



National Audit Office

# ANNUAL REPORT 2010

Our work in the year led to audited financial impacts of £890 million, to improved services to citizens, and to increased transparency and accountability

The National Audit Office scrutinizes public spending on behalf of Parliament. The Comptroller and Auditor General, Amyas Morse, is an Officer of the House of Commons. He is the head of the NAO which employs some 900 staff. He and the NAO are totally independent of government. He certifies the accounts of all government departments and a wide range of other public sector bodies; and he has statutory authority to report to Parliament on the economy, efficiency and effectiveness with which departments and other bodies have used their resources. Our work leads to savings and other efficiency gains worth many millions of pounds: £890 million in 2009-10.



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# ANNUAL REPORT 2010





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# INTRODUCTION



This has been an important year for the National Audit Office. The appointment of a new Comptroller and Auditor General (C&AG) with a fresh vision has come at a time when the economic environment has heightened the importance of the NAO's role.

With the support of a new Board, the C&AG Amyas Morse has set a new strategy for the Office. This aims to apply the NAO's knowledge and expertise not only to hold government bodies to account but also to help drive improvement in the way they are managed and services are delivered. To achieve these aims, he has initiated a number of changes so that the NAO has the skills, systems and corporate culture necessary to deliver its strategic goals.

The new Board is part of the implementation of revised governance arrangements agreed by Parliament's Public Accounts Commission and I have been delighted to welcome the NAO's new Board members, both executive and non-executive. In addition to the C&AG, the four non-executives bring a wide variety of important skills and experience from outside the NAO. Over and above their professional skills, the three executives add a deep knowledge of all aspects of the NAO's work.

The Board's role is to advise the C&AG on the strategic direction of the NAO. It also has specific oversight responsibilities, while respecting the role assigned by Parliament to the C&AG personally. This is not a conventional Board arrangement but I am very confident that it is working well.

It has been a pleasure to get to know many NAO staff better during the year. I have been impressed by their deep commitment to the causes of accountability and service improvement. I, and the rest of the Board, will do all we can to enhance the value of what the NAO has to offer and, in doing so, to support Parliament and the country as a whole in what will almost certainly be difficult times ahead.

Professor Sir Andrew Likierman

**Chairman**  
**National Audit Office**

# FOREWORD



Our audit of government not only holds its departments and bodies to account, but also helps and supports them in pursuing improvement. That has long been our core conviction and it rests on solid evidence.

What's changed now is the strength of our ambition to apply the unique perspective of public audit to help Parliament and government to drive lasting improvement in public services.

When I took up post in June last year, I found in the NAO an enormous concentration of financial management skills and an unrivalled understanding of central government audit. Our work has also created a major knowledge asset: a body of agreed and published reports, both in financial and value for money audit, on issues at the centre of public spending spanning all the major ministries going back many years. We are now exploiting this asset to drive our work. These resources are all at the service of Parliament as it holds government to account for how it spends taxpayers' money. They are also at the service of government itself as it seeks to deliver high quality services and make good use of public money.

Our strategy is based on the recurring issues we have found most frequently across government. These fall into three broad areas where improvement is often needed. This categorization is being used to inform our future work programme. We will focus our output on **informed government**, to encourage government to do more to base its decision-making at all stages on reliable, comprehensive and comparable information; **financial management and reporting**, leading to improved management of activities, and helping the finance function within departments to make its full contribution; **cost-effective delivery**, to understand the elements in the delivery cycle, and what they cost, so that delivery options can be selected with the benefit of good information about return on resources spent.

We are well-equipped to carry out work reflecting each of these themes and we have much to contribute. We can contribute best by working closely with government and understanding its challenges and objectives; I myself place great importance on my regular meetings and conversations with Permanent Secretaries.

This new strategy takes on added relevance as public spending becomes subject to perhaps unprecedented pressures and constraints. We are already addressing fundamental challenges confronting our audit clients. The hard truth is that, if spending is to be cut on a long-term basis without damaging services, the approach to cost-reduction cannot be opportunistic. It must be structured in approach and involve a commitment to developing new ways of delivering services.



Alongside these changes in focus, we continue to deliver our core financial and value for money audit work. Our financial auditors recognize the importance to high quality management of timely financial reporting, and so have worked with audited bodies to make sure that the largest number yet of accounts, 380, were published before Parliament's summer recess in 2009. They have also helped departments get to grips with the complexities of switching to International Financial Reporting Standards.

In the last year, we have published 63 value for money reports on government programmes and initiatives, covering topics which resonate with taxpayers: from road safety and post office closures, through stroke services and student loans, to the tax obligations of older people and the bailing-out of the banks. The high profile that the NAO enjoys in public life is due in no small measure to the insights provided by these reports and to the impact they have on the way in which departments implement policy.

Our work in the year resulted in audited financial impacts – cash savings, revenue increases and efficiency gains by central government – of £890 million, to improved services to citizens, and to increased transparency and accountability.

As well as our financial and value for money audit, we also provide extensive support to Parliament, contribute to the development of public sector accountability around the world, and produce a stream of good practice guidance aimed at improving performance.

The NAO is not immune to the climate of stringency within which the public sector is now operating. We have made efficiency savings in our key work streams and our corporate costs. For the coming year we have asked for no increase in funding. Our aim is to fund our ambitious work programme within our existing budget and pay for expansion of that work from efficiency savings.

At the end of 2009 we returned to our successfully refurbished headquarters on Buckingham Palace Road. This project was completed on time and comfortably within the final budget. While it gives our staff an open-plan and flexible working environment, we are also using 16 per cent less office space than previously and the part of the building freed up is to be let on a commercial basis.

In the rough economic times ahead, the NAO will continue to champion accountability and transparency. We will also play our part in helping government to maintain and improve public services as funding becomes tighter.

Amyas Morse

**Comptroller and Auditor General  
National Audit Office**

# ABOUT THE NAO

# ROLE

**We hold the Government to account for the way it uses public money.**

**We help public service managers improve performance.**

# WORK

## **Financial audit**

**The Comptroller and Auditor General (C&AG) audits the financial statements of all central government departments, agencies and other public bodies, and reports the results to Parliament.**

## **Value for money audit**

**Our value for money studies focus on how government projects, programmes and activities have been carried out, and whether they have achieved value for money. We recommend how services can be improved.**

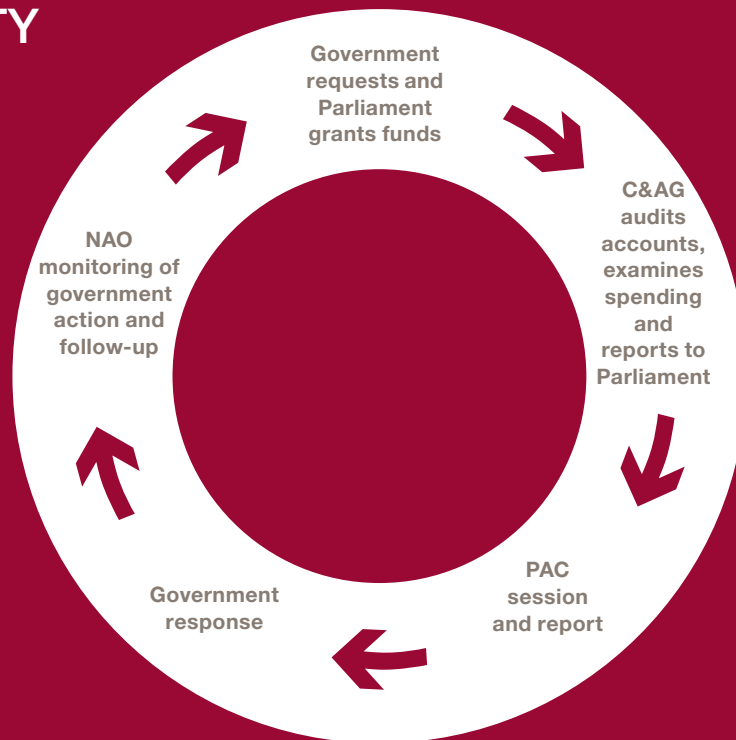
# INDEPENDENCE

**The head of the NAO, the C&AG, is an Officer of the House of Commons.**

**Our staff are not civil servants and are independent of government.**

**Our budget is set directly by Parliament. The Public Accounts Commission, a House of Commons committee, sets our budget and appoints our external auditors and scrutinizes our performance.**

## ACCOUNTABILITY PROCESS



### Public Accounts Committee

We work closely with the Committee of Public Accounts (PAC) which takes evidence on significant issues arising from our value for money studies and financial audit work.

The Committee subsequently publishes its own reports and makes recommendations to which the Government responds.

### Wider work

We support parliamentary scrutiny of government through our work for the PAC and other select committees.

Our programme of discretionary work focuses on key aspects of public service performance and financial management. It includes benchmarking performance against best practice and the development of guidance.

Our international work contributes to the development of public sector financial management and accountability around the world.

# OUR ORGANIZATION

**OUR WORK IN THE YEAR LED TO  
AUDITED FINANCIAL IMPACTS  
OF £890 MILLION, TO IMPROVED  
SERVICES TO CITIZENS, AND TO  
INCREASED TRANSPARENCY AND  
ACCOUNTABILITY**

**We have some 900 members of staff based at our London and Newcastle offices.**

**Our qualified accountants and accountancy trainees work together with other staff trained in statistics, economics, business analysis, ICT and other relevant disciplines.**

**We supplement our in-house expertise by working in partnership with a wide range of leading professional services firms and with experts from the sectors we audit.**

**We are committed to maximizing our efficiency and achieving sustainable operations.**



**OUR STAFF HAVE  
THE KNOWLEDGE  
AND EXPERTISE  
TO HELP OUR  
AUDIT CLIENTS  
IMPROVE THEIR  
PERFORMANCE**



# PERFORMANCE

**475** The number of accounts we audited

**80** per cent of our financial audit work delivered within four months of year end (target 74 per cent)

**63** The number of major reports we published for Parliament

**11:1** Exceeding our target in 2009-10 of generating a financial impact of £9 for every £1 it cost to run the NAO

**49** The total number of Committee of Public Accounts hearings based on NAO reports

# OUR WORK

## WE HAVE FIVE DIMENSIONS TO OUR WORK

### 1

#### FINANCIAL AUDIT

**As statutory auditors of central government, we have an unrivalled understanding of accounting for and the financial management of taxpayers' money.**

In 2009-10, we audited expenditure and revenue amounting to some £950 billion across 475 accounts. Our financial audit work is carried out by staff who are either qualified members of professional accountancy bodies or trainees and we also contract work out to major accounting firms.

The 475 accounts we audit span a wide range of organizations: from large Whitehall departments such as the Ministry of Defence and Department for Transport, through executive agencies like the National Policing Improvement Agency and the Care Quality Commission, to NDPBs, such as the Big Lottery Fund, and a wide range of companies, including the UK Film Council and the Pensions Advisory Service.



We audit financial statements in accordance with best professional practice and the International Standards on Auditing. The quality of our audit work is measured and evaluated in accordance with International Standards on Quality Control, and is subject to independent external review by the Audit Inspection Unit of the UK Professional Oversight Board.

#### **Financial audit of the Department for Work and Pensions leads to improved recovery of overpaid benefit debt**

The C&AG previously qualified his audit opinion on the accounts of the DWP for seven consecutive years on the grounds of the Department's inability to demonstrate the completeness of its debt records. It was failing to refer and record all incidents of debt that should have been identified for recovery. To address these concerns, the Department took action to improve its processes for recognizing and referring these debts, its systems for recording the debts and its procedures for recovering them. These actions resulted in increased recoveries of debt valued at £145 million in 2008 and £90 million in 2009, with more expected to follow in 2010 and beyond.

Our financial audit work cost £50.2 million in 2009-10.

# 2

## VALUE FOR MONEY

**Our value for money work provides independent assurance to Parliament and the taxpayer on whether value for money is being achieved by central government.**



In 2009-10, we published 63 major reports, each commenting on how a specific government project, programme or activity has been carried out and making recommendations for improvement.

Our reports consider whether departments are making optimal use of resources to achieve their stated aims. To judge performance in each case we need to understand what good value for money looks like. We look to see whether departments are clear about what they want to achieve, have strong arrangements for delivering against their plans, and have robust ways of assessing what progress they are making.

The reports covered subjects of significant public interest drawn from across the entire range of government activity. These include:

### DEFENCE

Supporting high intensity operations in Afghanistan and Iraq

### CENTRAL FINANCE

Maintaining financial stability in the UK banking sector

### CULTURE, MEDIA AND SPORT

Preparations for the 2012 Olympics

### CROSS-GOVERNMENT

Reorganizing central government

A full list of the major reports we published in 2009-10 is available at [www.nao.org.uk/major-reports-0910](http://www.nao.org.uk/major-reports-0910)

Our core accountancy skills are supplemented by our dedicated community of researchers, economists, statisticians, and sector specialists and by expertise drawn in from our partnership arrangements with the professional firms. We continue to improve the efficiency of our value for money work. In 2009-10, we further strengthened our quality assurance framework, including peer review and external expert evaluation.

