



National Audit Office

National Audit Office Annual Report and Accounts

2013-14

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 822 employees. 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 £1.1 billion in 2013.



National Audit Office

National Audit Office Annual Report and Accounts 2013-14

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Chairman's report



**Professor
Sir Andrew
Likierman**

Chairman
National Audit Office

When journalists report NAO findings, they usually describe the organisation as a watchdog. In fact, the organisation is rather more complex, but they are right to use a word that conveys a sense of protecting the individual rather than a technical financial function.

It is not at all technical if a pensioner finds that services to which he or she is entitled are not available because systems do not work. Or, if a parent finds their child is not getting the best possible start in life because of poor school planning. Or, if honest taxpayers who pay tax through PAYE find that some of their tax is being lost to fraud. The work of the NAO is as much part of a fair and civilised society as the criminal justice system and it is an organisation of which the country should be proud.

So, it has been a privilege to be chairman in the first period of the new governance arrangements for the NAO agreed by Parliament in 2008. The period has been one of huge change for the country's organisations and institutions. Change in the public sector is hardly new – Dean Inge pointed out that Adam said to Eve “My dear we live in an age of transition”. But the scale of cuts in public spending and uncertainties about their speed and duration has been a huge challenge for the NAO. This has also applied to the need for the NAO to look at its own ways of working and is the basis of the current transformation project. The NAO has also been asked to take on new responsibilities during the period and has worked hard to make sure it can do so.

In preparing to hand on the next chairmanship, I would like to thank all those in the NAO for their commitment to the work and values of the organisation. I believe they provide a hugely valuable service to the country, one that is sometimes unnoticed because it is not understood or is taken for granted. I am particularly grateful to my fellow board members for the way in which the newly constituted board has operated to pull off that very difficult trick of balancing challenge to, with support for, executive members sitting at the same table.

For the future, I am confident that its commitment to constant improvements in quality will serve the country well. We all need a good watchdog.

Foreword

The National Audit Office exists to provide assurance to Parliament on the way that public money is spent. In 2013-14, we have continued to play this vital role, delivering our most insightful and impactful programme of work to date. At the same time, we have transformed the way that we work. We have reorganised ourselves to focus on the systemic issues facing government, developed our investigative capabilities which allow us to be more responsive to emerging issues, and delivered sustainable ongoing savings in our budget of £2.5 million.

These changes have been necessary to allow us to fulfil our role in holding government to account as it continues to adapt to a constrained fiscal environment. With change comes challenge, and it has been a challenging year for us all. The response of our people has reflected the commitment to the work that we do, and we are well placed to continue to help the bodies we audit to improve.

Our success in holding government to account is evident in the positive response we have seen to our work from Parliament. We have developed deeper insight into the issues facing government by getting our teams to work together more closely on these systemic issues, and by bringing in new talent where we need it. This has allowed us to break new ground in our work and for the first time in 2013-14, we examined the role of major government suppliers in delivering public services. This work has led to strong commitments from suppliers to greater openness and from government to better scrutiny of performance.

We are looking at major projects at an earlier stage to draw attention to emerging risks and identify problems that, if not properly managed, could lead to failures resulting in significant losses to the taxpayer. Our reports on the business case for the High Speed 2 rail network and the implementation of Universal Credit were good examples of this.

The Local Audit and Accountability Act 2014 received royal assent in January 2014 and gives us new duties for preparing and maintaining the Code of Audit Practice and setting the framework within which auditors of local bodies carry out their work. In preparation, we have been developing our skills and expertise accordingly and expanding our programme of work looking at issues facing local government, focusing particularly on the interaction between central and local government as we did recently in our report on adult social care.

My focus remains on delivering high quality and insightful assurance services to Parliament, driving real improvement in public services. This Annual Report shows that we are well placed to do so into the future.



Amyas C E
Morse

Comptroller and
Auditor General
National Audit Office

Strategic report

About the NAO

“We strive to be independent, authoritative, collaborative and fair. These values reinforce all our work and the way that we engage with our audiences in government, Parliament and the public sector.”

Who are we?

The National Audit Office (NAO) is an independent public body that helps Parliament hold the government to account for the way public money is spent. The National Audit Office's public audit provides assurance to Parliament, and adds value to government by supporting its drive to improve public services. Our work informs the scrutiny of government through parliamentary select committees, particularly the House of Commons Committee of Public Accounts.

The Comptroller and Auditor General

The head of the NAO is the Comptroller and Auditor General (C&AG) who is an officer of the House of Commons, and a Crown appointee. The audit and inspection rights are vested in the C&AG. The comptroller function means that the C&AG has a statutory responsibility to approve the issue of all public funds from the Exchequer to central government departments.

Parliament

Parliament sets the NAO's budget, scrutinises performance and appoints the external auditors. It does this through a House of Commons committee called the Public Accounts Commission.

Our board

The Public Accounts Commission appoints the non-executive board members. Working with the C&AG, the board develops the strategy as well as providing oversight of the resources. The non-executive board members are independent of the NAO's management.

Our work

- **Financial audit** – We audit the financial statements of central government departments, agencies and other public bodies, and report the results to Parliament. We give assurance to Parliament on whether financial statements have been correctly prepared, that they give a true and fair view, and that public funds have been spent for the purposes approved by Parliament.
- **Value-for-money audit** – We provide Parliament with independent information and analysis of the economy, efficiency and effectiveness of public expenditure. We work closely with the Committee of Public Accounts to support its examinations of value for money across public services.
- **Insight and investigations** – We have a strengthened investigative capability to report on emerging risks and respond to public concerns. The public and Members of Parliament raise concerns through correspondence and whistleblowing. We analyse financial and performance data to identify risks and systemic issues across government.

Key facts

£1.1bn

savings to the public purse in 2013-14

£16:£1

financial impacts for every £1 the NAO spends

Key facts

67%

of the bodies we audit consider that our work improved their approach to financial management and control

50%

of clients stated that our value-for-money studies led to improvements in services

80%

of MPs think the NAO operates with honesty and integrity

“We are working in a more joined-up way, grouping our audit teams into six clusters. Each focused on a key strategic issue shared by some of the bodies we audit.”

- **Parliament** – We provide the Committee of Public Accounts with a range of reports, briefings and analysis to support their inquiries into the value for money of public spending. We support other select committees’ annual reviews of government departments and on specific issues where we have expertise relevant to their inquiries.
- **International** – We work with colleagues from other national audit institutions to develop global standards in public audit and accountancy as well as auditing multilateral international organisations.

What are we aiming to achieve?

Our strategy and objectives

The public sector continues to face financial constraints, placing pressure on its ability to fund and provide high-quality services. At the same time, the government is implementing a wide-ranging public service reform agenda. The civil service is changing how it operates, often using innovative approaches. Innovation brings opportunities and risk, both of which must be well understood and carefully managed to maximise the chances of success.

The NAO’s core strategy remains unchanged. Our vision is to help the nation spend wisely. This vision is underpinned by three objectives:

- to develop and apply our knowledge;
- increase our influence; and
- deliver high performance.

We have changed how we work to better address the key strategic issues facing government, which are likely to have the most impact on the public sector’s long-term performance. We are working in a more joined-up way, grouping our audit teams into six clusters. Each focuses on a key strategic issue shared by some of the bodies we audit. This enables us to better compare how these issues are being addressed by sharing the lessons learned, and deepens our expertise to ensure our work is relevant and timely.

Our strategic clusters



Note

1 PTSD – Private and third sector delivery

Key facts

Of the bodies we audit:

88%

told us we provide an appropriate level of constructive challenge

67%

said that through our work, they gained insight that could not be acquired by other means

We have developed a wider range of approaches to our audit and value-for-money work for different audiences and different situations, including investigations, reports and memoranda. We have expanded our capability to conduct investigative work where Parliament and the public raise concerns. We are also reviewing projects and programmes early to help prevent failures from becoming more serious in the future.

Throughout this report, we have included case studies showing where our work helped drive improvement in our clients. Some case studies bear particular testimony to our new ways of working.

Our values are unchanged. We strive to be independent, authoritative, collaborative and fair. These values reinforce all our work and the way that we engage with our audiences in government, Parliament and the public sector.

Our strategy for 2014-15 to 2016-17 sets out how we will continue to reshape the NAO, building on what we have achieved in 2013-14. The Public Accounts Commission approved our strategy in November 2013. During the next 12 months, in the run up to the General Election, the NAO will be concerned with delivering the benefits of transformation so they are fully visible to Parliament, departments and increasingly local bodies, and supporting all NAO people in making a rewarding contribution.

The NAO's transformation at a glance: Achievements in 2013-14

We are focusing on shared strategic issues across the bodies we audit by grouping our teams in clusters. For example, we have reported on the role of major contractors in public service delivery, breaking new ground regarding the transparency of private sector service delivery.

We audit projects and programmes earlier in their implementation to highlight value-for-money risks that might escalate into bigger failures. We have reported on the effectiveness of the government's Help to Buy equity loan scheme and an early progress assessment of Personal Independence Payments, for instance.

We have developed our investigative capability. We have a core team to focus on matters of irregularity and respond to concerns raised by Parliament and the public. Our work on confidentiality clauses is an example of this.

We are improving our insight into the bodies we audit by investing in our understanding of the challenges they face and their abilities to address them. For instance, we conducted research in the area of local government to support knowledge building, and the development of forward plans for work on adult social care, housing, local economic growth and local authority financial sustainability.

We are building our skills and capability. We have implemented a skills strategy aligned with the strategic issues we have identified facing government. This supplements our core financial and accounting skills. We have recruited experts in local government, corporate finance, health and ICT.

We continue to practise what we preach on our own cost-effectiveness. We have completed a restructuring programme, which will deliver sustainable savings of at least £2.5 million.

Our performance

- We helped the government save money.** Our work led to savings to the public purse of £1.1 billion in 2013-14 (£16 of financial impacts for every £1 the NAO spends) against a target of £659 million (£10 of financial impacts for every £1 the NAO spends). This compares to £1.2 billion of savings in 2012-13.
- The NAO contributed to positive change.** Sixty-seven per cent of the bodies we audit consider that our work improved their approach to financial management and control compared to 63 per cent in 2012-13. Fifty per cent of clients stated that our value-for-money studies led to improvements in services compared to 46 per cent in 2012.
- The bodies we audit value our work.** Eighty-eight per cent told us we provide an appropriate level of constructive challenge, comparable with 2012 (85 per cent). Sixty-seven per cent said that through our work, they gained insight that could not be acquired by other means, compared to 59 per cent in 2012.
- We were recognised as an authority in our core areas of expertise.** All of our stakeholders believe we are experts in financial audit. Other areas of expertise noted were effective governance, risk management and internal control (94 per cent), assessing value for money (82 per cent) and accountability (71 per cent). Only a minority recognised ICT and systems analysis (22 per cent) and structured cost reduction (17 per cent) as areas of expertise for the NAO.
- The NAO maintained Parliament's confidence in the independent assurance we provide.** Eighty-two per cent of the Members of Parliament surveyed think the NAO acts impartially and independently; 80 per cent think the NAO operates with honesty and integrity.
- We use funds cost-effectively.** Compared to the 2010-11 baseline work programme, the NAO achieved a cost reduction of 17 per cent (equivalent of 22 per cent after allowing for inflation). We exceeded the target set of 15 per cent.

Key facts

Proportion of our stakeholders who believe we are experts in:

100%

financial audit

94%

effective governance, risk management and internal control

82%

assessing value for money

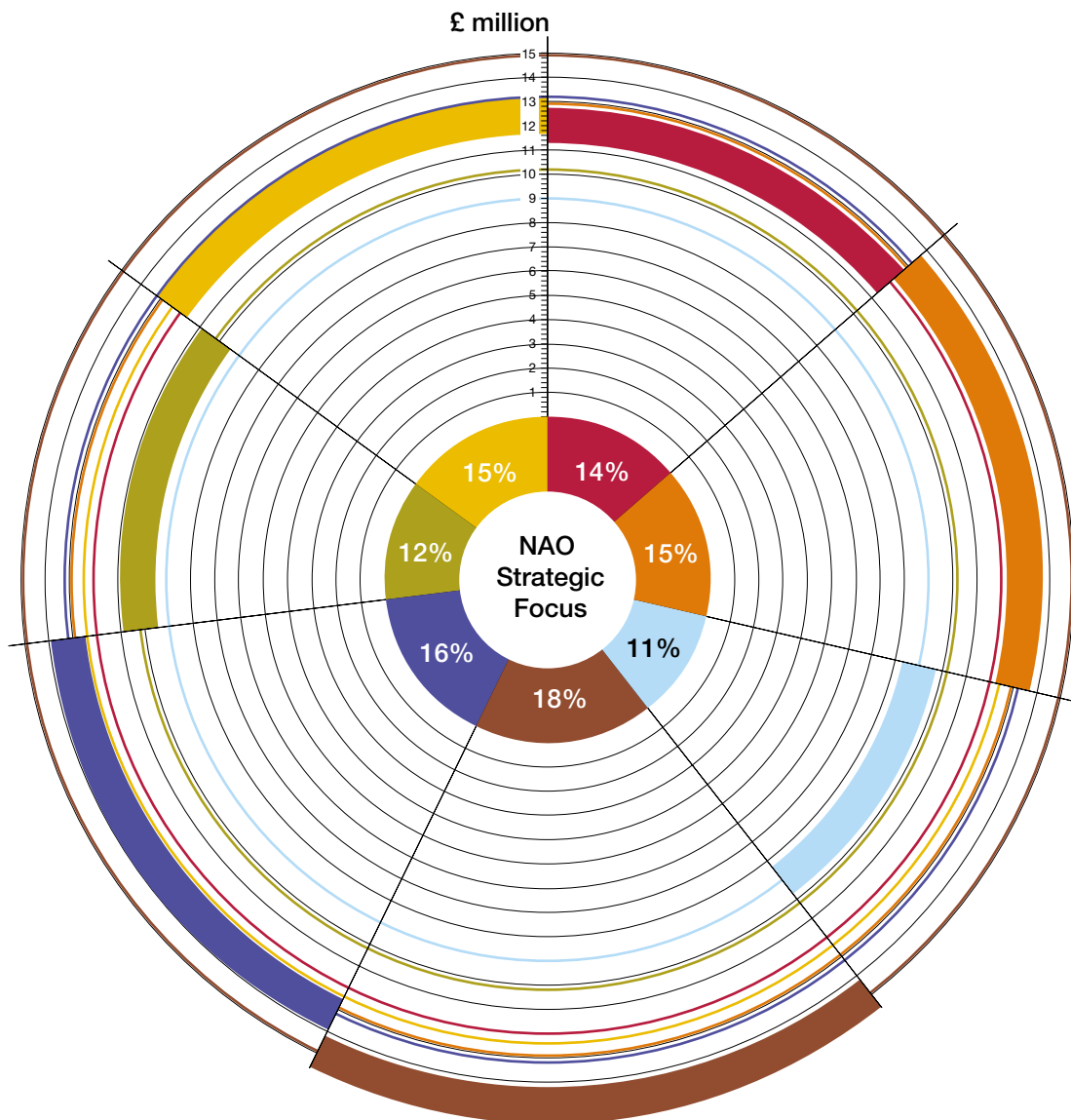
71%

accountability

What do we spend our money on?

We deliver a comprehensive programme of work, providing insight and supporting accountability for the use of public funds. This graphic representation shows how we cluster our activities by departments, focus our resources on areas of importance and each cluster's strategic objective.

Our six clusters and resource allocation



Effective strategic centre cluster

Cabinet Office, HM Treasury, Private and Third Sector Delivery and Parliamentary Audit Team

£12 million

Achieving the right balance between central and departmental responsibilities

Exercising appropriate control, securing influence and transformation and promoting and maintaining public value as assets are returned to the private sector

Influencing and regulating cluster

Department for Business, Innovation & Skills, Department for Environment, Food & Rural Affairs, Foreign & Commonwealth Office, and Department for International Development

£12.9 million

Using influence and regulation to make markets work effectively, protect consumers, and promote economic growth

Local service delivery and user experience cluster

Department of Health, and Department for Communities and Local Government

£9 million

Effective local service delivery that meets people's needs and is financially sustainable

Mass market operations cluster

Department for Work & Pensions, HM Revenue & Customs, International Work

£14.9 million

Improving the accuracy and effectiveness of high-volume services to the public

Delivery through networks cluster

Department for Education, Ministry of Justice, Home Office and Department for Culture, Media & Sport

£13.2 million

Delivering cost-effective services through networks

Delivering major long-term projects and programmes cluster

Ministry of Defence, Department for Transport, and Department of Energy & Climate Change

£10.2 million

Improving the effective delivery of major long-term projects and programmes

Cross-cluster working

£12.4 million

Working with parliamentary committees, ensuring quality of our work and senior management

Our work

“Under our new ways of working, we are deepening our insight to develop our understanding of the challenges the government faces, and build our expertise on these issues. We will use this deeper insight to provide a more rounded understanding of the risks facing the bodies we audit and provide even greater value to them and Parliament.”

1 Financial audit

We audit the financial statements of nearly all central government organisations and report on them to Parliament. This includes responsibility for the external audit of the Whole of Government Accounts, which is a consolidation of the financial statements of all parts of the UK's public sector.

We conduct our work in accordance with international standards on auditing and professional best practice. The audit quality review team, part of the Financial Reporting Council, externally reviews the quality of our work.

All of our audits lead to recommendations to the audited body for improvements in governance, controls and financial management. Under our new ways of working, we are deepening our insight to develop our understanding of the challenges the government faces, and build our expertise on these issues. We will use this deeper insight to provide a more rounded understanding of the risks facing the bodies we audit and provide even greater value to them and Parliament.

We worked with the Department for Communities and Local Government, the Audit Commission and other stakeholders throughout 2013-14 to prepare for our new role in local government. The Local Audit and Accountability Act 2014 gives the C&AG responsibility for the preparation and maintenance of the Code of Audit Practice and supporting guidance. The Code sets the framework of standards for auditors of local public bodies to follow. We are working to ensure the transition to the new audit framework takes place in an orderly and effective manner.

In 2013-14, we became responsible for the audit of a number of new entities. These included the Prudential Regulation Authority, the British Business Bank and Public Health England.

NAO helps the Ministry of Defence to improve inventory management

In our financial audit work for the opinion on the 2013 Ministry of Defence financial accounts, we identified £70 million net book value of Bowman radio raw materials and consumables, and £18 million of capital spares which were not visible on the base inventory systems and had not been accounted for in the financial statements. The Ministry of Defence corrected this financial error.

Impact: In response, the Ministry of Defence also amended the manual process that had been suppressing the balances from feeding to the accounts, allowing visibility of this stock to inventory managers and, in turn, improved inventory management.

Key facts

355

organisations audited

427

accounts certified

Over

£1 trillion

combined revenue and expenditure of government bodies audited

Key facts

£187,000

average study cost

66

VFM reports approved
for publication

Helping the Department for Environment, Food & Rural Affairs and its network bodies to produce financial statements

We produced a report which reviewed how the Department and its network bodies produce their financial statements, including timeliness, quality of evidence, management review and Audit and Risk Assurance Committee scrutiny. We produced a best practice guide to assist management in reviewing the Annual Reports and Accounts.

Impact: Our recommendations have helped the Department to improve their accounts production, enabling the Annual Reports and Accounts to be published in a timelier manner.

2 Value for money

We examine central government expenditure to establish whether public funds have been used economically, efficiently and effectively and report the outcome to Parliament. This strand of our work is called value-for-money (VFM) audit. The Committee of Public Accounts meets regularly to consider our work.

