) is also approved by the House of Commons in the Appropriation Act. Income earned in excess of the approved level cannot be used in support of the Office's activities and is required to be paid over to the Consolidated Fund as excess Appropriations in Aid in accordance with Managing Public Money.

1.3 Capital charge

A charge, reflecting the cost of capital utilised by the National Audit Office, is included in operating costs. The charge is calculated at the real rate set by HM Treasury, currently 3.5 per cent (2007-08: 3.5 per cent), on the average carrying amount of all assets less liabilities, except for cash balances with the Office of the Paymaster General and amounts to be surrendered to the Consolidated Fund.

1.4 Pensions

Past and present employees of the National Audit Office are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which are described at Note 7(b). The defined benefit schemes are unfunded and are non-contributory except in respect of dependents' benefits. The National Audit Office recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution elements of the schemes, the National Audit Office recognises the contributions payable for the year.

1.5 Property, plant and equipment

Expenditure on property, plant and equipment of £1,500 or more is capitalised. On initial recognition, assets are measured at cost including any costs such as installation directly attributable to bringing them into working condition. All property, plant and equipment is reviewed annually for impairment and is carried at fair value. Land and buildings are stated at their fair value based on an annual professional valuation as at the end of the financial year. All non-property operational assets are deemed to be short-life or low value assets and are therefore valued on the basis of depreciated replacement cost as an approximation of fair value.

1.6 Intangible assets

Expenditure on intangible assets which are software licenses and the associated costs of implementation is capitalised where the cost is £1,500 or more. Intangible assets are reviewed annually for impairment, and are stated at amortised historic cost. Software licences are amortised on a straight line basis over the shorter of the term of the licence and the useful economic life (four to seven years).

1.7 Depreciation

Property, plant and equipment are depreciated at rates calculated to write them down to the estimated residual value on a straight-line basis over their estimated useful lives. The residual values of assets are reviewed on an annual basis.

Asset lives are normally in the following ranges:

Leasehold land and buildings	Remaining life of lease
Plant	25 years
Computers and other equipment	3 to 10 years
Motor vehicles	3 years
Furniture, fixtures and fittings	10 years

To comply with IAS 16 Property, plant and equipment, material non-structural elements of the headquarters building have been separately identified and depreciated over periods up to 25 years. Depreciation on the leasehold land, buildings and plant was not charged from December 2007 following the National Audit Office's move to temporary accommodation in November 2007. During the refurbishment phase, the headquarters building is being treated as an asset in the course of construction and depreciation will be charged again once the headquarters building is re-occupied.

The term of the lease for long leasehold land and buildings (the Office headquarters) is 130 years. Revaluation was undertaken at 31 March 2009, at which time the lease had 103 years remaining.

1.8 Trade receivables

Trade receivables are recognised initially at fair value less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the National Audit Office will not be able to collect all amounts due according to the original terms of the receivables.

1.9 Inventory and work in progress

Consumable inventory is charged to the operating cost statement in the year of purchase. Work in progress, mainly related to fee-paying audit assignments, represents costs incurred on specific contracts, less foreseeable losses and payments on account not matched with operating income. Operating income is determined by reference to the value of work carried out to the balance sheet date. Provision is made for the full amount of foreseeable losses on contracts. Costs comprise staff salary costs and direct expenses together with an appropriate proportion of overheads.

1.10 Operating income

Operating income relates directly to the operating activities of the National Audit Office. It principally comprises fees and charges for services provided by statute or by agreement with client organisations. Income represents the value of invoices raised on completion of work and the value of work completed but not yet invoiced on assignments which will be completed in the subsequent year. Operating income is stated net of VAT. Non operating income is surrenderable to the Consolidated Fund and is reported in Note 6b.

1.11 Operating leases

The total cost of operating leases is expensed in equal instalments over the life of the lease.

1.12 Financial Instruments

The National Audit Office does not hold any complex financial instruments. The only financial instruments included in the accounts are receivables and payables (Notes 12 and 14). Trade receivables are recognised initially at fair value less provision for impairment. A provision for impairment is made when there is evidence that the National Audit Office will be unable to collect an amount due in accordance with agreed terms.

1.13 Foreign exchange

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Any outstanding monetary assets and liabilities at the year end are translated into sterling at the rates ruling at 31 March. Translation differences are dealt with in the Operating Cost Statement.

