



National Audit Office

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NATIONAL AUDIT OFFICE

# ANNUAL REPORT AND ACCOUNTS 2016-17

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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. 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 £734 million in 2016.

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National Audit Office

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# NATIONAL AUDIT OFFICE ANNUAL REPORT AND ACCOUNTS 2016-17

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pursuant to Paragraph 25(8) of Schedule 2 and  
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# PERFORMANCE REPORT

This section provides an overview of the National Audit Office (NAO). It sets out our purpose, the key risks to achieving our objectives, and our performance during the past year. We have presented the information so that readers of the Annual Report and Accounts do not need to look further into the rest of the document unless they require additional details or have specific accountability or decision-making needs.



# OVERVIEW

## CHAIRMAN'S REPORT

It is no exaggeration to say that we live in times of unprecedented change and uncertainty. Government has responded to the challenges of continued austerity by delivering services in new ways. It has sought to realise the potential of digital technology; to increase devolution and to commission more services from the private and voluntary sectors. In addition, it must now factor in the fundamental and complex implications of Brexit and the consequences of an unexpected election and the ambitions of a new government. The world is changing fast and in unpredictable ways.

The independent NAO has never had a more essential part to play. It has to keep Parliament abreast of how well the changes are being managed and the challenges met; it has to ensure that accountability is defined, transparent and protected and it must, on behalf of Parliament, maintain its unremitting focus on value for money. But in doing this it also has a responsibility to add more value in all that it does so that it contributes even more to the improvement of public services. It needs to do all it can to support our clients as they strive to provide better-quality services at a lower cost.

The last year has also seen the NAO take on new responsibilities, notably at the BBC and the Bank of England. We are working hard to ensure that these too are delivered successfully. At the end of the day, our success depends on retaining our credibility with Parliament and our clients and that depends on the quality of our work, which has to be maintained above all else. We have privileged access to the workings of many of the country's most important institutions and Parliament has the right to expect that we will use it well to the benefit of public services and those who use them. That is our challenge and I hope that this report shows we are meeting it.



Lord Bichard

Chairman  
National Audit Office

# FOREWORD



**Sir Amyas  
Morse**

Comptroller and  
Auditor General  
National Audit Office

Although 2016-17 has been challenging, our Annual Report reflects another year of strong performance. The National Audit Office has continued to provide Parliament with insights that support them in holding government to account and improving public services. This is a vital role that we have undertaken for many years, but which is no less challenging for that.

The past year has been marked by a great pace of change in the public sector. With ongoing challenges to the financial sustainability of public services, we have seen government trying to do more with fewer resources by delivering services in a different way, through greater delegation to local bodies, partnerships with the private and third sectors and with transformation projects with large digital components. This level of change brings opportunities for efficiencies but also challenges to accountability and securing value for money. At the same time, government's commitments to major infrastructure projects and the UK's decision to leave the European Union require the government to carefully prioritise resources.

We have responded to these challenges by thinking flexibly about the outputs of our work and how we report to maximise the value we add. We have improved our influence by engaging in new ways with those we audit and being more responsive in tailoring our work to the audience with shorter, focused work. Increasingly, we are engaging in 'value management', which means it is now common practice for us to take an ongoing approach to engaging with the bodies we audit and managing the value our work brings. In light of the uncertainties inherent to exiting the European Union, we are using our audit perspective to help Parliament focus its attention on issues that will be most critical to an efficient and effective implementation of exit. At the same time, we have also successfully taken on new audit responsibilities including those for the BBC, the Bank of England and UK Asset Resolution Ltd.

Public audit is a powerful instrument for accountability and helps drive improvement in public services. We are developing our digital capability, both in how we deliver our financial audits and to have the expertise to provide Parliament with in-depth, value-for-money assessments on digital transformation in those we audit.

We practice what we preach and hold ourselves to the same high standards we expect in others. We are achieving more for less without compromising the quality of our work or the support we provide to Parliament, and continue to pursue efficient working through major changes to the technology that supports our work.

Despite the changes, some things remain constant. Our values, independence and strong focus on the development of our people remain essential to our organisation. We continue to value diversity, equality and to promote an environment where our people are respected and valued, and I am pleased to see this ethos reflected through the results of our people survey.

