



National Audit Office

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# Annual Report 2012

The National Audit Office scrutinises public spending for Parliament and is independent of government. The Comptroller and Auditor General (C&AG), Amyas Morse, is an Officer of the House of Commons and leads the NAO, which employs some 860 staff. The C&AG certifies the accounts of all government departments and many other public sector bodies. He has statutory authority to examine and report to Parliament on whether departments and the bodies they fund have used their resources efficiently, effectively, and with economy. Our studies evaluate the value for money of public spending, nationally and locally. Our recommendations and reports on good practice help government improve public services, and our work led to audited savings of more than £1 billion in 2011.



National Audit Office

# Contents

**Introduction 5**

**Foreword 7**

**About the NAO 8**

**Our work 12**

**1 Financial audit 12**

**2 Value for money 14**

**3 Performance improvement 15**

**4 Parliament 18**

**5 International 19**

**Our stakeholders 20**

**Parliament 20**

**Audited bodies 21**

**New areas of work 21**

**Monitoring performance 22**

**Achieving impact 23**

**Our staff 28**

**Our resources 29**

**Governance 30**

**Our Board and Executive Leadership Team 32**

**Statutory Annual Report and Accounts 2011-12 34**

**Statement of National Audit Office financial  
impact for 2011 95**

**Contact us 99**



# Introduction



“Challenging” is often a ‘Yes Minister’ – style euphemism for very difficult indeed and it is not an exaggeration to say that the public sector is facing challenging times. So as public bodies have grappled with the challenges, the NAO has sought to help by focusing attention on the key issues that underpin effective management, implementation and delivery.

This help extends beyond our auditing and value for money work. For example, the NAO has supported departments through the increased effectiveness of audit committees in their role of evaluating financial information. It has supported Parliamentary Select Committees – Departmental as well as the Public Accounts Committee – in their oversight role. At the same time there has been focus on enhancement as well as restraint. The NAO has been proud to have been involved in the first audited set of accounts for the whole of government, giving policymakers new insights and greater assurance than has been available in the past.

The NAO itself has reflected the stringency of public sector spending by cutting its own resources, while seeking to ensure that this does not affect the quality of its work. This means working more efficiently and effectively.

The Budget Responsibility and National Audit Act 2011, which came into force on 1 April 2012, has placed the NAO’s own governance arrangements on a statutory footing. The NAO will also take on new responsibilities over the coming year, auditing organisations in the reformed financial regulatory system, Probation Trusts, and in developing local government work.

The Board has been active in providing guidance and direction to achieve the NAO’s own goals, despite cuts to its resources. It will be working to ensure that the NAO’s new roles, as well as its existing responsibilities, are delivered to a high standard. I am very grateful to Board colleagues for their unwavering commitment to what is best for and in the public sector.

**Professor Sir Andrew Likierman**

**Chairman  
National Audit Office**



# Foreword



Over the past year, the NAO has continued to provide Parliament with high quality insight to help them hold government to account for the management of public funds.

We have also supported the bodies we audit as they have faced great demands over the year. The necessity of cost reduction in most areas of public policy has driven urgent change, often encouraging departments to redesign service delivery both to cut costs and to reflect the coalition government's focus on localism, transparency and the greater involvement of the voluntary and private sectors.

There have been audit challenges for our clients too, with an important milestone in financial transparency achieved through the publication of the first audited set of accounts for the whole of government.

Throughout our work with government this year, the NAO has promoted robust financial management and the effective use of public funds. We have identified areas of risk both in individual programmes and across departments where systemic issues must be tackled in order for value for money to improve. Our increased focus on projects in their initial stages has enabled us to provide early warning of risks to public money.

Our work has helped improve financial management and led to more efficient and effective public services, saving the taxpayer in excess of £1 billion in 2011. This annual report describes our recent impacts in more detail. I am proud of these achievements.

But there is much more to do. The challenges to the bodies we audit have only just begun: their funding position will be just as demanding in the coming years, and expectations of their services will inevitably climb. We must therefore continue to provide high quality support and highlight best practice to individual public bodies through our client teams, and insightful analysis to the public sector as a whole through our cross-cutting work, to help drive improvements in public services and to deliver value for money. This will be particularly important as we take on additional responsibilities over the coming year.

We must also practise what we preach ourselves. This report shows how, in 2011-12, we reduced our costs, improved our productivity and invested in our people and our systems to continue to improve the value of our work. We are an energetic, ambitious organisation driven by our desire to be independent, authoritative, collaborative and fair in all we do. I am confident that we will demonstrate these values over the coming year as our unique public audit perspective keeps driving improvements in public services.

**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.**

## The NAO

The National Audit Office (NAO) helps Parliament to hold the government to account for the way that public money is spent. Our work also helps bodies across the public sector to improve public services. We are totally independent of government.

## The Comptroller and Auditor General

The head of the NAO, the Comptroller and Auditor General (C&AG), is an Officer of the House of Commons, and a Crown appointee. He reports the findings of the NAO's work to Parliament.

## Our work

### Financial Audit

We audit the financial statements of all central government departments, agencies and other public bodies and report the results of this work to Parliament.

### Value for money audit

In 2011-12, we published 60 reports on whether government has achieved value for money in the way it has used public funds. Our reports provide recommendations on how services can be improved.

### Performance improvement

We carry out in-depth analysis of systemic issues that we identify across public services. This work is focused on the strategic themes that we identified in 2009 as areas where departments need to improve: financial management, cost-effective delivery, and the use of information in government.

## International

We carry out some work overseas, auditing multilateral international organisations and working with colleagues from other National or State Audit Institutions to develop global standards in public sector audit and accountancy.

## Our stakeholders

### Parliament

Our key stakeholder is Parliament. The Committee of Public Accounts (PAC) draws on our value-for-money studies and financial audit work to inform its hearings. The Committee publishes its own reports based on evidence from its hearings and our reports. We also support parliamentary scrutiny of government through our work for other select committees.

### Audited bodies

We develop effective relationships with the bodies we audit, from large central government departments to smaller public bodies that carry out specialist functions, as well as some international bodies. Across all these organisations we provide professional external audit services which contribute to the development of effective financial management and governance. We charge no fees of central government departments, their executive agencies and some other public bodies.

### New areas of work

During 2011-12, we began to prepare for new responsibilities by building our knowledge and capacity in areas such as probation trusts, financial regulatory bodies and local government.

## Our organisation

The NAO budget is set by Parliament. The Public Accounts Commission, a House of Commons Committee, scrutinises our performance, examines our budget proposals, and appoints our external auditors.

Our staff are predominantly professionally qualified accountants, or working towards an accountancy qualification. They, along with staff trained and qualified in statistics, economics, business analysis, Information and Communication Technology (ICT) and other relevant disciplines, deliver both our core audit and wider work aimed at driving improvement across government.

## Our strategy

Our strategy for 2012-13 to 2014-15 was approved by The Public Accounts Commission in December 2011. It sets out the way we intend to achieve our three objectives; to:

- a** be a high-performing organisation that consistently demonstrates leading edge competencies in our 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 improvement across public services.

## Performance

**458** The number of accounts we audited

**60** The number of major value-for-money reports we published for Parliament

**16:1** Our recommendations generated savings of £1.1 billion in 2011, £16 for every £1 it costs to run the NAO

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

The distribution of NAO resources in 2011-12

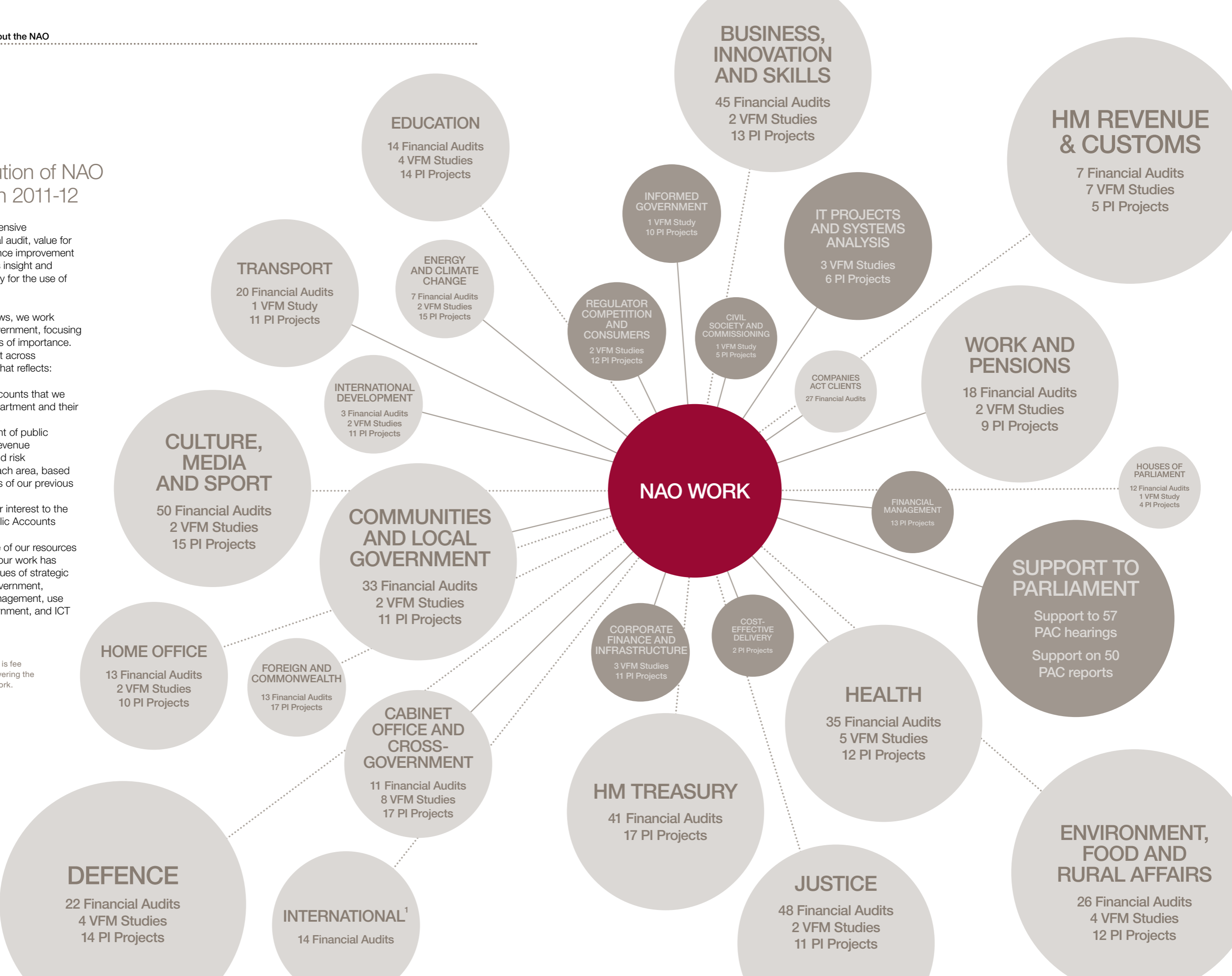
We deliver a comprehensive programme of financial audit, value for money, and performance improvement (PI) work that provides insight and supports accountability for the use of public funds.

As this illustration shows, we work across all areas of government, focusing our resources on areas of importance. We distribute our effort across government in a way that reflects:

- The number of accounts that we audit for each department and their associated bodies
- The relative amount of public expenditure and revenue
- The complexity and risk associated with each area, based on the conclusions of our previous audit work
- Issues of particular interest to the Committee of Public Accounts

We also commit some of our resources to those areas where our work has identified particular issues of strategic importance across government, including financial management, use of information in government, and ICT systems analysis.

1 Our international work is fee generating, largely covering the costs of this area of work.



# Our work

We have five dimensions to our work

## 1

### Financial audit

**We are the statutory auditors of central government. Our professionally qualified staff and expertise in accounting for public money enables us to deliver high quality financial statement audit across government and other public bodies.**



In 2011-12, we audited 458 accounts across organisations whose expenditure and revenue accounted for over £1 trillion. Our audit provides independent assurance to Parliament on how public money has been spent, how income and taxation has been raised, and the assets and liabilities of the organisations that we audit.

Our financial audit work helps Parliament to hold organisations to account. Our recommendations focus attention and stimulate improvement in governance and control, enhancing financial management and the quality of information that public bodies use to make decisions. Improvements in these areas of management will help public bodies to deliver cost-effective services as they make difficult financial decisions over the coming years.

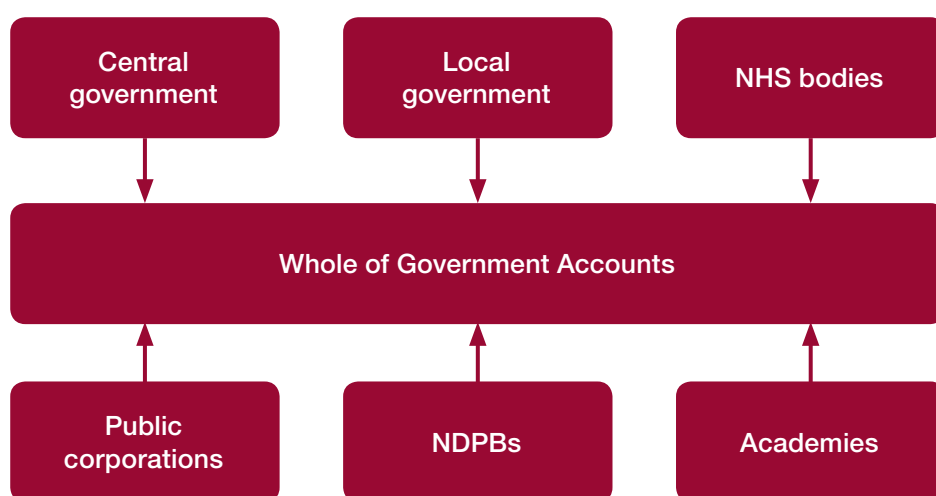
We conducted our financial audit work in 325 individual organisations during 2011-12, ranging from large central government departments to smaller arm's-length bodies. The breadth of our work gives us a unique perspective on public finance, and the insight that we gain enables us to comment on issues relevant to financial management across the public sector.

We inform the organisations we audit of the issues we find during our work, giving our independent view on areas where the audited body could improve its governance, controls and financial management. We conduct our financial audit work in accordance with International Standards on Auditing and professional best practice. It is delivered by staff who are qualified members of professional accountancy bodies or in training to become so. The quality of our work is subject to external review by the Audit Inspection Unit of the UK Professional Oversight Board.

In November 2011, HM Treasury published the first audited Whole of Government Accounts (WGA), covering the 2009-10 financial year. This showed, for the first time in a single document, the financial position of most of the public sector, providing a comprehensive account of the UK government's income, expenditure, assets and liabilities.

This is a milestone in the transparent reporting of public finances and the government's accountability for them. WGA consolidates financial information produced across the public sector and provides the means by which Parliament and the public can carry out greater scrutiny of public finances than has ever been possible in the past.

Our work on this first WGA built on the engagement we had with government as they prepared dry-run accounts in each of the seven years leading up to this first live audit. This has been significant commitment for us, but it allowed us to share our emerging findings with government as they prepared the account formally for the first time.



Our November 2011 report highlighted a number of improvements that would help the WGA become an even more effective means of holding government to account. For example, we recommended that the accounts include certain bodies that have so far been omitted from the WGA (the Bank of England, the newly acquired wholly-owned banks, and Network Rail), we also recommended aligning accounting treatments across the public sector, and highlighted the need to ensure that the accounts of bodies included in the WGA are all robust.

Our report on WGA was considered by the Committee of Public Accounts in December 2011 and, in their subsequent report, they encouraged the government to make better use of the WGA to identify and address risks to public finances. Over the coming years, we will work with government to develop WGA to help improve the financial management of the UK government sector and to inform long-term government decision-making.

### Helping to improve financial oversight

The NAO's 2010-11 financial audit work on the accounts of the Department for Work and Pensions has highlighted areas where the Department could improve its controls over payroll. We found, for example, that the Department had continued to pay a small number of staff after they had left the organisation. In previous years we found that some staff had been underpaying their pension contributions. The Department has recovered all amounts we identified as overpaid and has responded positively to our findings by developing improved monitoring systems and processes which should help to reduce future overpayments. The Department has pursued all amounts identified as overpaid and has sought to increase the level of compliance of line managers with the leaver's process. Through these and other measures, financial oversight at the Department is improving.

**Our financial audit work cost £51.3 million in 2011-12.**

## 2

## Value for money

**We produce value-for-money studies that examine how public funds are used. Our reports provide independent assurance to Parliament and to taxpayers on whether value for money is being achieved and make recommendations for improvement.**



In 2011-12, we published 60 major reports which examined spending across the public sector. The Committee of Public Accounts held 57 hearings based on our work. We delivered 82 per cent of our studies within nine months, exceeding our target of 70 per cent.

Our value-for-money reports consider the efficiency and effectiveness of government departments and other public bodies and of the projects and programmes that they operate. Our reports consider important issues that impact on delivery, such as how government uses information to make decisions. We select topics for study following an analysis of risks to value for money across government. We also look at topics of concern to Parliament's Committee of Public Accounts. We determine whether the use of public resources represented value for money and make recommendations for improvement.

Previous NAO reports have had positive impact in government. Our various reports on high-risk projects, for example, helped government to identify how to improve its management of substantial areas of expenditure. Many departments have also implemented changes to particular services that have saved money following recommendations from the NAO and the Committee of Public Accounts.

We can respond quickly to emerging issues through our programme of studies. In autumn 2011, we examined at short notice the value for money being achieved by the Care Quality Commission. Our report provided insight for Parliament and the Department of Health, and contributed to shaping a significant improvement programme within the organisation.

Our study programme also increasingly examines cross-cutting issues being tackled across the public sector including, in 2011-12, topics such as the progress in implementing shared service centres across government and the management of early departures by departments.