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### Room for improvements in trauma care, says NAO

Care for people who have suffered a major trauma has not improved in the 20 years since improvements were demanded by the Royal College of Surgeons. There is still unacceptable variation in patient care depending on when and where a patient is treated, concluded our report *Major trauma care in England*, published in February 2010. Services are not being delivered efficiently and we estimate that between 450 and 600 lives could be saved each year in England if major trauma care were managed more effectively.

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Our value for money audit work cost £21.7 million in 2009-10.

## 3

**PERFORMANCE  
IMPROVEMENT**

**Our staff have the knowledge and expertise to help our audit clients improve their performance.**

Our judgements and recommendations can result in better services and better value for money for citizens and consumers. Resources are better matched to priorities, and decisions are made based on better quality information.

Performance improvement work includes reporting to clients, benchmarking their performance against best practice, developing practice guidance such as toolkits, and using events and publications to promote best practice.

We also carry out performance validation work, including PSA data systems validation and value for money savings work; and support better regulation, working on regulatory impact assessments and administrative burdens.

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**Guides and toolkits**

NAO teams have produced numerous toolkits, guides and other products, either to offer to clients, or to apply in our assessment of clients' performance. These include a good practice guide on tackling external fraud, an efficiency toolkit, and a guide for school governors on improving school performance.

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In the past year, we have also updated our guidance for Audit Committees.

Our performance improvement work cost £12 million in 2009-10.

## 4

**SUPPORT FOR  
PARLIAMENT**

**We provide independent advice to Parliament to aid its scrutiny of government.**

We work most directly with the Committee of Public Accounts (PAC) to secure lasting improvements in the way public services are run. In 2009-10, we supported the 49 meetings of the Committee which it held on our reports.

In the same year we supported 22 other select committees in their scrutiny of government, by responding to requests for evidence, research and briefings, and by seconding staff with specific expertise.

The Commons Environmental Audit Committee commissioned a briefing from the NAO in preparation for its inquiry into the effectiveness of the Government's strategy to reduce air pollution to acceptable levels across the UK. As well as providing background information on the impact of air pollution, our briefing set out performance against EU targets and UK objectives, and government policy dealing with air pollution.

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**Support for Lords Economic Affairs Committee**

In 2009, the NAO prepared a paper for the Lords Economic Affairs Committee to support its inquiry on private finance projects. During the recording of oral evidence on 3 November 2009, the Committee chairman declared: "We are very grateful for the NAO's contribution to our inquiry, and indeed in particular for your very impressive and authoritative written evidence."

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Our work supporting PAC and other Parliamentary select committees cost £4.5 million in 2009-10.

# 5

## INTERNATIONAL

**We contribute significantly to the development of public sector financial management and accountability around the world.**



### **Our international work focuses on:**

- helping countries without a strong tradition of audit to establish independent audit offices
- supporting reform and improvements in governance in the international organizations where the NAO is the external auditor.

### **Our international clients include:**

- UN World Food Programme
- World Meteorological Organization
- International Criminal Court

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### **UN Audit**

This year the C&AG was elected to the UN Board of Auditors, an independent body responsible for auditing the United Nations, including its peacekeeping operations, and related organizations such as UNICEF and the UN High Commissioner for Refugees.

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In line with our UK interests, we continued to contribute to projects aimed at building up financial management and audit skills in countries such as Albania, Ghana, Iraq, Kosovo, Vietnam and Uganda.

We also continue to play our part in supporting and encouraging the professional development of the international community of audit offices.

In 2009-10 the NAO carried out 15 audits on behalf of international organizations, including the World Food Programme, and participated in 32 projects to build the capacity of international partner institutions. We spent £2.8 million on these activities and received £3.1 million in income.

# STRATEGIC THEMES

Our strategy is to focus our work programme on three broad areas where analysis of our work across government shows that performance issues occur most often:

- **informed government**
- **financial management and reporting**
- **cost-effective delivery**

Our ambition is to use the accountability process and direct engagement with our audit clients to help them drive improvement.

## Informed government

Government needs robust and comparable information on how it is performing, the extent to which it is making progress against its objectives, and the cost-effectiveness of its activities. We want to help central government make better use of information to achieve improved performance and productivity, as well as to support clearer accountability.

For several years we have been auditing the reliability of data systems that form the basis of progress reporting against top-level government objectives. In 2004, at the start of this work, we found only 30 per cent of data systems were fit for purpose; this year's audits showed that the proportion had risen to 56 per cent.

This improvement in quality is welcome but the overall reliability of performance information is far from satisfactory. Data systems should be better matched to the precise specification of top-level objectives. There needs to be better identification and control of the risks to data quality. And greater candour is needed about unavoidable limitations on data quality. We will continue to work with the Treasury and others to promote better standards in performance reporting, and better implementation of the lessons learned.

In March 2009, we reviewed the reporting practices of nearly 50 public bodies. Our survey showed that:

- most reported to the Board performance information relevant to their main objectives;
- the picture of performance presented to the Board was rarely complete or easy to interpret; and
- better links between cost and performance information and a sharper analysis of the possibilities for improvement were often needed to add value to Board reviews.

The C&AG communicated the main messages from the survey at a conference of non-executive directors. We will repeat this exercise in the future to encourage public bodies to follow best practice in performance reporting to Boards.

### In future:

In 2010-11, we will examine the quality of information reported to Boards. We will also review the use of information to support option appraisals, which inform the choices over the design of programmes and projects, and are crucial to securing value for money.

## Financial management and reporting

We want to help the bodies we audit to improve their allocation and control of public money, through more robust financial management and increasingly transparent reporting. Even though there has been progress in these areas, there is still a need to improve the control of costs and to cut waste.

The response to these challenges should be timely; and costs reduced in a strategic, informed and structured fashion. Organizations need to be better at linking costs to outcomes to determine whether those costs are justified and how value for money can be improved.

Public bodies must provide assurance that the resources for which they are responsible are appropriately managed and controlled. Public bodies have to publish Statements on Internal Control (SICs) with their annual financial statements. We have strengthened the work we do on SICs to establish whether they are supported by robust evidence. Our work found a number of areas for improvement and these are set out in *A Good Practice Guide to the Statement on Internal Control*. In 2010, we also published a guide to help audit committees add value to the risk management, governance and internal control processes within their organizations.



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### **Sure Start improves its financial management**

In our 2006 report on Sure Start, we highlighted the need for improved financial management of children's centres. In 2009 we found that, as a result of our recommendations, financial support available to centres has improved and that centres are now informed more promptly of their funding allocations, allowing them to plan ahead. The then Department for Children, Schools and Families had greater confidence that the resources for which it was responsible were being appropriately managed and controlled.

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### **Home Office makes big progress in financial management**

In 2006, the C&AG reported to Parliament that the Home Office had not maintained proper financial books and records for the financial year 2004-05 and so he could not reach an opinion on the truth and fairness of the Home Office's accounts. The Department recognized the seriousness of this situation and the need to take action both to strengthen its financial control framework and improve the processes for preparing financial statements. By May of 2009, while we recognize that further improvement is required to ensure good financial management is part of 'business as usual' for the Department, we were able to report that the Home Office had made substantial improvements to its financial management, in part by increasing the number of its professionally qualified finance staff, particularly in senior finance roles, and improving its financial governance and leadership.

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## **GOVERNMENT NEEDS ROBUST AND COMPARABLE INFORMATION ON HOW IT IS PERFORMING**

### **In future:**

We will be focusing on promoting good practice and greater standardization and on tackling barriers to better costing, risk management and clear transparent reporting.

### **Cost-effective delivery**

Public services are being financed and delivered in increasingly diverse and complex ways. There can be long chains of bodies involved in providing services; and most departmental expenditure is delegated to other bodies, including non-departmental public bodies and local government.

We want to help departments to improve the quality of their decision-making and to drive waste out of their delivery networks more effectively. This is particularly relevant in the light of the current spending pressures.

We recognize that decisions on how to achieve objectives can and will be constrained, but we expect departments to demonstrate that the chosen options will deliver value for money.

Our review of the delivery arrangements used by government departments highlighted the variety of approaches to managing delivery. In most cases, arrangements have developed historically and in response to changing policy priorities. We found choices are often made without considering a range of options. It is more common to see a good evaluation of the appropriateness of delivery arrangements when new programmes or policies are initiated.

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**Prescribing cheaper but equally effective drugs saves NHS £400 million in a year**

Our 2007 report *Prescribing costs in primary care* examined how the Department of Health and Primary Care Trusts can influence prescribing practices to save money without affecting patient outcomes. It identified the scope for large savings as a result of GPs' prescribing more lower-cost and generic versions of drugs which are just as effective in clinical outcomes. We shared our conclusions and evidence with prescribing advisers and Primary Care Trusts. Subsequent analysis by Keele University revealed significant improvements in the cost-effectiveness of prescribing across all the categories of drugs examined in the NAO report, calculated as saving the NHS nearly £400 million in 2008, of which the Department of Health agreed that £156 million was directly attributable to the NAO.

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**Better management of Corporation Tax of large businesses saves HMRC £305 million**


In our 2006 report, *Management of large business Corporation Tax*, the NAO examined HM Revenue & Customs' approach to managing large business Corporation Tax. We found that HMRC could build on progress made in changing the way it deals with Corporation Tax for the largest businesses: by directing its efforts to higher value risks and progressing enquiries more quickly and working with businesses and their advisers to achieve a more collaborative approach. Based on the recommendations made in the report, our share of the benefits to HMRC were calculated to be £305 million in 2009.

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**In future:**

We intend to continue developing insights into which delivery arrangements are best suited to particular circumstances. We want to assess the efficiency with which projects and programmes are being implemented and the ability of managers accurately to estimate the time and costs involved. We aim to develop common ways of measuring the performance of delivery arrangements in departments, allowing like-for-like comparisons to be made across government and improvements to be tracked over time.

**WE WANT TO HELP  
DEPARTMENTS TO IMPROVE  
THE QUALITY OF THEIR  
DECISION-MAKING AND  
TO DRIVE WASTE OUT OF  
THEIR DELIVERY NETWORKS  
MORE EFFECTIVELY**



PRESCRIBING CHEAPER  
BUT EQUALLY EFFECTIVE  
DRUGS SAVES NHS £400  
MILLION IN A YEAR

**NAO WORK  
SAVED £156  
MILLION**

# HOW WE MAKE AN IMPACT

## QUANTIFIED AND BENEFICIAL CHANGE

**Target: Achieve financial impacts of £684 million in 2009-10: Met and exceeded.**

We achieved financial impacts totalling £890 million (over 11 times the NAO's net running costs), compared with £768 million in 2008-09. This is a key measure of our success and clearly demonstrates the value of our work. To guarantee the robustness of our financial impact figures, they are agreed with the bodies we audit and reviewed by internal and external auditors.

Most of our impacts (94 per cent) are cash-releasing, that is, lead to reduced costs or increased revenue for the audited bodies. Examples are the adoption of more efficient procurement practices or improvements to the level of debts recovered by government bodies.

Our impacts can also take the form of improvements in the efficiency with which services are delivered and their quality. Benefits might be felt outside of the public sector: for example, by industry when regulatory burdens are lightened.

### Public sector caterers pay less for the same or better quality food ingredients

The public sector spends approximately £2 billion on food and catering costs each year. Our 2006 report *Smarter food procurement in the public sector* outlined the scope for reducing the costs of purchasing food, without adversely affecting quality, recommending joined-up procurement, reducing food waste and buying the same products more cheaply. By acting on our recommendations, the Government has achieved efficiencies of an estimated £105.6 million by 31 March 2009.

### Improving awareness of the symptoms of stroke and the need for an emergency response

On the basis of our work on stroke, the PAC recommended that the Department of Health run an awareness campaign, focusing on the symptoms of stroke and the need for a 999 response. In February 2009, the Department launched its 'Stroke – Act F.A.S.T.' media campaign. Initial indications are that it has been highly successful. Our audit of Ambulance Trusts showed that the number of stroke calls from April to June 2009 increased by 54 per cent. And an audit in one NHS Trust providing hyper-acute care showed that, during the six-month period January to June, the number of patients presenting within three hours of having a stroke had increased by 171 per cent. Our survey of people who have had a stroke confirmed the high penetration of the campaign, with 92 per cent saying they had seen it. Of those, 90 per cent said it was effective at raising awareness of stroke symptoms.