Our VFM audits help improve public services by focusing on the strategic issues that departments face and draw out the requirements for effective government. The C&AG selects the areas for investigation. When appropriate, we examine programmes early on to identify potential risks and avoid costly mistakes in the future as well as comment on whether they are value for money for the taxpayer. The NAO's transformation now means we work as mixed teams, where appropriate combining financial audit and value-for-money specialists, to provide a more joined-up approach.

The passage of the Local Audit and Accountability Act 2014 has implications for our VFM audits. The Act gives the C&AG's power to undertake work regarding the economy, efficiency and effectiveness with which local public bodies have used their resources. In 2013-14, we began this work with a small number of separately funded VFM audits considering local services. Examples include our reports on council tax support, funding and structures for local economic growth, financial sustainability of local authorities, and central government's communication and engagement with local government.

Helping the BBC improve value for money for the TV licence fee payer

We found from our examination of severance payments and wider benefits for senior BBC managers that weak management controls had led to poor value for money.

Impact: Our findings contributed to a wider debate inside the BBC and externally about the respective roles of the BBC Trust and the Executive Board. In response, the Trust and the Executive Board reviewed their governance systems across the BBC and are aiming to provide better oversight of how licence fee income is spent, for example by increasing the number of non-executive directors on the Executive Board from four to six.

Helping to improve business cases supporting public investment

We reported on the early stages of preparation for the Department for Transport's £35 billion programme to build a high-speed rail network, known as High Speed 2 (HS2). We identified significant weaknesses in the strategic outline business case for building HS2, particularly regarding where and by how much the Department expected additional capacity to be required, and how HS2 would help drive and rebalance economic growth.

Impact: Partly because of our report, and that of the Committee of Public Accounts, when the Department came to its planned update of the business case at outline business case stage, it included a clearer explanation for additional capacity. Our work helped to draw attention to the importance of robust analysis and a clear demonstration of the need for such large-scale investment.

Promoting coordinated working between departments

Our work on local government supported improved joint working among departments. Following our report on financial sustainability of local authorities, the Department for Communities and Local Government requested better information from departments on the impact of local authority funding changes to inform the 2013 spending round.

Impact: Our report on funding and structure for local economic growth reinforced the improvements the Department for Communities and Local Government and the Department for Business, Innovation & Skills were making to the Regional Growth Fund and City Deals. They changed the governance of local growth initiatives across government to improve coordination and decision-making and have begun work on how to evaluate their growth initiatives.

Key facts

7 weeks

average clearance time against a target of 10 weeks

74%

of studies delivered within nine months against target of 85%

35%

of studies delivered within six months against a target of 40%

Key facts

20

completed investigations
and 15 in progress

85

outputs for departments and
other bodies such as good
practice guides and briefings

17

reports on departmental
data systems

Over

1,200

pieces of correspondence
responded to

3 Insight and investigation

In 2013-14, we developed our investigative capacity and capability to respond to allegations or assertions of wrongdoing across the public sector. We have delivered 20 pieces of work under our new investigations work programme and 15 are in progress. The Committee of Public Accounts held seven evidence sessions based on investigations. These included high profile reports such as the Ministry of Justice's electronic monitoring contracts, which found that contractors were charging the Department for a significant period after electronic monitoring activity had ceased; over similar timescales where electronic monitoring never occurred; and multiple times for the same individual.

In 2013-14, we invested in understanding the challenges faced by the bodies we audit and their abilities to address these challenges. This work, known as client insight, helped drive the NAO's transformation, and resulted in outputs that either improved our own knowledge and expertise to improve the quality and relevance of our work, or provided value for our clients outside of our core financial audit and value-for-money work. For instance, in 2013-14, we sought to develop our understanding of the Ministry of Defence's reliance on contractors, its external environment and our view on the main issues for the Department. The resources allocated to client insight will reduce in 2014-15 as teams now review and capture insight from each assignment throughout the year.

Providing a focus on whistleblowing across government

We published an investigative review of whistleblowing policies across 39 government bodies.

Impact: As a result, seven of these bodies, including the NAO, have changed or have committed to updating and improving their whistleblowing policies. Civil Service Employee Policy Unit has a leading role in sharing good practice for whistleblowing policies across government and our work increased the profile of the unit and encouraged more departments to access their services. Following our work, the unit committed to updating its good practice policy and relaunched its guidance to departments in February 2014.

Supporting the Committee of Public Accounts to scrutinise confidentiality clauses

Following our investigation into confidentiality clauses and special severance payments, the Committee of Public Accounts held an inquiry. HM Treasury agreed to work with other government departments, including the Cabinet Office, to develop proposals to facilitate greater transparency of accountability and stronger governance.

Impact: The Cabinet Office is preparing guidance for the civil service on the appropriate use of compromise agreements and confidentiality clauses. It plans to introduce improved monitoring processes and is committed to publishing on an annual basis a consolidated report on the number and value of special severance payments made by the civil service. HM Treasury committed to changing the civil service financial reporting requirements to improve transparency around special severance payments, and it plans to encourage wider public sector bodies to comply with the revised requirements.

4 Support to Parliament

Our work informs the scrutiny of government through parliamentary select committees, particularly the Committee of Public Accounts. The Committee meets twice weekly when Parliament is in session and takes evidence from senior government officials, and others, based on the full range of our work, including value-for-money studies, investigations, landscape reviews and reports on financial statements. In 2013-14, we supported 60 committee hearings. After its hearings, the Committee of Public Accounts publishes its own report setting out its conclusions, making recommendations to government. Government is then obliged to respond.

In addition, we supported 21 other parliamentary committees in 2013-14. This includes publishing 15 departmental overviews designed to provide a quick and accessible outline of each department for the relevant select committee, focusing on areas where performance could be improved and issues identified in NAO reports. Select committees use these outlines as the basis for questioning officials. We also work with select committees to provide a bespoke range of written outputs, the aims of which are to provide committees with client insight, technical expertise and assurance in their area of scrutiny.

We send a number of people to support specific select committees for particular inquiries or short periods. During 2013-14, the NAO seconded employees to the Treasury Committee, the Public Administration Committee, the Environmental Audit Committee, the Defence Committee, the International Development Committee and the Scrutiny Unit. We also provide ad hoc briefings to all members of both Houses.

Key facts

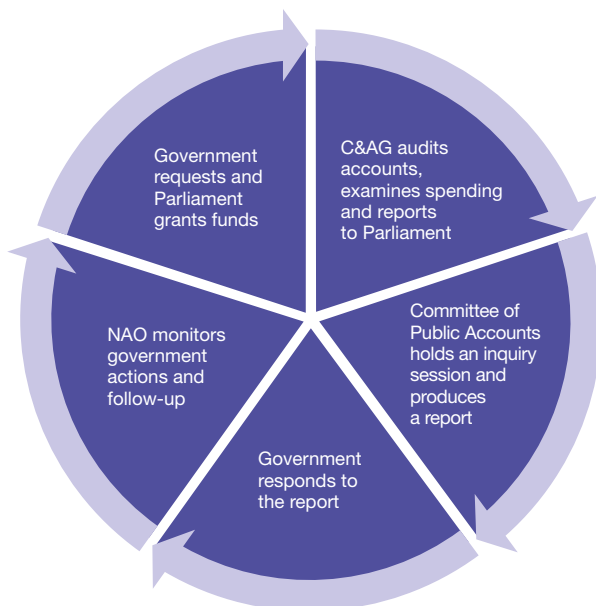
60

Committee of Public Accounts hearings supported

21

other parliamentary committees supported

Government accountability cycle



Key facts

£2.6m

income from our work with the United Nations

£1.2m

income from helping strengthen other supreme audit institutions and public accounts committees

Providing assurance to Parliament on Universal Credit

By reviewing the Department for Work & Pensions Universal Credit programme at an early stage of implementation in 2013, we supported clearer accountability in Parliament at a critical time when the government was restructuring its delivery approach.

Impact: Our report informed a Committee of Public Accounts hearing, an urgent question in the House of Commons and a Work and Pensions Committee hearing. Our work also led the Department to conduct a thorough impairment review of the usability and value of the IT systems it had created to date.

Supporting the Committees for Environment, Food and Rural Affairs and for International Development

In 2013, we supported the Environment, Food and Rural Affairs Committee and International Development Committee in their examination of their departments' accounts and annual reports. We provided written submissions on the accounts and annual reports along with findings on specific issues relevant to the Committees. For the former, this included progress on the Department's cost cutting measures, their preparedness and progress towards implementing CAP reform and overall general financial controls. For the latter, it included the Department's management of the government's target to increase aid spending, controls over operating costs and their impact, and workforce analysis.

Impact: These formed the basis for the Committees' questioning of departmental witnesses and supported conclusions drawn in the Committees' reports.

5 International

We audit several multilateral international organisations and provide technical and managerial advice to a wide range of supreme audit institutions and public accounts committees. This includes contributing to the development of international standards in public sector audit and accountancy.

Since 2010, our international audit appointments have included the United Nations (UN) Board of Auditors. The goal of the board is to use the unique perspective of public external audit to help the General Assembly hold UN entities to account for the use of public resources, and to add value by identifying ways to improve the delivery of international public services. The C&AG is currently chairman of the board, a two-year appointment held since 1 January 2013.

Working with the national audit bodies of China and Tanzania, we certify the UN's accounts, its funds and programmes as well as providing reports covering managerial and value-for-money issues. We audit the UN Headquarters, the UN High Commissioner for Refugees and six UN Peacekeeping operations around the world.

We work with the International Organisation of Supreme Audit Institutions and the European Organisation of Supreme Audit Institutions to set public audit standards and to share knowledge. This helps to shape the future of audit institutions around the world. We also provide technical and managerial advice to a wide range of supreme audit institutions and legislatures.

For example, because of lobbying by the NAO in conjunction with other Commonwealth audit offices and parliamentary committees, in November 2013, the Commonwealth Heads of Government issued a communique reaffirming their commitment to strong and independent audit offices and public accounts committees. This formed the basis for efforts across the Commonwealth to improve the effectiveness and visibility of audit offices and public accounts committees.

Improving the United Nations Capital Master Plan

Our annual reports to the United Nations (UN) General Assembly have tracked progress on the \$2 billion programme for the refurbishment and modernisation of the UN Headquarters building in New York.

Impact: Our reports led to improved project governance and transparency, and strengthened important aspects of management and budgetary control. We identified a number of important lessons to be learned from the project and highlighted the opportunity for the UN to generate efficiencies through the flexible use of workspace. The UN has now initiated a pilot project on flexible working, which if successful, could be rolled out across the UN estate.

Implementation of international public sector accounting standards among United Nations bodies

We have worked closely with a number of UN organisations to support them to implement full accruals based international public sector accounting standards.

Impact: The adoption of internationally recognised accounting standards has significantly improved the completeness and transparency of financial statements by providing more comprehensive information on costs and improving comparability and consistency in financial reporting across UN organisations.

Shaping international public sector auditing standards

The NAO played a significant role in shaping a set of revisions to the International Standards for Supreme Audit Institutions. These standards set out fundamental principles for public sector auditing by audit offices worldwide.

Impact: The revised standards were adopted by the International Organisation of Supreme Audit Institutions (INTOSAI) in October 2013 and are a key driver for audit quality in public sector auditing. The standards underpin INTOSAI's work "promoting greater efficiency, accountability, effectiveness, transparency and efficient and effective receipt and use of public resources for the benefit of citizens" (United Nations General Assembly Resolution A/66/209).

Key facts

C&AG

chairs the United Nations
Board of Auditors

Our

portfolio

includes UN headquarters
in New York and UN High
Commission for Refugees

Major capacity

building projects in
Bangladesh and Kosovo

Our performance

“A strong public audit framework contributes towards stronger public financial management, good governance and accountability, and has a deterrent effect on fraud and corruption.”

Our performance management framework measures how well we are delivering our strategy. Our first two measures report on the impact of our work and demonstrate where we have made lasting improvements to public services. We have three measures to assess our level of credibility and influence with our most important stakeholders in Parliament, and in the bodies we audit. Finally, we report on our use of public funds and our own cost-effectiveness. The framework comprises both qualitative and quantitative measures.

Like all performance measures, ours provide only a partial picture of our contribution to improved public services. A strong public audit framework contributes towards stronger public financial management, good governance and accountability and has a deterrent effect on fraud and corruption. The impact of this is hard to quantify but we seek to maintain this strong public audit framework, for example through guidance and support to the bodies we audit, and through the expert counsel we provide to Parliament in its scrutiny of the public finances.

Performance framework

Impact	Measures	Indicator	Snapshot of performance 2013-14
Our work saves public money	We assess our financial impact, identifying savings across government achieved as a result of our work	Financial impact target (£10 for every £1 spent in 2013)	Achieved Savings to the public purse of £1.1 billion in 2013-14 against a £659 million target
Our work leads to positive change	We look qualitatively at the wider impact of our work and the work of the Committee of Public Accounts	Case studies of positive results, where our contribution has been agreed with the bodies we audit	Largely achieved We have demonstrated our impact across most sectors and areas of work. Examples are included in this report
Parliament has confidence in the independent assurance of the NAO	We commission an independent survey of MPs to understand the value of our work to Parliamentarians	Performance against a range of measures from this feedback	Achieved Increases in familiarity, favourability and advocacy from MPs surveyed in 2013
The bodies we audit acknowledge the value of our work	A series of independent interviews are carried out each year with senior civil servants and chairs of audit committees	Performance against a range of measures from this feedback	Achieved Improvements in clients' feedback rating as measured in 2013
The NAO is a recognised authority in its core areas of expertise	We assess our impact in our core areas of expertise	Qualitative assessment of progress in core areas building on feedback from stakeholders	Largely achieved Our survey measures show that stakeholders believe we are experts in financial audit. More is required to raise perceptions of our expertise across all areas of our work
We use funds cost-effectively	We assess our own cost-effectiveness	Dual measure of aggregate cost savings and the proportion of resources used between front-line and back-office functions	Achieved Against our budget for audit and assurance work in 2013-14, £1.5 million saved Compared to the 2010-11 baseline work programme, the NAO achieved a cost reduction of 17 per cent (equivalent of 22 per cent after allowing for inflation) exceeding the target of 15 per cent We spend at least 80 per cent of our resources on front-line work

Public money

Our work saves public money. We assess our financial impact, identifying savings achieved as a direct result of our work. In 2013-14, we set ourselves a target of £659 million (ten times our net cost) to help the bodies we audit make savings because of our work. We exceeded this target, achieving validated savings to government of £1.1 billion (16 times our operating costs), compared to £1.2 billion in 2012-13. Further details of all our financial impacts are on pages 111–114. As it takes time to confirm and quantify the benefits, which result from our work, some of these impacts arise from previous years' work. Our other performance measures must be taken into account for a fuller picture of whether we are achieving influence through our current work.

Key facts

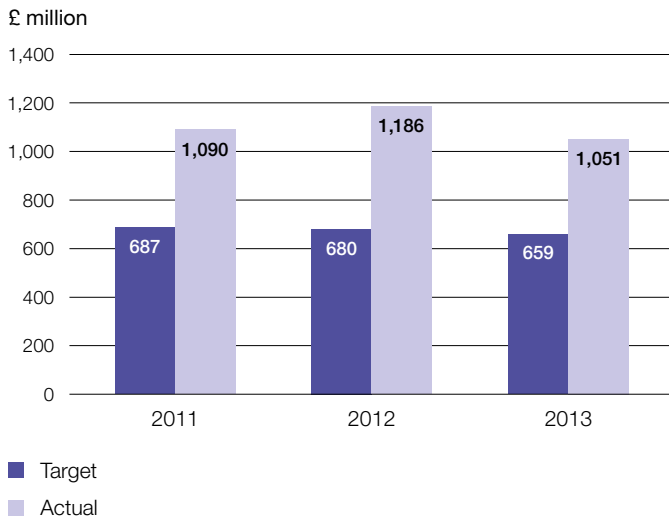
£659m

target was set to help the bodies we audit make savings because of our work

We exceeded this target, achieving validated savings to government of

£1.1bn

The NAO's financial impact: Performance against target



Key facts

We estimate that the Department for Work & Pensions has been able to reduce the loss to the taxpayer by

£133.3m

since 2010-11

Helping the Department for Education improve the funding mechanism for free entitlement to education for three- and four-year-olds

In funding the free entitlement to early education, the Department for Education provided extra funding to local authorities with lower levels of take-up among three-year-olds. The Department intended that authorities would use this funding to increase take-up, but we found that the Department had not monitored the impact of the funding. We recommended that the Department consider changing its funding mechanism.

Impact: The Department has reduced the extra funding provided in 2013-14 and will remove this element of the funding by 2014-15, saving an estimated £88 million across the two years.

NAO drives improvements in Social Fund payments

We found that the Department for Work & Pensions had a number of issues with the quality of its record keeping and its compliance with eligibility regulations when making Social Fund payments. This resulted in an unacceptably high level of payments, which had not been made in line with Parliament's intentions.

Impact: Because of the recommendations made by the NAO, the Department implemented a series of improvements, resulting in a significant reduction in such payments. We estimate that the Department has been able to reduce the loss to the taxpayer by £133.3 million since 2010-11, due at least in part to our recommendations.

Positive change

Our work leads to positive change. We influence government directly through our work with departments, and through our support to the Committee of Public Accounts. We monitor the government's responses to ensure that individual departments have accepted and implemented NAO and Committee of Public Accounts' recommendations.

During the 2013-14 parliamentary session, the government accepted 86 per cent (240) of the 280 recommendations made by the Committee. In 2012-13, government departments accepted 77 per cent (192) of the 248 recommendations made.

We are continuing to work to ensure the government responds faster and more positively to our work, and to maximise the impact of our cross-government insight in other areas of systemic weakness in the public sector. This includes growing our investigative capacity.

For example, we have supported improvements in financial management in many of the bodies we audit and we are working with government to improve the quality of public financial management across all departments. Independent interviews with senior civil servants from the bodies we audit and the chairs of their audit committees show that 67 per cent consider that our work improved their approach to financial management and control compared to 63 per cent in 2012-13. Fifty per cent stated that our value-for-money work led to improvements in services compared to 46 per cent in 2012-13.

Improving transparency on government contracting

Our reports on managing government suppliers and the role of major contractors in public service delivery broke new ground regarding the transparency of private sector service delivery.

Impact: The reports placed information on supplier revenues and the profitability of contracts into the public domain for the first time. The Committee of Public Accounts chairperson described outsourcing as "the most important public policy issue of our time" and the Committee's hearing secured commitments from contractors around transparency, information sharing, open book accounting and NAO access. The Confederation of British Industry later endorsed these commitments. The government's review of contract management was prompted by over-charging on the electronic monitoring contracts and used the NAO good practice framework as its basis. The Head of the Civil Service and the Cabinet Secretary subsequently wrote to all permanent secretaries requiring them to review their capability for managing large contracts and encouraged them to use the NAO framework.

Key facts

86%

of recommendations
accepted by the government

Helping the Department of Health to improve major trauma care in England

Our report into major trauma care found that patients did not consistently receive timely and coordinated care, leading to poorer patient outcomes and, in some cases, death. The report was a significant factor in allowing the major trauma team in the Department of Health to make the case for redesigning the whole trauma system.

Impact: Since the publication of our report in 2010, almost all of its recommendations have been implemented, and the odds that a patient who has suffered severe trauma will die have decreased by 20 per cent. The National Clinical Director for Trauma described our report as “the single biggest catalyst for improving patient care that I have seen in my entire career”.

Helping to bolster the regulatory effectiveness of the Charity Commission

In December 2013, we published a report, which concluded that the Charity Commission lacked the power to disqualify individuals from acting as a charity trustee, and there were limitations on its ability to remove trustees. We recommended the Cabinet Office should assist the Commission in securing legislative changes to address gaps and deficiencies in the Commission's powers.

