



National Audit Office

National Audit Office

Annual Report and Accounts 2014-15

The National Audit Office scrutinises public spending for Parliament and is independent of government. The Comptroller and Auditor General (C&AG), Sir Amyas Morse KCB, is an Officer of the House of Commons and leads the NAO, which employs some 810 people. 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 £1.15 billion in 2014.



National Audit Office

National Audit Office Annual Report and Accounts 2014-15

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Chairman's report



Lord Richard

Chairman
National Audit Office

When I started in my new role as Chairman in January this year, I committed myself to getting to know the organisation, its people and processes. I have now had the pleasure of spending time with audit teams and talking to colleagues across the office. The most immediate and striking thing I have seen is the impressively high level of professionalism and skill of colleagues and their commitment to improving the financial management and quality of public services. I am passionate about the experience of those using public services and one of my areas of focus will be on the National Audit Office's crucial role in shining a light on both bad practice and good.

Many years ago, I worked with the NAO in my role as Permanent Secretary at the Department for Education and Employment. I may not hold the record for the highest number of appearances before the Committee of Public Accounts but I am certainly in the first division. I know that the accountability process is a powerful motivator and has an almost unique ability to focus the attention of departments on a subject. Too often, however, departments have concentrated on fire-fighting negative findings at the expense of addressing the fundamental issues. This is an inevitable risk in such a highly political environment. But the accountability process epitomised by the NAO should be a driver for innovation, transformation and continuous improvement.

Over the past few years, I have seen a step change in the speed of the NAO investigating and reporting on cases of service failure. Such investigations and the move towards studies at earlier stages of big programmes have tangibly increased the impact of the NAO. My ambition is to see the NAO's investigations and reports used in Whitehall as case studies to drive change more widely and build a convincing management culture across the civil service.

The board and I also fully support the NAO in its ambition to capitalise on its ability to operate across organisational boundaries and help lead the way towards more integrated and cost-efficient public services focused on the needs of its users and giving due attention to the importance of prevention. Our new role working across local services will enable the NAO to play an important part in addressing past failures. This new Parliament will undoubtedly require further difficult decisions and ever-greater efforts to cut costs without reducing service quality. That will require profound structural reform as well as the redesign of services. The NAO is well equipped and ready to support that process believing, as we do, that accountability should contribute to the drive for transformation.

Foreword

Every penny spent by the public sector is the product of citizens' work. Public money is not a free good we can treat in a way we would not treat our own money. This, and the desire to improve the quality of public services, is what drives me as Comptroller and Auditor General.

Over the last Parliament, there has been unprecedented pressure to reduce public spending and deliver more with less. The National Audit Office has played a vital role supporting Parliament to hold government to account for the value for money of public spending and the services it provides. We have supported 276 hearings of the Committee of Public Accounts and we have increased our support to more parliamentary committees. Members of Parliament hold our work in high regard and references to our work in Parliament have increased.

We have helped create £5.5 billion in savings across the public sector over the past five years. At the same time, we have reduced our overall budget by 23% and we are delivering more investigative work and work on local government. We have done this by making our value-for-money studies faster and more focused, reducing their cost by 24%. In our financial audit work, we have made cost savings of 21% through a programme of improvements and addressing key risks earlier in the process.

In reflecting on our achievements, I always remember that the source of our authority is Parliament and our independence of government. This is what empowers us to break new ground and challenge departments when necessary. For example, we have worked with the Committee of Public Accounts to set the agenda for improvement and increased scrutiny on the high-value issues of tax reliefs and wider tax avoidance.

Looking forwards, I plan to deepen the impact we achieve based on our comparative work and our cross-cutting insights and expertise. In 2013, I restructured the NAO's audit teams to focus on issues and risks that cut across groups of departments to allow us to see the public sector as a whole. In the past year, we have seen this approach pay dividends with, for example, comparative work on inspectorates and contract management in the home affairs and justice sectors, and on lessons to be learned from major rail projects.

At the heart of our success is the expertise and passion of our people. I am grateful to all of them for their hard work and their commitment to improving public services. This Annual Report sets out our performance over the past year and reflects on some of our achievements over the past five years.



Sir Amyas
Morse

Comptroller and
Auditor General
National Audit Office

Strategic report

About the NAO

We help Parliament hold government to account for the way public money is spent and support the drive to improve public services.

- We audit the financial statements of central government departments, agencies and other public bodies, and report the results to Parliament.
- We examine whether public expenditure delivers value for money across the public services.
- We report, through our investigations, on emerging risks and respond to public concerns.
- We prepare and maintaining the Code of Audit Practice for local bodies, and report on wider local issues as part of our programme of value-for-money studies.
- We work with other national audit institutions and multilateral international organisations to develop global standards in public audit.

Key facts

£1 trillion

combined revenue and expenditure of government bodies audited

Independence

The head of the National Audit Office (NAO) is the Comptroller and Auditor General (C&AG), who is an officer of the House of Commons and a Crown appointee. The C&AG is independent of government.

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

We work with the House of Commons Committee of Public Accounts to support its examinations of value for money across public services. We support other select committees' annual reviews of government departments and on specific issues where we have expertise.

Parliament sets our budget, scrutinises our performance and appoints our external auditors. It does this through a House of Commons committee called the Public Accounts Commission.¹

The NAO's board

The Public Accounts Commission appoints our non-executive board members. With the C&AG, the board develops our strategy and provides oversight of our resources. The non-executive board members are independent of our management. Board members have individual and collective responsibility for providing leadership on issues of sustainability.

¹ Further information can be found on our website at: www.nao.org.uk/about-us/

Our strategy and objectives

Our strategy in 2014-15, and throughout this five-year parliamentary term, has been to use the insights from the bodies we audit to drive improvement in public services. To achieve this, we focused on our three objectives.

Our strategic objectives



While our strategic objectives remain, we have transformed the way we work during this Parliament to respond better to a changing landscape. We are now organised to intervene early and effectively into emerging issues, focus on key areas of risk and bring together a comprehensive range of expertise to investigate an issue. This maximised our impact throughout both 2014-15 and the Parliamentary cycle.

Main aspects of the NAO's transformation

Greater focus on the shared strategic issues across the bodies we audit

Auditing projects and programmes earlier in their implementation to identify risks that might escalate into bigger failures

Further developing our investigative capacity to follow public money where the facts of an issue are uncertain

Providing integrated assurance with products tailored more appropriately for Parliament's and other stakeholder needs

Establishing a leaner NAO with enhanced collaborative working to increase our impacts and influence

Greater focus on end-to-end local service delivery, covering both central and local government

Key facts

we exceeded our target of £630m to achieve validated savings to government of

£1.15bn

Our teams now have a sustained focus on strategic issues across the bodies we audit, as illustrated on page 13. We secure such sustainable improvements by targeting our work on areas where we can have most impact and where the risks to value for money are highest.

We have established a leaner NAO with enhanced collaborative working.

The new government continues to face pressure to provide public services in a more sustainable cost-effective way. Our strategy and enhanced ways of working put us on a firm footing to continue to provide accountability to Parliament and help drive public service improvement.

Helping Defra to better manage its facilities contract

In 2014, we conducted an investigation into the Department for Environment, Food & Rural Affairs' (Defra) Interserve facilities management contract. We examined the issues arising from the contract and reviewed Defra's work to assure itself it understood the extent of these issues, including amounts that it could have potentially been overcharged.

Impact: Our findings were considered fully by Defra as part of their final calculations. Defra told us "whilst we were already considering an amount of settlement, the NAO investigation report gave greater impetus to the work being conducted at a very senior level within Core Defra. It also provided independent validation that the methodology and approach the Department was adopting in seeking a settlement was legitimate."

Key facts

344

organisations audited

Encouraging the effective management of tax reliefs

Our work on tax reliefs in 2014 broke new ground regarding the level of accountability needed for these important policy mechanisms. Our work illustrated that reliefs are material to the UK's fiscal position, but there is no consistent approach to introducing or modifying these. We recommended that HM Revenue & Customs (HMRC) develop a methodology for identifying similar reliefs and the level of administration needed for each type.

Impact: HMRC and HM Treasury both agreed they have responsibility for evaluating whether reliefs are achieving their aims and for assessing their costs and benefits. We saw examples of good practice emerging. HMRC uses specialists to monitor patent box relief and is developing new techniques to respond quickly to analyse any changes in its use. We have encouraged HMRC, with HM Treasury, to determine an appropriate level of administration for tax reliefs in proportion to risk.

Managing reductions in local authority government funding

Our report on local authority funding reiterated that government must understand the implications of funding reductions on the delivery of local services, and whether supporting local authorities to redesign selected services and join up with other local service providers would deliver the improvements and savings needed.

Impact: Our work has been instrumental in securing acknowledgement from the Department for Communities and Local Government (DCLG) that its processes for estimating local authority spending requirements and assessing the potential impacts of spending reductions need to be improved. Our report has also been widely used in the sector. For example, Leeds City Council and Birmingham City Council repeatedly drew on our work to inform their ongoing debate with central government over devolution. Other councils such as Wolverhampton City Council and Oldham Council used the report to inform discussion and decision-making in cabinet meetings and audit and scrutiny committees. More widely, commentators including the Local Government Association and treasurers' societies have used our analysis to inform their thinking, and firms such as Grant Thornton and KPMG have included substantial coverage of the work in the audit updates for many local authorities.

How we work

Our teams group together departments facing similar strategic issues. By focusing on these shared strategic issues in a sustained way, we can more easily compare how different departments address them and promote best practice. Alongside using core audit skills, we are developing our expertise so we are well-placed to respond more quickly to the key issues facing public service provision and investigate potential problems promptly.

Effective strategic centre

Cabinet Office, HM Treasury, private and third-sector delivery and Parliamentary Audit Team

Securing an effective centre of government that facilitates the best use of public money

Influencing and regulating

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

Strengthening influence and regulation to make markets work effectively

Local service delivery and user experience

Department of Health, and Department for Communities and Local Government

Maintaining effective local services under financial constraint

Mass market operations

Department for Work & Pensions, HM Revenue & Customs, international work

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

Delivery through networks

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

Improving outcomes from a diverse range of providers, with effective oversight and intervention

Delivering major programmes

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

Improving the effective delivery of major programmes and projects

Cross-NAO working

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

Our performance in 2014-15

Performance framework, 2014-15

Corporate objective	What we are seeking to measure	Key success measure	Snapshot of performance in 2014-15
Develop and apply our knowledge	Cost-effective delivery of our programme of work, leading to positive change	<p>Delivery of our financial audit, value-for-money and wider work programme for Parliament</p> <p>Case studies demonstrating positive impact from our work where this is not financially quantifiable</p> <p>Financial impacts of at least ten times our operating costs</p>	<p>Achieved a validated savings to government of £1,151 million. Examples in this report demonstrate our wider impact across most sectors and areas of work.</p> <p>Largely achieved delivered a programme for Parliament covering financial audit, value-for-money and wider work and supported a full programme of evidence sessions for the Committee of Public Accounts.</p>
Increase our influence	Stakeholder perceptions and response to our work	<p>Acceptance and implementation of Committee of Public Accounts recommendations</p> <p>Survey of MPs' perceptions of the quality of our work, and our influence</p> <p>Moderated feedback from clients on the quality of our work, and our influence</p>	<p>Achieved maintained levels of recommendations accepted</p> <p>Achieved maintained levels of familiarity, favourability and advocacy from MPs surveyed in 2014</p> <p>Largely achieved maintained clients' feedback ratings as measured in 2014</p>

 Performance framework, 2014-15 *continued*

Corporate objective	What we are seeking to measure	Key success measure	Snapshot of performance in 2014-15
Deliver high performance	Cost-effective use of funds and organisational performance	Overall cost reduction	Achieved reduced total resource spend by 17% from 2010 (23% inflation-adjusted) while also taking on extra work in local services
		Ratio of expenditure on front line and corporate services functions	
		Staff survey combined measure of staff engagement	Achieved spent at least 80% of our resources on front-line work
			Partially achieved some headline improvement but more work to do

Like all performance measures, ours provide a partial picture of our contribution to improved public services. We continue to look for further ways to measure and improve our impact in the future. An infographic of our performance over the five years of this Parliament is on page 18.

We have established a leaner NAO with enhanced collaborative working.

Driving accountability and public service improvement

Key facts

442

accounts certified

65

Major outputs comprising 49 value-for-money studies, 13 investigations and 3 financial reports

Parliament, the bodies we audit and local government must see real value in our work. Our ultimate purpose is to help Parliament hold government departments accountable and we audit bodies to account for the way they use public money, thereby safeguarding the interests of taxpayers. Our work aims to help those working in the public services to improve performance and service delivery. This is reflected in our performance framework.

Shining a spotlight on contract management

We looked at contract management across government, following the over-billing on Ministry of Justice's electronic monitoring contracts and the subsequent cross-government reviews. The government based its reviews on our 2008 Contract Management Good Practice Framework, and invited us to act as an observer on the oversight board. The reviews found systemic problems with the management of contracts across central government. Our 2014 reports identified a lack of senior engagement with and visibility of contracts as well as insufficient resourcing of contract management. The Committee of Public Accounts also held evidence sessions in 2014 on contract management. Our comparative report on contract management in the Ministry of Justice and Home Office highlighted the main areas where both departments had more to do. For example, following our observations the Ministry of Justice introduced strategic oversight of its key suppliers. Our comparative approach helped the departments collaborate more in dealing with common issues and in better defining good contract management practice.

Impact: As a result, the government accepted the need to improve the governance, information systems and structures needed to improve performance and provide greater assurance. There are improvements under way across government in response to this need. In addition, the government has introduced a major programme to reform the commercial profession and within this to improve contract management capability overall. The contracting industry largely accepted that it has a duty of care to the taxpayer and the need for improved transparency.

Increasing the effectiveness of tax collection

In 2015, we published a report examining how HMRC responded to recommendations from the NAO and the Committee of Public Accounts in areas our work has focused on since 2010.

Impact: HMRC responded positively to our recommendations and made changes in significant areas of tax administration. We made more than 130 recommendations to HMRC and it has implemented more than 80% of them. Following our report on marketed tax avoidance, HMRC obtained new powers to change the economics of tax avoidance by increasing the risks and reducing the advantages of using or promoting avoidance schemes. It also set up a new counter-avoidance directorate to coordinate its activities better. HMRC estimates that its new measures to tackle anti-avoidance will increase tax revenue by £400 million in 2014-15 and more than £1,600 million in 2015-16. HMRC improved the transparency and accountability around how it settles large tax disputes in response to our recommendations. It appointed a new tax assurance commissioner who publishes an annual report describing its progress in resolving major disputes. Its new governance arrangements provide more independent challenge with greater separation between those working a dispute and those responsible for approving how it is resolved.