Looking to the future, we recognise the challenges still to come. We are a small organisation that has a big impact. Our portfolio of work means we audit £1.7 trillion of expenditure and £1.8 trillion of assets each year, and some of the most complex systems in the world. We have a wealth of knowledge and expertise and our ability to look across the whole of government and follow the impact of policy to the end user, coupled with our strong relationship with Parliament, means we are in a powerful position to help improve public services for all those involved.

# 2016-17: OUR YEAR IN HIGHLIGHTS

Our work informs debate



372



accounts  
certified

18



investigations  
completed

68



Value for Money reports published and 61 Parliamentary hearings supported, tackling issues affecting the taxpayer



Our finding that “mainstream schools have to make £3.0 billion or 8% savings by 2019-20” has been used 908 times in the media

Our work affects people's lives



The scrutiny arising from our memorandum on Service Family Accommodation and the Committee of Public Accounts session on the conditions in some accommodation, and of the performance of the accommodation provider, has contributed to significant improvements. This underlines the value of our quick, targeted work in helping to enhance performance.

Our report on delivering value through the Apprenticeships programme recommended that the Department for Education should have much better ways to measure the success of the programme. In response, the Department developed a comprehensive set of performance measures. Focusing on these measures should improve the quality of the Apprenticeships programme.

In response to our report *Entitlement to free early education and childcare* the Department for Education has agreed to improve its performance measures to ensure it knows that disadvantaged children will not miss out when it increases the childcare entitlement from 15 to 30 hours.

## We deliver huge impact



£7.5bn 

financial impacts recorded since 2010.  
That's £16 for every £1 spent

94% 

of the recommendations discussed  
with departments since April 2014 have  
been accepted



We have new audit  
responsibilities including the  
BBC and Bank of England,  
which will enhance our  
support of transparency

## Our people are our greatest asset



We are delighted with the increasing  
diversity of our workforce, with more  
women successfully being promoted  
to senior positions than last year  
(50% success rate compared with  
25% last year).

Our people are more engaged with their  
work compared with last year and our  
survey scores for this are 17% higher  
than the civil service average.

91% 

pass rate achieved by our graduates for  
the advanced stage ACA exams, beating  
the national average

# ABOUT THE NATIONAL AUDIT OFFICE



## Our role

The National Audit Office (NAO) supports Parliament in holding government to account for spending public money. In so doing, we help to improve the way public services are delivered.

We audit the financial statements of all central government departments, agencies and other public bodies and report the results to Parliament. Our value-for-money reports conclude on the effectiveness, efficiency and economy of government spending.

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

## KEY FACTS

£1.7 trillion

expenditure of government  
bodies audited

**KEY FACTS**

1,027

pieces of correspondence  
processed**Our type of work**

We scrutinise public spending for Parliament by fulfilling our statutory roles in financial audit and value-for-money reporting across central government and local bodies. Our work includes:

- **Financial audit:** We audit a diverse range of institutions, including all government departments, and certify around 370 accounts each year. Our financial audit work contributes to our efforts to improve public services by allowing us to look across the public sector and see areas of best practice and areas where institutions are struggling with similar challenges.
- **Value for money:** We provide Parliament with reports on specific areas of government expenditure, which consider whether that expenditure achieved value for money. By good value for money, we mean the best use of resources to achieve the intended outcomes. Our role is not to question government policy objectives, but rather to provide independent and rigorous analysis to Parliament on how the government spends public money to achieve those objectives. The recommendations from our work result in financial savings for the taxpayer and positive changes in how government runs itself, public services and major projects and programmes.
- **Investigations:** We conduct investigations to establish the facts when people contact us to raise concerns, or in response to intelligence from our work. Our investigations are responsive, focused and based on the facts. They offer a rapid assessment of service quality, failure and financial management. Members of Parliament (MPs) and the public can raise issues that they would like us to address.
- **Support for Parliament:** The work we do supports Parliament. The Committee of Public Accounts considers most of our value-for-money reports, and some of our investigations, in evidence sessions at which committee members take evidence from the senior officials of the organisations under scrutiny. We support other select committees' annual reviews of government departments and advise on specific issues where we have expertise.
- **Local government responsibilities:** The NAO has an established body of work looking at local issues, following the Local Audit and Accountability Act 2014, which gives us responsibilities for preparing and consulting on the Code of Audit Practice for local auditors. We also produce reports on the value for money of public spending locally, allowing us to understand the impact of government policy decisions through to the end-user.
- **Correspondence:** In 2016-17, we dealt with more than 1,000 pieces of correspondence from members of the public and MPs. Correspondence, coupled with intelligence from our wider work, is useful for bringing issues to our attention. Occasionally, it leads to investigations or value-for-money reports.
- **International work:** We play an active role in the international audit community, working with other Supreme Audit Institutions around the world to improve the effectiveness of public audit. We contribute to the UK's efforts to strengthen good governance, accountability and oversight in public administrations around the world. We develop and share good audit practices and help build the capacity to develop audit institutions and parliamentary financial oversight committees.