Impact: As a result, on the day we published our report, the Cabinet Office launched a public consultation on changes to the Charity Commission's legal powers, which included proposals to extend the range of criminal offences automatically barring a person from acting as a charity trustee. It also included proposals for new powers enabling the Commission to close down a charity and disqualify a person from acting as a trustee. The Cabinet Office is now considering the responses to the consultation.

Helping the Department for Work & Pensions to tackle welfare benefit fraud and error

The NAO is seeking to strengthen its capability to evaluate how the Department is tackling fraud and error in the administration of welfare benefits. We have worked with private sector fraud experts to develop a better understanding of market leading practices and, using this, have developed a new analytical framework. We worked with the Department to test the methodology, undertaking pilots to evaluate the strength of the Department's fraud and error response for Pension Credit and Jobseeker's Allowance.

Impact: The project has already prompted joint working with the Department to make improvements in its approach as it seeks to better align its response with the risks that it faces. It has also enabled the NAO to provide a clearer view on its expectations and the strength of the Department's fraud and error controls.

Parliamentary confidence

Parliament has confidence in the independent assurance of the NAO. In 2013-14, the NAO received around five references in Parliament per sitting day. Eighty-two per cent of MPs viewed us as impartial and independent, and 80 per cent viewed us as having honesty and integrity. Seventy-seven per cent believe our work influences beneficial change and 88 per cent consider us to be more authoritative than other similar major organisations.

Our work has continued to support parliamentary scrutiny by providing independent insight to MPs, for example by supporting the Committee of Public Accounts' investigation into how the public sector uses compromise agreements when terminating employment contracts and whether they are being used to 'gag' employees. The Committee of Public Accounts particularly welcomed this new investigative approach.

Intervening to prevent failures from escalating is crucial. By becoming forward thinking and providing assurance earlier in the project lifecycle, we are working to limit the impact of administrative failures, preventing them from expanding into value-for-money failures down the line. For instance, we provided early appraisals for the Committee of Public Accounts on the business case for the High Speed 2 and on the Department for Work and Pensions Universal Credit implementation.

"They have been very effective at uncovering the waste of a large amount of public money; their reports are regarded as impartial, authoritative, detailed."

Conservative backbencher

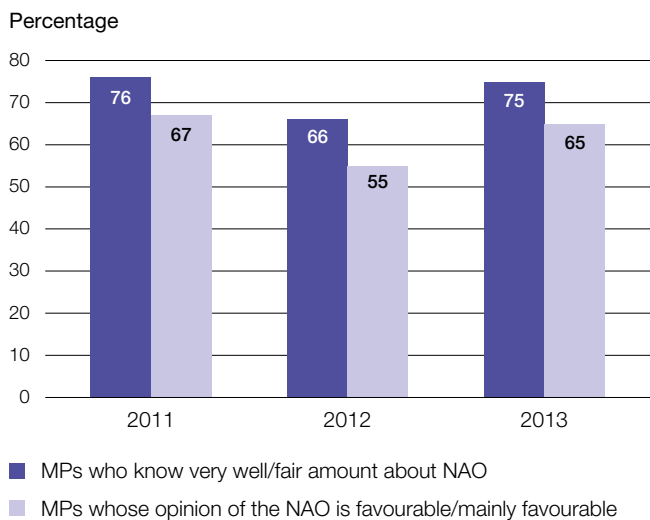
"They are fantastic. They tell us information that we need when we ask them about it, they are very good at what they do and we get full answers from them."

Labour shadow minister

"They are independent and they give a fair balanced opinion on whatever the statistics say."

Liberal Democrat backbencher

Parliamentarians' perceptions of the NAO



Source: Ipsos MORI Base: All MPs (142), Conservative MPs (61) and Labour MPs (64) asked, summer 2013

Key facts

82%

of MPs viewed us as impartial and independent

77%

of MPs believe our work influences beneficial change

Supporting the Committee of Public Accounts Committee to review the UK tax system

Reports by the NAO and the Committee of Public Accounts looked at HM Revenue & Customs' (HMRC) actions to tackle marketed tax avoidance schemes, tax avoiders and the promoters of aggressive schemes.

Impact: HMRC has now set up a counter-avoidance directorate to better coordinate its anti-avoidance activities, seeking to manage down the stock of 65,000 unresolved avoidance cases. The new Directorate also brings together operational compliance activity with policy development. Following Autumn Statement 2013 announcements, the government has also proposed a new measure to remove the cash flow advantage for tax avoiders by requiring the users of avoidance schemes to pay the tax in dispute until the case is resolved in the courts. A further measure will disrupt the market for avoidance schemes by, for example, publicising the hallmarks of high-risk promoters, thus warning taxpayers against buying into their schemes. The new directorate and the proposed legislative changes will put HMRC in a much stronger position to tackle the abuses highlighted in the reports.

Improving oversight of user choice and provider competition in social care markets

We reported on the Department of Health's oversight of social care markets in 2011. The subsequent report on this topic from the Committee of Public Accounts concluded that oversight of social care markets was insufficient. The case of the failed large-scale care provider Southern Cross also demonstrated that the government needed to consider further oversight arrangements at a national and local level to protect users from provider failure, and to protect the interests of the taxpayer.

Impact: The Department accepted the recommendation and in May 2013 set out how the government would put in place a system for financial oversight of 'difficult to replace' adult social care providers. Legislation to create the new system as a function of the Care Quality Commission was included in the Care Bill, and is intended to be implemented from April 2015, subject to the will of Parliament.

Satisfaction with our work

The bodies we audit acknowledge the value of our work. We continue to strengthen our relationships with these bodies. We carry out independent interviews with senior civil servants, as well as the chairs of their audit committees.

Findings from the 2013 interviews are generally positive about the NAO's work, and the overall relationship audited bodies have with the NAO. The professionalism and quality of the NAO's employees was noted frequently. Differences of opinion or issues in need of addressing were seen to be handled well, with plenty of opportunity for discussion. Our audiences described communication with us as regular and appropriate. However, some felt that communication about the wider resources that NAO offers were less widely publicised.

Independent interviews with senior civil servants from the bodies we audit and the chairs of their audit committees show that 87 per cent of those interviewed in 2013 said that our judgements are fair and balanced, up from 81 per cent in 2012. As in 2012, 95 per cent of the bodies we audit continue to report that they consider their relationship with us to be good.

Key facts

87%

of the bodies we audit said that our judgements are fair and balanced

95%

report that they consider their relationship with us to be good

Using our expertise to help better manage the parole process

Our work assessing the capability of NOMS Public Protection Casework Section and the Parole Board in managing the parole process for indeterminate life sentence prisoners is leading to improvements.

Impact: The work provided clarity and a sharper focus on the important underpinning principles of good operations and process management, which is helping the bodies redesign the parole process. In particular, they are developing a more detailed analysis of the different types of demand, the performance of the process and how work flows through the system, to achieve a better fit between demand and capacity. The analysis is helping the bodies to identify what aspects of the process to prioritise in the redesign work.

Helping HMRC to stabilise its new PAYE system

As we reported in our 2010-11 report on HM Revenue & Customs' (HMRC) accounts, HMRC experienced difficulties during the introduction of its new PAYE system. These caused the Department to fall further behind with keeping taxpayers records up to date, leading to loss of revenue and problems with customer service.

Impact: Our report confirmed the actions that HMRC had put in train to stabilise PAYE and to get it working to a normal timetable. We reported on progress against these publicly reported milestones in 2011-12 and the subsequent successful completion of those milestones in 2012-13. This allowed the Committee of Public Accounts to see the progress made by HMRC, the costs to complete it as well as the revenue lost.

“We used the NAO’s transformation to make improvements in the service we provide for these bodies by raising awareness of the wider insight we can bring and by making sure that we maximise the impact we achieve from all our work.”

Helping the Department for Environment, Food & Rural Affairs to streamline farm oversight

We recommended the Department for Environment, Food & Rural Affairs review its arrangements for leading and coordinating farm visits to better target resources towards areas of greatest risk.

Impact: Our report highlighted the need to collect better data and take a more joined-up approach across inspections carried out by the department network and provided support for work in hand by the Department to achieve this.

Our expertise

The NAO is a recognised authority in its core areas of expertise. Independent interviews with senior civil servants from the bodies we audit and the chairs of their audit committees show that the top four areas of NAO expertise were perceived to be:

- conducting financial audit;
- effective governance, risk management and internal control;
- assessing value for money; and
- accountability.

In somewhat newer disciplines for the NAO, only a minority recognised ICT and systems analysis, and structured cost reduction as areas of expertise for the NAO.

On our wider work, awareness among our audiences tended to be low but there was interest among many stakeholders to learn more. We used the NAO’s transformation to make improvements in the service we provide for these bodies by raising awareness of the wider insight we can bring and by making sure that we maximise the impact we achieve from all our work. The NAO was seen to have made significant improvements in:

- being proactive in offering advice;
- being responsible to requests and resolving issues;
- offering value-for-money work that is of high quality; and
- awareness of our cross-government work strand.

Improving oversight of capital funding for new school places

In response to draft recommendations in the NAO's report on capital funding for new school places, published in March 2013, earlier that same month the Department for Education announced that it would require local authorities to provide more information on how they were using the funding they received from the Department. This included information on the number of extra places created to meet demand, the proportion of places created in good or outstanding schools, the cost of these places, and the sources of funding used to meet these costs.

Impact: The increased information will not only allow for greater transparency and accountability for authorities' use of funding but will enable the Department to produce more accurate estimates of the number of places required in future and the cost of providing these.

Improving the focus on public financial management across government

In June 2013, we published a report on financial management across government. Although the review found signs of improvement, it cautioned that the pace of change needed to accelerate and that the Treasury and Finance Leadership Group needed to provide more effective support to strengthen financial management.

Impact: The Chief Secretary to the Treasury acknowledged our report in announcing a government review of financial management. The review was published in December 2013, and the government accepted recommendations on the roles of those overseeing financial management, improving the consistency and quality of management information, and better alignment of systems for public expenditure.

Helping improve the government's approach to funding for renewable energy technologies

Our 2010 work on the government's approach to funding for developing renewable energy technologies encouraged the government to reshape its strategic decision-making and administrative approach.

Impact: The Department of Energy & Climate Change has used the steps we set out to develop a more disciplined approach for its funding for innovation in low carbon technologies. The Department worked with the relaunched Low Carbon Innovation Coordination Group to publish, in 2014, a strategic framework for public support. This was informed by jointly developed technology innovation needs assessments for 11 low carbon technologies, which were commended by the Government Office for Science as an example of good practice in prioritising scientific and technical requirements.

Key facts

17%

reduction in our resources since 2010-11 baseline

20:80

ratio balance between our business support costs and front-line activity

Working cost-effectively

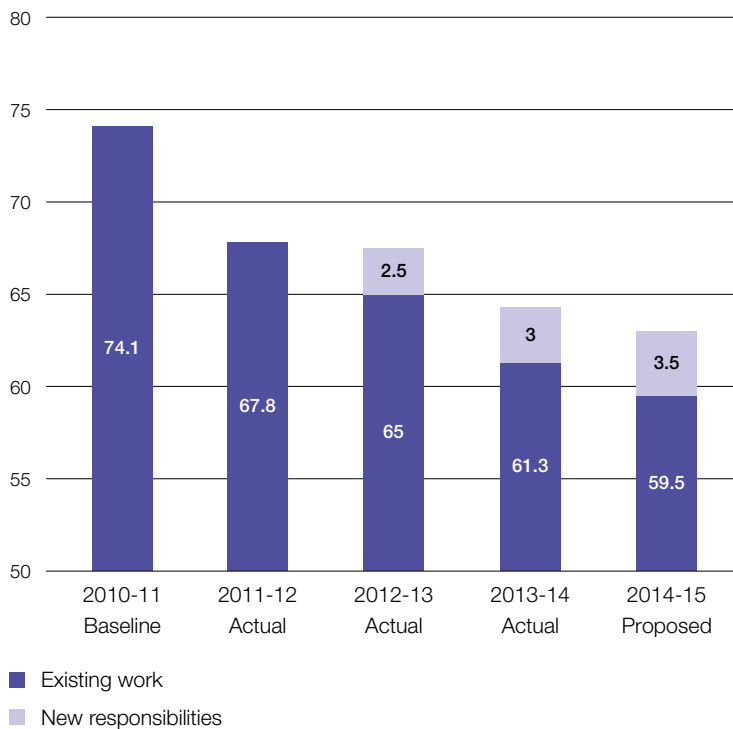
We use funds cost-effectively. In keeping with our commitment to practise what we preach, since 2010-11 we have undertaken an ambitious cost reduction programme. Against our baseline of existing work, we have reduced our resources by 17 per cent in cash terms (22 per cent after allowing for the effect of inflation). We maintain an appropriate balance between our business support costs and front-line activity. We ensure these are within the ratio of 20:80 per cent.

We continue to take cost reduction seriously and our budget for 2014-15 is a further 5 per cent reduction on our 2013-14 budget for existing work (7 per cent inflation adjusted). Although we are reducing our resources, this is managed carefully through transforming the way we work, and we have continued to improve the quality of our work and become more responsive to emerging issues. We are doing more with less.

Overview of the NAO's progress on cost reduction

NAO's net resources

£ million



Notes

- 1 Our baseline was set at £74.1 million in 2010-11.
- 2 Does not include ring-fenced restructuring costs of £4.2 million in 2013-14.

Helping to reduce the regulatory requirements for payment agencies of the Common Agricultural Policy

Through our engagement with the UK coordinating body and European Commission, we have influenced future assurance requirements for the Common Agricultural Policy. This has been achieved through a mixture of a bilateral meeting, ongoing consultation and attendance at expert groups meetings.

Impact: Because of our input, we have reduced the regulatory requirements on paying agencies such as the Rural Payment Agency, in particular through reductions in the scope and requirements for re-performing inspections. Consequently, we have reduced the impact of proposals on the Rural Payment Agency, reduced the cost of our audit arrangements for the taxpayer, and reduced the impact on farmers and other scheme claimants of being inspected multiple times.

Working collaboratively to optimise skills and running costs between NAO teams

In developing the NAO's programme of work on government contracting, we thought about how we could optimise the NAO's combined technical skills and sector knowledge and thereby get the most impact from examining government's major suppliers. Two teams from different areas worked jointly to produce two memorandums for Parliament, covering a wider scope than if working individually, and providing material to support two Committee for Public Accounts hearings.

Impact: By working across traditional team boundaries, the teams delivered two outputs concurrently, sharing the fieldwork, reducing costs and minimising the impact of the fieldwork on clients and suppliers. Collaborative working provided a wider skills set for the teams to draw upon, more opportunity for an innovative approach, and greater rigor and challenge to the work produced.

Use of external partners

We have a strategy to reduce our expenditure on external suppliers and use our own employees to deliver our core work, as it has proved more cost-effective. Following a sustained investment in our own knowledge and skill base, such as IT audit capability, we have transformed the way we work in 2013-14. Our audit and value-for-money disciplines are fully integrated in teams, which are built around the major strategic issues facing government.

Impact: These organisational changes have meant we have generated much greater capacity to carry out our work in-house. Our outsourcing expenditure has fallen by £1.5 million (13 per cent) since last year and by £7.2 million (40 per cent) since 2009-10. We continue to use outsourcing arrangements where specialist skills are required, or to supplement our audit resource during peak periods, but monitor our commercial contracts closely to ensure we receive value for money. We will continue to look for further efficiencies in 2014-15.

Key facts

Our outsourcing expenditure has fallen by

£1.5m

(13 per cent) since last year and by

£7.2m

(40 per cent) since 2009-10

Key facts

34%

of our London building freed up and is now rented to tenants on a commercial basis

£1.7m

earned from rental and other charges

Outsourcing expenditure

£ million



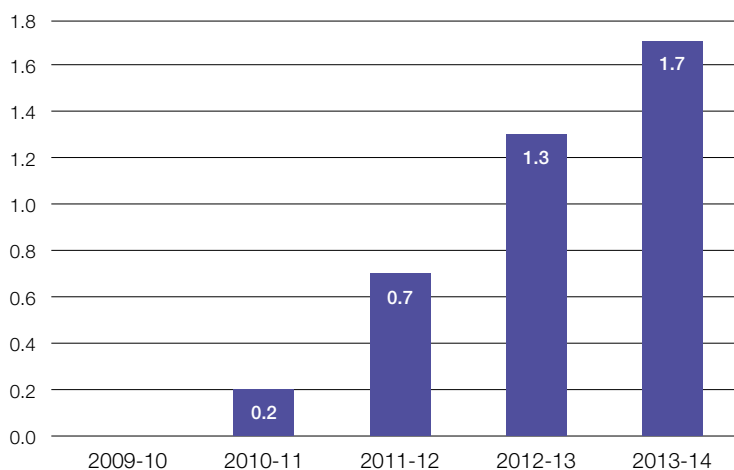
Maximising the return on our assets

Since we moved back into our London headquarters, we have progressively reorganised the way we work by using hot desk arrangements, optimising desk space and using available office space. We have managed to free up around 34 per cent of our London building, which is now rented to tenants on a commercial basis. We are also promoting the use of our meeting and conference room facilities to third parties for which we charge a fee.

Impact: In 2013-14, we earned a total of £1.7 million from rental and other charges, which is a £0.4 million (or 30 per cent increase) on the prior year.

Income from rental of office space

£ million



Our people

“Our people strategy aims to create a stretching but rewarding working environment where employees develop their skills and gain the right experience to enhance their individual contribution.”

Key facts

822

full-time equivalent permanent employees

Average of

5

days of structured training per person

“We are a people-led organisation and we have undergone a transformation to increase the impact of our work. Working differently means we can better realise the potential of our people.”

We are a people-led organisation and we have undergone a transformation to increase the impact of our work. Working differently means we can better realise the potential of our people. Our people strategy aims to create a stretching but rewarding working environment where employees develop their skills and gain the right experience to enhance their individual contribution. We are a relatively young organisation with around two-thirds of our people aged under 40, reflecting our position as a training organisation.

Our focus on developing the skills and expertise of our people and providing them with greater responsibility at an early stage in their careers, has allowed us to reduce our numbers during the course of 2013-14. We have secured new expertise from the external market to enhance our skills base, particularly at senior levels. In 2013-14, we employed 822 full-time equivalent permanent employees. This is 57 fewer than in 2012-13.

Learning and development

As a professional organisation, we invest heavily in training and development, and we have a high concentration of financial expertise. In 2013-14, we implemented a skills strategy for each of our six clusters identifying the additional skills required to support their strategic issues and complement our core financial and accounting skills. We recruited expertise in local government, corporate finance, health and IT among a broad range of disciplines.

In 2013-14, we recruited 50 graduates for the Institute of Chartered Accountants in England and Wales (ICAEW) graduate training scheme and 11 school leavers for the ICAEW Certificate in Finance, Accounting and Business scheme. We also introduced a new apprenticeship scheme with participants training towards level two and three qualifications in business administration.

During 2013-14, one of our graduate trainees, Shelina Alagh, won various ICAEW awards including an award for the quality of her work in the Financial Management examination, securing first place in this national exam. Additionally, Shelina was accredited with the Northcott Prize in the 2013 Professional Annual International Order of Merit as well as the Roger Lawson prize for the Highest Non-Public Practice Student. Shelina also won the LSCA Public Sector Exam prize for the leading candidate working in the public sector.

In 2013-14, the pass rates of all our trainees were consistently at or above the national average. In 2013, 90 per cent of our trainees passed the Certificate Level exams, and 59 per cent passed their Professional Level exams compared to the national average pass rate of 57 per cent. In 2013, 78 per cent of our trainees passed all three Advanced Level papers at their first attempt compared to the national average pass rate of 67 per cent.