### Cost-effective service delivery

If taxpayers are to have confidence in cost-effectiveness claims, the figures reported must be based on strong evidence and validated. Our report on the Government's Administrative Burdens Reduction programme concluded that the arrangements for independent validation of the claimed reductions in costs to business were limited. In response, the Better Regulation Executive set up the External Validation Panel to review claims. For savings claimed as at December 2008, the Panel has validated and approved £1.5 billion and approved a further £200 million pending on-going work, while prompting departments to remove £45 million from their claims.

### Improving procurement in further education colleges in England

Each year the FE colleges in England buy a range of goods such as books and stationery and pay for services including examinations and energy. In our 2006 report, we proposed increased use of more efficient procurement methods such as e-procurement and collaborative procurement which would lead to savings without compromising quality. Drawing on our recommendations, colleges have saved in the past year an estimated £94 million.



## MAKING AN IMMEDIATE DIFFERENCE

The impact of our work is often long-term but it can also be immediate where audited bodies respond very quickly to our findings and recommendations.



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### Adult autism

Our study *Supporting people with autism through adulthood* informed the Autism Act 2009, the first piece of legislation designed to address the needs of one specific group living with an impairment. The Government's subsequent autism strategy also drew significantly on this work. Previous NAO reports on stroke and dementia provoked similar reactions: in each case the Department of Health responded by launching a consultation and developing a national strategy to secure improvements to services.

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### BBC estate

On the day (in February 2010) that our report on the management of three BBC estate projects was published, the Chairman of the BBC Trust, Sir Michael Lyons, wrote to the Director General of the BBC, Mark Thompson, asking for a health check of all major projects and an action plan to implement the NAO's recommendations.

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### English coalfields

Our report *Regenerating the English Coalfields* recommended in December 2009 that the Department for Communities and Local Government develop an overarching strategy to bring together its efforts to revive coalfield areas. The point was echoed in the PAC report published in March 2010. Towards the end of March, Housing Minister John Healey launched a review of regeneration in coalfield communities.

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### Procurement of criminal legal aid

Our study *The procurement of criminal legal aid in England and Wales by the Legal Services Commission* (November 2009) highlighted how the division of responsibilities for procuring legal aid between the Ministry of Justice and the Legal Services Commission was leading to confusion and duplication. This led to the Government's Magee Review which, reporting in January 2010, made far-reaching proposals on reshaping how legal aid would be delivered.

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### Student finance

*The Customer First Programme: delivery of student finance* report in March 2010 included a recommendation that the Department for Business, Innovation and Skills should improve its oversight of the Student Loans Company, in part by obtaining professional expertise to advise on service readiness. On the day the report was published, the Minister of State for Higher Education announced that PricewaterhouseCoopers would conduct a review of the preparedness of the Company to deliver a satisfactory service for the 2010-11 academic year.

# OUR STAFF

We provide development support to ensure that our staff have the skills and knowledge they need to carry out our work to a high standard. Objectives are discussed and agreed with team members so they are clear about what they are aiming to achieve and how this contributes to the overall goals of the office. Pay is linked to individual performance in a process which focuses particularly on personal development.

Our skills are not just accountancy based. Qualified accountants and accountancy trainees work together with other specialist staff trained in such disciplines as statistics, economics, business analysis, ICT and many others.

We provide tuition and support for our graduate trainees to obtain the ICAEW Chartered Accountancy qualification. We also help staff to secure other accounting qualifications. Our trainees continually achieve higher than average examination results. We have had a particularly successful year in terms of ICAEW prizewinners. Lara Bett achieved joint first place in the Financial Management paper at the March 2009 sitting and was awarded the Howlett Prize. She was also awarded the Quilter Prize for Business Reporting in the November 2009 sitting. Louise Cardani achieved first place in Financial Reporting at the March 2010 sitting and was awarded the Knox prize.

More widely, we place a premium on staff maintaining their professional development and encourage all to participate in both structured and unstructured learning. We run successful management and leadership development programmes which are aimed at all levels within the organization.

## 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.

## NAO achievements in equality schemes

**Disability Two Ticks accreditation**

**Placed in Stonewall's Top 100 Diversity Champion Programme**

**Member of the Age and Employment Network and the Disability Equality Forum**

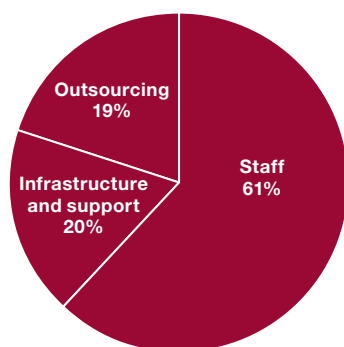




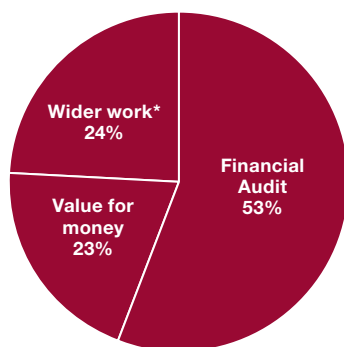


# OUR RESOURCES

## How we used our resources



## How our resources were split between our activities



\*Wider work includes support to Parliament and the public, performance improvement, and our international work

### National Audit Office resources are used to:

- employ around 900 staff
- outsource parts of our financial audit and value for money work
- provide the infrastructure and support necessary to operate the business effectively.

We managed our resources efficiently in 2009-10 and spent some £94.6 million in providing audit and other assurance services throughout the year. After allowing for £19.9 million income generated from fee-paying work, the net cost of the NAO for the financial year was £74.7 million.

### Repair and refurbishment project

In November 2009, we completed a major programme to repair and refurbish our headquarters in Victoria, London, on time and within the final budget. The result is a modern, open-plan flexible working space. The refurbishment programme cost a total of £81.6 million, including the costs associated with the provision of temporary office accommodation, against a total budget of £83.2 million. All our London-based staff moved back into the headquarters building over the weekend 12-13 December 2009.

### Efficiency and other cost reductions

At a time when public spending is under intense scrutiny, it is only right that the NAO has a rigorous approach to its own efficiency. The year 2009-10 marked the second year of a three-year strategy to make efficiency savings in corporate services, in financial audit and in value for money work.

### Performance against our strategy

As well as managing our resources effectively, we seek to meet the performance targets set out in our strategy, which was approved by the Public Accounts Commission in 2009. We delivered 80 per cent of financial audit work within four months of the year end, exceeding our target of 74 per cent. We published 63 major value for money reports, exceeding our target of 60. We did, however, fall significantly short of our target to deliver value for money studies within nine months, and we have taken firm measures to improve our performance in this area in 2010-11.

In our strategy we set out a new direction for our performance improvement work in line with the three areas in which we believe the Government needs to perform better: informed government; financial management and reporting; and cost-effective delivery. At the year end, we had completed initial work in each of these areas, forming a basis for our work in 2010-11.

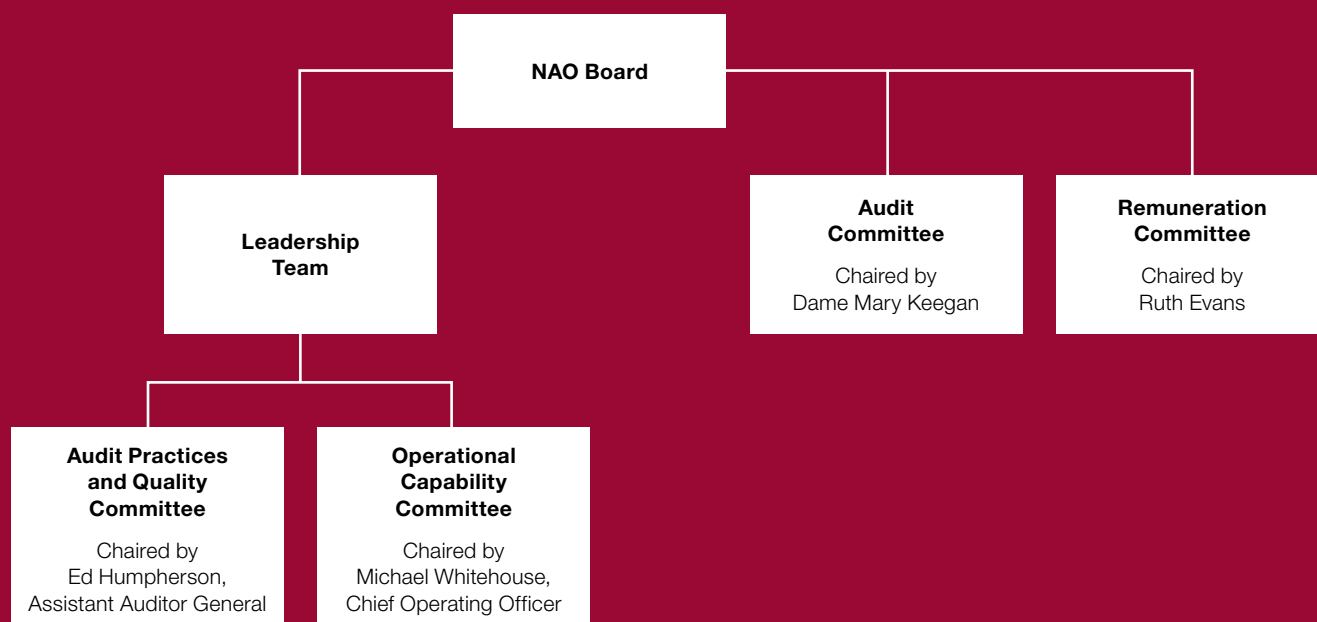
During the year we re-focused our strategic priorities and undertook a fundamental reorganization of the NAO's structure. Even so, we used 73 per cent of our resources on front-line work, against a target of 75 per cent. We are confident that we will achieve the more demanding target of 78 per cent which we have set for ourselves in 2010-11.

Key performance indicators	Resource inputs (%)					
	2006-07	2007-08	2008-09 Actual	2009-10 Target	2009-10 Actual	2010-11 Target
1 Resources used on front-line activity	73	73	75	75	73	78
2 Efficiency improvements in corporate costs, including staff, consultancy and travel	4	5	5	4	4	5
3 Efficiency improvements in financial audit work	–	–	1	2	2	2
4 Efficiency improvements in value for money work	–	–	2	2	2	2
Outputs: Speed of delivery and quality (%)						
	2006-07	2007-08	2008-09 Actual	2009-10 Target	2009-10 Actual	2010-11 Target
5 Accounts audited within four months of the year end	64	70	74	74	80	77
6 Independent confirmation of compliance with auditing standards	✓	✓	✓	✓	✓	✓
7 Value for money studies taking nine months or less	37	28	29	60	20	65
Outcomes (£m)						
	2006-07	2007-08	2008-09 Actual	2009-10 Target	2009-10 Actual	2010-11 Target
8 Financial impacts achieved	582	656	768	684	890	766

# GOVERNANCE

NEW CORPORATE GOVERNANCE ARRANGEMENTS WERE INTRODUCED, IN LINE WITH RECOMMENDATIONS MADE BY PARLIAMENT'S PUBLIC ACCOUNTS COMMISSION

## NEW GOVERNANCE ARRANGEMENTS



# CHANGES IN CORPORATE GOVERNANCE

Following a review of our corporate governance, the Public Accounts Commission proposed and the Government accepted that the NAO should be established as a corporate body. Legislation to bring this into effect was introduced in the last parliament but had not completed its passage by the time the General Election was called.

The Commission also recommended the creation of two board committees: an audit committee and a remuneration committee, both of which consist solely of non-executive members. The Comptroller and Auditor General agreed with the Public Accounts Commission that the Board and its committees be established in shadow form from 1 July 2009. The new Remuneration Committee and Audit Committee were established shortly afterwards, with entirely non-executive memberships.

The appointment of four non-executive Board members whose terms of office began on 1 July 2009 was approved by the Public Accounts Commission following an open competition overseen by Sir Andrew Likierman, the NAO Chairman. Non-executive members are initially appointed for three years, with the possibility of one further three-year term after that. The executive members are appointed by the Board on the recommendation of the C&AG for a one year renewable term. The new Board met seven times in the year.