Key facts

611

pieces of correspondence responded to compared with 481 in 2010-11

Achievements in the last Parliament, 2010-15

As one Parliament ends and another begins, we have looked back at our work over the past five years. We helped Parliament to hold government to account for the way public money was spent and supported the drive to improve public services. The Committee of Public Accounts used our reports to help it understand the performance and progress of many projects and programmes. Our unique and independent view of government means we provided the Committee with reliable and authoritative evidence on which to base its evidence sessions and make recommendations to government departments.²

Outputs

 NAO  Committee of Public Accounts



2,217

financial audit certifications



298

value-for-money studies completed



38

completed investigations



3,259

pieces of correspondence responded to



23%

reduction in resource allowing for inflation



276

Committee of Public Accounts evidence sessions supported



More than 1,330

Committee of Public Accounts recommendations responded to in Treasury Minutes



88%

of Committee of Public Accounts recommendations accepted by government



636

Committee of Public Accounts recommendations reported by government as implemented

² The Committee of Public Accounts published a report on its work during the 2010–2015 Parliament: www.publications.parliament.uk/pa/cm201415/cmselect/cmpubacc/1141/1141.pdf

Developing and applying our knowledge

Delivering our work programme for Parliament

In 2014-15, we delivered a programme for Parliament covering financial audit, value-for-money, and our wider work, and supported a full programme of evidence sessions for the Committee of Public Accounts.

We audited the financial statements of nearly all central government organisations and reported on them to Parliament. This included additional audit work on Probation Trusts for the period the government re-established these as Community Rehabilitation Companies and sold them. This is in addition to certifying their 2013-14 accounts.

The quality of our financial audit work is of paramount importance and it is vital we approach it in an efficient way. We have enhanced our financial audit to better focus on the areas of greatest risk, and have reduced our audit costs without a reduction in quality. We introduced new methods of communicating our audit approach, findings and recommendations to audit committees to make it easier for them to engage with our findings. The initial feedback has been positive and we will continue to look for further opportunities to ensure we conduct our work as cost-effectively as possible.

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. Following a consultation, we published for the first time the Code of Audit Practice for auditors of local public bodies, along with supporting guidance for local auditors. We also published a guide setting out public rights to inspect and raise objections to local authority accounts.

We examined the value for money of central government expenditure to establish whether public funds have been used economically, efficiently and effectively and reported the outcome to Parliament. As part of this, we have pursued new areas such as tax avoidance and the efficacy of tax reliefs. We have continued to make sure our value-for-money work is:

- more integrated with our financial audit work;
- more responsive to the areas of greatest risk and
- identifies those areas where risks could escalate in the future.

Our investigations work grew in profile as we consolidated our internal expertise and developed a programme of work. Indeed, the Committee of Public Accounts used seven of our investigations as the basis for evidence sessions. We completed investigations across a range of topics such as awards of grants, conflicts of interest and contracting arrangements. We undertook several cross-government reviews in response to intelligence from our wider work. For instance, we published our third report on whistleblowing, focusing on the role of prescribed persons, and examined government travel expenditure.

Key facts

57

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

Key facts**£178,000**average study cost
compared with
£233,000 in 2010-11

We have also had a significant workload arising from correspondence from MPs and the public, often raising specific concerns with us. Correspondence can bear directly or indirectly upon particular audit examinations as well as giving us insights into the operations of an audited body or highlighting areas of parliamentary and public concern. It can lead to an investigation.

Our work programme has been affected by the timing of the 2015 general election and the dissolution of Parliament, as well as the fact that as the economy improved, our resilience has been affected as our people have been actively head-hunted by the external market. To preserve parliamentary accountability throughout the year, we prioritised our work on financial audits and major reports. We therefore did not invest as much time and resource carrying out as many investigations and responding to correspondence as quickly as we would have liked. Further information on the risks that affect us can be found as part of the Governance Statement on page 44.

Earlier certification of the Home Office resource accounts

We certified the 2013-14 Home Office group accounts almost three weeks earlier than the 2012-13 accounts.

Impact: This meant that less Home Office and NAO staff time was spent on the audit in a period of considerable change in the Home Office finance function, and Parliament (and the public) had more timely financial information on the department's activities. We were also able to reduce our audit fees compared with those of 2013-14 by taking a more efficient approach and cutting out unnecessary work. It was a combination of our more efficient and collaborative approach and management's positive engagement with the audit that enabled the earlier certification.

Helping the Charity Commission to improve its effectiveness

We have published three reports on the Charity Commission in the past 14 months, which have prompted a radical internal overhaul of the Commission itself and new legislation to plug gaps we identified in the Commission's statutory powers.

Impact: Following NAO and Committee of Public Accounts criticisms in 2013, the Commission recruited a new CEO, revised its regulatory strategy, developed a new business model and launched a 3-year change programme. We are also credited in the foreword to the draft Protection of Charities Bill as identifying some of the legislative gaps the bill seeks to address. We gave evidence to the joint committee carrying out pre-legislative scrutiny of the bill. In its final report, which backs the bill's proposals, the committee made more than 50 references to that oral evidence and our reports on the Charity Commission.

Providing clarity over the arrangements for oversight and funding of alternative higher education providers

We conducted an investigation into the financial support for students at alternative higher education providers. The report and subsequent Committee of Public Accounts evidence session underlined the risks with a rapidly expanding market, and what can go awry when public bodies lack adequate controls to regulate a new market.

Impact: This investigation is having an early impact. In January 2015, the Department for Business, Innovation & Skills (BIS) announced action to secure improved standards among alternative higher education providers. In particular, alternative providers will now face tougher checks from the Quality Assurance Agency. In addition, the department plans to use student number controls to limit recruitment at providers whose performance is unsatisfactory and is consulting on the introduction of a minimum English language requirement to strengthen recruitment practice by providers.

Support to Parliament

Our reports improve the scrutiny of government by parliamentary select committees, particularly the Committee of Public Accounts. The Committee met twice weekly when Parliament was in session and took evidence from senior government officials and accounting officers. Evidence sessions drew on the full range of our work including value-for-money studies, investigations and reports on financial statements.

We expanded our work for other select committees. We supported 24 parliamentary committees with 17 departmental overviews, providing an accessible outline of each department for the relevant select committee. We worked with select committees to provide a range of written outputs, both formal and informal. We seconded NAO people to the Treasury Committee, the Public Administration Committee, the Environmental Audit Committee, the Defence Committee, the International Development Committee and the Scrutiny Unit. We provided ad hoc briefings to members of both Houses.

We were a source of good practice for the way Parliament operates. The House of Commons appointed a Governance Committee to examine the future allocation of the responsibilities for House services exercised by the Clerk of the House. The C&AG and our chief operating officer gave evidence on the way they work together and the accountability principles we have promoted across government. The Committee's report recommended a management structure mirroring that used by the NAO, with the creation of a new post of Director-General of the House of Commons to complement the role of the Clerk of the House.

Key facts

60

Committee of Public Accounts evidence sessions supported

24

other parliamentary committees supported

17

departmental overviews published

Key facts

78%

of studies delivered
within nine months and
30% were delivered in
six months

Delivering better careers advice for young people

Our report and Committee of Public Accounts evidence session concluded that despite many different approaches over the years, most young people do not receive the careers advice they need. We recommended the Department for Education reconsider how it could help improve advice provided by schools and colleges. Others – including Ofsted, the Education Select Committee, the Sutton Trust, employers, and schools and colleges – echoed this view.

Impact: Informed by this range of evidence, in 2014 the Secretary of State for Education announced the creation of a new independent careers and enterprise company to broker relationships between employers and schools and colleges so that young people are inspired and receive the guidance they need for success in working life.

Highlighting an accountability gap in the reporting of the Levy Control Framework

Our report highlighted an accountability gap in the reporting of the Levy Control Framework. The Framework is used to monitor and control the cost of energy schemes not accounted for in the Department of Energy and Climate Change's accounts, as consumers fund them through their energy bills.

Impact: The Energy and Climate Change Committee agreed, and secured a commitment from the Department of Energy & Climate Change (DECC) and HM Treasury to regularly report information on the Levy Control Framework and other consumer-funded policies to Parliament in line with our recommendations. The first report, published in November 2014, gave parliamentarians and the public much better information about DECC's consumer-funded expenditure, of which levies totalled around £3.3 billion in 2013-14.³

International

We are the appointed external auditor of 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.

We continued our membership of the United Nations (UN) Board of Auditors as part of our term of six years. The board's goal 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.

Working with the national audit bodies of India 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 many UN entities including the UN Headquarters, the UN High Commissioner for Refugees and six UN Peacekeeping operations around the world. In recent years we have focused on reviewing and reporting the progress made in implementing UN reforms and business transformation projects.

We work with the International Organisation of Supreme Audit Institutions and the European Organisation of Supreme Audit Institutions to promote high standards of public audit worldwide. We help shape the future of audit institutions around the world and provide technical and managerial advice to a range of Supreme Audit Institutions and legislatures.

Public surveys in Ukraine show that after peace in the East, the top priority for Ukrainian citizens is a reduction in fraud and corruption. We are working with the Accounts Chamber of Ukraine, the Ukrainian Parliament and the Presidency to help draft new audit legislation so Ukraine's Accounts Chamber has the powers and independence to play a more effective role in auditing public finances in the country.

New UN resolution achieved with NAO support

A new resolution on strengthening Supreme Audit Institutions was adopted by the UN General Assembly. The resolution gave Supreme Audit Institutions a clear role in reporting on progress towards the international development goals.

Impact: The INTOSAI Secretary General and President of the Court of Audit of Austria, Dr Josef Moser, congratulated us for our sustained commitment to helping secure support for a new UN resolution. Dr Moser said, "without your efforts, this resolution would not have been adopted in this form".

Key facts

£3.2m

income from our work with the United Nations

£0.7m

income from helping strengthen other Supreme Audit Institutions and public accounts committees

Key facts**6 weeks**

average time taken to clear a report with a department

Malaysian peer review highly praised

In December 2014, we carried out a rapid appraisal of the Malaysian Audit Office, examining issues of independence and compliance with the international standards for financial audits.

Impact: The work was highly praised by the Malaysians and is being used by them as part of their contribution to the country's transformation agenda.

Helping the parliament of Morocco create a committee for public accounts

Since 2012, following a request from the Speaker of the Moroccan House of Representatives, we have been providing advice and support to the Moroccan parliament to help establish a committee of public accounts.

Impact: This committee was formally established in April 2014. Several other parliaments in North Africa are now considering establishing committees of public accounts.

Our impact

Our work saves the public money. We assess our financial impact, identifying savings achieved as a direct result of our work. We achieved validated savings to government of £1.15 billion. This is a ratio of £18 of financial impact for every £1 spent, against a target of £10:£1. As it takes time to confirm and quantify the benefits that result from our work, some of these impacts arise from previous years' work. Further details of all our financial impacts are on page 103.

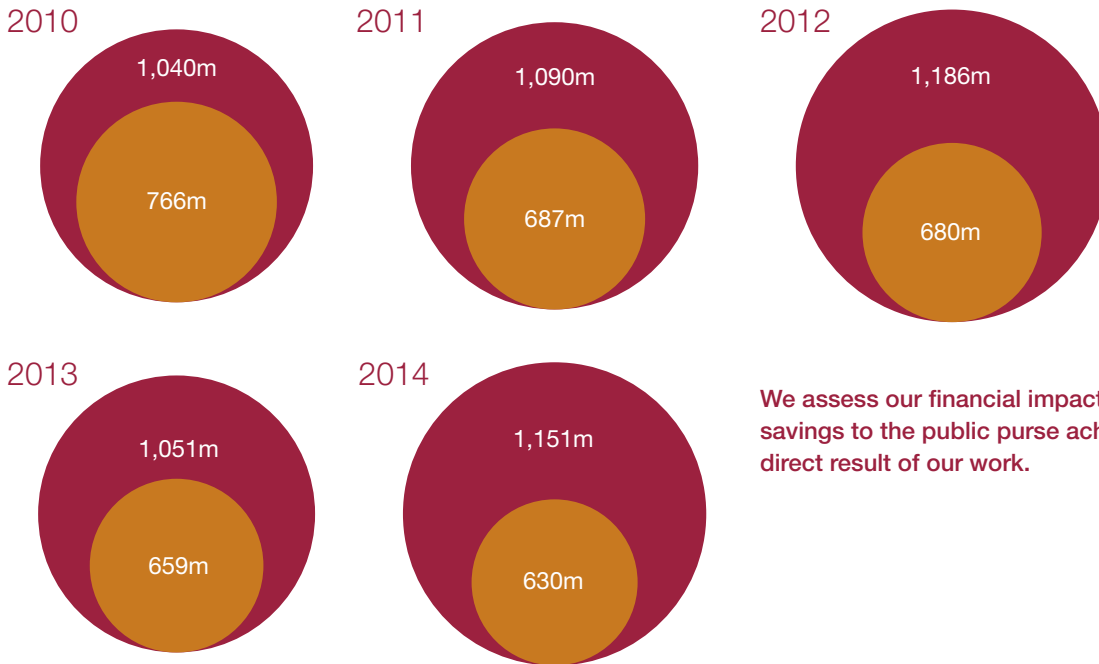
NAO drives improvements in NHS stroke care

We found that the NHS was not making best use of proven clinical practices in stroke care that were known to improve patient outcomes and reduce costs. These included specialist stroke units, brain scanning and early supported discharge. Slow progress in implementing best practice meant that stroke patients were staying in hospital longer than necessary.

Impact: Our findings accelerated change, prompting the Department of Health to develop a national strategy for stroke care and the NHS to adopt clinical best practice more widely. Our recommendations helped improve outcomes for stroke patients through faster access to tests and specialist treatment, and the associated efficiencies helped save the NHS an estimated £456 million between 2007-08 and 2013-14.

Helping to save public money

Target financial impact
 Actual financial impact



We assess our financial impact, identifying savings to the public purse achieved as a direct result of our work.

We set ourselves a target – ten times our annual budget – to help the bodies we audit make validated savings because of our work. Even while the NAO’s own running costs have reduced, we have increased our impact.

Increasing our influence

Parliamentary confidence

Our work continued to support parliamentary scrutiny by providing independent insight to MPs. Through government responses, we can see that individual departments have accepted the Committee of Public Accounts' recommendations. During the 2014-15 parliamentary session, the government accepted 88% (192) of the 218 recommendations made by the Committee of Public Accounts. This is comparable with 2013-14, where the government accepted 87% (294) of the 344 recommendations made by the Committee. The NAO received around 6 references in Parliament per sitting day, compared with 5 in 2013-14.