Even in a challenging public spending environment, we continue to invest in our people and make sure they have the opportunity to develop. On average, people in the NAO undertook 5 days of structured training, with those training for the ICAEW qualification undertaking 40 days.

People survey

We undertake an annual survey of our people and benchmark our results against public and private sector norms. In 2013, 86 per cent of our employees responded, compared with an average 59 per cent response rate in central government bodies.

Due to our transformation, 2013 was a year of significant change for the NAO and this is reflected in our people survey results. The majority of our scores decreased compared to those of 2012. The most significant areas of decline were around understanding our strategy, the Leadership Team’s communications and visibility and overall engagement. Although it is not unusual to see declines in people survey scores when organisations go through change, this was an area of concern for the NAO and we wanted to take prompt action on peoples’ concerns.

We focused on ensuring everyone in the NAO understood the strategy, the rationale for change, and his or her role in the transformed NAO. We ran grade-specific sessions where small groups could discuss issues directly with the Leadership Team in an informal environment. These are now a regular feature in our internal events calendar. We acted on comments and concerns around employee consultation, reward and recognition, harassment and bullying, and flexible working by setting up employee working groups and asking them to make recommendations to the Leadership Team. We implemented a suggestion scheme and are reviewing our welcome pack for new starters to ensure they feel welcome and involved from day one.

A follow-up survey in January 2014 showed that our efforts to better engage with our people had begun to work. Our employee engagement score rose from 48 per cent to 55 per cent, approaching our 2012 result of 58 per cent. We also achieved increases in scores around leadership and understanding our strategy. In 2014-15, we will continue to run periodic surveys to monitor employee engagement.

Key facts

44%

of our people are female

31%

of our senior people are women

Employee survey results

Areas	2013 people survey score (%)	January 2014 pulse survey score (%)
Response rate to survey	86	50
Employee engagement	48	55
Proud to work for the NAO	60	70
Leadership Team has a clear vision for the future of the NAO	32	46
Understanding of the strategy	65	69
Leadership Team makes an effort to listen to employees	32	39

Note

1 OCR International conducted the NAO’s 2013 people survey.

Key facts

8%

of our people have
a disability

16%

of our people are from an
ethnic minority

Diversity

This is the second year in our three year diversity strategy 2012-13 to 2014-15 where the aim was to promote and develop a culture of equality and diversity. Our strategy and action plan sets a challenging agenda for the NAO. The key priorities include:

- improving the retention and progression of ethnic minority staff to our more senior grades; and
- higher representation of women in our more senior grades.

We have made progress against some elements of our strategy, but the pace of change is slower than expected. In terms of ethnicity, we need to see some of the initiatives that were implemented last year bed in before we can reap the full benefits, for example, the launch of an ethnic minority mentoring scheme and the roll out of unconscious bias training for all employees. However, some new issues are emerging as our data indicates inequality of allocation of tasks and roles between white and ethnic minority employee, which we will be addressing as a priority in the coming year.

There have been some important achievements;

- We were a founding member of Access Accountancy, a profession wide initiative to provide greater opportunities to talented students from disadvantaged backgrounds.
- NAO were awarded a gold rating in the Opportunity Now and Race for Opportunity benchmarking surveys for gender and ethnicity equality respectively.
- We also achieved our target of holding equality information across protected characteristics for 70 per cent of employees. This information will help inform future policy decisions to ensure a fair workplace which promotes diversity.

Health and safety

Our health and safety policy complies with all relevant legislation and we have a strong record in providing a safe and supportive work environment for our people. Our policy is reviewed annually and is overseen at board level. During 2013-14, we recorded six minor incidents, none of which were reportable under the reporting of injuries, diseases and dangerous occurrences regulations.

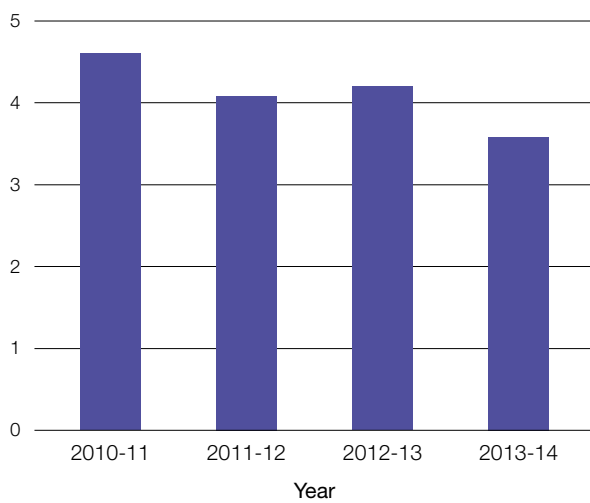


Sickness absence

We are committed to the physical and mental health of our people and we have a comprehensive sickness management policy. We review our occupational health policies regularly to ensure sickness absence rates remain low compared to both public and private sector benchmarks.

Sickness absence (average days) 2010-11 to 2013-14

Average working days lost (days)



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The NAO Board and Leadership Team

Key to committee membership

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

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1 Professor Sir Andrew Likierman

Chairman of the NAO Board

Andrew Likierman is Chairman of the NAO Board. He is Dean of the London Business School. 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.

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2 Amyas Morse

Comptroller and Auditor General and member of the NAO Board

Amyas Morse was appointed Comptroller and Auditor General on 1 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 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.

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4 Gabrielle Cohen

Executive Leader and member of the NAO Board

Gabrielle Cohen has been an Executive Leader (previously Assistant Auditor General) since 2005. She trained as an accountant with the NAO and was appointed to the board in July 2009. Gabrielle is responsible for leading our stakeholder relations, governance, corporate policy, and relations with Parliament.

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5 Naaz Coker

Non-executive member of the NAO Board

Naaz Coker joined the NAO Board in July 2012. She started her career in the National Health Service working as a pharmaceutical officer before becoming a clinical director and general manager. She served as a Director at the King's Fund and was Chair of the British Refugee Council for eight years. She served as Chair of the St George's NHS Trust until 2011 and was named Asian Woman of the Year in 2000 and 2003.

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6 Gillian Guy

Non-executive member of the NAO Board

Gillian Guy joined the NAO Board in July 2012. She is the Chief Executive of Citizens' Advice and has experience in both the public and voluntary sectors. She began her career as a lawyer in private practice before moving to local government. She served as Chief Executive of the London Borough of Ealing for 12 years and was Chief Executive of Victim Support between 2006 and 2010. Gillian became the Chair of the Audit Committee on 17 May 2013.

3 Michael Whitehouse

Chief Operating Officer and member of the NAO Board

Michael Whitehouse was appointed Chief Operating Officer in July 2009. Michael has extensive experience of value-for-money work across government and internationally. He 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. He is a qualified accountant.

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 Hyde Housing Association and Aberforth Smaller Companies Trust plc. She is a Chartered Accountant and a Member of the Association of Corporate Treasurers. Paula is our Senior Independent Director and Chair of the Remuneration and Nominations Committee.

8 Ed Humpherson

Executive Leader member of the NAO Board

Ed Humpherson was appointed to the NAO Board in July 2009. He was 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 crises. Ed was Chair of the Audit Practice and Quality Committee (APQ) from July 2009 until December 2013. Ed has now left the NAO and is Head of Assessment at UK Statistics Authority.

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 been Chair of the UK Accounting Standards Board, and was the first female partner in the UK audit practice of PricewaterhouseCoopers. Mary was Chair of the Audit Committee from its inception in July 2009 to 16 May 2013.

10 Lynda McMullan

Executive Leader

Lynda was appointed an Executive Leader (Assistant Auditor General) in 2011. She had the responsibility for the NAO's work on local government, education and health. Lynda left the NAO on 30 September 2013. She is now the Director of Police Resources & Performance at the Mayor's Office for Policing and Crime (MOPAC).

11 Sue Higgins

Executive Leader

Sue Higgins joined the NAO in January 2014 as Executive Leader. She is responsible for the NAO's work on local government, health and education. Sue joined the NAO from the Department for Communities and Local Government where she was Director General, Finance & Corporate Services. Prior to this, Sue held the same role in the Department for Education having moved from the local government sector in 2009. She is a qualified accountant.

12 John Thorpe

Executive Leader and member of the NAO Board

John Thorpe joined the Leadership Team in January 2014, assuming responsibility for NAO's work on economic affairs. John qualified as an accountant with the NAO. He has experience of directing a mixed portfolio of work, providing leadership to the financial audit work-stream, and achieving significant progress in key areas – such as the understanding of fraud and error in welfare benefits.

13 Martin Sinclair

Executive Leader

Martin Sinclair has been an Executive Leader (Assistant Auditor General) since 1999. He is responsible for the audit of a broad portfolio of clients, including many major government departments. He is a member of the Council of the Chartered Institute of Public Finance and Accountancy (CIPFA) and is Chair of CIPFA's Remuneration Committee. Martin is Chair of the Audit Practice and Quality Committee.

14 Sally Howes

Executive Leader

Sally Howes joined the NAO in April 2010 as a Director and was appointed as Executive Leader in April 2013. She has considerable experience of policy, strategy, software and systems development. She will support the development of the NAO's non-audit expertise and the strategic development of the NAO's IT capability including data analytics. Sally is a member of the Operational Capability Committee.

Amyas C E Morse Comptroller and Auditor General

2 June 2014



Resource accounts 2013-14

“...a successful implementation of transformation where the NAO has delivered change earlier than planned and at less cost.”

Directors report

Budget Responsibility and National Audit Act 2011

The Budget Responsibility and National Audit Act 2011 established the National Audit Office as a body corporate on 1 April 2012. Schedule 2, 24 (1) of the Act requires the NAO to prepare resource accounts. Details of the Act can be found at: www.legislation.gov.uk/ukpga/2011/4/enacted/data.pdf

Review of performance

The NAO has continued to make good progress in its final year of a three-year programme to deliver savings and reforms. Compared to the 2010-11 baseline work programme the NAO achieved a cost reduction of 17 per cent (equivalent of 22 per cent after allowing for inflation) exceeding the target set of 15 per cent. The NAO has achieved these savings by transforming ways of working and through efficiencies within corporate services enabling it to improve the quality and range of its work for less money.

The NAO's net resource outturn for audit and other assurance work in 2013-14 was £64.3 million which is £1.5 million or 2.3 per cent lower than the 2013-14 Estimate. The total net resource requirement, including funding provided for restructuring, was £68.5 million, which is £2.0 million or 2.8 per cent lower than the £70.5 million approved in the 2013-14 Estimate. This is mainly due to a successful implementation of transformation where the NAO has delivered change earlier than planned and at less cost.

The following table provides a more detailed comparison of the NAO's 2013-14 outturn with the 2013-14 Estimate (voted expenditure) based on the Statement of Parliamentary Supply page 73.

Resources	2013-14	2013-14	Saving	
	Estimate £m	Outturn £m	£m	%
Audit and other assurance services	85.5	84.6	(0.9)	-1.1
Income	(19.7)	(20.3)	(0.6)	3.0
Net resources for audit and other assurance services	65.8	64.3	(1.5)	-2.3
Restructuring of the NAO	4.7	4.2	(0.5)	-10.6
Net resource requirement	70.5	68.5	(2.0)	-2.8
Capital expenditure	1.5	1.5	-	-
Net cash requirement	69.2	66.1	(3.1)	-4.5

Net resources for Audit and other assurance services

The NAO is mainly a business reliant on people where salary and related employee costs make up around 67 per cent (£57.0 million) of its total expenditure. The remaining expenditure includes the use of external experts to assist in the NAO's work, costs of running the office and travel and subsistence.

The net saving of £1.5 million is largely due to the successful implementation of transformation where we have secured a faster payback having implemented restructuring sooner than planned and, as a result, will achieve staff savings of £1.3 million ahead of schedule in 2013-14. The NAO has also actively managed to increase its income to fund its activities, and maximise the return on its assets.

Income

In the UK, the NAO earns income on fees charged to non-departmental public bodies and other clients; this represents around 66 per cent of total annual income. The fees charged are set to meet the costs of the audit, not to generate a profit. In addition, the NAO earns income by renting out spare capacity in its London headquarters building.

The NAO also earns income from international work involving the United Nations Board of Auditors (UNBOA), to which the NAO was appointed for a six-year term in 2010, and other international technical cooperation projects.

The NAO generated £20.3 million income, £0.6 million or 3 per cent higher than the 2013-14 Estimate. The increase in income is due to the expansion of the secondment programme, an increase in international work, and charging tenants for the use of its meeting and conference facilities. More information on the NAO's income is included in Note 6 of the Accounts.

Restructuring of the NAO

In the 2013-14 Estimate, the NAO was granted a further funding of £4.7 million to carry out a restructuring programme to secure the release of staff and the opportunity to increase capability, of which £4.2 million has been used to release 44 staff, with half of these being at senior or middle management level. At the same time, around a quarter of posts have been replaced with new skills and expertise. As a result of delivering this change at a lower cost, we are returning £0.5 million to the Exchequer. Information on the NAO's restructuring costs is included in Note 4 of the Accounts.

Key NAO achievements

At the same time as pursuing radical cost reduction at the NAO, the quality of its work has improved. Our work is more responsive; we are examining issues of significant public interest earlier to highlight risks and seek assurance that they are being well managed; and in supporting the Committee of Public Accounts and other select committees, we contribute to strong effective accountability that helps drive public service improvements. The NAO also identified financial impacts of some £1.1 billion, more than 16 times its net running cost.

Key achievements during 2013-14 included:

- 427 **financial audit** accounts were certified against a target of 417, including 359 accounts certified before Parliament entered Recess in July 2013;
- 66 **value-for-money** major reports were approved for publication in the year, including six separately funded studies on locally delivered services and foundation trusts;
- a range of **insight and investigations** outputs were delivered that assessed issues in government. This included 20 investigations completed and 15 currently in progress, often in response to concerns raised by the general public, 85 outputs for departments and other government bodies, such as good practice guides and briefings, 17 published reports on departmental data systems, and responding to over 1,200 pieces of correspondence from the general public and MPs; and
- we **supported Parliament** in 60 Committee of Public Accounts hearings and worked with 21 select committees.

Capital expenditure

The NAO invested £1.5 million in 2013-14 to improve the efficiency of business operations. This included £0.9 million for the update and replacement of servers, laptops and other IT equipment; £0.4 million on the refurbishment of the new leased building in the Newcastle Office and £0.2 million for developing internal software to assist the business operations.

Capital employed since 2009-10

The following table summarises the value of assets and liabilities since 2009-10.

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15 Plan	2015-16 Plan
	£m	£m	£m	£m	£m	£m	£m
Assets							
Non-current assets							
Property plant and equipment	76.7	77.9	74.6	74.6	78.5	77.4	77.1
Land and buildings	55.5	58.2	56.1	57.7	62.0	62.5	63.0
Plant and machinery	16.5	15.8	14.9	14.1	13.3	12.5	11.7
IT equipment	2.1	1.5	1.4	0.9	1.3	1.1	1.1
Furniture, fixtures and fittings	2.6	2.4	2.2	1.9	1.9	1.3	1.3
Intangible assets:	1.5	1.3	1.3	1.5	1.2	1.9	2.3
Software and other licences	1.5	1.3	1.1	1.1	1.2	1.1	2.3
Assets in course of construction	–	–	0.2	0.4	–	0.8	–
Other non-current assets	0.5	0.5	0.6	0.6	0.3	0.3	0.3
Current assets	10.7	10.7	9.1	6.2	6.3	5.2	5.0
Liabilities							
Current liabilities	(5.2)	(6.1)	(4.7)	(6.0)	(7.8)	(6.4)	(6.4)
Provisions	(3.5)	(5.3)	(3.4)	(2.9)	(1.9)	(1.3)	(1.0)
Net capital employed¹	80.7	79.0	77.4	74.0	76.6	77.1	77.3

Note

1 Some of the columns may not add up due to rounding.

Financial position

The Statement of Financial Position on page 78 shows that, as at 31 March 2014, total assets less total liabilities were £76.6 million, £2.6 million higher than as at 31 March 2013.

Non-current assets increased in net terms by £3.3 million, mainly due to an increase in the value of the London headquarters building, following a professional revaluation. Current assets remained comparable with the previous year.

Total liabilities are £9.7 million, an increase of £0.8 million from 2012-13 mainly due to an increase in payments received on account and accruals for work carried out by our framework partners. Included in NAO's liabilities is a provision of £1.8 million for payments made to former employees who left under the terms of the Civil Service Compensation Scheme prior to October 2010. This is £1.0 million lower than it was at 31 March 2013 and the balance will continue to reduce until it is fully depleted.

NAO Estimate

The Budget Responsibility and National Audit Act 2011 requires the NAO to prepare a Supply Estimate for each financial year. Supply Estimates are the means by which authority is sought from Parliament for spending.

The NAO's Estimate for 2014-15 was approved by the Public Accounts Commission on 18 March 2014 and is normally authorised by Parliament towards the end of July, when the Appropriation Act is passed.

Resources required in 2014-15

The Estimate provides for a total net resource requirement of £63.0 million, £59.5 million for existing work and £3.5 million for new work arising from the introduction of the Local Audit and Accountability Act.

In comparison to the net resources approved for 2013-14 this proposal reflects a 5 per cent reduction in cost for existing work (equivalent to 7 per cent in real terms) and 4 per cent (6 per cent in real terms) for all work including new responsibilities. This request for resources against the 2010-11 baseline work programme will result in NAO delivering a 20 per cent cost reduction, 26 per cent allowing for inflation, by the end of 2014-15.

Key movements include:

- Planned savings in financial audit work to be delivered through efficiencies in audit approach.
- Increased spend for additional value-for-money reports into the delivery of local services replacing those published by the Audit Commission.
- Following capability building in the previous year a lower resource requirement as the NAO take on a tighter focus on investigations and fact finding inquiries.
- Investment in supporting select committees reflecting plans to provide direct support to each of the main committees.
- Decreased resources required to support international organisations as the NAO continues to scale back its technical cooperation programme.

 NAO voted expenditure 2009-10 to 2013-14 and resource requirements 2014-15 to 2015-16

	2009-10 Outturn £m	2010-11 Outturn £m	2011-12 Outturn £m	2012-13 Outturn £m	2013-14 Outturn £m	2014-15 Estimate £m	2015-16 Assumption £m
Audit and assurance	50.1	51.2	51.2	49.3	46.8	45.7	46.0
Value for money	21.6	19.1	19.6	17.4	17.5	18.0	18.5
Insight and investigations	12.0	10.5	7.7	15.0	13.0	11.8	11.8
Support for Parliament and other organisations	10.7	11.6	9.0	7.1	7.1	7.3	7.3
Comptroller function	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Restructuring the NAO ³	–	–	–	–	4.2	–	–
Refurbishment of NAO HQ ²	16.2	–	–	–	–	–	–
Temporary accommodation	5.9	–	–	–	–	–	–
Total gross resource requirement	116.7	92.6	87.7	89.0	88.8	83.0	83.8
Income	(19.9)	(19.5)	(19.9)	(21.5)	(20.3)	(20.0)	(19.3)
Total net resource requirement	96.8	73.1	67.8	67.5	68.5	63.0	64.5
Capital expenditure	11.9	1.3	1.2	1.1	1.5	1.5	1.5

Notes

- 1 All expenditure is deemed to be equivalent to resource DEL (Departmental Expenditure Limit) and capital DEL.
 - 2 Between December 2007 and December 2009, the NAO refurbished the London headquarters building and incurred significantly higher resource and capital expenditure in this period.
 - 3 During 2013-14, the NAO carried out a 'restructuring' of its operations, incurring a 'one-off' cost to deliver permanent, sustainable and ongoing savings.
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Payment of suppliers

The NAO is an Approved Signatory to the Better Payment Practice Code (<http://payontime.co.uk>) and has seen an improvement year on year. The NAO made 99 per cent of payments within 30 days of receipt of the invoice compared to 94 per cent in 2012-13. The NAO also monitored payments against a ten day target, in recognition of the government's commitment to pay suppliers, where 89 per cent of payments were made within ten days of receipt of the invoice compared to 81 per cent in 2012-13.