1.14 Provisions

The National Audit Office provides for legal or constructive obligations which are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the HM Treasury discount rate.

1.15 Value Added Tax

The majority of the National Audit Office's work is performed under statute and is outside the scope of output VAT. Output tax is however charged on certain fee-paying services. Where output tax is charged, income is stated net of VAT. Input VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets. Recoveries of input VAT are netted off against expenditure in the Operating Cost Statement.

1.16 Staff Costs

Under IAS19 Employee Benefits legislation, all staff costs must be recorded as an expense as soon as the organisation is obligated to pay them. This includes the cost of any untaken leave as at the year end. The cost of untaken leave has been determined using data from electronic leave records.

1.17 Accounting Estimates

Other than the capitalisation of refurbishment costs on the headquarters building, no material accounting estimates or judgements were made by the National Audit Office in preparing these accounts.

2 First-time adoption of International Financial Reporting Standards

	General Fund £000	Revaluation Reserve £000
Taxpayers' equity at 31 March 2008 under UK Generally Accepted Accounting Practice	21,121	14,434
Adjustments for:		
IAS19 Employee Benefits – Accrued untaken paid leave	(1,461)	–
Taxpayers' equity at 1 April 2008 under International Financial Reporting Standards	19,660	14,434
		£000
Net operating cost for 2007-08 under UK Generally Accepted Accounting Practice		80,559
Adjustments for:		
Movement in accrued untaken paid leave – 2007-08	39	
Net operating cost for 2007-08 under International Financial Reporting Standards		80,598
The adoption of IFRS has no impact on the cash position of the National Audit Office. No reconciliation is therefore required for prior year cashflow.		
		£000
Net operating cost for 2008-09 under UK Generally Accepted Accounting Practice		103,088
Adjustments for:		
Movement in accrued untaken paid leave – 2008-09	39	
Net operating cost for 2008-09 under International Financial Reporting Standards		103,127

3 Analysis of net resource outturn by section

	Outturn		2008-09 estimate £000		2007-08 £000	
	Gross resource expenditure	A in A	Net total	Net total	Net total outturn compared with Estimate: saving or (excess)	Prior-year outturn Restated
RfR 1: Providing independent assurance to Parliament and other organisations on the management of public resources						
1A Provision of audit and other assurance services	93,842	19,966	73,876	74,826	950	70,701
1B Repair and refurbishment of Office's headquarters building	20,724	–	20,724	24,209	3,485	4,351
1C Provision of temporary office accommodation	8,337	–	8,337	8,665	328	5,361
Resource Outturn	122,903	19,966	102,937	107,700	4,763	80,413

Figures for 2007-08 have been re-stated in line with International Financial Reporting Standards.

The Office used 98.7 per cent of its resources under RfR1A and met its key objectives of providing audit opinions on more than 400 financial statements, issuing 60 major reports, and supporting the Committee of Public Accounts and Select Committees. It achieved a financial impact of £10 for every £1 net resources consumed.

Expenditure on RfR1B was lower than the Estimate due to delays in the refurbishment programme, which led to expenditure that was originally planned for 2008-09 slipping into 2009-10.

Expenditure on RfR1C was lower than the Estimate because facilities management costs were lower than expected.

A fuller account for reasons for variances is set out on pages 56 to 57 of the Management Commentary.

4 Reconciliation of net resource outturn to net operating cost

				2008-09	2007-08 Restated
	Note	Outturn £000	Estimate £000	Outturn compared with Estimate £000	Outturn £000
Net resource outturn	3	102,937	107,700	(4,763)	80,413
IFRS adjustment – Movement in accrued untaken leave accrual					39
Non-supply income (CFERs)	6	–	–	–	–
Non-supply expenditure	8	190	192	(2)	185
Net operating cost		103,127	107,892	(4,765)	80,637

Request for Resource 1: Providing independent assurance to Parliament and other organisations on the management of public resources.

Administrative expenditure and associated non-cash items incurred in the provision of independent assurance, information and advice to Parliament on the proper accounting for central government expenditure, revenue, assets and liabilities, including compliance with laws and regulations, and in the economy, efficiency and effectiveness with which central government resources have been used; the provision of independent assurance, information and advice to a wide range of other public, international, and overseas bodies and to members of the public; the repair and refurbishment of the National Audit Office's London headquarters; and the provision of temporary office accommodation for London-based staff.

