



National Audit Office

# ANNUAL REPORT 2011

Our work in the year led to audited financial impacts of more than £1 billion, improved services to citizens, and increased transparency and accountability.

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



National Audit Office

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# INTRODUCTION



Public audit has never been more important. The public sector is implementing a stretching programme of reform and significant cost reduction. Sound financial management is essential to secure value for money from public spending, and it is at the heart of the National Audit Office (NAO) agenda and the work of its Board.

The creation of the NAO Board in 2009 followed reforms to its corporate governance agreed by the Public Accounts Commission. This change has now been formalised in the Budget Responsibility and National Audit Act 2011, which established the NAO as a legal entity, distinct from the Comptroller and Auditor General (C&AG). These arrangements are somewhat unusual for the operation of a Board, and I thought it would be useful to set out how the Board sees its objectives.

In relation to the organisation, the Board's role is to fulfil the requirements laid down by Parliament and to ensure effective corporate governance, including the balance between the Board's decision-taking role and the independence of the C&AG. In relation to the operations of the NAO, the Board's objectives are to agree strategic priorities and how these are to be carried out; agree the basis for measuring performance and monitor the outcomes; agree the programme of non-statutory work; monitor risk within agreed risk tolerance limits; deal effectively with unexpected developments; and identify emerging issues.

Finally, in its way of working, the objectives are to provide added value to the NAO, operate as a good team, and maintain key relationships internally and externally.

I am very grateful to my colleagues, non-executive and executive, and especially to Amyas Morse as C&AG, who have helped us to carry out our role so effectively in the past year.

**Professor Sir Andrew Likierman**

Chairman  
National Audit Office

# FOREWORD



Over the past year, the NAO has continued to act as a trusted source of high-quality expertise to Parliament and government as, with fewer resources, government implements a demanding programme of change. The NAO is able to offer expert guidance and challenge in areas critical to success, including financial management, value for money, good use of information, cost reduction and accountability.

In 2010-11, we audited a total of £950 billion of public expenditure and revenue, providing an opinion that the respective accounts represent a true and fair view of the organisation and providing certification that departments have spent public money as Parliament intended. Where we find significant problems, I may qualify my audit opinion. I may also publish the issues I identify in a report on the accounts. In total we audited 470 accounts from a broad range of public bodies, including government departments, regulators and other arm's length bodies, and government-owned companies. Our financial audit is an important check that public money has been spent properly and for the purposes intended by Parliament.

We published 60 value for money studies in 2010-11, on topics ranging from increasing passenger rail capacity to delivering the cancer reform strategy. We have publicised examples of good practice, such as the Foreign and Commonwealth Office's management of spending reduction. Where we have found performance is weak, we have drawn robust conclusions and made recommendations for improvement. We have also published landscape reviews that comprehensively take stock of areas or issues, such as Information and Communications Technology (ICT) in government, and we have continued our series of reports on the financial management of departments. Overall, the recommendations of the Committee of Public Accounts and the NAO **saved more than a billion pounds** in 2010 and led to improvements in many areas of government performance. I am proud of our achievements.

We have **focused on the issues that matter**, such as government's support to UK banks. We have taken **a proportionate approach**; owing to the sums of taxpayers' money involved, we published three studies on support to the banks, making the level of government exposure transparent to the public and helping to focus parliamentary attention on the value for money delivered by government intervention. As steps are taken to make the banking system safer for the future, we will continue to scrutinise and support value for money and transparency.

Our strategy is now in its second year and is proving its worth. Our three strategic themes of informed government, financial management, and cost-effective delivery have influenced beneficial change across government, tackling **systemic issues that underpin performance**, such as the way boards use information to make decisions. We have built up our skills in other crucial areas including ICT, capital markets and economic analysis, and we have improved the way we use our accumulated knowledge. We are continuing to invest in the development of our talented and diverse workforce, to ensure we have the right skills for the challenges ahead.

We bring our combined knowledge and experience together to support our clients in dealing with **major cross-government challenges**. In 2010-11, we provided guidance on structured cost reduction, on improving statements on internal control and on board reporting. This work has had an important impact on government thinking and practice. In 2011-12, we will look at how proper accountability arrangements can be maintained and enhanced during the Government's programme of change.

The challenge of delivering high-quality outputs with less money and fewer people is being faced by our clients. We face the same challenge. Our authority and influence depend on **practising what we preach**, so our strategy sets out our plans to reduce our net costs by at least 15 per cent in cash terms (21 per cent in real terms) over the next three years. We have already begun this process by reducing the cost of our value for money work by 10 per cent, reducing the cost of our financial audit by 2 per cent, and increasing the efficiency of our back-office functions by 5 per cent. We have reduced these costs by building up in-house expertise to reduce our use of outsourcing, reducing our spending on staff travel, and implementing a selective voluntary early departure programme. This has enabled us to make savings without lowering the quality or quantity of our work or the support we provide to Parliament. As part of our ongoing commitment to transparency and accountability, we have published information about our expenditure, remuneration and governance online. We also invite external scrutiny of our value for money studies, and ask our external auditors to validate any savings that we identify as resulting from our work.

The NAO is completely committed to driving sustainable improvement in public services, and to saving public money. We will continue to support and challenge government through this period of reform and spending reduction, and support Parliament in safeguarding the interests of taxpayers.

**Amyas Morse**

Comptroller and Auditor General  
National Audit Office

# ABOUT THE NAO

**Our vision is to help the nation spend wisely. We apply the unique perspective of public audit to help Parliament and government drive lasting improvement in public services.**

## Role

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

We help public service managers improve performance.

## Independence

The head of the NAO, the Comptroller and Auditor General (C&AG), is an Officer of the House of Commons and his position is a legal entity distinct from the NAO.

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

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

## The accountability process and relationship with Parliament

### Public Accounts Committee

We work closely with the Committee of Public Accounts, which takes evidence on our value for money studies and significant issues arising from our financial audit work. The Committee subsequently publishes its own reports based on the full range of evidence and makes recommendations to which the Government responds.

### Wider work

We also support parliamentary scrutiny of government through our work for other select committees.

We contribute to accountability and financial management around the world by auditing and supporting international institutions.

## Our work

### Financial audit

The 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.

### Performance improvement

Our programme of discretionary work focuses on key aspects of public service performance and financial management.

### Support to Parliament, the public, and other organisations

We support Parliament in holding government to account for taxpayers' money through our work for the Committee of Public Accounts and other select committees.

### International

We also carry out some activities overseas, auditing major international bodies and contributing to the development of public sector financial management and accountability around the world.



## Our organisation

We have some 880 members of staff, based across 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 maximising our efficiency and achieving sustainable operations.

## Our strategy

Our three-year strategy for 2010-11 to 2012-13 set out three objectives:

- a be a high performing organisation that consistently demonstrates leading edge competencies in its core disciplines;
- b develop and apply our expert knowledge to provide an independent and objective assessment of government performance; and
- c use our knowledge to influence departments to drive lasting improvement in public services.

Our commitment to these objectives was confirmed in our strategy for 2011-12 to 2013-14.

# PERFORMANCE

**470** The number of accounts we audited

**76** Per cent of our financial audit work delivered within four months of year end

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

**13:1** The savings generated from our recommendations, exceeding our target in 2010 of generating a financial impact of £10 for every £1 it cost to run the NAO

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

THE DISTRIBUTION OF NAO RESOURCES IN 2010-11

We deliver a comprehensive programme of audit work that supports accountability and drives improvement across all areas of government. We take a proportional approach that allows us to focus on the most important areas and issues.

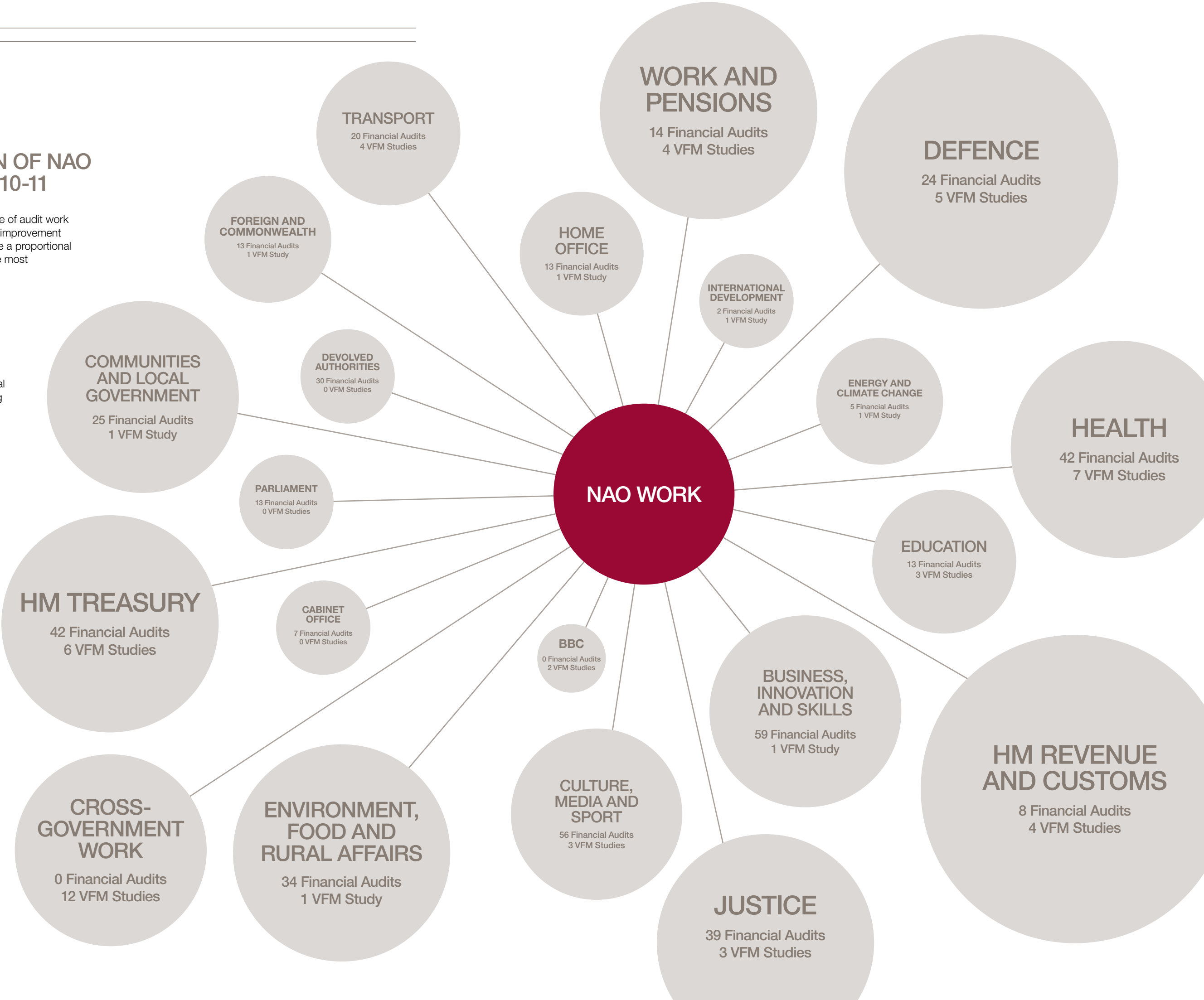
This diagram represents how much NAO resource is focused on each area of government

The size of each circle indicates the total cost of NAO work in that area, including financial audit, value for money and performance improvement work.

We distribute our work across different areas in a way that reflects:

- The number of accounts we audit for each department and their associated bodies, such as regulators, agencies, or government-owned companies
- The relative amount of public expenditure and revenue
- The complexity and risk associated with each area. We identify risks to value for money or financial control through our previous audits and analyses
- Issues of particular interest to the Committee of Public Accounts

The diagram does not include international audits, the cost of our support to Parliament or our corporate functions.



# OUR WORK

## WE HAVE FIVE DIMENSIONS TO OUR WORK

### 1

#### FINANCIAL AUDIT

**We are central government's statutory auditors, and have a unique concentration of knowledge and expertise on the financial management of, and the accounting for, public money.**



Our financial statement audit forms the core of the work we do and gives us a unique understanding of the operations of some 470 accountable bodies, with expenditure and revenue amounting to some £950 billion.

Our audit provides independent assurance to Parliament that central government organisations spend money in accordance with parliamentary intention and that their accounts give a true and fair view of activities. The perspective and understanding we gain from this work helps us to comment on the operations of central government and how it controls risks and manages its finances. In addition to an audit opinion, we provide audited bodies with a management letter, which provides independent external observations on how they might improve their governance, financial management and operations. We use these observations to inform the other audit work we do, and to disseminate good practice across government on systemic issues and weaknesses we identify. We also assist audit committees in carrying out their role by attending and contributing to their meetings, and provide wider support to the non-executive board member community.

The 470 accounts we audit span a wide range of organisations: from large Whitehall departments such as the Ministry of Defence and Department for Education, through larger arm's length bodies such as the Rural Payments Agency and the Arts Council, to smaller bodies, including the Geffrye Museum and the Committee on Climate Change, and a range of companies owned by government, including UK Financial Investments and the Pensions Advisory Service.

Our financial audit work is carried out in accordance with best professional practice and International Standards on Auditing, by staff who are either qualified members of professional accountancy bodies or trainees. We also engage professional accounting firms to carry out audit work on our behalf, and to provide specialist support to our audit teams. 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.

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#### **NAO helps government move to new accounting standards**

**The NAO played a key role in government's implementation of new international financial reporting standards (IFRS). We produced toolkits and guidelines for departments, conducted a 'dry run' audit, and worked with HM Treasury and our clients to make sure implementation went smoothly. As a result, only one set of departmental resource accounts was found not to be compliant with IFRS. Government accounts are now of a higher quality and more consistent with best practice in the private sector.**

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**Our financial audit work cost £51.1 million in 2010-11.**

## 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.**



Our value for money reports consider whether departments are making optimal use of resources to achieve their stated aims. We aim to come to a clear conclusion, based on having a strong understanding of what good value for money looks like in each set of circumstances. We reach our judgement by carefully examining the relevant costs and results of the programme we are considering, and comparing them with what we might reasonably have expected to see. We then make recommendations for improvement that clearly address the issues we have identified.