**“IN ADDITION TO THE C&AG, THE FOUR NON-EXECUTIVES BRING A WIDE VARIETY OF IMPORTANT SKILLS AND EXPERIENCE FROM OUTSIDE THE NAO”**

**Professor Sir Andrew Likierman, NAO Chairman**

## BOARD MEMBERS

### Executive members



**Amyas Morse**  
Comptroller and  
Auditor General



**Michael Whitehouse**  
Chief Operating Officer



**Gabrielle Cohen**  
Assistant Auditor General  
(Stakeholder Relations)



**Ed Humpherson**  
Assistant Auditor General  
(Economic Affairs)

### Non-executive members



**Professor Sir  
Andrew Likierman**  
Board Chairman



**Ruth Evans**  
Chair of the Remuneration  
Committee



**Richard Fleck CBE**  
Senior Independent  
Board Member



**Paula Hay-Plumb**  
Board Member



**Dame Mary Keegan**  
Chair of the Audit Committee



## LEADERSHIP TEAM MEMBERS



**Amyas Morse**  
Comptroller and  
Auditor General



**Ed Humpherson**  
Assistant Auditor General  
(Economic Affairs)



**Michael Whitehouse**  
Chief Operating Officer



**Wendy Kenway-Smith**  
Assistant Auditor General  
(Local Services)



**Gabrielle Cohen**  
Assistant Auditor General  
(Stakeholder Relations)



**Martin Sinclair**  
Assistant Auditor General  
(National Services)

# RESOURCE ACCOUNTS

## 2009-10

### INTRODUCTION

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 including public sector companies. The Comptroller and Auditor General is wholly independent of Government.

At 31 March 2010, the National Audit Office employed 908 full-time equivalent staff based mainly in offices in London and Newcastle.

The financial statements on pages 62 to 85 have been prepared by the National Audit Office as required by statute, on a resource basis. 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.

### 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 Chair 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, Amyas Morse, was appointed on 1 June 2009. Tim Burr resigned on 31 May 2009.

### Public Accounts Commission

The National Audit Act 1983 established the Public Accounts Commission. The membership of the Commission comprises the Chair 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 and approval of the Supply Estimate; and
- appointment of the auditors of the annual financial statements.

## Accounting Officer

The Public Accounts Commission appointed the Comptroller and Auditor General as the Accounting Officer for the National Audit Office on 1 June 2009. His responsibilities as the Accounting Officer are set out on page 54. 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 55 to 58 sets out how this responsibility has been discharged in 2009-10.

## Auditors of the National Audit Office

The Public Accounts Commission appointed RSM Tenon Audit Limited, formerly 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 now utilized both of these extensions and extended the appointment to May 2011. 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 organizations 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 7 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](http://www.parliament.uk/parliamentary_committees/public_accounts_commission.cfm)

## Corporate governance

There were a number of changes to corporate governance arrangements in the National Audit Office during the year. The following paragraphs set out the former arrangements which were in place from 1 April to 30 June and the new arrangements which took effect from 1 July:

### Management Board

Prior to 1 July 2009, the Office's corporate governance structure comprised the following:

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

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 Management Board by virtue of their positions.

The Management Board was chaired by an independent non-executive Chair, Professor Sir Andrew Likierman. The non-executive Chair of the Audit Committee and the Assistant Auditors General were also Board members.

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

The Management Board monitored progress in delivering the Office's work programme, the quality and impact of that work, and assessed the status of key corporate risks. It also 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 Management Board received advice and assistance from the Audit Committee on the adequacy of internal control and risk management.

The Management Board held three meetings between 1 April and 30 June 2009.

The members of the Management Board from 1 April to 30 June 2009 were:

<b>Chair</b>	Professor Sir Andrew Likierman
<b>Comptroller and Auditor General</b>	Amyas Morse (from 1 June 2009) Tim Burr (to 31 May 2009)
<b>Non-Executive member</b>	Steve Freer
<b>Assistant Auditors General</b>	Gabrielle Cohen Ed Humpherson Wendy Kenway-Smith Caroline Mawhood Jim Rickleton Martin Sinclair Michael Whitehouse (responsible for finance)

## New National Audit Office Board

The new Board was established on 1 July 2009 and held its inaugural meeting on 17 July 2009. The Board has five non-executive members and four executive members (of which the Comptroller and Auditor General is one). There is a clear division of responsibility between the Chairman and the Comptroller and Auditor General. The Chairman is responsible for the leadership and effective working of the Board. The Comptroller and Auditor General is responsible developing and implementing the strategy, making audit judgements, deciding a programme of value for money examinations and reporting the results of his work to Parliament.

The relationship between the Comptroller and Auditor General and the Board is set out in a code of practice approved by the Public Accounts Commission.

## NAO Board members

### The non-executive members of the Board were:

**Professor Sir Andrew Likierman**  
Board Chairman

**Ruth Evans**  
Chair of the Remuneration Committee

**Richard Fleck CBE**  
Senior Independent Board Member

**Paula Hay-Plumb (from 17 March 2010)**  
Board Member

**Dame Mary Keegan**  
Chair of the Audit Committee

### Sir Joseph Pilling KCB (to 24 September 2009)

Sir Joseph Pilling KCB resigned from the Board on 24 September 2009 to take up a new role as the Identity Commissioner. His replacement, Paula Hay-Plumb, was appointed on 17 March 2010.

### The executive members were:

**Amyas Morse**  
Comptroller and Auditor General

**Michael Whitehouse**  
Chief Operating Officer

**Gabrielle Cohen**  
Assistant Auditor General (Stakeholder Relations)

**Ed Humpherson**  
Assistant Auditor General (Economic Affairs)

Appointments of the executive members are terminated when the member ceases to be an employee of the National Audit Office or at the end of the period specified by the non-executive members in the terms of the member's appointment.

**Terms of reference**

The role of the National Audit Office Board is to support the Comptroller and Auditor General by advising him on the performance of his functions and monitoring that performance. This includes:

- agreeing the NAO's objectives, policies and strategies;
- overseeing the overall governance of the NAO;
- monitoring the achievement of performance objectives; and
- ensuring an adequate system of financial and other controls are in place.

The Board is also responsible for approving the Comptroller and Auditor General's programme of non-statutory work.

The Board delegates certain responsibilities to one of its two committees: the Audit Committee and the Remuneration Committee.

**Audit Committee**

Steve Freer, Chief Executive of the Chartered Institute of Public Finance and Accountancy, was Chair until 25 May 2009. From 1 April to 25 May 2009, the Committee comprised the Chair and two other non-executive members, an Assistant Auditor General and a National Audit Office Director. The non-executive members were Sir Michael Davies and Professor Sir Andrew Likierman.

The new Audit Committee was established during the year and met twice in 2009-10. It reports to the Board and consists solely of non-executive members.

All the Committee members have extensive management and board-level experience in large public sector organizations. Dame Mary Keegan, Committee Chairman, was formerly the Head of the Government Finance Profession and the Chairman of the UK Accounting Standards Board.

The Committee is authorized by the Board to investigate any matter within its terms of reference and to seek any information it requires from any Board member or employee. The Committee is also authorized by the Board to obtain independent legal or other professional advice at the National Audit Office's expense, and to require the attendance at meetings of staff or external advisers as necessary.

**Terms of reference**

The Committee assists the Board by reviewing the comprehensiveness, reliability and integrity of the National Audit Office's internal controls, risk-management processes and governance arrangements, and the quality and reliability of financial reporting within the Office.

The Committee works closely with internal audit, approving the internal audit strategy, work plan and is responsible for ensuring the internal audit function has adequate resources and access to information to perform effectively. The Committee also advises the Board on the appointment of the external auditor which, if the Board agrees, it will recommend to the Public Accounts Commission.



## Remuneration Committee

A Remuneration Committee, chaired by Ruth Evans, was established during the year and met once to discharge its duties. It consists solely of non-executive members and reports to the Board. The Board approved the appointment of all five non-executive Board members to the Remuneration Committee on 17 July 2009. Ruth Evans has extensive experience in consumer issues and the representation of the public interest and was Chair of the Bar Standards Board until 2008.

### Terms of reference

The Committee sets the remuneration policy for the executive Board members apart from the Comptroller and Auditor General whose remuneration is determined by the Public Accounts Commission. The Remuneration Committee considers base salary, bonuses, incentive payments, pension arrangements and terms of employment, including termination payments. It also oversees any major changes in NAO employee benefits.

The remuneration report is on pages 49 to 53.

## Leadership Team

At the same time as the new Board was established in July 2009, the Comptroller and Auditor General chose to create a Leadership Team, comprising senior NAO managers.

The Leadership Team's role is to help the Comptroller and Auditor General to develop and implement strategy, provide leadership for staff, set work priorities, monitor performance and manage risk.

## Leadership Team members

### Amyas Morse

Comptroller and Auditor General

### Michael Whitehouse

Chief Operating Officer

### Gabrielle Cohen

Assistant Auditor General

### Ed Humpherson

Assistant Auditor General

### Wendy Kenway-Smith

Assistant Auditor General

### Martin Sinclair

Assistant Auditor General

**Leadership Team committees**

During the year the Leadership Team was supported by two committees. The Operational Capability Committee which is chaired by Michael Whitehouse ensures the National Audit Office has the appropriate financial and human resources, systems and infrastructure to achieve its objectives, and oversees the sustainability of operations. The Audit Practice and Quality Committee which is chaired by Ed Humpherson oversees the technical quality of the Office's audit work.

**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. 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.

**Payment of suppliers**

The National Audit Office is an Approved Signatory to the Better Payment Practice Code ([www.payontime.co.uk](http://www.payontime.co.uk)). The calculation of payment performance for the period ended 31 March 2010 has been based on continuous monitoring of payments since the start of the year. 96 per cent of payments were made within 30 days of receipt of the invoice. The Office has also been monitoring payments against a 10-day target, in recognition of the Government's commitment to pay suppliers within this period wherever possible, and 80 per cent of payments were made within 10 days.

## MANAGEMENT COMMENTARY

### Aim and Objectives

The National Audit Office's aim is to help the nation spend wisely. The main activities relating to this aim are to provide:

- 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;
- independent advice to Parliament on whether public bodies have used resources economically, efficiently and effectively; and
- 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. The National Audit Office's activities in 2009-10 were attributed to the following five strategic objectives:

- **Financial audit:** providing assurance that departments' and other bodies' financial statements have been properly prepared and give a true and fair view; that resources have been properly applied to the purposes intended by Parliament; and providing assurance on the assessment and collection of tax revenue.
- **Value for money:** providing Parliament with independent information and advice about economy, efficiency and effectiveness. The Office 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.
- **Performance improvement:** providing demonstrable coherence, consistent quality and efficient audit through three systemic drivers – **informed government, financial management and reporting** and **cost-effective delivery**. Performance improvement work also includes securing and measuring impacts by performing impact measurement and work to follow-up the recommendations of particular financial audits or VFM studies; reporting to clients, for example, benchmarking their performance against best practice; developing best practice guidance, such as toolkits and promoting best practice via events and publications; performance validation work, including PSA data systems validation work and value for money savings work; and supporting better regulation, working on regulatory impact assessments and administrative burdens.
- **Direct support to Parliament, the public, and other organizations:** supporting the Committee of Public Accounts and other Select Committees; responding to enquiries from Members of Parliament and members of the general public; and the provision of advice and training (on a cost recovery basis) 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 68.

## 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, changes in the machinery of government, 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 Strategy set out developments in its work programme for a three-year rolling period and the related resource requirements. The Office updates its Strategy annually. The Strategy to 2012-13 was approved by the Public Accounts Commission in October 2009.

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

The total net resource requirement approved for the National Audit Office for 2009-10 was £103.7 million. This included £25.7 million for the 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 Strategy are available on its website at [http://www.nao.org.uk/about\\_us/nao\\_governance.aspx](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/hc0809/hc05/0513/0513.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 its reputation and the confidence placed in it by Members of Parliament. The Office manages the risk through its recruitment of staff, 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.

During the year the National Audit Office faced a significant operational risk in transferring some 850 staff from the temporary office accommodation to the refurbished headquarters building; this was successfully completed over one weekend with minimal disruption to the business. The Office's re-occupation strategy left some 1,500 square metres of vacant office space, which it aims to sub-let in 2010-11.

## Review of performance

The National Audit Office achieved its key targets within each of its strategic objectives in 2009-10:

- **financial audit** – 475 accounts were certified, 80 per cent of which were audited within four months of the end of the financial reporting period against a target of 74 per cent;
- **value for money** – 63 reports were published against a target of 60 including reports on the nationalisation of Northern Rock, improving road safety for pedestrians and cyclists and dealing with the tax obligations of older people;
- **performance improvement** – the first stage of work on the three strategic themes identified as key drivers of performance in public sector organizations – informed government, financial management and cost-effective delivery was completed. This will form a sound basis for this area of work in 2010-11; and
- **other work programmes** – the Public Accounts Committee was supported in 49 hearings.

The Office also achieved financial impacts equivalent to over eleven times its net running costs, compared with a target of nine.