In 2011-12, we also published reports on the major reforms taking place across public services, highlighting early lessons and potential risks that departments will need to manage in order to achieve value for money. In January 2012, for example, we reported on the introduction of the Work Programme less than a year after the government began work on implementing the policy. We will continue to publish reports on the early stages of reform and policy implementation over the coming years.

A full list of our major publications in 2011-12 can be found on our website available at: [www.nao.org.uk/publications.aspx](http://www.nao.org.uk/publications.aspx)

**Our value for money work cost £19.7 million in 2011-12.**



## 3

## Performance improvement



### Value for money in the UK Border Agency's points based immigration system

Our March 2011 report on the management of visa applications to work in the UK pointed out that many applications were being returned to applicants because of minor errors and that policy was being applied inconsistently. Following the recommendations in our and the PAC's reports, the Agency took steps to ensure that its staff took a consistent and proactive approach to correcting minor errors and omissions from applications. The Agency circulated revised instructions to ensure that a consistent approach to decision-making is adopted across all the case working units in the UK and overseas. This will produce a fairer system for applicants and lead to savings by reducing the bureaucracy associated with multiple applications from single applicants.

**We use our knowledge and experience to work with organisations across the public sector to promote and drive lasting improvement in the performance of public services.**

In addition to the financial and value-for-money audits that we carry out under statute, we also undertake a range of work to help improve government performance. Since 2009, we have focused this work on three strategic themes: financial management, cost-effective delivery and informed government. We consider that these are areas where departments need to make improvements and where we have expertise to offer.

Our performance improvement work enables us to respond quickly to important issues that public bodies currently face. In 2011-12, for example, we worked with government in areas such as the effective use of ICT and improved risk management arrangements.

### Performance improvement: our strategic themes

The strategic themes we identified in 2009 were restated in our strategy for the period to 2014-15. We seek to:

- promote **informed government**, helping government to do more to base its decision-making on reliable, comprehensive and comparable information;
- improve the allocation and control of public money through more **robust financial management**; and
- focus attention on **cost-effective delivery**, helping departments to understand better the key elements in the delivery cycle and what they cost.

The following pages highlight some of the performance improvement work that we have carried out in 2011-12 in the area of our three strategic themes.

Our performance improvement programme enables us to spread the learning and good practice demonstrated by some public sector bodies to others, thereby helping to build lasting improvements in public services.

In addition to performance improvement work focused on our strategic themes, we commit resource to tackling other strategically important issues across government. In 2011-12, we focused on three issues relevant to many public sector bodies:

- **Cost reduction.** We developed a methodology to assess cost reduction across government. During 2011-12, we used this methodology to deliver value-for-money reports on cost reduction within individual departments and, in February 2012, we produced a summary of progress to date across government. We highlighted good practice and areas where departments should focus attention in future in order to sustain cost reductions for the longer term.
- **The use of ICT across government.** ICT is at the centre of the government reform agenda. We have responded by increasing our focus on government IT and taken steps to improve our capacity to audit ICT, developing an assessment framework that can be used across the organisations we audit.
- **Accountability for public spending.** As public policy is increasingly delivered by a wider range of bodies, many of whom are more localised, it is important that accountability for public spending is not diluted. We have worked closely with the Committee of Public Accounts and with departments to specify the fundamentals of a robust accountability system.



### NAO contributes to improvements in guidance on option appraisal across government

Our May 2011 review of option appraisal examined decision-making across government. We analysed over 50 impact assessments and business cases from a range of departments and conducted surveys and interviews with over 100 economists, policy and finance staff. Our review found that good guidance was available to inform decision-making across government but that there were areas where improvements could be made, such as in strengthening the scrutiny and challenge of business cases across departments. The recommendations made in our review have been used by the Treasury and Better Regulation Executive to update their guidance on option appraisal.

**Our performance improvement work cost £7.7 million in 2011-12.**

## Work across our strategic themes 2011-12

### Financial management

In 2011-12, we published three further reports in our series of departmental financial management reviews. We identified areas of good practice and highlighted where improvements could be made in order to achieve greater value for money. In 2012-13, we will continue this programme of work. We will also develop a comprehensive picture of what good public sector financial performance looks like and assess departments' ability to understand and analyse costs.

In 2011-12, we also examined risk management across government. We published a principles-based, good practice guide to help organisations move their risk management arrangements from a process-led approach to one which supports the efficient and effective delivery of services. We engaged with departments through HM Treasury's Risk Improvement Group to discuss how better risk management can help maintain high quality services in a time of cost reduction.

In 2012-13, building on the new governance statements, we will assess risk management across government and we will report on the effectiveness of internal audit in central government.

### Informed government

In 2011-12, we examined the quality of data that informs organisational performance and board reports across government. We highlighted the importance of good quality data to support decision-making and scrutiny.

Although elements of good performance assessment and reporting were in place across the organisations we looked at, our report highlighted better integration of financial and performance information, and better analysis of information to support management decisions, as factors important to achieving better value for money.

In 2011-12, we also looked at formula funding across government, examining the complexities of the three formulae that one fifth of all government spending is allocated by. Our report concluded that more could be done to promote transparency and accountability in allocating and scrutinising this funding.

In 2012-13, we will assess departments' information capability, providing a baseline against which future progress across government can be measured.

### Cost-effective delivery

In 2011-12, we supported a number of organisations in improving their process management. Our process improvement framework has been used by many bodies seeking to deliver high-quality services while also reducing costs. Our process management network, which helps organisations to learn from best practice across the public sector, now has over 400 members.

In 2011-12, we also produced a guide to initiating successful projects, highlighting the factors that departments should take into account as they start new projects. Our work identified where there had been weaknesses in the past, including in clearly setting the overall purpose of the project, and in ensuring robust internal challenge to establish if the project is feasible.

In 2012-13, we will produce a short guide on the impact that the choice of delivery model can have on cost-effectiveness, highlighting key features and associated risks of models used across public services.

We use our knowledge and experience to work with organisations across the public sector to promote and drive lasting improvement in public services

## 4

## Parliament

**We provide independent support to Parliament as it holds government to account for delivering value for money to the taxpayer.**



Our work supports Parliament as it holds government to account for the management of public funds. We work closely with the Committee of Public Accounts, whose twice weekly hearings draw on recently published NAO reports. The Committee takes evidence from senior government officials and others and publish reports that make recommendations to secure improvements to public services. In 2011-12, we supported the Committee in their 57 hearings and 50 published reports.

In 2011-12, the Committee considered departmental progress and initiatives that cross government, such as the reorganisation of central government bodies, government-wide efficiency reforms, and the lessons to be learnt from the private finance initiative (PFI). The Committee shares our ambition to make sure that major projects and programmes start from a sound basis. For example, it considered our report on *The introduction of the Work Programme*, published in January 2012, and drew on our findings, questioning departmental officials at an early stage of policy implementation.

The Government responds to all recommendations made by the Committee of Public Accounts. In 2011-12, the Government committed to a range of actions designed to improve the value for money of its activities. For example, following NAO and PAC reports, the Government set out plans to invest in the Ministry of Defence's logistics information systems, aiming to resolve long-standing problems with its supply chain to avoid late deliveries of equipment. Following NAO and PAC recommendations, the Department for Education has committed to publishing comparable measures of performance across all education providers, and to implementing universal standards and consistent intervention procedures in order to improve the choice and quality of education for 16-18 year-olds.

In addition, during 2011-12, we produced reports that summarised our work on each major government department, and shared these with the 17 relevant Parliamentary select committees in advance of their annual reviews of departments. We also produced a number of substantive briefings for select committees on issues where we have expertise relevant to their inquiries.

#### **Supporting Parliament in examining emerging accountability frameworks**

The NAO has supported the PAC in looking at issues of accountability in several hearings during the year. Evidence from a wide range of NAO reports has been used by the Committee in questioning departments' arrangements for reconciling the Government's localism agenda with parliamentary accountability for the use of taxpayers' money. As a result, progress has been made in setting out a clearer picture of the accountability in various sectors such as health, education, policing and local government. This work has also highlighted aspects of accountability which require further definition, including how local accountability mechanisms will work in practice; the quality and breadth of the information available to support accountability frameworks; and the role, capacity and capability of oversight bodies.

**Our work supporting the Committee of Public Accounts and other parliamentary select committees cost £9.0 million in 2011-12.**

## 5

## International

**We audit several multilateral international organisations and contribute to the development of global standards in public sector audit and accountancy.**

We carry out a targeted international programme of work which contributes to the oversight of international organisations and the development of global audit standards.

Our international audit appointments currently include the United Nations (UN) Board of Auditors, a position we were appointed to in 2010. This appointment, secured through open competition, demonstrates the value placed on our expertise. Working with the national audit bodies of China and South Africa, our UN work includes an audit of the UN Headquarters and of the UN High Commission for Refugees.

We also work with the International Organisation of Supreme Audit Institutions (INTOSAI) and the European Organisation of Supreme Audit Institutions (EUROSAI) to set public audit standards and to share knowledge, helping to shape the future of audit institutions around the world.

We provide technical and managerial advice, on a cost-recovery basis, to a wide range of supreme audit institutions and legislatures. During 2011-12, our staff worked with colleagues in Uganda, where we helped the Office of the Auditor General produce a new corporate plan. We also contributed to improving audit practices in Kosovo, which resulted in an increase in the volume and timeliness of the audits carried out by the Office of the Auditor General.

Our international work enables us to share our expertise with others around the world, to promote better financial management, governance and accountability as international auditing standards develop, and to learn from others' experiences to benefit the bodies we audit in the UK.

**Supporting the delivery of oversight to international parliamentary committees**

The NAO, along with the House of Commons and others, is actively engaged in training and supporting parliamentary committees and their staff in a number of developing countries. In 2012, we provided training and advice to many Parliaments, including Ghana and Montenegro. We also ran a two-day conference in Lebanon for delegates drawn from six countries. In Uganda, the Parliament and Office of the Auditor General are putting in place new mechanisms to handle value-for-money reports and, in Morocco, plans have been made to reactivate a Parliamentary budget office. We also launched *Improving financial oversight: a guide for parliamentary staff*, which has now been used by a number of Parliaments and formed the basis of a four-day Westminster Seminar on Public Accounts Committees involving more than 30 Commonwealth countries.

**Our international support work cost £2.4 million\* and generated £3.2 million in income in 2011-12.**

\* The cost of our international audit work is included in the financial audit costs set out on page 13.

Our international work enables us to share our expertise with others around the world, to promote better financial management, governance, and accountability

# Our stakeholders

## Parliament

**Parliament is our key stakeholder. We support the Committee of Public Accounts and other parliamentary committees as they hold government to account.**

In order to carry out their vital role of holding government to account for the management of public money, Parliamentarians must have access to robust, timely, and accurate information about government finances. We therefore place particular emphasis on ensuring that our work meets the needs of Parliament.

We have a dedicated team that supports the work of the Committee of Public Accounts and provides bespoke help to other select committees in both Houses. During 2011-12, we provided Parliament with a range of products to support its work. In addition to our VFM reports on specific government programmes, we provided the Committee of Public Accounts with 'landscape reviews' that looked across wide-ranging, complex or changing areas of government activity, including reports on the health system and on government ICT capability. This work builds knowledge and expertise, and helps inform scrutiny in areas of significant change.

Our work has helped inform Parliamentary debate and was cited in numerous committee hearings and on the floor of the House. An independent survey of MPs conducted by Ipsos MORI in 2011 found that 94 per cent felt favourably about us and 71 per cent said that the NAO influences beneficial change.<sup>1</sup>



<sup>1</sup> Seventy one per cent of MPs surveyed by Ipsos MORI in 2011 felt that the NAO was above average at influencing beneficial change compared with other organisations.

## Audited bodies

### We audit the accounts of 325 organisations. We work with the bodies we audit to drive improvement in public services.

Central government departments and the other bodies that we audit are important stakeholders. While our audit opinions are independent, we work effectively with the bodies we audit so that our analysis and insight can help them achieve improvement and deliver services that represent value for money to the taxpayer. In 2011-12, we delivered 79 per cent of our financial audit work within four months of year end.

In 2011-12, we worked with the bodies we audit to identify and respond to the increased demands of preparing consolidated resource accounts under HM Treasury's Clear Line of Sight project. NAO audit teams worked closely with the finance teams of the bodies we audit to agree robust accounting and audit timetables. As part of the Comptroller and Auditor General's on going discussions with departmental accounting officers, he has also focused on the particular challenges of this project, ensuring that government bodies were prepared for the demanding timetables involved.

During 2011-12, we also hosted events with stakeholders to share knowledge about significant financial, governance or policy implementation issues across the public sector. Our annual performance measurement conference, for instance, gave stakeholders an opportunity to discuss the Open Public Services reforms, what they will mean for performance measurement, and how transparency, open data and the effective use of information can drive service improvement.

During 2011-12, we gathered independent feedback from the organisations we audit. This found that 100 per cent of the accounting officers interviewed would actively seek NAO advice on accounting and financial control issues.<sup>2</sup> We will continue to seek this independent feedback in 2012-13 in order to monitor the impact of our work and help us to identify areas for improvement.

<sup>2</sup> Moderated feedback from NAO clients conducted independently by Grant Thornton, 2011.

## New areas of work

### We will be taking on new responsibilities over the coming years. During 2011-12 we began work to strengthen our knowledge of, and links, with our new stakeholders.

In the coming years, we expect to take on new responsibilities. We will therefore have a more significant relationship with stakeholders across a growing number of sectors.

- **Financial regulation.** In June 2011, the Treasury set out reforms to the financial regulatory system including proposals to establish a statutory requirement for the NAO to audit the new Financial Conduct Authority and Prudential Regulation Authority, together with the existing Financial Services Authority, Money Advice Service and the Financial Ombudsman Service.
- **Local government.** The government has proposed that, subject to Parliamentary approval, the NAO take on the role of setting the Code of Audit Practice for local government, a role that 93 per cent of respondents to the Government consultation on the future of public audit agreed we are best placed to perform. We also intend to produce more value-for-money studies that explicitly address issues of relevance to local public bodies, particularly local government.
- **Probation trusts.** In 2012-13, we will take on the audit of the Probation Trusts across England. We will monitor spending across Trusts which, along with the Prison Service, form the National Offender Management Service, an executive agency of the Ministry of Justice.

During 2011-12, we began meeting stakeholder groups to develop our knowledge of these sectors and to prepare for the changes to our work in 2012-13 and beyond. We are working to ensure that the transition to any new arrangements is conducted in collaboration with the sectors concerned.

In addition, we appointed respected finance directors from the health and local government sectors to senior roles within the NAO, including a new member of our Leadership Team, in order to benefit from their experience and understanding of local public service delivery.

# Monitoring performance

We evaluate our work against our performance management framework to ensure that we deliver value to our key stakeholders.

This framework was adopted in 2011-12 in order to provide both quantitative and qualitative measures of our progress. The measures are set out below, with examples of the impact we have achieved against our performance framework on the following pages.

## The NAO's strategic performance framework

Impact	Measures	Indicators
<b>Our work saves public money</b>	We assess our financial impact, identifying savings across government achieved as a direct result of our work	Financial impact target (£10 for every £1 spent in 2011-12)
<b>Our work leads to positive change</b>	We look at the wider impact of our work and the work of the Committee of Public Accounts, including how we have influenced the way decisions are made to improve services	Case studies of positive results, where our contribution has been agreed with the bodies we audit
<b>Parliament has confidence in the independent assurance of the NAO</b>	We survey MPs to understand the value of our work to Parliamentarians	Ipsos MORI survey of MPs
<b>Clients acknowledge the value of our work</b>	A series of independent interviews are carried out each year with senior civil servants and chairs of audit committees to ascertain their views of our work	Independent moderated feedback from the bodies we audit
<b>The NAO is a recognised authority in its core areas of expertise</b>	We assess our impact in our core areas of expertise, to ensure that we use our knowledge to add maximum value to the resources allocated to us	Qualitative assessment of progress in core areas building on feedback from stakeholders
<b>We use funds cost-effectively</b>	We assess our own cost-effectiveness, to ensure we deliver high standards and low cost to audited bodies and value for money to Parliament for the resources invested in us	Dual measure of aggregate cost savings and the proportion of resources used between front-line and back-office functions

## Achieving impact

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

The work of the NAO and Committee of Public Accounts led, in 2011-12, to financial savings that can be measured, as well as wider impacts that have helped government to deliver services more effectively. Some of our impacts relate to work we carried out in previous years. We only claim an impact when we can demonstrate that a positive change has occurred. Through on going engagement with departments and rigorous follow-up on individual recommendations, we are able to identify improvements that our work has helped to generate.

We aimed to save the Government £687 million in 2011-12, the equivalent of £10 for every £1 spent on the NAO. Our work in fact saved the government over £1.1 billion in 2011, the equivalent of £16 for every £1 spent on the NAO, partly as a result of large savings that we helped the Cabinet Office, HMRC and MoD to make in 2011. These financial impacts have been agreed by each department, and then reviewed by our internal and external auditors. In addition to these quantitative measures, our work has also led to positive change in the organisations we audit, helping us to become a recognised authority in our core areas of expertise. This impact is measured qualitatively through surveys of clients and MPs and through our assessment of the influence that our work has had.

We also measure our own cost-effectiveness to ensure that we practise what we preach. In 2011-12, we aimed to reduce our costs by 7.3 per cent and to spend 80 per cent of our resources on our front-line audit services. In fact our costs declined by 8.5 per cent and we surpassed our target of spending 80 per cent of our budget on our front-line audit business.

The case studies on the following pages illustrate how the impacts from work over recent years contributed to our achievements against each area of our performance framework in 2011-12.