In 2010-11 we published 60 major reports. These topics were chosen after having analysed the risks to value for money across government, the scale of spending involved and areas of particular concern to the Committee of Public Accounts. Further information about how we choose the topics of our studies is available on our website. Many of our 2010-11 studies examined specific programmes or projects led by particular departments, such as the Ministry of Defence estate or the Department for Work and Pensions' Pathways to Work programme to help people off incapacity benefit into work. Other reports examine issues that affect all departments, such as the use of consultants and interims, or how departments are managing staff costs.

Our studies covered the entire range of government activity, including transport (*Increasing passenger rail capacity*), finance (*The impact of the 2007-08 changes to public service pensions*), health (*Delivering the cancer reform strategy*), and education (*The academies programme*). A full list of the major reports we published in 2010-11 is available at [www.nao.org.uk/major-reports-1011](http://www.nao.org.uk/major-reports-1011)

Our work is undertaken by teams with a blend of skills including accountancy, statistics and research and from a range of disciplines. During the year we took steps to enhance our in-house analytical capacity and, in particular, we have built up our expertise in economics. This has enabled us to reduce our use of external specialists. Our broad range of skills allows us to examine the changing landscape of government and the challenges this raises for accountability, and tackle topics such as the early progress with departmental cost reduction programmes.

### **NHS hospitals could save more than £500 million when buying basic supplies, says NAO**

Our report on procurement of consumables concluded that a combination of inadequate information and fragmented purchasing means that NHS hospitals' procurement of consumables such as medical gloves and office supplies is poor value for money. We recommended that, at a time of constrained budgets, hospitals needed to collaborate more closely to secure better deals. In response, the Secretary of State for Health said, "We welcome the publication of this report. The more efficient the NHS becomes, the more we can invest back into patient care... we are therefore considering launching a review to help hospitals get better value for money from procurement."

Our value for money work cost £19.1 million in 2010-11.

## 3

PERFORMANCE  
IMPROVEMENT**We are committed to helping our audit clients improve their performance.**

Our financial audit and value for money studies are statutory and aim to help Parliament hold government to account. We also carry out other work to help government improve its performance, using the insights and experience derived from our unique perspective on government. This work is focused on our strategic themes: informed government; financial management; and cost-effective delivery.

We identified these themes as areas where persistent weaknesses in government were matched by expertise within the NAO. To drive improvement in these areas, we produce frameworks, toolkits and guidance on key issues, and act as a centre of expertise and a trusted source of advice for our clients. We also carry out benchmarking exercises to compare clients' performance to best practice, and contribute to events and publications that promote performance improvement.

**NAO supports informed decision making by departmental boards**

In 2010-11, the Government made changes to the operation and composition of departmental boards. The NAO has previously identified weaknesses in the quality of board reporting, particularly the way that information is reported to boards, and how they use that information to make decisions. In 2010 we conducted a review of performance frameworks and board reporting in 12 government departments and 12 arm's length bodies. This established the strengths and weaknesses of the existing arrangements to establish baseline practices and promote future improvement. The aim is to ensure that board members, particularly non-executives, have the information they need to make informed decisions.

Our performance improvement work cost £10.5 million in 2010-11.

## 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. The Committee usually holds two hearings a week, drawing on recently published NAO reports and taking evidence from the senior officials responsible for managing resources in their departments. In 2010-11 we supported 43 hearings of the Committee.

Based on our reports and its own evidence sessions, the Committee published 29 reports in 2010-11, each containing recommendations designed to secure lasting improvements to the way public services are run.

Our support to the Committee has included hearings on cross-government issues not specific to single NAO reports, such as on the implications for parliamentary accountability of changing governance arrangements, increased localism, and the new departmental business planning process. The Committee has also taken evidence from a wide range of witnesses, such as the King's Fund to inform its hearing on our review of the health sector.

We also supported 19 other select committees in their scrutiny of government by responding to requests for evidence, research and briefings, and by seconding staff with specific expertise.

**Wider support to Parliament**

In January 2011 the NAO published a paper for the Commons Public Administration Committee setting out good practice principles for use in assessing proposals to make changes to arm's length bodies. The memorandum, which aimed to help ensure that decisions about making changes to arm's length bodies are well-informed and made on good value for money grounds, was used by the Committee in an inquiry into non-departmental public bodies. An edited version appeared as an appendix to the Committee's report.

Our work supporting the Committee of Public Accounts and other parliamentary select committees cost £9.9 million in 2010-11.



## 5

## INTERNATIONAL

### We audit international institutions and improve financial management and accountability around the world.

In July 2010 the NAO was reappointed to the United Nations (UN) Board of Auditors responsible, along with the national audit offices of China and South Africa, for the audit of the UN and its funds and programmes. This prestigious appointment was won in open competition, demonstrating the audit expertise and professionalism of the NAO. The appointment will last for six years and is fully funded by the UN. The NAO is involved in the audit of other publicly funded and strategically important international agencies, such as the International Criminal Court. This provides an opportunity for the NAO to make a broader contribution to improved governance and management of international organisations to which the UK Government contributes. We also support the roll-out of business transformation programmes to enhance governance and cost-effectiveness. In pursuit of greater international transparency and accountability, the NAO continues to deliver a targeted programme of support for strengthening audit offices and parliamentary oversight bodies in developing countries such as Uganda, Ethiopia and Kosovo.

### Supporting transparency and governance in international institutions

Three of the international bodies we currently audit are adopting International Public Sector Accounting Standards (IPSAS) for their 2010 accounts, and we have helped make the transition and the audit of first year IPSAS accounts as smooth as possible. IPSAS accounts mean that for the first time international organisations are presenting their accounts on an accruals, rather than a cash, basis. This means that a reader of the accounts can see a true picture of the costs of running the organisation for a financial year, as well as the net assets or liabilities of that organisation.

Our international support work cost £3.4 million and generated £3.6 million in income in 2010-11.



# STRATEGIC THEMES

**Our strategy sets out our intention to focus our work programme on driving improvement in three areas where performance issues most frequently occur:**

- informed government
- financial management
- cost-effective delivery

## Informed government

Government needs robust, timely information on activities, costs, progress against its objectives, the cost-effectiveness of its activities, and the environment in which it is operating. It also needs to be able to interpret that information by reference to trends, expectations, benchmarks and other comparisons, to support clearer accountability and to identify problems and opportunities. We want to help central government make better use of information to achieve improved performance and productivity.

In 2010-11, we advised on how departments could improve their sponsorship of non-departmental public bodies, and examined the quality of information reported to boards. We found that, while many elements for good performance assessment and reporting are in place, central government organisations are not

getting full value from their performance frameworks. We also reviewed the way departments evaluate the costs and benefits of different options, and identified how the processes can be streamlined to support more informed decision making in government. We have communicated the findings of our work by targeting key departmental audiences and presenting at our annual Performance Measurement Conference, and similar events organised by others.

In 2011-12, we will encourage improved measurement of public sector productivity. We will review progress made on the Government's transparency agenda, as well as the quality of data systems supporting the Government's new Public Services Transparency Framework. We will also monitor the Government's response to our recent work to support departments in improving their use of information.

## NAO supports data quality and transparency

The NAO promoted the importance of transparent, interpretable data during the Government's development of departmental business plans in 2010-11, through advice to departments and a briefing for the Committee of Public Accounts. Feedback received from HM Treasury noted that the NAO's assistance "made a real contribution to improving the quality of the business plans overall and the indicators used in the transparency section of them". We will continue to look at the way the Government defines indicators and captures data when reporting on departments' progress.



## Financial management

Good financial management is at the heart of an effective, well-run organisation. Government needs to embed good financial management to understand how it is spending money and what return or policy outcomes it is getting from these resources.

We want to help the bodies we audit to improve their financial management as well as increasing the transparency in the way they report their use of public funds. Over the past 12 months the Government's policy to reduce the fiscal deficit has increased the focus on the importance of good financial management, and we have worked with the Treasury to develop its *Managing taxpayers' money wisely: commitment to action*, which was issued in January. We have also published a short guide to structured cost reduction, which sets out the key principles organisations should consider as they plan to reduce costs in a structured and sustainable way. Over the next 12 months we will be reporting on the progress of departments in achieving structured cost reduction.

Our financial management reports on the Ministry of Justice, Ministry of Defence, and Department for Culture, Media and Sport have helped to identify key areas for improvement. Our report, *Progress in improving financial management in government*, identified a number of key areas for action if the Government is to have the standard of financial management necessary to support its objectives.



### NAO work strengthens systems of governance and accountability

Public bodies must provide assurance that the resources for which they are responsible are appropriately managed and controlled. One of the ways they do this is by publishing a Statement on Internal Control (SIC) with their annual financial statements. In 2010 we published a good practice guide to the Statement on Internal Control, which the Treasury promoted to all government finance directors. We have since observed an improvement in the quality of SICs, greater transparency, and more scrutiny of control systems, which will help to support good financial management.

**WE WANT TO  
HELP THE BODIES  
WE AUDIT TO  
IMPROVE THEIR  
FINANCIAL  
MANAGEMENT  
AS WELL AS  
INCREASING THE  
TRANSPARENCY  
IN THE WAY  
THEY REPORT  
THEIR USE OF  
PUBLIC FUNDS**



## Cost-effective delivery

The Government is implementing significant reforms to the way services are delivered and financed. To meet these challenges, organisations will need to change what they do and how they do it, involving more innovative and collaborative approaches to working. We will help departments to improve the quality of their decision making and drive waste out of their delivery arrangements.

In 2010-11 we carried out a cross-government assessment of process improvement, to provide a clear benchmark from which to measure future progress. We drew out systemic issues from our audit work by analysing over 100 government projects and programmes. We also developed a framework for understanding the most important choices in designing delivery arrangements. In 2011-12 we will use this framework to review existing and new delivery arrangements across government to identify the advantages and disadvantages of particular approaches and build a government-wide evidence base. We will use the findings to inform our audit strategies with departments.



## Driving out waste in government processes

We assessed how 12 departments manage their business processes, such as making payments, creating policy and replying to correspondence, and found common areas for improvement, including how they respond to changes in customer demand. This is the first assessment of its kind in the world, and has provided the NAO with a unique picture of cross-government performance. It has been well received across government. Some departments have requested tailored sessions to help them improve their process management, and the Efficiency and Reform Group in the Cabinet Office has requested the NAO's view as it develops a process management strategy for central government.

**WE WILL HELP DEPARTMENTS TO  
IMPROVE THE QUALITY OF THEIR  
DECISION MAKING AND DRIVE  
WASTE OUT OF THEIR DELIVERY  
ARRANGEMENTS**

# FOCUSING ON THE KEY ISSUES

**Our audit work helps to save money and improve services in specific areas of the work of departments. We also bring together our knowledge and experience to address major issues across the whole of government.**

## Cost reduction

Substantial spending reductions will take place in the public sector over the coming years. Drawing on our experience across government, we are supporting Parliament and government in ensuring that costs are reduced in a structured way, whilst protecting value. In June 2010, we produced a *Short guide to structured cost reduction*, which set out our expectations for the management of cost reduction. We have also produced a *Framework for managing staff costs in an environment of cost reduction*, and a *Short guide to reorganising arm's length bodies*. The Committee of Public Accounts held four hearings on the Comprehensive Spending Review, supported by evidence from the NAO, and published its report, *Progress with VFM savings and lessons for cost reduction programmes*, in November 2010.

Our work in this area draws on our value for money and financial audit work to highlight opportunities for departments to minimise the impact of spending reductions on frontline services, supported by evidence from the problems we have seen departments encounter in the past and the good practice we have found throughout the public sector. In 2011 we will start to examine departments' progress against the principles we have set out.



## Accountability

We are also drawing on our wide knowledge to focus on issues of accountability, looking at how government reforms will affect the way people are held responsible for spending decisions and financial management. The Committee discussed accountability in January 2011, and the fundamentals of good accountability, as set out in the Committee's report will be a key driver of our work in 2011-12.

During 2011-12 we will contribute to the Government's review of accountability, and provide guidance to departments as they develop accountability mechanisms to reflect wider reforms and the localism agenda. We will exploit the full range of our work and knowledge to test whether accountability structures are in place to meet the needs of both parliamentary and local accountability.

**DRAWING ON OUR EXPERIENCE ACROSS GOVERNMENT, WE ARE SUPPORTING PARLIAMENT AND GOVERNMENT IN ENSURING THAT COSTS ARE REDUCED IN A STRUCTURED WAY, WHILST PROTECTING VALUE**

# OUR ACHIEVEMENTS

## Target: Achieve financial impacts of £766 million in 2010: Met and exceeded.

The work of the NAO and the Committee of Public Accounts led to audited financial impacts totalling more than £1 billion (over 13 times the NAO's net running costs). This is an important way in which we measure the success of our work.

All of our financial impact figures are agreed with the relevant department or body, and reviewed by internal and external auditors. The vast majority of our financial impacts (95 per cent) are cash-releasing; that is, they 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. Full details of our financial impacts can be found on pages 79-82.

We also look at the wider impact of our work and the work of the Committee of Public Accounts, including how we have helped improve the quality of services, influenced the way decisions are made, or supported improvements in financial management. We focus our work to achieve impact in the most important areas, influencing systemic issues that affect performance, and working across the whole of government to maximise our impact where necessary.

The work of the NAO and the Committee of Public Accounts has an impact on issues that affect all aspects of citizens' lives, from the NHS, education, and policing to the defence of the realm, taxation and industry. We aim to help the nation spend wisely, and to contribute to improvements in the services that citizens rely on.