Net operating cost is the total of expenditure and income appearing in the operating cost statement. Net resource outturn is the total of those elements of expenditure and income that are subject to Parliamentary approval and included in the National Audit Office's Supply Estimate. The outturn against the Estimate is shown in the Statement of Parliamentary Supply.

Figures for 2007-08 have been re-stated in line with International Financial Reporting Standards.

5 Reconciliation of net resource outturn to net cash requirement

	Note	Estimate £000	Outturn £000	Net total outturn compared with Estimate: saving/ (excess) £000
Resource outturn		107,700	102,937	4,763
Capital				
Acquisition of assets	10, 11	15,740	8,923	6,817
Accruals adjustments:				
Non-cash items	8	(3,310)	(3,999)	689
Changes in working capital other than cash		(390)	1,731	(2,121)
Use of provisions	15	1,510	1,614	(104)
Net cash requirement		121,250	111,206	10,044

Explanation of variances between estimate and outturn

Resource outturn was 4.4 per cent less than the Estimate.

Expenditure on the provision of audit and other assurance services was within 1.3 per cent of the Estimate provision. There was, however, a significant underspend on the provision for the repair and refurbishment of the Office's headquarters building. This was caused by slippage in the refurbishment project, which also led to underspends against the capital provision and the net cash requirement.

The increase in non-cash items mainly reflected new early departure provisions agreed during the year which were not envisaged when the Resource Estimate was prepared. This also explains the variation in the use of provisions.

The variation in working capital reflects a lower level of trade payables at the end of 2008-09 than had been assumed when the Estimate was prepared.

6(a) Analysis of income payable to the Consolidated Fund

	Note	Forecast Income £000	Receipts £000	Outturn Income £000	Receipts £000
Operating income and receipts – excess Appropriations in Aid	14	–	–	–	–
Non-operating income and receipts not classified as Appropriations in Aid	14	–	–	4	–
Other amounts collectable on behalf of the Consolidated Fund	14	–	–	1	–
Total income payable to the Consolidated Fund		–	–	5	–

6(b) Reconciliation of income recorded within the Operating Cost Statement to operating income payable to the Consolidated Fund

	Note	2008-09 £000	2007-08 £000
Operating income	9	19,966	17,831
Income authorised to be appropriated in aid	3	19,966	17,831
Operating income payable to the Consolidated Fund	6(a)	–	–

6(c) Non-operating income not classified as appropriations in aid

	2008-09 £000	2007-08 £000
	5	–

£4,574 is payable to the Consolidated Fund from sale proceeds following the disposal of fixed assets.
£152 is payable to the Consolidated Fund in respect of royalties on a book published by the former Comptroller and Auditor General, Sir John Bourn.

7 Staff numbers and related costs

7(a) Staff costs comprise

		2008-09 £000 Permanently employed staff	Others	2007-08 Restated £000 Total
	Total			
Wages and salaries	42,558	41,908	650	40,875
Social security costs	3,499	3,499		3,457
Other pension costs	9,114	9,114		8,900
Sub Total	55,171	54,521	650	53,232
Less recoveries received in respect of outward secondments	(653)	(653)		(650)
Total net costs	54,518	53,868	650	52,582

Figures for 2007-08 have been re-stated in line with International Financial Reporting Standards.

Benefits in kind

Tax and national insurance relating to benefits in kind met by the National Audit Office are included within wages and salaries expenditure.

7(b) Pension arrangements

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme, but the National Audit Office is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2007. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

Employer's contributions of £9,094,406, were payable to the PCSPS as at 31 March 2009 (2007-08: £8,877,486) at one of four rates in the range 17.1 per cent to 25.5 per cent (2007-08: 17.1 to 25.5 per cent) of pensionable pay based on salary bands. The Scheme's Actuary reviews employer contributions every four years following a full scheme revaluation. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer contributions of £35,751 (2007-08: £38,605) were paid to one or more of a panel of four appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5 per cent (2007-08: 3 to 12.5 per cent) of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £2,709; 0.8 per cent of pensionable pay (2007-08: £2,747; 0.8 per cent) were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees. All these contributions are included in 'Other pension costs'.

No contributions were due or prepaid to the partnership pension providers at the balance sheet date.