We aimed to save the Government £687 million in 2011-12, the equivalent of £10 for every £1 spent on the NAO. Our work in fact saved the government over £1.1 billion in 2011, the equivalent of £16 for every £1 spent on the NAO

## Our work saves public money

### Tackling fraud and error in tax credits

Our audit tax work found that tax credits awards often contained error and fraud because the pre- and post-payment system controls were unable to prevent all error and fraud from entering the system. It was also clear that HMRC were operating in the absence of a target for reducing the residual level of tax credit error and fraud. In response, the Department set a target to reduce the level of error and fraud in finalised awards to no more than 5 per cent by 2011, publishing an Error and Fraud Strategy in April 2009, which increased the level of intervention activity undertaken and targeting activity against the highest risk areas, particularly where error and fraud entered the system adopting the principle of 'Check First, Then Pay'. HMRC estimates that to date this increase in intervention activity has contributed to a reduction of error and fraud in the tax credits system from 9 per cent in 2007-08 to 7.4 per cent in 2009-10. We estimate this reduction saved £447.4 million between 2008 and 2010, £178 million of which can be accredited to the impetus to action from the NAO encouraging the Department to introduce a target for reducing error and fraud in tax credits and a focus on its delivery.

### Improving controls of military allowances and expenses in the Ministry of Defence

In 2008-09, the C&AG qualified the Ministry of Defence (the Department's) accounts, citing the error rate within military allowances and expenses as an area of specific concern. Responding to the findings and recommendations arising from this audit, the Department created an Assurance Steering Group. This group brought together, for the first time, each of the three services and the other areas of the Department to ensure action was taken to address errors in payments and share best practice. The group also ensured that enhanced checks were developed to reduce the number of claims made in error within the Joint Personnel Administration system. These changes have helped the Department to improve the management of military allowances and expenses, with £81 million of savings between 2009-10 and 2010-11 attributed to the work of the NAO in identifying and focusing the Department's attention on the need to improve controls.

## Our work leads to positive change

### Improving the distribution on community care grant funding

As a direct response to the findings and recommendations in our 2010 report on the Community Care Grant, the Department for Work and Pensions changed the method of distributing the community care grant. Our report found that the grant was allocated disproportionately, with budgets set on a historic basis rather than to the expected level of future demand. Following our report, the Public Accounts Committee recommended that the Department reform the funding distribution formula so that budgets are allocated more fairly across the country. The Department subsequently adjusted its methodology for distributing the grant and funding is now more closely aligned with levels of demand.

### Improving governance arrangements for the resolution of major tax disputes

The Comptroller and Auditor General's report on HMRC's 2010-11 accounts recommended that the Department ensure a clear separation between the negotiation and approval of all future large tax settlements. This issue was raised at subsequent hearings of the Public Accounts Committee, whose own report emphasised the fundamental importance of separation and greater transparency over tax settlements in order to provide greater confidence to internal and external stakeholders. In February 2012, in response to the Committee's report, the Department announced steps to improve the governance of decisions on settlements in the largest cases. The Department's plans include the appointment of a new assurance Commissioner who will ensure that settlements are reasonable and that HMRC's internal governance procedures have been followed.

## Parliament has confidence in the independent assurance of the NAO

### Parliamentary scrutiny of the National Programme for IT in the NHS

Our 2011 report *The National Programme for IT in the NHS: an update on the delivery of detailed care records systems* was our third report on the National Programme for IT in the NHS. The report updated Parliament on the progress that had been made in delivering electronic care records systems across the NHS in England. In May 2011, the Prime Minister stated in Parliament that the Government had no plans to sign a new contract with Computer Sciences Corporation (CSC), one of the main suppliers to the Programme, until the National Audit Office report had been reviewed. The Department of Health is currently negotiating with CSC about the contract terms.

### Preparations for the London 2012 Olympic and Paralympic Games

The NAO has published six reports on the preparations for the London 2012 Olympic and Paralympic Games over recent years, focusing on the risks to be managed, the construction of the venues and infrastructure, operational planning, legacy planning and the management of the public sector costs. Our reports have provided Parliament with on going and independent assurance over the management of this expenditure. The PAC has used our reports to question the Department for Culture, Media and Sport, and other Olympic delivery bodies on progress, and hold them to account for expenditure on the Games.

## Clients acknowledge the value of our work

### Reforming consumer protection arrangements

The 2011 reports from the NAO and the PAC on the enforcement of consumer law highlighted the challenges inherent in protecting consumers from the unscrupulous behaviour of traders, and the outdated structure of the enforcement system. The reports concluded that the Department for Business, Innovation and Skills had limited power to ensure that adequate protection is offered to consumers on a local level, and that not enough has been done to assess the level of protection that would be sufficient to support consumers. Following publication of these reports, the Department issued a consultation on reforming consumer protection arrangements and asked the NAO to contribute the insight from our work in a series of regional conferences designed to increase the engagement of local trading standards services with the consultation.

### Transforming NHS ambulance services

In our June 2011 report, *Transforming NHS ambulance services*, we found a lack of comparability in the management information that ambulance services collected. This meant that it was hard for services to compare their performance with that of their peers or for commissioners to benchmark the services they received. We recommended that ambulance services should establish a set of indicators with nationally-agreed definitions to use to benchmark their performance and identify areas for improvement. During the PAC hearing to discuss the report, the Department of Health's National Ambulance Director commented that "The ambulance services across England welcome the NAO report and we are going to act nationally on the recommendations." Ambulance services have begun to collect nationally comparable information to do so and the National Ambulance Finance Directors Group is using the NAO's methodology to run a benchmarking exercise.



## The NAO is a recognised authority in its core areas of expertise

### Improvement in public service financial management

The NAO published Financial Management Reports on three departments in 2011-12. Our reports were highlighted by the government in *Managing taxpayers' money wisely* as one of the tools they will use to drive improvement in the financial management of the public sector. Our Financial Management Report on the Department for International Development highlighted that risk management was not being fully embedded or consistently applied in the Department. The Department has since reappraised its approach to risk management, including by strengthening its approach with a set of agreed corporate risks. We also reviewed financial management in the Ministry of Justice, highlighting that their new financial improvement strategy is a coherent, well-thought-through and well-managed response to the problems that we identified in our 2010 review of the Ministry.

### Embedding value-for-money principles

Audited bodies regularly seek assistance from the NAO on our understanding of value for money, a core area of our expertise. In 2011, while we were working on our report *Transferring cash and assets to the poor*, the Department for International Development invited the NAO to contribute to the development of guidance on value for money for country teams who were setting up or overseeing cash transfer programmes around the world. The guidance will help the Department to improve the design, monitoring and evaluation of their cash transfer programmes in a consistent way and to drive better value-for-money across their work.

## We use funds cost-effectively

### Cost reduction across the NAO

In 2011-12, we set our budgets to achieve savings of £5.4 million, in line with the baseline for our 15 per cent cost reduction target. We exceeded this target by £0.9 million, delivering actual savings of £6.3 million. We achieved this through changes such as reviewing our use of office space. Introducing increased levels of hot-desking has helped free-up office space and we have been able to sub let two additional floors of our London office space, doubling our annual rental income to £0.7 million.

### Focusing our resources on front-line activity

The NAO is increasingly focusing resources on front-line activity. In 2010-11, we spent 83 per cent of our resources on our front line, surpassing our 80 per cent target. We achieved this through changes such as a three year programme to review all corporate overhead costs, more integrated working across corporate services teams, and an annual review of all existing corporate contracts in order to rationalise services and renegotiate costs.

We measure our own cost-effectiveness to ensure that we practice what we preach

# Our staff



We employed an average of 857 full-time equivalent staff during 2011-12 to deliver our wide range of work. As a professional audit organisation, the majority of our staff are qualified or trainee accountants. We also employ other professionals, including economists, statisticians, social researchers, business analysts, project managers and staff with ICT, HR and communications qualifications, so that we have the skills we need to deliver high quality work.

We recruit around 70 graduate trainees each year and train them towards the Institute of Chartered Accountants in England and Wales (ICAEW) qualification. We provide them with opportunities to work across the many organisations we audit, under the guidance of our qualified staff. We also support around ten school leavers each year as they train towards the Association of Accounting Technicians qualification, an access route to ICAEW qualification.

In 2011-12, our trainees again achieved a high level of success at the ICAEW examinations with pass rates continuing to exceed the national average. This year our trainees were again awarded prizes for their performance, including Eleanor Brown, who was awarded first place in the Business Strategy paper, Philip Nye who took first place in the Financial Management paper, and Hannah Moffatt who took first place in the Financial Accounting Top Up paper.

We provide all staff with suitable training opportunities to ensure continual professional development. In addition to the flexible and efficient approach to learning of our online and e-learning tools, we run development programmes for high-potential staff in order to prepare them for future leadership positions.

Our staff have clear objectives against which their performance is measured. Pay is directly linked to performance and all staff are expected to seek and provide feedback on performance in order to manage their own development.

We carry out an annual staff survey in order to gain feedback on levels of staff engagement and motivation. We benchmark our results against both public and private sector employers and, overall, our results are positive. We are keen to improve levels of engagement and, following the 2011-12 survey, held a number of staff events to discuss the survey findings and to agree actions.

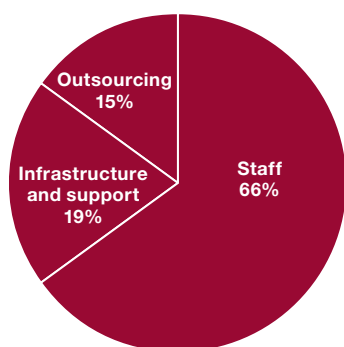
We make sure that diversity is recognised, ensuring that we make the most of all staff. Our diversity strategy is overseen by a Diversity Strategy Board, which is led by Gabrielle Cohen, a member of our Leadership Team.

All staff sign up to our code of conduct on an annual basis. The code emphasises the importance of our independence and ensures that we maintain the highest standards of integrity and probity in all our work.

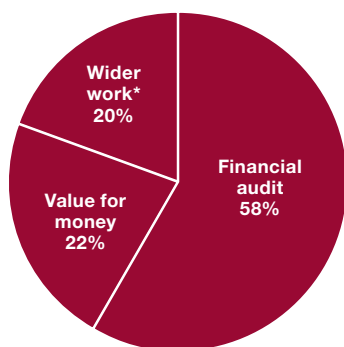


# Our resources

## How we used our resources



## How our resources were split between our activities



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

During 2011-12, we spent £87.7 million on providing audit and other assurance and support services. We also carried out a range of fee-earning work with international and other bodies. This, together with the revenue from subletting part of our London building, brought in income of some £19.9 million. The net cost of the NAO for the 2011-12 financial year was £67.8 million.

Our people are our major resource, accounting for £57.5 million of our spending in 2011-12. We focus particular attention on maintaining the expertise of our staff and we spent £1.6 million on recruitment and training, including the cost of training around 250 trainee auditors to pass their accountancy exams.

In the three years to March 2014, we intend to reduce our costs by 15 per cent in cash terms, the equivalent of a 22 per cent real terms reduction, taking current inflation rates into account. We reduced our costs by 8.5 per cent against a target of 7.3 per cent in 2011-12. We are reducing our core budget by a further 4.3 per cent against our baseline in 2012-13.

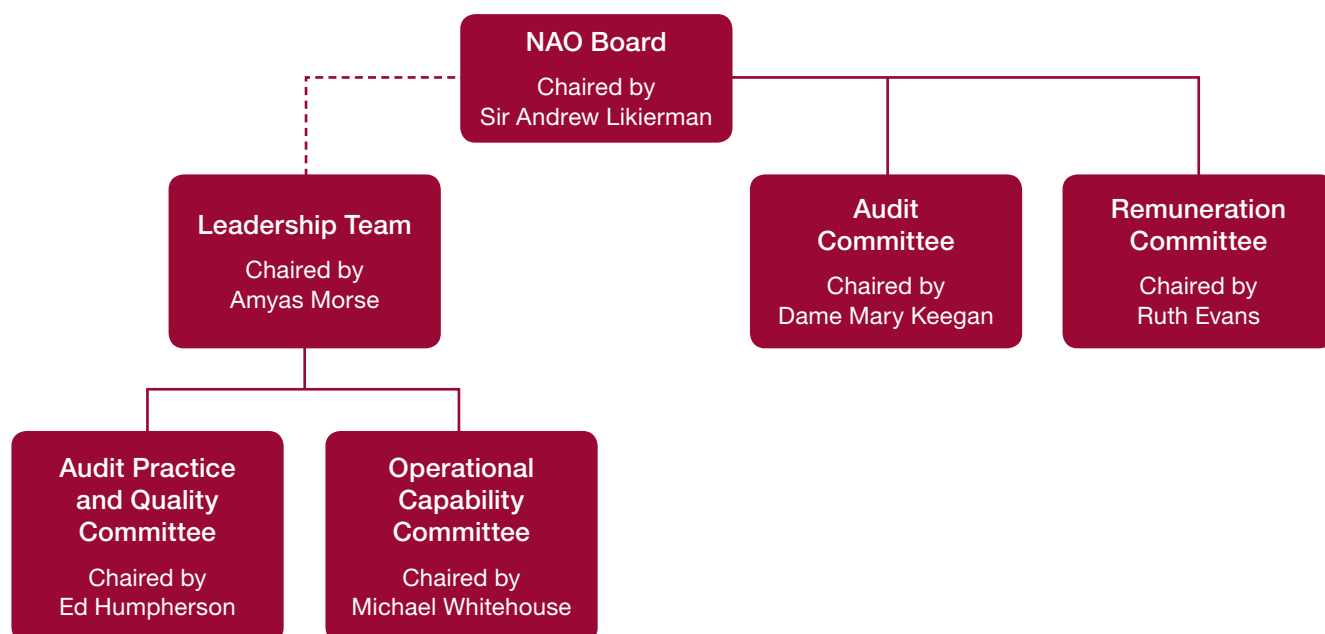
These savings were made by:

- Reducing the average cost of each VFM study from £250,000 to £233,000, while maintaining quality. We aim to reduce this further to an average cost of £218,000 in 2012-13.
- Maintaining our financial audit budget while incorporating additional costs, such as WGA. Further efficiencies in our financial audit work in 2012-13 will be counterbalanced by the increased demands of work on Clear Line of Sight.
- Saving 8 per cent from our corporate services budgets through targeted efficiency savings and greater integration across corporate service teams.
- Reducing outsourcing by 12 per cent from assumptions in our Estimate. We have developed our in-house expertise in areas such as economic analysis to help reduce our reliance on outsourced services.
- Subletting part of our London office space, which generated income of £0.7 million. We expect to let further space by March 2013.
- Implementing a freeze in all staff pay and allowances.

These efficiencies enabled us to devote more of our resource to front-line activity relative to our back-office services. During 2011-12, the proportion of our budget allocated to our back-office support declined to 17 per cent of our overall resource.

# Governance

Effective governance is vital to the success of an organisation. We aim to practise what we preach by upholding high standards of governance in our operations and decision-making



During 2011-12, we prepared for the implementation of the Budget Responsibility and National Audit Act 2011. The Act, which took full effect from 1 April 2012, modernises the NAO's governance, formalising the arrangements that have been operating in shadow form since July 2009.

The Act establishes the NAO as a corporate entity with a statutory Board which contains a majority of non-executive members. The arrangements reflect the unique statutory position of the NAO and the wish of Parliament that the NAO's governance should provide independent controls and oversight of the operations of the Office, while preserving the independence of the Comptroller and Auditor General in respect of audit judgements. The role of the NAO Board is to support and advise the C&AG in the exercise of his functions, and to provide oversight to the management of the NAO's resources.

During 2011-12, Parliament prepared for these changes to our governance by formally appointing our Chairman and four non-executive Board members. The House of Commons Public Accounts Commission also approved the Code of Practice which sets out in detail the relationship between the C&AG and the Board, and how each will discharge their duties to Parliament and to the NAO. As part of our commitment to transparency, the Code is on the NAO website, [www.nao.org.uk/code-of-practice-2012](http://www.nao.org.uk/code-of-practice-2012) along with the agendas and approved minutes of all formal meetings of the NAO Board. Further details of the work of the Board during 2011-12 can be found on pages 61-62.

We have undertaken a voluntary review of our governance against the Code of Good Practice for Governance for Central Government, published by HM Treasury in July 2011. Further details of this assessment can be found on page 60.

The Board is supported by two committees, both of which consist solely of non-executive members. Further information on the work of these committees during 2011-12 can be found on page 62.

- **The Audit Committee** is chaired by Dame 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 our financial reporting. It is also responsible for considering the external auditor's annual value-for-money report on the NAO.
- **The Remuneration Committee** is chaired by Ruth Evans. The Committee determines the framework for the remuneration of the three executive members of the Board. It also oversees any major changes in NAO employee benefits. The remuneration of the C&AG is set by Parliament.



The C&AG is supported by a Leadership Team that provides executive management and governance to the operations of the NAO. During 2011-12, Lynda McMullan joined the Leadership Team. The Leadership Team is supported by two committees:

- **The Operational Capability Committee** is chaired by Michael Whitehouse. This committee ensures that the NAO has appropriate resources, infrastructure and human capital to achieve its objectives.
- **The Audit Practice and Quality Committee** is chaired by Ed Humpherson. This committee is responsible for the framework that supports the technical quality of the NAO's audit work, assuring its integrity and reliability.

# Our Board and Executive Leadership Team



## 1. Sir Andrew Likierman

### **Chairman of the NAO**

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.

## 2. Amyas Morse

### **Comptroller and Auditor General and Member of the NAO Board**

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.

## 3. Michael Whitehouse

### **Chief Operating Officer and member of the NAO Board**

Michael Whitehouse was appointed Chief Operating Officer in July 2009 having joined the NAO in 1979. Michael is CIPFA-qualified and has extensive experience of value-for-money work across government. Michael has responsibility for the strategy, capability and operational performance of the NAO, and leads the NAO's work on cross-government issues. Michael is Chair of the Operational Capability Committee.

## 4. Gabrielle Cohen

### **Assistant Auditor General and member of the NAO Board**

Gabrielle Cohen 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.

## 5. Ruth Evans

### **Non-Executive member of the NAO Board**

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. Ruth is Chair of the Remuneration Committee.