## Improving efficiency and financial management

### Improving the management of asylum applications

Our 2009 report, *Management of asylum applications by the UK Border Agency*, looked at a new process for managing applications. We provided the Border Agency with better data on costs and recommended ways to reduce costs and resolve cases more quickly, saving money on expensive short-term accommodation. In 2009 and 2010, the Agency calculated that it had saved some £35 million in accommodation and support costs, and agreed that over £3 million of this was directly attributable to the NAO.

### Audit highlights problems with inventories at MOD warehouses

In 2008-09 and 2009-10 the Comptroller and Auditor General limited the scope of his audit opinion because he was not able to obtain sufficient evidence to verify the existence of inventory items held in MOD warehouses. Over 20 per cent of non-explosive stock was not recorded accurately on the inventory systems, highlighting a significant control weakness in MOD's systems. The audit also identified issues around stock condition and completeness of records. The findings arising from the audit and associated report contributed significantly to MOD's drive to review and improve the way it manages and accounts for stock, which will also lead to improvements in the quality of information to inform operational decisions. The NAO will continue to support and monitor the Department's progress.

## Reducing the cost of government office property

Our reports on public sector office accommodation (published in 2006), central government's office property (2007) and our toolkit on property asset management capability (2009) made conclusions and recommendations on how to improve the efficiency of central government's office property. The response to our recommendations has contributed to relocation and rationalisation across central government's office estate, which have led to substantial savings. So far, £292 million of these savings are a direct result of our influence. An increase in departments' participation in property benchmarking and more accurate data have helped to target improvements in the performance of the estate. We have improved the way we use our own property, freeing up space that is now generating significant rental income.

## Reducing error and fraud in tax credits system saves HMRC £569 million

The Committee of Public Accounts has previously found that the tax credits scheme was vulnerable to error and fraud, because it relied on detecting false or mistaken claims after payment had already been made. In our report on HMRC's 2009-10 accounts, we reported that the Department launched a new strategy for reducing error and fraud. There is evidence that the new approaches are beginning to deliver positive results. Taken together, the Department estimates that it reduced error and fraud by £569 million in 2009-10.

## Improving services for citizens

### Addressing problems with student finance

Our report on student finance looked at the causes of problems in autumn 2009 which left many thousands of new students starting term without receiving their loans. In response to our recommendations, the Student Loans Company and the Department for Business, Innovation and Skills improved the way they manage and oversee the service and cope with backlogs. We observed improved performance in 2010: 69 per cent of new student applications were fully processed by the start of the academic year, compared with 46 per cent in 2009. The Company reported that it had met the standards set out in its new Customer Promise in 84 per cent of cases, and answered 96 per cent of telephone calls in August-September 2010 compared with only 13 per cent in September 2009. The Committee of Public Accounts and the NAO will continue to monitor the Company's performance in 2011.

### NICE quality standards are influenced by NAO work

Our reports on stroke care (published in 2005 and 2010) and dementia care (2007 and 2010) made conclusions and recommendations about many aspects of the quality and safety of care. In 2010, the Secretary of State for Health announced that our reports had contributed to quality standards on these two conditions, published by the National Institute for Health and Clinical Excellence. These standards are intended to set out the markers of high-quality, cost-effective patient care, and can be used by health professionals, patients, and providers and commissioners of healthcare.

### Improving venture capital support to small businesses

Our study, *Venture capital support to small businesses*, recommended that the Department for Business, Innovation and Skills (BIS) should rationalise its venture capital funds as they had many similar objectives but high overheads. In 2010, BIS committed to simplifying the oversight of funds by bringing them together at the national level to improve value for money. Our report was also successful in improving the provision of information in the public domain regarding the financial performance of the funds.

## Influencing positive change

### The development of the Major Projects Authority

In direct response to the findings and recommendations of our report, *Assurance for high risk projects* (June 2010), the Government established a new Major Projects Authority, backed by the Prime Minister. The Authority will oversee assurance and reporting on key projects across government to improve the way risks are managed and increase the amount of information available to the public. To help to spread awareness of our report and encourage best practice, we held a joint briefing with the Efficiency and Reform Group that was attended by senior civil servants working on some of the Government's biggest projects.

### Reorganising central government

Our March 2010 report, *Reorganising central government*, influenced government's thinking and practice about the cost-effectiveness of reorganisations. After the general election, the Cabinet Office noted that the Government "has not made dramatic changes to the structures of central government, as has been the case following previous general elections". On changes to arm's length bodies, the Cabinet Office responded to our report by committing to ensure "strong, costed business cases" are in place, with more information in the public domain. To help the Public Administration Select Committee with its new role in reviewing business cases for reorganisation, we developed a set of principles which are published in full on our website and in summary in the Committee's own report. At the end of 2010, we supported a conference on Reorganising Government, attended by around 250 delegates including many chief executives of arm's length bodies.

### The BBC improves its management of capital projects

We have previously reported on the BBC's management of three major estate projects. Following this, the Chairman of the BBC Trust asked for a health check to be conducted on all major capital projects to ensure that the lessons identified by the NAO could be applied. One year on, the BBC has built on these health checks and now prepares a quarterly report covering progress and risks on all major projects with the aim of making sure that failures, such as those that occurred on the first phase of the Broadcasting House project, are not repeated.

# OUR STAFF

As would be expected for an audit body, most of our staff are qualified or trainee accountants. We also employ specialists in such disciplines as economics, statistics, business analysis and ICT. We have focused on the continued development of our skills base by creating internal knowledge 'hubs' to support networking of experts in analytical methods, economics and statistics, and we are building our capacity in ICT and systems analysis.

The continued personal and professional development of our people is fundamental to providing high quality services to our clients. We also have a duty to ensure that our staff resources are effectively deployed to drive down the costs of our services and enhance the motivation and commitment of our people.

We continue to develop our approach to performance management, with improved focus on clear objectives and accountabilities, and more honest judgements on performance and career potential. Pay is directly linked to performance. We have introduced a revised approach to allocating staff to our audit work, focusing on resourcing key business priorities, using staff more flexibly across work streams, and encouraging improved collegiate working. Clear utilisation targets across all levels of the business ensure that resources remain focused on front line delivery, with administrative costs kept to a minimum.

We provide tuition and support to our graduate trainees to obtain the Institute of Chartered Accountants in England and Wales (ICAEW) qualification and we support a smaller cadre of school leavers to obtain the Association of Accounting Technicians qualification as an entry route to ICAEW training. Our trainees continue to achieve higher than average success rates at the ICAEW examinations. This year Thomas Ross won three prizes at the December 2010 Professional Stage sitting: the Taxation prize (Little Prize for first place in this paper); the Cassleton Elliott prize (fifth place in the Annual International Order of Merit) and the Roger Lawson Prize (the highest non-public practice student). Eleanor Brown won the Railton prize (first place in the Business Strategy paper) in March 2011.

We have integrated all elements of our learning and development into a single training strategy. We support staff to take responsibility for their personal and professional development and we have created more opportunities to deliver training through e-learning and online modules in order to improve efficiency and coverage. We run focused development programmes for our most talented staff to prepare them for the challenges of more senior roles.

## Ethical requirements

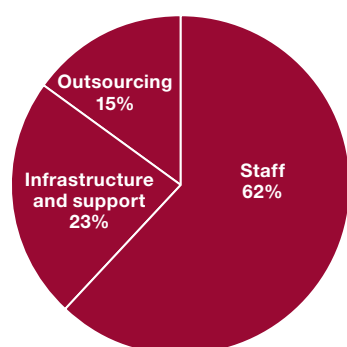
Independence and objectivity are fundamental principles of our work. All staff are required to sign our code of conduct on joining the Office and thereafter on an annual basis, and the importance of our independence is emphasised during induction. Code of conduct declarations confirm compliance with professional ethical requirements and attest to appropriate personal and professional conduct. They are supported by procedures to avoid conflicts of interest.





# OUR RESOURCES

## How we used our resources



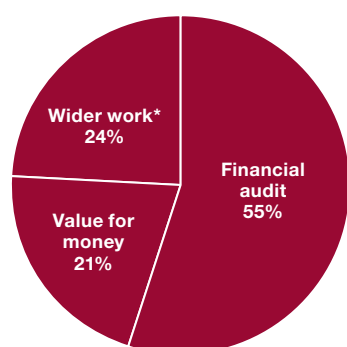
National Audit Office resources are used to employ some 880 staff, outsource parts of our financial audit and value for money work, and provide the infrastructure and support necessary to operate the business effectively.

We managed our resources efficiently in 2010-11 and spent £92.6 million in providing audit and other assurance services throughout the year. After allowing for £19.5 million income generated from fee-paying work, the net cost of the NAO for the financial year was £73.1 million.

## Efficiency and other cost reductions

The NAO is committed to practising what it preaches. We took action early in 2010-11 to identify savings in all areas of our work through a rigorous approach to structured cost reduction. In total, we saved £3.5 million against our 2010-11 Estimate. Our financial audit budgets achieved a 2 per cent efficiency. We reduced the level of resources utilised on our value for money work by 10 per cent and the average cost of a study went down from £300,000 to £233,000. We also achieved our target cost reduction of 5 per cent in corporate costs.

## How our resources were split between our activities



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

## Our financial management

In February 2011 we assessed our internal financial controls and practices against a Financial Management Maturity Model that we had developed as a means of assessing financial management capacity in our audit clients. As a result, we have made improvements in two main areas: First, to increase the focus on financial management for all staff rather than only those in the central finance team, all staff will now be required to include financial management within their personal performance objectives. Second, we will continue to improve financial data quality and management information. Considerable progress has been made in improving the business information available to the Leadership Team and the Board. We will now improve our primary financial systems and provide better guidance to staff in their use.

In 2010-11 the Audit Committee invited our external auditors to undertake a value for money study into the NAO's own plans to reduce corporate support costs. The study looked at the NAO's approach to cost reduction and the effectiveness of our management practices, as well as validating the savings made.

The report was received in October 2010, and found that the approach adopted by the Office was 'sound and robust' and gave 'rigour to the process'. The auditors made a number of recommendations which the NAO has acted on, including providing closer alignment between the cost reduction programme and the business planning process, and suggested changes to the way in which corporate costs and savings are calculated.

# PERFORMANCE AGAINST OUR STRATEGY

Our strategy for 2010-11 to 2012-13 set out a range of indicators that we use to monitor our performance. In 2010-11, we exceeded our financial impact target by more than a third, exceeded our target for savings from our value for money programme, and met our targets for efficiency savings in corporate and financial audit costs. We narrowly missed our targets for the percentage of resources spent on front line activity and the number of value for money studies delivered within nine months, but we still made significant improvements on the previous year.

Full details of our performance against targets can be found in **Figure 1**. The processes leading to the production of this information were reviewed by internal audit and assurance in 2010-11 and found to be fit for purpose. Our financial impacts and the accounts underlying the efficiency saving figures have been certified by our external auditors.

**Figure 1: Performance against our strategy, 2007-08 to 2010-11**

	2007-08	2008-09	2009-10	2010-11 Target	2010-11 Actual
<b>Resource inputs (%)</b>					
Resources used on front line activity	73	75	73	78	76
Efficiency improvements in corporate costs, including staff, consultancy and travel	5	5	4	5	5
Efficiency improvements in financial audit work	–	1	2	2	2
Efficiency improvements in value for money work	–	2	2	2	10
<b>Outputs: speed of delivery and quality (%)</b>					
Accounts audited within four months of the year end	70	74	80	77	76
Independent confirmation of compliance with auditing standards	✓	✓	✓	✓	✓
Value for money studies taking nine months or fewer	28	29	20	65	64
<b>Outcomes (£m)</b>					
Financial impacts achieved	656	768	890	766	1,040

## New performance framework

Our strategy for 2011-12 to 2013-14 has been approved by the NAO Board and the Public Accounts Commission, and sets out our plans to introduce a new performance management framework that brings feedback from our clients and MPs together with information about the impact of our work and our use of resources. From 2011-12, we will report against the measures set out in **Figure 2**.

**Figure 2: Strategic performance framework from 2011-12**

Dimension	Indicators	Status in 2010-11
Our work saves public money	Financial impact target (£10 for every £1 spent)	Impacts of £1,040 million achieved, equivalent to more than 13 times our running costs.
Our work leads to positive change	Case studies of positive results, where our contribution has been agreed with our clients	There are several case studies of NAO work leading to beneficial change included in this report. These examples have all been agreed with the relevant client.
Parliament has confidence in the independent assurance of the NAO	IPSOS MORI survey of MPs' views	A first survey of MPs was carried out in 2010-11, showing that two-thirds of MPs had a favourable or highly favourable view of the NAO, and that MPs recognised our impartiality, integrity, and level of influence.
Clients acknowledge the value of our work	Moderated feedback from our clients	In 2010-11, our clients rated their satisfaction with the NAO as 7.6 out of 10 on average.
NAO is a recognised authority in its core areas of expertise	Qualitative assessment of progress in core areas building on feedback from stakeholders	This is a new indicator. There is evidence elsewhere in this report that our contribution to debates on major issues (such as the management of major projects and reorganising central government) have been influential.
We use public funds cost-efficiently	Dual measure of aggregate cost savings and the proportion of resources used between front line and back-office functions	In 2010-11 we spent 76 per cent on front line functions and made cost savings of £3.5 million.



# GOVERNANCE

Good governance is fundamental to effective delivery, and applying the best practice the NAO expects of public bodies in our own governance is an important part of our practising what we preach. This is the first full financial year in which the Board has operated in its current form, following the agreement of improved governance arrangements by the Public Accounts Commission in 2009.

With a majority of non-executive members, the role of the Board is to support and advise the Comptroller and Auditor General in the exercise of his functions, and to provide oversight to the management of NAO's resources. The non-executive members bring independent insight and support discipline and rigour in decision making.

These governance arrangements were formalised by the Budget Responsibility and National Audit Bill, which received Royal Assent in March 2011.