The Public Accounts Commission approved an increase in resources for the National Audit Office in 2009-10 for additional work and the Office:

- took on new audits of government-owned companies following enactment of the Companies Act 2006 and helped departments implement International Financial Reporting Standards – the Office has now audited around 50 government-owned profit and non-profit making companies;
- extended the series of reports on financial management in departments and assisted the Committee of Public Accounts in holding departments to account for financial management and to support its improvement across the public sector – four reports were published during the year;
- provided assurance on departments' efficiency savings, commenced a new round of independent Regional Development Agency performance assessments and increased work on validation of departments' achievement of value for money savings; and
- provided extra support for Select Committees, in response to growing demand for advice, for example, on issues such as sustainability, and produced performance briefings identifying issues on the performance of specific departments. The Office increased its support by providing informal briefings and memoranda, informal oral presentations and formal briefings in response to requests for advice from 23 Select Committees. The Office also produced departmental performance briefings to support Committees' scrutiny programmes.

## 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
<b>Audit and other assurance services</b>				
<b>Estimate section A</b>				
Gross resource requirement	99.000	94.562	(4.438)	(4)
Income	(21.000)	(19.896)	(1.104)	(5)
Net resource requirement	78.000	74.666	(3.334)	(4)
Capital expenditure	1.500	1.454	(0.046)	(3)
<b>Repair and refurbishment project</b>				
<b>Estimate sections B and C</b>				
Repair and refurbishment	18.600	16.742	(1.858)	(10)
Temporary office accommodation	7.100	5.912	(1.188)	(17)
Net resource requirement	25.700	22.654	(3.046)	(12)
Capital expenditure	10.000	10.427	427	4
<b>Net cash requirement</b>	<b>112.500</b>	<b>103.535</b>	<b>(8.965)</b>	<b>(8)</b>

## Provision of audit and other assurance services (Section A)

### Resources

The National Audit Office took a strategic decision to re-focus its priorities during 2009-10 and this led to savings in some areas of work. The Office also achieved significant savings on accommodation costs and following a detailed review of statutory and non-statutory work, a higher level of VAT recoveries was secured. As a result of these savings, the Office used approximately 96 per cent of its net resource requirement in 2009-10. The re-focusing of priorities also had an impact on the target to use 75 per cent of resources on front line activity and the Office achieved 73 per cent. Steps have been taken to ensure the 2010-11 target of 78 per cent will be met.

### Income

The Office generated some £19.9 million income from fee paying work which is around 95 per cent of the figure in the 2009-10 Estimate. The Office is continuing to monitor expenditure on fee paying work and planned efficiency savings on financial audit in 2010-11 will reduce the deficit reported in Note 8b on page 79 in the next financial year.



### Capital expenditure

The National Audit Office invested some £1.4 million in information technology assets needed for its operations and upgraded some of its hardware and software to manage work more effectively. The Office also accelerated the purchase of new laptops with 3G connectivity to support mobile computing and standardize the workplace to facilitate flexible working, and implemented a new telephony system. This system will form the base of a Unified Communications system that will introduce a number of new features to aid efficiency and productivity.

### Net assets

Total assets less liabilities employed by the National Audit Office increased by £42 million to over £80 million. This was mainly due to the increase in value of the Office's headquarters building following completion of 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 was completed in November 2009 in accordance with the revised timetable. All London based staff were moved back into the refurbished building on 14 December 2009.

The National Audit Office presented the final outturn cost report for this project to the Public Accounts Commission in March 2010 and the project was formally closed.

## Resources required in 2010-11

The National Audit Office's Estimate for 2010-11 was approved by the Public Accounts Commission in March 2010. The Estimate provides for a gross resource requirement of £96.1 million, which, after taking account of income of £19.5 million, gives a net resource requirement of £76.6 million (2009-10: £78 million).

In 2010-11, the National Audit Office will focus on:

- building on its initial work to improve performance and drive lasting change in public sector organizations;
- providing increased support to Parliament and Select Committees;
- taking up its position on the United Nations Board of Auditors including peacekeeping operations and related organizations such as UNICEF and the UN High Commissioner for Refugees (UNHCR);
- the continued evaluation of the use of public resources to counter the effects of the economic downturn;
- working with HM Treasury on the Alignment Project; and
- advising clients on sustainability reporting requirements.

In addition, the National Audit Office will manage and monitor its resources closely to achieve efficiencies of 2 per cent in financial audit and value for money expenditure and seek to utilize 78 per cent of resources on front line work.

## Sustainability

The National Audit Office is committed to sustainability through the work it undertakes and how it manages its business. It has been a particularly high profile concern this year as the Office completed the refurbishment of its headquarters against high standards of sustainability. Michael Whitehouse and Ed Humpherson are responsible for sustainability issues at Board level.

### Sustainability in the National Audit Office's operations

The refurbishment of the headquarters building provided the opportunity to develop a working space with high levels of sustainability. The building has achieved a **BREEAM (Building Research Establishment Environmental Assessment Method) Excellent rating**, a rare achievement for a refurbished listed building of its age in Central London. In terms of its expected energy performance, the building achieved a 'C' **Energy Performance Assessment Rating**, which is comparable to the rating of a new building of a similar size – and considerably better than the 'E' rating expected for a refurbishment of its type. The building makes good use of natural resources, and has high standards of insulation; large windows in the office spaces use natural daylight to maximum effect; and rain water harvesting will reduce water use. Under-floor heating and chilled beams will also reduce energy consumption.

During 2009-10, the National Audit Office addressed the sustainability of its business by:

- using the Office of Government Commerce framework agreement for the appointment of an environmentally accredited facilities management contractor;
- using suppliers that have an environmental policy and who are accredited to an environmental standard;
- entering into 'closed loop' arrangements for the shredding and recycling of waste paper, with over 600 bags of shredding being returned as A4 photocopy paper; and
- ensuring that all electrical appliances purchased have an A rating in line with the environmental purchasing policy.

### Sustainability coverage in the work of the National Audit Office

The National Audit Office addresses sustainability issues where relevant in its value for money studies and in the support provided to the Environmental Audit Committee.

During the year, the Office contributed to the development of HM Treasury's proposals to introduce mandatory sustainability reporting by government bodies, which were discussed by the Financial Reporting Advisory Board in May.

### In future

In 2010-11, the National Audit Office will be setting new baseline benchmarks for its energy, water and waste consumption and monitoring its performance in terms of sustainability and carbon emissions against the internationally recognized Standard for Environmental Management, ISO 14001.

The Office has also agreed a forward strategy for its work on sustainability with a central aim to encourage better measurement, reporting and cost-effective delivery of sustainability by central government. Specific programmes of work have been agreed to support the new strategy.

## Staff issues

The National Audit Office has a policy of close co-operation and consultation with the Office's 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.

## Health and Safety

The National Audit Office is committed to effective health and safety management and reviews its Policy annually to ensure that it remains relevant and complies with legislation. At Board level, Gabrielle Cohen is responsible for Health and Safety. The Director of Human Resources chairs the Health and Safety Committee which meets twice a year and reports to the Leadership Team.

## Sickness absence

During 2009-10, the average number of days for sickness absence was 4.8 days per employee compared with 5.2 days in 2008-09. 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. In addition to this support, ad hoc health awareness events are organized 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.

## Diversity

The National Audit Office is committed to the equality and recognition of the diverse talents and contributions of staff and has developed a Diversity Strategy for staff covering race, disability, sexuality and gender. Progress against this Strategy is monitored by the Diversity Delivery Board. The Office took forward a number of initiatives in 2009-10 including:

- disability awareness seminars;
- the creation of staff networks with a focus on diversity issues;
- an internship programme for ethnic minority and disabled undergraduates; and
- Equality Impact Assessments for each corporate services function.

## Personal data related incidents

There were no protected personal data related incidents that required reporting to the Information Commissioner's Office in 2009-10.

## Key relationships

The National Audit Office contracts with key partners 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. The Office worked in partnership with the following suppliers who 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

Deloitte

KPMG

Mazars

Moore Stephens

PKF

PricewaterhouseCoopers

Grant Thornton

### Value for money

Accenture

Arup

KPMG

London School of Economics

Oxford University

PricewaterhouseCoopers

Rand Europe

The value for money partnership contract expired on 31 March 2010 and a new contract will be in place from 1 June 2010.

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, Innovation and Skills for the supply of temporary office accommodation. Redfern Travel, Capita Business Travel and Expotel provided travel management services to the Office.

Amyas C E Morse

**Comptroller and Auditor General**  
**27 May 2010**

# REMUNERATION REPORT

## Remuneration policy

### (1) Comptroller and Auditor General

The Public Accounts Commission, in conjunction with the Prime Minister, determines the Comptroller and Auditor General's remuneration. 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 7 on page 77 as Consolidated Fund Standing Services under Other Administration Costs.

### (2) Chair and non-executive Board members

The Public Accounts Commission approves the remuneration of the Chair and the non-executive Board members. The remuneration is non-pensionable.

### (3) Executive Board Members

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

### (4) 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 organization;
- 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 following sections provide details of the remuneration and pension interests of the Comptroller and Auditor General and members of the former Management Board to 30 June 2009, and new National Audit Office Board from 1 July 2009. The information on pages 50 to 53 is covered by the audit opinion.

The following table provides details for members of the former Management Board and the new National Audit Office Board:

	Date of Appointment	Notice Period	2009-10				2008-09
			Salary	Compensation payment	Benefits in kind (to nearest £100)	Total Remuneration	Total Remuneration
			£000	£000		£000	£000
Professor Sir Andrew Likierman Chair	01/01/09	3 months	50-55	–	–	50-55	45-50
Amyas Morse <sup>1</sup> Comptroller and Auditor General (from 1 June 2009)	01/06/09	None	175-180	–	6,200	180-185	–
Tim Burr Comptroller and Auditor General (to 31 May 2009)	01/02/08	None	25-30	–	–	25-30	170-175
Ruth Evans (Non-executive)	01/07/09	3 months	15-20	–	–	15-20	–
Richard Fleck CBE (Non-executive)	01/07/09	3 months	15-20	–	–	15-20	–
Paula Hay-Plumb (Non-executive)	17/03/10	3 months	0-5	–	–	0-5	–
Dame Mary Keegan (Non-executive)	01/07/09	3 months	15-20	–	–	15-20	–
Sir Joseph Pilling KCB (Non-executive) (to 1 October 2009)	01/07/09	3 months	0-5	–	–	0-5	–
Michael Whitehouse Assistant Auditor General (Board member for Finance) (to 30 June 2009) Chief Operating Officer (from 1 July 2009)	01/04/02	3 months	160-165	–	–	160-165	140-145
Gabrielle Cohen Assistant Auditor General	01/04/05	3 months	135-140	–	–	135-140	135-140
Ed Humpherson Assistant Auditor General	16/07/07	3 months	130-135	–	–	130-135	120-125
Wendy Kenway-Smith <sup>2</sup> Assistant Auditor General (Board member to 30 June 2009) (Leadership Team member from 1 July 2009)	15/05/00	3 months	130-135	–	2,900	135-140	180-185
Caroline Mawhood <sup>3</sup> Assistant Auditor General (Board member to 30 June 2009)	01/01/96	3 months	35-40	70-75	–	105-110	135-140
Jim Rickleton Assistant Auditor General (Board member to 30 June 2009)	01/06/03	3 months	30-35	–	–	30-35	130-135
Martin Sinclair Assistant Auditor General (Board member to 30 June 2009) (Leadership Team member from 1 July 2009)	29/01/99	3 months	140-145	–	–	140-145	135-140

1 The benefit in kind for the Comptroller and Auditor General is estimated to be £6,200, for the use during 2009-10 of the National Audit Office car and driver between his home and the office, to maximize the official use of his time. The supporting calculations for this figure have been submitted to HM Revenue and Customs for approval. From 24 May 2010, the Comptroller and Auditor General ceased to use the National Audit Office car between home and the office.

2 Total 2009-10 salary for Wendy Kenway-Smith included benefits in kind of £55,300 for relocation expenses and an interest-free loan.

3 Caroline Mawhood retired from the National Audit Office on 31 October 2009, on compulsory redundancy.



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.

Dame Mary Keegan was appointed the non-executive Chair of the Audit Committee on 22 September 2009 and is a non-executive member of the Board. (Steve Freer held this position to 25 May 2009 and during this period CIPFA, his employer, was paid £3,450. 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 2010 was £56,900 and the benefit in kind relating to the loan was £2,900.

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.

The National Audit Office contracts with the Government Car and Despatch Agency for the provision of an official car and driver for business purposes. The Comptroller and Auditor General uses the car between his home and the Office in order to maximize the official use of his time. The estimated benefit in kind relating to his home to office use of the car was £6,200. The supporting calculations for this figure have been submitted to HM Revenue and Customs for approval. The tax liability relating to the benefit will be met by the Comptroller and Auditor General.

## 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. On taking up his appointment as Comptroller and Auditor General on 1 June 2009, Amyas Morse waived his defined pension benefit entitlement.