## 6. Richard Fleck CBE

### Non-Executive member of the NAO Board

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.

## 7. Paula Hay-Plumb

### Non-Executive member of the NAO Board

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.

## 8. Ed Humpherson

### Assistant Auditor General and member of the NAO Board

Ed Humpherson 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. Ed is Chair of the Audit Practice and Quality Committee.

## 9. Dame Mary Keegan

### Non-Executive member of the NAO Board

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. Mary is Chair of the Audit Committee.

## 10. Lynda McMullan

### Assistant Auditor General

Lynda McMullan joined the NAO in October 2011 as Assistant Auditor General with responsibility for the NAO's work on local government, education and health. Lynda joined the NAO from Kent Country Council where she was Director of Finance and Procurement. She has also held positions at the London Boroughs of Southwark and Hammersmith and Fulham, and for six years at Nottingham City Council.

## 11. Martin Sinclair

### Assistant Auditor General

Martin Sinclair 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 such as the Ministry of Defence and the Ministry of Justice. He is a member of the Council of the Chartered Institute of Public Finance and Accountancy (CIPFA) and is Chair of CIPFA's Public Finance and Management Board.

### Key to committee membership

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

# Resource accounts 2011-12

The National Audit Office's statutory Annual Report and Accounts 2011-12 are reproduced here as presented to the House of Commons on 22 May 2012, pursuant to Schedule 3, paragraph 4(2) of the National Audit Act 1983.

## About the National Audit Office

### Foreword

The National Audit Office (NAO) 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 69 to 94 have been prepared pursuant to Schedule 3, 4(2) of the National Audit Act 1983. In meeting the requirements of the Act, the financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted and interpreted by the 2011-12 Government Financial Reporting Manual (FReM) issued by HM Treasury.

### Comptroller and Auditor General

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

### 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 NAO, 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 NAO. His responsibilities as the Accounting Officer are set out on page 58. As Accounting Officer, the Comptroller and Auditor General is responsible for establishing the governance arrangements of the NAO and maintaining a sound system of internal control. The Governance Statement on pages 60 to 66 sets out how this responsibility has been discharged in the year to 31 March 2012.

## Budget Responsibility and National Audit Act 2011

The Budget Responsibility and National Audit Act received Royal Assent on 22 March 2011 and on 1 April 2012, the NAO was established as a body corporate (Section 20 (1)). The Comptroller and Auditor General continued to be a corporation sole (Section 12 (1)). On 1 April 2012, the Comptroller and Auditor General transferred property, rights and liabilities to the NAO (Schedule 4 Section 1). Details of the Act are available at:

<http://www.legislation.gov.uk/ukpga/2011/4/enacted/data.pdf>

## Auditors of the NAO

RSM Tenon Audit Limited were appointed by the Public Accounts Commission as auditors of the NAO for a period of three years (with provision for 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 NAO'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 83.

Reports produced by RSM Tenon on the NAO are available on the Public Accounts Commission's website:

<http://www.parliament.uk/business/committees/committees-a-z/other-committees/public-accounts-commission/>

## NAO Board

The NAO 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 implementing the strategy, making audit judgements, deciding a programme of value for money examinations and reporting the results of his work to Parliament.

## NAO Board members

**The non-executive members of the Board during the year 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 during the year were:**

**Amyas Morse**

Comptroller and Auditor General

**Michael Whitehouse**

Chief Operating Officer

**Gabrielle Cohen**

Assistant Auditor General

**Ed Humpherson**

Assistant Auditor General

The Comptroller and Auditor General is a permanent member of the Board. Appointments of the non-executive members are terminated at the end of the period specified in the terms of the members' appointment. The executive members are appointed for a fixed term by the non-executive members following the Comptroller and Auditor General's recommendation.

## 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 during the year 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)

**Martin Sinclair**

Assistant Auditor General (National Services)

**Lynda McMullan**

Assistant Auditor General (Local Government [from 1 October 2011])

## NAO aim and objectives

The NAO'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 liabilities, 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.

The NAO's work primarily comprises the statutory appointments and duties of the Comptroller and Auditor General established by Parliament. The NAO also undertakes a significant amount of work that is approved by the NAO Board including engagements requested by organisations commissioning the work or from Parliament. 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 NAO has five strategic objectives:

- **Financial audit:** providing assurance that departments' and other bodies' financial statements – including the Whole of Government financial statements – have been properly prepared and give a true and fair view; and that resources have been properly applied to the purposes intended by Parliament. The NAO also provides independent assurance and advice to Parliament on the assessment and collection of taxation revenue through a programme of reviews on individual tax streams and encourages good governance through reviews of risk management and financial systems.
- **Value for money:** providing Parliament with independent information and advice about economy, efficiency and effectiveness. The NAO examines the whole range of public services and a range of other outputs to support accountability and improved performance. Reports on specific issues are available on the NAO website.
- **Performance improvement:** undertaking work to maximise the beneficial impact of the NAO's work through focus on the three key drivers of public sector performance – **informed government, financial management and cost-effective delivery**.
- **Support to Parliament, the public and other organisations:** support for 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 is to approve the release of funds from the Exchequer to departments.

## NAO strategy

The NAO's strategy for a three year rolling period is presented to the Public Accounts Commission each year, usually in the autumn. In November 2010, the Public Accounts Commission approved the NAO's strategy which set out plans to reduce resource requirements by 15 per cent in net terms in the three year period to March 2014. The NAO presented a refreshed strategy in December 2011 which confirmed that it remained on track to achieve this cost reduction target. The refreshed strategy also included resource requirements for new work arising following the announcement of the abolition of the Audit Commission. Copies of the NAO's strategy are available on its website at:

[http://www.nao.org.uk/about\\_us/nao\\_governance.aspx](http://www.nao.org.uk/about_us/nao_governance.aspx)

## NAO Estimate

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 NAO prepares its Estimate which is usually considered by the Commission in March. Parliament normally authorises the Estimate towards the end of July, when the Appropriation Act is passed. The NAO's Estimate for 2012-13 was approved by the Public Accounts Commission on 13 March 2012. The Estimate provides for a net resource requirement of £68.0 million for existing and new work. Before including new work, the approved net resource requirement for 2012-13 is 4.7 per cent lower than the 2011-12 Estimate. Copies of the Estimate are available from The Stationery Office and on the Official Documents website at:

<http://www.official-documents.gov.uk/document/hc1012/hc09/0911/0911.pdf>

## Risk

The NAO focuses on proportionate risk management as an integral part of the way it undertakes business activities. As Parliament's auditor, the NAO must 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 NAO must also maintain a skilled and motivated workforce, and build influential relationships with key external stakeholders while also maintaining its independence.

As a statutory body funded by public resources approved each year by the House of Commons, the NAO has limited exposure to commercial risks. The Governance Statement provides additional information on how the risks are identified and managed on pages 60 to 66.

## NAO staff

At 31 March 2012, the NAO employed 861 whole-time equivalent permanent staff based mainly in offices in London and Newcastle. The average number of whole-time equivalent staff in post during the year was 857. The following table provides an analysis of whole-time equivalent staff, temporary staff and contractors:

### Average number of staff and contractors

Year	2009-10	2010-11	2011-12
Whole-time equivalent permanent staff	906.8	869.8	857.4
Temporary staff	9.8	11.8	12.9
Contractors and inward secondees	39.3	26.5	34.9
<b>Total</b>	<b>955.9</b>	<b>908.1</b>	<b>905.2</b>

Consistent with his responsibilities as Accounting Officer, the Comptroller and Auditor General has issued to all NAO staff:

- 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 NAO work, confidentiality, conflicts of interests and personal conduct. All NAO staff are required to sign the Code on an annual basis.

Copies of both statements are available on the NAO's website at:

**[http://www.nao.org.uk/what\\_we\\_do.aspx](http://www.nao.org.uk/what_we_do.aspx)**

## Diversity

The NAO is committed to equality and the recognition of the diverse talents and contributions of staff and equal opportunities aims are set out in its Diversity Strategy. Progress against this strategy is monitored by the Diversity Delivery Board which is chaired by Gabrielle Cohen and a summary is included in the NAO's annual diversity report which can be found at: **[http://www.nao.org.uk/about\\_us/diversity/diversity\\_publications.aspx](http://www.nao.org.uk/about_us/diversity/diversity_publications.aspx)**

Initiatives which continued in 2011-12 included:

- disability awareness seminars and diversity awareness e-learning;
- support for the staff networks with a focus on diversity issues;
- an internship programme for ethnic minority and disabled undergraduates; and
- support for staff requiring reasonable adjustments to their work or working environment.

## Staff matters

The NAO has a policy of close cooperation and consultation with its 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.

## Sickness absence

The NAO is committed to the health and well-being of its staff and has a comprehensive sickness absence policy. Staff benefit from occupational health services, an employee assistance programme and a health screening service. In addition to this support, ad hoc health awareness weeks are held to provide advice on issues such as coping with stress and caring for others. The NAO reviews its occupational health policies and practices on an ongoing basis to ensure that sickness absence remains at low levels. During 2011-12, the average number of days for sickness absence was 3.7 days per employee compared with 4.7 days in 2010-11.

## Health and safety

The NAO 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 and 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 2011-12. Of these, eight involved NAO staff, and one involved a tenant's member of staff. None of these accidents resulted in injuries that required reporting under RIDDOR (the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995).

## Key relationships

The NAO contracts with key partners for financial audit and value for money work to assist in managing peaks in workload and to obtain specialist skills not available in-house. The following table shows suppliers during the year who were appointed following competitions in accordance with best practice in public sector procurement.

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 NAO works with the other public sector audit bodies in the United Kingdom, including Audit Scotland, the Wales Audit Office, the Northern Ireland Audit Office and the Audit Commission. These services are predominantly in relation to United Nations, International Cooperation, and European Agricultural Funds work.

## Payment of suppliers

The NAO 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 year to 31 March 2012 has been based on continuous monitoring of payments since the start of the year and 96 per cent of payments were made within 30 days of receipt of the invoice (2010-11: 97 per cent). The NAO 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 81 per cent of payments were made within 10 days of receipt of the invoice (2010-11: 82 per cent).

## Management Commentary

### Review of performance in 2011-12

The NAO strategy approved by the Public Accounts Commission in December 2011 confirmed the commitment (page 5, NAO strategy) to deliver net cost reductions of 15 per cent in cash terms in the three years to March 2014 without compromising the quality of service provided to Parliament and the public. 2011-12 was the first year of this cost reduction programme and the NAO's net resource outturn was £67.8 million, which is 1.3 per cent lower than the net resource requirement approved in the 2011-12 Estimate. The NAO therefore generated an additional 0.9 million in savings for the Consolidated Fund and achieved a saving of 8.5 per cent against a target of 7.3 per cent. The following table provides a more detailed comparison of the NAO's 2011-12 outturn with the 2011-12 Estimate:

### Comparison of 2011-12 outturn with the 2011-12 Estimate

Resources	2011-12 Estimate	2011-12 Outturn	Saving	
	£m	£m	£m	%
Gross resource requirement	89.1	87.7	1.4	1.6
Income	(20.4)	(19.9)	(0.5)	(2.5)
<b>Net resource requirement</b>	<b>68.7</b>	<b>67.8</b>	<b>0.9</b>	<b>1.3</b>
Capital expenditure	1.2	1.2	–	–
Net cash requirement	68.7	67.7	1.0	1.5

#### Savings achieved

The saving against the net resource requirement is mainly due to efficiencies in staff costs which are the largest element of the NAO's expenditure. The NAO undertook a review of corporate services processes and identified posts that were no longer required. A voluntary severance programme was offered to corporate services staff which led to 17 departures during the year. A further six departures were agreed prior to the year end, two of which were front-line staff. Savings were also generated through a continued reduction in outsourcing costs as in-house skills were developed and increased.

#### Income

The NAO generated £19.9 million income the majority of which was from UK and international audit work. This was £0.5 million lower than the 2011-12 Estimate because leases for new tenants were agreed later than originally planned due to market conditions.

Fees are charged to non-departmental public bodies, and on engagements approved by the NAO Board which represent around 20 per cent of total annual income. Fees are set with the intention of meeting the costs of the audit, not to generate a profit.

In 2010, the NAO was appointed to the United Nations Board of Auditors for a six year term. Fees for this work are set on a bi-annual basis and shared equally among the three board members (currently South Africa, China and the United Kingdom). In 2011-12, the NAO earned £1.9 million from this work (£1.2 million in 2010-11). The increase in the year is due to this being the first full year of operation and a continuing favourable exchange rate. The contract is denominated in United States dollars and the exchange rate position is actively monitored.

The NAO has continued to seek ways to maximise the use of the London headquarters building as an income generating asset and has sub-let an additional two sections of the building to tenants, generating £0.7 million income in 2011-12 (2010-11: £0.2 million). A further two sections are expected to be sub-let by 31 March 2013 to maximise rental income.

### Capital expenditure

The NAO spent £1.2 million in 2011-12 including £0.4 million for the replacement of laptops and £0.2 million on developing new audit software which will help generate further efficiencies in financial audit and value for money work. This is reported as an asset in the course of construction in Note 11 on page 90.

### Capital employed

Net capital employed by the NAO decreased for the first time in five years in 2011-12 mainly due to market conditions for commercial property. The following table summarises the movements in assets and liabilities since 2007-08:

### Capital employed since 2007-08

	31 March 2008	31 March 2009	31 March 2010	31 March 2011	31 March 2012
	£m	£m	£m	£m	£m
<b>Assets</b>					
Non-current Assets					
Property Plant and Equipment:	31.4	34.3	76.7	77.9	<b>74.6</b>
<i>Land and Buildings</i>	26.9	22.4	55.5	58.2	<b>56.1</b>
<i>Plant and Machinery</i>	0.5	0.5	16.5	15.8	<b>14.9</b>
<i>IT Equipment</i>	2.6	2.3	2.1	1.5	<b>1.4</b>
<i>Furniture, Fixtures and Fittings</i>	0.6	0.4	2.6	2.4	<b>2.2</b>
<i>Asset in Course of Construction<sup>1</sup></i>	0.8	8.7	–	–	<b>–</b>
Intangible Assets	1.4	1.2	1.5	1.3	<b>1.3</b>
<i>Software and Other Licences</i>	1.4	1.2	1.5	1.3	<b>1.1</b>
<i>Asset in Course of Construction<sup>2</sup></i>	–	–	–	–	<b>0.2</b>
Other Non-current Assets	0.5	0.6	0.5	0.5	<b>0.6</b>
Current Assets	12.8	11.8	10.7	10.7	<b>9.1</b>
<b>Liabilities</b>					
Current Liabilities	(9.0)	(6.4)	(5.2)	(6.1)	<b>(4.7)</b>
Provisions	(3.1)	(2.5)	(3.5)	(5.3)	<b>(3.4)</b>
<b>Net Capital Employed</b>	<b>34.0</b>	<b>39.0</b>	<b>80.7</b>	<b>79.0</b>	<b>77.4</b>

1 Between December 2007 and December 2009, the NAO refurbished the London headquarters building and reported the costs during that time as an asset in the course of construction.

2 The NAO was developing new audit software in 2011-12 and is reporting this as an asset in the course of construction. It is expected to be fully operational from September 2012.

### Financial position

The Statement of Financial Position shows that as at 31 March 2012, the total assets less the total liabilities of the NAO were £77.4 million – £1.6 million lower than at 31 March 2011.

Non-current assets decreased by £3.2 million – primarily due to the reduction in the value of the London headquarters building of £1.5 million following a professional revaluation.

Current assets decreased by £1.6 million. The largest element of current assets is accrued income arising from financial audit work and is significantly lower than the prior year as the NAO is now issuing interim invoices to improve the management of working capital and reduce balances owed by clients at the year end.

Total liabilities decreased by £3.3 million. The most significant individual liability is our provision balance of £3.4 million. This relates to payments made to former employees who accepted an offer to take early retirement from the NAO under the terms of the Civil Service Compensation Scheme prior to October 2010. The reduction in this provision of £1.9 million mainly relates to payments made in year.

### Key NAO achievements

- **Financial audit** – 441 accounts were certified against a target of 458. One account due to be delivered in 2012-13 was delivered early and there are 18 accounts that will now be delivered in early 2012-13 due to client decisions to delay publication of accounts. In 2011-12, a significant amount of work was undertaken to help clients prepare for changes arising from the Clear Line of Sight (Alignment) initiative;
- **Value for money** – 60 major reports were published in line with the target and the average cost of a study was reduced to £233,000. In addition, 82 per cent of studies were delivered within 9 months against a target of 70 per cent;
- **Performance improvement** – A total of 184 outputs were delivered including a cross-government report on the quality of data supporting organisational and board reports and a guide to initiating successful projects which highlighted factors that departments should take into account; and
- **Other work programmes** – The NAO supported the Public Accounts Committee in 50 hearings and worked with 19 select committees including the Environmental Audit Committee, the International Development Committee, and the Transport Select Committee.

The NAO also identified financial impacts in excess of 16 times its net running costs in the 2012 calendar year.

## Resources required in 2012-13

The NAO's Estimate for 2012-13 was approved by the Public Accounts Commission on 13 March 2012. The Estimate provides for a net resource requirement of £68.0 million for existing work and new work that will arise as the Department of Communities and Local Government proceeds with the abolition of the Audit Commission.

### Existing work

Resource requirements for financial audit reflect the substantial time required for the audit of the consolidated resource accounts being produced for the first time under Clear Line of Sight and also continuing efficiencies in the delivery of work. Accounts produced in accordance with Clear Line of Sight bring together the income, expenditure, assets and liabilities of arm's-length bodies with those of the main department and its executive agencies, aligning those accounts with the budgetary regime under which departments operate.

The NAO's resource requirements for value for money work will reduce in line with the commitment to drive further efficiencies by reducing the average cost of studies to £218,000. The NAO will be able to do this through reduced reliance on outsourcing having increased internal expertise on information systems analysis and economic analysis.