# OUR VALUES

## KEY FACTS

# 68

Value for Money  
reports published



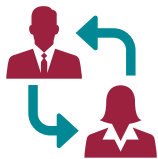
## INDEPENDENT

We are independent and objective, and observe the highest professional and personal standards.



## AUTHORITATIVE

We deliver work of the highest quality, drawing comprehensively on robust evidence and practice.



## COLLABORATIVE

We work collaboratively with colleagues, and with stakeholders, to achieve our goals.



## FAIR

Our work, and the way that we treat people, is fair and just.

**KEY FACTS****£7.5bn**

saved since 2010, £16 for every £1 spent

**Our strategy**

Our overall objective is to support Parliament to hold government to account and improve public services. To achieve this objective, we focus on three areas that are mutually reinforcing:

- **Developing and applying knowledge:** We use our resources to add real value for those we audit. We have a deep knowledge of public bodies, which enables us to bring a cross-government perspective to our work that the bodies we audit find difficult to get from elsewhere.
- **Increasing our influence:** Our ability to increase our influence is critical to our success, as it drives understanding of our work. The more the bodies we audit see us as a credible, authoritative source of expertise, able to add value, the more likely they are to heed our recommendations, driving public service improvement.
- **Delivering high performance:** Our strong focus on using resources well and developing our people effectively makes us a high-performing organisation where our skills and talents are deployed in the most effective way.

**Our strategic objective and enablers**

The three key areas in which we focus our efforts to deliver the overall objective are:

- 1 Developing and applying knowledge: we carefully plan our work so that it meets the needs of Parliament, and from this draw out the insights gained that are most likely to help drive positive change across the public sector.
- 2 Increasing our influence: we aim to improve the awareness and opinion of the NAO held by all our stakeholders, including MPs and the bodies we audit such that government is more likely to implement our recommendations and look to us as a source of guidance.
- 3 Delivering high performance: we use our funds cost-effectively and make sure we get the best from our people.

## Our challenges

In 2016-17, our overall strategy and the way we are organised remained consistent with 2015-16. However, the external environment in which we operate changed. The social, economic, political and technical pressures on government meant that the risks to, and opportunities for, achieving value for money evolved, sometimes unexpectedly. One example was the UK's decision to leave the European Union (EU).

To maximise our effectiveness in supporting Parliament, in 2016-17 we responded to the challenges facing government, and sought to prepare for the likely future ones. These are:

## KEY FACTS

# 372

accounts certified



### Resource constraints

Ongoing constraint on spending means that public services need to be delivered not just with greater efficiency but with new delivery models, as opportunities for cost reduction have mostly all been taken.



### Exiting the EU

While the UK's exit from the EU is expected no later than March 2019, the terms of exit remain subject to negotiation. It is inevitable that there will be wide-ranging consequences for the public sector.



### Digital transformation

Technology offers opportunities to provide cost-efficient public services designed to meet the needs of those using them. It also brings with it risks of service failure and of not securing value for money if the expected savings from efficiencies are not realised. In addition, for government to exploit the ever-increasing data generated as a by-product of using digital technology, it needs not just technical skills, but skills for effective transformation and change management.



### Accountability for public money

As central government continues to devolve power and responsibility to local delivery bodies, new commercial delivery models based on partnerships with private and voluntary organisations are more common. This can mean that lines of accountability for spending public money become blurred. It is important for government to understand how its decisions can have a knock-on effect across the spectrum of services run by local bodies, potentially in unforeseen ways.