### (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 schemes can be found at [www.civilservice.gov.uk/my-civil-service/pensions/scheme-guides/index.aspx](http://www.civilservice.gov.uk/my-civil-service/pensions/scheme-guides/index.aspx)

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 2010 £000	Accrued lump sum at age 60 at 31 March 2010 £000	Real increase in annual pension £000	Real increase in lump sum £000	CETV at 31 March 2010 £000	CETV at 31 March 2009* £000	Real increase in CETV £000
Michael Whitehouse Assistant Auditor General (Board member for Finance) (to 30 June 2009) Chief Operating Officer (Board member for Finance) (from 1 July 2009)	60	180	7	21	1170	985	136
Gabrielle Cohen Assistant Auditor General	39	116	2	7	658	587	39
Ed Humpherson Assistant Auditor General	29	42	3	2	346	295	33
Wendy Kenway-Smith Assistant Auditor General (Management Board Member to 30 June 2009) (Leadership Team Member from 1 July 2009)	22	67	2	7	416	339	41
Caroline Mawhood Assistant Auditor General (Management Board Member to 30 June 2009)	64	183	9	16	1,399	1,147	177
Jim Rickleton Assistant Auditor General (Management Board Member to 30 June 2009)	49	146	3	8	890	804	46
Martin Sinclair Assistant Auditor General (Management Board Member to 30 June 2009) (Leadership Team Member from 1 July 2009)	57	111	4	2	1,056	946	55

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 2009-10 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 2009-10.

#### **Cash equivalent transfer values**

The Cash Equivalent Transfer Value (CETV) is the actuarially capitalized 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.

Amyas C E Morse

**Comptroller and Auditor General**  
**27 May 2010**

## 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, recognized 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 adopted the Government 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 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.

## 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

As the auditors of Government we assess how the achievement of our policies, aims and objectives might be affected by the risks we face, and we design a system of internal control which mitigates those risks. The system is not designed to eliminate all risk but to strike a balance between control, cost of control and appropriate risk taking. A system of internal control which accords with Treasury guidance has been in place for the whole of 2009-10.

Since I became Comptroller and Auditor General in June 2009, the National Audit Office has been considering the aims and objectives of our organization, and as a result I have been, and continue to, revise the internal control system and keep the effectiveness of controls under review.

### Capacity to handle risk

At the National Audit Office we manage our business with a view to the risks we face, using appropriate control systems. This process is embedded in our working methods including clearly defined governance procedures, quality control policies, effective financial management and the identification and management of specific risks we face.

Over the year, as our objectives and our working environment have changed, we have enhanced our capacity to handle risk by re-defining our governance processes, revising our management procedures for specific risks and actively embedding these revised policies through communication to, and training of, our staff.

The Office demonstrated its capacity to handle operational risk by effectively managing the move from temporary office accommodation back into the refurbished building over one weekend in December 2009 with no disruption to business activity.

Looking forward, the Office has been through a period of considerable change resulting in the development of a new corporate strategy with a much sharper focus on business outcomes. To support the delivery of new strategic objectives we have agreed a detailed Business Plan for 2010-11 with clearly defined accountabilities over the delivery of outputs and outcomes. Work is underway to refine management information and business reporting to provide the Leadership Team and the Board with fully integrated information to control the delivery of the work programme and manage emerging risks. A key part of this work will include a full review of the Internal Control system and its oversight role by the Leadership Team.

## The risk and control framework

We manage risks in a structured manner. The overall governance framework is regularly reviewed by the National Audit Office Board and my executive leadership team, with the advice and support of the Audit Committee. 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. Compliance with these policies is expected of all our staff, and breaches can lead to retraining and/or disciplinary action.

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

Control over the quality of audit products is managed through a system of independent, internal and external reviews. The external review of financial audit quality is provided by the Audit Inspection Unit which is part of the Professional Oversight Board. For our Value for Money work the external review function is shared between Oxford Business School and Risk Solutions. The outcomes of these review processes are reported annually to the Board.

We have identified strategic risks which could affect the achievement of our policies, aims and objectives and which need to be managed actively. From 1 April to 30 June 2009, the Management Board was responsible for the management of these risks. This responsibility was transferred to the Leadership team on 1 July 2009.

We maintain a risk register which identifies strategic and operational risks that could affect the achievement of our aims. We are alert to the need to keep the risks under review and deal appropriately with changing circumstances as they arise. In September 2009 we began a process of revising the risk register and effort is also being made to more closely align the risk framework to the National Audit Office's new business strategy. During its development, the new risk framework is being reviewed by the Audit Committee and the National Audit Office Leadership Team. Designated risk owners continue to manage business risk using the existing register. The Board expects to agree the new risk register for implementation in 2010-11.



## Statement of information risk

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

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

Assurance about the effectiveness of the information security controls is provided on a quarterly basis by the National Audit Office's Information Asset Owners. The Departmental Security Officer provides an annual report to the Senior Information Risk Owner which includes a detailed assessment of information risk and the arrangements to mitigate it.

With assistance from external experts, Internal Audit has reviewed the National Audit Office's IT Environment. This review included a dry-run assessment of the Office's progress against the Government's Information Assurance Maturity Model. The Office was assessed as having reached Level 1 (awareness of the criticality of information assurance to the business and its legal requirements) and, in keeping with targets set for government departments; the Office aims to achieve Level 2 (information assurance processes are institutionalized) by the end of 2010.

### Personal data-related incidents

There were no protected personal data-related incidents reportable to the Information Commissioner's Office in 2009-10. Neither were there centrally recorded protected personal data-related incidents not formally reported to the Information Commissioner's Office in 2009-10. Unlike government departments, the National Audit Office is not required to report significant incidents relating to personal data to the Cabinet Office. If it were required to do so, there would be no incidents to report.

## Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of Internal Control.

My review is informed by the work of the Director of Internal Audit and Assurance and the executive managers within the 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. Internal Audit submits regular reports on the management of key business risks and the effectiveness of the Office's system of internal control and makes recommendations for improvement. Recommendations have been accepted by management and have been implemented or are being progressed in accordance with agreed timetables. The status of Internal Audit recommendations is regularly reported to the Audit Committee. The Director of Internal Audit and Assurance's assessment of internal control in 2009-10 concluded that there were no significant weaknesses.

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

In addition, I commissioned an external review of the business processes and this concluded that the National Audit Office's assurance processes are robust. The review did highlight a number of recommendations for improvement including further development of the Risk Assurance framework and the need to refresh and update the Office's Business Continuity Plan. We are currently considering how best to implement the review's recommendations and in most cases already have work in hand to address the shortcomings identified.

## Significant internal control weaknesses

I am able to report that there were no significant weaknesses in the Office's system of internal controls in 2009-10 which affected the achievement of the Office's key policies, aims, and objectives.

Amyas C E Morse

**Comptroller and Auditor General**  
**27 May 2010**

## INDEPENDENT AUDITORS' 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 2010 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 Introduction, Management Commentary and the unaudited part of the Remuneration 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 which 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 2010, and the net cash requirement, net resource outturn, net operating cost, operating costs applied to objectives, recognized 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 Commentary, 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.

RSM Tenon Audit Limited  
Registered Auditors

Clifton House  
Bunnian Place  
Basingstoke  
Hampshire  
RG21 7JE

27 May 2010

## Statement of Parliamentary Supply

### Summary of Resource Outturn 2009-10

				2009-10 Estimate			2009-10 Outturn	Net total outturn compared with Estimate: saving or (excess)	2008-09 Outturn
	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 organizations on the management of public resources	2	124,700	21,000	103,700	116,675	19,896	96,779	6,921	102,937
<b>Total Resources</b>		<b>124,700</b>	<b>21,000</b>	<b>103,700</b>	<b>116,675</b>	<b>19,896</b>	<b>96,779</b>	<b>6,921</b>	<b>102,937</b>
Non Operating Cost A in A				—			—		

The notes on pages 70 to 85 form part of these accounts

### Net Cash Requirement 2009-10

				2009-10 £000	2008-09 £000
				Net total outturn compared with Estimate: saving or (excess)	
	Note	Estimate	Outturn		Outturn
Net cash requirement	4	112,500	103,535	8,965	111,206

### 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.

		Forecast 2009-10		Outturn 2009-10		Outturn 2008-09	
	Note	Income £000	Receipts £000	Income £000	Receipts £000	Income £000	Receipts £000
Total	5a	–	–	33	33	5	5



## Operating Cost Statement for the year ended 31 March 2010

	Note	2009-10 £000	2008-09 £000
<b>Administration costs:</b>			
Staff costs	6	57,770	55,171
Non-staff administration costs	7	59,132	67,922
<b>Gross administration costs</b>		<b>116,902</b>	<b>123,093</b>
Operating income	8	(19,896)	(19,966)
<b>Net operating cost</b>	3	<b>97,006</b>	<b>103,127</b>

There were no acquisitions or disposals during the period.

All operations are continuing.

## Statement of Financial Position as at 31 March 2010

	Note	31 March 2010 £000	31 March 2009 £000
<b>Non-current assets:</b>			
Property, plant and equipment	9	76,670	34,380
Intangible assets	10	1,527	1,204
Receivables falling due after more than one year	11	509	582
<b>Total non-current assets</b>		<b>78,706</b>	<b>36,166</b>
<b>Current assets:</b>			
Trade and other receivables	11	10,520	11,639
Cash and cash equivalents	12	166	183
<b>Total current assets</b>		<b>10,686</b>	<b>11,822</b>
<b>Total assets</b>		<b>89,392</b>	<b>47,988</b>
<b>Current liabilities:</b>			
Trade and other payables	13	(5,199)	(6,381)
Provisions due within 1 year	14	(1,160)	
<b>Total current liabilities</b>		<b>(6,359)</b>	<b>(6,381)</b>
<b>Total assets less current liabilities</b>		<b>83,033</b>	<b>41,607</b>
<b>Non-current liabilities:</b>			
Provisions	14	(2,322)	(2,504)
<b>Total non-current liabilities</b>		<b>(2,322)</b>	<b>(2,504)</b>
<b>Assets less liabilities</b>		<b>80,711</b>	<b>39,103</b>
<b>Taxpayers' Equity</b>			
General Fund		38,280	29,169
Revaluation reserve		42,431	9,934
<b>Total taxpayers' equity</b>		<b>80,711</b>	<b>39,103</b>

Amyas Morse

Comptroller and Auditor General  
27 May 2010

## Statement of Cash Flows for the year ended 31 March 2010

	Note	2009-10 £000	2008-09 £000
<b>Cash flows from operating activities</b>			
Net operating cost	3	(97,006)	(103,127)
Adjustments for non-cash transactions	7	5,688	3,999
Increase / (decrease) in trade and other receivables	11	1,192	(1,752)
(Decrease) / increase in trade payables	13	(1,118)	21
Use of provisions	14	(569)	(1,614)
<b>Net cash outflow from operating activities</b>		<b>(91,813)</b>	<b>(102,473)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	9	(11,599)	(8,587)
Purchase of intangible assets	10	(282)	(336)
Proceeds of disposal of property, plant and equipment		33	5
<b>Net cash outflow from investing activities</b>		<b>(11,848)</b>	<b>(8,918)</b>
<b>Cash flows from financing activities</b>			
From the Consolidated Fund (Supply) – current year		103,432	108,554
From the Consolidated Fund (Non-Supply) Consolidated Fund Standing Services	7	227	190
<b>Net financing</b>		<b>103,659</b>	<b>108,744</b>
<b>Net decrease in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund</b>		<b>(2)</b>	<b>(2,647)</b>
Payments of amounts to the Consolidated Fund		(15)	–
<b>Net decrease in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated fund</b>	12	<b>(17)</b>	<b>(2,647)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	12	<b>183</b>	<b>2,830</b>
<b>Cash and cash equivalents at the end of the period</b>	12	<b>166</b>	<b>183</b>

The notes on pages 70 to 85 form part of these accounts

## Statement of Changes in Taxpayers' Equity for the year ended 31 March 2010

	Note	General Fund £000	Revaluation Reserve £000	Total Reserves £000
<b>Balance at 1 April 2008</b>		<b>19,660</b>	<b>14,434</b>	<b>34,094</b>
<b>Changes in taxpayers' equity for 2008-09</b>				
Net loss on revaluation of property, plant and equipment	9	–	(4,500)	(4,500)
Non-cash charges – cost of capital	7	1,240	–	1,240
Consolidated Fund Standing Services	7	190	–	190
Net operating cost for the year	3	(103,127)	–	(103,127)
<b>Total recognized income and expense for 2008-09</b>		<b>(101,697)</b>	<b>(4,500)</b>	<b>(106,197)</b>
Net Parliamentary Funding – drawn down		108,554	–	108,554
Net Parliamentary Funding – deemed		2,830	–	2,830
Supply payable adjustment		(178)	–	(178)
		<b>111,206</b>	<b>–</b>	<b>111,206</b>
<b>Balance at 31 March 2009</b>		<b>29,169</b>	<b>9,934</b>	<b>39,103</b>
<b>Changes in taxpayers' equity for 2009-10</b>				
Net gain on revaluation of property, plant and equipment	9	–	32,813	32,813
Non-cash charges – cost of capital	7	2,106	–	2,106
Consolidated Fund Standing Services	7	227	–	227
Net operating cost for the period	3	(97,006)	–	(97,006)
Realized element of revaluation reserve		316	(316)	–
<b>Total recognized income and expense for 2009-10</b>		<b>(94,357)</b>	<b>32,497</b>	<b>(61,860)</b>
Net Parliamentary Funding – drawn down		103,432	–	103,432
Net Parliamentary Funding – deemed	13	178	–	178
Supply payable adjustment	13	(142)	–	(142)
		<b>103,468</b>	<b>–</b>	<b>103,468</b>
<b>Balance at 31 March 2010</b>		<b>38,280</b>	<b>42,431</b>	<b>80,711</b>

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

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

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

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

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

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

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

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

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

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

From 2009-10, the Office moved from a four objectives structure to a five objectives structure. The 2008-09 comparatives have been re-presented to reflect this change. The National Audit Office maintains a resource management system which links the cost of individual assignments to one of the five objectives. Indirect costs are allocated pro-rata to staff costs.