Resources allocated to performance improvement will also reduce as the NAO now has increased expertise following the initial investment made and will focus more on working with clients in direct response to needs as they are identified.

Resources to support the Committee of Public Accounts and 19 parliamentary select committees in the House of Commons will be increased by £0.4 million to maximise the value of the NAO's knowledge and audit findings.

### **New work**

The net resource requirement for new work that will be undertaken by the NAO in 2012-13 is £2.5 million and comprises:

- £1.6 million to cover the cost of developing the approach to the Code of Audit Practice for the local government and health sectors (the current codes run until 2015 and statutory responsibility is expected to remain with the Audit Commission until at least 2015-16) the production of three additional value for money studies, focused on issues relevant to local public bodies in England, and the cost of ongoing work with DCLG as it prepares draft legislation;
- £0.5 million to develop the NAO's value for money strategy for the growing NHS Foundation Trust sector and to produce an additional value for money study thereunder;
- £0.2 million set-up costs for the audit of the Probation Trusts which will become statutory audits in 2012; and
- £0.2 million to enhance financial services expertise in preparation for the audit of the successor to the Financial Services Authority, the Financial Conduct Authority, its subsidiaries and the two new Bank of England regulatory bodies.

## NAO voted expenditure 2007-08 to 2011-12 and resource requirements 2012-13 to 2014-15<sup>1</sup>

	2007-08 Outturn	2008-09 Outturn	2009-10 Outturn	2010-11 Outturn	2011-12 Outturn	2012-13 Estimate	2013-14 Assumption	2014-15 Assumption
	£m	£m	£m	£m	£m	£m	£m	£m
Financial audit	48.1	47.3	50.1	51.2	<b>51.3</b>	48.3	48.2	50.1
Value for money	29.9	26.7	21.6	19.1	<b>19.7</b>	21.4	21.1	22.5
Performance improvement <sup>2</sup>	–	9.0	12.0	10.5	<b>7.7</b>	7.7	7.0	7.6
Support for Parliament and other organisations	10.5	10.6	10.7	11.6	<b>9.0</b>	10.6	10.7	10.8
Comptroller function	0.2	0.2	0.2	0.2	<b>0.2</b>	0.3	0.3	0.3
Refurbishment of NAO HQ <sup>3</sup>	4.4	20.7	16.2	–	–	–	–	–
Temporary accommodation	5.4	8.3	5.9	–	–	–	–	–
<b>Total gross resource requirement</b>	<b>98.5</b>	<b>122.8</b>	<b>116.7</b>	<b>92.6</b>	<b>87.7</b>	<b>88.3</b>	<b>87.3</b>	<b>91.3</b>
Income	(17.8)	(19.9)	(19.9)	(19.5)	<b>(19.9)</b>	(20.3)	(21.5)	(21.7)
<b>Total net resource requirement</b>	<b>80.7</b>	<b>102.9</b>	<b>96.8</b>	<b>73.1</b>	<b>67.8</b>	<b>68.0</b>	<b>65.8</b>	<b>69.6</b>
<b>Capital expenditure</b>	<b>8.9</b>	<b>8.9</b>	<b>11.9</b>	<b>1.3</b>	<b>1.2</b>	<b>1.1</b>	<b>1.1</b>	<b>1.1</b>

1 All expenditure is deemed to be equivalent to resource DEL (Departmental Expenditure Limit) and capital DEL.

2 In 2009-10, the NAO moved from a four objective structure to a five objective structure. Figures were restated in 2008-09 to show performance improvement work separately. The costs of performance improvement work in 2007-08 are included in financial audit, value for money and support to Parliament.

3 Between December 2007 and December 2009, the NAO refurbished the London headquarters building and incurred significantly higher resource and capital expenditure in this period.

## Sustainability Report

The NAO seeks to minimise environmental impact whilst maximising the long-term value for money of operations. At a Board level, Ed Humpherson is responsible for overseeing the NAO's sustainability strategy.

This strategy has two main areas of focus. The first area relates to the NAO's operations where value for money is considered. In demonstrating commitment to sustainability, the NAO also comments on the wider sustainability agenda in central government. Interacting with Parliament and other central government bodies on these matters therefore forms the second area of focus.

### Sustainability in the NAO's operations

Following the return to the refurbished London headquarters building in December 2009, which represents the majority of the NAO's estate, NAO took the opportunity to review and strengthen governance arrangements around sustainability in its operations. The NAO's environmental policy is available from the website: [http://www.nao.org.uk/about\\_us/environmental\\_policy.aspx](http://www.nao.org.uk/about_us/environmental_policy.aspx)

The NAO was unable to monitor its environmental impact while in temporary accommodation during the two year period from November 2007. Recent work has therefore focused on:

- establishing appropriate policies and strategies for biodiversity, business travel, environmental management and procurement;
- setting up robust management information systems to collect data and monitor performance; and
- establishing base year data and setting a challenging range of environmental targets against which performance will be measured in 2012-13.

Although still at an early stage of this process, the NAO has made significant progress including:

- agreement of a biodiversity action plan in June 2010 relating to landscaping in the grounds of the London office. This plan was approved by an ecological clerk of works in March 2011 and will now be subject to an internal six-monthly review;
- approval of an Environmental Management strategy in March 2011, details of which are available from the website;
- achievement of ISO 14001:2004 accreditation for the environmental management system in March 2011 which is subject to annual review by an independent assessor;
- annual reviews of the travel policy to ensure that staff use public transport wherever possible in undertaking official duties. The NAO also offers loans to staff for the purchase of season tickets or bicycles for travel to and from work; and
- review of procurement policy to ensure that suppliers support sustainable operations as appropriate to the size of their organisation.

The following tables and commentaries provide details of the NAO's greenhouse gas emissions, waste disposal and water consumption during 2011-12:

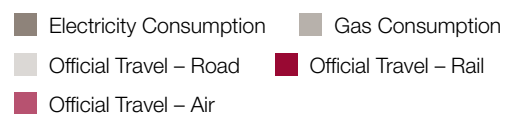
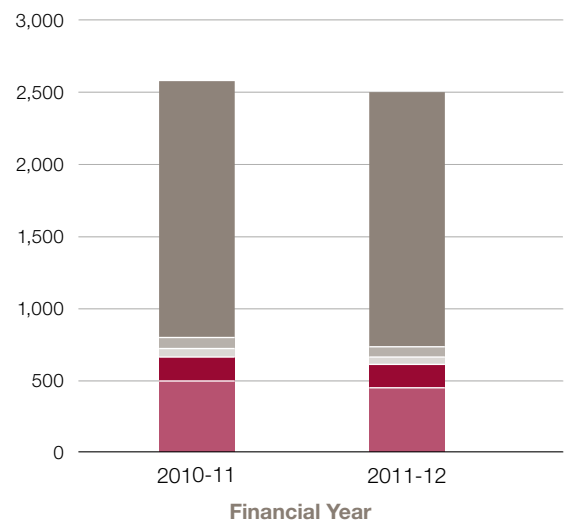
		2010-11	2011-12
<b>Non-financial indicators (CO<sub>2</sub>e in tonnes)</b>	Total gross emissions for scopes 1 and 2*	1,836	1,823
	Total net emissions for scopes 1 and 2*	1,836	1,823
	Gross emissions scope 3 – business travel	726	663
<b>Related energy consumption (kWh)</b>	Electricity: non-renewable	3,011,414	2,924,112
	Electricity: renewable	314,160	305,748
	Gas	388,832	297,899
<b>Financial indicators (£000)</b>	Expenditure on energy	387	418
	CRC licence expenditure		
	CRC income from recycling payments	The NAO does not participate in these schemes due to the low value of CO <sub>2</sub> emissions.	
	Expenditure on accredited offsets		
	Expenditure on official business travel (excluding accommodation costs and subsistence)	930	797

\*The NAO is unable to separate data for scope 1 and 2 emissions.

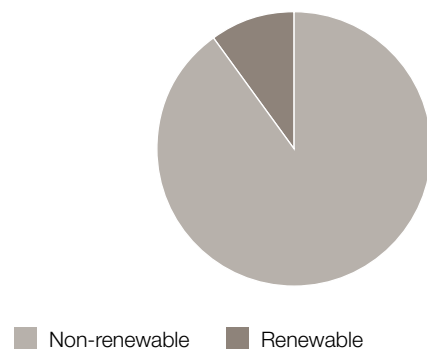
## Graphical analysis

### Greenhouse Gas Emissions

Tonnes/CO<sub>2</sub>e



### Electricity Consumption 2011-12



## Performance commentary (including targets)

### Background

The NAO returned to its London headquarters building in December 2009 after a 2 year refurbishment project. The refurbished London headquarters achieved a BREEAM (Building Research Establishment Environmental Assessment Method) Excellent Rating and an EPC (Energy Performance Certificate) rating of C for providing a number of energy saving initiatives including a passive chilled beam system for office cooling, high efficiency gas-fired condensing boilers, extensive metering and high efficiency lighting and lighting controls throughout.

### Targets

The first full year's data on energy consumption and emissions from plant and equipment is 2010-11. This year is therefore the base year against which energy and emission targets have been set.

### Greenhouse Gas Emissions Targets

Twenty per cent reduction against 2010-11 base year by 2015

Progress: Decrease of 0.7 per cent

Progress is slow with regards to decreasing estate emissions. This is because the majority of emissions are related to energy consumption.

The refurbished building is energy efficient so there is very little scope for major improvement in energy consumption. The NAO is continuing however to ensure all IT equipment is energy efficient and is increasing staff awareness of energy usage to generate savings and achieve its target.

### Business travel

The NAO is aiming to achieve a reduction of 20 per cent on domestic flights using 2009-10 as the baseline (546 flights) by 2015. In 2011-12, NAO staff travelled on 335 domestic flights, a reduction of 39 per cent.

As the auditor for the UK Parliament and the United Nations, NAO staff undertake audit visits to a wide range of geographically dispersed Government bodies and other organisations within the UK and internationally. The NAO's travel policy is set to minimise the impact that its business travel has on the environment and promotes the use of sustainable means of transport – rail and other public transport – wherever possible.

### Energy contracts

The NAO uses the Government Procurement Service energy procurement framework for its electricity and gas contracts. In addition to securing value for money through volume discounts, suppliers are required to generate 25 per cent of energy from renewable sources. The NAO's supplier is working towards this target.

### Carbon Reduction Commitment Scheme (CRC)

The current annual consumption is less than the CRC threshold so the NAO is not a full participant of the scheme.

## Controllable impacts commentary

The main impacts of the NAO are in relation to its energy consumption. Actions to reduce consumption in 2011-12 included upgrading lift mechanisms and door controllers for the main lifts; the sub-letting of 12,378 square feet of space, the removal of PC desktops and the virtualisation of a number of servers.

## Overview of influenced impacts

The NAO has trialled two EWGECO energy monitoring units during 2011-12. These units provide real-time electricity consumption data for office floors and allow staff to see 'at a glance' the impact their activities have on power usage.

## Waste disposal

### Non-financial indicators

The weight in tonnes of hazardous and non-hazardous waste will be reported from 2012-13 when a full year's data on the compacted waste generated will be available.

### Financial indicators

The cost of waste disposal in 2011-12 was £39,800 (2010-11: £39,000). The NAO is unable to separate hazardous and non-hazardous waste disposal costs.

## Performance commentary (including targets)

### Background

During 2011-12, all waste from the London office was collected by a waste carrier and taken to a Materials Recycling Facility (MRF) which sorts the waste into cans, glass, plastics, paper and card. Any items placed into 'general waste' bins are also put through the MRF process so that as much waste is recycled as possible. The remaining waste is then sent to the South-East London combined heat and power plant where it is burned to produce heat and electricity for the National Grid. Waste at the Newcastle office was disposed of via the landlord's waste provider.

### Absence of waste data

The NAO had utilised an industry-standard metric for calculating waste produced based on estimating the weight of bin collections. In November 2011, the NAO acquired a compactor for use at the London office and on analysing the data for the first three months of operation, concluded that the estimation method was significantly inaccurate. The NAO will therefore use data from 2012-13 as a baseline from which to set targets for future years. Using compactors has however had an additional positive impact as the number of waste collections has reduced from daily to fortnightly which means a lower level of vehicle emissions.

### Paper consumption target

Twenty per cent reduction against 2009-10 which is the baseline year by 2015.

Progress: Decrease of 12 per cent.

Future actions to meet the long-term target include behaviour change initiatives on reducing printing for meetings and the continued provision of data on the costs of printing.

## Controllable impacts commentary

The main waste impacts for the NAO relate to paper and cardboard utilised in the London and Newcastle offices.

## Overview of influenced impacts

The NAO minimises the generation of waste paper by using electronic methods wherever possible, for example when issuing staff payslips. The NAO also uses double-sided printing and has commenced an awareness campaign on individuals' printing costs to reduce the volume of paper utilised.

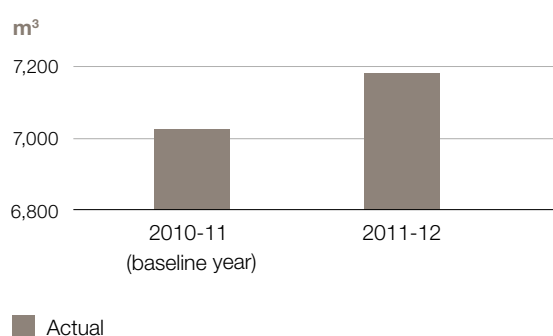
Food waste from the on-site catering facilities is used for anaerobic digestion and plans are in place for 'kitchen caddies' to be placed at tea points so that other food waste, which would normally be disposed of in the 'non-recycling' bins, can be included in this process.

## Water Consumption

			2010-11	2011-12
Non-financial indicators (m <sup>3</sup> )	Water consumption	Supplied	7,038	7,172
		Abstracted	–	–
Financial indicators (£000)	Water supply costs		17.6	15.4

### Graphical analysis

#### Water Usage



## Performance commentary (including targets)

### Background

The refurbished London office incorporates a number of water saving capabilities including rainwater harvesting which is utilised in lavatories.

### Target

The first full year's data on water consumption is 2010-11. This year is therefore the base year against which water consumption targets have been set.

To achieve a good practice ratio of 4m<sup>3</sup> to 6m<sup>3</sup> per whole-time equivalent member of staff by 2015.

Progress: In 2010-11, the ratio for the London office was 7.4m<sup>3</sup> and 5m<sup>3</sup> for the Newcastle office.

In 2011-12, the ratio for the London office decreased very slightly to 7.3m<sup>3</sup> but the ratio for the Newcastle office increased to 5.7m<sup>3</sup>.

The NAO's use of water has increased in the period for the following reasons:

- lower than average rainfall in London has resulted in less water than anticipated being available from rain-water harvesting increasing reliance on mains water; and
- sub-letting of some parts of the London office has resulted in more people using the building which has led to an increase in overall usage and a decrease in the ratio of water used per building occupant.

It is difficult to analyse the increase in the Newcastle office ratio for reasons described in the Overview of influenced impacts section below.

#### **Controllable impacts commentary**

The use of rainwater harvesting tanks in the London office to provide water in lavatories will help in keeping water consumption low.

#### **Overview of influenced impacts**

As parts of the London office are sub-let, the consumption of mains water has increased to accommodate extra users. The NAO is only able to partially influence the impact of this by ensuring that lavatories, showers and taps are maintained to prevent drips and leaks.

Low rainfall during 2011-12 has led to an increase in reliance on mains water.

As the Newcastle office consists of one floor of a building, the overall water reduction initiative lies mainly with the NAO's landlord. As a tenant, the NAO can therefore only encourage the reduction of water consumption.

#### **Limitations on sustainability data**

There are limitations on the accuracy of financial and non-financial sustainability data, which the NAO is seeking to address through improvements to reporting processes. The principal issues are as follows:

- the NAO was only able to set targets from 2011-12 as prior to this, there was no baseline data available due to the period of refurbishment of the London office. The NAO will publish sustainability targets on its website and will report progress annually. This information will be available at: [http://www.nao.org.uk/about\\_us/environmental\\_policy.aspx](http://www.nao.org.uk/about_us/environmental_policy.aspx)
- financial data for official travel relates to the total bookings made through the travel management company for all air and rail in the relevant year and also includes the cost of reimbursing staff for the use of private vehicles for business travel. This data also includes international travel, an extension on the requirement to report UK flights only. Prior to the automation of the NAO's expense claim system in mid-2011, the reimbursement of expenses and subsistence to staff was reported in aggregate. Data will therefore be included from 2012-13 for other travel costs;
- data for official travel does not include an estimate for the CO<sub>2</sub> cost of hotels used by staff on official business because there is currently no standard metric available which can be applied. Data will be included in future if and when a standard metric becomes available; and
- since December 2010, a sub-letting programme has been in place for a number of floors in the London office. Systems have been introduced in order to separate leased floors from the data reported for CO<sub>2</sub>e emissions. The NAO is currently unable to normalise data for water usage and waste disposal, but is reviewing whether this will be possible going forward.

**The NAO's wider contribution to the sustainability agenda**

In addition to monitoring the impact of activities on the environment, the NAO addresses a range of 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. Details of this work can be found at [http://www.nao.org.uk/sector/environment\\_sustainability.aspx](http://www.nao.org.uk/sector/environment_sustainability.aspx)

During 2011-12, the Government reported that it had met its target of reducing carbon emissions on the central government office estate by 10 per cent in the year to May 2011. The NAO supported the Environmental Audit Committee's scrutiny of this performance and advised that a detailed review had not identified problems with the reported consumption data. The Committee was also advised that departments had generally followed a structured approach to achieve the savings but there remained scope for further carbon reductions. In response to a joint request from the Environmental Audit Committee and the Energy and Climate Change Committee, the NAO reviewed the Government's model for setting the tariff rates that electricity suppliers are required to pay for generators which generate or 'export' electricity to the grid from solar panels ('feed-in tariffs'). The review was used to inform the Committees' joint inquiry into the Government's proposals for reduced tariffs.