Recognition of the NAO and the Committee of Public Accounts' work in Parliament¹



5

from 2012 to 2015, average number of references to the NAO in Parliament per sitting day



3

from 2012 to 2015, average number of references to the Committee of Public Accounts in Parliament per sitting day

Note

1 We started to record references to the NAO and the Committee of Public Accounts in 2012-13.

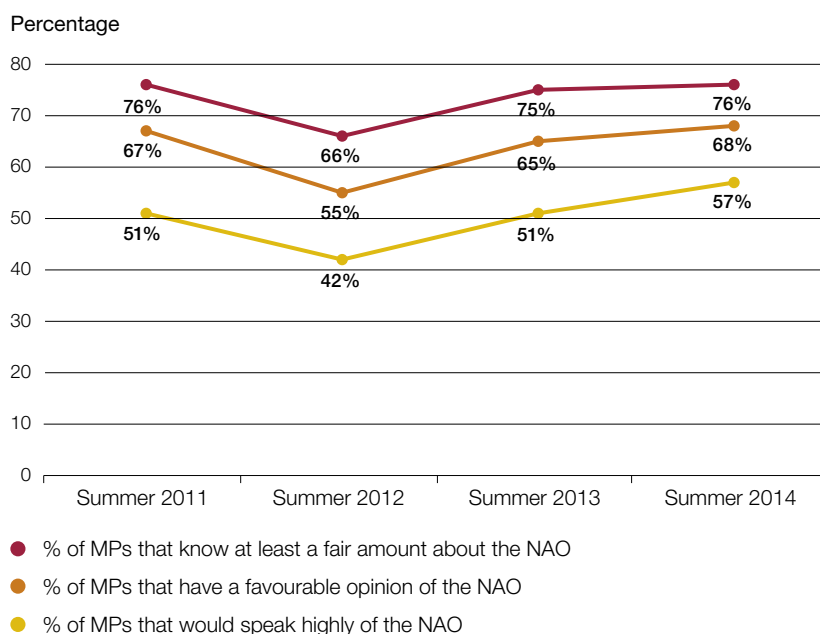
MPs have confidence in the independence of the assurance we provide. We take part in a study of the views of MPs to assure ourselves that our work continues to meet their needs and to identify areas for improvement. Findings in 2014 were broadly in line with findings from 2013.

Familiarity with the NAO remains high, with 76% of MPs saying they know the NAO at least a fair amount. Favourability is high, with 68% saying they hold a favourable opinion of us. Fifty-seven per cent of MPs say they would speak highly of us, and 8% would do so without being asked.

The main reason MPs give for speaking highly of us is that we provide them with good information, with 36% citing this reason. Personal experience (28%) of the NAO is another key driver of advocacy, followed by 26% who say they would speak highly of us because of our independent view in monitoring public expenditure.

Eighty-four per cent think we are above average on acting independently and with impartiality when compared with other major organisations.

MPs' perceptions of the NAO



Source: Ipsos MORI. Base: All MPs (95), Conservative MPs (38), Labour MPs (44), Summer 2014, All MPs each wave

“They are independent, they would equally give us a kicking if we were in government, they are non-biased, bi-partisan in their critiques.”

Labour shadow minister

“They produce something that is of a quality gold standard; you can rely on what they are telling you.”

Conservative backbencher

Developing the capability needed to deliver the rail strategy

A number of our reports on the Department for Transport (DfT) have commented on: the mismatch in terms of skills and experiences between DfT and bidders teams engaged in commercial negotiations; and the DfT's capacity to deal with such a large portfolio of major programmes. The Committee for Public Accounts pursued these themes, commenting in its report on the DfT's procurement of new trains that “the Department still lacks the skills needed to manage complex procurements. The Department must develop, set out and implement a clear strategy for developing the capability needed to deliver its rail strategy and address the concerns we have raised over many years about its senior management capacity and its commercial skills.”

Impact: Partly in response, the DfT launched a Commercial Capability Strategy in 2014, including a fast-track programme to give commercial experience to some graduates entering the department each year. The DfT is also enrolling senior responsible owners and project directors of the government major projects portfolio in the Major Projects Leadership Academy and developing a senior network for sharing advice.

Securing better progress on nuclear decommissioning

We produced two reports on nuclear decommissioning at Sellafield. The first, published in 2012, examined how the Nuclear Decommissioning Authority manages risk at Sellafield. The second, published in 2013, examined how the Authority receives assurance about the level of reported efficiency savings on the site. The Committee of Public Accounts also published two reports, in 2013 and in 2014, reporting on progress on the site and the Authority's decision to continue its parent body agreement with Nuclear Management Partners into a second term.

Impact: In response to our work and that of the Committee, the Authority confirmed it had been considering and would further develop its alternatives to the parent body organisation model. It completed a strategic review of the delivery arrangements in 2014, and in January 2015 announced its decision to terminate its contract with Nuclear Management Partners and implement a new delivery model. The Authority considers its proposed revised approach will secure better management of the site and decommissioning, and bring significant savings.

The views of audited bodies

We use our work to help the organisations we audit make progress with the strategic issues they face. We commission independent qualitative interviews with senior civil servants and chairs of audit committees, and we use this feedback to improve our work and our communications with departments. The 2014 research findings are broadly in line with the 2013 and 2012 findings.

Respondents thought our financial audit work was appropriately thorough and focused on the areas of greatest risk. They said that it leads to changes in their organisation's approach to financial management and control, and most would seek our feedback on accounting and financial control issues. Respondents were less interested in seeking our comments on wider efficiency and value-for-money work. Some did query whether our insights are particularly unique and whether they extend to wider management issues. Nevertheless, many clearly valued our broader perspective from working across government departments.

The vast majority of respondents commented on having an appropriate level of contact with NAO people and constructive challenge, and that we are responsive to requests and the need to resolve issues. Most said we effectively manage the volume and timing of our audit work but some felt we could be better at raising issues earlier in the audit cycle. A small proportion felt we could be more proactive at times.

“They are a credible source of information about the way that public institutions behave and they have accessible information which is valuable to MPs.”

Liberal Democrat minister

Achieving value for money for the sale of government shares

In October 2013 the Shareholder Executive – part of the Department for Business, Innovation & Skills (BIS) – sold 60% of the government's shares in Royal Mail PLC to private investors, generating proceeds of £1,980 million. We conducted a value-for-money study, which examined the Shareholder Executive's method of sale. We reported that there are limitations in the standard 'book-building' process to create demand for and allocate shares. We concluded that although the Shareholder Executive achieved its primary objective of delivering a sale of shares within this Parliament it could have achieved better value for the taxpayer. Our report recommended that the government should consider whether alternative methods of accessing equity markets would achieve better value than the process used to privatise Royal Mail.

Impact: In response, the Secretary of State for Business, Innovation & Skills appointed Lord Myners to lead a panel of relevant experts in conducting a review of the way government-owned shares are sold through Initial Public Offerings. Lord Myners found that: the standard system of book-building used in the privatisation of Royal Mail demonstrated its limitations; Royal Mail might have priced a little higher but not anywhere close to the level of initial trading; and any decision to revise the price range would have added uncertainty and risk. His recommendations included a number of changes to United Kingdom market convention and, in some cases, regulation. We also supported two parliamentary committees' hearings on the Royal Mail privatisation, and we have continued our engagement with the Shareholder Executive through regular dialogue concerning other corporate finance transactions and the development of commercial skills.

Improving the British Council's financial management

Our work on the audit of the accounts of the British Council identified possible material error in its accruals balances. The Council decided to investigate these balances and re-present their accounts to avoid the possibility of a qualified audit opinion. As a result, sign-off was delayed for a period of five months while its investigation reviewed processes and eventually identified errors of £8.9 million.

Impact: Improvement actions have been taken including: kick-starting a number of related projects; increased scrutiny over accruals balances, particularly in relation to old un-cleared transactions; revised approval processes for high-value accruals; and better training for in-country and shared service centre staff. The new chief financial officer has welcomed our work and continued engagement, which has given her a valuable insight into the challenges and opportunities that she and her team face in improving the Council's financial management and staff capability and capacity.

Helping to improve accountability in the health system

Strong and clear accountability in a devolved delivery system has been a common theme running through our recent health studies and our work has highlighted examples where accountability required further definition. Obtaining consistent and reliable data is also an important element of strong accountability, something we have considered.

Impact: Our 2013 report on maternity services in England recommended that the Department of Health clarify its objectives for maternity services and explicitly state who was accountable for their implementation. The Department clarified these accountabilities in its revised Accounting Officer System Statement, published in October 2014. Our 2014 report on NHS waiting times for elective care in England recommended the Department clarify its assurance processes over the data quality for waiting lists. Following our report, Monitor amended its annual reporting guidance to require all NHS foundation trusts to include in their annual governance statements an explicit statement on how they assure data quality, accuracy and risk.

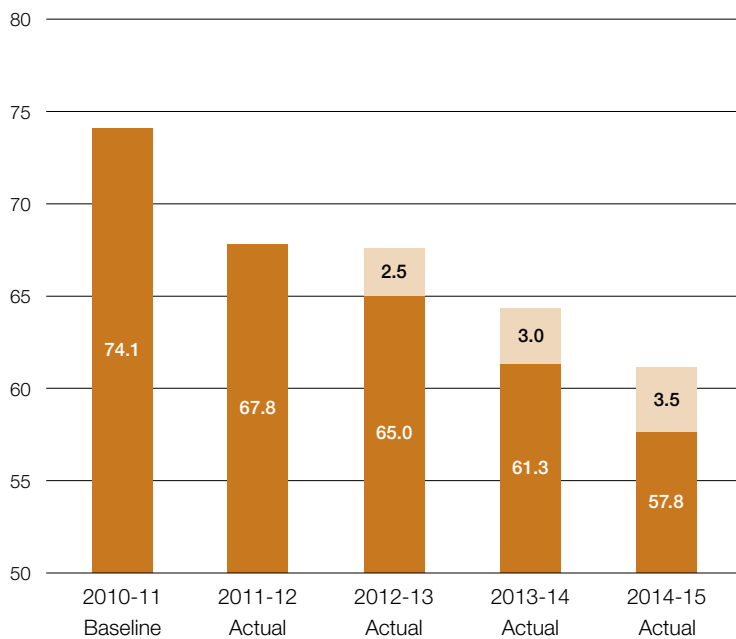
Delivering high performance

Working efficiently

We use funds cost-effectively. We have completed a structured cost reduction programme and, compared with our baseline in 2010, have reduced our total resource spend by 17% as at 31 March 2015. This is a reduction of 23% after allowing for the effect of inflation, which is how government departments report their savings. Even while we have reduced our overall costs, we have increased the portfolio of work because of our new role under the Local Audit and Accountability Act 2014. Our inflation-adjusted saving rises to 27% if we exclude the new responsibilities we have taken on.

NAO net resources

£ million



- Existing work
- New work in local services

Notes

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

We continue to maintain an appropriate balance between our front-line activity and business support, and make sure these are within the ratio of 80:20. Going forward, this will be an area of sustained focus. We are investing in better systems and processes to improve our business and allow us to support audit and value-for-money study teams at a lower cost.

As indicated in Figure 5, our net resource outturn for 2014-15 was £61.3 million, which is less than the budget for the year of £63.0 million by £1.7 million (3%). The main causes of this variance are a reduction in the cost of our audit and assurance work and additional income earned from unplanned audit responsibilities arising during the year. We managed this extra work without incurring further costs through careful reprioritisation of our work programme.

Audit and assurance work

Overall, the costs of the NAO's audit and assurance work, which covers its full range of financial audits, value-for-money work, investigations, overseas work and support to Parliament, were less than budgeted by £0.3 million (under 1%). We have operated with fewer people than planned for most of the year, as the wider economic recovery means qualified accountants command more attractive pay packages in the private sector. We invested in digital ways of working, and look to make better use of technology for meetings and communications and to minimise any avoidable travel costs.

Resources	2014-15	2014-15	Saving	
	Estimate £m	Outturn £m	£m	%
Audit and other assurance services	83.0	82.7	0.3	<1
Income	-20.0	-21.4	1.4	7
Net resource requirement	63.0	61.3	1.7	3
Capital expenditure	1.5	1.2	0.3	20
Net cash requirement	62.5	60.5	2.0	3

Income in 2014-15

Our income was higher than budget by £1.4 million (7%) as we carried out additional audit work on Probation Trusts for the period the government re-established these as Community Rehabilitation Companies and sold them. This audit and assurance work alone generated an additional £1.0 million of income. The international work of the NAO, for which it earns a fee, has benefited from a period of favourable exchange rates.

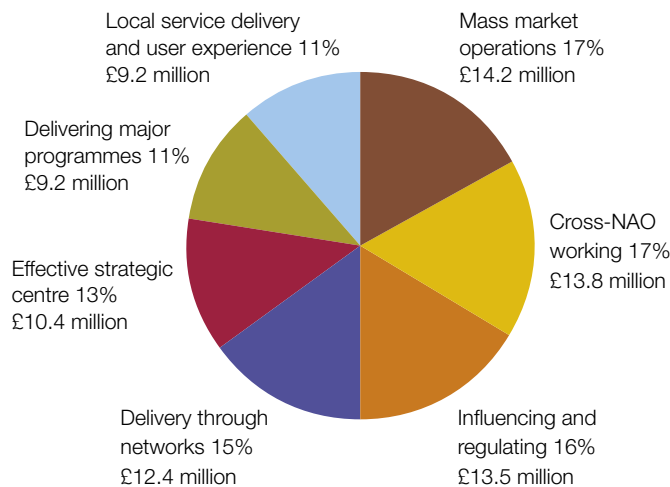
Capital expenditure in 2014-15

Our capital budget supports our investment in digital: making better use of information technology hardware and software to deliver services efficiently and effectively. In 2014-15, we invested £1.2 million of our £1.5 million budget in our equipment. This investment is part of the first stage of a major business improvement programme, where, over the next few years, we plan to replace older legacy systems with smarter ways of working, streamlining office workflows and cutting down on process. We may not spend our full budget in any one year as we take the time to make sure we get the optimal solution at the best value for money.

Our resources in 2014-15

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 and focus our resources.

Our teams and resource allocation



Notes

1 This excludes non-voted expenditure, which is paid directly from the Consolidated Fund.

Resources required in 2015-16

The Public Accounts Commission considered the NAO's Estimate on 12 February 2015 and approved a budget for 2015-16 of £64.5 million. £5.0 million of our budget is for work on local bodies now that the NAO has greater responsibility in this area following the introduction of the Local Audit and Accountability Act 2014.

Key facts

5

average number of days
of structured training
per person

Our budget for 2015-16 has increased by £1.5 million to cover the transfer of functions from the Audit Commission relating to the Code of Audit Practice. Excluding this transfer of functions, the budget remains unchanged from 2014-15, which after adjusting for the effect of inflation, is a 1.4% reduction in real terms.

Our programme of work will reflect the priorities of a new Committee of Public Accounts once this has formed following the general election. However, we remain committed to identifying issues early and using our unique position to look across government activity and highlight systemic issues. During this period, we will consolidate the structural efficiencies achieved and prepare the ground for the next stage of its strategic development, with a clear focus on becoming a data-led, IT-enabled organisation. This will identify further efficiencies, allowing us to benefit from a reduced need for back-office support and a leaner workforce able to access data and share knowledge more effectively. Our plans to realise these benefits will be discussed with the Public Accounts Commission in the autumn of 2015.

Maximising the return on our assets

We have a clear property management strategy which both minimises our running costs and maximises our return. In total, we earn around £1.7 million from six leases for the rental of office space and meetings each year.

Impact: During 2014-15 we re-negotiated a 10% increase in rental per square foot when one of the leases came up for renewal in the year, without requiring any lease incentives. This will increase the total rental of this part of the property by around twenty-five per cent over the period of this lease compared with the current comparable period.

Introducing self-publishing for the NAO and the House of Commons

The NAO publishes some 80 House of Commons papers every year. Previously, we contracted with a third-party supplier to deliver reports to the House Estate for official publishing. In February 2014, we withdrew from this contract and set up self-publishing arrangements for ourselves and the House of Commons. This means that we now manage our own print contract, and arrange the distribution of our House of Commons papers ourselves.