The Board held eight regular Board meetings during 2010-11, and two additional strategy events. **Figure 3** provides details of attendance.



**The Board is supported by two committees:**

- Audit Committee, chaired by Mary Keegan. The Committee supports the Board by reviewing the internal controls, risk management processes and governance arrangements of the NAO, as well as the quality and reliability of financial reporting. It is also responsible for agreeing the subject of the external auditors' value for money report on the NAO each year. The Committee consists solely of non-executive members.
- Remuneration Committee, chaired by Ruth Evans. The Committee is responsible for determining the framework for the remuneration of the three executive members of the Board, and consists solely of non-executive members.

More details of the role and remit of the committees can be found on page 33.

An important function of the NAO governance structures is to ensure the effective management of risk. The Audit Committee supports the Board in reviewing the comprehensiveness, reliability and integrity of the National Audit Office's internal controls and risk management processes; the Leadership Team receives monthly risk reports and the Board and Leadership Team undertake detailed reviews of risk on a quarterly basis. Risks relating to the quality of the NAO's products are managed through the quality assurance process and the Audit Practice & Quality Committee. In addition, in 2010-11, the Leadership Team met specifically to consider low probability: high impact risks facing the UK public sector, the NAO, and its clients to challenge any existing assumptions about future threats and opportunities.

The NAO is committed to openness in its governance, and in 2011 published on its website the terms of reference for the Board and its committees, along with the minutes of all Board meetings held under the current arrangements.

During 2010-11 the Board and its committees each undertook performance evaluations, and action has been taken to address the areas for improvement identified. One area identified was the importance of ensuring the Board had the time to consider issues of wider strategic significance for the organisation. As a result, two additional Board meetings have been convened for strategy discussions and consideration of issues key to the NAO.

The C&AG is supported in his role by a Leadership Team which provides executive management and governance to the operations and delivery of the NAO. The Team is chaired by the C&AG and attended by the Chief Operating Officer and three Assistant Auditors General. The Leadership Team meets monthly and is supported by two committees:

- Operational Capability Committee, chaired by Michael Whitehouse. The committee has delegated authority to deliver the appropriate resources, infrastructure and human capital to achieve the NAO's business objectives.
- Audit Practice and Quality Committee, chaired by Ed Humpherson. The committee exists to review the comprehensiveness, reliability and integrity of the framework supporting the technical quality of the NAO's audit work.

**Figure 3: Board attendance 2010-11**

Board Member	Total number of Board meetings	Number attended in person	Number attended by telephone
Sir Andrew Likierman	10	10	0
Ruth Evans	10	9	0
Richard Fleck	10	9	1
Paula Hay-Plumb	10	9	1
Mary Keegan	10	10	0
Amyas Morse	10	10	0
Michael Whitehouse	10	10	0
Gabrielle Cohen	10	8	0
Ed Humpherson	10	10	0

**Key to committee membership**

- NAO Board
- Audit Committee
- Remuneration Committee
- Leadership Team
- Operational Capability Committee
- Audit Practice and Quality Committee

**Non-executive members****Sir Andrew Likierman****Chairman**

Andrew Likierman is Chairman of the NAO Board. He is also Dean of London Business School and a Non-Executive Director of Barclays plc. In the course of his career, Andrew has been Head of the Government Accountancy Service and was a Managing Director of the Financial Management, Reporting and Audit Directorate at HM Treasury.

**Ruth Evans****Chair of the Remuneration Committee**

Ruth Evans has extensive experience in consumer issues and the representation of the public interest. She holds a non-executive directorship of PhonePay Plus, is the Chair of the Authority of Television on Demand, a trustee of the Alacrity Foundation, and a Non-Executive Commissioner of the Independent Police Complaints Commission. She was Chair of the Bar Standards Board until 2008.

**Richard Fleck CBE**

Richard Fleck is a lawyer with extensive experience of audit and governance arrangements, having been involved in auditing standards since 1986. He is Chairman of the UK Auditing Practices Board.

**Paula Hay-Plumb**

Paula Hay-Plumb is an experienced Board Director in both the public and private sectors, and is currently a Non-Executive Director of The Forensic Science Service. She is a Chartered Accountant and a Member of the Association of Corporate Treasurers.

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

Mary Keegan was Head of the Government Finance Profession and Finance Director at HM Treasury until March 2008. She has also been Chair of the UK Accounting Standards Board, and was the first female partner in the UK audit practice of PricewaterhouseCoopers.

## Executive Management



### Amyas Morse

#### Comptroller and Auditor General

Amyas Morse was appointed Comptroller and Auditor General on 1st June 2009, and is a member of the Institute of Chartered Accountants of Scotland. Amyas was Global Managing Partner (Operations) at PricewaterhouseCoopers before he joined the Ministry of Defence in 2006 as Commercial Director. He has also served as a member of the Major Projects Review Group and the Public Sector Board of the Chartered Institute of Purchasing and Supply, and on a National Health Service Project Board.



### Michael Whitehouse

#### Chief Operating Officer

Michael Whitehouse was appointed Chief Operating Officer for the NAO in July 2009. Michael is CIPFA qualified and has extensive experience of value for money work across government. As well as having responsibility for strategy, capability and operational performance of the NAO, Michael leads the NAO's work on cross-government issues. Michael is Chair of the Operational Capability Committee.

## Assistant Auditors General



### Gabrielle Cohen

Gabrielle has been an Assistant Auditor General since 2005 having joined the NAO in 1987 and trained as an accountant. She was appointed to the Board in July 2009. Gabrielle is responsible for leading our stakeholder relations, governance, corporate policy, and relations with Parliament.



### Ed Humpherson

#### Chair of the Audit Practice and Quality Committee

Ed has been an Assistant Auditor General since 2007, having joined the NAO in 1993. He was appointed to the NAO Board in July 2009. He is responsible for the NAO's work on business and economic affairs, including the audits of many key government departments, and the NAO's work on private finance, the third sector, and the Government's response to the financial crisis.



### Martin Sinclair

Martin has been an Assistant Auditor General since 1999, having joined the National Audit Office in 1981. He is responsible for the audit of a broad portfolio of clients, including many major government departments. He is a member of the Council of the Chartered Institute of Public Finance and Accountancy (CIPFA), and is Chair of CIPFA's Accounting and Auditing Standards Panel.

# STATUTORY ANNUAL REPORT AND ACCOUNTS 2010-11

The National Audit Office's statutory Annual Report and Accounts 2010-11 are reproduced here as presented to the House of Commons on 23 May 2011, pursuant to Schedule 3, paragraph 4 (2) of the National Audit Act 1983.

## ABOUT THE NATIONAL AUDIT OFFICE

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.

The financial statements on pages 54 to 78 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 2010-11 Government Financial Reporting Manual (FRm) 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.

### Budget Responsibility and National Audit Act

The Budget Responsibility and National Audit Act received Royal Assent on 22 March 2011. This Act when enacted will formalise the National Audit Office's governance arrangements. While the Comptroller and Auditor General will continue to be a corporate sole (Section 12 (1)), the Act will create the National Audit Office as a body corporate (Section 20 (1)). On the appointed day, the Comptroller and Auditor General must transfer property, rights and liabilities to the National Audit Office (Schedule 4 Section 1). Details of the Act can be found at:

[www.legislation.gov.uk/ukpga/2011/4/enacted/data.pdf](http://www.legislation.gov.uk/ukpga/2011/4/enacted/data.pdf)

### 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. His responsibilities as the Accounting Officer are set out on page 47. 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 48 to 51 sets out how this responsibility has been discharged in the year to 31 March 2011.

## 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 utilised both of these extensions and extended the appointment to May 2011. Following an open competition in the Autumn of 2010, RSM Tenon Audit Limited were re-appointed by the Public Accounts Commission as auditors of the National Audit Office for a new period of three years (with two one-year extensions) from 1 April 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 organisations on the Office's claims for the reimbursement of costs related to the provision of advice and training under its international technical cooperation programme. Details of the cost of external audit services are disclosed in Note 7 to the accounts on page 67.

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

**[www.parliament.uk/business/committees/committees-a-z/other-committees/public-accounts-commission/](http://www.parliament.uk/business/committees/committees-a-z/other-committees/public-accounts-commission/)**

## National Audit Office staff

At 31 March 2011, the National Audit Office employed around 880 whole-time equivalent permanent staff based mainly in offices in London and Newcastle.

## National Audit Office Board

The National Audit Office 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 and the Comptroller and Auditor General is responsible for 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.

## National Audit Office 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**

**Dame Mary Keegan**

Chair of the Audit Committee

### 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 ensure that the requirements laid down by Parliament are met and to ensure effective corporate governance. The Board supports the Comptroller and Auditor General by advising him on the performance of his functions and monitoring the performance of the National Audit Office including:

- agreeing the National Audit Office's strategic priorities and how these will be carried out;
- agreeing the basis for measuring performance and monitoring the outcomes;
- monitoring risk within agreed tolerances; and
- identifying emerging issues.

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

The Audit Committee is chaired by Dame Mary Keegan and met seven times in the year to 31 March 2011. This exceptional level of meetings was due to disruption in reporting timetables caused by the General Election together with a change in internal auditor during the year. The Audit Committee reports to the Board and consists solely of non-executive members.

The Committee is authorised 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 authorised 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 and 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 the Board recommends to the Public Accounts Commission if it agrees.

## Remuneration Committee

The Remuneration Committee is chaired by Ruth Evans and met twice to discharge its duties. It consists solely of non-executive members and reports to the Board.

### Terms of reference

The Committee sets the remuneration policy for all 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 National Audit Office employee benefits.

The Remuneration Report is on pages 42 to 46.

## Leadership Team

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



## Leadership Team members

### The Leadership Team members were:

**Amyas Morse**

Comptroller and Auditor General

**Michael Whitehouse**

Chief Operating Officer

**Gabrielle Cohen**

Assistant Auditor General

**Ed Humpherson**

Assistant Auditor General

**Martin Sinclair**

Assistant Auditor General

**Wendy Kenway-Smith**

Assistant Auditor General (until 31 October 2010)

### Leadership Team committees

During 2010-11, 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 2010-11 financial year has been based on continuous monitoring of payments since the start of the year and 97 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 82 per cent of payments were made within 10 days of receipt of the invoice.

## 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, rental of surplus office space and from the provision of other services such as advice and training. The National Audit Office's activities during 2010-11 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 **cost-effective delivery**. The Office develops and promotes guidance on best practice including toolkits (for example, on board reporting and risk management) and promotes best practice via events and publications. Performance improvement work also includes securing and measuring impacts and work to follow-up the recommendations of particular financial audits or value for money studies.
- **Direct support to Parliament, the public, and other organisations:** supporting the Committee of Public Accounts and other select committees; responding to enquiries from Members of Parliament and members of the general public; and the provision of advice and training (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.

### Financial planning

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

The National Audit Office strategy to 2013-14 was approved by the Public Accounts Commission in November 2010 and set out developments in the Office's work programme for a three-year rolling period and the related resource requirements. The strategy is updated annually.

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 authorises the Estimate towards the end of July, when the Appropriation Act is passed.

Copies of the National Audit Office's strategy are available on its website at:

**[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:

**[www.official-documents.gov.uk/document/hc1011/hc01/0128/0128.asp](http://www.official-documents.gov.uk/document/hc1011/hc01/0128/0128.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 resources, produce high quality work for Parliament and the bodies that it audits and drive lasting improvements in the delivery of public services. The National Audit Office must also maintain a skilled and motivated workforce, build influential relationships with key external stakeholders while also maintaining its independence. The Office manages the risk to achieving these objectives by:

- clearly aligning operational and strategic risks with its strategy;
- communicating a clear allocation of roles and responsibilities for risk management;
- continuous efforts to embed risk management in all of its work;
- operating robust control mechanisms that are continually reviewed; and
- regular monitoring of risk status through reports to the Leadership Team and Board.

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.

## Review of performance in 2010-11

The National Audit Office achieved its key targets within each of its strategic objectives in the 2010-11 financial year:

**Financial audit** – 470 accounts were certified, 76 per cent of which were audited within four months of the end of the financial reporting period against a target of 77 per cent;

**Value for money** – 60 reports were published including work on the HM Treasury's Asset Protection Scheme, Strategic Financial Management of the Defence Budget and the Department of Health's work on Delivering the Cancer Reform Strategy.

**Performance improvement** – work was progressed in all of the three key areas including:

- **Informed government** – the provision of toolkits and advice to clients on improving the quality of board reports;
- **Financial management** – the publication of a good practice guide on statements on internal control which led to a noticeable improvement in the quality of the statements produced by departments; and
- **Cost-effective delivery** – assessments were undertaken on the management of business processes in 12 departments including payments and responding to correspondence and recommendations were made for improvements.

**Other work programmes** – the Committee of Public Accounts was supported in 43 hearings.

The Office achieved financial impacts equivalent to over thirteen times its net running costs, against a target of ten.

## Comparison of 2010-11 outturn with the Estimate

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

Resources	Estimate	Forecast (November 2010)	Outturn	Saving against Estimate	Saving against Forecast
	£m	£m	£m	£m	£m
Gross resource requirement	96.100	93.600	92.578 <sup>1</sup>	3.522	1.022
Income	(19.500)	(19.500)	(19.500) <sup>2</sup>	–	–
Net resource requirement	76.600	74.100	73.078	3.522	1.022
Capital expenditure	1.430	1.430	1.345	0.085	0.085
<b>Net cash requirement</b>	75.443	–	68.165	7.278	–

1 The gross resource requirement excludes the cost of the Comptroller and Auditor General's salary which is met direct from the Consolidated Fund. It also excludes balances paid to the Consolidated Fund as Consolidated Fund Extra Receipts.

2 Maximum allowable income to be utilised as Appropriations in Aid. The balance of £0.7m will be surrendered to the Consolidated Fund in 2011-12 once work in progress has been invoiced and the debts settled.