The NAO has continued to work with HM Treasury on the development of the Government's proposals for its approach to mandatory sustainability reporting by government bodies and with PricewaterhouseCoopers on promoting best practice through establishing an award for Sustainability Reporting at the Building Public Trust Awards. Specific programmes of work have also been agreed for the Environmental Audit Committee.

Amyas C E Morse

**Comptroller and Auditor General**  
**22 May 2012**

## Remuneration Report

### Remuneration policy

#### 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 83 as Consolidated Fund Standing Services under other operating costs.

#### 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.

#### Executive Board members

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

#### NAO 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.

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

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;
- type and weight of the portfolios of work managed;
- level of performance and contribution made to the organisation;
- funds available to the NAO;
- current and prospective rates of inflation; and
- relevant legal obligations including equality and anti-discrimination requirements.

The table overleaf provides details of the remuneration and pension interests of the NAO Board and Leadership Team. The information on pages 54 to 57 is covered by the audit opinion.

	Date of Appointment	Notice Period	2011-12				2010-11			
			Salary	Bonus	Benefits in kind	Total Remuneration	Salary	Bonus	Benefits in kind	Total Remuneration
			£000	£000	(to nearest £100)	£000	£000	£000	(to nearest £100)	£000
Professor Sir Andrew Likierman (Chair)	01/01/09	3 months	50-55	–	–	50-55	50-55	–	–	50-55
Amyas Morse Comptroller and Auditor General	01/06/09	None	205-210	–	–	205-210	205-210	–	1,100	205-210
Michael Whitehouse Chief Operating Officer	01/04/02	3 months	160-165	–	–	160-165	160-165	0-5	–	160-165
Gabrielle Cohen	01/04/05	3 months	135-140	–	–	135-140	135-140	0-5	–	135-140
Ruth Evans	01/07/09	3 months	20-25	–	100	20-25	20-25	–	100	20-25
Richard Fleck CBE	01/07/09	3 months	20-25	–	–	20-25	20-25	–	–	20-25
Paula Hay-Plumb	17/03/10	3 months	20-25	–	900	20-25	20-25	–	500	20-25
Ed Humpherson	16/07/07	3 months	135-140	–	–	135-140	135-140	0-5	–	135-140
Dame Mary Keegan	01/07/09	3 months	20-25	–	1,600	20-25	20-25	–	1,900	20-25
Lynda McMullan (from 1 October 2011)	01/10/11	3 months	70-75 (Full year equivalent: 140-145)	–	–	70-75 (Full year equivalent: 140-145)	–	–	–	–
Martin Sinclair	29/01/99	3 months	140-145	–	–	140-145	140-145	0-5	–	140-145
Wendy Kenway-Smith (to 31 October 2010)	15/05/00	3 months	–	–	–	–	75-80 (Full year and full-time equivalent: 155-160)	–	1,300	75-80 (Full year and full-time equivalent: 155-160)
Banding of highest paid individual (Comptroller and Auditor General)				205-210					205-210	
Median Total Remuneration based on full-time equivalent staff				43,982					46,275	
Ratio				4.8					4.5	

## Salary

'Salary' includes gross salary and any other allowance to the extent that it is subject to UK taxation. This report is based on accrued payments made by the NAO and thus recorded in these accounts.

## Benefits in kind

The monetary value of benefits in kind covers any expenditure incurred by the NAO and treated by HM Revenue and Customs as a taxable emolument. As part of the remuneration package the NAO provides all its employees with additional death in service benefit equivalent to one year's salary. The NAO 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 benefits in kind disclosed for non-executive members of the Board relate to travel to the NAO for Board and other Committee meetings and include the associated tax liability which was met by the NAO. The NAO has an agreement with HM Revenue and Customs to meet income tax and national insurance on these benefits on behalf of non-executive Board Members.

## Bonus payments

Bonus payments are based on performance levels attained as part of the appraisal process. A bonus was paid in April 2011 for performance relating to the 2010 calendar year. This was accrued for in the 2010-11 resource accounts. There are no bonus payments for the 2011 calendar year.

## Pension Liabilities

### Comptroller and Auditor General

The pension arrangements for the Comptroller and Auditor General are covered by the Superannuation Act 1972 and are analogous to those of a member of the Principal Civil Service Pension Scheme which is unfunded. The Act provides for defined pension benefits to be met from the Consolidated Fund and no liability rests with the NAO. On taking up his appointment as Comptroller and Auditor General on 1 June 2009, Amyas Morse waived his defined pension benefit entitlement.

### NAO staff

Past and present employees of the NAO 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 NAO. Benefits are paid from the Civil Superannuation Vote to which the NAO 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 NAO were as follows:

Name and Title	Accrued pension at age 60 at 31 March 2012 £000	Accrued lump sum at age 60 at 31 March 2012 £000	Real increase in annual pension £000	Real increase in lump sum £000	CETV at 31 March 2012 £000	CETV at 31 March 2011 <sup>1</sup> £000	Real increase in CETV £000
Michael Whitehouse Chief Operating Officer	65	196	-1	-4	1,267	1,194	73
Gabrielle Cohen	42	127	–	-1	729	679	50
Ed Humpherson	35	44	2	–	433	378	55
Lynda McMullan (from 1 October 2011)	2	–	2	–	11	–	11
Martin Sinclair	65	115	2	-2	1,182	1,069	113

<sup>1</sup> Pension information has been supplied by the People, Pay and Pensions Agency, the NAO's pensions administrators. The figures may be different from the closing figures in the 2010-11 Resource Accounts. Due to the CETV factors being updated to comply with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008.

## Employer contributions to partnership pension

None of the above benefited from such contributions in 2011-12.

## Cash equivalent transfer values (CETV)

This 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. A CETV 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 pension benefits they have 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. CETVs are calculated in accordance with The Occupational Pension Schemes (Transfer Values) (Amendments) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

## The real increase in the value of the CETV

This is the element of the increase in accrued pension funded by the Exchequer. It excludes increases due to inflation and contributions paid by the scheme member. It is worked out using common market valuation factors for the start and end of the period.

## Salary Multiples

The Comptroller and Auditor General was the highest paid individual in the NAO in 2011-12. His salary was in the range £205,000 – £210,000 (2010-11: £205,000 – £210,000). This was 4.8 times the median salary paid which was in the range £40,000 – £45,000 (2010-11: £45,000 – £50,000). The Comptroller and Auditor General's salary is paid by the Consolidated Fund and is reported in Note 7 to the Accounts on page 83.

In 2011-12, remuneration ranged from £16,597 – £210,000 (2010-11: £16,804- £210,000).

## Compensation for loss of office

No senior managers received compensation for loss of office in 2011-12.

Amyas C E Morse

**Comptroller and Auditor General**  
**22 May 2012**

## Statement of Accounting Officer's responsibilities

Under the National Audit Act 1983, the NAO is required to prepare for each financial year resource accounts detailing the resources acquired, held, or disposed of during the year and the use of resources by the NAO 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 NAO, and of its net resource outturn, resources applied to objectives, income and expenditure, changes in taxpayers' equity and cash flows for the financial year.

In preparing these resource 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 resource accounts; and
- prepared the resource accounts on a going concern basis.

The Public Accounts Commission has appointed the Comptroller and Auditor General as Accounting Officer for the NAO. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the NAO's assets, are set out in the Accounting Officer's Memorandum issued by the Public Accounts Commission.

## Chairman's Report

As Chairman I am responsible for the NAO Board and ensuring that it provides effective governance of the NAO's operations. An important part of the Board's role is to monitor, with the Comptroller and Auditor General, the delivery of the NAO's strategy and act to ensure that robust plans are in place to enable the NAO to deliver its objectives effectively and efficiently.

During 2011-12, the Board ensured that the NAO was prepared for the Budget Responsibility and National Audit Act 2011 taking full effect. The Act established the NAO as a corporate entity with a statutory Board, formalising the arrangements which the NAO had operated in shadow form since 2009. The Board met formally under the new arrangements for the first time in February, and approved the Code of Practice setting out the relationship between the Board and the Comptroller and Auditor General.

Throughout the year the Board provided challenge and advice to the executive management of the NAO, monitoring performance against key performance measures. The Board receives management information and reports which enable it to assess progress against agreed corporate priorities and three times a year receives detailed performance reports on the NAO's performance against agreed measures:

- the NAO's work saves public money;
- the NAO's work leads to positive change;
- Parliament has confidence in the independent assurance of the NAO;
- clients acknowledge the value of the NAO's work;
- the NAO is a recognised authority in its core areas of expertise; and
- the NAO uses funds cost-effectively.

The NAO gives a detailed account of performance against these measures in its non-statutory annual report, which is available on pages 5–33 of this report and can also be found on the NAO website at: [http://www.nao.org.uk/freedom\\_of\\_information/publication\\_scheme/what\\_we\\_spend\\_and\\_how\\_we\\_spend.aspx](http://www.nao.org.uk/freedom_of_information/publication_scheme/what_we_spend_and_how_we_spend.aspx)

In addition to these reports, the Board, through the Audit Committee, receives an annual value for money report from the NAO's external auditor, on a subject recommended by the Audit Committee. This provides the Board with an independent assessment of the NAO's performance in key areas, and informs action to drive further improvement.

For 2011-12, the Board agreed a structured programme to provide assurance that it would give sufficient attention to all areas of its responsibility.

Professor Sir Andrew Likierman

**22 May 2012**

## Governance Statement

### Scope of responsibility

I have been appointed as the Accounting Officer for the NAO by the Public Accounts Commission, which is responsible for examining the NAO Supply Estimate, for appointing the auditor of the NAO, 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 and working together with the NAO Board, I have responsibility for maintaining effective governance and a sound system of internal control that supports the achievement of the NAO'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 governance structure of the NAO

The NAO's governance structure reflects our unique statutory position, balancing the need for appropriate controls and oversight, while preserving my independence as Comptroller and Auditor General. This balance is recognised in the Budget Responsibility and National Audit Act 2011 (the Act) which establishes the statutory basis for the NAO's governance.

The current governance arrangements have operated in shadow form since July 2009. During 2011-12, the NAO's governance arrangements were formalised, with the commencement of relevant provisions of the Act, including the formal appointment of the Chairman and non-executive members; the Act took full effect from 1 April 2012.

It is essential that the NAO is seen to uphold the highest standards in its own operations, and as such, working with the Board I have voluntarily assessed our governance arrangements, established in shadow form in July 2009, against the central government Code of Good Practice for Corporate Governance.

I am satisfied that the NAO is compliant with the requirements of the Code where they are relevant to its statutory position, in most cases complying with the letter and the spirit of the Code's provisions. Where the requirements of the Act and the Code differ, the NAO will always seek to comply with the Act, which reflects the wishes of Parliament.

There is one area where to fully comply with the Code would result in the NAO's governance arrangements being in conflict with the intention of Parliament:

- **Board Composition:** The code requires Boards of departments to be chaired by the lead minister and for membership to be balanced, with an equal number of ministers, senior officials and non-executive members (Provision 3.3). The composition of the NAO Board is determined by the Act which requires that the Board should be chaired by a non-executive Chairman with a majority of non-executive members.

Provision 2.5 provides for some activities to be exercised by committees of the Board including, as a minimum, committees responsible for audit and risk assurance, and nominations and governance. During 2011-12, the NAO Board was supported in its role by two committees, the Audit Committee and the Remuneration Committee. The Audit Committee, as part of its work on risk management and internal controls considers the governance of the NAO, informed by the Board's annual assessment of its own performance. The Remuneration Committee has a formal role in determining the executive Board members remuneration, except for my own which is determined by the Prime Minister and Chair of the Committee of Public Accounts. It also advises on remuneration and reward issues for the wider NAO. Both committees consist solely of non-executive members.

The appointment, assessment, and promotion of NAO staff is undertaken in accordance with clearly defined and rigorous processes, designed to ensure that the process is open and fair. The Board plays an important role in monitoring performance and challenging executive management on issues relating to the NAO's management and development of its staff.

## NAO Board

The role of the NAO Board is defined by the Act, and is given practical application in a Code of Practice approved by the Public Accounts Commission. The NAO Board agrees the strategy and resource estimate of the NAO and prepares an annual report of the NAO's activities all of which I submit jointly with the Board to the Public Accounts Commission for approval. The Board also approves the annual programme of NAO-approved services and the associated budgets, and provides support and independent advice to me in the exercise of my functions together with oversight of the management of NAO resources, paying particular regard to the implementation of the NAO strategy.

The Board has five non-executive members and four executive members. Non-executive members are appointed for a fixed term, agreed by the Public Accounts Commission. I am a permanent member of the Board and the other Executive members are appointed for a fixed term by the non-executive members, upon my recommendation.

There is a clear division of responsibility between the Chairman and myself; the Chairman is responsible for the leadership and effective working of the Board and I am responsible for implementing the strategy, making audit judgements, deciding a programme of value for money examinations and reporting the results of this work to Parliament.

The NAO maintains a register of interests to ensure potential conflicts of interest can be identified and addressed in advance of Board discussions. Where potential conflicts exist they are recorded in the Board minutes, along with any appropriate action taken to address them. During 2011-12, Richard Fleck declared a potential conflict of interest relating to his role with the Financial Reporting Council (FRC) on those occasions where the Board discussed the NAO's engagement with the FRC or the Audit Inspection Unit; it was agreed that this interest should not prevent Richard Fleck participating fully in the Board's discussion on these occasions.

The NAO Board assesses its performance, and that of its committees, on an annual basis. During 2011-12, the Chairman undertook the second board evaluation exercise, based on the NAO's own best practice guidance. This identified a clear sense of progress from year one, in particular, the developments in the performance reporting and risk management framework made in response to Board members' comments and requirements. The exercise also identified the need to ensure a greater consistency in the quality of Board discussions. In particular, it was agreed that a clear statement of the Board's objectives and programme for the coming year would help to ensure a shared understanding of the role and purpose of the Board, and what is expected of individual members.

As noted above, the Board is supported by the Audit and Remuneration Committees and the table below shows attendance at Board and Committee meetings held during 2011-12.

Members	Board Meetings (8 in year)	Audit Committee (4 in year)	Remuneration Committee (2 in year)
Andrew Likierman (Chair)	8	3*	2
Amyas Morse (C&AG)	8	1*	*
Gabrielle Cohen	7	*	*
Ruth Evans	8	3	2
Richard Fleck	8	4	2
Paula Hay-Plumb	8	4	2
Ed Humpherson	7	*	*
Mary Keegan	8	4	2
Michael Whitehouse	8	4*	*

\*Not members of the Committees

The Audit Committee met four times during 2011-12. In addition to providing me with assurance over the preparation and audit of the NAO's Resource Account for 2010-11, the Committee considered the findings contained in 11 substantive reports prepared by the Director of Internal Audit based on an audit programme agreed in advance by the Committee. These reports covered a wide range of risk management and governance issues including reviews of IT systems access controls, the use of Government Procurement Cards and the impact of the Bribery Act, in addition to regular annual reviews of core financial systems, risk management processes and evidence supporting the Statement on Internal Control (now the Governance Statement). Whilst in all cases there were areas for improvement identified, I am pleased to record that no major control failures or unmanaged risks were reported.

The two meetings of the Remuneration Committee focused on approving a framework for deciding the remuneration of the other executive members of the Board. The Committee also advised on wider issues of remuneration and reward for NAO staff in a purely advisory capacity.

## Leadership Team

I am supported by an executive Leadership Team which meets monthly and provides executive management and governance of the operations and delivery of the NAO. During 2011-12, my Leadership Team was supported by two committees: the Operational Capability Committee is responsible for delivering appropriate financial and human resources, systems and infrastructure for the NAO to achieve its objectives, and oversees the sustainability of its operations; the Audit Practice and Quality Committee ensures that audit and evaluative approaches are fit for purpose and comply with good practice and scrutinises the design and implementation of quality assurance arrangements.

## 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 2011-12.

I have put in place arrangements to ensure that a proper evaluation of the balance of cost, risk and opportunity is embedded in the NAO's operations. The 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 NAO 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 quality control policies and processes, effective financial management and the identification and management of identified risks.

After the completion of our office refurbishment in 2009, we identified the opportunity to sub-let part of our building to tenants. So far we have been able to bring four tenants into our building, with no disruption to the NAO'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 continues to face unprecedented challenges to the scale, scope and financing of its operations. To ensure that we continue to respond to this changing environment, the NAO'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. 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

Risk management is high on our business agenda, and working together with the Board I am committed to making the management of risk an integral part of the culture of the office and part of normal business management processes.

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 are reviewed by the Leadership Team and the Board each quarter.

Proper consideration and mitigation of risk is crucial to the effectiveness of the system of control. Appropriate methodologies for the NAO'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 re-training 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 statement 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 NAO, 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, and 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. Throughout 2011-12, we have been taking forward a Management Plan designed to: link our corporate approach to risk with our day-to-day work; broaden ownership of the risk management process; and improve the involvement of the wider business to our understanding of risk. I am pleased with the progress we have made in this regard but acknowledge there is further work to be done, in particular, in increasing the ownership of risk throughout the business.

## Statement of information risk

Together with the staff of the NAO, 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 NAO has a duty to respect this privileged access and to ensure that the personal information entrusted to it is safeguarded properly.

The NAO 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 NAO 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 life cycle including creation, storage, transmission and destruction. NAO staff are made aware of these policies and controls, and awareness is reinforced 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 NAO'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.

The NAO Board has agreed a target to achieve and maintain Level 2 (information assurance processes are institutionalised) on the Government's Information Assurance Maturity Model (IAMM). In March 2012 and in accordance with Cabinet Office guidance, we completed an annual 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 at or above Level 2 in four of the six domains in the model and very close to Level 2 in the other two domains. This outcome which shows steady improvement across all six domains since last year confirms the NAO's continuing focus on information risk.