**KEY FACTS**

62

Committee of Public  
Accounts evidence  
sessions supported

In this context, we continued to invest in our systems and people by:

- developing our digital capability, both to deliver our audits more efficiently and effectively, and also to have the knowledge and capability to offer insight into the issues government faces;
- ensuring that our programme of work includes the right amount of focus on local service delivery and its effect on the people using those services;
- improving our commercial expertise, building on our experience of company audits, to develop our ability to comment with authority on commercial delivery models;
- expanding our investigative capacity to provide Parliament with timely and targeted reports on emerging issues;
- improving the depth and breadth of our messages using a variety of communication methods, including social media, and tailoring our messages to be of greatest benefit to the target audience; and
- we continue to target our work earlier in the life cycle of government programmes, so that our insights are timely and can have a real impact on the outcome.

## We are organised to be effective

We focus on building knowledge about priority issues shared between departments, and increase our technical expertise and related skills that cut across a range of topics. The principal way we do this is through our clusters and our networks of experts who support our audit teams.

### Our clusters

We structure our audit teams into six groups, known as clusters. Each cluster covers departments facing similar strategic issues, such as major infrastructure projects and programmes or local service delivery. By focusing our resources on the strategic issues shared between departments, we can concentrate our efforts on the challenges likely to have the most significant beneficial effect on public services. This structure maximises our ability to share knowledge across audit teams and builds subject matter expertise. It also enables us to carry out comparative analysis and encourages collaborative working.

Audit clusters are supported by a central 'Core Strategic Services' cluster, which ensures our internal operations run smoothly.

### Our networks of experts

We have six networks of experts. These are decentralised groups that work across the NAO. They have specialist skills and capabilities relevant to all clusters. By providing cross-organisational support, they make sure we target expertise consistently so that all audits and published outputs benefit from the full range of what we know. They also promote knowledge-sharing and allow our staff to develop specialist skills.

The graphic opposite shows how our clusters and networks of experts support our strategic objectives.

## Our clusters and their objectives

Our clusters are supported by six networks of experts



### Our network of experts – centres of expertise to support our work

Commercial  
and  
contracting

Corporate  
finance

Digital

Operations  
and process  
management

Project and  
programme  
management  
delivery

Methods,  
economics  
and  
statistics

### Our governance

Our governance arrangements reflect best practice and the importance of giving Parliament confidence that we use our resources cost-effectively and meet our strategic objectives.

We are subject to internal and external examinations, which ensure that our processes and procedures are robust, and that our publications are of high quality.

Our full **Governance Statement** is on page 59.

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### Our governance structure

<b>Public Accounts Commission</b>	<ul style="list-style-type: none"><li>• Approves NAO's strategy and budget</li><li>• Appoints external auditors for the NAO</li><li>• Meets twice a year</li></ul>
<b>NAO board</b>	<ul style="list-style-type: none"><li>• Supports and advises the C&amp;AG in meeting his statutory responsibilities</li><li>• Oversees how the NAO manages and uses resources</li><li>• Meets eight times a year</li></ul>
<b>NAO Leadership Team</b>	<ul style="list-style-type: none"><li>• Supports the C&amp;AG and the clusters in achieving the cluster objectives</li><li>• Monitors performance and impletentation of the work programme</li><li>• Meets with the clusters on a monthly basis</li></ul>
<b>Internal and external audit</b>	<ul style="list-style-type: none"><li>• Review of our processes and procedures</li><li>• Statutory audit of the NAO's Annual Report and Accounts</li><li>• Quality review of our reports and publications and the financial audits we carry out</li></ul>

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## Diversity and inclusion

We are a diverse organisation, reflecting the society we serve. We are committed to making the NAO an inclusive organisation, building on our core values of being fair, independent, collaborative and authoritative. The C&AG is our senior champion for diversity and inclusion and chair of the Diversity Delivery Board.

Our diversity and inclusion strategy focuses on: recruiting, developing and promoting diverse talent at all levels to senior leadership; building inclusive leadership and behaviours at all levels and promoting diversity in our work and that of all public bodies.

The box below shows our achievements against our diversity and inclusion targets in 2016-17.

## KEY FACTS

# 803

full-time equivalent  
permanent employees

## Our achievements in terms of diversity and inclusion, 2016-17

### Targets

Widen the diversity of the people who join us, including by introducing specific initiatives to attract and recruit those from socially disadvantaged backgrounds.