### Resources

The table shows that the National Audit Office's outturn for the 2010-11 financial year was £3.5 million lower than the 2010-11 Estimate and £1.0 million lower than forecast in both gross and net terms. The National Audit Office is committed to practising what it preaches and early in the 2010-11 financial year, changes were made to the way in which work was delivered. This generated the forecast savings which were approved by the Public Accounts Commission in November 2010. A significant saving was achieved by reducing reliance on outsourced resources, particularly on the value for money programme, as the Office was able to deliver more of its work with in-house resources which is more cost-effective. The Office continued to seek further cost reductions from November and was successful in securing a further saving of £1.0 million, delivered through a sustained reduction in value for money outsourcing costs following the re-tender of framework contracts and a revision of the Office's travel policy.

### Income

The National Audit Office generated £20.2 million income which was £0.7 million higher than the 2010-11 Estimate. The Office put a number of measures in place to significantly reduce the deficit on fee paying work (as reported in Note 8b on page 69) and this, together with favourable exchange rates on our international work led to the additional income earned. The Office will surrender £0.7 million to the Consolidated Fund in 2011-12.

In 2010, the National Audit Office was appointed to the United Nations Board of Auditors for a six-year term. The fees are set on a bi-annual basis and shared equally among the three board members (currently South Africa, China and the United Kingdom). In the year to 31 March 2011, the Office earned £1.2 million from this work. The contract is denominated in United States Dollars and the exchange rate position is actively monitored to minimise the risk of loss. Appropriate action will be taken to hedge exposure where necessary.

The refurbishment of the London office has enabled the National Audit Office to optimise the use of office space and two sections of the building are currently sub-let to tenants. This has generated around £0.2 million income in the year to 31 March 2011. Further reviews of the use of office space are currently in progress with the aim of sub-letting additional sections in 2011-12 to generate additional income and maximise the use of the building as an income generating asset.

**Capital expenditure**

The National Audit Office invested some £1.3 million in information technology and other assets. A full review of all assets was conducted in 2010-11 to ensure that they continued to meet the Office's needs, and as a consequence, the Office rationalised its existing asset base and identified savings on its future capital investment programme.

**Financial position**

The total assets less the total liabilities of the National Audit Office decreased by £1.7 million to £79.0 million.

Provisions increased by £1.8 million following further restructuring decisions taken by the National Audit Office which led to a new voluntary redundancy programme in late 2010. This programme will generate savings for the Office in the longer term.

Trade payables increased by £0.9 million, reflecting a payment on account made for work on the United Nations Board of Auditors, and an increase in balances owed to the Consolidated Fund arising from the additional income earned on fee-paying work.

Assets increased by £1.0 million largely due to the increase in value of the London headquarters building.

**Resources required in 2011-12**

The National Audit Office's Estimate for 2011-12 was approved by the Public Accounts Commission on 16 March 2011. The Estimate provides for a gross resource requirement of £89.1 million, which, after taking account of income of £20.4 million, gives a net resource requirement of £68.7 million. The Office will therefore further reduce its net resources for 2011-12 by 10.3 per cent from its 2010-11 Estimate and 6.0 per cent from its 2010-11 outturn.

The Office's strategy remains ambitious and in addition to core work, over the next three years, the Office will continue to focus strongly on three systemic drivers of performance in public sector organisations: informed government; professional financial management; and cost effective delivery, to increase the impact of its work in helping to achieve lasting beneficial change in public services.

The National Audit Office has finalised a detailed business plan to ensure that the key objectives of the strategy are delivered. The Office aims to practise what it preaches and has set tough but achievable efficiency targets for front line work and corporate support activities.

In addition, the National Audit Office will support the extension of parliamentary scrutiny by:

- developing an integrated programme of financial audit and value for money work to ensure the transparency of government actions to address the economic downturn and the fiscal gap;
- continuing to take on audits of public service companies and other new public bodies including the Office for Budget Responsibility and the Independent Commission for Aid Impact, and additional Trust Accounts used to account for revenue collected by organisations on behalf of the Consolidated Fund; and
- responding to the changing landscape for accountability in local government and the wider Health Service following the planned abolition of the Audit Commission.

The National Audit Office will continue to provide support on other important developments including the consolidation of the income and expenditure and assets and liabilities of non-departmental public bodies within Departments' Estimates and Resource Accounts, and with the alignment of voted supply with Treasury approved budgets.

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

The National Audit Office is committed to sustainability through the work it undertakes and the management of its business. In 2010-11 the Office implemented a new Environmental Management System (EMS) which achieved ISO 14001:2004 accreditation on 21 March 2011. The EMS led to a full review of the environmental impacts of the Office's operations which have been used to set environmental objectives and targets in line with the ISO 14001:2004 requirement of continuous improvement. The EMS ensures that resources are used effectively, that pollution is reduced, and ensures commitment to improve the sustainability of the work of the procurement and facilities management functions.

In 2010-11, the Office also completed work on a raised planting area incorporating a mixture of native trees, shrubs and wildflowers and implemented a biodiversity action plan to meet the requirements of BREEAM (Building Research Establishment Environmental Assessment Method).

In 2011-12, the National Audit Office will be reviewing its energy, water and waste consumption and monitoring its performance in terms of sustainability and carbon emissions to meet the Government's sustainability reporting requirements.

The National Audit Office Board members have individual and collective responsibilities in providing environmental management leadership. Ed Humpherson has been appointed as the Board member with particular responsibility for environmental risk management issues.

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

The National Audit Office addresses sustainability issues within its value for money programme and supports the House of Commons Environmental Audit Committee's scrutiny of the Government's performance in addressing the sustainable development and environmental protection implications of its policies and programmes and delivery of its targets.

Following the General Election in 2010, the Office provided the new Committee with introductory briefings on the key environmental protection issues facing the UK and progress towards sustainable development and a briefing on the extent to which the Department for International Development's aid programme tackles environmental issues; and contributed to a coordinated international audit on climate change.

The Office will continue to work with HM Treasury on the development of the Government's proposals for mandatory sustainability reporting by government bodies with effect from 2011-12; and to agree specific programmes of work for the Environmental Audit Committee.

## **Staff issues**

The National Audit Office has a policy of close cooperation 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 current issues. 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 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.

Nine minor accidents were recorded during the year compared to eight for 2009-10. Of these, seven involved National Audit Office staff and two involved contractors' employees. One of the reported accidents was a fall on stairs and resulted in injuries that required reporting under RIDDOR (the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995) as the individual was incapacitated and unable to undertake the full range of their normal duties for more than three days. The National Audit Office focuses on proportionate risk management as an integral part of the way it undertakes business activities.

## Sickness absence

During 2010-11, the average number of days for sickness absence was 4.7 days per employee compared with 4.8 days in 2009-10. The National Audit Office is committed to the health and well-being of its staff and 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 weeks were held to provide advice on issues such as coping with stress and caring for others. 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 equality and the recognition of the diverse talents and contributions of staff and sets out equal opportunities aims in its Diversity Strategy. Progress against this strategy is monitored by the Diversity Delivery Board which is chaired by Gabrielle Cohen. The Office continued with a number of initiatives in 2010-11 including:

- disability awareness seminars;
- support for the 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 the year to 31 March 2011.

## 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	Value for money
Deloitte	Amtec Consulting
Grant Thornton	Booz & Co
KPMG	Deloitte
Mazars	KPMG
Moore Stephens	Mott MacDonald
PKF	PACEC
PricewaterhouseCoopers	PricewaterhouseCoopers

The value for money partnership contract commenced on 1 June 2010 for a period of 3 years with the option to extend for a further year.

Redfern Travel, Capita Business Travel and Expotel provided travel management services to the Office during 2010-11. These contracts expired on 30 April 2011, and the Office awarded a new contract to Redfern Travel for the provision of all its travel management services which commenced on 1 May 2011.

Amyas C E Morse

**Comptroller and Auditor General**  
**23 May 2011**



## 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 67 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 organisation;
- the funds available to the National Audit Office;
- current and prospective rates of inflation; and
- the relevant legal obligations including equality and anti-discrimination requirements.

The following table provides details of the remuneration and pension interests of the National Audit Office Board and Leadership Team. The information on pages 43 to 46 is covered by the audit opinion.

	Status	Date of Appointment	Notice Period	2010-11				2009-10	
				Salary	Bonus	Benefits in kind	Total Remuneration to 31 March 2011	Remuneration	Total
				£000	£000	(to nearest £100)	£000	£000	£000
Professor Sir Andrew Likierman (Non-executive)	Board Chair	01/01/09	3 months	50-55	–	–	50-55		50-55
Amyas Morse Comptroller and Auditor General	Board and Leadership Team Member	01/06/09	None	205-210	–	1,100	205-210		180-185
Ruth Evans (Non-executive)	Board Member	01/07/09	3 months	20-25	–	100	20-25		15-20
Richard Fleck CBE (Non-executive)	Board Member	01/07/09	3 months	20-25	–	–	20-25		15-20
Paula Hay-Plumb (Non-executive)	Board Member	17/03/10	3 months	20-25	–	500	20-25		0-5
Dame Mary Keegan (Non-executive)	Board Member	01/07/09	3 months	20-25	–	1,900	20-25		15-20
Michael Whitehouse Chief Operating Officer	Board and Leadership Team Member	01/04/02	3 months	160-165	0-5	–	160-165		160-165
Gabrielle Cohen Assistant Auditor General	Board and Leadership Team Member	01/04/05	3 months	135-140	0-5	–	140-145		135-140
Ed Humpherson Assistant Auditor General	Board and Leadership Team Member	16/07/07	3 months	135-140	0-5	–	135-140		130-135
Martin Sinclair Assistant Auditor General	Leadership Team Member	29/01/99	3 months	140-145	0-5	–	140-145		140-145
Wendy Kenway-Smith Assistant Auditor General (to 31 October 2011)	Leadership Team Member	15/05/00	3 months	75-80	–	1,300	75-80		135-140
Tim Burr Comptroller and Auditor General (to 31 May 2009)	Management <sup>1</sup> Board Member	01/02/08	None	–	–	–	–		25-30
Caroline Mawhood <sup>2</sup> Assistant Auditor General (to 30 June 2009)	Management Board Member	01/01/96	3 months	–	–	–	–		105-110
Jim Rickleton Assistant Auditor General (to 30 June 2009)	Management Board Member	01/06/03	3 months	–	–	–	–		30-35

<sup>1</sup> The National Audit Office Management Board was replaced by the National Audit Office Board and the Leadership Team on 1 July 2009.

<sup>2</sup> Caroline Mawhood retired from the National Audit Office on 31 October 2009, on compulsory terms.

## 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. As part of the 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 contracted with the Government Car and Despatch Agency for the provision of an official car and driver for business purposes. Until 24 May 2010, the Comptroller and Auditor General also used the car between his home and the office in order to maximise the official use of his time. The estimated benefit in kind relating to his home to office use of the car was £1,100. The supporting calculations for this figure have been submitted to HM Revenue and Customs for approval. The tax liability relating to this benefit will be met by the Comptroller and Auditor General. The contract with the Government Car and Despatch Agency was terminated on 30 June 2010.

In 2007, Wendy Kenway-Smith received an interest-free loan under the Office's relocation scheme on her transfer to head the Newcastle office. This balance outstanding of £52,156 was repaid following her retirement from the Office on 31 October 2010. The benefit in kind relating to the loan was £1,272.

Wendy Kenway-Smith elected to take early retirement on 31 October 2010. The cost to the National Audit Office of buying out the actuarial reduction on her pension was £190-195,000. She did not receive any additional compensation.

The benefits in kind disclosed for non-executive members of the Board relate to travel to the National Audit Office for Board and other Committee meetings and include the associated tax liability which was met by the Office. The National Audit Office has an agreement with HM Revenue and Customs to meet income tax and national insurance on these benefits on behalf of its non-executives.

## 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 (PCSPS) 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 scheme can be found at [www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)

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

Name and Title	Accrued pension at age 60 at 31 March 2011 £000	Accrued lump sum at age 60 at 31 March 2011 £000	Real increase in annual pension £000	Real increase in lump sum £000	CETV at 31 March 2011 £000	CETV at 31 March 2010 <sup>1</sup> £000	Real increase in CETV £000
Michael Whitehouse Chief Operating Officer Board and Leadership Team Member	63	190	2	4	1,238	1,061	177
Gabrielle Cohen Assistant Auditor General Board and Leadership Team Member	41	122	1	2	678	585	93
Ed Humpherson Assistant Auditor General Board and Leadership Team Member	32	42	1	(1)	335	283	52
Martin Sinclair Assistant Auditor General Leadership Team Member	60	111	1	(3)	1,101	956	145
Wendy Kenway-Smith <sup>2</sup> Assistant Auditor General Leadership Team Member (until 31 October 2010)	23	69	—	1	398	378	20

<sup>1</sup> Pension information has been supplied by the People, Pay and Pensions Agency, the National Audit Office's pensions administrator. 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.

<sup>2</sup> Figures provided for Wendy Kenway-Smith were as at her early retirement date which was 31 October 2010.

## Employer contributions to partnership pensions

None of the above benefited from such contributions in the year to 31 March 2011.

## Cash equivalent transfer values

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

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

Amyas C E Morse

**Comptroller and Auditor General**  
**23 May 2011**

## 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, income and expenditure, changes in taxpayers' equity 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 HM 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 National Audit 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 HM Treasury guidance and professional best practice has been in place for the whole of 2010-11.

Following the implementation of a new business strategy in 2009-10, I have put in place arrangements to ensure that a proper evaluation of the balance of cost, risk and opportunity is embedded in the Office's operations. The new systems ensure that all of the operational assets are utilised with due regard for the overall value for money to the public purse.