## Personal data related incidents

There were no protected personal data related incidents reportable to the Information Commissioner's Office in 2011-12. Neither were there centrally recorded protected personal data related incidents not formally reported to the Information Commissioner's Office in 2011-12. Unlike government departments, the NAO 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 NAO 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 NAO'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 NAO 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 four times during the year and received assurance on the NAO's systems of corporate governance, risk management and internal control.

The Director of Internal Audit and Assurance's assessment of internal control in 2011-12 concluded that there were no significant weaknesses.

## Significant internal control weaknesses

I am able to report that there were no significant weaknesses in the NAO's system of internal controls in 2011-12 which affected the achievement of the NAO's key policies, aims, and objectives.

Amyas C E Morse

**Comptroller and Auditor General**  
**22 May 2012**

## Independent Auditors' Report to the House of Commons

We certify that we have audited the financial statements of the National Audit Office (NAO) for the year ended 31 March 2012 under the National Audit Act 1983. The financial statements comprise the NAO's Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity, and the related notes. We have also audited the Statement of Parliamentary Supply 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 Auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, certify and report on the financial statements in accordance with the National Audit Act 1983. We conducted our audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the NAO's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accounting Officer; and the overall presentation of the financial statements. In addition we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our certificate.

We are required to obtain evidence sufficient to give reasonable assurance that the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals and that those totals have not been exceeded. For the NAO, the voted Parliamentary control totals are all equivalent to Departmental Expenditure Limits (Resource and Capital) and Net Cash Requirement. We are also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

### Opinion on regularity

In our opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2012, and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

## Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the NAO's affairs as at 31 March 2012 and of the NAO's net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the National Audit Act 1983.

## Opinion on other matters

In our opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with guidance issued by HM Treasury; and
- the information given in the Annual Report which comprises the unaudited part of the Remuneration Report, the information in About the NAO and the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which we report by exception

We have nothing to report in respect of the following matters which we report to you if, in our opinion:

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- we have not received all of the information and explanations we require for our audit; or
- the Governance Statement does not reflect compliance guidance issued by HM Treasury.

## Report

We have no observations to make on these financial statements.

RSM Tenon Audit Limited  
Registered Auditors

Vantage  
Victoria Street  
Basingstoke  
Hampshire  
RG21 3BT

22 May 2012

## Statement of Parliamentary Supply

### Summary of Resource Outturn 2011-12

	2011-12 Estimate			2011-12 Outturn			2011-12 Voted outturn compared with Estimate: saving/or (excess)	2010-11 Outturn
	Voted £000	Non- Voted £000	Total £000	Voted £000	Non- Voted £000	Total £000	£000	Net Total £000
Resource	68,720	240	68,960	67,785	238	68,023	935	73,078
Capital	1,200	–	1,200	1,194	–	1,194	6	1,345
<b>Total Resources</b>	<b>69,920</b>	<b>240</b>	<b>70,160</b>	<b>68,979</b>	<b>238</b>	<b>69,217</b>	<b>941</b>	<b>74,423</b>

The notes on pages 75 to 94 form part of these accounts

**Net Cash Requirement 2011-12**

			2011-12 £000	2010-11 £000
			Net total outturn compared with Estimate: saving or (excess)	
	Note	Estimate	Outturn	Outturn
Net cash requirement	4	68,679	67,719	68,165

**Administration costs 2011-12**

		2011-12 £000	2010-11 £000
		Net total outturn compared with Estimate: saving or (excess)	
	Estimate	Outturn	Outturn
	68,720	67,785	73,078

Figures in the areas outlined in bold are voted totals or other totals subject to Parliamentary control.

All of the NAO's resources are deemed equivalent to resource DEL or capital DEL (Departmental Expenditure Limit).

## Statement of Comprehensive Net Expenditure for the year ended 31 March 2012

	Note	2011-12 £000	2010-11 £000
<b>Operating costs</b>			
Staff costs	6	57,508	57,432
Other operating costs	7	30,377	35,050
<b>Gross operating costs</b>		<b>87,885</b>	<b>92,482</b>
Operating income	8	(19,865)	(20,235)
<b>Net operating cost</b>		<b>68,020</b>	<b>72,247</b>
<b>Other comprehensive expenditure</b>			
Net loss/(gain) on revaluation of property, plant and equipment	10	1,534	(3,261)
<b>Total comprehensive expenditure</b>		<b>69,554</b>	<b>68,986</b>

All expenditure relates to the provision of independent assurance to Parliament and other organisations on the management of public resources.

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

## Statement of Financial Position as at 31 March 2012

	Note	31 March 2012		31 March 2011	
		£000	£000	£000	£000
<b>Non-current assets</b>					
Property, plant and equipment	10	74,581		77,917	
Intangible assets	11	1,259		1,286	
Receivables falling due after one year	12	632		516	
<b>Total non-current assets</b>			<b>76,472</b>		<b>79,719</b>
<b>Current assets</b>					
Trade and other receivables	12	8,932		10,461	
Cash and cash equivalents	13	156		250	
<b>Total current assets</b>			<b>9,088</b>		<b>10,711</b>
<b>Total assets</b>			<b>85,560</b>		<b>90,430</b>
<b>Current liabilities</b>					
Trade and other payables	14	(4,727)		(6,117)	
Provisions due within one year	15	(1,064)		(1,928)	
<b>Total current liabilities</b>			<b>(5,791)</b>		<b>(8,045)</b>
<b>Total assets less current liabilities</b>			<b>79,769</b>		<b>82,385</b>
<b>Non-current liabilities</b>					
Provisions	15	(2,323)		(3,339)	
<b>Total non-current liabilities</b>			<b>(2,323)</b>		<b>(3,339)</b>
<b>Assets less liabilities</b>			<b>77,446</b>		<b>79,046</b>
<b>Taxpayers' equity</b>					
General fund			35,091		33,871
Revaluation reserve			42,355		45,175
<b>Total taxpayers' equity</b>			<b>77,446</b>		<b>79,046</b>

Amyas Morse

Comptroller and Auditor General  
22 May 2012

The notes on pages 75 to 94 form part of these accounts

## Statement of Cash Flows for the period ended 31 March 2012

	Note	2011-12 £000	2010-11 £000
<b>Cash flows from operating activities</b>			
Net operating cost		(68,020)	(72,247)
Adjustments for non-cash transactions	7	2,903	6,532
Decrease in trade and other receivables	12	1,413	50
(Decrease)/Increase in trade and other payables	14	(562)	97
Use of provisions	15	(1,759)	(1,193)
<b>Net cash outflow from operating activities</b>		<b>(66,025)</b>	<b>(66,761)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	10	(646)	(659)
Purchase of intangible assets	11	(548)	(686)
Proceeds of disposal of property, plant and equipment		–	50
<b>Net cash outflow from investing activities</b>		<b>(1,194)</b>	<b>(1,295)</b>
<b>Cash flows from financing activities</b>			
From the Consolidated Fund (Supply) – current year		67,625	68,260
From the Consolidated Fund (Non-Supply) – Consolidated Fund Standing Services	7	238	235
<b>Net financing</b>		<b>67,863</b>	<b>68,495</b>
<b>Net increase in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund</b>		<b>644</b>	<b>439</b>
Payments of amounts to the Consolidated Fund		(738)	(355)
<b>Net (decrease)/increase in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund</b>	13	<b>(94)</b>	<b>84</b>
<b>Cash and cash equivalents at the beginning of the period</b>	13	<b>250</b>	<b>166</b>
<b>Cash and cash equivalents at the end of the period</b>	13	<b>156</b>	<b>250</b>

The notes on pages 75 to 94 form part of these accounts

## Statement of Changes in Taxpayers' Equity for the period ended 31 March 2012

	Note	General Fund £000	Revaluation Reserve £000	Total Reserves £000
<b>Balance at 1 April 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)
Realised element of revaluation reserve		517	(517)	–
<b>Total recognised income and expense for 2010-11</b>		<b>(71,730)</b>	<b>2,744</b>	<b>(68,986)</b>
Net Parliamentary funding – drawn down		68,260	–	68,260
Net Parliamentary funding – deemed		142	–	142
Supply payable adjustment		(250)	–	(250)
Excess Appropriations-in-Aid Payable to the Consolidated Fund		(735)	–	(735)
Consolidated Fund Standing Services	7	235	–	235
Surrender of CFERs to the Consolidated Fund		(331)	–	(331)
		<b>67,321</b>	<b>–</b>	<b>67,321</b>
<b>Balance at 31 March 2011</b>		<b>33,871</b>	<b>45,175</b>	<b>79,046</b>
<b>Changes in taxpayers' equity for 2011-12</b>				
Total comprehensive expenditure		(68,020)	(1,534)	(69,554)
Realised element of revaluation reserve		1,286	(1,286)	–
<b>Total recognised income and expense for 2011-12</b>		<b>(66,734)</b>	<b>(2,820)</b>	<b>(69,554)</b>
Net Parliamentary funding – drawn down		67,625	–	67,625
Net Parliamentary funding – deemed	14	250	–	250
Supply payable adjustment	14	(156)	–	(156)
Surrender of CFERs to the Consolidated Fund	5	(3)	–	(3)
Consolidated Fund Standing Services	7	238	–	238
		<b>67,954</b>	<b>–</b>	<b>67,954</b>
<b>Balance at 31 March 2012</b>		<b>35,091</b>	<b>42,355</b>	<b>77,446</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 Accounting policies, prior year restatements and key accounting estimates and judgements

### 1.1 Statement of accounting policies

These financial statements have been prepared pursuant to Schedule 3, 4(2) of the National Audit Act 1983 which requires the National Audit Office (NAO) 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 2011-12 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 NAO for the purpose of giving a true and fair view has been selected. The particular policies adopted by the NAO 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 an additional primary statement, the Statement of Parliamentary Supply. This statement and the supporting notes show outturn against Estimate in terms of the net resource requirement and the net cash requirement.

### 1.2 Basis of preparation

These financial statements have been prepared under the historical cost convention modified to account for the revaluation of property, plant and equipment. Figures are presented in pound sterling, which is the functional currency of the NAO, and are rounded to the nearest £1,000. 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 2012. Translation differences are dealt with in the Statement of Comprehensive Net Expenditure.

### 1.3 Impending application of newly issued accounting statements not yet effective

The NAO 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 resource accounts. There were no new standards issued for 2011-12 and not applied, which would materially affect the resource accounts. The NAO has also not adopted any standards early.

### 1.4 Financing

The NAO is primarily resourced by funds approved by Parliament through the annual Appropriation Act and treats financing in accordance with the FReM. Resources are drawn down each month to meet expenditure requirements and are credited to the General Fund. The NAO meets between 20-25 per cent of its resource requirement through charging fees for certain financial audit assignments and other services.

## Accounting Policies for expenditure

### 1.5 Staff costs

In accordance with IAS 19 Employee Benefits, all short-term staff costs accrued at the year end, which will be paid within one year of 31 March 2013, are recognised in the Statement of Comprehensive Net Expenditure. These short-term benefits largely relate to bonuses announced but not paid and accrued leave. Longer-term benefits, such as pensions provided to staff, are recognised in line with IAS 19 as modified by the FReM.

### 1.6 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which are described in Note 6b. Employees may opt to join a stakeholder pension scheme instead. The overall liability for payment of future benefits is a charge on the PCSPS, or relevant pension scheme.

The PCSPS scheme is an unfunded defined benefit scheme, the level of contribution varying in line with the individual scheme an employee is a member of. The individual stakeholder schemes have established rates of contribution for employees and employers and are defined contribution schemes.

The NAO's costs are recognised in line with the contribution rates established annually by PCSPS or the relevant stakeholder scheme.

### **1.7 Early departure costs**

Where the NAO terminates the employment of a staff member, within the rules of the Civil Service Compensation Scheme (CSCS), the cost of that compensation is recognised in full in the year the compensation offer has been accepted by the individual.

The CSCS rules were amended from October 2010. Prior to this point, where the individual was eligible to take early retirement these costs were provided for in full when the early departure was approved. This resulted in a provision being recognised for the estimated cash payments due between the date of departure and the individual reaching scheme retirement age, adjusted by the Treasury discount rate applicable at the year end. At 31 March 2012, this was 2.8 per cent in real terms (2010-11: 2.9 per cent). Staff leaving the NAO after October 2010 are eligible to receive a single lump sum payment on departure. As the value and timing of such compensation payments are known, they are reported within accruals in Note 14.

### **1.8 Leases**

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

The NAO does not have any finance leases liabilities.

### **1.9 Value Added Tax on purchases**

Expenditure is stated net of recoverable VAT.

## **Accounting Policies for Income**

### **1.10 Operating income**

Operating income relates directly to the operating activities of the NAO. It principally comprises fees and charges for services provided by statute or by agreement with client organisations. Operating income is determined on the basis of work completed to date less any provision for the full amount of foreseeable losses on contracts.

### **1.11 United Nations Board of Auditors income**

In 2010, the NAO was appointed to the United Nations Board of Auditors for a period of six 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. In accordance with Note 1.10 above, income is recognised based on work completed to date across each biennium.

Due to the funding arrangements with the United Nations, payment is made in advance in equal quarterly instalments. These are reported as payments on account in the resource accounts until earned. The audit work on the first biennium will be completed in July 2012. At that date, any remaining funds received in advance will be recognised as income.

### **1.12 Rental income**

The NAO has entered into agreements to sub-let parts of its London headquarters building. Rental income is recognised within other operating income on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income over the non-cancellable term of the lease. A separate service charge is levied on an annual basis to reflect the costs borne by the NAO.

### **1.13 Value Added Tax on sales**

Where output tax is chargeable, income is stated net of VAT.

## Accounting policies for assets and liabilities

### 1.14 Property, plant and equipment and intangible assets

Expenditure of £1,500 or more on property, plant and equipment or intangible assets is capitalised. On initial recognition, assets are measured at cost and include all costs, for example installation, directly attributable to bringing them into working condition.

All non-current assets are reviewed annually for impairment and are carried at fair value. Property, plant and equipment is depreciated, and intangible assets amortised, 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.

### Property, plant and equipment

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.

Asset lives are in the following ranges:

Leasehold land and buildings	remaining life of lease
Plant	5 – 25 years
Computers and other equipment	3 – 10 years
Furniture, fixtures and fittings	10 years

### Intangible assets

Intangible assets are software licences and the associated costs of installing and implementing the 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).

### 1.15 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 evidence that the NAO will not be able to recover all amounts due in accordance with contracts.

### 1.16 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 received.

### 1.17 Provisions for liabilities and charges

In accordance with IAS 37, the NAO provides for legal or constructive obligations, where the transfer of economic benefit is probable but which are of uncertain timing or amount at the end of the reporting period. The provision is calculated on the basis of the best estimate of the expenditure required to settle the obligation. As the NAO's provisions solely relate to early retirement payments made to former staff, the estimated risk-adjusted cash flows are discounted using the HM Treasury discount rate of 2.8 per cent in real terms (2010-11: 2.9 per cent).

### **Prior year restatement**

The Clear Line of Sight Initiative resulted in a number of changes to the way that Resource Estimates were prepared. The NAO has amended the format of the Resource Accounts so that they are consistent with the 2011-12 Resource Estimate and compliant with the FReM. The amendments include:

- A revision to the Statement of Parliamentary Supply to state control totals on a net basis; Changes to the presentation of the Net Cash Requirement to reflect the new basis of presenting Parliamentary Supply; and Revisions to Notes 2 to 5 in the account in accordance with the FReM.

There has been no restatement of prior year figures as a consequence of these changes.

### **Accounting estimates and judgements**

The development, selection and disclosure of significant accounting estimates and judgements and the application of these judgements and estimates has been discussed and agreed with the Audit Committee. Two significant accounting estimates and judgements are included in the financial statements:

- In calculating accrued income for audit services, the NAO makes certain judgements as to the stage of completion of jobs. In doing so, estimates are made on the remaining time and external costs to be incurred in completing contracts. A view is taken as to whether part of the agreed fee is unlikely to be paid by the client. These estimates are included in trade receivables and accrued income at the period end.
- The early departure provision represents the NAO's best estimate of future cash flows due under the scheme. However, there are a number of factors such as annual inflationary increases and the continuing eligibility of former staff members to receive a pension which can significantly affect the payments.

## 2 Net outturn

### 2.1 Analysis of net resource outturn

		2011-12 Outturn		2011-12 Estimate		2010-11
	Gross expenditure	Income	Net total outturn	Net total	Net total outturn compared with Estimate: saving or (excess)	Prior year outturn
	£000	£000	£000	£000	£000	£000
<b>Voted</b>						
Provision of Audit and other assurance services	87,650	(19,865)	67,785	68,720	935	73,078
<b>Non-Voted</b>						
Comptroller and Auditor General costs	238	–	238	240	2	235
<b>Resource Outturn</b>	<b>87,888</b>	<b>(19,865)</b>	<b>68,023</b>	<b>68,960</b>	<b>937</b>	<b>73,313</b>

### 2.2 Analysis of net capital outturn

		2011-12 Outturn		2011-12 Estimate		2010-11
	Gross expenditure	Income	Net total outturn	Net total	Net total outturn compared with Estimate: saving or (excess)	Prior year outturn
	£000	£000	£000	£000	£000	£000
<b>Voted</b>						
Provision of audit and other assurance services	1,194	–	1,194	1,200	6	1,345
<b>Resource Outturn</b>	<b>1,194</b>	<b>–</b>	<b>1,194</b>	<b>1,200</b>	<b>6</b>	<b>1,345</b>

All of the NAO's resources are considered to be equivalent to resource DEL or capital DEL.