The National Audit Office has recently completed the refurbishment of its headquarters accommodation. The Public Accounts Commission approved a separate budget for the refurbishment project and temporary accommodation which is included in Request for Resources under 1B and 1C. As it was funded separately, expenditure on the project has not been allocated to Objectives 1-5. Further details on the completion of the project can be found within the Management Commentary on page 41.

The notes on pages 70 to 85 form part of these accounts

**2008-09 Restated**

	Strategic Objective 1 £000	Strategic Objective 2 £000	Strategic Objective 3 £000	Strategic Objective 4 £000	Strategic Objective 5 £000	Total £000
Gross Expenditure	47,388	26,829	9,008	10,629	178	<b>94,032</b>
Income	(16,026)	–	(883)	(3,057)	–	<b>(19,966)</b>
<b>Subtotal</b>	<b>31,362</b>	<b>26,829</b>	<b>8,125</b>	<b>7,572</b>	<b>178</b>	<b>74,066</b>
Repair and refurbishment of the Office's London headquarters building						<b>20,724</b>
Provision of temporary office accommodation						<b>8,337</b>
<b>Net Expenditure</b>	<b>31,362</b>	<b>26,829</b>	<b>8,125</b>	<b>7,572</b>	<b>178</b>	<b>103,127</b>
Total Assets	24,184	13,692	4,597	5,424	91	<b>47,988</b>

The notes on pages 70 to 85 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 and Auditor General.

These financial statements are presented in pound sterling and rounded to the nearest £1,000.

### 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 utilized by the National Audit Office, is included in operating costs. The charge is calculated at the real rate set by HM Treasury – 3.5 per cent (2008-09: 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 6(b). The defined benefit schemes are unfunded and are non-contributory except in respect of dependants' benefits. The National Audit Office recognizes 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 recognizes the contributions payable for the year.

#### 1.5 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 1.8 per cent in real terms. The estimated payments are provided by People, Pay and Pensions Agency.

#### 1.6 Property, plant and equipment

Expenditure on property, plant and equipment of £1,500 or more is capitalized. 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 historic cost as a proxy for fair value.

#### 1.7 Intangible assets

Expenditure on intangible assets which are software licenses and the associated costs of implementation is capitalized where the cost is £1,500 or more. Intangible assets are reviewed annually for impairment and are stated at an approximation of fair value. Software licences are amortized on a straight line basis over the shorter of the term of the licence and the useful economic life (4 to 7 years).

#### 1.8 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 to November 2009 during the National Audit Office's occupation of temporary accommodation while the headquarters building was refurbished. During this time, the building was treated as an asset in the course of construction and depreciation was charged from the time the building was re-occupied on 14th December 2009.

The term of the lease for long leasehold land and buildings (the Office headquarters) is 130 years. Revaluation was undertaken at 31 March 2010, at which time the lease had 102 years remaining.



**1.9 Trade receivables**

Trade receivables are recognized 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.

**1.10 Inventory**

Consumable inventory is charged to the operating cost statement in the year of purchase.

**1.11 Accrued income**

Accrued income mainly related to fee-paying audit assignments and 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.

**1.12 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 organizations. 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 5b.

**1.13 Operating leases**

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

**1.14 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 11 and 13). Trade receivables are recognized 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.

**1.15 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.

**1.16 Provisions for liabilities and charges**

The National Audit Office provides for legal or constructive obligations which are of uncertain timing or amount at the end of the reporting period 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.

**1.17 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 capitalized purchase cost of fixed assets. Recoveries of input VAT are netted off against expenditure in the Operating Cost Statement.

**1.18 Staff costs**

Under IAS19 Employee Benefits, all staff costs must be recorded as an expense as soon as the organization is obligated to pay them. This includes the cost of any untaken leave as at the year end.

**1.19 Accounting estimates**

Other than the accrued income figure in Note 11, no material accounting estimates or judgements were made by the National Audit Office in preparing these accounts.

## 2 Analysis of net resource outturn by section

	Outturn		2009-10 Estimate		2008-09
	Gross resource expenditure	A in A	Net Total	Net Total	Prior-year outturn
	£000	£000	£000	£000	£000
<b>RfR 1: Providing independent assurance to Parliament and other organizations on the management of public resources</b>					
1A Provision of audit and other assurance services	94,562	19,896	74,666	78,000	73,876
1B Repair and refurbishment of Office's headquarters building	16,201	–	16,201	18,600	20,724
1C Provision of temporary office accommodation	5,912	–	5,912	7,100	8,337
<b>Resource Outturn</b>	<b>116,675</b>	<b>19,896</b>	<b>96,779</b>	<b>103,700</b>	<b>102,937</b>

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

	Note	Outturn £000	Estimate £000	2009-10 Outturn compared with Estimate £000	2008-09 Outturn £000
<b>Net resource outturn</b>	2	96,779	103,700	(6,921)	102,937
Non-supply expenditure – Consolidated Fund Standing Services	7	227	227	–	190
<b>Net operating cost</b>		<b>97,006</b>	<b>103,927</b>	<b>(6,921)</b>	<b>103,127</b>

Request for Resource 1: Providing independent assurance to Parliament and other organizations 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.

#### 4 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		103,700	96,779	6,921
Capital				
Acquisition of assets	9,10	11,500	11,881	(381)
Non-operating income not classified as A in A	5(c)			
Receipts due to Consolidated Fund for income not classified as A in A		–	(33)	33
Accruals adjustments:				
Non-cash items	7	(3,900)	(5,688)	1,788
Changes in working capital other than cash		500	27	473
Use of provisions	14	700	569	131
<b>Net cash requirement</b>		<b>112,500</b>	<b>103,535</b>	<b>8,965</b>

#### 5(a) Analysis of income payable to the Consolidated Fund

	Note	Forecast Income £000	Forecast Receipts £000	Outturn Income £000	Outturn Receipts £000
Operating income and receipts – excess Appropriations in Aid		–	–	–	–
Non-operating income and receipts not classified as Appropriations in Aid		–	–	33	33
Other amounts collectable on behalf of the Consolidated Fund		–	–	–	–
<b>Total income payable to the Consolidated Fund</b>		<b>–</b>	<b>–</b>	<b>33</b>	<b>33</b>

Included within the £33,000 above is £120 which is collectable and payable to the Consolidated Fund in respect of royalties on a book published by a former Comptroller and Auditor General.

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

	Note	2009-10 £000	2008-09 £000
Operating income	8	19,896	19,966
Income authorized to be appropriated in aid	2	19,896	19,966
Operating income and receipts – excess Appropriations in Aid		–	–

## 5(c) Non-operating income not classified as Appropriations in Aid

2009-10 £000	2008-09 £000
33	5

£33,000 is payable to the Consolidated Fund from sale proceeds following disposal of fixed assets.

## 6 Staff numbers and related costs

### 6(a) Staff costs comprise:

	Total £000	2009-10 Full-time equivalent NAO staff £000	Others £000	2008-09 Total £000
Wages and salaries	44,990	44,672	318	42,558
Social security costs	3,796	3,796	–	3,499
Other pension costs	8,984	8,984	–	9,114
<b>Sub Total</b>	<b>57,770</b>	<b>57,452</b>	<b>318</b>	<b>55,171</b>
Less recoveries received in respect of outward secondments	(524)	(524)	–	(653)
<b>Total net costs</b>	<b>57,246</b>	<b>56,928</b>	<b>318</b>	<b>54,518</b>

#### 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.

### 6(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 2010. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice.gov.uk/my-civil-service/pensions/scheme-guides/index.aspx](http://www.civilservice.gov.uk/my-civil-service/pensions/scheme-guides/index.aspx)).

Employer's contributions of £8,940,023, were payable to the PCSPS as at 31 March 2010 (2008-09: £9,094,406) at one of four rates in the range 16.7 per cent to 24.3 per cent (2008-09: 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 £25,791 (2008-09: £35,751) 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 (2008-09: 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 £2,484; 0.8 per cent of pensionable pay (2008-09: £2,709; 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.

### 6(c) Average number of persons employed

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

Strategic Objective	Total	2009-10 Full-time equivalent NAO staff	Others	2008-09 Restated Total
<b>Objective 1:</b> Financial audit	475	458	17	450
<b>Objective 2:</b> Value for money	233	223	10	272
<b>Objective 3:</b> Performance improvement	110	110	–	73
<b>Objective 4:</b> Direct support to Parliament, the public and other organizations	139	113	26	122
<b>Objective 5:</b> Comptroller function	4	4	–	4
<b>Total</b>	<b>961</b>	<b>908</b>	<b>53</b>	<b>921</b>

In 2009-10, the Office moved from a four objectives structure to a five objectives structure. Figures for 2008-09 have therefore been restated.

## 7 Other administration costs

	2009-10		2008-09	
	£000	£000	£000	£000
<b>Audit and other assurance services:</b>				
Professional services bought in	17,553		22,640	
Travel, subsistence, hospitality	3,403		3,552	
Accommodation	1,765		301	
Office supplies and equipment	3,388		2,914	
Recruitment and training	2,079		2,984	
Staff related costs	776		1,026	
International work	558		494	
Operating lease (building)	205		209	
Other administration costs	1,194		390	
Operating lease (vehicles)	–		–	
Consolidated Fund Standing Services (Comptroller and Auditor General's salary)	227		190	
Remuneration to external auditors for other work	105		95	
External auditor's fee	78		67	
		31,331		34,862
<b>Repair and refurbishment of the headquarters building:</b>				
Refurbishment costs	16,201		20,724	
<b>Temporary office accommodation:</b>				
Temporary accommodation costs	5,912		8,337	
		22,113		29,061
		53,444		63,923
<b>Non cash items:</b>				
	Note			
Cost of capital charge		2,106	1,240	
Provision for early departure costs provided for in the year	14	1,547	1,053	
Depreciation and amortization	9,10	1,991	1,566	
Loss on disposal of property, plant and equipment		44	140	
		5,688		3,999
		59,132		67,922

## 8 Income

### 8(a) Analysis of operating income by classification and activity

	2009-10			
	Resource Outturn		Operating cost statement	
	Netted off gross expenditure £000	Appropriated in Aid £000	Payable Consolidated Fund £000	Income included in operating cost statement £000
<b>Appropriated in Aid</b>				
Audit Fees – UK	–	15,355	–	15,355
Audit Fees – International	–	950	–	950
International Technical Cooperation	–	2,168	–	2,168
Secondment income	–	524	–	524
Other income	–	899	–	899
<b>Total income</b>	<b>–</b>	<b>19,896</b>	<b>–</b>	<b>19,896</b>

	2008-09			
	Resource Outturn		Operating cost statement	
	Netted off gross expenditure £000	Appropriated in Aid £000	Payable Consolidated Fund £000	Income included in operating cost statement £000
<b>Appropriated in Aid</b>				
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
<b>Total income</b>	<b>–</b>	<b>19,966</b>	<b>–</b>	<b>19,966</b>

**8(b) Analysis of income from services provided to clients**

	2009-10		Surplus/ (deficit)
	Income £000	Expenditure £000	£000
Audit Fees – UK	15,355	16,326	(971)
Audit Fees – International	950	879	71
International Technical Cooperation	2,168	1,897	271
Secondment income	524	524	–
Other income	899	893	6
	<b>19,896</b>	<b>20,519</b>	<b>(623)</b>

	2008-09		Surplus/ (deficit)
	Income £000	Expenditure £000	£000
Audit Fees – UK	14,787	15,733	(946)
Audit Fees – International	1,239	990	249
International Technical Cooperation	2,404	2,109	295
Secondment income	653	653	–
Other income	883	849	34
	<b>19,966</b>	<b>20,334</b>	<b>(368)</b>

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 year.