Impact: This change to our publishing arrangements was straightforward to implement, making best use of our in-house publishing team's capabilities. It has enabled us to save an average of £765 per report published, and we expect to save more than £60,000 per annum as a result. The House of Commons has also benefited from this new arrangement, and the Deliverer of the Vote in the House of Commons said, "closer working between the NAO and the House of Commons during 2014-15 has resulted in reduced printing costs for both organisations and increased sharing of information on digital publishing".

Our people

Our people are our main asset. We are a relatively young organisation with around two-thirds of our people aged under 40. This reflects our position as a training organisation.

We aim to create a stretching but rewarding environment where employees develop their skills and gain the right experience to enhance their individual contribution. We continue to review ways of working, including introducing greater flexibility to working patterns. We focus on developing the skills and expertise of all our people and providing them with greater responsibility early in their careers.

Our success at developing our people makes them highly marketable and our resilience and our ability to undertake as much discretionary work as we would have liked has been affected as our people have been actively head-hunted by the external market. We have experienced a higher than expected rate of resignations from audit principals, senior analysts and analysts.

We responded with a range of recruitment campaigns and a renewed focus on marketing the benefits of a longer-term career with the NAO to those coming through our training programmes. We have, however, operated below our target complement of 812 people for most of 2014-15.

Learning and development

Even in a challenging public spending environment, we invest in training and developing our people to make sure we have a high concentration of financial expertise. We have continued to focus on our skills strategy, identifying the additional skills required to support the strategic issues our teams are focused on and complement our core financial and accounting skills.

We took on 70 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 recruited a further two people to join our apprenticeship scheme, with participants training towards Level two and Level three qualifications in business administration.

Two of our people won ICAEW prizes. Emma Lowe won the Peat Prize for achieving first place in the ICAEW advanced stage exams. In the professional stage exams, Rohan Soni won the Roger Lawson Prize for the highest non-public practice student.

The pass rates of all our trainees were consistently at or above the national average. In 2014, 94.6% of our trainees passed the Certificate Level exams, and 92.1% passed their Professional Level exams compared with the national average pass rate of 80.1%. In 2014, 89.5% of our trainees passed all three Advanced Level papers at their first attempt compared with the national average pass rate of 80.5%. On average, people in the NAO undertook 5 days of structured training, with those training for the ICAEW qualification undertaking 40 days.

Key facts

779

full-time equivalent permanent employees



Key facts**Diversity**

18%

of our people are from an ethnic minority

44%

of our people are women

People survey

We conduct an annual survey of our people and benchmark the results against public and private sector norms. In 2014, 75% of our employees responded, compared with a 78% response rate to the Civil Service People Survey.

Following the 2013 people survey, the NAO leadership team committed to a number of actions to improve communication and engagement and to address specific concerns, for example around bullying and harassment. Concerted action was taken to improve the leadership team's visibility; to demonstrate that they were listening to the views of our people; and to recognise the good work our people do. Results from the 2014 survey show a clear improvement in overall engagement score, up from 48% in 2013 to 53%. In a similar way to prior years, the results from the interim survey carried out in February 2015 are more positive than the full survey.

People survey results

Areas	2014 people survey score (%)	February 2015 pulse survey score (%)
Response rate to survey	75	60
Employee engagement	53	59
Proud to work for the NAO	60	74
Leadership team has a clear vision for the NAO	32	49
Understanding the strategy	65	71
Leadership team makes an effort to listen to employees	32	48

Note

1 MRUK Research conducted the NAO's 2014 people survey.

Diversity

This was the final year in our 3-year diversity strategy 2012-13 to 2014-15. We have now developed a rolling strategy and action plan to set a challenging, ongoing agenda for the NAO. The key priorities include:

- improving the retention and progression of ethnic minority staff to our more senior grades;
- higher representation of women in our more senior grades; and
- addressing differences between diversity groups in appraisal ratings.

In terms of ethnicity, we made progress in addressing the differences in appraisal ratings, with similar proportions of BAME colleagues now achieving an Outstanding or Strong rating as for the profile of the office as a whole. This has followed targeted action to make sure we have fairer allocation of work opportunities between BAME and other colleagues. We have been less successful in improving the representation of BAME colleagues and women in more senior grades, despite initiatives to address these issues, such as the implementation of a BAME mentoring scheme. Towards the end of 2014-15 we rolled out a programme of Dignity at Work training to all colleagues, focused on inclusive behaviours.

We have received external recognition for our work on diversity and inclusion, including being placed 82 in the Top 100 Stonewall Equality Index 2015, reflecting our work to promote a better working environment for lesbian, gay, bisexual and transgender employees.

We continued to recruit a diverse intake of graduates, hitting our targets of 40% female graduates and 22% BAME graduates over three years. Of our 2014 graduate intake, 8.6% were disabled, which compares well to other employers.

Key facts

46%

proportion of white colleagues achieving an outstanding/strong rating

38%

proportion of BAME colleagues achieving an outstanding/strong rating

Breakdown of NAO people by gender per grade 2014-15

	Female		Male	
	Number	%	Number	%
Senior management	3	50	3	50
Director/DG	15	28	38	72
Audit manager	54	39	84	61
Qualified	163	46	193	54
Trainees	58	38	94	62
Band 1	7	50	7	50
Band 2	24	49	25	51
Band 3	50	68	24	32

Note

1 Based on number of NAO people in post as opposed to full-time equivalents.

Health and safety

Our health and safety policy complies with 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. We recorded 7 minor incidents, none of which were reportable under the reporting of injuries, diseases and dangerous occurrences regulations.

Pensions

On 1 April 2015, colleagues who were members of the Principal Civil Service Pension Scheme were transferred to a new pension scheme, Alpha. This remains a defined benefit scheme but retirement benefits will be determined based on a career average rather than a final salary basis. The scheme pension age will now be aligned to the state pension age. We have been working throughout 2014-15 to make sure our people are informed and prepared for the change to Alpha and that our HR and payroll systems are fully compliant. The Cabinet Office awarded us a Green rating for the quality of our preparation.

Learning from the experience of welfare reform

Our recent work examined the implementation of several reforms by the Department for Work & Pensions (DWP). In 2014, we reported on the progress of Personal Independence Payments, the child maintenance 2012 scheme, the Work Programme and Universal Credit. We also considered fraud and error in Housing Benefit, for which the DWP has already introduced several reforms and plans to align these with Universal Credit for working age claimants. Our work highlighted the challenges for the DWP in introducing a wide range of reforms concurrently.

Impact: Partly in response to our work, the DWP took steps to improve financial monitoring and controls within major programmes; worked with HM Treasury and the Cabinet Office to update its business case for Universal Credit; and improved its management of contracts with suppliers. It has put in place processes to share good practices from programmes such as the child maintenance 2012 scheme and is reorganising the way it manages its portfolio of change programmes.

Improving the procurement of consumables by NHS trusts

Our 2011 report on the procurement of consumables by NHS acute and foundation trusts concluded that trusts were paying widely varying prices for the same products, and that there was a need for much greater transparency in the prices being paid to suppliers by individual trusts. We recommended that the Department of Health require the NHS to adopt standard product bar coding to improve procurement data and enable price comparisons. This would help trusts to improve their financial sustainability through cost savings.

Impact: The Department recognised that our study was a powerful lever for change and committed to adopt a standard product coding system for the NHS. In July 2014, it launched the 'NHS Procurement Atlas of Variation', which shows differences in the amount hospital trusts pay for everyday items including catheters, gloves and needles. This tool helps hospitals to compare prices and identify where they need to drive down costs so they can invest more in improving front line services.

Our environmental impact

We manage our business in an environmentally responsible manner. We assess the environmental impact of our activities and use an environmental management system to provide a framework for setting and reviewing environmental targets to support continuous improvement. We have challenging sustainability targets for CO₂ emissions, business travel, paper consumption, waste generated and water usage. All but one of these targets has already been achieved. Owing to the increase of building users from sub-letting, our performance regarding waste generated is behind target. We record sustainability data across the three environmental impacts: greenhouse gas emissions, waste and water, and this data can be found on page 40.

Our London headquarters building, representing the majority of our estate, 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. The latter includes a passive chilled beam system for office cooling, high-efficiency gas-fired condensing boilers, extensive metering and lighting controls.

Recent work on the sustainability of our operations has included:

- a refresh of our environmental policy and statement;
- engaging with tenants in order to influence and assist in improving their environmental credentials, such as waste management; and
- continued ISO 14001:2004 certification for the environmental management system.

Our environmental impact extends beyond the direct impact of our buildings, energy use and travel. Our assurance work can and does support improved government performance on environmental and sustainability issues. In particular, we support the House of Commons Environmental Audit Committee in its remit to hold government to account on sustainable development and environmental protection. Our analysis helped the Committee assess progress on environmental protection over the Parliament. We also brought our client insight to inform the Committee's hearing on sustainability in the NHS. We promote good practice in public sector sustainability reporting including through the Building Public Trust Awards for sustainability reporting.

Further information regarding our environmental and sustainability impact is on our website: www.nao.org.uk/about-us/what-we-do/governance-of-the-nao/environmental-system-policy-and-statement/

Improving our environmental sustainability

The NAO manages its business in an environmentally responsible manner with a continued focus on sustainability. This involves careful control over the use of resources and consumables, and minimisation of waste.

Impact: In 2014-15 we have reduced paper consumption by 52% since 2009-10; water usage by 13% since 2010-11 (when we moved back into our London office); and use of gas by 9% and electricity by 8% since 2010-11. This has helped us find savings in the annual cost of office supplies and equipment, which has fallen from £3.4 million to £2.9 million per year since 2009-10.

Sustainability data

Plant and equipment

Target	Progress to date
20% reduction of CO ₂ e by 2014-15	22% achieved

Business travel

Target	Progress to date
20% reduction on domestic flights by 2014-15	31% achieved

Waste generation and paper consumption

Target	Progress to date
20% reduction of generated waste by 2014-15	Not achieved
20% reduction of paper by 2014-15	52% achieved

Water usage per FTE

Target	Progress to date
Ratio of 4m ³ to 6m ³ per FTE by 2015	5.2m ³ achieved

Our environmental impact extends beyond the direct impact of our buildings, energy use and travel. Our assurance work can and does support improved government performance on environmental and sustainability issues.

Greenhouse gas emissions

		2010-11	2011-12	2012-13	2013-14	2014-15
Non-financial indicators (CO ₂ e in tonnes)	Total gross emissions for scopes 1 and 2	1,836	1,823	1,675	1,357	1,433
	Total net emissions for scopes 1	0.4	0.4	0.4	0.4	0.4
	Total net emissions for scopes 2	1,836	1,823	1,675	1,357	1,433
	Gross emissions scope 3 – business travel	726	663	589	597	496
Related energy consumption (kWh)	Electricity: non-renewable	3,011,414	2,924,112	2,679,575	2,629,114	2,779,913
	Electricity: renewable	314,160	305,748	273,545	273,886	289,732
	Gas	388,832	297,899	314,210	346,976	348,004
Financial Indicators (£000)	Expenditure on energy	387	418	407	555	524
	Expenditure on electricity	362	403	371	465	473
	Expenditure on gas	25 ¹	15 ¹	36 ¹	90 ¹	51
	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	748

Note

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

Data collection methodologies

These data are 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 do 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 these data are provided by a third party, the NAO audits accuracy by requesting copies of utility bills.

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	2014-15
Non-financial indicators (tonnes)					
Total waste	Not available	127.4	126.8 ¹	123 ¹	134.1
<hr/>					
Hazardous waste total		1.0	1.0	1.0	1.0
<hr/>					
Non-hazardous waste	Landfill	0	0	0	0
	Reused/recycled	109.4	120.8 ¹	115.1 ¹	129.1
	Incinerated/energy reused	17.0	5.0	6.9 ¹	4.0
<hr/>					
Financial indicators (£000)					
Total disposal cost	39.0	39.8	30.9	32.1	37
<hr/>					
Hazardous waste – total disposal cost	Not available	0.5	0.5	1	1
<hr/>					
Non-hazardous waste	Landfill	Nil	Nil	Nil	Nil
– total disposal cost	Reused/recycled	21.2	16.5	31.1	36
	Incinerated/energy reused	18.1	13.9	Nil	Nil

Data collection methodologies**London office waste data**

The waste data above include 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

The landlord provides a general waste disposal service as part the lease's service contract and does not provide data on general waste. An estimate is calculated based on previous years.

Disposal of all recycled waste is outsourced to Mitie Waste and Environmental. Monthly reports detailing the weight of generated waste and a breakdown by type are provided.

Note

1 Corrections to underlying calculations.

Water

		2010-11	2011-12	2012-13	2013-14	2014-15
Finite resource consumption – water						
Non-financial indicators (m ³)						
Water consumption	Supplied	7,038	7,172	5,520	6,794	6,093
	Abstracted	–	–	–	–	–
Financial indicators (£000)						
Water supply costs ¹		17.6	15.4	16.7	16.9	15.8

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.

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

Sir Amyas C E Morse KCB
Comptroller and Auditor General

15 June 2015

Governance statement

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.

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

NAO board and leadership team

Key to committee membership

- NAO board
- Audit Committee
- Remuneration and Nominations Committee
- Leadership team
- Operational Capability Committee
- Audit Practice and Quality Committee

1 Lord (Michael) Bichard

Chairman of the NAO board (from January 2015)

Michael Bichard has served at senior levels in local government as chief executive at both Brent and Gloucestershire councils. He then moved into central government working as chief executive of the Benefits Agency and then as Permanent Secretary at the Department for Education and Employment. Since his retirement from the civil service in 2001, he has held a variety of posts including chair of the Legal Services Commission, chair of the Design Council and founder director of the Institute for Government. He is currently Chair of the Social Care Institute for Excellence and Deputy Speaker of the House of Lords.

2 Professor Sir Andrew Likierman

Chairman of the NAO board (to 9 January 2015)

Andrew Likierman was chairman of the NAO board from its formation in 2009 to January 2015. 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.

3 Sir Amyas Morse KCB

Comptroller and Auditor General and member of the NAO board

Sir Amyas Morse was appointed C&AG 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 an NHS Project Board.

4 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. Michael has responsibility for the strategy, capability and operational performance of the NAO, and leads the NAO's work on cross-government issues. Michael is chair of the Operational Capability Committee. He is a qualified accountant.

5 Gabrielle Cohen

Executive Leader and member of the NAO board

Gabrielle Cohen was an executive leader (previously Assistant Auditor General) from 2005 to 2015. She trained as an accountant with the NAO and was appointed to the board in July 2009. During 2014-15, Gabrielle was responsible for leading our stakeholder relations, governance, corporate policy and relations with Parliament. Gabrielle left the NAO in April 2015.



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6 Naaz Coker

Non-executive member of the NAO board

Naaz Coker joined the NAO board in July 2012. She started her career in the NHS 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.

7



7 Gillian Guy

Non-executive member of the NAO board (to December 2014)

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. During 2014, Gillian chaired our Audit Committee until she stepped down from the board at the end of 2014.