7(c) Average number of persons employed

The average number of whole-time equivalent persons employed (including senior management) during the period was as follows:

Strategic Objective	2008-09 Number			2007-08 Restated Number
	Total	Permanent staff	Others	Total
Objective 1:				
Financial audit	489	451	38	478
Objective 2:				
Value for money	303	300	3	282
Objective 3:				
Direct support to Parliament, the public and other organisations	125	109	16	128
Objective 4:				
Comptroller function	4	4	–	4
Total	921	864	57	892

In 2008-09, the Office moved from a five-objectives structure to a four-objectives structure. Staff numbers previously attributed to Objective 3: Review of departmental systems are now attributed to either Objective 1: Financial audit or Objective 2: Value for money. Figures for 2007-08 have therefore been restated.

8 Other administration costs

	Note	2008-09 £000	2007-08 £000
Audit and other assurance services:			
Professional services bought in		22,640	17,456
Travel, subsistence, hospitality		3,552	3,594
Accommodation		301	2,610
Office supplies and equipment		2,914	3,118
Recruitment and training		2,984	2,476
Staff related costs		1,026	869
International work		494	569
Operating lease (buildings)		209	210
Other administration costs		390	240
Operating lease (vehicles)		–	11
Consolidated Fund Standing Services (Comptroller and Auditor General's salary)		190	185
Remuneration to external auditors for other work		95	82
External auditor's fee		67	50
		<u>34,862</u>	<u>31,470</u>
Repair and refurbishment of the headquarters building:			
Refurbishment costs		20,724	4,351
Temporary office accommodation:			
Temporary accommodation costs		8,337	5,361
		<u>29,061</u>	<u>9,712</u>
		63,923	41,182
Non cash items:			
Cost of capital charge		1,240	1,327
Provision for early departure costs provided for in the year	15	1,053	276
Other provisions	15	–	108
Depreciation and amortisation	10,11	1,566	1,650
Loss on disposal of property, plant and equipment		140	526
Impairment	10	–	128
		<u>3,999</u>	<u>4,015</u>
		67,922	45,197

9 Income

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

	Resource Outturn		2008-09 Operating cost statement	
	Netted off gross expenditure	Appropriated in Aid	Payable Consolidated Fund	Income included in operating cost statement £000
	£000	£000	£000	£000
Appropriated in Aid				
Audit Fees - UK	–	14,787	–	14,787
Audit Fees - International	–	1,239	–	1,239
International Technical Cooperation	–	2,404	–	2,404
Secondment income	–	653	–	653
Other income	–	883	–	883
Total income	–	19,966	–	19,966

	Resource Outturn		2007-08 Operating cost statement	
	Netted off gross expenditure	Appropriated in Aid	Payable Consolidated Fund	Income included in operating cost statement £000
	£000	£000	£000	£000
Appropriated in Aid				
Audit Fees - UK	–	13,141	–	13,141
Audit Fees - International	–	867	–	867
International Technical Cooperation	–	2,992	–	2,992
Secondment income	–	650	–	650
Other income	–	181	–	181
Total income	–	17,831	–	17,831

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

	2008-09			2007-08		
	Income £000	Expenditure £000	Surplus/ (deficit) £000	Income £000	Expenditure £000	Surplus/ (deficit) £000
Audit Fees - UK	14,787	15,733	(946)	13,141	14,018	(877)
Audit Fees - International	1,239	990	249	867	828	39
International Technical Cooperation	2,404	2,109	295	2,992	2,547	445
Secondment income	653	653	–	650	650	–
Other income	883	849	34	181	46	135
	19,966	20,334	(368)	17,831	18,089	(258)

The National Audit Office sets audit fees with the aim of recovering the cost, including an appropriate contribution to overheads, of undertaking fee paying work.

For international work, the policy is to carry out the work at no cost to Parliament, and the aim is to recover expenditure directly attributable to the work. The Office did not recover the full cost of its UK audits and is seeking to bring revenue and expenditure back into balance over the next two years.

This information is provided for fees and charges purposes and not for IFRS 8 (Segmental Reporting) purposes.