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

	2011-12 Outturn £000	2010-11 Outturn £000
<b>Total net resource outturn in Statement of Parliamentary Supply</b>		
Voted	67,785	73,078
Non-Voted	238	235
	<u>68,023</u>	<u>73,313</u>
Amounts payable to the Consolidated Fund	(3)	(1,066)
<b>Net operating costs in the Statement of Comprehensive Net Expenditure</b>	<b><u>68,020</u></b>	<b><u>72,247</u></b>

### 4 Reconciliation of Consolidated Statement of Cash Flows to net cash requirement

	2011-12 Outturn £000	2010-11 Outturn £000
Reconciliation of Net Cash Requirement to (decrease)/increase in cash		
Net Cash Requirement	(67,719)	(68,165)
From the Consolidated Fund (Supply) – current year	67,625	68,260
Other	–	(11)
<b>Net (decrease)/increase in cash</b>	<b><u>(94)</u></b>	<b><u>84</u></b>

### 5 Analysis of income payable to the Consolidated Fund

	Forecast		Outturn	
	Income £000	Receipts £000	Income £000	Receipts £000
Capital income received	–	–	3	3
<b>Total income payable to the Consolidated Fund</b>	<b><u>–</u></b>	<b><u>–</u></b>	<b><u>3</u></b>	<b><u>3</u></b>

## 6 Staff numbers and related costs

### 6(a) Staff costs comprise:

	Total £000	2011-12 Permanent staff £000	Others £000	2010-11 Total £000
Wages and salaries	44,798	44,199	599	44,674
Social security costs	3,985	3,985	–	3,777
Other pension costs	8,725	8,725	–	8,981
<b>Subtotal</b>	<b>57,508</b>	<b>56,909</b>	<b>599</b>	<b>57,432</b>
Less recoveries received in respect of outward secondments	(761)	(761)	–	(743)
<b>Total net costs</b>	<b>56,747</b>	<b>56,148</b>	<b>599</b>	<b>56,689</b>

### 6(b) Pension arrangements

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but the NAO is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2007. Details will be available in the resource accounts of the Cabinet Office: Civil Superannuation when they are published ([www.civilservice.gov.uk/pensions](http://www.civilservice.gov.uk/pensions)). The scheme should be revalued every four years, but following the Hutton Review into Civil Service Pensions, this review has been delayed until the recommendations of that review can be implemented.

For 2011-12, employer's contributions of £8,699,062 were payable to the PCSPS (2010-11: £8,964,370) at one of four rates in the range 16.7 per cent to 24.3 per cent of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2011-12 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £23,964 were paid to one or more of a panel of four appointed stakeholder pension providers (2010-11: £14,635). Employer contributions are age-related and range from 3 to 12.5 per cent of pensionable pay (2010-11: 3 to 12.5 per cent). Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £3,192 or 0.8 per cent of pensionable pay, 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 employees (2010-11: £2,469 or 0.8 per cent). All these contributions are included in 'Other pension costs'.

No contributions were due or prepaid to the partnership pension providers at the balance sheet date (2010-11: nil).

*6(c) Average number of persons employed*

The average number of whole-time equivalent persons employed (including senior management) during the year was 857 (2010-11: 871). A breakdown of staff and contractor numbers can be found on page 38.

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

Exit package cost band	Number of voluntary departures agreed	
	2011-12	2010-11
<£10,000	–	2
£10,001 – £25,000	5	2
£25,001 – £50,000	10	4
£50,001 – £100,000	6	8
£100,001 – £150,000	1	8
£150,001 – £200,000	1	4
£200,001 – £250,000	–	3
>£250,000	–	2
Total number of exit packages by type	23	33
<b>Total resource cost £000</b>	<b>1,163</b>	<b>3,558</b>

There were no compulsory redundancies in either financial year. All of the voluntary departures were accounted for within the provisions of the Civil Service Compensation Scheme. Of the 23 staff offered an early departure in 2011-12, 21 were from corporate services grades and 17 left before 31 March 2012. All costs of voluntary departures are included in staff costs.

## 7 Other operating costs

	£000	2011-12 £000	£000	2010-11 £000
Professional services bought in	13,238		13,678	
Accommodation	4,635		3,754	
Travel, subsistence, hospitality	3,080		3,062	
Office supplies and equipment	2,807		3,100	
Recruitment and training	1,640		2,057	
Staff related costs	891		854	
Overseas office costs for UNBOA and other international work	337		773	
External auditors' fee	57		65	
Remuneration to external auditors for other work <sup>1</sup>	151		102	
Comptroller and Auditor General's costs	238		235	
Other administration costs	218		589	
Operating lease rentals	182		249	
		27,474		28,518
<b>Non-cash costs</b>				
Early departure and restructuring costs provided for in year	(121)		2,978	
Depreciation and amortisation	3,024		3,336	
Loss on disposal of property, plant and equipment	–		218	
		2,903		6,532
		<b>30,377</b>		<b>35,050</b>

<sup>1</sup> Includes the cost of 2012 value for money study which was brought forward from 2012-13.

## 8 Income

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

	Netted off gross expenditure £000	2011-12 Payable Consolidated Fund £000	Income included in Statement of Comprehensive Net expenditure £000
Audit fees – UK	15,039	–	15,039
United Nations Board of Auditors	1,892	–	1,892
Audit fees – international	521	–	521
International Technical Cooperation	748	–	748
Secondment income	761	–	761
Rental of office space	707	–	707
Other income	194	3	197
<b>Total income</b>	<b>19,862</b>	<b>3</b>	<b>19,865</b>

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

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

	2011-12		Surplus/ (deficit)
	Income £000	Expenditure £000	£000
Audit fees – UK	15,039	14,895	144
United Nations Board of Auditors	1,892	1,334	558
Audit fees – international	521	358	163
International Technical Cooperation	748	748	–
	<b>18,200</b>	<b>17,335</b>	<b>865</b>

	2010-11		Surplus/ (deficit)
	Income £000	Expenditure £000	£000
Audit fees – UK	14,632	14,785	(153)
United Nations Board of Auditors	1,180	1,057	123
Audit fees – international	695	695	–
International Technical Cooperation	1,681	1,681	–
	<b>18,188</b>	<b>18,218</b>	<b>(30)</b>

The NAO sets UK audit fees with the aim of recovering the directly attributable costs of the audit and overheads across all fee paying audits. The surplus on international audits and the United Nations Board of Auditors primarily reflects favourable exchange rates over the duration of the audit, along with a contribution to overheads.

## 9 National Audit Office operating segments

	2011-12					
	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	51,316	19,667	7,708	9,036	158	87,885
Income	(17,866)	(278)	(139)	(1,582)	–	(19,865)
<b>Net expenditure</b>	<b>33,450</b>	<b>19,389</b>	<b>7,569</b>	<b>7,454</b>	<b>158</b>	<b>68,020</b>

**Financial audit:** providing assurance that departments' and other bodies' financial statements – including the Whole of Government financial statements – have been properly prepared and give a true and fair view; and that resources have been properly applied to the purposes intended by Parliament. The NAO also provides independent assurance and advice to Parliament on the assessment and collection of taxation revenue through a programme of reviews on individual tax streams and encourages good governance through reviews of risk management and financial systems.

**Value for money:** providing Parliament with independent information and advice about economy, efficiency and effectiveness. The NAO examines the whole range of public services and a range of other outputs to support accountability and improved performance. Reports on specific issues are available on the NAO website.

**Performance improvement:** undertaking work to maximise the beneficial impact of the NAO's work through focus on the three key drivers of public sector performance – informed government, financial management and cost-effective delivery.

**Support to Parliament, the public, and other organisations:** support for 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.

In 2011-12, the NAO reviewed the classification of income from United Nations Board of Auditors work and rental income. Income from the United Nations is now reported within financial audit and rental income is apportioned across operating segments.

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

	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>

## 10 Property, plant and equipment

	Long leasehold land and buildings £000	Plant and machinery £000	Computers and other equipment £000	Furniture fixtures and fittings £000	Total £000
Cost or valuation					
At 1 April 2011	58,205	16,750	3,475	2,985	81,415
Additions	–	–	548	98	646
Disposals	–	–	–	(2)	(2)
Revaluation	(1,966)	–	–	–	(1,966)
<b>At 31 March 2012</b>	<b>56,239</b>	<b>16,750</b>	<b>4,023</b>	<b>3,081</b>	<b>80,093</b>
Depreciation					
At 1 April 2011	0	955	1,964	579	3,498
Charged in year	567	914	666	301	2,448
Disposals	0	0	0	(2)	(2)
Revaluation	(432)	0	0	0	(432)
<b>At 31 March 2012</b>	<b>135</b>	<b>1,869</b>	<b>2,630</b>	<b>878</b>	<b>5,512</b>
Net book value					
<b>At 31 March 2012</b>	<b>56,104</b>	<b>14,881</b>	<b>1,393</b>	<b>2,203</b>	<b>74,581</b>
At 31 March 2011	58,205	15,795	1,511	2,406	77,917

The NAO owns all property, plant and equipment and has no finance leases or PFI contracts. The long lease of the land and buildings for the headquarters building 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 £71,500,000 as at 31 December 2011. They confirmed no significant change to this valuation had occurred as at 31 March 2012 (31 March 2011: £74,000,000). This was on an existing use basis for parts occupied by the NAO 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 for the part occupied by the NAO. The element relating to land and buildings was £56,239,000. The net effect of the revaluation was accounted for through the revaluation reserve.

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

2010-11:

	Long leasehold land and buildings £000	Plant and machinery £000	Computers and other equipment £000	Furniture fixtures and fittings £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)
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>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)
Revaluation	(544)	–	–	–	(544)
<b>At 31 March 2011</b>	<b>–</b>	<b>955</b>	<b>1,964</b>	<b>579</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>77,917</b>
at 31 March 2010	55,488	16,512	2,074	2,596	76,670

## 11 Intangible assets

Intangible assets are software licences and the associated implementation costs.

	Intangibles £000	Asset in course of construction £000	Total £000
<b>Cost</b>			
At 1 April 2011	4,403	–	4,403
Additions	371	177	548
Disposals	–	–	–
<b>At 31 March 2012</b>	<b>4,774</b>	<b>177</b>	<b>4,951</b>
<b>Amortisation</b>			
At 1 April 2011	3,117	–	3,117
Charged in year	575	–	575
Disposals	–	–	–
<b>At 31 March 2012</b>	<b>3,692</b>	<b>–</b>	<b>3,692</b>
Net book value			
<b>At 31 March 2012</b>	<b>1,082</b>	<b>177</b>	<b>1,259</b>
At 31 March 2011	1,286	–	1,286

The NAO owns all intangible assets and has no finance leases.

### 2010-11:

	Total £000
<b>Cost</b>	
At 1 April 2010	4,375
Additions	686
Disposals	(658)
<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)
<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

## 12 Trade receivables and other current assets

	31 March 2012 £000	31 March 2011 £000
<b>Amounts falling due within one year</b>		
Trade receivables	1,574	846
Deposits and advances	436	414
Other receivables	228	763
Accrued income	5,655	7,652
Prepayments	1,039	786
	<b>8,932</b>	10,461
<b>Amounts falling due after more than one year</b>		
Deposits and advances	399	424
Other receivables	233	92
	<b>632</b>	516
<b>Total</b>	<b>9,564</b>	10,977

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

## 13 Cash and cash equivalents

	£000	£000
Balance at 1 April 2011	250	166
Net change in cash and cash equivalent balances	(94)	84
<b>Balance at 31 March 2012</b>	<b>156</b>	250
The following balances were held at:		
Government Banking Service	131	222
Commercial banks and cash in hand	25	28
<b>Balance at 31 March 2012</b>	<b>156</b>	250

## 14 Trade payables and other current liabilities

	31 March 2012 £000	31 March 2011 £000
<b>Amounts falling due within one year</b>		
Trade payables	20	74
Other payables	–	382
Accruals and deferred income	3,722	4,342
United Nations Board of Auditors payments received on account	659	253
Other payments received on account	1,700	81
	<b>4,571</b>	5,132
Amounts issued from the Consolidated Fund for supply but not spent at year end	156	250
Consolidated Fund Excess Appropriations-in-Aid receivable due to be paid to the Consolidated Fund	–	735
<b>Total</b>	<b>4,727</b>	6,117

## 15 Provisions for liabilities and charges

	Early departure costs £000	£000
Balance at 1 April 2011		5,267
Adjustments to opening provisions	(222)	
New provision in year	–	
Unwinding of discounts	95	
Change in discount rate	6	
		(121)
Provisions utilised in the period		(1,759)
<b>Balance at 31 March 2012</b>		<b>3,387</b>

The NAO uses HM Treasury's discount rate of 2.8 per cent in real terms to calculate this balance (2010-11: 2.9 per cent).

### Analysis of expected timing of discounted flows

	All Provisions £000	£000
Payable within one year		1,064
Payable within 2 – 5 years	1,774	
Payable in more than 5 years	549	
		2,323
<b>Balance at 31 March 2012</b>		<b>3,387</b>

Provisions for liabilities and charges relate to the costs of early retirement programmes in prior years which will generate savings for the NAO in the longer term.

## 16 Capital commitments

The NAO had no capital commitments at 31 March 2012 (31 March 2011: Nil). Future capital commitments for the asset under construction are dependent on the contractor delivering the NAO's requirements.

## 17 Commitments under leases

Total future minimum lease payments are shown in the following table:

	31 March 2012 £000	31 March 2011 £000
Obligations under operating leases comprise		
Land and buildings		
Payable within one year	182	182
Payable within 2 – 5 years	96	278
<b>Total</b>	<b>278</b>	<b>460</b>

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

	31 March 2012 £000	31 March 2011 £000
Future income due under non-cancellable operating leases		
Land and buildings		
Receivable within one year	818	376
Receivable within 2 – 5 years	2,231	1,374
Receivable in more than 5 years	–	267
<b>Total</b>	<b>3,049</b>	<b>2,017</b>

The lease information above relates to the sub-letting of sections of the London headquarters building. The NAO granted two new leases in 2011-12, and now has four tenants. The balance above reflects the cash payments expected over the remaining non-cancellable term of each lease. A separate service charge is also levied (and is included in rental income in Note 8) to cover the cost of utilities and other facilities costs borne by the NAO. This charge is not included within the figures above as it varies annually.

## 18 Other financial commitments

The NAO had no other financial commitments at 31 March 2012 (31 March 2011: Nil).

## 19 Financial instruments

The NAO's resources are met from Parliament through the Estimates process and from income. The NAO 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, no financial instruments are held.

### Liquidity risk

The NAO's net revenue resource requirements and capital expenditure are financed by resources voted annually by Parliament. The NAO is therefore not exposed to material liquidity risks.

### Credit risk

The NAO's clients are mainly Government Departments, executive agencies and other public bodies. The NAO is therefore not exposed to any material credit risks.

### Foreign currency risk

The NAO 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 NAO seeks to identify the potential exposure to exchange rate variations and to manage the risk accordingly.

## 20 Contingent assets and liabilities

The NAO had no contingent liabilities at 31 March 2012 (31 March 2011: Nil).

Under a framework agreement, the NAO 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 for an audit period. The rate of the discount varies based on the level of work committed to and is calculated when the final fees have been settled. The discount therefore cannot be reliably estimated at year end. This rebate to be applied for the 2011-12 year reflects a contingent asset for the NAO as at 31 March 2012. At 31 March 2011, the rebate for 2010-11 was disclosed. This amounted to £64,000 and was received in 2011-12.

## 21 Losses and special payments

No losses and special payments that require separate disclosure because of their nature or amount were incurred during 2011-12. (2010-11: Nil).

## 22 Related party transactions

The NAO is headed by the Comptroller and Auditor General and was established by the National Audit Act 1983. The NAO is independent of Government and is accountable to Parliament through the Public Accounts Commission. The NAO 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 NAO 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 NAO, has occupied part of the NAO's headquarters building since October 2010. Under the terms of the lease arrangement, rental income of £266,903 was earned in 2011-12 (2010-11: £111,468).

Ordnance Survey, a central government body audited by the NAO, has occupied part of the NAO's headquarters building since January 2012. Under the terms of the lease arrangement, rental income of £63,457 was earned in 2011-12 (2010-11: Nil).

## 23 Events after the reporting period

Apart from the Budget Responsibility and National Audit Act 2012 becoming fully effective from 1 April 2012 (as described on page 35), there have been no significant post balance sheet events.

## Statement of National Audit Office financial impact for 2011

The statement of financial impacts represents the National Audit Office's estimate of the financial benefits achieved in 2011 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:

**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.

## 2011 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
Central Government use of Consultants and interims	323	Recurring	1 of 2	Cabinet Office	2010-11
Management of Large Business Corporation Tax	221	Recurring	4 of 5	HM Revenue and Customs	2006-07
HMRC Section 2 Audit Tax Credits	179	Recurring	1 of 4	HM Revenue and Customs	2007-08
Engaging with Multilaterals	147	Recurring	3 of 3	Department for International Development	2005-06
Ministry of Defence Resource Account	81	Recurring	1 of 3	Ministry of Defence	2008-09
HMRC: Managing Tax Debts	27	Recurring	1 of 5	HM Revenue and Customs	2007-08
Fraud against the Inland Revenue (New Disclosure Opportunity)	24	Recurring	5 of 5	HM Revenue and Customs	2002-03

	Impact identified (£ million)	Nature of impact (one-off/recurring)	Year of claim	Audited body with whom impact agreed	Year of original work
Prescribing costs in primary care	23	Recurring	3 of 3	Department of Health	2007-08
RPA – recoveries on EU payments	20	One off	1 of 1	Rural Payments Agency	2008-09
Inland Revenue: Inheritance Tax	9	Recurring	5 of 5	HM Revenue and Customs	2004-05
Community Care Grants (consistency in amount awarded)	8	Recurring	1 of 3	Department for Work and Pensions	2010-11
HMRC: Helping individuals understand and complete their tax forms	6	Recurring	2 of 5	HM Revenue and Customs	2006-07
<b>Subtotal</b>	<b>1,068</b>				
Impacts below £5 million	32				
<b>Total financial impacts</b>	<b>1,100</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 2011.

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

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

### **Basis of validation work**

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

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

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

### **Opinion**

In our opinion:

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

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22 May 2012

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