8



8 Paula Hay-Plumb

Non-executive member of the NAO board (to November 2014)

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. During 2014, Paula served as our senior independent director and chair of the Remuneration and Nominations Committee.

9



9 Sue Higgins

Executive Leader

Sue Higgins joined the NAO in January 2014 as an 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. Sue will serve as an executive member of the NAO board for 2015-16.

10



10 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. Sally will serve as an executive member of the NAO board for 2015-16.

11



11 Dame Mary Keegan

Non-executive member of the NAO board (to December 2014)

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.

12 Joanne Shaw

Non-executive member of the NAO board (from January 2015)

Joanne Shaw is an experienced non-executive director and board chair with a background in private, public and third sector organisations. She is a qualified accountant with expertise in strategic development and change management. More recently she served as non-executive chair of NHS Direct, and is currently on the board of the British Board of Film Classification and two healthcare organisations, Nuffield Health and Datapharm Communications Limited. She is the chair of our Audit Committee, a post she has held since joining the board in January 2015.

13 Ray Shostak CBE

Non-executive member of the NAO board (from January 2015)

Ray Shostak CBE is an international adviser in education, government performance and public service reform. He has held a number of positions in local and central government including head of the Prime Minister's Delivery Unit and was a member of the board of HM Treasury from 2007 to 2011. Ray is currently chair of trustees of the Consortium of Voluntary Adoption Agencies, a trustee of the Early Intervention Foundation and is an honorary Norham Fellow at Oxford University. He is chair of the Remuneration and Nominations Committee, a post he has held since January 2015.

14 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.

15 Robert Sykes

Non-executive member of the NAO board (from January 2015)

Robert Sykes has significant experience of working in local government and served as chief executive of Worcestershire County Council for ten years. He also has non-executive experience in the private and public sectors, most recently serving on the boards of Core Assets and as non-executive member of the board of the Crown Prosecution Service until 2012. In 2012, the Secretary of State for Communities and Local Government appointed him as lead commissioner at Doncaster MBC. He stepped down in the summer of 2014 when the intervention successfully ended.

16 John Thorpe

Executive Leader and member of the NAO board

John Thorpe joined the NAO in 1983 as a trainee, becoming a lead director, and joining the leadership team in January 2014. He has experience directing a mixed portfolio of work, providing leadership to the financial audit workstream and achieving significant progress in key areas – such as review of HMRC's compliance and enforcement programme, tax credits fraud and error. John stepped down from the board at the end of March 2015, as part of a rotation of executive members.



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Structure of governance

The NAO's governance structures reflect the need to balance the independence of the C&AG with respect to audit judgement, with the need to demonstrate that we practise what we preach through the exercise of proportionate and independent oversight and controls of our own operations.

The current structure has been in existence since 2009 and was implemented formally in 2012 when the Budget Responsibility and National Audit Act took effect. This year has seen a further milestone in the development of our governance, as the founding chairperson and two of the original non-executive members stepped down following the completion of their second term of office; Gillian Guy also stepped down from her role during the year. I am grateful to Sir Andrew Likierman, Dame Mary Keegan, Paula Hay-Plumb and Gillian Guy for their contribution to the NAO during their time in office.

I have welcomed the contributions of Michael Bichard, Joanne Shaw, Ray Shostak and Robert Sykes to the board since they each took up office in January. They have quickly developed an understanding of the organisation and how we work, and offered insight which has enabled our governance to continue to develop.

With the level of change in the non-executive membership of the board during this year a key focus has been to ensure that we retain corporate knowledge and that there has not been a dilution in the oversight or governance provided by the board.

The board is served by two committees, further details of which can be found at 52 and 53.

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 Parliament, to consider the NAO's strategy and to appoint the external auditor of the NAO.

The Commission met three times during 2014-15. The first time, in December 2014, was to consider the NAO's forward strategy for the next three years and in February it met to approve our resource estimate for the 2015-16 financial year. It held a private hearing to consider the appointment of the non-executive members of the board.

National Audit Office governance structure

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 the C&AG in the exercise of his functions.

Leadership team¹

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.

Note

¹ The leadership team was also supported by the IT enabled change committee.

The NAO board

The role of the NAO board 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. It has specific responsibilities, jointly with me as C&AG, for the NAO strategy and resource estimate, and for the appointment of executive members.

The board met seven times this 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 has a role to recommend the external auditor for appointment by the Public Accounts Commission.

The NAO board has nine members, of which a majority (five) are non-executive, as defined in the Act. 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. 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.

There is a clear division of responsibility between the chairman of the board and my role as C&AG; the chairman is responsible for the leadership and effective working of the board and I am responsible for implementing the strategy, making audit judgements, deciding a programme of value-for-money examinations and reporting the results of this work to Parliament.

The NAO undertook a voluntary review of its 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 NAO 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).

NAO board performance

To inform its work during 2014-15, the board agreed clear objectives for the year to:

- discharge its formal responsibilities for the NAO's governance;
- 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 2014-15 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. The assessment found that the board had broadly performed well in meeting its duties; members identified opportunities to improve the visibility of risk issues by the board and the nature of information presented to the board, which we have acted on during the year.

The board held, in a less formal setting, two Strategy Days in the year: the first focused on the external environment and the second considered the lessons learned from the NAO's work over the course of the previous Parliament; the ways in which the NAO should consider the impact of its work; and how the NAO might respond to changes in the delivery and audit of local services.

During 2014-15 the board continued its work to raise its profile with NAO people, holding events in London and Newcastle to meet with NAO staff. Since joining, the new non-executive members and chair have met with a number of staff groups and engaged with staff through their support for NAO training events and informal staff forums.

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 2014-15 no board members declared an interest.

Attendance at board and committee meetings in 2014-15

Members	Board meetings (7 in year) (of possible 5)	Audit Committee (5 in year) (of possible 4)	Remuneration and Nominations Committee (4 in year) (of possible 3)
Andrew Likierman (Chair) (to 9 January 2015)	5 (of possible 5)	4 ² (of possible 4)	3 (of possible 3)
Michael Bichard (Chair) (from 9 January 2015)	2 (of possible 2)	- ¹	- ¹
Amyas Morse (C&AG)	7	- ¹	4 ²
Gabrielle Cohen	7	- ¹	- ¹
Naaz Coker	6	4	3
Gillian Guy (to 31 December 2014)	5 (of possible 5)	4 (of possible 4)	1 ²
Paula Hay-Plumb (to 30 November 2014)	5 (of possible 5)	- ¹	3 (of possible 3)
Mary Keegan (to 31 December 2014)	5 (of possible 5)	4 (of possible 4)	3 (of possible 3)
John Thorpe	7	- ¹	- ¹
Joanne Shaw (from 1 January 2015)	2 (of possible 2)	1 (of possible 1)	- ¹
Ray Shostak (from 1 January 2015)	2 (of possible 2)	- ¹	1 (of possible 1)
Robert Sykes (from 1 January 2015)	2 (of possible 2)	1 (of possible 1)	1 (of possible 1)
Michael Whitehouse	7	5 ²	- ¹

Notes

1 Not a member of the Committee.

2 Not a member of the Committee, but attended meetings at the invitation of the Committee chair.

The Audit Committee

The Committee met five times in 2014-15. Its work this year has included consideration of the three lines of defence model, the development and agreement of the internal audit strategic plan for 2015-16 to 2017-18, and the reports of the director of Internal Audit and Assurance. The reports considered included those on the maturity of the NAO's risk management, the operation of the committees of the leadership team, the use of outsourcing and the NAO's training and development of its people.

Each year the NAO's external auditor undertakes a value-for-money review of a specific aspect of the NAO's operation. In 2014-15, this review looked at the Transformation Programme, which the NAO implemented during 2013-14. The review found strong evidence that the NAO had started to transform, wide support for the principles of the change and that savings made in 2013-14 were higher than the original target. It made a number of recommendations for further action to ensure that the NAO was able to realise the full benefits of the change, in particular on culture, skills and accountability. Management accepted each of these recommendations and has taken action to implement them.

The report was submitted to the Public Accounts Commission in December 2014 and can be found on the Commission's website: www.parliament.uk/documents/public-accounts-commission/TPAC14-VfMReport2014-Transformation.pdf

The Remuneration and Nominations Committee

The Remuneration and Nominations Committee held three meetings in 2014-15, which focused on the remuneration of the executive members of the board, the objectives for the leadership team in 2014-15 and the framework for succession planning and talent development for senior management roles within the NAO. The Committee additionally met to advise the chair of the NAO board on the recruitment of three new non-executive members and the balance of skills required.

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 leadership team holds the clusters to account for the achievement of agreed objectives and the management of the NAO's financial resources and people.

During 2014-15 my leadership team was supported by two committees. The Operational Capability Committee (OCC) 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) 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.

During 2014-15 we created a third committee, the Information Technology Enabled Change Committee (ITEC). The role of this committee has been to provide oversight and coordination to the NAO's programme of digital change, and to provide assurance to the leadership team on the design, fit and sequencing of change projects.

During 2014-15 the director of Internal Audit and Assurance undertook a review of all leadership team committees, including ITEC, and identified areas where the role of the committees, and in particular the governance of our IT change programmes may be strengthened. These recommendations will be acted upon in the coming financial year; this assurance will be further enhanced by the appointment of a director for Engagement & Change.

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 2014-15. 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. During 2014-15 six areas of strategic and operational risk were reviewed and reported on monthly and included as a standing item on the board meeting agenda; each risk is owned by a member of the leadership team. During 2014-15 we, as a leadership team, have undertaken deep dives into specific areas of risk to ensure we fully understand and assess the risk and identify the required controls.

During 2014-15 the Audit Committee invited the director of Internal Audit and Assurance to develop a three lines of defence model to support the organisation in identifying, assessing and managing risk. These lines are:

- Line 1: Business operations – integrated programme office, clusters and planning groups – the arrangements which exist within these areas that can be used to derive assurance on how objectives are being met and resources and risks managed.
- Line 2: Corporate oversight – leadership team and board (and their committees)
- Line 3: Providers of assurance, internal and external – our internal and external auditors, who provide independent and objective assurance over the organisation's framework of governance, risk management and control.

Risk area	Tolerance	Key actions and issues in year
<p>NAO franchise/reputation</p> <p>There is a risk of external challenge if the NAO cannot demonstrate that it practises what it preaches in its own performance.</p>	Low	<p>This risk has been largely under control throughout the year. Actions taken to ensure this have included engagement with key stakeholders in Parliament and government, and a strong focus on practising what we preach.</p>
<p>Quality</p> <p>Poor quality work could undermine the NAO's reputation for accuracy, fairness and insight, and its ability to have a positive impact on the delivery of public services.</p>	Low	<p>The quality of our work is central to our reputation and as such is closely managed. We have ensured the quality of work in 2014-15 by the continuation of our programme of internal and external reviews.</p>
<p>Resilience</p> <p>Lack of skills, resources or capabilities to deliver the planned programme of work.</p>	Low	<p>This area has been a high risk to the organisation in 2014-15 as the recruitment market for qualified accountants was active. We have taken steps during the year to address this, including a rolling programme of recruitment and targeted actions to retain key staff.</p>
<p>Local Audit and Accountability Act</p> <p>Risks arising from the transfer of responsibilities from the Audit Commission to the NAO and the implementation of the new audit arrangements for local bodies.</p>	Medium	<p>The closure of the Audit Commission on 1 April was a key milestone, with associated risks for the NAO. This risk was managed during the year, and for 2015-16 will be operationalised as part of business as usual.</p>
<p>Reform programme</p> <p>The NAO's approach should remain valid in a changing landscape of public services, and reflect the ongoing challenges faced by the public bodies it audits.</p>	Medium	<p>This risk reflects the NAO's need to respond to the changing nature of public services, such as our work on improving financial management and resilience.</p>
<p>Further devolution</p> <p>Risks that the NAO's work could be politicised as further devolution, both national and regional is considered. During 2014-15 this risk was particularly relevant during the campaign for the vote on Scottish independence.</p>	Medium	<p>The devolution of public services presents challenges for audit and accountability, which we have managed through participation in the formulation of arrangements for the Scottish Rate of Income Tax, and we will continue to maintain an active programme of engagement with the other UK audit institutions and accountability bodies.</p>

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.

The NAO undertakes a series of internal and independent external reviews to provide assurance over the quality of audit products. The NAO judges the quality of its work in three ways; the technical quality, the strategic quality and the impact it achieves:

- Technical Quality: internal reviews concluded that the NAO maintained technical quality in its work, and that the skills and professionalism of our teams were valued by audited bodies. There is potential to improve efficiency in our financial audit work, and to make greater use of sector and specialist expertise.
- Strategic Quality: clients rated the NAO's understanding of the issues and key risks faced by the bodies we audit highly, but there is further scope to improve how we draw out systems' issues.
- Impact: the evidence demonstrates that audited bodies increasingly consider that our financial audit work contributes to improvements in the efficiency and effectiveness of their business. The key actions for the next period are designed to improve how we provide added value outside main financial audit and value-for-money work; further integrate financial audit with business risk and a wider range of assurance products to enhance impact and influence; and increase focus at the planning stage on the desired outcomes.

The Audit Quality Review team of the Financial Reporting Council undertakes an annual external review of financial audit; in 2014-15 this review covered six audits. The report found that generally the overall quality of our financial audit work had improved, but highlighted areas for further improvement, including embedding IT audit further into our work. Actions have been agreed to address these findings.

Oxford Business Schools, Risk Solutions and Rand Europe undertake the independent external review of our value-for-money work. The reviews completed during 2014 examined 19 reports, and covered a number of aspects including the scope, qualitative analysis, structure and presentation, graphs and statistics, methods, recommendations and overall conclusions. Reviewers generally assessed reports as well-structured, consistent in content and tone and persuasive, with well-presented data. Similarly to the reviews of financial audit, reviewers felt that the NAO could make greater use of sector experts. They also identified potential improvement in the clarity of reports and the use of plain English.

The outcomes of these reviews were reported to the board in September 2014.

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 continues to focus attention not only on preserving the security of information held by us today but also that we horizon scan to ensure that we can do so in the future.

While assurance can never be absolute, I have arrived at my conclusion by taking into account the following ingredients that have been reported to me:

Framework of measures

The NAO has designed a framework of measures to reduce the risk of security incidents occurring or to provide early warning that an incident has occurred or is likely to occur, or both. These measures include:

- physical security measures which align with the current threat level of 'Heightened';
- information technology measures, including those to protect against cyber threats;
- information security measures, including a network of Information Asset Owners (IAOs);
- personnel security measures;
- annual mandatory training and assessment of staff to ensure they are kept up to date on current and new security policies and procedures;
- focus by senior management on security risks;
- horizon scanning through regular assessments of current and emerging threats.

Compliance with policies and procedures

We wisely interpret the requirements of the Cabinet Office's Security Policy Framework and benchmark our approach against it. We undertake deep dives into different areas of the business to assess the adequacy of our current measures and monitor the implementation of action plans. We require quarterly returns to be submitted by IAOs confirming they have met their obligations and reporting any weaknesses or incidents. We conduct early induction of new members of staff and exit procedures to return equipment. We ensure that our strategic partners who handle data on our behalf provide assurance that they have complied with the data security requirements in our contracts. We test our response to security incidents, including working through a realistic incident with the leadership team.