10 Property, plant and equipment

	Long Leasehold Land & Buildings £000	Plant £000	Computers & other Equipment £000	Furniture Fixtures & Fittings £000	Motor Vehicles £000	Asset in the course of construction £000	Total £000
Cost or Valuation							
At 1 April 2008	26,932	860	4,694	888	42	742	34,158
Additions	–	–	711	8	–	7,868	8,587
Disposals	–	–	(250)	(191)	–	–	(441)
Revaluation	(4,500)	–	–	–	–	–	(4,500)
At 31 March 2009	22,432	860	5,155	705	42	8,610	37,804
Depreciation							
At 1 April 2008	–	292	2,137	278	15	–	2,722
Charged in year	–	–	928	61	14	–	1,003
Disposals	–	–	(237)	(64)	–	–	(301)
Revaluations	–	–	–	–	–	–	–
At 31 March 2009	–	292	2,828	275	29	–	3,424
Net Book Value							
at 31 March 2009	22,432	568	2,327	430	13	8,610	34,380
at 31 March 2008	26,932	568	2,557	610	27	742	31,436

The National Audit Office owns all its assets and has no finance leases or PFI contracts, except for the long lease of the land and buildings for the Headquarters Office, which is at a peppercorn rent.

Notes

IAS 16 requires measurement at fair value. Management considers open market value to be the best available estimation of fair value. Land and buildings (the Office headquarters) were revalued by Drivers Jonas, independent property consultants and surveyors and a member of RICS in accordance with the Guidance Notes of the RICS. The headquarters are currently being refurbished and the capital value of the refurbishment work is disclosed separately in the table above as an asset in the course of construction. Drivers Jonas valued the land and buildings on an open market basis on the special assumption that no refurbishment expenditure had been incurred at £23,000,000 as at 31 March 2009 (*31 March 2008: £27,500,000*). The estimated capital value of the refurbishment work is based on an assessment carried out at the planning stage which analysed expenditure between repair and refurbishment costs to bring the building back to its original condition that would be treated as revenue expenditure and enhancements, plant and equipment which would be capitalised. On this basis, assets in the course of construction were estimated to be £8,610,000 at 31 March 2009 (*31 March 2008: £742,000*). The total value of land and buildings is therefore £31,610,000 at 31 March 2009 (*31 March 2008: £28,242,000*). Land and buildings are revalued annually.

The net effect of the revaluation has been accounted for through the revaluation reserve.

During the refurbishment of the National Audit Office's Headquarters building, which commenced in December 2007, the building is treated as an asset in the course of construction and is not being depreciated. Depreciation will be charged when the refurbished building is brought back into use.

Fixed assets acquired by the Office solely for its temporary accommodation are being depreciated over the period during which the temporary office accommodation is being used.

	Long Leasehold Land & Buildings £000	Plant £000	Computers & other Equipment £000	Furniture Fixtures & Fittings £000	Motor Vehicles £000	Asset in the course of construction £000	Total £000
Cost or Valuation							
At 1 April 2007	31,747	1,460	3,727	1,707	42	120	38,803
Additions	–	–	1,158	77	–	622	1,857
Disposals	–	–	(191)	(896)	–	–	(1,087)
Impairment	–	(600)	–	–	–	–	(600)
Revaluation	(4,815)	–	–	–	–	–	(4,815)
At 31 March 2008	26,932	860	4,694	888	42	742	34,158
Depreciation							
At 1 April 2007	–	707	1,687	504	1	–	2,899
Charged in year	302	57	643	142	14	–	1,158
Disposals	–	–	(193)	(368)	–	–	(561)
Impairment	–	(472)	–	–	–	–	(472)
Revaluations	(302)	–	–	–	–	–	(302)
At 31 March 2008	–	292	2,137	278	15	–	2,722
Net Book Value							
At 31 March 2008	26,932	568	2,557	610	27	742	31,436
At 31 March 2007	31,747	753	2,040	1,203	41	120	35,904

11 Intangible assets

Intangible assets are software licences and the associated implementation costs

	Total £000
Cost	
At 1 April 2008	3,631
Additions	336
At 31 March 2009	3,967
Amortisation	
At 1 April 2008	2,200
Charged in year	563
At 31 March 2009	2,763
Net Book Value	
at 31 March 2009	1,204
at 31 March 2008	1,431
	Total £000
Cost	
At 1 April 2007	2,680
Additions	951
At 31 March 2008	3,631
Amortisation	
At 1 April 2007	1,708
Charged in year	492
At 31 March 2008	2,200
Net Book Value	
at 31 March 2008	1,431
at 31 March 2007	972

12 Trade receivables and other current assets

	2008-09 £000	2007-08 £000
Amounts falling due within one year:		
Trade receivables	2,274	564
Work in progress	7,477	7,700
Deposits and advances	414	388
Other receivables	439	494
Prepayments and accrued income	1,035	828
	11,639	9,974
Amounts falling due after more than one year:		
Deposits and advances	582	495
Total	12,221	10,469