Auditor of the NAO

RSM Tenon Audit Limited was appointed by the Public Accounts Commission as the external auditor of the NAO for a period of three years from 1 April 2011 with 2013-14 being the final year. On 1 October 2013, RSM Tenon merged with Baker Tilly and is trading under the name of Baker Tilly UK Audit LLP. During 2013-14, Crowe Clark Whitehill were appointed as external auditor by the Public Accounts Commission for a period of three years commencing 1 April 2014.

In addition to their work to form an opinion on the financial statements, Baker Tilly also provides additional services including value-for-money reports on the NAO to the Public Accounts Commission, a review of NAO's statement of financial impacts, and provide assurance to funding organisations on its international technical cooperation programme. Details of the cost of external audit services are disclosed in Note 4 on page 88.

Value-for-money reports produced by Baker Tilly and RSM Tenon (prior to October 2013) on the NAO are available on the Public Accounts Commission's website: www.parliament.uk/business/committees/committees-a-z/other-committees/public-accounts-commission/

Amyas C E Morse
Comptroller and Auditor General

2 June 2014

Remuneration Report

Remuneration policy

Comptroller and Auditor General

The remuneration of the Comptroller and Auditor General is determined jointly by the Prime Minister and the chair of the Committee of Public Accounts prior to appointment. In accordance with the provisions of Part 2, 13(5) of the Budget Responsibility and National Audit Act 2011, the remuneration of the Comptroller and Auditor General is charged on, and paid out of, the Consolidated Fund.

The remuneration and associated national insurance contributions are disclosed in Note 4 on page 88.

NAO Chairman

The remuneration of the NAO Chairman is determined jointly by the Prime Minister and the chair of the Committee of Public Accounts. In accordance with the provisions of Schedule 2 Part 2, 6(2) Chairman of the Budget Responsibility and National Audit Act 2011, the remuneration of the NAO Chairman is charged on, and paid out of, the Consolidated Fund. The remuneration and associated national insurance contributions are disclosed in Note 4 on page 88.

Non-executive board members

The Public Accounts Commission approves the remuneration of the non-executive board members. The remuneration paid to non-executive board members is non-pensionable.

Executive board members

The NAO Remuneration Committee determines and agrees the remuneration of three out of the four executive board members (i.e. excluding the remuneration of the Comptroller and Auditor General).

NAO staff

In accordance with the provisions of the Budget Responsibility and National Audit Act 2011, the National Audit Office is responsible for employing staff and must have regard to the desirability of keeping the terms 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;
- 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 following table provides details of the remuneration and pension of the NAO Board and Executive Leadership Team. The information on pages 55 to 58 has been subject to audit.

Single total figure of remuneration

Non-executive board members			Salary		Benefits in kind (to nearest £100)		Pension benefits (to nearest £1,000) ¹		Total remuneration	
Name	Date of appointment	Notice period	£000		2013-14	2012-13	2013-14	2012-13	2013-14	2012-13
			2013-14	2012-13						
Professor Sir Andrew Likierman (Chair)	01-01-09	3 months	50–55	50–55	200	–	–	–	50–55	50–55
Naaz Coker	01-07-12	3 months	20–25	15–20 (full year equivalent: 20–25)	100	100	–	–	20–25	15–20 (full year equivalent: 20–25)
Ruth Evans (to 30 June 2012)	01-07-09	3 months	–	5–10 (full year equivalent: 20–25)	–	–	–	–	–	5–10 (full year equivalent: 20–25)
Richard Fleck CBE (to 30 June 2012)	01-07-09	3 months	–	5–10 (full year equivalent: 20–25)	–	–	–	–	–	5–10 (full year equivalent: 20–25)
Gillian Guy	01-07-12	3 months	20–25	15–20 (full year equivalent: 20–25)	100	–	–	–	20–25	15–20 (full year equivalent: 20–25)
Paula Hay-Plumb	17-03-10	3 months	20–25	20–25	800	800	–	–	20–25	20–25
Dame Mary Keegan	01-07-09	3 months	20–25	20–25	1,500	1,500	–	–	20–25	20–25

Note

¹ The value of pension benefits accrued during the year is calculated as the real increase in pension multiplied by 20, plus the real increase in any lump sum, less contributions made by the individual. The real increase excludes increases due to inflation or any increase or decrease due to a transfer of pension rights.

Single total figure of remuneration *continued*

Executive Leadership Team			Salary		Benefits in kind (to nearest £100)		Pension benefits (to nearest £1,000) ¹		Total remuneration	
Name	Date of appointment	Notice period	£000						£000	
			2013-14	2012-13	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13
Amyas Morse Comptroller and Auditor General	01-06-09	None	205-210	205-210	-	-	-	-	205-210	205-210
Michael Whitehouse Chief Operating Officer	01-04-02	3 months	165-170	160-165	400	200	11	52	165-170	160-165
Gabrielle Cohen	01-04-05	3 months	140-145	140-145	300	200	14	42	140-145	140-145
Ed Humpherson (to 5 January 2014)	16-07-07	3 months	110-115 (full year equivalent: 140-145)	135-140	-	200	26	66	110-115 (full year equivalent: 140-145)	135-140
Sue Higgins	06-01-14	3 months	35-40 (full year equivalent: 155-160)	-	300	-	14	-	35-40 (full year equivalent: 155-160)	-
Sally Howes	25-04-13	3 months	155-160	-	300	-	61	-	155-160	-
Lynda McMullan (to 30 September 2013)	01-10-11	3 months	75-80 (full year equivalent: 145-150)	145-150	-	200	25	58	75-80 (full year equivalent: 145-150)	145-150
Martin Sinclair	29-01-99	3 months	145-150	145-150	300	200	22	87	145-150	145-150
John Thorpe	02-01-14	3 months	35-40 (full year equivalent: 140-145)	-	300	-	5	-	35-40 (full year equivalent: 140-145)	-

Note

- 1 The value of pension benefits accrued during the year is calculated as the real increase in pension multiplied by 20, plus the real increase in any lump sum, less contributions made by the individual. The real increase excludes increases due to inflation or any increase or decrease due to a transfer of pension rights.

Salary

'Salary' includes gross salary and any other allowance to the extent that it is subject to UK taxation.

Benefits in kind

The monetary value of benefits in kind covers any expenditure incurred by the NAO and treated by HM Revenue & 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 cost to the NAO of providing the death in service benefit to members of the Leadership Team and the associated income tax and National Insurance liability, which was met by the NAO, is shown within the benefits column in the Table on page 56. The benefits in kind disclosed for non-executive members of the board in the Table on page 55 relate to travel to the NAO for board and other committee meetings and include the associated income tax and National Insurance liability, which was met by the NAO. The NAO has an agreement with HM Revenue & Customs to meet income tax and National Insurance on these benefits on behalf of non-executive board members.

Salary multiples

The Comptroller and Auditor General was the highest paid individual in the NAO in 2013-14. His salary was in the range £205,000 to £210,000 (2012-13: £205,000 to £210,000). This was 4.38 times the median salary paid which was in the range £45,000 to £50,000 (2012-13: £45,000 to £50,000). The Comptroller and Auditor General's salary is paid by the Consolidated Fund and is reported in Note 4 to the Accounts on page 88.

In 2013-14, remuneration ranged from £16,010 to £210,000 (2012-13: £18,372 to £210,000).

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 (see Note 3 to the Accounts on page 86 for more information). Details of the scheme can be found at: www.civilservice.gov.uk/pensions.

The pension entitlements of the most senior managers of the NAO were as follows:

Name	Accrued pension at age 60 at 31 March 2014 £000	Accrued lump sum at age 60 at 31 March 2014 £000	Real increase in annual pension £000	Real increase in lump sum £000	CETV at 31 March 2014 £000	CETV at 31 March 2013 ¹ £000	Real increase in CETV £000
Michael Whitehouse	72	216	1	3	1,483	1,385	9
Gabrielle Cohen	48	143	1	3	868	804	10
Ed Humpherson (to 5 January 2014)	42	48	2	–	548	499	16
Sue Higgins ²	1	–	1	–	10	–	7
Sally Howes	15	–	4	–	193	137	35
Lynda McMullan (to 30 September 2013)	63	–	3	–	663	629	29
Martin Sinclair	75	123	2	-2	1,438	1,328	17
John Thorpe	53	87	1	-2	982	917	2

Notes

- 1 Pension information has been supplied by MyCSP, the NAO's pensions administrators. The figures may be different from the closing figures in the 2012-13 Resource Accounts due to the CETV factors being updated to comply with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008.
- 2 These are amounts arising from employment by the NAO; entitlements from previous pension scheme has not been transferred.

Employer contributions to partnership pensions

None of those disclosed benefited from such contributions in the year to 31 March 2014.

Cash equivalent transfer values (CETV)

A cash equivalent transfer value (CETV) is the actuarially assessed 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 benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued because of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement, which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) 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 reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Amyas C E Morse
Comptroller and Auditor General

2 June 2014

Statement of Accounting Officer's responsibilities

Under the Budget Responsibility and National Audit Act 2011, 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.

Governance Statement

Introduction

As Accounting Officer and working together with the National Audit Office 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 Public Accounts Commission.

The governance structure

The NAO's governance 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 its own operations, while preserving my independence as C&AG in respect of audit judgements.

In April 2012, the Budget Responsibility and National Audit Act 2011 modernised governance arrangements and established the NAO as a corporate entity with a statutory board accountable to Parliament.

The Public Accounts Commission

Is formally responsible for: the approval of the NAO's strategy and setting the NAO's budget; the appointment of the non-executive members of the NAO Board; and the appointment of the NAO's external auditor.

NAO Board

The role of the board is to:

- develop the NAO's strategy with the C&AG;
- provide oversight of the management of NAO's resource; and
- support and advise the C&AG in the exercise of his functions.

Leadership Team

The C&AG is supported in his role by a Leadership Team which:

- provides executive management; and
- provides governance to the operations delivery of the NAO.

The team is chaired by the C&AG and includes the Chief Operating Officer and the four Executive Leaders.

Remuneration and Nominations committee

The committee is responsible for:

- determining the framework for the remuneration of the three executive members of the board;
- overseeing major changes in NAO employee benefits; and
- the remuneration of the executive members of the board.

Audit committee

The committee supports the board by:

- reviewing the internal controls;
- reviewing risk management processes;
- reviewing governance arrangements of the NAO; and
- reviewing the quality and reliability of financial reporting.

Audit practice quality committee

The committee exists to:

- review the comprehensiveness, reliability and integrity of the framework supporting the technical quality of the NAO's audit work.

Operational capability committee

The committee's function is to:

- support the Leadership Team in delivering appropriate resources; and
- support the NAO in achieving its business objectives.

The Public Accounts Commission

The NAO is accountable to Parliament via the Public Accounts Commission. The role of the Public Accounts Commission is defined by both the National Audit Act 1983 and the Budget Responsibility and National Audit Act 2011 (the 'Act'). In addition to appointing the non-executive members of the board, the Commission's principal duties are to examine the NAO estimate and lay it before the House, to consider the NAO's strategy and to appoint the external auditor of the NAO.

The NAO Board

The role of the NAO Board, as defined by the Acts, is to provide effective support and challenge in improving the NAO's operations, providing additional rigour and discipline in decision-making and bring insight from the wider experience of the non-executive members to inform the strategic thinking of the NAO. The role is given practical application in the NAO Code of Practice approved by the Public Accounts Commission and published on the NAO's website.

The board meets eight times a year to discharge its responsibilities, which complement my responsibilities as C&AG. The board and I prepare a strategy for the NAO, an estimate of the NAO's resources for each financial year, and an annual report on the NAO's activities. The board also has a role to recommend the external auditor for appointment by the Public Accounts Commission.

The composition of the NAO Board, as determined by the Act, has a majority of five non-executive members, including the Chairman, and four executive members. The non-executive members are appointed by the Public Accounts Commission, with the exception of the chair, who is appointed by the Queen under letters patent, upon the recommendation of both the Prime Minister and the Chair of the Committee of Public Accounts. This ensures that the non-executive members are independent of the NAO's management, and that the Chair has the confidence of both the government and opposition in Parliament. In accordance with the Act, 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 of the Board 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.

In December 2013, Ed Humpherson, an executive and founding member of the board, left the NAO and following due consideration of the balance of skills on the board, in March 2014 the non-executive members appointed John Thorpe to the board as an executive member for a period of one year. John did not attend the board meeting on 20 March, but did attend the Board Strategy Day on 21 March.

The board undertook a voluntary review of governance against the Code of Good Practice for Governance for Central Government, published by HM Treasury in July 2011. The board is satisfied that the NAO is compliant with the requirements of the Code where they are relevant to the Office and 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. For example, 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 NAO Board performance and effectiveness review

To inform its work during 2013-14, the board agreed clear objectives for the year to:

- discharge its formal responsibilities and be confident that it has fulfilled the requirements of the Public Accounts Commission;
- provide effective oversight of the NAO's resources, with a regard to the implications for the NAO's staffing and capability model of stakeholders changing expectations of the NAO; and
- provide support and advice to the C&AG, with particular regard to the NAO's role in the revised arrangements for local government audit.

To fulfil its duties the board is supported by two committees:

- the Audit 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 responsible for considering the external auditor's annual value-for-money report on the NAO; and
- the Remuneration and Nominations Committee determines the framework for the remuneration of the three executive members of the board. The Committee oversees any major changes in NAO employee benefits, and advises the Chair and me on issues of succession planning for the Leadership Team and board.

The NAO Board undertakes a review of its performance each year. During 2013-14, the Chairman led the review inviting board members to submit and discuss their views on a number of issues individually and to provide feedback on their performance as a board member. One of the key points highlighted included a wish from board members to provide a more explicit consideration of specific operational and entity risks. Action has been taken to build this into the board's programme of work for 2014, and in March, the board considered the risk and control environment for the NAO's financial management and propriety.

The board also attended, in a more formal setting, two Strategy Days in the year: first, to focus on NAO's strategic objectives, progress against strategy and future direction; second, to discuss NAO's external operating environment, the enterprise risks faced and strategies for addressing them.

During 2013-14, the NAO has taken action to raise the visibility of the board with NAO employees, holding informal events in London and Newcastle to allow employees to meet board members and ask questions regarding the role of the board in the NAO's overall governance and the views of individual members.

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 2013-14, no board members declared an interest.

As part of the annual evaluation of its performance the board also reviewed the composition of its committees. It was agreed that it was no longer necessary for all of the non-executive members to sit on both committees, and the membership of the committees was amended. This will facilitate a more effective transmission of business between the committees and the board, supporting the board in providing an additional layer of assurance.

Attendance at board and committee meetings in 2013-14

Members (NE) Non-Executive	Board meetings (8 in year)	Audit Committee (5 in year)	Remuneration and Nominations Committee (3 in year)
(NE) Andrew Likierman (Chair)	8	5 ¹	3
Amyas Morse (C&AG)	8	1 ¹	3 ¹
Gabrielle Cohen	7	- ¹	- ¹
(NE) Naaz Coker	8	5	2
(NE) Gillian Guy ³	6	4	1 (of 1)
(NE) Paula Hay-Plumb ³	7	4 (of 4)	3
Ed Humpherson ²	5 (of 5)	- ¹	- ¹
(NE) Mary Keegan	8	5	3
Michael Whitehouse	8	5 ¹	- ¹
John Thorpe	0 (of 1)	- ¹	- ¹

Notes

- 1 Not members of the Committees.
 - 2 Ed Humpherson left the NAO in December 2013. There was a vacancy on the board for its meetings in January and February 2014. In March 2014, John Thorpe was appointed as an executive member of the board by the non-executive members.
 - 3 On 28 November 2013, the board agreed the recommendation from the Chair to refresh the membership of the Audit Committee and Remunerations and Nominations Committees (REMCO). Gillian Guy stepped down as a member of REMCO and Paula Hay-Plumb stepped down as a member of the Audit Committee.
-

The Audit Committee

The Audit Committee met five times in 2013-14. In addition to providing me with assurance over the preparation and audit of the NAO's Resource Account for 2013-14, the Committee considered the findings contained in ten reports prepared by the Director of Internal Audit and Assurance based on an audit programme agreed in advance by the Committee. These reports covered a range of risk management and governance issues including reviews of the exit packages paid to NAO employees as part of transformation, the effectiveness of risk reporting in the NAO and the Management Accounts and costing model. The board was pleased to record that in all cases no major control failures or unmanaged risks were reported, just some areas for improvements recommended.

The NAO's external auditors Baker Tilly (formerly RSM Tenon) undertake an annual value-for-money review, this year they focused on management information in the NAO. The report was discussed by the Audit Committee and board in May 2013 and was presented to the Public Accounts Commission in November 2013. It concluded that management information in the NAO was generally fit for purpose, and made a number of recommendations to make the preparation and use of information more efficient and effective. These recommendations were accepted by management, and action has been taken during the year to address them, including improving and simplifying the management information presented to the board and continuing with the development of a business intelligence capability to support devolved accountabilities within a transformed business structure.

The Remuneration and Nominations Committee

The Remuneration and Nominations Committee held three meetings which focused on the remuneration of the executive members of the board, the objectives for the Leadership Team in 2013-14 and the framework for succession planning and talent development for senior management roles within the NAO. In October 2013, the Committee agreed a protocol for the governance of senior appointments within the NAO. The board approved this protocol in November and incorporated it into the terms of reference for the Committee. This will inform the work of the Committee as it considers the process for non-executive appointments to the board to be made in 2014-15.

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. The role of the Leadership Team was reviewed in April 2013, and as a result, the role of Assistant Auditor General was revised to a new role of 'Executive Leader'.

During 2013-14, there were changes in the membership of the Leadership Team, a new post was created to lead the NAO's work on Digital and Innovation, to which Sally Howes was appointed Executive Leader in April 2013, and both Lynda McMullan and Ed Humpherson left the NAO. Sue Higgins joined the NAO in January 2014 as Executive Leader with responsibility for the NAO's work on Local Government replacing Lynda McMullan, and John Thorpe was promoted to the position of Executive Leader Economic Affairs with effect from 2 January 2014 to take over Ed Humpherson's responsibilities.

During 2013-14, my Leadership Team was supported by two committees. The Operational Capability Committee (OCC), which is responsible for providing appropriate financial and human resources, systems and infrastructure for the NAO to achieve its objectives, and for overseeing the sustainability of its operations. The Audit Practice and Quality Committee (APQ), which 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.

Risk management and control

Our internal controls accord with HM Treasury guidance and professional best practice and have been in place for the whole of 2013-14. As the auditors of government, we assess how the achievement of our policies, aims and objectives might be affected by the risks we face. We design a system of internal controls, 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.

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.

Six areas of operational risk are reviewed monthly and are included as a standing item on the board meeting agenda. These risks cover financial management, professional standards, propriety, workforce capacity, security of assets, and business influence.

Within the NAO, the Leadership Team manages a number of external strategic risks that could affect the achievement of our policies, aims and objectives, which need to be managed actively. Throughout this year, we have focused on risks covering changes in local services arrangements; changes in the audit profession; events in central government; Parliamentary actions and events, and the localism agenda. In March 2014, Strategy Day, the board reviewed these external risks and considered new emerging areas of risk particularly those arising from the approaching General Election, latest developments in the audit profession and the Local Audit and Accountability Act.