Personal data-related incidents

There were no protected personal data-related incidents reportable to the Information Commissioner's Office in 2014-15. Neither were there centrally recorded protected personal data-related incidents not formally reported to the Information Commissioner's Office in 2014-15. 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

In the coming year, the leadership team and board will focus on maintaining and improving the NAO's performance, and identifying opportunities for further efficiencies in our work and back-office to enable the NAO to again identify and offer savings early in the new Parliament. Externally, we will have a clear focus on serving the new Parliament as it holds government to account during a time of further austerity and reform.

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 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 has presented to me his Internal Audit Annual Report, which concludes that: “The NAO has adequate and effective governance, risk and control arrangements.” He has arrived at this opinion through:

- conducting a detailed risk-based Internal Audit Needs Assessment from which he has prioritised activity over a three-year planning horizon to design an Internal Audit Strategy;
- designing and applying a risk-based methodology which is consistent with the requirements of the Public Sector Internal Audit Standards;
- delivery of 21 individual assurance reports and 6 advisory reports during the year and, where appropriate, an agreed action plan with system owners to secure improvements; and
- monitoring the implementation of his recommendations throughout the year and assessed the progress as good.

The director of Internal Audit and Assurance has assured me that the resources made available to him have been sufficient to complete his operational plan on time and maintain his independence.

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 financial year and received positive assurance on the NAO’s systems of corporate governance, risk management and internal control.

Significant internal control weaknesses

I am able to report that there were no significant weaknesses in the NAO’s system of internal controls in 2014-15 that affected the achievement of the NAO’s key policies, aims and objectives.

Sir Amyas C E Morse KCB
Comptroller and Auditor General

15 June 2015

Directors' report

The directors of the NAO comprise the senior managers and the non-executive board members, whose details are set out in the Governance Statement.

Register of Interests

Senior managers and board members have to complete a declaration of interests. No significant company directorships or other interests were held which may have conflicted with their management responsibilities and no member of the board or senior manager had any other related party interests.

Pension liabilities

Most past and present employees of the NAO are covered by the provisions of the Principal Civil Service Pension Scheme, which is a defined benefit scheme.

Employees may opt to join a personal stakeholder pension scheme instead, providing the scheme meets the minimum criteria set by government.

Further information on pension liabilities is set out in the Remuneration Report, and notes 1.6 and 3 of the financial statements.

Auditor of the NAO

Crowe Clark Whitehill LLP was appointed as external auditor by the Public Accounts Commission. They carry out a value-for-money study of the NAO each year, provide assurance over the Statement of NAO's Financial Impact and advise on various matters as required. Full details of remuneration for both audit and non-audit work is disclosed in note 4 of the financial statements.

Disclosure of information to the auditors

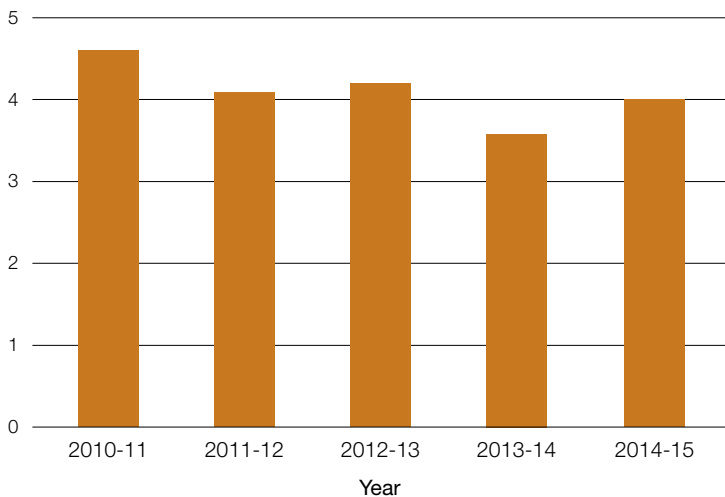
The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the external auditors are unaware; and each director has taken all the steps that they ought to have taken as director to make themselves aware of any relevant audit information and to establish that the external auditors are aware of that information.

Sickness absence and personal data-related incidents

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 make sure sickness absence rates remain low compared with both public and private sector benchmarks and have achieved absence levels below our target of 5 days per person for the past 5 years.

Sickness absence (average days) 2010-11 to 2014-15

Average working days lost (days)



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% of payments within 30 days of receipt of the invoice compared with 99% in 2013-14. The NAO monitored payments against a 10 day target, in recognition of the government's commitment to pay suppliers more promptly while ensuring that the number of pay-runs are appropriate to a body of its size; 88% of payments were made within 10 days of receipt of the invoice compared with 89 per cent in 2013-14.

Other disclosures

Some disclosures required within the director's report have been included elsewhere in the Annual Report. Personal data-related incidents are reported in the Governance statement on page 44. Disclosures on employment and training and on how the NAO engages with all of its people are in the section titled 'Our People' beginning on page 35 of the Strategic report. There are no important events affecting the NAO which have occurred since the reporting date, and future developments affecting its business are disclosed in the Strategic report in the section entitled 'Working efficiently' beginning on page 31.

Sir Amyas C E Morse KCB
Comptroller and Auditor General

15 June 2015

Additional information – statistical tables

NAO voted expenditure 2009-10 to 2014-15 and plans for 2015-16²

	2010-11 Actual £m	2011-12 Actual £m	2012-13 Actual £m	2013-14 Actual £m	2014-15 Actual £m	2015-16 Plan £m
Audit and assurance	51.2	51.2	49.3	46.8	49.2	48.1
Value for money	19.1	19.6	17.4	17.5	16.6	18.0
Investigation and insight	10.5	7.7	15.0	13.0	9.5	11.9
Support for Parliament	11.6	9.0	7.1	5.0	5.3	5.6
International relations ³	–	–	–	2.1	1.8	1.0
Comptroller function	0.2	0.2	0.2	0.2	0.2	0.2
Restructuring the NAO ⁴	–	–	–	4.2	–	–
Total gross spend	92.6	87.7	89.0	88.8	82.7	84.8
Income	(19.5)	(19.9)	(21.5)	(20.3)	(21.4)	(20.3)
Total net spend¹	73.1	67.8	67.5	68.5	61.3	64.5
Capital expenditure	1.3	1.2	1.1	1.5	1.2	2.0

Notes

- 1 Some of the columns may not add due to rounding.
- 2 All expenditure is deemed to be equivalent to resource DEL (Departmental Expenditure Limit) and capital DEL.
- 3 In previous years the International relations balance was consolidated into Support for parliament and these balances have not been reclassified.
- 4 During 2013-14 the NAO carried out a 'restructuring' of its operations, incurring a 'one-off' cost to deliver permanent, sustainable and ongoing savings.

Capital employed since 2010-11

The following table summarises the value of assets and liabilities since 2010-11.

	2010-11 Actual £m	2011-12 Actual £m	2012-13 Actual £m	2013-14 Actual £m	2014-15 Actual £m	2015-16 Plan £m
Assets						
Non-current assets	79.7	76.5	76.7	80.0	87.4	88.1
Tangible	77.9	74.6	74.6	78.5	86.3	85.7
Of which:						
Land and buildings	58.2	56.1	57.7	62.0	67.8	67.8
Plant and machinery	15.8	14.9	14.1	13.3	15.0	15.0
IT equipment	1.5	1.4	0.9	1.3	1.9	1.9
Furniture, fixtures and fittings	2.4	2.2	1.9	1.9	1.5	1.0
Intangible	1.3	1.3	1.5	1.2	0.9	2.2
Of which:						
Software and other licences	1.3	1.1	1.1	1.2	0.9	2.2
Assets in course of construction	–	0.2	0.4	–	–	–
Other non-current assets	0.5	0.6	0.6	0.3	0.2	0.2
Current assets	10.7	9.1	6.2	6.3	7.9	5.8
Liabilities	(11.4)	(8.2)	(8.9)	(9.7)	(10.6)	(7.8)
Payables (< 1 year)	(6.1)	(4.7)	(6.0)	(7.7)	(9.1)	(6.9)
Payables (> 1 year)	–	–	–	(0.2)	(0.1)	(0.1)
Provisions	(5.3)	(3.4)	(2.9)	(1.9)	(1.3)	(0.8)
Net capital employed¹	79.0	77.4	74.0	76.6	84.7	86.1

Note

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

Resource accounts 2014-15

Remuneration report

The NAO is committed to cost-effective use of funds and high organisational performance.

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 91.

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 Part 2, 13 (5) 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 91.

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 and Nominations Committee determines and agrees the remuneration of three out of the four executive board members who served in the year, namely Michael Whitehouse, Gabrielle Cohen and John Thorpe.

NAO staff

In accordance with the provisions of the Budget Responsibility and National Audit Act 2011, the NAO 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 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 66 to 69 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	
			£000		£100				£000	
Name	Date of appointment	Notice period	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14
Professor Sir Andrew Likierman (Chair) (up to 9 January 2015)	01-01-09	3 months	35-40 (full year equivalent: 50-55)	50-55	–	200	–	–	35-40	50-55
Lord Michael Bichard (from 10 January 2015)	10-01-15	3 months	5-10 (full year equivalent: 40-45)	–	–	–	–	–	5-10	–
Naaz Coker	01-07-12	3 months	20-25	20-25	100	100	–	–	20-25	20-25
Gillian Guy (up to 31 December 2014)	01-07-12	3 months	15-20 (full year equivalent: 20-25)	20-25	–	100	–	–	15-20	20-25
Paula Hay-Plumb (up to 30 November 2014)	17-03-10	3 months	10-15 (full year equivalent: 20-25)	20-25	400	800	–	–	10-15	20-25
Dame Mary Keegan (up to 31 December 2014)	01-07-09	3 months	15-20 (full year equivalent: 20-25)	20-25	400	1,500	–	–	15-20	20-25
Joanne Shaw (from 1 January 2015)	01-01-15	3 months	5-10 (full year equivalent: 20-25)	–	–	–	–	–	5-10	–
Ray Shostak (from 1 January 2015)	01-01-15	3 months	5-10 (full year equivalent: 20-25)	–	400	–	–	–	5-10	–
Robert Sykes (from 1 January 2015)	01-01-15	3 months	5-10 (full year equivalent: 20-25)	–	1,100	–	–	–	5-10	–

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	
			£000						£000	
Name	Date of appointment	Notice period	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14
Amyas Morse, Comptroller and Auditor General	01-06-09	None	215-220	205-210	–	–	–	–	215-220	205-210
Michael Whitehouse, Chief Operating Officer	01-04-02	3 months	165-170	165-170	300	400	46,000	11,000	215-220	175-180
Gabrielle Cohen	01-04-05	3 months	125-130 (full time equivalent: 145-150)	140-145	200	300	34,000	14,000	160-165	155-160
Ed Humpherson (to 5 January 2014)	16-07-07	3 months	–	110-115 (full year equivalent: 140-145)	–	–	–	26,000	–	135-140
Sue Higgins ²	06-01-14	3 months	150-155 (full year equivalent: 155-160)	35-40 (full year equivalent: 155-160)	300	300	88,000	5,000	240-245	40-45
Sally Howes ²	25-04-13	3 months	160-165	155-160	300	300	60,000	59,000	220-225	215-220
Lynda McMullan (to 30 September 2013)	01-10-11	3 months	–	75-80 (full year equivalent: 145-150)	–	–	–	25,000	–	100-105
Martin Sinclair	29-01-99	3 months	145-150	145-150	300	300	67,000	22,000	215-220	170-175
John Thorpe	02-01-14	3 months	140-145	30-35 (full year equivalent: 140-145)	300	300	203,000	5,000	345-350 ³	35-40

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.
- 2 The 2013-14 information was restated based on more up-to-date information provided by the pension administrators (My CSP).
- 3 John Thorpe's total remuneration increased because of changes in his pension benefits as a result of him joining the leadership team in January 2014.

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 HMRC 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 67. The benefits in kind disclosed for non-executive members of the board on page 66 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 HMRC to meet income tax and National Insurance on these benefits on behalf of non-executive board members.

Salary multiples

The C&AG was the highest paid individual in the NAO in 2014-15. His salary was in the range £215,000 to £220,000 (2013-14: £205,000 to £210,000). This was 4.77 times (2013-14: 4.38 times) the median salary paid, which was in the range £45,000 to £50,000 (2013-14: £45,000 to £50,000). The C&AG's salary is paid by the Consolidated Fund and is reported in note 4 on page 91.

In 2014-15, remuneration ranged from £14,420, for a part-time working arrangement, to £215,600 (2013-14: £16,010 to £210,000).

Compensation for loss of office

Gabrielle Cohen and Marlin Sinclair elected to take voluntary exit within the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972; their full exit costs have been accounted for within the staff costs note (note 3 on page 89). The value of each of their compensation payments is in the band £260,000 – £265,000 and will be paid to them following their departure from the NAO in April 2015 and September 2015 respectively. No additional compensation was paid to them.

Pension liabilities

Comptroller and Auditor General

The pension arrangements for the C&AG 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 C&AG on 1 June 2009, Sir 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 on page 89 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 pension age as at 31 March 2015 and related lump sum £000	Real increase in pension and related lump sum at pension age £000	CETV at 31 March 2015 £000	CETV at 31 March 2014 ¹ £000	Real increase in CETV £000	Employer contribution to partnership pension account £000
Michael Whitehouse	75-80 plus lump-sum of 225-230	2.5-5 plus lump-sum of 5-10	1,600	1,483	42	–
Gabrielle Cohen	45-50 plus lump-sum of 145-150	0-2.5 plus lump-sum of 5-10	939	868	26	–
Sue Higgins	90-95	5-10	1,071	968	46	–
Sally Howes	15-20	2.5-5	246	188	34	–
Martin Sinclair	80-85 plus lump-sum of 125-130	2.5-5 plus lump-sum of 0-2.5	1,577	1,438	59	–
John Thorpe	60-65 plus lump-sum of 100-105	10-15 plus lump-sum of 10-15	1,213	982	178	–

Note

- 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.

Employer contributions to partnership pensions

None of the above benefited from such contributions in the year to 31 March 2015.

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 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.

Sir Amyas C E Morse KCB
Comptroller and Auditor General

15 June 2015

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 C&AG 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.

Independent auditor's 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 2015 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. We have also audited the information in the remuneration report that is described in that report as having been audited.

The financial reporting framework that has been applied in their preparation is applicable law and the 2014-15 *Government Financial Reporting Manual* (FRoM) which applies international financial reporting standards as adopted by the European Union (IFRSs).

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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 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 2015 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 2015 and of the NAO's net operating costs 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.