13 Cash and cash equivalents

	2008-09 £000	2007-08 £000
Balance at 1 April 2008	2,830	215
Net change in cash and cash equivalent balances	(2,647)	2,615
Balance at 31 March 2009	183	2,830
The following balances were held at:		
Office of HM Paymaster General	137	2,389
Commercial banks and cash in hand	46	441
Balance at 31 March 2009	183	2,830

14 Trade payables and other current liabilities

	2008-09 £000	2007-08 Restated £000
Amounts falling due within one year:		
Trade payables	61	2
Other payables	204	27
Accruals and deferred income	5,799	6,075
Payments received on account	134	73
Amounts issued from the Consolidated Fund for supply but not spent at period end	178	2,830
Consolidated Fund extra receipts received due to be paid to the Consolidated Fund		
received	5	—
receivable	—	—
Total	6,381	9,007

Figures for 2007-08 have been re-stated in line with International Financial Reporting Standards.

15 Provisions for liabilities and charges

	Early departure £000	Other £000	Total £000
Balance at 1 April 2008	2,142	923	3,065
Provided in the year	1,032	–	1,032
Unwinding of discounts	21	–	21
Provisions utilised in the year	(691)	(923)	(1,614)
Balance at 31 March 2009	2,504	–	2,504

Analysis of expected timing of discounted flows

	Early departure £000	Other £000	Total £000
In the remainder of the Spending Review period (to 2011)	1,742	–	1,742
Between 2012 and 2016	701	–	701
Between 2017 and 2020	61	–	61
Thereafter	–	–	–
Balance at 31 March 2009	2,504	–	2,504

15.1 Early departure costs

The National Audit Office meets the additional costs of benefits beyond the normal Principal Civil Service Pension Scheme benefits in respect of employees who retire early by paying the required amounts annually to the Principal Civil Service Pension Scheme over the period between early departure and normal retirement date. The National Audit Office provides for this in full when the early departure decision is approved, by establishing a provision for the estimated payments discounted by the Treasury discount rate of 2.2 per cent in real terms.

15.2 Other provisions

The opening balance of other provisions related to restructuring costs of the National Audit Office's Blackpool Office, losses expected on the sale of properties belonging to staff who relocated to Newcastle and made use of the Cartus scheme available under the Office's relocation arrangements, liabilities arising on the termination of the lease of the official car and penalties arising on the assessment of the official car as a benefit in kind. These provisions have been fully utilised.

16 Capital commitments

	2008-09 £000	2007-08 £000
Property, plant and equipment	10,854	1,112

17 Commitments under leases

Total future minimum lease payments under operating leases are given in the table below for each of the following periods.

	2008-09 £000	2007-08 £000
Obligations under operating leases comprise:		
Land and buildings:		
Not later than one year	182	182
Later than one year and not later than five years	642	823
Later than five years	—	—

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

18 Other financial commitments

The National Audit Office has entered into non-cancellable contracts (which are not leases or PFI contracts), in connection with the refurbishment of its headquarters. The payments to which the National Audit Office is committed, analysed by the period during which the commitment expires are as follows.

	2008-09 £000	2007-08 £000
Not later than one year	25,948	1,890

19 Financial Instruments

The National Audit Office's resources are met from Parliament through the Estimates process and from income from work carried out on a repayment basis. The Office has no powers to borrow money or to invest surplus funds. Other than financial assets and liabilities which are generated by day-to-day operational activities, the Office holds no financial instruments.

Liquidity Risk

The National Audit Office's net revenue resource requirements are financed by resources voted annually by Parliament, as is its capital expenditure. The Office is not therefore exposed to material liquidity risks.

Credit Risk

The National Audit Office's clients are mainly government departments, executive agencies and other public bodies. The Office is therefore not exposed to any material credit risk.

Foreign Currency Risk

The National Audit Office has some exposure to foreign currency risk because fees for certain international work is denominated in dollars or euros. Before pricing or commissioning work, the National Audit Office seeks to identify the potential exposure to exchange rate variations and to manage the risk accordingly.

20 Contingent liabilities

The National Audit Office had no contingent liabilities at 31 March 2009 (31 March 2008: Nil).

21 Losses and Special Payments

No losses and special payments that required separate disclosure because of their nature or amount were incurred (2007-08: Nil).