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 NAO conforms to 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.

The NAO undertakes a series of internal and independent external reviews to provide assurance over the quality of audit products. The Audit Quality Review Team of the Financial Reporting Council undertakes an annual external review of financial audit. Their review during 2013 concluded that audit quality continues to improve and identified some areas for further improvement. These related to demonstrating appropriate levels of professional scepticism in audit documentation and enhanced documentation for significant events in audit files. The internal reviews concluded during 2013 supported the audit opinions provided but recommended improvements to the audit and documentation of pension scheme disclosures and we took targeted action to implement these recommendations.

Oxford Business Schools, Risk Solutions and Rand Europe undertake the independent external review of our value-for-money work. The reviews completed during 2013 concluded that our work focused on the right topics and that we had strengthened the technical quality of our work – most notably in the transparency of our evaluation criteria. They highlighted areas for further improvement in respect of our financial and quantitative analysis, which we are addressing. The outcomes of these reviews were reported to the board.

Capacity to handle risk

Our governance structure and operating model is designed to ensure we have the capability to manage these internal and external risks. To ensure that we are able to respond to our changing environment, the NAO's 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.

Throughout 2013-14, I have been working with my Leadership Team colleagues and other senior managers across the NAO to drive forward a transformation in the way the NAO manages its business. This was designed to improve further the quality of the NAO's work at a reduced running cost following a period of structured cost reduction since 2010. A key element in delivering the transformed business model involved restructuring and bringing in new skills. This has now enabled the NAO to focus on the most important strategic issues faced by government and help drive sustainable improvement in public services. We have ended the year with a streamlined business support structure together with simplified financial management arrangements based around six business clusters replacing more than 50 individual budget holders. We identified five key areas of risk in relation to transformation and managed the transformation within an agreed risk appetite by ensuring that effective mitigation measures were in place, which were monitored by the Leadership Team and by the board. The NAO's transformation was completed in 2013-14, and the NAO is now adopting its new ways of working.

Statement of information risk

Together with the employees 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 requirements of 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. 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.

In 2011, the NAO agreed that, resources permitting, the NAO should seek to achieve and maintain Level 2 (information assurance processes are institutionalised) on the government's Information Assurance Maturity Model (IAMM). In February 2014, 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 the Director of Internal Audit and Assurance. The self-assessment shows that the business is at or above Level 2 in all of the six domains in the model. This outcome continues to show a steady increase across all six domains since last year and 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 2013-14. Neither were there centrally recorded protected personal data-related incidents not formally reported to the Information Commissioner's Office in 2013-14. 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.

Looking ahead

Following implementation of transformation in 2013-14, which has resulted in new ways of working and a reduction in our running costs, we are focusing on the further development of our skills base as well as ensuring greater resilience in our resource model. In the autumn of 2014, we expect to deliver a revised workforce plan for the NAO, which will ensure we have access to the right resources, in the right place and at the right time.

As the external market for financial services staff continues to pick up we remain vulnerable to the loss of newly qualified accountants coming through our trainee programme. While we have taken action to address this risk through offering greater work challenges and more opportunities for progression to senior grades, we equally recognise the impact on retention of a sustained period of pay restraint. We will need to watch this carefully and look at how we can ensure our employment offer remains attractive in the wider market.

Many of the changes introduced by transformation are now part of business as usual, with their performance monitored through monthly reporting. There are two key aspects of transformation on which we must continue to focus: embedding the cultural change to make transformation sustainable; and ensuring benefits (broader than those we are already delivering) are realised so that our stakeholders see a positive impact.

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, the Chief Operating Officer who I hold to account and Executive Leaders within the NAO who have responsibility for the development and maintenance of the internal control framework, comments made by the external auditors in their management letter and other reports.

The Director of Internal Audit and Assurance submits regular reports on the management of key business risks and the effectiveness of the NAO's system of internal control and makes recommendations for improvement. For 2013-14, the Director of Internal Audit and Assurance concluded that the NAO has adequate and effective governance, risk and control arrangements. Where there were opportunities for improvement in the framework of control or a significant degree of non compliance, an action plan was agreed by management and our follow up testing has revealed a good level of implementation. The status of these recommendations is regularly reported to the Audit Committee.

The board keeps its internal control arrangements under review in response to internal and external developments. The board is independently advised by the Audit Committee, which met five times during the year and received assurance on the NAO's systems of corporate governance, risk management and internal control.

There were no issues identified by the Director of Internal Audit and Assurance through his work, which requires mentioning in the Governance Statement as significant control 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 2013-14, that affected the achievement of the NAO's key policies, aims and objectives.

Amyas C E Morse
Comptroller and Auditor General

2 June 2014

Independent auditors' certificate and 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 2014 under the Budget Responsibility and National Audit Act 2011. 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 Budget Responsibility and National Audit Act 2011. 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 2014 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 2014 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 Budget Responsibility and National Audit Act 2011.

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 and the Directors report 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.

Baker Tilly UK Audit LLP Registered Auditors

Davidson House
Forbury Square
Reading
Berkshire
RG1 3EU

2 June 2014

Statement of Parliamentary Supply

Summary of resource and capital outturn 2013-14

	2013-14 Estimate			2013-14 Outturn			2013-14 Voted outturn compared with Estimate: saving or (excess)	2012-13 Outturn
	Voted £000	Non-voted £000	Total £000	Voted £000	Non-voted £000	Total £000		
Resource	70,470	300	70,770	68,510	293	68,803	1,960	67,742
Capital	1,500	–	1,500	1,477	–	1,477	23	1,065
Total budget	71,970	300	72,270	69,987	293	70,280	1,983	68,807
Non-budget	–	–	–	–	–	–	–	–
Total resources	71,970	300	72,270	69,987	293	70,280	1,983	68,807

Net cash requirement 2013-14

	Note	Estimate £000	Outturn £000	2013-14 Net total outturn compared with Estimate: saving or (excess) £000	2012-13 Outturn £000
Net cash requirement	SOPS4	69,169	66,100	3,069	61,838

Administration costs 2013-14

Note	Estimate £000	Outturn £000	2013-14 Net total outturn compared with Estimate: saving or (excess) £000	2012-13 Outturn £000
	70,470	68,510	1,960	67,449

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).

Explanations of variances between Estimate and outturn are provided in the Directors report on pages 47 to 53.

The notes on pages 81 to 98 form part of these accounts.

Notes to the resource accounts (Statement of Parliamentary Supply)

SOPS1 Statement of accounting policies

The Statement of Parliamentary Supply and supporting notes have been prepared in accordance with the 2013-14 Government Financial Reporting Manual (FReM) issued by HM Treasury.

The Statement of Parliamentary Supply accounting policies contained in the FReM are consistent with the requirements set out in the 2013-14 Consolidated Budgeting Guidance and Supply Estimates Guidance Manual in so far as applicable.

SOPS1.1 Accounting Convention

The Statement of Parliamentary Supply and Supply related notes are presented consistently with the principles of Treasury budget control and Supply Estimates. The budgeting system, and the consequential presentation of Supply Estimates and the Statement of Parliamentary Supply and related notes have different objectives to IFRS-based accounts.

The system supports the achievement of macro-economic stability by ensuring that public expenditure is controlled, with relevant Parliamentary authority, in support of the government's fiscal framework.

SOPS1.2 Comparison with IFRS-based accounts

Many transactions are treated in the same way in National Account and IFRS-based accounts, but there are differences.

Capital disposal

The book values of disposal are recorded in the capital budget as income. The gains or losses on disposal generally score against the resource budget; however there is a limit (£20 million or 5 per cent above the net book value of disposal, whichever is lower) to the gain that will benefit the resource budget without first seeking approval from relevant authorities.

Gains above this limit, without approval may be recorded in the capital budget in the Statement of Parliamentary Supply but recognised as resource in the Statement of Comprehensive Net Expenditure (which is IFRS-based). These are a reconciling item in SOPS Note 3.

SOPS2 Net outturn

SOPS2.1 Analysis of net resource outturn

	Gross	2013-14 Outturn		2013-14 Estimate		2012-13 Outturn	
		Income	Net	Net	Net total compared with Estimate: saving or (excess)	Net total	
	£000	£000	£000	£000	£000	£000	
Section Voted							
A	Provision of audit and other assurance services	84,616	(20,312)	64,304	65,800	1,496	67,449
B	Restructuring of the National Audit Office	4,206	–	4,206	4,670	464	–
	Total Voted	88,822	(20,312)	68,510	70,470	1,960	67,449
	Non-voted						
C	Chair and, the Comptroller and Auditor General costs	293	–	293	300	7	293
	Resource outturn	89,115	(20,312)	68,803	70,770	1,967	67,742

SOPS2.2 Analysis of net capital outturn

	Gross	2013-14 Outturn		2013-14 Estimate		2012-13 Outturn	
		Income	Net	Net	Net total compared with Estimate: saving or (excess)	Net	
	£000	£000	£000	£000	£000	£000	
Section Voted							
A	Provision of audit and other assurance services	1,554	(77)	1,477	1,500	23	1,065
	Resource outturn	1,554	(77)	1,477	1,500	23	1,065

SOPS3 Reconciliation of net resource outturn to net operating cost

		2013-14 Outturn £000	2012-13 Outturn £000
Total net resource outturn in Statement of Parliamentary Supply	Voted	68,510	67,449
	Non-voted	293	293
		<u>68,803</u>	<u>67,742</u>
Loss/(gain) on disposal of property, plant and equipment recognised as capital income		–	(10)
Net operating costs in the Statement of Comprehensive Net Expenditure		<u>68,803</u>	<u>67,732</u>

SOPS4 Reconciliation of net resource outturn to net cash requirement

	Note	Estimate £000	Outturn £000	Net total outturn compared with Estimate: saving or (excess) £000
Resource outturn	SOPS 2.1	70,770	68,803	1,967
Capital outturn	SOPS 2.2	1,500	1,477	23
Accruals to cash adjustments:				
<i>Adjustments to remove non-cash items:</i>				
Depreciation		(2,959)	(2,725)	(234)
Change in provisions		(200)	(141)	(59)
Loss on disposal of assets		–	(77)	77
Deemed income for supply of NBV of disposals		–	77	(77)
Impairment of non-current assets		–	(130)	130
<i>Adjustments to reflect movements in working balances:</i>				
Increase/(decrease) in receivables		(376)	(98)	(278)
Increase/(decrease) in payables		(97)	(1,922)	1,825
Use of provisions		831	1,129	(298)
		<u>69,469</u>	<u>66,393</u>	<u>3,076</u>
Removal of non-voted budget items:				
Consolidated Fund Standing Services		(300)	(293)	(7)
Net cash requirement		<u>69,169</u>	<u>66,100</u>	<u>3,069</u>

Financial statements

Statement of comprehensive net expenditure for the year ended 31 March 2014

	Note	2013-14 £000	2012-13 £000
Administration costs			
Staff costs	3	57,011	60,591
Other costs	4	31,897	28,650
Tax expense	5	207	–
Gross operating costs		89,115	89,241
Income	6	(20,312)	(21,509)
Net operating costs for the year ended 31 March 2014		68,803	67,732
Other comprehensive net expenditure			
Items that will not be reclassified to net operating costs:			
Net gain on revaluation of property, plant and equipment	7	(4,916)	(2,210)
Total comprehensive net expenditure for the year ended 31 March 2014		63,887	65,522

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

Statement of financial position as at 31 March 2014

	Note	31 March 2014		31 March 2013	
		£000	£000	£000	£000
Non-current assets					
Property, plant and equipment	7	78,491		74,614	
Intangible assets	8	1,231		1,570	
Receivables falling due after one year	9	340		590	
Total non-current assets			80,062		76,774
Current assets					
Trade and other receivables	9	6,162		6,010	
Cash and cash equivalents	10	78		178	
Total current assets			6,240		6,188
Total assets			86,302		82,962
Current liabilities:					
Trade and other payables	11	(7,833)		(6,011)	
Provisions	12	(677)		(1,251)	
Total current liabilities			(8,510)		(7,262)
Total assets less current liabilities			77,792		75,700
Non-current liabilities:					
Provisions	12	(1,241)		(1,655)	
Total non-current liabilities			(1,241)		(1,655)
Total assets less liabilities			76,551		74,045
Taxpayers' equity and other reserves					
General fund			29,468		30,653
Revaluation reserve			47,083		43,392
Total equity			76,551		74,045

Amyas C E Morse

Comptroller and Auditor General
2 June 2014

The notes on pages 81 to 98 form part of these accounts.

Statement of cash flows for the year ended 31 March 2014

	Note	2013-14 £000	2012-13 £000
Cash flows from operating activities:			
Net operating cost		(68,803)	(67,732)
Adjustments for non-cash transactions	4	3,073	3,133
Decrease in trade and other receivables	9	98	2,964
Increase/(decrease) in trade and other payables	11	1,922	1,262
Use of provisions	12	(1,129)	(683)
Net cash outflow from operating activities		(64,839)	(61,056)
Cash flows from investing activities:			
Purchase of property, plant and equipment	7	(1,343)	(224)
Purchase of intangible assets	8	(211)	(881)
Proceeds of disposal of property, plant and equipment		–	40
Net cash outflow from investing activities		(1,554)	(1,065)
Cash flows from financing activities:			
From the Consolidated Fund (Supply) – current year		66,000	61,850
Consolidated Fund Standing Services	4	293	293
Net financing		66,293	62,143
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		(100)	22
Payments of amounts to the Consolidated Fund		–	–
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund	10	(100)	22
Cash and cash equivalents at the beginning of the period	10	178	156
Cash and cash equivalents at the end of the period	10	78	178

The notes on pages 81 to 98 form part of these accounts.

Statement of changes in taxpayers' equity for the year ended 31 March 2014

	Note	General fund £000	Revaluation reserve £000	Total reserves £000
Balance at 1 April 2012		35,091	42,355	77,446
Changes in taxpayers' equity for 2012-13:				
Comprehensive net expenditure for the year		(67,732)	2,210	(65,522)
Realised element of revaluation reserve		1,173	(1,173)	–
Total recognised income and expense for 2012-13		(66,559)	(1,037)	(65,522)
Net Parliamentary funding – drawn down		61,850	–	61,850
Net Parliamentary funding – deemed		156	–	156
Supply payable adjustment		(178)	–	(178)
Consolidated Fund Standing Services	4	293	–	293
		62,121	–	62,121
Balance at 31 March 2013		30,653	43,392	74,045
Changes in taxpayers' equity for 2013-14:				
Comprehensive net expenditure for the year		(68,803)	4,916	(63,887)
Realised element of revaluation reserve		1,225	(1,225)	–
Total recognised income and expense for 2013-14		(67,578)	3,691	(63,887)
Net Parliamentary funding – drawn down		66,000	–	66,000
Net Parliamentary funding – deemed	14	178	–	178
Supply payable adjustment	14	(78)	–	(78)
Consolidated Fund Standing Services	8	293	–	293
		66,393	–	66,393
Balance at 31 March 2014		29,468	47,083	76,551

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 2, 24 (1) of the Budget Responsibility and National Audit Act 2011 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 2013-14 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 the Statement of Parliamentary Supply and supporting notes which 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 pounds 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 2014. Translation differences are recognised in the Statement of Comprehensive Net Expenditure.

1.3 Impending application of newly issued accounting statements not yet effective

The NAO discloses wherever it has not yet applied a new accounting standard, and provides any information relevant to assessing the possible impact that the initial application of the new standard would have on the Financial Statements. There were no new standards issued up to 31 March 2014 that are required to be applied by the NAO.

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 and 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 payable at the year end, which will be paid within one year from 31 March 2014, are recognised in the Statement of Comprehensive Net Expenditure. These short-term benefits relate to accrued leave.

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 3b. The defined benefit scheme within the PCSPS is unfunded and is contributory. Employees may opt to join a stakeholder pension scheme instead. Liability for payment of future benefits is a charge on the PCSPS or the relevant stakeholder pension scheme. The individual 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 the NAO agreed to meet the costs of the individual drawing down their pension early. 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 HM Treasury's discount rate applicable at the year end. At 31 March 2014, this was 1.8 per cent in real terms (2012-13: 2.35 per cent), this is reported in Note 12. Staff leaving the NAO after October 2010 are only eligible to receive a single lump sum payment on departure. As the value and timing of compensation payments are known, they are reported within accruals in Note 11.

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 lease liabilities.

1.9 Value Added Tax on purchases

The NAO partially recovers VAT on its expenditure using an agreed methodology with HMRC. Expenditure is therefore stated gross of recoverable VAT which is shown separately in Note 4.

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 a percentage completion basis, less any provision for unrecoverable amounts.

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 biannually in United States dollars and are shared in an agreed ratio between the three board members (currently Tanzania, China and the United Kingdom). Where additional tasks are required a separate fee is levied and is also shared equally between the three board members. Income is recognised based on work completed to date across each biennium.

Due to the funding arrangements with the United Nations, payment is received in advance in equal quarterly instalments. These are reported as payments on account until earned.

1.12 Rental income

The NAO has entered into agreements to sublet part 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 recover costs borne by the NAO.

1.13 Value Added Tax on sales

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

1.14 Corporation tax

The NAO is liable for corporation tax on its rental income from 1 April 2012 following its establishment as a body corporate under the Budget Responsibility and National Audit Act 2011. The tax expense is recognised in the Statement of comprehensive net expenditure.

Accounting policies for assets and liabilities**1.15 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 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	64–99 years
Plant	5–25 years
Computers and other equipment	3–10 years
Furniture, fixtures and fittings	5–10 years

Intangible assets

Intangible assets are licences for the use of software or costs of developing software. Intangible assets are amortised on a straight-line basis over the shorter of the term of the licence where applicable or the useful economic life.

Asset lives are in the following ranges:

Software	4–10 years
Licences	2–5 years

1.16 Trade receivables

Trade receivables are recognised initially at fair value less provision for non-recovery. 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.

1.17 Accrued income

Accrued income mainly relates to fee-paying audit assignments and is determined on the basis of percentage completion of specific contracts, less any provision for unrecoverable amounts.

1.18 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.

Early retirement provisions are discounted using HM Treasury's rate for post-employment benefits of 1.8 per cent in real terms (2012-13: 2.35 per cent).

General provisions have been discounted using HM Treasury rates; the discount rate applied depends on the expected timing of cash flows. For 2013-14, the rates were:

- Cash flows expected between 0 and 5 years of the reporting date -1.9 per cent (2012-13: -1.8 per cent);
- Cash flows expected after 5 years and up to 10 years from the reporting date -0.65 per cent (2012-13: -1 per cent);
- Cash flows expected to exceed 10 years from the reporting date 2.2 per cent (2012-13: 2.2 per cent).

Accounting estimates and judgements

Accrued Income

In calculating accrued income for audit services, the NAO makes 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, and includes a provision for foreseen unrecoverable amounts. These estimates are included in trade receivables and accrued income at the period end.

Property valuation

Each year the NAO considers the valuation of its buildings, and whether there has been a change year on year. This review involves an assessment of future likely market rental yields on property and property prices within the surrounding area. The NAO uses a professional valuer to help arrive at these estimates. More information on the basis of valuation is included in Note 7.

Provisions

Where the NAO has a legal or constructive obligation to meet certain costs, such as refurbishment costs on rented accommodation, the NAO will make a provision based on a management estimate of the value, probability and timing of future payments.

This also includes early departure provision which represents the NAO's best estimate of future cash payments due under the appropriate scheme. 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 affect the payments. Further information on the NAO's provisions is included in Note 12.