Crowe Clark Whitehill LLP
Statutory Auditor

St. Bride's House
10 Salisbury Square
London
EC4Y 8EH

15 June 2015

Statement of Parliamentary Supply

Summary of resource and capital outturn 2014-15

	2014-15 Estimate			2014-15 Outturn			2014-15 Voted Outturn compared with Estimate: saving or (excess)	2013-14 Outturn
	Voted £000	Non-voted £000	Total £000	Voted £000	Non-voted £000	Total £000		
Resource	63,000	300	63,300	61,307	297	61,604	1,693	68,803
Capital	1,500	–	1,500	1,237	–	1,237	263	1,477
Total budget	64,500	300	64,800	62,544	297	62,841	1,956	70,280
Non-budget	–	–	–	–	–	–	–	–
Total resources	64,500	300	64,800	62,544	297	62,841	1,956	70,280

Net cash requirement 2014-15

	Note	2014-15 Estimate £000	2014-15 Outturn £000	2014-15 Net total outturn compared with Estimate: saving or (excess) £000	2013-14 Outturn £000
Net cash requirement	SOPS3	62,469	60,547	1,922	66,100

Administration costs 2014-15

	2014-15 Estimate £000	2014-15 Outturn £000	2014-15 Net total outturn compared with Estimate: saving or (excess) £000	2013-14 Voted Outturn £000
Net cash requirement	63,000	61,307	1,693	68,510

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 Strategic report on pages 32 to 33.

The notes on pages 76 to 78 form part of these accounts.

Notes to the Statement of Parliamentary Supply

SOPS1 Statement of accounting policies

The Statement of Parliamentary Supply and supporting notes have been prepared in accordance with guidance issued by HM Treasury. This includes the 2014-15 *Government Financial Reporting Manual* (FReM), the *Consolidated Budgeting Guidance* and the *Supply Estimates Guidance Manual*.

SOPS1.1 Accounting convention

The Statement of Parliamentary Supply and related notes are presented consistently with the principles of HM Treasury budget control and Supply Estimates. This budget system has different objectives to IFRS-based financial statements and 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 both the Statement of Parliamentary Supply and IFRS-based financial statements, but there can be differences.

There are no reconciling items in both this and the previous reporting period.

SOPS2 Net outturn

SOPS2.1 Analysis of net resource outturn

		Gross	Income	2014-15 Outturn Net	Net	2014-15 Estimate Net total compared with Estimate: saving or (excess)	2013-14 Outturn Net total
		£000	£000	£000	£000	£000	£000
Section Voted							
A	Provision of audit and other assurance services	82,674	(21,367)	61,307	63,000	1,693	64,304
B	Restructuring of the National Audit Office	–	–	–	–	–	4,206
	Total voted	82,674	(21,367)	61,307	63,000	1,693	68,510
Non-voted							
C	Chair and the Comptroller and Auditor General costs	297	–	297	300	3	293
	Resource outturn	82,971	(21,367)	61,604	63,300	1,696	68,803

The main causes of this variance are a reduction in the cost of its audit and assurance work and additional income earned from unplanned audit responsibilities arising during the year. Explanations of variances between Estimate and outturn are provided in the Strategic report on pages 32 to 33.

SOPS2.2 Analysis of net capital outturn

		Gross	Income	2014-15 Outturn Net	Net	2014-15 Estimate Net total compared with Estimate: saving or (excess)	2013-14 Outturn Net total
		£000	£000	£000	£000	£000	£000
Section Voted							
A	Provision of audit and other assurance services	1,237	–	1,237	1,500	263	1,477
	Capital outturn	1,237	–	1,237	1,500	263	1,477

SOPS3 Reconciliation of net resource outturn to net cash requirement

	Note	Estimate	Outturn	Net total outturn compared with Estimate: saving or (excess) £000
		£000	£000	£000
Resource outturn	SOPS 2.1	63,300	61,604	1,696
Capital outturn	SOPS 2.2	1,500	1,237	263
Accruals to cash adjustments:				
<i>Adjustments to remove non-cash items:</i>				
Depreciation		(2,877)	(2,582)	(295)
Change in provisions		(100)	(111)	11
Loss on disposal of assets		–	(9)	9
Impairment of non-current assets		–	(94)	94
<i>Adjustments to reflect movements in working balances:</i>				
Increase/(decrease) in receivables		(115)	1,505	(1,620)
Increase/(decrease) in payables		292	(1,406)	1,698
Use of provisions		769	700	69
		62,769	60,844	1,925
Removal of non-voted budget items:				
Consolidated Fund Standing Services		(300)	(297)	(3)
Net cash requirement		62,469	60,547	1,922

Financial statements

Statement of comprehensive net expenditure for the year ended 31 March 2015

	Note	2014-15 £000	2013-14 £000
Administration costs			
Staff costs	3	55,851	57,011
Other costs	4	26,993	31,897
Tax expense	5	127	207
Gross operating costs		82,971	89,115
Income	6	(21,367)	(20,312)
Net operating costs for the year ended 31 March 2015		61,604	68,803
Other comprehensive net expenditure			
Items that will not be reclassified to net operating costs:			
Net gain on revaluation of property, plant and equipment	7	(8,875)	(4,916)
Total comprehensive net expenditure for the year ended 31 March 2015		52,729	63,887

The notes on pages 83 to 102 form part of these accounts.

Statement of financial position as at 31 March 2015

	Note	2014-15 £000	2013-14 £000
Non-current assets			
Property, plant and equipment	7	86,268	78,491
Intangible assets	8	881	1,231
Receivables falling due after one year	9	203	255
Total non-current assets		87,352	79,977
Current assets			
Trade and other receivables	9	7,804	6,247
Cash and cash equivalents	10	81	78
Total current assets		7,885	6,325
Total assets		95,237	86,302
Current liabilities			
Trade and other payables	11	(9,120)	(7,668)
Provisions	12	(496)	(677)
Total current liabilities		(9,616)	(8,345)
Total assets less current liabilities		85,621	77,957
Non-current liabilities			
Payables falling due after one year	11	(122)	(165)
Provisions	12	(833)	(1,241)
Total non-current liabilities		(955)	(1,406)
Total assets less liabilities		84,666	76,551
Taxpayers' equity and other reserves			
General fund		29,912	29,468
Revaluation reserve		54,754	47,083
Total equity		84,666	76,551

Sir Amyas C E Morse KCB
Comptroller and Auditor General

15 June 2015

The notes on pages 83 to 102 form part of these accounts.

Statement of cash flows for the year ended 31 March 2015

	Note	2014-15 £000	2013-14 £000
Cash flows from operating activities:			
Net operating cost		(61,604)	(68,803)
Adjustments for non-cash transactions	4	2,796	3,073
(Increase)/decrease in trade and other receivables	9	(1,505)	98
Increase in trade and other payables	11	1,406	1,922
Use of provisions	12	(700)	(1,129)
Net cash outflow from operating activities		(59,607)	(64,839)
Cash flows from investing activities:			
Purchase of property, plant and equipment	7	(1,212)	(1,343)
Purchase of intangible assets	8	(25)	(211)
Proceeds of disposal of property, plant and equipment		–	–
Net cash outflow from investing activities		(1,237)	(1,554)
Cash flows from financing activities:			
From the Consolidated Fund (Supply) – current year		60,550	66,000
Consolidated Fund Standing Services	4	297	293
Net financing		60,847	66,293
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		3	(100)
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	3	(100)
Cash and cash equivalents at the beginning of the year	10	78	178
Cash and cash equivalents at the end of the year	10	81	78

The notes on pages 83 to 102 form part of these accounts.

Statement of changes in taxpayers' equity for the year ended 31 March 2015

	Note	General fund £000	Revaluation reserve £000	Total reserves £000
Balance at 1 April 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		178	–	178
Supply payable adjustment	11	(78)	–	(78)
Consolidated Fund Standing Services	4	293	–	293
		66,393	–	66,393
Balance at 31 March 2014		29,468	47,083	76,551
Changes in taxpayers' equity for 2014-15:				
Comprehensive net expenditure for the year		(61,604)	8,875	(52,729)
Realised element of revaluation reserve		1,204	(1,204)	–
Total recognised income and expense for 2014-15		(60,400)	7,671	(52,729)
Net Parliamentary funding – drawn down		60,550	–	60,550
Net Parliamentary funding – deemed	11	78	–	78
Supply payable adjustment	11	(81)	–	(81)
Consolidated Fund Standing Services	4	297	–	297
		60,844	–	60,844
Balance at 31 March 2015		29,912	54,754	84,666

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.

The notes on pages 83 to 102 form part of these accounts.

Notes to the financial statements

1 Accounting policies, 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. In meeting this requirement the financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted and interpreted by the 2014-15 *Government Financial Reporting Manual* (FRoM) issued by HM Treasury.

Where the FRoM 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 financial statements.

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 exchange rate at the dates of the transactions. Any outstanding monetary assets and liabilities at the date of reporting are translated into sterling at the exchange rate at this date. Translation differences are recognised in the Statement of Comprehensive Net Expenditure.

1.3 Impending application of newly issued accounting standards 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 at the date of reporting that are required to be applied by the NAO.

1.4 Financing

The NAO covers between 20% and 25% of its expenditure by charging fees for certain financial audit assignments and other services. These fees are recorded as income in the Statement of Comprehensive Net Expenditure.

All remaining expenditure is financed from amounts approved by Parliament through the annual Appropriation Act. Amounts of money drawn down from Parliament are credited directly to the General fund and recorded in the Statement of Changes in Taxpayers Equity.

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 the date of reporting, are recognised in the Statement of Comprehensive Net Expenditure. These include short-term employee benefits such as professional subscriptions and accrued leave entitlements.

1.6 Pensions

Most past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS), which is a defined benefit scheme, where the amount of pension benefit that a member receives in retirement, is dependent on factors such as age, salary and length of service. NAO pays contributions into the PCSPS at an agreed rate, and the costs of these contributions are recognised when they fall due. The liability for making the future pension payments to members rests with the scheme rather than the NAO, although as a participant member the NAO could be asked to make up any shortfall through increased contributions. Employees may opt to join a personal stakeholder pension scheme instead, providing the scheme meets the minimum criteria set by government. These are defined contribution schemes where the NAO pays established annual contribution rates into a separate fund. The amount of pension benefit that a member receives in retirement is dependent on the performance of the fund. The NAO recognises the cost of these contributions in the Statement of Comprehensive Net Expenditure when they fall due. There is no further payment obligations for the NAO once the contributions have been paid.

1.7 Early departure costs

Where the NAO ends the employment of a staff member, and makes a compensation payment within the rules of the Civil Service Compensation Scheme (CSCS), the cost of that payment 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 2015, this was 1.3% (2013-14: 1.8%), 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, any amounts unpaid at the reporting date are reported within accruals in note 11.

1.8 Leases

Payments in relation to operating leases (excluding costs for services such as insurance and maintenance) are charged to the Statement of Comprehensive Net Expenditure on a straight-line basis. The NAO does not have any finance lease liabilities.

1.9 Value Added Tax on purchases

The NAO partially recovers the VAT it pays on its expenditure by using a methodology agreed with HMRC and consequently it is difficult to attribute VAT recoverable to specific items of expenditure. Therefore, all expenditure disclosed in note 4 includes any VAT paid. VAT recoverable is shown separately.

Accounting policies for income**1.10 Fee income**

Fee 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 organisations who typically operate at 'arms length' from central government. Fee 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 bi-annually in United States dollars and are shared in an agreed ratio between the three board members (currently Tanzania, India and the United Kingdom). 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 £5,000 or more on property, plant and equipment or intangible assets is capitalised where it is expected to bring benefit over future years. 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, buildings, plants and machinery 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:

Long leasehold land	Non-depreciable
Buildings	50 years
Plant & machinery	10–25 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 2–10 years

1.16 Cash and cash equivalent

Cash and cash equivalents comprise cash in hand and current balances held at banks. Any amounts held in a foreign currency are translated into sterling at the exchange rate on the date of reporting.

1.17 Trade receivables

Trade receivables are amounts due from audited bodies in respect of the statutory audit where the NAO charges a fee. These are recognised at fair value less a provision for non-recovery if there is evidence that the NAO may not recover the full amount due.

1.18 Accrued income

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

1.19 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 1.30% in real terms (2013-14: 1.80%).

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 -1.50% (2013-14: -1.90%);
- Cash flows expected after 5 years and up to 10 years from the reporting date -1.05% (2013-14: -0.65%);
- Cash flows expected to exceed 10 years from the reporting date 2.20% (2013-14: 2.20%).

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

	2014-15								
	Financial audit £000	Value for money £000	Investigations and insight £000	Support to Parliament £000	International relations £000	Comptroller function £000	Restructuring £000	Non-voted £000	Total £000
Gross expenditure	49,219	16,643	9,520	5,342	1,750	200	–	297	82,971
Income from services provided	(18,061)	–	–	(958)	(678)	–	–	–	(19,697)
Rental income	(995)	(336)	(192)	(108)	(35)	(4)	–	–	(1,670)
Net expenditure	30,163	16,307	9,328	4,276	1,037	196	–	297	61,604

Note

1 Included in the financial audit operating segment is international audit work with a gross expenditure of £2.9 million and income of £3.3 million.

	2013-14 restated ¹								
	Financial audit £000	Value for money £000	Investigations and insight £000	Support to Parliament £000	International relations £000	Comptroller function £000	Restructuring £000	Non-voted £000	Total £000
Gross expenditure	46,767	17,550	12,997	4,983	2,115	204	4,206	293	89,115
Income from services provided	(16,184)	–	–	(1,284)	(1,178)	–	–	–	(18,646)
Rental income	(920)	(346)	(256)	(98)	(42)	(4)	–	–	(1,666)
Net expenditure	29,663	17,204	12,741	3,601	895	200	4,206	293	68,803

Note

1 Restated to report the support to Parliament and to international bodies separately; both were reported under "Support to Parliament, the public and other organisations" in 2013-14. The non-voted expenditure is also being disclosed separately because it is paid directly from the Consolidated Fund and is not managed by the NAO.

The NAO reports expenditure and income on its provision of Audit and Other Assurance Services under six strategic objectives, more information on these can be found in the Strategic report on pages 19 to 25.

Non-voted expenditure includes the C&AG and chairman's salary and is paid directly from the Consolidated Fund.

Income from services provided includes fees charged on UK and international audits, costs recovered on the NAO's outward secondment programme to support Parliament and other government bodies, and fees charged for some of the NAO's international relations and overseas capacity-building work.

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

3 Staff numbers and related costs

3a) Staff costs comprise

	2014-15			2013-14		
	Total £000	Permanent staff ¹ £000	Temporary staff £000	Total £000	Permanent staff ¹ £000	Temporary staff £000
Wages and salaries	43,576	42,639	937	44,096	43,531	565
Social security costs	3,876	3,876	–	4,041	4,041	–
Other pension costs	8,399	8,399	–	8,874	8,874	–
Subtotal	55,851	54,914	937	57,011	56,446	565
Less costs recovered from outward secondments	(958)	(958)	–	(1,284)	(1,284)	–
Total net costs	54,893	53,956	937	55,727	55,162	565

Note

1 Permanent staff costs 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 actuary valued the scheme as at 31 March 2012. The full results of the valuation were published in the resource accounts of the Cabinet Office: Civil Superannuation 2013-14.