Improve the diversity of staff both applying for talent and promotion programmes and succeeding in being selected/promoted.

Build a more inclusive work environment through: our new performance management framework; office-wide training on developing a collaborative, coaching style of working in teams; and raising awareness of unconscious bias.

### Achievements

14 work experience placements were created across our London and Newcastle offices.

We expanded our summer internship programme to include five students from disadvantaged backgrounds, three of whom were offered a place on our graduate training scheme.

Our intake of graduates from a BAME background grew from 21% in 2016 to 41% in 2017 (based on job offers accepted) and the number of black candidates in each year's intake rose from 4 in 2016 to 11 in 2017.

50% of female applicants for director posts were promoted, compared with 25% in 2015-16. Four of the five promotions to director in 2016-17 were female.

The 2016 annual appraisal round was successfully completed using the new performance framework. There was no difference in the percentage of BAME staff who received the highest performance rating in 2016 annual appraisals compared to white staff.

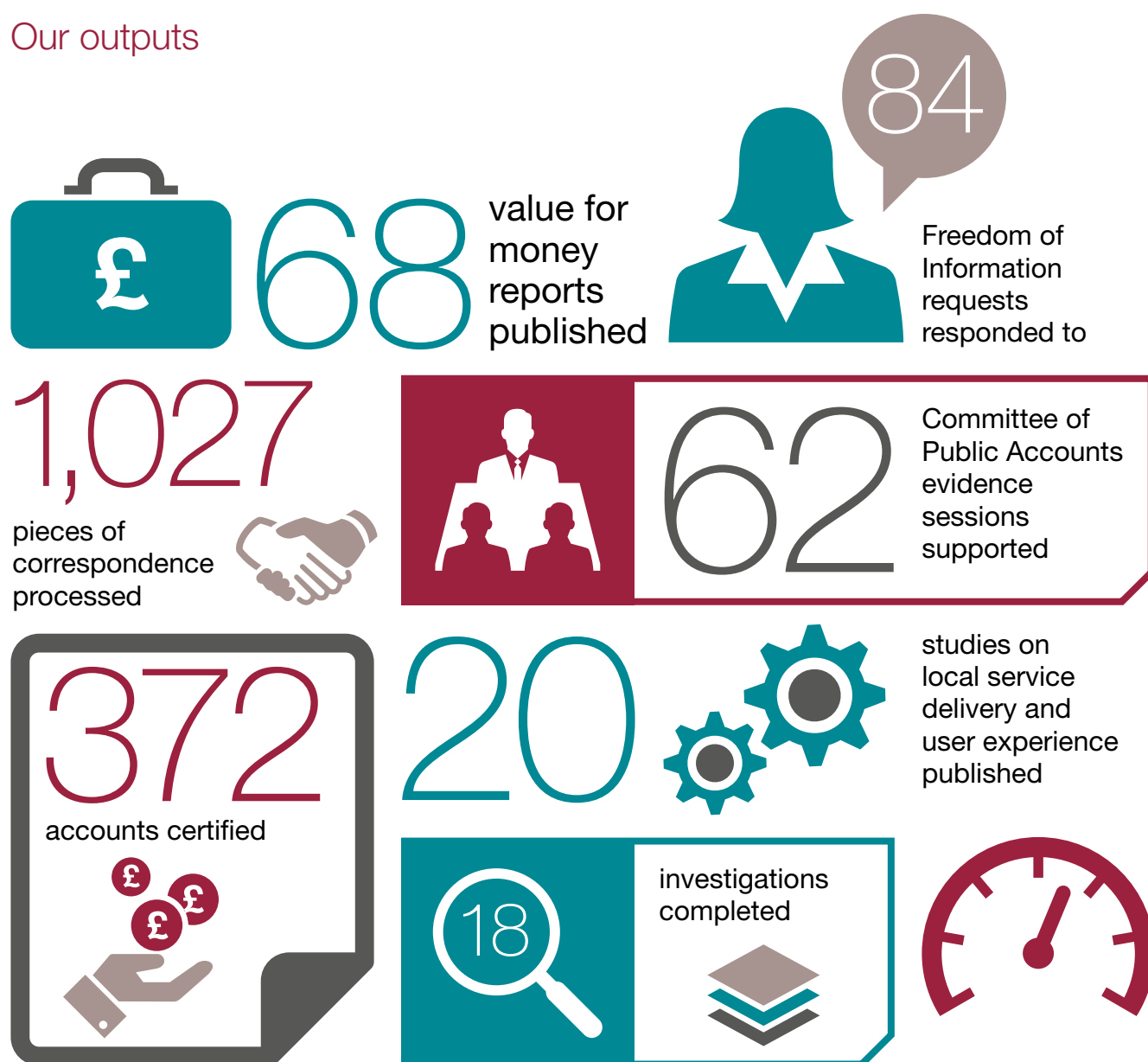
More than 90% of our staff participated in the first module of the 'Way We Work' training.