22 Related Party transactions

The National Audit Office is headed by the Comptroller and Auditor General and was established by the National Audit Act 1983. The Office is independent of government and is accountable to Parliament through the Public Accounts Commission. The National Audit Office had transactions with government departments and central government bodies, for the provision of accommodation, training courses and the hosting of seminars. Some of these transactions have been with entities that are fee paying clients. The Office also had transactions with HM Revenue and Customs to meet statutory taxation requirements, and with the Cabinet Office which operates the Principal Civil Service Pension Scheme.

The most significant business transaction related to the leasing of temporary office accommodation, on commercial terms, from the Department for Business Enterprise and Regulatory Reform, which amounted to some £8.3 million in 2008-09.

Three members of the National Audit Office Management Board have positions with the Chartered Institute of Public Finance and Accountancy, to whom the National Audit Office pays professional subscriptions on behalf of staff who are members. Caroline Mawhood was President of the Institute from June 2008, Steve Freer is the Chief Executive, and Martin Sinclair is a member of the Council.

23 Post Balance Sheet Events

There were no post balance sheet events between the balance sheet date and the date the accounts were signed.

The accounts were authorised for issue on 20 May 2009.

Statement of National Audit Office financial impact for 2008

The statement of financial impact represents the National Audit Office's estimate of the value of the benefits achieved in 2008 following implementation of the Office's recommendations. Financial impacts arise where there is a direct link between our work and a quantifiable beneficial change in an audited body. Financial impacts may be cashable – reducing expenditure, or increasing revenue through improved efficiency or effectiveness. They may also be non-cashable improvements in public sector efficiency through improved quality or service delivery, or benefits to third parties.

We claim an impact only when the related benefit has been brought about, we have data to substantiate the value, and the audited body gives its agreement to the claim. For this reason, there is usually some time lag between our recommendations and the impact claim. In calculating the value of impacts, we deduct any implementation costs incurred directly by the audited body or indirectly by other parties.

Not all impacts can be quantified precisely in purely financial terms, for example, those that relate to qualitative efficiency gains and wider economic benefits. In these instances, we base any impact claim on careful judgement and estimation. Our recommendations are not always separable from other influences and the National Audit Office agrees a proportion of the overall impact with the audited body, based on an assessment of the likely level of influence of our work, in these circumstances.

The statement of financial impacts has been prepared in accordance with internal guidance issued to all National Audit Office staff. Estimates are subject to internal quality assurance review by senior management and internal audit, and the Management Board collectively adopts all of the impacts. The NAO reports financial impacts on a calendar year basis, and has adopted the following principles for financial impacts:

Principles for claiming financial impacts

Prudence – only net savings can be claimed, for example, after taking into account additional implementation costs.

Attribution – there must be a causal link between the impact and the NAO recommendation.

Realisation – the underlying saving must have been delivered at the time the impact is claimed.

Delivery – the client must be able to provide confirmation that there has been a saving. There must be a clear before and after position.

Agreement – all impacts must be agreed with clients.

Cost equivalence – where impacts represent lower costs or increased outputs, the policy for quantification is that we take either the costs saved, or what it would have cost to deliver the increased output.

Qualitative impacts – for qualitative recommendations, the impact is limited to the cost that would have been saved had the client had to buy that extra quality.

Matching – where impacts represent on going savings, they will be claimed over as many years as the causal link to the NAO recommendation can be demonstrated.

	Impact identified (£)	Nature of impact (one-off/ recurring)	Year of claim	Client with whom impact agreed	Year of original work
Value for Money					
Prescribing Costs in Primary Care Savings arising from more cost-effective prescribing of drugs	157,000,000	Recurring	1 of 3	Department of Health	2006/07
Management of Large Business Corporation Tax Increased tax yield resulting from improved focus on higher amounts of tax at risk	112,400,000	Recurring	1 of 5	HMRC	2006/07
Central Government's Use of Consultants Reduced expenditure on consultants	66,400,000	Recurring	1 of 3	Office of Government Commerce	2006/07
Improving Procurement: Progress by the Office of Government Commerce in improving departments' capability to procure cost-effectively Savings from improved procurement across a wide range of commodities	43,600,000	Recurring	3 of 3	Office of Government Commerce	2003/04
Private finance global impact Reflects the NAO's impacts on PFI contracts in the last 3 years	37,000,000	Recurring	A Combination of 3 claims	HM Treasury	1997 to 2007
Ministry of Defence – Progress in Reducing Stocks Optimisation of stock holdings	29,200,000	One-off	1 of 1	Ministry of Defence	2001/02
Debt Management Better records management and ability to track taxpayers for debt recovery	25,700,000	Recurring	4 of 5	HMRC	2003/04
Modernising Procurement in the Prison Service Improvements in procurement	18,396,653	Recurring	4 of 4	Ministry of Justice	2002/03