For 2014-15, employer contributions of £8,343,973 were payable to the PCSPS (2013-14: £8,845,209) at one of four rates in the range 16.7% to 24.3% 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 2014-15 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 £54,688 were paid to one or more of a panel of three appointed stakeholder pension providers (2013-14: £28,087). Employer contributions are age-related and range from 3% to 12.5% of pensionable pay (2013-14: 3% to 12.5%). Employers also match employee contributions up to 3% of pensionable pay. No contributions were due or prepaid to the partnership pension providers at the balance sheet date (2013-14: nil).

3c) Average number of persons employed

	2014-15	2013-14	2012-13
Full-time equivalent permanent staff	779	822	879
Inward secondees	3	3	7
Temporary staff	9	10	10
Total	791	835	896

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

Number of voluntary departures agreed

Exit package cost band	Number of compulsory redundancies 2014-15 (2013-14)	Number of other departures agreed 2014-15 (2013-14)	Total number of exit packages by cost band 2014-15
<£10,000	– (–)	– (10)	– (10)
£10,001 – £25,000	1 (–)	1 (16)	2 (16)
£25,001 – £50,000	– (1)	2 (14)	2 (15)
£50,001 – £100,000	– (–)	2 (14)	2 (14)
£100,001 – £150,000	– (–)	2 (10)	2 (10)
£150,001 – £200,000	– (–)	1 (6)	1 (6)
£200,001 – £250,000	– (–)	– (2)	– (2)
>£250,000	– (–)	3 (1)	3 (1)
Total number of exit packages by type	1 (1)	11 (73)	12 (74)
Total cost (£000)			1,469 (4,917)

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 that the departure has been agreed. Where the NAO has agreed early retirements, the additional costs are met by the NAO and not by the Civil Service Pension Scheme. All departure costs are included in staff costs.

4 Other operating costs

	2014-15	2013-14
	£000	£000
Professional services	10,713	10,409
Facilities management	5,034	4,806
Travel, subsistence, hospitality	2,396	2,733
Office supplies and equipment	2,938	2,915
Recruitment and training	1,982	1,882
Staff-related costs	850	1,172
Overseas office costs for UN work	231	274
External auditors – audit fee	52	44
External auditors – other work ¹	95	79
Other administration costs	138	253
Operating lease rentals	169	167
VAT recoverable ²	(698)	(409)
Total normal operating activities	23,900	24,325
Restructuring costs	–	4,206
Total voted costs	23,900	28,531
Comptroller & Auditor General salary	244	237
Chairman salary	53	56
Total non-voted costs	297	293
	24,197	28,824
Non-cash costs		
Changes to early departure provision	116	162
Changes to other provisions	(5)	132
Write-back of provision not utilised	–	(153)
Changes in provision	111	141
Depreciation and amortisation on property, plant and equipment	2,310	2,314
Depreciation and amortisation on intangible assets	272	411
Loss on disposal of property, plant and equipment	9	77
Impairment of non-current assets	94	130
	2,796	3,073
	26,993	31,897

Notes

- 2014-15 figure includes £7,000 for completion of 2013-14 value-for-money study.
- The NAO partially recovers VAT on its expenditure on an agreed methodology with HMRC, therefore VAT recovered cannot be directly attributed to specific expenditure and has been disclosed separately.

5 Tax expense

	2014-15 £000	2013-14 £000
Corporation tax payable	127	207
	127	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 2013-14 tax expense therefore includes the 2012-13 tax expense of £57,000.

Tax reconciliation

	2014-15 £000	2013-14 £000
Rent	1,670	1,666
Allowable expenses	(1,054)	(986)
Taxable surplus	616	680
Tax rate	21%	23%
Marginal relief	(2)	(6)

6 Income

Analysis of operating income by classification and activity

	2014-15		
	Income	Expenditure	Surplus/ (deficit)
	£000	£000	£000
Audit fees – UK	14,751	14,782	(31)
United Nations Board of Auditors	3,166	2,740	426
Audit fees – international	144	135	9
International technical cooperation	678	973	(295)
Secondment income	958	1,296	(338)
Rental of office space	1,670	1,054	616
Total income	21,367	20,980	387

	2013-14		
	Income	Expenditure	Surplus/ (deficit)
	£000	£000	£000
Audit fees – UK	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 movement in provision for foreseen unrecoverable amounts.

7 Property, plant and equipment

	2014-15					Total £000
	Long leasehold land £000	Buildings £000	Plant and machinery £000	Computers and other equipment £000	Furniture fixtures and fittings £000	
Cost or valuation						
At 1 April 2014	–	62,040	16,750	3,944	3,312	86,046
Additions	–	–	–	1,212	–	1,212
Disposals	–	–	–	(246)	(21)	(267)
Reclassification ¹	31,800	(31,800)	–	–	–	–
Revaluation	4,250	1,490	(1,730)	–	–	4,010
Impairment	–	–	–	–	–	–
At 31 March 2015	36,050	31,730	15,020	4,910	3,291	91,001
Depreciation						
At 1 April 2014	–	–	3,465	2,688	1,402	7,555
Charged in year	–	609	791	541	369	2,310
Disposals	–	–	–	(246)	(21)	(267)
Revaluation	–	(609)	(4,256)	–	–	(4,865)
Impairment	–	–	–	–	–	–
At 31 March 2015	–	–	–	2,983	1,750	4,733
Net book value						
At 31 March 2015	36,050	31,730	15,020	1,927	1,541	86,268
At 31 March 2014	–	62,040	13,285	1,256	1,910	78,491

Notes

- 1 The valuation of the NAO's land, buildings and plant and machinery provided a more detailed componentisation of these assets and allowed the NAO to attribute a separate value to the land it owns around its London property. Consequently, the NAO has introduced a new category to show this separately and reclassified amounts which were previously reported together. As a result of this componentisation, plant and machinery, which was previously accounted for under historical cost, is now revalued each year. Consequently, accumulated depreciation charged to date has been reversed and recognised in the revaluation reserve. 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 £82,800,000 as at 31 March 2015 (31 March 2014: £75,325,000). 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 net effect of the revaluation as at 31 March 2015 of £8,875,000 was accounted for through the revaluation reserve.

The NAO is the leaseholder of its London property. This is a long lease (130 years until 2111) and is at a peppercorn rent. The NAO accounts for this lease as if it owns the property. There are no finance leases and the NAO owns all other property, plant and equipment.

7 Property, plant and equipment *continued*

	2013-14					Total £000
	Long leasehold land £000	Buildings £000	Plant and machinery £000	Computers and other equipment £000	Furniture fixtures and fittings £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

8 Intangible assets

		2014-15	
	Software	Assets in the course of construction	Total
Cost	£000	£000	£000
At 1 April 2014	5,122	–	5,122
Additions	25	–	25
Disposals ¹	(1,816)	–	(1,816)
Impairment	(76)	–	(76)
At 31 March 2015	3,255	–	3,255
Amortisation			
At 1 April 2014	3,891	–	3,891
Charged in year	272	–	272
Disposals ¹	(1,807)	–	(1,807)
Impairment	18	–	18
At 31 March 2015	2,374	–	2,374
Net book value			
At 31 March 2015	881	–	881
At 31 March 2014	1,231	–	1,231

Note

- 1 During the year the NAO reviewed its asset registers and removed items that were no longer in use with very little residual value. This resulted in a reduction in net book value of software of £9,000.

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

8 Intangible assets *continued*

	2013-14		Total
	Software	Assets in the course of construction	
Cost	£000	£000	£000
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 ¹	(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

9 Trade and other receivables

	2014-15 £000	2013-14 £000
Amounts falling due within one year:		
Trade receivables	2,756	1,226
Deposits and advances	360	376
Other receivables	179	319
Accrued income	3,133	3,030
Prepayments	1,376	1,296
	7,804	6,247
Amounts falling due after more than one year:		
Deposits and advances	137	158
Other receivables	66	97
	203	255
Total	8,007	6,502

Other receivables include lease incentives granted to tenants of our London office.

10 Cash and cash equivalents

	2014-15 £000	2013-14 £000
Balance at 1 April	78	178
Net change in cash and cash equivalent balances	3	(100)
Balance at 31 March	81	78
The following balances were held at:		
Government Banking Service	58	65
Commercial banks and cash in hand	23	13
Balance at 31 March	81	78

11 Trade and other payables

	2014-15 £000	2013-14 £000
Amounts falling due within one year:		
Amounts payable to HMRC	303	304
Trade payables	159	200
Other payables	481	136
Accruals and deferred income	7,399	5,428
UN Board of Auditors payments received on account	29	471
Other payments received on account	668	1,051
Amounts issued from the Consolidated Fund for supply but not spent at year end	81	78
	9,120	7,668
Amounts falling due after more than one year:		
Other payables	122	165
	122	165
Total	9,242	7,833

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

12 Provisions for liabilities and charges

	2014-15 £000	2013-14 £000
Balance at 1 April 2014		1,918
Unwinding of discounts	11	
Change in discount rate	100	
Changes in provision during the year		111
Provisions utilised in the period		(700)
Balance at 31 March 2015		1,329

Provisions for liabilities and charges mainly relate to the costs of early retirement programmes agreed prior to October 2010 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 1.30% in real terms to calculate the early retirement balance (2013-14: 1.80%). Other provisions are calculated using HM Treasury's general provisions discount rate ranging from -1.50% to 2.20% depending on the expected timing of cash flows (2014: -1.90% to 2.20%).

12 Provisions for liabilities and charges *continued*

Analysis of expected timing of discounted flows

	Early departures £000	Other provisions £000	Total £000
Payable within 1 year	496	–	496
Payable within 2–5 years	700	127	827
Payable in more than 5 years	6	–	6
Balance at 31 March 2015	1,202	127	1,329

Other provisions relates to the expected costs of any necessary repairs to the Newcastle office on departure, as required under the lease.

13 Commitments under leases

Aggregate minimum lease payments are as follows

	2014-15 £000	2013-14 £000
Obligations under operating leases comprise:		
Land and buildings:		
Payable within 1 year	122	122
Payable within 2–5 years	297	419
Total	419	541
Other payables:		
Payable within 1 year	59	–
Payable within 2–5 years	118	–
Total	177	–

The NAO has property in London and Newcastle. Its offices in London are under a long lease (130 years expiring in 2111) at a peppercorn rent. Its offices in Newcastle are leased for a period of 5 years (due to expire in 2018).

14 Future income due under non-cancellable operating leases

	2014-15 £000	2013-14 £000
Land and buildings:		
Receivable within 1 year	1,019	1,189
Receivable within 2–5 years	859	1,353
Receivable in more than 5 years	–	–
Total	1,878	2,542

The lease information above relates to the sub-letting of surplus space in the London headquarters building. 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 recover 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 Capital and financial commitments

The NAO had no capital or other financial commitments at 31 March 2015 (31 March 2014: 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. All of our operational financial instruments are considered loans and receivables. The carrying value of the financial instruments approximates to their fair value.

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. The NAO does not maintain significant assets or liabilities in foreign currency, except for minor operational cash balances to meet short-term costs of overseas assignments. There is no material foreign currency exposure of risk as at 31 March 2015.

17 Contingent assets and liabilities

The NAO had no contingent liabilities at 31 March 2015 (31 March 2014: Nil).

18 Losses and special payments

A provision for special payment of £424,000 was made during the year (2013-14: £250,000). This was a non-contractual payment to staff who transfer to the NAO from the Audit Commission to maintain the Code of Audit Practice in line with the NAO's new responsibilities under the Local Audit and Accountability Act 2014, and includes both compensation for a change to the terms and conditions of employment and amounts due to HMRC.

There were no other losses or special payments incurred during 2014-15 that require separate disclosure because of their nature or amount.

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 HMRC 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	
		2014-15	2013-14
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	£266,903	£247,842
Ordnance Survey	Central government body audited by the NAO. Occupied part of the NAO's headquarters building since January 2012	£253,826	£297,087
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	£279,000	£304,069

There are no outstanding balances with related parties at the year end.

20 Events after the reporting period

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

Statement of National Audit Office financial impacts for 2014

The statement of financial impacts represents our estimate of the financial benefits achieved in 2014 following implementation of the NAO's recommendations to government. Financial impacts arise where there is a direct link between the NAO's work and a quantifiable beneficial change in an audited body. Financial impacts must be either: cashable, reducing expenditure or increasing revenue; 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 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 or data support claims, or both, 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.

2014 NAO impacts valued at more than £5 million

Description	Impact identified ¹ (£m)	Nature of impact	Year of claim	Audited body with whom impact agreed
Managing the defence inventory Reduction in spending on inventory where there is already sufficient levels of stock	354	Recurring	3 of 3	Ministry of Defence
Influence of NAO and Committee of Public Accounts' work on tax compliance Successful delivery of additional tax yield through additional enforcement and compliance work	230	One-off	1 of 1	HM Revenue & Customs
Central government's use of consultants and interims New controls on contracting for consultants and interims reduced spending	165	Recurring	4 of 5	Cross-government
Reducing brain damage: faster access to better stroke care and progress in improving stroke care Improvements in efficiency of stroke care from better care in stroke units and earlier discharge	136	One-off	1 of 1	Department of Health
The procurement of consumables by NHS acute and foundation trusts Savings achieved in procurement activity	41	Recurring	1 of 3	Department of Health
Social Fund debt difference Achievement of a stable and robust debt reconciliation	36	One-off	1 of 1	Department for Work & Pensions
Managing civil tax investigations Improvements in the referral system for civil tax investigations	31	One-off	1 of 1	HM Revenue & Customs
Delivering the free entitlement for 3- and 4-year-olds Changes to funding system: removal of top-up funding where not used as intended	29	Recurring	2 of 2	Department for Education
The Ministry of Justice's electronic monitoring contracts Settlement of over-billing by contractors from electronic tagging contracts	26	One-off	1 of 1	Ministry of Justice
Virgin Money Clawback rights implemented in the sale of Northern Rock	25	One-off	1 of 1	HM Treasury
Social Fund regularity Improved processes and reduced error on Social Fund payments	18	Recurring	2 of 2	Department for Work & Pensions
Police procurement Better collaboration among police forces in procuring non-IT equipment	16	One-off	1 of 1	Home Office

Note

1 The column may not add up due to rounding.

 2014 NAO impacts valued at more than £5 million *continued*

Description	Impact identified ¹ (£m)	Nature of impact	Year of claim	Audited body with whom impact agreed
Removal of failed asylum seekers from the UK Improved coordination led to reduction in losses incurred for cancelled airline bookings	13	Recurring	5 of 6	Home Office
Legal Aid Reduction in irregular payments	8	Recurring	4 of 4	Ministry of Justice
Managing the expansion of the Academies programme Improved recovery of funding from local authorities	6	Recurring	1 of 2	Department for Education
Subtotal	1,135			
Impacts below £5 million	16			
Total financial impacts	1,151			

Note

1 The column may not add up due to rounding.

Independent statement to the Public Accounts Commission

The Accounting Officer, on behalf of the Public Accounts Commission, has asked us to carry out an independent review of the Statement of Financial Impacts for 2014.

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.

Scope of the review

In undertaking our review assurance is taken from the work performed by the NAO's internal auditor.

Our work comprises a review of the impacts claimed and supporting evidence relevant to those claims and the 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.

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.

Crowe Clark Whitehill LLP **Statutory Auditor**

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15 June 2015

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