2 National Audit Office operating segments

	2013-14						Total
	Financial audit	Value for money	insight and investigations (formerly Performance improvement)	Support to Parliament, the public and other organisations	Comptroller function	Restructuring	
	£000	£000	£000	£000	£000	£000	£000
Gross expenditure	46,915	17,617	13,047	7,125	205	4,206	89,115
Income from services provided	(16,184)	–	–	(2,462)	–	–	(18,646)
Rental income	(920)	(346)	(256)	(140)	(4)	–	(1,666)
Net expenditure	29,811	17,271	12,791	4,523	201	4,206	68,803

The NAO reports expenditure and income on its provision of Audit and Other Assurance Services under five strategic objectives, full descriptions of which can be found on pages 16 to 23. In 2013-14, there was an additional £4.2 million expenditure on restructuring. This has been shown as a separate item because the funding was 'ring-fenced'.

Gross expenditure includes all voted and non-voted expenditure.

Income from services provided reported under Financial Audit consists of fees for UK and international audits. Income reported under Support to Parliament, the public and other organisations is generated on secondments and international technical cooperation work.

Rental cannot be directly attributed to the NAO's front-line objectives and has been apportioned.

	2012-13						Total
	Financial audit	Value for money	Performance improvement	Support to Parliament, the public and other organisations	Comptroller function	Restructuring	
	£000	£000	£000	£000	£000	£000	£000
Gross expenditure	49,342	17,448	15,108	7,144	199	–	89,241
Income from services provided	(18,227)	–	–	(2,012)	–	–	(20,239)
Rental Income	(785)	(250)	(108)	(125)	(2)	–	(1,270)
Net expenditure	30,330	17,198	15,000	5,007	197	–	67,732

3 Staff numbers and related costs

3a) Staff costs comprise:

	2013-14			2012-13		
	Total	Permanent staff ¹	Temporary staff	Total	Permanent staff ¹	Temporary staff
	£000	£000	£000	£000	£000	£000
Wages and salaries	44,096	43,531	565	47,044	46,533	511
Social security costs	4,041	4,041	–	4,249	4,249	–
Other pension costs	8,874	8,874	–	9,298	9,298	–
Subtotal	57,011	56,446	565	60,591	60,080	511
Less recoveries received in respect of outward secondments	(1,284)	(1,284)	–	(1,058)	(1,058)	–
Total net costs	55,727	55,162	565	59,533	59,022	511

Note

1 Permanent staff figures include inward secondees.

3b) Pension arrangements

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but the participating organisations are not able to identify their share of the underlying assets and liabilities. The Scheme was last actuarially valued as at 31 March 2007 but an actuarial valuation of the PCSPS is currently under way, with an effective date of 31 March 2012. This valuation is being conducted in line with directions made by HM Treasury, made under the Public Service Pensions Act 2013. Provisional results of the valuation indicate that there will be an increase of 2.2 percentage points in the average employer contribution rate paid to the scheme from 1 April 2015, with the average employer contribution rising from 18.9 per cent to 21.1 per cent. The full results of the valuation, which will also set an employer cost cap for the scheme, will be published in the coming months.

For 2013-14, employer contributions of £8,845,209 were payable to the PCSPS (2012-13: £9,251,373) 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 2013-14 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. Employer contributions of £28,087 were paid to one or more of a panel of four appointed stakeholder pension providers (2012-13: £23,964). Employer contributions are age-related and range from 3 to 12.5 per cent of pensionable pay (2012-13: 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 (2012-13: £3,192 or 0.8 per cent). All these contributions are included in 'Other pension costs' in Note 3a above.

No contributions were due or prepaid to the partnership pension providers at the balance sheet date (2012-13: nil).

3c) Average number of persons employed

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

	2013-14	2012-13	2011-12
Full-time equivalent permanent staff	821.8	878.6	888.3
Inward secondees	3.4	7.4	4.0
Temporary staff	9.9	9.7	12.9
Total	835.1	895.7	905.2

3d) Reporting of civil service and other compensation schemes – exit packages

Number of voluntary departures agreed

Exit package cost band	Restructuring redundancies 2013-14	Other redundancies in 2013-14	Total redundancies in 2013-14	2012-13
<£10,000	–	10	10	–
£10,001 – £25,000	2	14	16	1
£25,001 – £50,000	14	1	15	7
£50,001 – £100,000	11	3	14	8
£100,001 – £150,000	9	1	10	–
£150,001 – £200,000	5	1	6	–
£200,001 – £250,000	2	–	2	–
>£250,000	1	–	1	–
Total number of exit packages by type	44	30	74	16
Total resource cost (£000)	4,131	855	4,986	777
Removal of amounts accrued in prior year¹	–	(69)	(69)	–
Total staff related cost in 2013-14 (£000)	4,131	786	4,917	777

Note

1 Other redundancies in 2013-14 includes seven early departures accrued for in 2012-13 which were finalised in 2013-14.

There was one compulsory redundancy in 2013-14 (2012-13 – NIL). All of the compulsory and voluntary departures were accounted for within the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year of departure. Where the NAO has agreed early retirements, the additional costs are met by the NAO and not by the civil service pension scheme. All costs of voluntary departures are included in staff costs.

Of the redundancies, 44 were released as part of a planned 'one-off' restructuring of the NAO and were specifically funded (SOSP 2.1).

4 Other operating costs

	2013-14 £000	2012-13 Restated ¹ £000
Professional services bought in	10,409	11,940
Accommodation	4,806	4,785
Travel, subsistence, hospitality	2,733	2,564
Office supplies and equipment	2,915	2,772
Recruitment and training	1,882	1,613
Staff related costs	1,172	1,395
Overseas office costs for UN work	274	272
External auditors fee	44	42
Remuneration to external auditors for other work	79	63
Other administration costs	253	171
Operating lease rentals	167	182
VAT recoverable ¹	(409)	(575)
Total normal operating activities	24,325	25,224
Restructuring – Redundancy payments	4,131	–
Restructuring – other costs	75	–
Total costs of restructuring	4,206	–
Total voted costs	28,531	25,224
Comptroller and Auditor General costs	237	237
Chairman costs	56	56
Total non-voted costs	293	293
	28,824	25,517
Non-cash costs		
Adjustments to early departure provisions from prior years	162	202
Dilapidation provision	132	–
Writeback of provision not utilised	(153)	–
Changes in provision	141	202
Depreciation and amortisation	2,725	2,941
Loss/(gain) on disposal of property, plant and equipment	77	(10)
Impairment of non-current assets	130	–
	3,073	3,133
	31,897	28,650

Note

- 1 The NAO partially recovers VAT on its expenditure on an agreed methodology with HMRC, therefore VAT recovered cannot be directly attributed to specific expenditure. For 2013-14, VAT recovered is disclosed separately from expenditure and 2012-13 has been restated to show prior years' figures on a comparable basis.

5 Tax expense

	2013-14 £000	2012-13 £000
Corporation tax paid in relation to 2012-13	57	–
Corporation tax payable in relation to 2013-14	150	–
	207	–

During 2013-14, HMRC determined that the NAO is liable for corporation tax on rental income from 1 April 2012 following its establishment as a body corporate under the Budget Responsibility and National Audit Act 2011. The 2012-13 tax expense was therefore determined and paid in 2013-14.

Tax reconciliation

	2013-14 £000	2012-13 £000
Rent	1,666	1,270
Allowable expenses	(986)	(986)
Taxable surplus	680	284
Tax rate	23%	20%
Marginal relief	(6)	–

6 Income

Analysis of operating income by classification and activity

	Income included in Statement of comprehensive net expenditure £000	2013-14 Expenditure £000	Surplus/ (deficit) £000
Audit fees – UK ¹	13,460	13,769	(309)
United Nations Board of Auditors	2,582	2,334	248
Audit fees – international	142	162	(20)
International technical cooperation	1,178	1,464	(286)
Secondment income	1,284	1,610	(326)
Rental of office space	1,666	986	680
Total income	20,312	20,325	(13)

Note

1 Income also includes any provision for foreseen unrecoverable amounts.

	Income included in Statement of comprehensive net expenditure £000	2012-13 Expenditure (restated) £000	Surplus/ (deficit) £000
Audit fees – UK	14,965	14,893	72
United Nations Board of Auditors	3,015	2,696	319
Audit fees – international	247	233	14
International technical cooperation	954	1,308	(354)
Secondment income	1,058	1,248	(190)
Rental of office space	1,270	986	284
Total income	21,509	21,364	145

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 2012-13 expenditure figures for United Nations Board of Auditors, Audit fees – international and international technical cooperation have been restated for comparability to 2013-14 figures following management's decision to change the method of attribution of overhead to international work. This restatement only affects disclosure.

7 Property, plant and equipment

	Long leasehold land and buildings £000	Plant and machinery £000	2013-14 Computers and other equipment £000	Furniture fixtures and fittings £000	Total £000
Cost or valuation					
At 1 April 2013	57,745	16,750	3,645	3,116	81,256
Additions	–	–	941	402	1,343
Disposals	–	–	(642)	(206)	(848)
Revaluation	4,295	–	–	–	4,295
Impairment	–	–	–	–	–
At 31 March 2014	62,040	16,750	3,944	3,312	86,046
Depreciation					
At 1 April 2013	–	2,665	2,790	1,187	6,642
Charged in year	621	800	540	353	2,314
Disposals	–	–	(642)	(138)	(780)
Revaluation	(621)	–	–	–	(621)
Impairment	–	–	–	–	–
At 31 March 2014	–	3,465	2,688	1,402	7,555
Net book value					
At 31 March 2014	62,040	13,285	1,256	1,910	78,491
At 31 March 2013	57,745	14,085	855	1,929	74,614

The NAO owns all property, plant and equipment and has no finance leases or Private Finance Initiative contracts. The long lease of the land and buildings for the London office is at a peppercorn rent.

Note

- The FReM requires measurement at fair value for existing use. Montagu Evans (independent property consultants and surveyors and a member of RICS) valued the land and buildings and plant and machinery at £75,325,000 as at 31 March 2014 (31 March 2013: £71,830,000). This was on an existing use basis for parts occupied by the NAO and at open market value for the parts occupied by tenants. Montagu Evans 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 £62,040,000. The net effect of the revaluation was accounted for through the revaluation reserve.

7 Property, plant and equipment *continued*

	Long leasehold land and buildings £000	Plant and machinery £000	2012-13 Computers and other equipment £000	Furniture fixtures and fittings £000	Total £000
Cost or valuation					
At 1 April 2012	56,239	16,750	4,023	3,081	80,093
Additions	–	–	150	74	224
Disposals	–	–	(528)	(39)	(567)
Revaluation	1,506	–	–	–	1,506
Impairment	–	–	–	–	–
At 31 March 2013	57,745	16,750	3,645	3,116	81,256
Depreciation					
At 1 April 2012	135	1,869	2,630	878	5,512
Charged in year	569	796	688	318	2,371
Disposals	–	–	(528)	(9)	(537)
Revaluation	(704)	–	–	–	(704)
Impairment	–	–	–	–	–
At 31 March 2013	–	2,665	2,790	1,187	6,642
Net book value					
At 31 March 2013	57,745	14,085	855	1,929	74,614
At 31 March 2012	56,104	14,881	1,393	2,203	74,581

8 Intangible assets

	Software £000	2013-14 Assets in the course of construction £000	Total £000
Cost			
At 1 April 2013	5,395	437	5,832
Additions	143	68	211
Disposals	(293)	–	(293)
Impairment	(628)	–	(628)
Transfers	505	(505)	–
At 31 March 2014	5,122	–	5,122
Amortisation			
At 1 April 2013	4,262	–	4,262
Charged in year	411	–	411
Disposals	(284)	–	(284)
Impairment	(498)	–	(498)
At 31 March 2014	3,891	–	3,891
Net book value			
At 31 March 2014	1,231	–	1,231
At 31 March 2013	1,133	437	1,570
2012-13			
	Software £000	Assets in the course of construction £000	Total £000
Cost			
At 1 April 2012	4,774	177	4,951
Additions	174	707	881
Disposals	–	–	–
Transfers	447	(447)	–
At 31 March 2013	5,395	437	5,832
Amortisation			
At 1 April 2012	3,692	–	3,692
Charged in year	570	–	570
Disposals	–	–	–
At 31 March 2013	4,262	–	4,262
Net book Value			
At 31 March 2013	1,133	437	1,570
At 31 March 2012	1,082	177	1,259

9 Trade and other receivables

	2013-14 £000	2012-13 £000
Amounts falling due within one year:		
Trade receivables	1,226	565
Deposits and advances	376	406
Other receivables	234	197
Accrued income	3,030	3,678
Prepayments	1,296	1,164
	6,162	6,010
Amounts falling due after more than one year:		
Deposits and advances	158	311
Other receivables	182	279
	340	590
Total	6,502	6,600

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

10 Cash and cash equivalents

	2013-14 £000	2012-13 £000
Balance at 1 April	178	156
Net change in cash and cash equivalent balances	(100)	22
Balance at 31 March	78	178
The following balances were held at:		
Government Banking Service	65	112
Commercial banks and cash in hand	13	66
Balance at 31 March	78	178

11 Trade and other payables

	2013-14 £000	2012-13 £000
Amounts falling due within one year:		
Amounts payable to HMRC	304	135
Trade payables	200	10
Other payables	301	94
Accruals and deferred income	5,428	4,902
United Nations Board of Auditors payments received on account	471	385
Other payments received on account	1,051	307
	7,755	5,833
Amounts issued from the Consolidated Fund for supply but not spent at year end	78	178
Total	7,833	6,011

Other payables includes lease incentive on the lease for our office in Newcastle.

12 Provisions for liabilities and charges

	£000	£000
Balance at 1 April 2013		2,906
Adjustments to opening provision	–	
Provided in the year	132	
Unwinding of discounts	32	
Change in discount rate	130	
Provisions not required written back	(153)	
Changes in provision during the year		141
Provisions utilised in the period		(1,129)
Balance at 31 March 2014		1,918

Provisions for liabilities and charges mainly relate to the costs of early retirement programmes in prior years which were approved to generate savings for the NAO in the longer term. The NAO uses HM Treasury's post-employment benefits discount rate of 1.80 per cent in real terms to calculate the early retirement balance (2012-13: 2.35 per cent). Other provisions are calculated using HM Treasury's general provisions discount rate ranging from -1.90 per cent to 2.20 per cent depending on the expected timing of cash flows (2013: -1.80 per cent to 2.20 per cent).

	All provisions	
	£000	£000
Payable within 1 year		677
Payable within 2–5 years	1,227	
Payable in more than 5 years	14	
		1,241
Balance at 31 March 2014		1,918

13 Capital commitments

The NAO had no capital commitments at 31 March 2014 (31 March 2013: Nil).

14 Commitments under leases

	2013-14 £000	2012-13 £000
Aggregate minimum lease payments are as follows		
Obligations under operating leases comprise:		
Land and buildings:		
Payable within 1 year	122	96
Payable within 2–5 years	419	–
Total	541	96

During 2013-14, the NAO has entered into a new lease for the office based in Newcastle. The lease is for five years. The long lease of the land and buildings for the NAO's London office is at a peppercorn rent.

	2013-14 £000	2012-13 £000
Future income due under non-cancellable operating leases		
Land and buildings:		
Receivable within 1 year	1,189	1,193
Receivable within 2–5 years	1,353	2,022
Receivable in more than 5 years		152
Total	2,542	3,367

The lease information above relates to the subletting of surplus space in the London office. The NAO has six 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 6) 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.

15 Other financial commitments

The NAO had no other financial commitments at 31 March 2014 (31 March 2013: Nil).

16 Financial instruments

The NAO's resource requirements 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 material credit risks.

Foreign currency risk

The NAO has some exposure to foreign currency because fees for some international work are denominated in US 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.

17 Contingent assets and liabilities

The NAO had no contingent liabilities at 31 March 2014 (31 March 2013: Nil).

18 Losses and special payments

A legal settlement with an ex-employee of £250,000 was paid out during the year to 31 March 2014 (2012-13: £35,000).

19 Related party transactions

The NAO is headed by the Comptroller and Auditor General and was established as a body corporate by the Budget Responsibility and National Audit Act 2011. 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 & Customs to meet statutory taxation requirements and with the Cabinet Office which operates the Principal Civil Service Pension Scheme.

Key related parties transactions are summarised in the table below:

Related party	Nature of relationship with the party	Rent and service charge earned	
		2013-14	2012-13
Professional Standards Authority for Health and Social Care (formerly Council for Healthcare and Regulatory Excellence)	Central government body audited by the NAO. Occupied part of the NAO's headquarters building since October 2010	£247,842	£267,127
Ordnance Survey	Central government body audited by the NAO. Occupied part of the NAO's headquarters building since January 2012	£297,087	£236,286
The Skills Show	Subsidiary of the Skills Funding Agency which is a central government body audited by the NAO. Occupied part of the NAO's headquarters building since December 2012	£304,069	£93,682

20 Events after the reporting period

There have been no significant post-balance-sheet events.

Sustainability report

The NAO's aim is to manage our business in an environmentally responsible manner, complying with applicable environmental legislation and with any other relevant requirements. We assess the environmental impact of our activities regularly and use an environmental management system to provide a framework for setting and reviewing environmental targets, and to support continuous improvement.

Board members have individual and collective responsibility for providing sustainability leadership. The Leadership Team appointed John Thorpe as the Executive Leader with particular responsibility for environmental risk management issues.

Our environmental policy is available from the website: www.nao.org.uk/about-us/what-we-do/governance-of-the-nao/environmental-system-policy-and-statement/

Sustainability in the NAO's operations

The NAO has offices located in London and Newcastle with the London headquarters building representing the majority of the NAO's estate. The NAO's London building holds 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.

In November 2013, the NAO's Newcastle office moved into newly refurbished office accommodation providing improved working environment and facilities.

Recent work on issues of sustainability has included:

- measuring performance against a challenging range of environmental targets based on the main material impacts of estate/facilities management and business travel;
- engaging with our tenants in order to influence and assist in improving their environmental credentials;
- the environmental management system was reviewed by our external auditors on 3 December 2013 and re-certified as ISO 14001:2004 compliant;
- starting a phased campaign to reduce paper consumption through targeting printing practices; and
- a new landscaping contractor was appointed in 2013 to meet the requirements of the Biodiversity Action Plan more robustly. The new contractor is part of a learning disabilities charity whose aim is to provide young people who have learning difficulties or disabilities with life skills and vocational training.

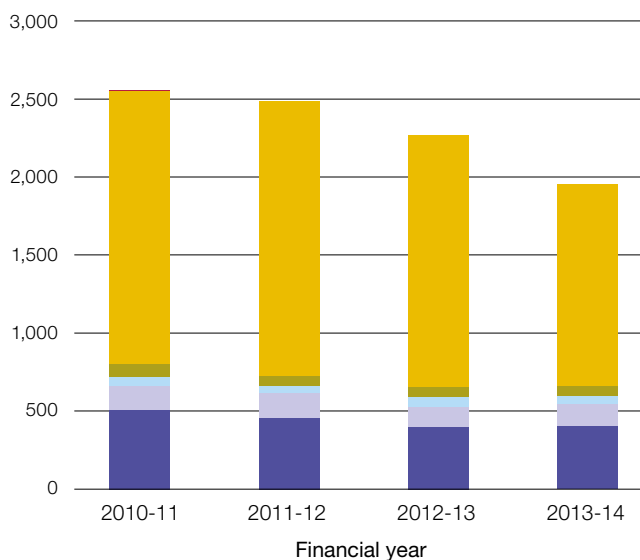
Sustainability Performance Commentary

The NAO has set itself challenging targets to focus its efforts in key impacts in our business and achieve a step reduction at the end of 2014-15, including: CO₂ emissions; business travel; paper usage; and waste generated water usage. Progress to date against these targets have been good where all bar one have either already achieved the target or are on plan to do so.