	Impact identified (£)	Nature of impact (one-off/recurring)	Year of claim	Client with whom impact agreed	Year of original work
A Foot on the Ladder: Low Cost Home Ownership Assistance Purchasers of shared equity new build housing products maximising their purchasing power	17,000,000	Recurring	2 of 2	Department for Communities and Local Government	2006/07
Fraud against the Inland Revenue Recovery of revenue from reducing fraud in the use of offshore accounts to evade tax	12,900,000	Recurring	2 of 5	HMRC	2002/03
Regulation of Weights and Measures Reducing the complexity of regulations	10,000,000	Recurring	2 of 4	Department for Business Enterprise and Regulatory Reform	2002/03
Extending access to learning through technology: Ufi and the learndirect service Reduction in delivery chain costs	8,900,000	Recurring	3 of 5	Department for Innovation, Universities and skills	2005/06
Reducing Vehicle Crime Action to reduce vehicle crime	8,500,000	Recurring	2 of 3	Ministry of Justice	2004/05
Improving the efficiency of postal services procurement in the public sector Actions to reduce cost and improve efficiency	7,070,000	Recurring	3 of 3	Office of Government Commerce	2005/06
Delivery Chain Analysis for Bus Services in England Efficiency savings in local transport	6,630,000	Recurring	1 of 3	Department for Transport	2005/06
Facing Justice: Tackling Defendants' Non-attendance at Court Improved attendance of defendants at magistrate and crown courts	6,517,038	Recurring	3 of 3	Ministry of Justice	2003/04
Electronic Monitoring of Adult Offenders Savings in custody costs from making more effective use of electronic tagging of offenders	5,600,000	Recurring	3 of 3	Ministry of Justice	2005/06

	Impact identified (£)	Nature of impact (one-off/ recurring)	Year of claim	Client with whom impact agreed	Year of original work
Compensating victims of violent crime	5,165,000	Recurring	4 of 4	Ministry of Justice	1999/2000 and 2007/08
Improvements in customer service by the Criminal Injuries Compensation Authority					
Inheritance Tax	5,000,000	Recurring	2 of 5	HMRC	2004/05
Better use of existing statistical data in risk assessing estates					
Sub-total	582,978,691				
Impacts below £5m	22,284,812				
VFM Sub-total	605,263,503				

Financial Audit

	Impact identified (£)	Nature of impact (one-off/ recurring)	Year of claim	Client with whom impact agreed	Year of original work
Department for Work and Pensions Resource Account	145,000,000	Recurring	1 of 2	Department for Work and Pensions	2004/05 to 2008/09
Improved debt recovery from overpayments to customers					
Sub-total	145,000,000				
Impacts below £5m	11,305,835				
Financial Audit Sub-total	156,305,835				
Good Governance					
Impacts below £5m	6,147,168				
Other Impacts below £5m	154,060				
Grand Total	767,870,566				

Independent statement to the Public Accounts Commission

The Comptroller and Auditor General has asked us to carry out an independent review of the Statement of Financial Impacts for 2008.

Respective responsibility of the Accounting Officer and the Auditors

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

Basis of validation work

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

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

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

Opinion

In our opinion

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

Tenon Audit Limited
Registered Auditors

Clifton House
Bunnian Place
Basingstoke
Hampshire
RG21 7JE

27 May 2009

Contact us

For further information about the National Audit Office please contact:

National Audit Office, London

157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Tel: 020 7798 7000
Fax: 020 7798 7070

E-mail: enquiries@nao.gsi.gov.uk
Website: www.nao.org.uk

National Audit Office, Newcastle

1st Floor
89 Sandyford Road
Newcastle-Upon-Tyne
NE1 8HW

Tel: 0191 269 1820
Fax: 0191 269 1850



Contains material sourced
from responsibly managed
and sustainable forests,
certified in accordance
with the FSC (Forest
Stewardship Council)