### 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 identified risks.

Following on from the significant changes to the National Audit Office's business processes in 2009-10, we have taken the opportunity to evaluate a number of our policies and procedures. After the completion of our office refurbishment, we identified the opportunity to sub-let part of our building to new tenants. We have been able to bring these tenants into our building, with no disruption to the Office's operations and maintaining the highest standards of data security. This demonstrates our commitment to maximising the value for money of our operations whilst managing operational risks.

Looking forward the wider public sector faces unprecedented challenges to the scale, scope and financing of its operations. To ensure that we continue to respond to this changing environment, the Office's overall strategic objectives are translated to our operations through a detailed business plan for the year ahead, with clearly defined accountabilities over the delivery of outputs and outcomes.

We continue to refine management information and business reporting to provide the Leadership Team and the Board with appropriate and timely management information to allow them to identify and respond to emerging risk, and progress was reviewed by Internal Audit during the year. Throughout this process my executive Leadership Team has also continued to evolve and develop its oversight function, ensuring it remains aligned with the wider risk framework.

## The risk and control framework

We manage risks in a structured manner. For each identified business risk we have set our risk tolerance in line with our strategic objectives. Given the nature of our business, our tolerance of risk in areas of professional audit judgement, regularity and propriety, and financial management is low. In other areas such as enhancing knowledge management we are prepared to accept more risk in order to take advantage of opportunities to pursue our objectives. Risk tolerances for the different identified risks were reviewed and endorsed by the Leadership Team in April 2011.

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 ethical requirements of their professional bodies. The Office conforms with 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 to 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 internal and independent external reviews. The independent external review of financial audit quality is provided by the Audit Inspection Unit which is part of the Professional Oversight Board. In response to issues raised by the Audit Inspection Unit in their first inspection we have separated our internal quality control procedures for financial audit into an independent Compliance and Quality Unit. For our value for money work the independent external review function is shared between Oxford Business School and Risk Solutions. The outcomes of these review processes are reported annually to the Board. The focus on quality is further supported through the promotion of collaborative working at all levels throughout the organisation.

We have identified strategic risks which could affect the achievement of our policies, aims and objectives and which need to be managed actively. Within the National Audit Office, the Leadership Team manage these risks. Members of the Leadership Team also chair two operational committees focusing on managing risk: the Audit Practice and Quality Committee oversees policy on professional audit quality and the Operational Capability Committee supervises business operations decisions. Individual staff are made aware of their own responsibilities through the communication of the strategy and business plan, our operational planning and training. This ensures that operational risks and outcomes are aligned with strategic objectives.

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 January 2011 we undertook an internal review of the existing risk framework. The outcome of this review was to develop a set of recommendations designed to embed the approach to risk management more widely across the business. These recommendations, approved by the Leadership Team and the Audit Committee, have been converted into a Management Plan to take this work forward during 2011-12. The key elements of this plan focus on: establishing clear links between our corporate approach to risk and our day to day work; broadening involvement in and ownership of the risk management process; and improving the contribution of the wider business to our understanding of risk. In the meantime, designated risk owners continue to manage business risk using the existing risk register.



## 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.

Last year we set ourselves a target to achieve Level 2 (information assurance processes are institutionalised) on the Government's Information Assurance Maturity Model (IAMM) by the end of 2010. In January 2011 and in accordance with Cabinet Office guidance, we completed a self-assessment of our progress against this target. The outcome of this self-assessment process was then independently reviewed by Internal Audit, with assistance from external experts.

The self-assessment, validated by Internal Audit, shows that the business is above Level 2 in two of the six domains in the model and approaching Level 2 in the other four domains. In response to this Internal Audit review the Audit Committee has approved a management action plan to address the areas for further improvement including the need to refine processes to gain visibility and control of information risk and assurance across the business. Progress against this action plan will be reviewed by the Audit Committee later in 2011 in preparation for a repeat of the self-assessment process in early 2012.

### Personal data related incidents

There were no protected personal data related incidents reportable to the Information Commissioner's Office in 2010-11. Neither were there centrally recorded protected personal data related incidents not formally reported to the Information Commissioner's Office in 2010-11. 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 submit regular reports on the management of key business risks and the effectiveness of the Office's system of internal control and make 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 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 the Audit Committee which met seven times during the year and received assurance on the Office's systems of corporate governance, risk management and internal control.

The Director of Internal Audit and Assurance's assessment of internal control in 2010-11 concluded that there were no significant weaknesses.

I also consider the evidence for control weaknesses identified by the Office's system of controls. Within the current year these controls identified that a staff benefit was paid to ineligible staff. Whilst the benefit itself was for a low amount, the identification and rapid action taken to address the issue provide an example of the effectiveness of the controls in place.

## Significant internal control weaknesses

I am able to report that there were no significant weaknesses in the Office's system of internal controls in 2010-11 which affected the achievement of the Office's key policies, aims, and objectives.

Amyas C E Morse

**Comptroller and Auditor General**  
**23 May 2011**

## 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 2011 under the National Audit Act 1983. These comprise the Statement of Parliamentary Supply, the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash flows, the Statement of Changes in Taxpayers' Equity 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 sections About the National Audit Office, Management Commentary and the un-audited 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 mis-statements 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 2011, and the net cash requirement, net resource outturn, net operating cost, recognised gains and losses and cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the National Audit Act 1983; and
- information given within the Annual Report, which comprises the un-audited part of the Remuneration Report, the sections About the National Audit Office 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

Vantage  
Victoria Street  
Basingstoke  
Hampshire  
RG21 3BT

23 May 2011

## Statement of Parliamentary Supply

### Summary of Resource Outturn 2010-11

		2010-11 Estimate			2010-11 Outturn			2010-11 Net total outturn compared with Estimate: saving or (excess)	2009-10 Outturn Restated
	Note	Gross Expenditure £000	A in A £000	Net Total £000	Gross Expenditure £000	A in A £000	Net Total £000	£000	Net Total £000
RfR 1: Providing independent assurance to Parliament and other organisations on the management of public resources	2	96,100	19,500	76,600	92,578	19,500	73,078	3,522	94,673
<b>Total Resources</b>		<b>96,100</b>	<b>19,500</b>	<b>76,600</b>	<b>92,578</b>	<b>19,500</b>	<b>73,078</b>	<b>3,522</b>	<b>94,673</b>
Non Operating Cost A in A		—	—	—	—	—	—	—	—

The notes on pages 60 to 78 form part of these accounts

**Net Cash Requirement 2010-11**

				2010-11 £000	2009-10 £000
				Net total outturn compared with Estimate: saving or (excess)	
	Note	Estimate	Outturn		Outturn
Net cash requirement	4	75,443	68,165	7,278	103,535

**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 2010-11		Outturn 2010-11		Outturn 2009-10	
	Note	Income £000	Receipts £000	Income £000	Receipts £000	Income £000	Receipts £000
Total	5a	–	–	1,066	331	33	33

## Statement of Comprehensive Net Expenditure for the year ended 31 March 2011

	Note	2010-11 £000	2009-10 £000 Restated
<b>Administration costs</b>			
Staff costs	6	57,432	57,770
Other administration costs	7	35,050	57,026
<b>Gross administration costs</b>		<b>92,482</b>	<b>114,796</b>
Operating income	8	(20,235)	(19,896)
<b>Net operating cost</b>	3	<b>72,247</b>	<b>94,900</b>
<b>Other comprehensive expenditure</b>			
Net gain on revaluation of property, plant and equipment	10	(3,261)	(32,813)
<b>Total comprehensive expenditure</b>		<b>68,986</b>	<b>62,087</b>

All expenditure relates to RFR 1: Providing independent assurance to Parliament and other organisations on the management of public resources.

There were no discontinued operations, acquisitions or disposals during the period.

Figures for 2009-10 have been restated to remove the notional cost of capital charge in accordance with the Financial Reporting Manual.

Other administration costs for 2009-10 included £22.113 million for the repair and refurbishment of the headquarters building. This project was completed in December 2009.



## Statement of Financial Position as at 31 March 2011

	Note	31 March 2011 £000	31 March 2010 £000 Restated	31 March 2010 £000 Restated	1 April 2009 £000 Restated
<b>Non-current assets:</b>					
Property, plant and equipment	10	77,917	76,670		34,380
Intangible assets	11	1,286	1,527		1,204
Receivables falling due after one year	12	516	509		582
<b>Total non-current assets</b>		<b>79,719</b>	<b>78,706</b>		<b>36,166</b>
<b>Current assets:</b>					
Trade and other receivables	12	10,461	10,520		11,639
Cash and cash equivalents	13	250	166		183
<b>Total current assets</b>		<b>10,711</b>	<b>10,686</b>		<b>11,822</b>
<b>Total assets</b>		<b>90,430</b>	<b>89,392</b>		<b>47,988</b>
<b>Current liabilities:</b>					
Trade and other payables	14	(6,117)	(5,199)		(6,381)
Provisions due within one year	15	(1,928)	(1,160)		–
<b>Total current liabilities</b>		<b>(8,045)</b>	<b>(6,539)</b>		<b>(6,381)</b>
<b>Total assets less current liabilities</b>		<b>82,385</b>	<b>83,033</b>		<b>41,607</b>
<b>Non-current liabilities:</b>					
Provisions	15	(3,339)	(2,322)		(2,504)
<b>Total non-current liabilities</b>		<b>(3,339)</b>	<b>(2,322)</b>		<b>(2,504)</b>
<b>Assets less liabilities</b>		<b>79,046</b>	<b>80,711</b>		<b>39,103</b>
<b>Taxpayers' Equity:</b>					
General Fund		33,871	38,280		29,169
Revaluation reserve		45,175	42,431		9,934
<b>Total taxpayers' equity</b>		<b>79,046</b>	<b>80,711</b>		<b>39,103</b>

Amyas Morse

Comptroller and Auditor General  
23 May 2011

The notes on pages 60 to 78 form part of these accounts

## Statement of Cash Flows for the year ended 31 March 2011

	Note	2010-11 £000	2009-10 £000 Restated
<b>Cash flows from operating activities</b>			
Net operating cost	3	(72,247)	(94,900)
Adjustments for non-cash transactions	7	6,532	3,582
Decrease in trade and other receivables	12	50	1,192
Increase / (decrease) in trade and other payables	14	97	(1,118)
Use of provisions	15	(1,193)	(569)
<b>Net cash outflow from operating activities</b>		<b>(66,761)</b>	<b>(91,813)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	10	(659)	(11,599)
Purchase of intangible assets	11	(686)	(282)
Proceeds of disposal of property, plant and equipment		50	33
<b>Net cash outflow from investing activities</b>		<b>(1,295)</b>	<b>(11,848)</b>
<b>Cash flows from financing activities</b>			
From the Consolidated Fund (Supply) – current year		68,260	103,432
From the Consolidated Fund (Non-Supply) – Consolidated Fund Standing Services	7	235	227
<b>Net financing</b>		<b>68,495</b>	<b>103,659</b>
<b>Net increase / (decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund</b>		<b>439</b>	<b>(2)</b>
Payments of amounts to the Consolidated Fund		(355)	(15)
<b>Net increase / (decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund</b>	13	<b>84</b>	<b>(17)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	13	<b>166</b>	<b>183</b>
<b>Cash and cash equivalents at the end of the period</b>	13	<b>250</b>	<b>166</b>

The notes on pages 60 to 78 form part of these accounts

## Statement of Changes in Taxpayers' Equity for the year ended 31 March 2011

	Note	General Fund £000 Restated	Revaluation Reserve £000	Total Reserves £000 Restated
<b>Balance at 1 April 2009</b>		<b>29,169</b>	<b>9,934</b>	<b>39,103</b>
<b>Changes in taxpayers' equity for 2009-10</b>				
Total comprehensive expenditure		(94,900)	32,813	(62,087)
Consolidated Fund Standing Services	7	227	–	227
Realised element of revaluation reserve		316	(316)	–
<b>Total recognised 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		178	–	178
Supply payable adjustment		(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>
<b>Changes in taxpayers' equity for 2010-11</b>				
Total comprehensive expenditure		(72,247)	3,261	(68,986)
Consolidated Fund Standing Services	7	235	–	235
Realised element of revaluation reserve		517	(517)	–
<b>Total recognised income and expense for 2010-11</b>		<b>(71,495)</b>	<b>2,744</b>	<b>(68,751)</b>
Net Parliamentary Funding – drawn down		68,260	–	68,260
Net Parliamentary Funding – deemed	14	142	–	142
Supply payable adjustment	14	(250)	–	(250)
Excess A-in-A Payable to Consolidated Fund	14	(735)	–	(735)
Payment of CFERs to the Consolidated Fund		(331)	–	(331)
		<b>67,086</b>	<b>–</b>	<b>67,086</b>
<b>Balance at 31 March 2011</b>		<b>33,871</b>	<b>45,175</b>	<b>79,046</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 the Revaluation Reserve.

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

# 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 which 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 2010-11 Government Financial Reporting Manual (FReM) issued by HM Treasury.

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 an additional primary statement. The Statement of Parliamentary Supply and supporting notes show outturn against Estimate in terms of the net resource requirement and the net cash requirement.

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

### 1.1 Prior-year adjustments

In accordance with the FReM, a notional cost of capital charge was levied until 2009-10. The requirement to make this charge has now been removed and the financial statements have been restated. There is no net impact on the reserves.

### 1.2 Accounting convention

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

### 1.3 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. The National Audit Office opts to treat supply drawn down as financing and not income in accordance with the FReM. 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*.

### 1.4 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 dependents' benefits. The National Audit Office recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution elements of the schemes, the National Audit Office recognises the contributions payable for the year.

### 1.5 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 HM Treasury discount rate applicable at the balance sheet date. At 31 March 2011 this was 2.9 per cent in real terms (2009-10 1.8 per cent). The estimated payments are provided by the People, Pay and Pensions Agency.