The NAO tracks and records sustainability data across the three environmental impacts; greenhouse gas emissions, waste and water as detailed on page 108.

Greenhouse gas emissions

Tonnes/CO₂e



- Other
 - Electricity consumption
 - Gas consumption
 - Official travel - road
 - Official travel - rail
 - Official travel - air
-

Plant and equipment CO₂ emissions

Target	Progress to date	Performance
20% reduction by 2014-15	26%	Exceeding target

Controllable impacts commentary

One of our main impacts in relation to our energy consumption is the running of our two offices and their electricity consumption.

In 2013-14, efforts made to reduce energy consumption included:

- NAO occupying less office space as they fully realise the strategic aim to sublet the optimal level of office accommodation in the London office.
- The gas-fired boilers were completely shut off during the summer months achieving a reduction in gas consumption of 17 per cent compared to 2010-11.
- A lift in the London office, which was rarely used, was permanently taken out of service.
- On 23 March 2013, the NAO took part in the Earth Hour 2013 initiative, which involved switching off all our lights for one hour as part of a global mass participation event.
- The new office in Newcastle provides a much-improved working environment and it is anticipated that energy consumption will be more efficient as a result. The impact of this move on the level of energy consumption will be fully reported next year.

A number of initiatives are planned for 2014-15 and beyond. These include, but are not limited to:

- investigating the feasibility of implementing software to new equipment which automatically powers down laptops and monitors if they are not in use; and
- providing additional insulation to calorifiers to reduce further heat losses.

Overview of influenced impacts

We have six tenants occupying space in our London office and have meters, which monitor their use of electricity within their office space. We are able to provide our tenants with accurate energy consumption information and advice, which allows them to work on their own improvements and initiatives.

Business Travel – Domestic Flights

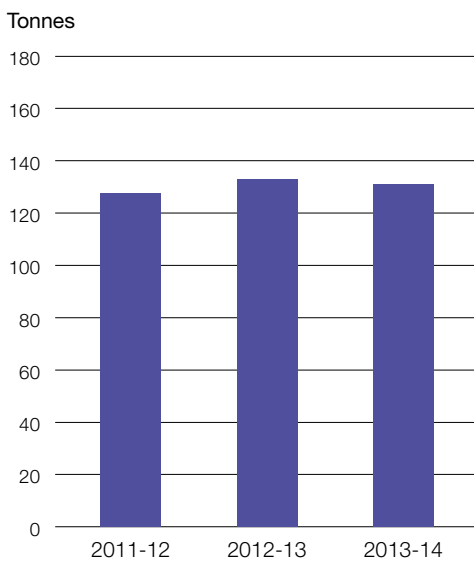
Target	Progress to date	Performance
20% reduction by 2014-15	17%	On target

As auditors for the UK Parliament our employees undertake audit visits to a wide range of geographically dispersed government bodies and other organisations within the United Kingdom.

Our travel policy aims to minimise the impact on the environment and promotes the use of sustainable means of transport, rail and other public transport, wherever possible.

By investing in teleconferencing equipment to link our Newcastle and London offices and where possible with key client sites, we are providing a cost-effective and environmentally friendly alternative to reduce business travel.

Waste



Waste Generation

Target	Progress to date	Performance
20% reduction by 2014-15	4%	Behind target

Owing to our subletting strategy, we now have 20 per cent more people using our London office since the base year data was collated which has had a significant negative impact upon the generation of waste. Despite this, we are pleased to have still managed a decrease and this has been largely due to efforts to reduce the amount of paper used by the NAO.

Waste from the London office is collected and taken to a Materials Recycling Facility (MRF) where it is sorted into recyclable components, such as cans, glass, plastics, paper and card. The remaining waste, which is not recyclable, is sent to the South-East London combined heat and power plant where it is burned to produce heat and electricity.

We recycle toner cartridges, batteries, light bulbs and electrical equipment. When disposing of used IT equipment we have a no landfill contract with our contractor so that where assets cannot be refurbished and reused they are recycled.

Waste at the Newcastle office was disposed of by our landlord's waste provider until the office moved to new accommodation in November 2013, from which point the NAO appointed its own waste disposal provider for recyclable waste.

Controllable impacts commentary

In 2013-14, efforts made to reduce waste generation included:

- Food waste from our on-site catering facilities is recycled using an anaerobic digestion process. In February 2013, additional bins were placed in tea points and hospitality areas, so all food waste could be recycled in this way.
- Following a laptop refresh project in 2013, our IT department sold rather than disposed of all the laptops. In addition, new laptops were delivered with minimal packaging to avoid generating packaging waste.
- Unused furniture in the London office was used to furnish the new Newcastle office and all but a few items from the old Newcastle office were moved to the new accommodation.

A number of initiatives are planned for 2014-15 and beyond. These include, but are not limited to:

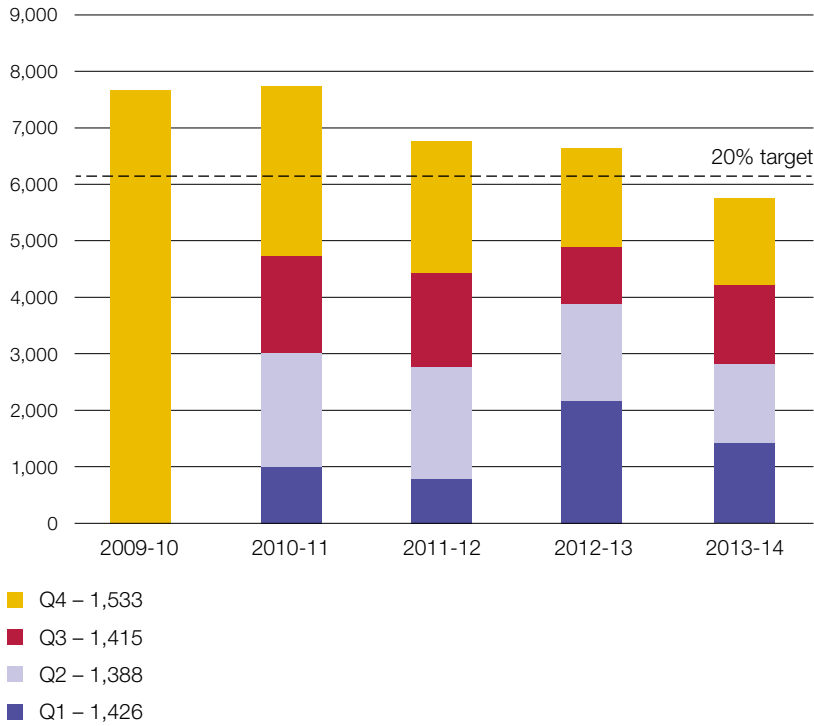
- A printing awareness campaign aiming to raise awareness of individual's printing costs and recommending actions for reducing paper consumption.
- Selling computer monitors rather than disposing of them as waste when they come to the end of their life, this will ensure new equipment is not delivered in lots of cardboard packaging.
- Working with our waste service provider at the London office to provide separate data on the waste generated by our tenants, over which we have little influence, in order to be able to identify the NAO's generated waste more accurately.

Overview of influenced impacts

NAO is taking steps to encourage our tenants to adopt similar waste policies. Some successes in this area include all our tenants adopting food caddies for their tea points and all but one tenant abolishing the use of under-desk bins, thereby promoting the use of segregated recycling bins.

Paper consumption

Paper in reams

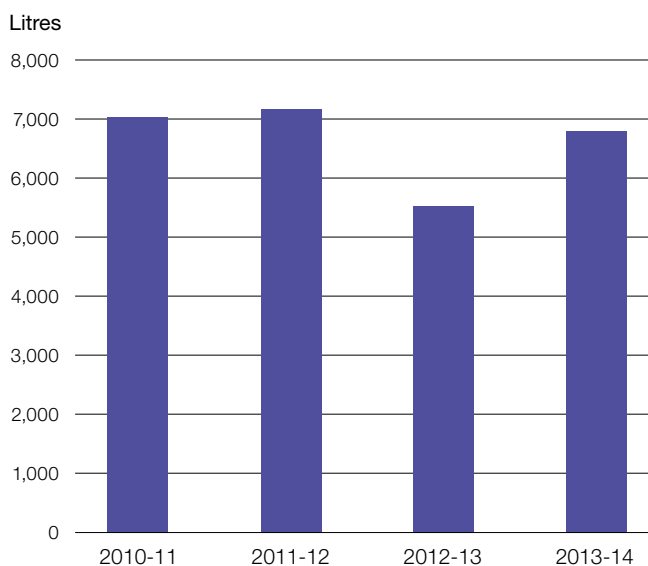


Target	Progress to date	Performance
20% reduction by 2014-15	25%	Exceeding target

From all the different waste streams, one of our main areas of waste is paper and we have implemented an additional target to reduce paper consumption in order to assist with meeting our waste target.

The NAO has successfully met and exceeded the target by 5 per cent ahead of expectations. We have minimised the generation of waste paper by using electronic methods wherever possible, such as issuing employee payslips. We use double-sided printing as standard and in December 2013, we completed phase 1 of a campaign to raise awareness of printing costs to reduce the volume of paper utilised.

Water



Water usage per FTE

Target	Progress to date	Performance
Ratio of 4m ³ to 6m ³ by 2015	5.6m ³ per FTE	On target

Controllable impacts commentary

The London office incorporates a number of water saving initiatives including rainwater harvesting which is utilised to supply lavatories.

Some of these initiatives include:

- Isolating and draining down our adiabatic chiller in the winter months when it is not required, effectively saving hundreds of litres of water.
- Re-routing water from a water-testing unit to return it to the water tanks rather than allowing it to flow straight down the drains.
- Strictly following a regular maintenance regime to repair or replace taps, which drip and ensuring flushing mechanisms on toilets are working correctly.

Overview of influenced impacts

As the Newcastle office is located within a shared building, the overall water reduction initiative lies mainly with our landlord. However, in November 2013, we moved to a recently refurbished and modernised building, which we hope, will mean an improvement in our ratio for this office.

As parts of the London office are sublet, the consumption of mains water has increased due to additional numbers of people in the building (an additional 20 per cent in 2013-14). We can only partially influence the impact of this by continuing to ensure that lavatories, showers and taps are maintained to prevent drips and leaks and by encouraging building users to consider their water consumption.

Limitations on sustainability data

There are limitations on the accuracy of financial and non-financial sustainability data. We are only able to set targets from 2010-11 as prior to this there were no baseline data available due to the period of refurbishment of the London office.

Sustainability and the NAO's audit work

A key strand of our audit work on sustainability is our support for the House of Commons Environmental Audit Committee. In 2013-14, in response to requests from the Environmental Audit Committee, we reviewed sustainability at the Department for Business, Innovation & Skills (BIS) and at the Home Office. The Environmental Audit Committee held a productive hearing on our report on BIS at which it welcomed the opportunity to hold BIS to account over its environmental and sustainability performance, and a Committee inquiry on the Home Office is to follow.

A number of our audits have assessed the implementation of policies with potentially significant environmental and social benefits. In 2013-14, this included reports on public funding for innovation in low-carbon technologies, the management of carbon budgets and the roll-out of rural broadband.

During 2013-14, we continued to work with PwC to recognise best practice in sustainability reporting in government, through an award for sustainability reporting at the Building Public Trust Awards. We have identified sustainable infrastructure, sustainable procurement and sustainability reporting as priority areas in which to build our expertise and influence.

Amyas C E Morse
Comptroller and Auditor General

Sustainability Data

Greenhouse gas emissions

		2010-11	2011-12	2012-13	2013-14
Non-financial indicators (CO ₂ in tonnes)	Total gross emissions for scopes 1 and 2	1,836	1,823	1,675	1,357
	Total net emissions for scopes 1	0.4	0.4	0.4	0.4
	Total net emissions for scopes 2	1,836	1,823	1,675	1,357
	Gross emissions scope 3 – business travel	726	663	589	597
Related energy consumption (kWh)	Electricity: non-renewable	3,011,414	2,924,112	2,679,575	2,629,114
	Electricity: renewable	314,160	305,748	273,545	273,886
	Gas	388,832	297,899	314,210	346,976
Financial Indicators (£000)	Expenditure on energy	387	418	407	555
	Expenditure on electricity	362	403	371	465
	Expenditure on gas	25 ¹	15 ¹	36 ¹	90 ¹
	CRC licence expenditure				
	CRC income from recycling payments		The NAO does not participate in these schemes due to the low value of CO ₂ emissions.		
	Expenditure on accredited offsets				
	Expenditure on official business travel (excluding accommodation costs and subsistence)	930	797	781	897

Note

1 This does not include Newcastle Office gas expenditure as it is included in the service charge.

Data Collection Methodologies

This data is not weather adjusted.

London Office data – Scope 1 and 2

Calculated using first hand data retrieved from the Office's Building Management System.

The data does not include the scope 2 emissions produced by NAO tenants. Tenants' electricity consumption is calculated based upon their metered supply.

Gas is metered at its point of entry into the building and so the tenants' consumption is estimated based on the floor space they occupy.

Newcastle Office data – Scope 2

The NAO's Landlord in Newcastle can only provide data for scope 2 emissions.

As in London, electricity is metered on to the office floor but gas is calculated as a percentage of occupied space.

As this data is provided by a third party, the NAO audits accuracy by requesting copies of utility bills.

The new Landlord has yet to provide gas consumption data so an estimate has been calculated for November 2013 to March 2014.

Scope 3

Scope 3 emissions from the NAO's business travel are calculated by the NAO's travel management company and a report is provided on a quarterly basis.

Waste

	2010-11	2011-12	2012-13	2013-14
Non-financial indicators (tonnes)				
Total waste	Not available	127.4	132.8	131
<hr/>				
Hazardous waste total		0.8	1.0	1.0
<hr/>				
Non-hazardous waste	Landfill	0	0	0
	Reused/recycled	111.2	126.8	122.1
	Incinerated/energy reused	17.0	5.0	7.9
<hr/>				
Financial indicators (£000)				
Total disposal cost	39.0	39.8	30.9	32.1
<hr/>				
Hazardous waste – total disposal cost	Not available	0.5	0.5	1
<hr/>				
Non-hazardous waste	Landfill	Nil	Nil	Nil
– total disposal cost	Reused/recycled	21.2	16.5	31.1
	Incinerated/energy reused	18.1	13.9	Nil

Data Collection Methodologies

London Office waste data

The waste data above includes waste generated by NAO tenants.

Waste disposal is outsourced to MITIE Waste and Environmental. Monthly reports detailing the weight of generated waste and a breakdown of waste by type are provided.

Newcastle Office waste data

As with our previous office the Landlord in the new Newcastle Office provides a general waste disposal service as part of the lease's service contract but unlike our previous office has advised that they will be unable to provide data on general waste. Therefore, an estimate has been calculated for November 2013 to March 2014. Disposal of all recycled waste is outsourced to MITIE Waste and Environmental. Monthly reports detailing the weight of generated waste and a breakdown of waste by type are provided.

Paper data

The NAO does not provide paper to tenants so figures on paper consumption only relates to NAO usage.

Water

		2010-11	2011-12	2012-13	2013-14
Finite Resource Consumption – Water					
Non-financial indicators (m ³)					
Water consumption	Supplied	7,038	7,172	5,520	6,794
	Abstracted	–	–	–	–
<hr/>					
Financial indicators (£000)					
Water supply costs		17.6 ¹	15.4 ¹	16.7 ¹	16.9 ¹

Note

1 This does not include Newcastle Office water expenditure as it is included in the service charge.

Data Collection Methodologies**London Office data**

Water consumption is calculated using data retrieved from the Office's Building Management System.

However, there are no separate meters for sublet space so water consumption includes tenant consumption and the calculation of the target ratio is based upon the number of building users (both NAO and tenant full-time equivalent).

Newcastle Office data

As in London, water is metered into the building but not on to the office floor. For this office, consumption is calculated as a percentage of occupied space.

The new Landlord has yet to provide water consumption data so an estimate has been calculated for November 2013 to March 2014.

Statement of National Audit Office financial impacts for 2013

The statement of financial impacts represents our estimate of the financial benefits achieved in 2013 following implementation of the NAO's recommendations to government. Financial impacts arise where there is a direct link between its 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.

The NAO records an impact only when the related benefit has been brought about, when it has data to substantiate the benefit, and when the audited body gives its agreement. Because of this high threshold, there is usually a time lag between making its recommendations and the impact being recorded. In calculating the value of impacts, the NAO deducts any implementation costs incurred directly by the audited body or indirectly by other parties.

Not all impacts can be quantified precisely including those that relate to qualitative efficiency gains and wider economic benefits. In these instances, the NAO bases the financial impact on careful judgement and estimation. The NAO recommendations are not always separable from other influences. In these cases, it agrees a proportion of an overall financial impact with the audited body, based on an assessment of the likely level of influence of its 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. The Leadership Team endorses all impacts. The NAO reports impacts on a calendar year basis. A summary of the principles it applies is below:

- **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 support 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.

2013 NAO impacts valued at more than £5 million

Description	Impact identified (£m)	Nature of impact	Year of claim	Audited body with whom impact agreed
Central government's use of consultants and interims New controls on contracting for consultants and interims reduced spending	248	Recurring	3 of 5	Cabinet Office
Personal Tax Credits Reduced error and fraud through improving the quality and measurement of interventions	187	Recurring	4 of 4	HM Revenue & Customs
Managing the defence inventory Reduction in spending on inventory where there is already sufficient levels of stock	175	Recurring	2 of 3	Ministry of Defence
Social Fund White Paper Improvement in the regularity of awards led to reduced error rate	133	One-off	1 of 1	Department for Work & Pensions
Train to Gain: Developing the Skills of the Workforce Reduced expenditure on train to gain programme	73	Recurring	3 of 3	Department for Business, Innovation & Skills
Management of Asylum Applications by the UK Border Agency Improved coordination led to reduction in losses incurred for cancelled airline bookings	58	Recurring	5 of 10	Home Office
HM Revenue & Customs: Managing Tax Debts Additional debts collected through prioritisation	35	Recurring	3 of 3	HM Revenue & Customs
PFI in Housing Review of PFI housing portfolio	34	Recurring	3 of 10	Department for Communities and Local Government
HM Revenue & Customs: Tobacco Strategy Changes to tobacco seizure strategy through targeted activity	33	One-off	1 of 1	HM Revenue & Customs
Renewable Obligation Changes to government support for certain renewables technology	20	Recurring	2 of 2	Department for Energy & Climate Change
Delivering the free entitlement for three- and four-year-olds Changes to funding system: removal of top up funding where not used as intended	15	Recurring	1 of 2	Department for Education
Managing high value capital equipment in the NHS in England Savings from bulk buying when purchasing high value capital equipment	13	Recurring	2 of 3	Department of Health

 2013 NAO impacts valued at more than £5 million *continued*

Description	Impact identified (£m)	Nature of impact	Year of claim	Audited body with whom impact agreed
Legal Services Commission Improved controls over expenditure led to reduced error rate and better recovery of irregular payments	11	Recurring	3 of 4	Ministry of Justice
The Community Care Grant Improved consistency in funding awards	6	Recurring	3 of 3	Department for Work & Pensions
Subtotal	1,041			
Impacts below £5 million	10			
Total financial impacts	1,051			

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 2013.

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 NAO's internal audit service.

Opinion

In our opinion:

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

Baker Tilly UK Audit LLP Registered Auditors

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2 June 2014

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National Audit Office

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