In 2016, we completed an independent review of our selection process for the Emerging Leaders talent programme. We shared the recommendations and actions with the whole organisation.

More of our people feel they are treated fairly at work (82% of staff, up from 77% in 2015) and that the NAO respects individual differences (77% of staff, up from 67% in 2015) according to the 2016 People Survey.

# OUR PERFORMANCE SNAPSHOT

## Our outputs



A detailed discussion of our performance is given in pages 24 to 51

## Our impact

Our work leads to beneficial change. We have included 15 case studies in this report (see page 34) which serve as examples of the positive influence our work has.

Our work saves the taxpayer money. Since 2010, we have saved £7.5 billion, or £16 for every £1 spent.

A reduction of 21% in our resource costs since 2010, even while playing a much greater role in local government and preparing for a significant increase in our UK audit portfolio.

88% of the Committee of Public Accounts' recommendations that the government responded to in 2016-17 have been accepted.

We monitor and discuss regularly with departments their progress in implementing our recommendations. Of the recommendations made and discussed with departments, 94% have been accepted.

£7.5bn  
saved since 2010



88%

of the Committee of Public Accounts' recommendations accepted

## Our influence

**The quality and expertise of the NAO is widely recognised.**

Our client feedback research in 2016 includes scores from interviews with 236 respondents, across 152 audited bodies.<sup>1</sup>



91%

of respondents rated our financial audit work as fairly good or very good

71%

of those involved in a value-for-money study rated the quality of their most recent study as fairly good or very good

46%

would like the NAO to do more to help public services improve by sharing good practice and guidance

86%

of the respondents agreed that we place the right emphasis on holding government to account and providing high-quality audits

## Our people

80%

of people feel committed to the NAO's purpose

87% understand how their work contributes to the NAO's purpose, and 80% feel committed to the NAO's purpose.

77%

of NAO people proud to work for NAO

**Staff satisfaction:** In 2016-17, our staff satisfaction score was 17% higher than the civil service average, with 77% of staff proud to tell others they work for the NAO.

91%

advanced stage NAO pass rate in 2016

**The NAO is career-enhancing:** In 2016, we had a 91% pass rate on the advanced stage of the professional accountancy qualification, compared with 85% nationally.

<sup>1</sup> We annually commission independent qualitative interviews with senior civil servants and chairs of audit committees. See page 43 for further detail.

# PERFORMANCE ANALYSIS

We measure our performance against our strategic objectives, which are set out in our strategy for 2017-18 to 2019-20.<sup>2</sup> Our performance framework aligns our areas of focus with outcomes. We use clearly defined metrics to monitor whether we are delivering these outcomes successfully. This provides a clear link between the work of the NAO and the way in which we focus our efforts on our strategy.

We publish our performance framework each year as part of our strategy. The framework is approved by the Public Accounts Commission, which uses it to hold us to account for achieving our strategic objectives.

## Our work adds value

In 2016-17, we certified 372 accounts including those of all 19 government departments and their associated bodies, as well as those of companies such as Network Rail and the Green Investment Bank. We produced a broad range of value-for-money reports, with 68 published in 2016-17.

In 2016, government and Parliament expanded our role to include new financial audit and value-for-money responsibilities for the BBC, the Bank of England and UK Asset Resolution Ltd. We are committed to providing high-quality financial audits for these organisations and reporting on their efficiency, effectiveness and economy through our value-for-money studies. This is in keeping with the values of independence, fairness, authority and collaboration that we apply to our existing work.

Our programme of work and balance of effort are carefully planned to produce the outputs needed to support Parliament in its scrutiny of public spending and to improve public services.