### 1.6 Property, plant and equipment

Expenditure on property, plant and equipment of £1,500 or more is capitalised. On initial recognition, assets are measured at cost including any costs such as installation directly attributable to bringing them into working condition. All property, plant and equipment is reviewed annually for impairment and is carried at fair value. Land and buildings are stated at their fair value based on an annual professional valuation as at the end of the financial year. All non-property operational assets are deemed to be short-life or low value assets and are therefore valued on the basis of depreciated 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 capitalised where the cost is £1,500 or more. Intangible assets are reviewed annually for impairment and are stated at fair value. Software licences are amortised 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	15 to 25 years
Computers and other equipment	3 to 10 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.

The term of the lease for long leasehold land and buildings (the Office headquarters) is 130 years. Revaluation was undertaken at 31 March 2011, at which time the lease had 101 years remaining.

### 1.9 Trade receivables

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

### 1.10 Accrued income

Accrued income mainly relates 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.

### 1.11 Operating income

Operating income relates directly to the operating activities of the National Audit Office. It principally comprises fees and charges for services provided by statute or by agreement with client organisations. Income represents the value of invoices raised on completion of work and the value of work completed but not yet invoiced on assignments which will be completed in the subsequent year. Operating income is stated net of VAT. Non-operating income is surrenderable to the Consolidated Fund and is reported in Note 5(b).

**1.12 United Nations Board of Auditors income**

In 2010 the National Audit Office was appointed to the United Nations Board of Auditors for a period of 6 years. Fees for this work are fixed bi-annually in United States Dollars and are shared in an agreed ratio between the three board members (currently South Africa, China and the United Kingdom). Where additional tasks are required a separate fee is levied and is also shared equally between the three board members. Income is recognised on the percentage of completion method, based on the total budget to deliver the audit.

**1.13 Rental income**

The National Audit Office has entered into agreements to sub-let parts of its London offices. The associated income from lease arrangements is recognised in line with IAS 17, with any lease incentives being spread across the period from the inception of the lease to the first rent review period. A separate service charge is levied on an annual basis to reflect the costs borne by the National Audit Office and as this charge is by its nature variable, it is not included within the operating lease disclosure (Note 17).

**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 12 and 14). Trade receivables are recognised initially at fair value less provision for impairment. A provision for impairment is made when there is evidence that the National Audit Office will be unable to collect an amount due in accordance with agreed terms.

**1.15 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 2011. Translation differences are dealt with in the Statement of Comprehensive Net Expenditure.

**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 capitalised purchase cost of fixed assets. Recoveries of input VAT are netted off against expenditure in the Statement of Comprehensive Net Expenditure.

**1.18 Staff costs**

Under IAS 19 Employee Benefits, all short-term staff costs accrued at the year end, which will be paid within one year of the balance sheet date, are recognised within the Statement of Comprehensive Net Expenditure for that year. Longer-term benefits are recognised in line with IAS 19, as modified by the FReM.

**1.19 Accounting estimates**

Other than the accrued income figure in Note 12, no material accounting estimates or judgements were made by the National Audit Office in preparing these accounts.

**1.20 Operating leases**

Payments in relation to operating leases are charges to the Statement of Comprehensive Net Expenditure on the basis of rentals payable in the year.

**1.21 Impending application of newly issued accounting statements not yet effective**

The National Audit Office provides disclosure that it has not yet applied a new accounting standard, and known or reasonably estimable information relevant to assessing the possible impact that the initial application of the new standard will have on the Office's financial statements. There were no new standards issued for 2010-11 and not applied, which would materially affect the Office's financial statements. The National Audit Office has also not adopted any standards early.

## 2 Analysis of net resource outturn by section

	Outturn		Estimate 2010-11		2009-10
	Gross resource expenditure	A in A	Net Total	Net Total	Prior-year outturn Restated
	£000	£000	£000	£000	£000
<b>RfR 1: Providing independent assurance to Parliament and other organisations on the management of public resources</b>					
1A Provision of audit and other assurance services	92,578	19,500	73,078	76,600	3,522
1B Repair and refurbishment of Office's headquarters building	–	–	–	–	–
1C Provision of temporary office accommodation	–	–	–	–	–
<b>Resource Outturn</b>	<b>92,578</b>	<b>19,500</b>	<b>73,078</b>	<b>76,600</b>	<b>3,522</b>

The National Audit Office completed the refurbishment of the Office's Headquarters Building in December 2009.

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

	Note	Outturn £000	Estimate £000	2010-11 Outturn compared with Estimate £000	2009-10 Prior-year outturn Restated £000
<b>Net resource outturn</b>	2	73,078	76,600	(3,522)	94,673
Non-supply expenditure – Consolidated Fund Standing Services	7	235	240	(5)	227
Excess Appropriations in Aid to be paid to the Consolidated Fund	5	(735)	–	(735)	–
Non-operating income paid to the Consolidated Fund	5	(331)	–	(331)	–
<b>Net operating cost</b>		<b>72,247</b>	<b>76,840</b>	<b>(4,593)</b>	<b>94,900</b>

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

Administrative expenditure and associated non-cash items incurred in the provision of independent assurance, information and advice to Parliament on the proper accounting for central government expenditure, revenue, assets and liabilities, including compliance with laws and regulations, and in the economy, efficiency and effectiveness with which central government resources have been used; the provision of independent assurance, information and advice to a wide range of other public, international, and overseas bodies and to members of the public.

Net operating cost is the total of expenditure and income appearing in the Statement of Comprehensive Net Expenditure. 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 2010-11 £000	Net total outturn compared with Estimate: saving/ (excess) £000
Resource outturn		76,600	73,078	3,522
Capital				
Acquisition of assets	10,11	1,430	1,345	85
Accruals adjustments:				
Non-cash items	7	(2,947)	(6,532)	3,585
Changes in working capital other than cash		(603)	147	(750)
Use of provisions	15	963	1,193	(230)
<i>Income and payments due to the Consolidated Fund</i>				
Non-operating income paid to the Consolidated Fund		–	(331)	331
Excess A-in-A payable to the Consolidated Fund		–	(735)	735
<b>Net cash requirement</b>		<b>75,443</b>	<b>68,165</b>	<b>7,278</b>

#### 5 Income and payments due to the Consolidated Fund

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

	Note	2010-11 Forecast		2010-11 Outturn	
		Income £000	Receipts £000	Income £000	Receipts £000
Operating income and receipts – excess Appropriations in Aid	8	–	–	735	–
Non-operating income and receipts not classified as Appropriations in Aid	5(c)	–	–	331	331
Other amounts collectable on behalf of the Consolidated Fund		–	–	–	–
<b>Total income payable to the Consolidated Fund</b>		<b>–</b>	<b>–</b>	<b>1,066</b>	<b>331</b>

##### 5(b) Reconciliation of income recorded within the Statement of Comprehensive Net Expenditure to operating income payable to the Consolidated Fund

	Note	2010-11 £000	2009-10 £000
Operating income	8	20,235	19,896
Income authorised to be appropriated in aid	2	19,500	19,896
Operating income and receipts – excess Appropriations in Aid		<b>735</b>	–

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

2010-11 £000	2009-10 £000
-----------------	-----------------

<b>331</b>	33
------------	----

£50,000 is payable to the Consolidated Fund from sale proceeds following disposal of fixed assets.

£281,000 is payable to the Consolidated Fund from a cash discount provided by a supplier for prior years.

**6 Staff numbers and related costs***6(a) Staff costs comprise:*

	Total £000	2010-11 Permanent staff £000	Others £000	2009-10 Total £000
Wages and salaries	44,674	44,048	626	44,990
Social security costs	3,777	3,777	–	3,796
Other pension costs	8,981	8,981	–	8,984
<b>Sub Total</b>	<b>57,432</b>	<b>56,806</b>	<b>626</b>	57,770
Less recoveries received in respect of outward secondments	(743)	(743)	–	(524)
<b>Total net costs</b>	<b>56,689</b>	<b>56,063</b>	<b>626</b>	57,246

**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-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)).

Employer's contributions of £8,964,370 were paid to the PCSPS during 2010-11 (2009-10: £8,940,023) at one of four rates in the range 16.7 per cent to 24.3 per cent (2009-10: 16.7 to 24.3 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 £14,635 (2009-10: £25,791) 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 (2009-10: 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 £2,469, 0.8 per cent of pensionable pay (2009-10: £2,484; 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 31 March 2011.

*6(c) Average number of persons employed*

The average number of whole time equivalent persons employed (including senior management) during the period was 871 (2009-10: 908).

*6(d) Reporting of Civil Service and other compensation schemes – exit packages*

Exit package cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
< £10,000	0 (0)	2 (0)	2 (0)
£10,000 – £25,000	0 (1)	2 (1)	2 (2)
£25,001 – £50,000	0 (1)	4 (1)	4 (2)
£50,001 – £100,000	0 (0)	8 (0)	8 (0)
£100,001 – £150,000	0 (0)	8 (3)	8 (3)
£150,001 – £200,000	0 (0)	4 (1)	4 (1)
£200,001 – £250,000	0 (1)	3 (0)	3 (1)
£250,000 +	0 (2)	2 (0)	2 (2)
Total number of exit packages by type	0 (5)	33 (6)	33 (11)
<b>Total resource cost £000</b>	<b>0 (1,410)</b>	<b>3,558 (629)</b>	<b>3,558 (2,039)</b>

*Figures in brackets are prior year comparatives.*

Redundancy and other departure costs have been accounted for in accordance with the provisions of the Civil Service Compensation Scheme (CSCS), a statutory scheme made under the Superannuation Act 1972. Where the National Audit Office has agreed early retirements, the additional costs are met by the Office and not by the Civil Service pension scheme. Ill-health retirements costs are met by the pension scheme and are not included in the table.

Under the terms of the CSCS, staff who are over the age of 50 depart on early retirement and the costs are included in Note 15. Staff under the age of 50 depart on early severance, and receive a single compensation payment which is included in Note 7, Other Administration Costs.

## 7 Other administration costs

		2010-11		2009-10
		£000	£000	£000 Restated
				£000 Restated
<b>Audit and other assurance services:</b>				
Professional services bought in		13,678		17,553
Travel, subsistence, hospitality		3,062		3,403
Accommodation		3,754		1,765
Office supplies and equipment		3,100		3,388
Recruitment and training		2,057		2,079
Staff related costs		854		776
International work		560		558
Operating lease		249		205
Other administration costs		589		1,194
Consolidated Fund Standing Services (Comptroller and Auditor General's salary)		235		227
United Nations Board of Auditors Work <sup>1</sup>		213		–
Remuneration to external auditors for other work		102		105
External auditor's fee		65		78
			28,518	31,331
<b>Repair and refurbishment of the headquarters building:</b>				
Refurbishment costs		–		16,201
<b>Temporary office accommodation:</b>				
Temporary accommodation costs		–		5,912
			–	22,113
			28,518	53,444
<b>Non cash items:</b>				
	Note			
Early departure and restructuring costs provided for in year	15	2,978		1,547
Depreciation and amortisation	10,11	3,336		1,991
Loss on disposal of property, plant and equipment		218		44
			6,532	3,582
		<b>35,050</b>		<b>57,026</b>

1 Costs for this work are monitored separately and comprise other staff costs, accommodation and professional services.

## 8 Income

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

	Resource Outturn		2010-11 Statement of Comprehensive Net Expenditure	
	Netted off gross expenditure	Appropriated in Aid	Payable Consolidated Fund	Income included in Statement of Comprehensive Net Expenditure
	£000	£000	£000	£000
<b>Appropriated in Aid</b>				
Audit Fees – UK	–	14,632	735	15,367
Audit Fees – International	–	695	–	695
International Technical Cooperation	–	1,681	–	1,681
Secondment	–	743	–	743
Other income	–	336	–	336
United Nations Board of Auditors	–	1,180	–	1,180
Rental of office space	–	233	–	233
<b>Total income</b>	<b>–</b>	<b>19,500</b>	<b>735</b>	<b>20,235</b>

	Resource Outturn		2009-10 Statement of Comprehensive Net Expenditure	
	Netted off gross expenditure	Appropriated in Aid	Payable Consolidated Fund	Income included in Statement of Comprehensive Net Expenditure
	£000	£000	£000	£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	–	524	–	524
Other income	–	899	–	899
United Nations Board of Auditors	–	–	–	–
Rental of office space	–	–	–	–
<b>Total income</b>	<b>–</b>	<b>19,896</b>	<b>–</b>	<b>19,896</b>

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

	2010-11		
	Income £000	Expenditure £000	Surplus/ (deficit) £000
Audit Fees – UK	14,632	14,785	(153)
Audit Fees – International	695	695	–
International Technical Cooperation	1,681	1,681	–
Secondment	743	743	–
United Nations Board of Auditors	1,180	1,057	123
Rental of office space	233	233	–
Other income	336	336	–
<b>Total</b>	<b>19,500</b>	<b>19,530</b>	<b>(30)</b>

	2009-10		
	Income £000	Expenditure £000	Surplus/ (deficit) £000
Audit Fees – UK	15,355	16,326	(971)
Audit Fees – International	950	879	71
International Technical Cooperation	2,168	1,897	271
Secondment	524	524	–
United Nations Board of Auditors	–	–	–
Rental of office space	–	–	–
Other income	899	893	6
<b>Total</b>	<b>19,896</b>	<b>20,519</b>	<b>(623)</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 but has made significant progress to bring revenue and expenditure back into balance.

For the United Nations Board of Auditors work, the Office will recover (over 6 years) its total costs plus an additional contribution set at 25 per cent of staff costs. As the contract is denominated in United States Dollars, the Office is actively monitoring the US Dollar/Sterling rate to manage costs associated with fluctuations in this exchange rate.

The Office sub-let two sections of its London Headquarters building in 2010. Tenants are charged an agreed rental amount based on the space they occupy and a separate annual service charge to recover the additional costs borne by the Office.