This information is provided for fees and charges purposes and not for IFRS 8 (Operating segments) purposes.



## 9 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 2009	22,432	860	5,155	705	42	8,610	37,804
Additions	–	–	1,167	2,445	–	7,987	11,599
Disposals	–	–	(1,258)	(150)	(42)	–	(1,450)
Reclassification	16,597	–	(493)	(107)	–	(16,597)	(600)*
Revaluation	16,459	15,890	–	–	–	–	32,349
<b>At 31 March 2010</b>	<b>55,488</b>	<b>16,750</b>	<b>4,571</b>	<b>2,893</b>	<b>–</b>	<b>–</b>	<b>79,702</b>
Depreciation							
At 1 April 2008	–	292	2,828	275	29	–	3,424
Charged in year	172	238	851	173	9	–	1,443
Disposals	–	–	(1,219)	(124)	(38)	–	(1,381)
Reclassification	–	–	37	(27)	–	–	10
Revaluation	(172)	(292)	–	–	–	–	(464)
<b>At 31 March 2010</b>	<b>–</b>	<b>238</b>	<b>2,497</b>	<b>297</b>	<b>–</b>	<b>–</b>	<b>3,032</b>
Net Book Value							
<b>at 31 March 2010</b>	<b>55,488</b>	<b>16,512</b>	<b>2,074</b>	<b>2,596</b>	<b>–</b>	<b>–</b>	<b>76,670</b>
at 31 March 2009	22,432	568	2,327	430	13	8,610	34,380

\* £600,000 has been reclassified as intangible assets.

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:

The FReM requires measurement at fair value for existing use. Management consider open market value to be the best available estimation of fair value. Land and buildings (the Office headquarters) were revalued by Drivers Jonas Deloitte, independent property consultants and surveyors and a member of RICS in accordance with the Guidance Notes of the RICS. The headquarters building was re-occupied on 14 December 2009, following completion of the refurbishment.

The capital value of the refurbishment work was based on an assessment carried out at the planning stage which analysed expenditure between repair and refurbishment costs. An accurate allocation of the costs between building and plant elements was not feasible during the project, and all costs have therefore been deemed to be related to the building. Assets in the course of construction were estimated to be £16,055,765 at 31 December 2009 (31 March 2009: £8,610,000) and this amount has accordingly been re-classified under Long Leasehold Land and Buildings.

Drivers Jonas Deloitte valued the land and buildings, after the refurbishment work was fully completed, on an existing use basis at £72,000,000 as at 31 March 2010 (31 March 2009: £23,000,000). Drivers Jonas Deloitte have assessed market value to be the same as existing use value. 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 was treated as an asset in the course of construction and was not depreciated. Depreciation was charged from 14 December 2009 when the building was re-occupied.

**2008-09:**

	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)
<b>At 31 March 2009</b>	<b>22,432</b>	<b>860</b>	<b>5,155</b>	<b>705</b>	<b>42</b>	<b>8,610</b>	<b>37,804</b>
Depreciation							
At 1 April 2008	–	292	2,137	278	15	–	2,722
Charged in year	–	–	928	61	14	–	1,003
Disposals	–	–	(237)	(64)	–	–	(301)
<b>At 31 March 2009</b>	<b>–</b>	<b>292</b>	<b>2,828</b>	<b>275</b>	<b>29</b>	<b>–</b>	<b>3,424</b>
Net Book Value							
<b>At 31 March 2009</b>	<b>22,432</b>	<b>568</b>	<b>2,327</b>	<b>430</b>	<b>13</b>	<b>8,610</b>	<b>34,380</b>
At 31 March 2008	26,932	568	2,557	610	27	742	31,436

## 10 Intangible assets

Intangible assets are software licences and the associated implementation costs.

	Total £000
<b>Cost</b>	
At 1 April 2009	3,967
Additions	282
Disposals	(474)
Reclassification from property, plant and equipment	600
<b>At 31 March 2010</b>	<b>4,375</b>
<b>Amortization</b>	
At 1 April 2009	2,763
Charged in year	548
Disposals	(473)
Reclassification	10
<b>At 31 March 2010</b>	<b>2,848</b>
<b>Net Book Value</b>	
<b>at 31 March 2010</b>	<b>1,527</b>
at 31 March 2009	1,204
	Total £000
<b>2008-09:</b>	
<b>Cost</b>	
At 1 April 2008	3,631
Additions	336
<b>At 31 March 2009</b>	<b>3,967</b>
<b>Amortization</b>	
At 1 April 2008	2,200
Charged in year	563
<b>At 31 March 2009</b>	<b>2,763</b>
<b>Net Book Value</b>	
<b>at 31 March 2009</b>	<b>1,204</b>
at 31 March 2008	1,431

## 11 Trade receivables and other current assets

	2009-10 £000	2008-09 £000
<b>Amounts falling due within one year:</b>		
Trade receivables	1,023	2,274
Accrued income	7,317	7,477
Deposits and advances	404	414
Other receivables	774	439
Prepayments and accrued income	1,002	1,035
	<b>10,520</b>	<b>11,639</b>
<b>Amounts falling due after more than one year:</b>		
Deposits and advances	509	582
<b>Total</b>	<b>11,029</b>	<b>12,221</b>

## 12 Cash and cash equivalents

	2009-10 £000	2008-09 £000
Balance at 1 April 2009	183	2,830
Net change in cash and cash equivalent balances	(17)	(2,647)
<b>Balance at 31 March 2010</b>	<b>166</b>	<b>183</b>
The following balances were held at:		
Office of HM Paymaster General	156	137
Commercial banks and cash in hand	10	46
<b>Balance at 31 March 2010</b>	<b>166</b>	<b>183</b>

## 13 Trade payables and other current liabilities

	2009-10 £000	2008-09 £000
<b>Amounts falling due within one year:</b>		
Trade payables	10	61
Other payables	299	204
Accruals and deferred income	4,516	5,799
Payments received on account	208	134
	<b>5,033</b>	<b>6,198</b>
Amounts issued from the Consolidated Fund for supply but not spent at period end	142	178
Consolidated Fund extra receipts received due to be paid to the Consolidated Fund		
Received	24	5
<b>Total</b>	<b>5,199</b>	<b>6,381</b>

## 14 Provisions for liabilities and charges

	Early departure costs £000	£000
Balance at 1 April 2009		2,504
Provided in the year	1,951	
Provisions not required written back	(352)	
Unwinding of discounts	(52)	
		1,547
Provisions utilized in the period		(569)
<b>Balance at 31 March 2010</b>		<b>3,482</b>

### Analysis of expected timing of discounted flows

	Early departure costs £000	£000
Payable during 2010-11	1,160	
Payable to the end of 2012	767	
		1,927
Total payable in the remainder of the Spending Review period to 2012		1,407
Between 2013 and 2017		148
Between 2018 and 2021		—
Thereafter		—
<b>Balance at 31 March 2010</b>		<b>3,482</b>

## 15 Capital commitments

	2009-10 £000	2008-09 £000
Property, plant and equipment	—	10,854

## 16 Commitments under leases

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

	2009-10 £000	2008-09 £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	460	642

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

## 17 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.

	2009-10 £000	2008-09 £000
Not later than one year	—	25,948

## 18 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 therefore not 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 are denominated in US 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.

## 19 Contingent liabilities

The National Audit Office had no contingent liabilities at 31 March 2010 (31 March 2009: Nil).

## 20 Losses and Special Payments

No losses and special payments that required separate disclosure because of their nature or amount were incurred (2008-09: Nil).

## 21 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 which 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 Innovation and Skills (formerly known as Department for Business and Regulatory Reform) which amounted to some £5.6 million in 2009-10.

In 2009-10 one member of the National Audit Office Management Board held a position 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. Martin Sinclair is a member of the Council.

Richard Fleck, a non-executive Member of the National Audit Office Board, is a director of the Financial Reporting Council. The Audit Inspection Unit of the Public Oversight Board, which is an operating division of the Financial Reporting Council, carry out an independent review of the financial audit practice of the National Audit Office. In 2009-10 payments made to the Financial Reporting Council in respect of these consultancy services amounted to £198,000.

## 22 Events after the reporting period

There were no reportable events between the end of the reporting period and the date the accounts were signed.

The accounts were authorized for issue on 27 May 2010.

## STATEMENT OF NATIONAL AUDIT OFFICE FINANCIAL IMPACT FOR 2009

The statement of financial impact represents the National Audit Office's estimate of the value of the financial benefits achieved in 2009 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. They may also be non-cashable public sector improvements arising from improvements in quality or productivity, or benefits to third parties.

We report impacts 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 reported. 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, for example, those that relate to qualitative efficiency gains and wider economic benefits. In these instances, we base the financial impact on careful judgement and estimation. Our recommendations are not always separable from other influences and in these cases 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.

The statement of financial impact has been prepared in accordance with internal guidance. Estimates are subject to internal quality assurance review by senior management and internal audit, and the Leadership Team collectively endorses all of the impacts. The NAO reports financial impacts on a calendar year basis, and has adopted the following principles:

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

**Realization** – Impacts have been realized within, or before, the calendar year in which they are reported.

**Evaluation** – Reliable evidence supports the claims. There is a robust methodology to value the impact, net of implementation costs.

**Attribution** – The proportion of impact claimed reflects the NAO's degree of contribution to the benefit realized. We claim a share of the total impact proportionate to our degree of contribution.

**Validation** – The impact has been agreed by the body concerned and approved internally.



## 2009 NAO IMPACTS VALUED AT OVER £5 MILLION

	Impact identified (£ million)	Nature of impact (one-off/recurring)	Year of claim	Client with whom impact agreed	Year of original work
<b>Management of Large Business Corporation Tax</b> Increased tax yield resulting from improved focus on higher amounts of tax at risk	305.0	Recurring	2 of 5	HM Revenue and Customs	2006-07
<b>Prescribing Costs in Primary Care</b> Savings arising from more cost-effective prescribing of drugs	156.0	Recurring	2 of 3	Department of Health	2006-07
<b>Smarter food procurement in the public sector</b> Savings due to improved food procurement in schools and the military	105.6	Recurring	1 of 3	Department for Children Schools and Families	2006-07
<b>Improving procurement in further education colleges in England</b> More cost-effective procurement	94.2	Recurring	1 of 3	Department for Business, Innovation and Skills	2006-07
<b>Department for Work and Pensions Resource Account</b> Improved recovery of overpayments to customers	90.2	Recurring	2 of 2	Department for Work and Pensions	2004-05 to 2008-09
<b>Department for International Development – Engaging with Multilaterals</b> More effective allocation of development resources	26.5	Recurring	1 of 3	Department for International Development	2005-06
<b>Accuracy of Processing Income Tax</b> Reduction in processing errors	18.7	Recurring	1 of 5	HM Revenue and Customs	2006-07
<b>A Safer Place to Work: Protecting NHS Hospital and Ambulance Staff from Violence and Aggression</b> Reducing violence against NHS staff	13.2	Recurring	2 of 3	Department of Health	2002-03

	Impact identified (£ million)	Nature of impact (one-off/recurring)	Year of claim	Client with whom impact agreed	Year of original work
<b>Debt Management</b> Better records management and ability to track taxpayers for debt recovery	11.1	Recurring	5 of 5	HM Revenue and Customs	2003-04
<b>Modernising procurement in the Prison Service</b> Improvements in Prison Service procurement	10.5	Recurring	5 of 5	Ministry of Justice	2002-03
<b>Regulations of Weights and Measures</b> Reducing the complexity of regulations	10.0	Recurring	3 of 4	Department for Business, Innovation and Skills	2002-03
<b>Extending access to learning through technology: Ufi and the learndirect service</b> Reduction in delivery chain costs	8.9	Recurring	4 of 5	Department for Business, Innovation and Skills	2005-06
<b>Private finance global impact</b> NAO's impact on a number of PFI contracts	8.0	Recurring	A combination of three claims	HM Treasury	1997 to 2007
<b>ASPIRE: The recompetition of out-sourced IT services</b> Savings from contract renegotiation	5.0	Recurring	2 of 5	HM Revenue and Customs	2005-06
<b>Sub total</b>	<b>862.9</b>				
Impacts below £5 million	27.1				
<b>2009 NAO Impacts total</b>	<b>890.0</b>				

## 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 2009.

### **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 Officer that the impacts remain appropriate.

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17 May 2010

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