We also report on the value for money of public spending locally, under the Local Audit and Accountability Act 2014. We are responsible for the Code of Audit Practice, which sets out what local auditors need to do to meet their statutory responsibilities. This code and its guidance support auditors and underpin a consistent high-quality approach to auditing local public bodies.

The major areas of our work and their associated costs are set out on page 27. Our expenditure including the trend since 2010 and our future planned spend, is shown on page 29.

<sup>2</sup> National Audit Office, *NAO strategy 2017-18 to 2019-20*, December 2016, available at: [www.nao.org.uk/wp-content/uploads/2016/12/NAO-strategy-2017-2018-to-2019-2020.pdf](http://www.nao.org.uk/wp-content/uploads/2016/12/NAO-strategy-2017-2018-to-2019-2020.pdf)

## Our performance framework

Enabler	What we want to achieve	What success looks like	How we measure this
Developing and applying our knowledge	Cost-effective delivery of our programme of work, leading to positive change.	<p>Successful delivery of our programme of financial audit, Value for Money (VfM) and wider work programme.</p> <p>Our work leads to positive change in accountability and/or public services in those we audit.</p> <p>Our work generates financial savings resulting from our work of at least 10 times our operating costs.</p>	<p>The total number of reports and outputs (including financial audits) we produce; the number of reports that supported a Committee of Public Accounts hearing.</p> <p>Case studies, agreed with the audited body, which give examples of positive changes resulting from our work.</p> <p>Total value of financial savings generated by our work, as agreed with the audited body, against our final net outturn.</p>
Increasing our influence	Stakeholder awareness and response to our work.	<p>Recommendations arising from the work of the NAO and the Committee of Public Accounts are accepted and implemented by government.</p> <p>Parliamentarians are familiar with and have a favourable opinion of the NAO and support the work we do.</p> <p>Senior stakeholders in departments rate the quality of our work, and the impact we have, highly.</p>	<p>The percentage of Committee of Public Accounts recommendations that are accepted and implemented set out in the Treasury Minutes. We also include a metric showing what percentage of all NAO recommendations since April 2014 have been accepted.</p> <p>Results of the annual MPs survey we commission and monitoring of NAO mentions in Parliament.</p> <p>Annually commissioned independent feedback from the bodies we audit.</p>
Delivering high performance	Cost-effective use of funds and organisational performance.	<p>Continued efficiency without reduction in quality of our work.</p> <p>At least 80% of our resources are spent on front-line activities.</p> <p>Our people show high work satisfaction and engagement.</p>	<p>Our net expenditure, adjusted for new work, to show the like-for-like position using 2010-11 as the baseline.</p> <p>Ratio of expenditure on front-line to expenditure on corporate services functions.</p> <p>The annual People Survey of NAO staff.</p>

## Our future value management

Going forward, we will be promoting a new programme of value management across the NAO. The bodies that we audit have told us that they would like to have greater access to the cross-government knowledge and expertise that we gain through fulfilling our statutory duties.

We think it is desirable to identify ways that we can add further value through the regular, positive interactions we have with audited bodies, an approach that they have welcomed. For example, at the beginning of each year we will hold discussions with audited bodies to help inform a wider dialogue about value. This dialogue will be about both the value created by specific reports and the value created by sharing our cross-government view, such as on digital transformation.

We will create and share tailored knowledge products and insight that can provide real scope for improvement. We will move beyond transactional interactions to ones that put value at the heart of the discussion. In this way, we will build constructive, yet challenging, relationships and deepen our engagement by focusing on value.

## Strategic risks

We maintain a strategic risk register and update it each month to inform discussions within our Leadership Team. The register is also included as a standing agenda item for the NAO Board.

In 2016, we reworked the format of the register so that it sets out more clearly our appetite for risk against different risk types. Our new risk register records our assessment of any risks with the potential to have an adverse impact on the goals in our strategy. It highlights the mitigating actions in place, consistent with our risk appetite.