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

## 9 National Audit Office operating segments

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

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

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

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

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

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



## 9 National Audit Office operating segments (cont.)

				2009-10		
	Financial Audit £000	Value for Money £000	Performance Improvement £000	Support to Parliament, the Public and other organisations £000	Comptroller Function £000	Total £000
Gross Expenditure	49,041	21,226	11,723	10,512	181	<b>92,683</b>
Income	(16,305)	–	(899)	(2,692)	–	<b>(19,896)</b>
<b>Net Expenditure</b>	<b>32,736</b>	<b>21,226</b>	<b>10,824</b>	<b>7,820</b>	<b>181</b>	<b>72,787</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>32,736</b>	<b>21,226</b>	<b>10,824</b>	<b>7,820</b>	<b>181</b>	<b>94,900</b>

## 10 Property, plant and equipment

	Long Leasehold Land & Buildings £000	Plant & Machinery £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 2010	55,488	16,750	4,571	2,893	–	–	79,702
Additions	–	–	512	147	–	–	659
Disposals	–	–	(1,608)	(55)	–	–	(1,663)
Reclassification	–	–	–	–	–	–	–
Revaluation	2,717	–	–	–	–	–	2,717
<b>At 31 March 2011</b>	<b>58,205</b>	<b>16,750</b>	<b>3,475</b>	<b>2,985</b>	<b>–</b>	<b>–</b>	<b>81,415</b>
Depreciation							
At 1 April 2010	–	238	2,497	297	–	–	3,032
Charged in year	544	717	934	297	–	–	2,492
Disposals	–	–	(1,467)	(15)	–	–	(1,482)
Reclassification	–	–	–	–	–	–	–
Revaluation	(544)	–	–	–	–	–	(544)
<b>At 31 March 2011</b>	<b>–</b>	<b>955</b>	<b>1,964</b>	<b>579</b>	<b>–</b>	<b>–</b>	<b>3,498</b>
Net Book Value							
<b>at 31 March 2011</b>	<b>58,205</b>	<b>15,795</b>	<b>1,511</b>	<b>2,406</b>	<b>–</b>	<b>–</b>	<b>77,917</b>
at 31 March 2010	55,488	16,512	2,074	2,596	–	–	76,670

The National Audit Office owns all its physical assets and has no finance leases or PFI contract. The long lease of the land and buildings for the headquarters office is at a peppercorn rent.

### Notes:

The FReM requires measurement at fair value for existing use. Drivers Jonas Deloitte (independent property consultants and surveyors and a member of RICS) valued the land and buildings and plant and machinery at £74,000,000 as at 31 March 2011 (31 March 2010: £72,000,000). This was on an existing use basis for parts occupied by the National Audit Office and at open market value for the parts occupied by tenants. Drivers Jonas Deloitte assessed existing use value to be the same as market value. The element relating to land and buildings was £58,205,000.

The net effect of the revaluation was accounted for through the revaluation reserve.

## 10 Property, plant and equipment (cont.)

### 2009-10:

	Long Leasehold Land & Buildings £000	Plant & Machinery £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 2009	–	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

## 11 Intangible assets

Intangible assets are software licences and the associated implementation costs.

	Total £000
<b>Cost</b>	
At 1 April 2010	4,375
Additions	686
Disposals	(658)
Reclassification from property, plant and equipment	–
<b>At 31 March 2011</b>	<b>4,403</b>
<b>Amortisation</b>	
At 1 April 2010	2,848
Charged in year	844
Disposals	(575)
Reclassification	–
<b>At 31 March 2011</b>	<b>3,117</b>
Net Book Value	
<b>at 31 March 2011</b>	<b>1,286</b>
at 31 March 2010	1,527

The National Audit Office does not have any intangible assets under a finance lease.

### 2009-10:

	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>Amortisation</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>
Net Book Value	
<b>at 31 March 2010</b>	<b>1,527</b>
at 31 March 2009	1,204

## 12 Trade receivables and other current assets

	2010-11 £000	2009-10 £000
<b>Amounts falling due within one year:</b>		
Trade receivables	846	1,023
Accrued income	7,652	7,317
Deposits and advances	414	404
Other receivables	763	774
Prepayments	786	1,002
	<b>10,461</b>	<b>10,520</b>
<b>Amounts falling due after more than one year:</b>		
Deposits and advances	424	509
Other receivables	92	–
<b>Total</b>	<b>10,977</b>	<b>11,029</b>

There is £735,000 (2009-10: Nil) in excess Appropriations in Aid that will be paid to the Consolidated Fund once the accrued income is invoiced and the debt collected (see Note 14).

Other receivable amounts due after more than one year relate to lease incentives offered to tenants.

## 13 Cash and cash equivalents

	2010-11 £000	2009-10 £000
Balance at 1 April 2010	166	183
Net change in cash and cash equivalent balances	84	(17)
<b>Balance at 31 March 2011</b>	<b>250</b>	<b>166</b>
The following balances were held at:		
Government Banking Service	222	–
Office of Paymaster General	–	156
Commercial banks and cash in hand	28	10
<b>Balance at 31 March 2011</b>	<b>250</b>	<b>166</b>

The Government Banking Service replaced the Office of Paymaster General in May 2010. All services were transferred to the Government Banking Service by the end of May 2010 and remaining Office of Paymaster General accounts were closed in October 2010.

## 14 Trade payables and other current liabilities

	2010-11 £000	2009-10 £000
<b>Amounts falling due within one year:</b>		
Trade payables	74	10
Other payables	382	299
Accruals and deferred income	4,342	4,516
United Nations Board of Auditors payments received on account	253	–
Other payments received on account	81	208
	<b>5,132</b>	<b>5,033</b>
Amounts issued from the Consolidated Fund for supply but not spent at year end	250	142
Consolidated Fund Extra Receipts received and due to be paid to the Consolidated Fund	–	24
Excess A-in-A receivable due to be paid to the Consolidated Fund	735	–
<b>Total</b>	<b>6,117</b>	<b>5,199</b>

## 15 Provisions for liabilities and charges

	£000	£000
Balance at 1 April 2010		3,482
Provided in the year	3,108	
Provisions not required written back	(125)	
Change in discount rate	(44)	
Unwinding of discounts	39	
		<b>2,978</b>
Provisions utilised in the period		(1,193)
<b>Balance at 31 March 2011</b>		<b>5,267</b>

### Analysis of expected timing of discounted flows

	£000	£000
Payable within one year	1,928	
Payable within 2 to 5 years	2,758	
Payable in more than 5 years	581	
<b>Balance at 31 March 2011</b>		<b>5,267</b>

Provisions for liabilities and charges relate mainly to early departure costs. The net increase of £1.785 million was due to the new voluntary redundancy programme offered by the National Audit Office late in 2010. This programme will generate savings for the Office in the longer term.

## 16 Capital commitments

The National Audit Office had no capital commitments at 31 March 2011 (2009-10: Nil).

## 17 Commitments under leases

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

	2010-11 £000	2009-10 £000
Obligations under operating leases comprise:		
Land and buildings:		
Payable within one year	182	182
Payable within 2 to 5 years	278	460
Payable in more than 5 years	–	–
<b>Total</b>	<b>460</b>	<b>642</b>

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

	2010-11 £000	2009-10 £000
Future income due under non-cancellable operating leases:		
Land and buildings:		
Receivable within one year	376	–
Receivable within 2 to 5 years	1,374	–
Receivable in more than 5 years	267	–
<b>Total</b>	<b>2,017</b>	<b>–</b>

In 2010 the National Audit Office entered into two lease arrangements for part of the headquarters building. The balance above reflects the cash payments expected over the remaining non-cancellable term of each lease. A separate service charge will also be levied (and is included in rental income in Note 8) to cover the cost of utilities and other facilities costs borne by the National Audit Office. This charge is not included within the figures above as it varies annually.

## 18 Other financial commitments

The National Audit Office had no other financial commitments at 31 March 2011 (2009-10: Nil).

## 19 Financial Instruments

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

### Liquidity Risk

The National Audit Office's net revenue resource requirements are financed by resources voted annually by Parliament, as is its capital expenditure. The Office is 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 United States Dollars or Euros. Before pricing or commissioning work the National Audit Office seeks to identify the potential exposure to exchange rate variations and to manage the risk accordingly.

## 20 Contingent Assets and liabilities

The National Audit Office had no contingent liabilities at 31 March 2011 (2009-10: Nil).

Under a framework agreement the National Audit Office is contractually entitled to a discount on the services provided by KPMG. This discount is a percentage applied to all fees relating to audits conducted on behalf of the Comptroller and Auditor General in a financial year. As the discount rate varies depending on the total fees paid in a year, it cannot be reliably estimated at year end, but reflects a contingent asset for the National Audit Office (2009-10: Nil).

## 21 Losses and Special Payments

No losses and special payments that required separate disclosure because of their nature or amount were incurred (2009-10: Nil).

## 22 Related Party transactions

The National Audit Office is headed by the Comptroller and Auditor General and was established by the National Audit Act 1983. The Office is independent of Government and is accountable to Parliament through the Public Accounts Commission. The National Audit Office had transactions with Government Departments and central Government bodies, for the provision of accommodation, training courses and the hosting of seminars. Some of these transactions have been with entities 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 Council for Healthcare and Regulatory Excellence, a central government body audited by the National Audit Office, occupied a part of the National Audit Office's headquarters building from October 2010. Under the terms of the lease arrangement, rental income of £111,468 was earned in the year to 31 March 2011.

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, carries out an independent review of the financial audit practice of the National Audit Office. In the year to 31 March 2011 payments made to the Financial Reporting Council in respect of these consultancy services amounted to £183,500.

Martin Sinclair is a member of Chartered Institute for Public Finance and Accountancy's Council (CIPFA). The National Audit Office pays professional subscriptions on behalf of staff to this organisation. In 2010, the National Audit Office also entered into a memorandum of understanding with CIPFA in relation to work on the United Nation's Board of Auditors to provide consultancy services. In total £45,790 was paid to CIPFA for all services.

## 23 Events after the reporting period

There were no reportable events at the end of the reporting period.



## STATEMENT OF NATIONAL AUDIT OFFICE FINANCIAL IMPACT FOR 2010

The statement of financial impacts represents the National Audit Office's estimate of the financial benefits achieved in 2010 following implementation of the Office's recommendations. Financial impacts arise where there is a direct link between our work and a beneficial change in an audited body. Financial impacts must be either cashable, reducing expenditure or increasing revenue through improved efficiency or effectiveness; non-cashable, leading to improvements in public sector efficiency through improved quality or service delivery; or represent benefits to third parties.

We record an impact only when the related benefit has been brought about, we have data to substantiate the benefit, and the audited body gives its agreement. For this reason, there is usually a time lag between our recommendations and the impact being recorded. 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, we agree a proportion of an overall financial impact with the audited body, based on an assessment of the likely level of influence of our work.

The statement of impacts 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 endorses all of the impacts. The NAO reports impacts on a calendar year basis, and has adopted the following principles:

### Principles for recording impacts

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

**Realisation** – Impacts must have been realised within, or before, the calendar year in which they are reported.

**Valuation** – Reliable evidence and/or data supports claims and implementation costs are acknowledged. There must be a robust methodology to value the impact.

**Attribution** – The proportion of impact claimed should reflect the NAO's degree of contribution to the benefit realised.

**Validation** – All impact claims need to be validated by the audited body concerned (at sufficiently senior level) and approved internally.

## 2010 NAO IMPACTS VALUED AT OVER £5 MILLION

	Impact identified (£ million)	Nature of impact (one-off/recurring)	Year of claim	Audited body 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	301	Recurring	3 of 5	HM Revenue and Customs	2006-07
<b>Central government's office property</b> Reduction in the annual cost of the office estate	292	Recurring	1 of 3	Cabinet Office (Efficiency and Reform Group)	2006-07 to 2008-09
<b>Prescribing costs in primary care</b> Savings arising from more cost-effective prescribing of drugs	166	Recurring	3 of 3	Department of Health	2006-07
<b>The sale of British Energy</b> Increased revenue from staging the disposal	70	One-off	1 of 1	Shareholder Executive	1997-98
<b>Department for International Development: engaging with multilaterals</b> More effective allocation of development resources	44	Recurring	2 of 3	Department for International Development	2005-06
<b>Improving procurement in further education colleges in England</b> More cost-effective procurement	41	Recurring	2 of 3	Department for Business, Innovation and Skills	2006-07
<b>European Social Fund Statutory Audit</b> Monies transferred to the UK Exchequer resulting from a correction of erroneous EU balances	40	One-off	1 of 1	Department for Work and Pensions	2009-10
<b>British Transport Police Fund</b> Recovery of unused capital grants accumulated over five years	16	One off	1	Department for Transport	2009-10

	Impact identified (£ million)	Nature of impact (one-off/recurring)	Year of claim	Audited body with whom impact agreed	Year of original work
<b>A safer place to work: protecting NHS hospital and ambulance staff from violence and aggression</b> Reducing violence against NHS staff	15	Recurring	3 of 3	Department of Health	2002-03
<b>Extending access to learning through technology: Ufi and the learndirect service</b> Reduction in delivery chain costs	9	Recurring	5 of 5	Department for Business, Innovation and Skills	2005-06
<b>Inland Revenue: inheritance tax</b> Better use of existing statistical data in risk assessing estates	7	Recurring	4 of 5	HM Revenue and Customs	2004-05
<b>HMRC: Helping individuals understand and complete their tax forms</b> Savings arising from a reduction in unnecessary customer contact	5	Recurring	1 of 5	HM Revenue and Customs	2006-07
<b>Criminal Injuries Compensation Authority: TM follow-up</b> Savings resulting from improvements to the processing and management of compensation applications	5	One-off	1 of 1	Ministry of Justice	2007-08
<b>Sub total</b>	<b>1,011</b>				
Impacts below £5 million	29				
<b>Total financial impacts</b>	<b>1,040</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 2010.

### **Respective responsibility of the Accounting Officer and the Auditors**

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

### **Basis of validation work**

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

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

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

### **Opinion**

In our opinion:

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

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23 May 2011

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