Our risks are grouped into different categories:

- **Reputation:** the risk that we are seen not to practise what we preach in relation to the way we operate or the behaviour of our staff. Our impact could also be threatened if stakeholders do not regard our work as independent or authoritative.
- **Operational:** The risk that our operations are not robust and resilient, leading to a failure to deliver our statutory work programme and commitments to Parliament.
- **Finance:** The risk that we do not use our resources economically, efficiently or effectively or incur an excess vote, whereby our expenditure or other use of resources exceeds the amounts authorised by Parliament.
- **Major projects:** The risk that we do not manage strategically important projects well, such that they fail to deliver the intended business benefits.
- **Impact of government policy:** The risk that we do not reflect major developments in our external environment when planning/performing our work, such that we are unresponsive to associated risks and opportunities.

Our Governance Statement (page 59) contains a full report on our internal controls and risk management, and the actions we are taking to mitigate strategic risks.

## The range of our work

### Audit and assurance £50.5m

Financial audit opinion/report on accounts  
Reports on regularity  
Analysis of financial statements  
Controls/process assurance  
Long-form reports  
Certification of accounts  
Management letters

### Value for money £16.1m

Value-for-money assessment  
Reports on local government  
Comparative assessment  
Landscape reviews  
Presentations  
Early stage reports

### Investigation and insight £9.9m

Investigations  
Good practice  
Expert advice  
Data validation  
Correspondence cases

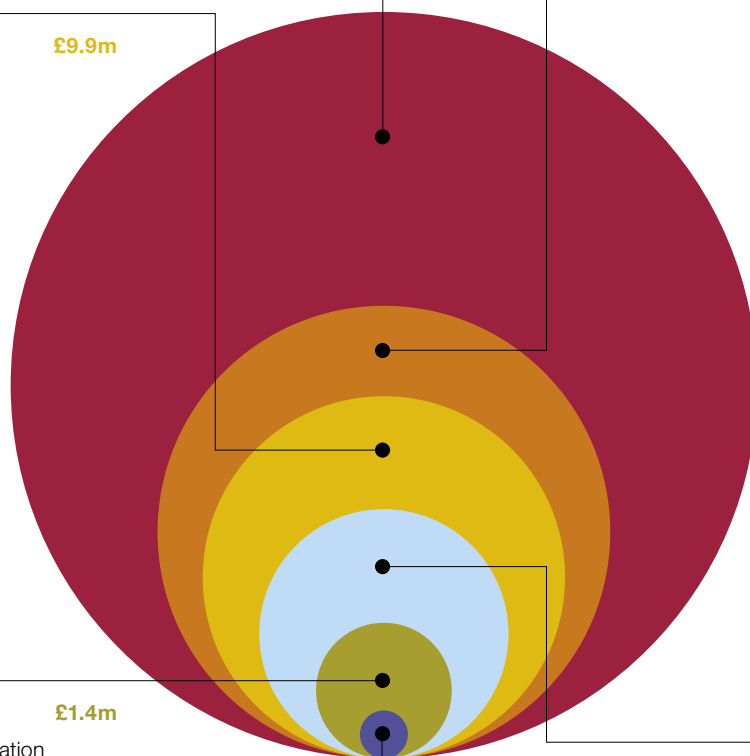
### International relations £1.4m

International technical cooperation  
International relations

### Support for Parliament £5.1m

Published reports for select committees  
Overviews of departments  
Briefings for select committees

### Comptroller function £0.2m



# DEVELOPING AND APPLYING OUR KNOWLEDGE

## Cost-effective delivery of our programme of work, leading to positive change

In 2016-17, we delivered a programme of work for Parliament covering financial audits, value for-money studies and our wider work. We also supported a full programme of evidence sessions for the Committee of Public Accounts. The cost of our work programme is given on the page opposite, as well as past comparators and our planned spend to 2019-20.



**Our financial audit:** As well as certifying accounts, we also carry out wider assurance work, including checking grant claims and reviewing IT systems. Increasingly, we are using the knowledge and insight gained from our financial audits to inform our other work, such as our value-for-money reports and investigations.

We have improved the efficiency of our financial audits over the past five years. Excluding new work taken on during this period, the cost of our 30 highest-fee audits, which we have carried out each year over the past seven years, continues to fall. Our analysis of these 30 audits shows a cash reduction from £13.6 million to £10.9 million. This is equivalent to a real saving, which takes into account inflation, of £3.9 million (real cost decrease from £14.8 million in 2009-10 to £10.9 million in 2015-16).

### **We are now in a position of maintaining and sustaining our efficiencies.**

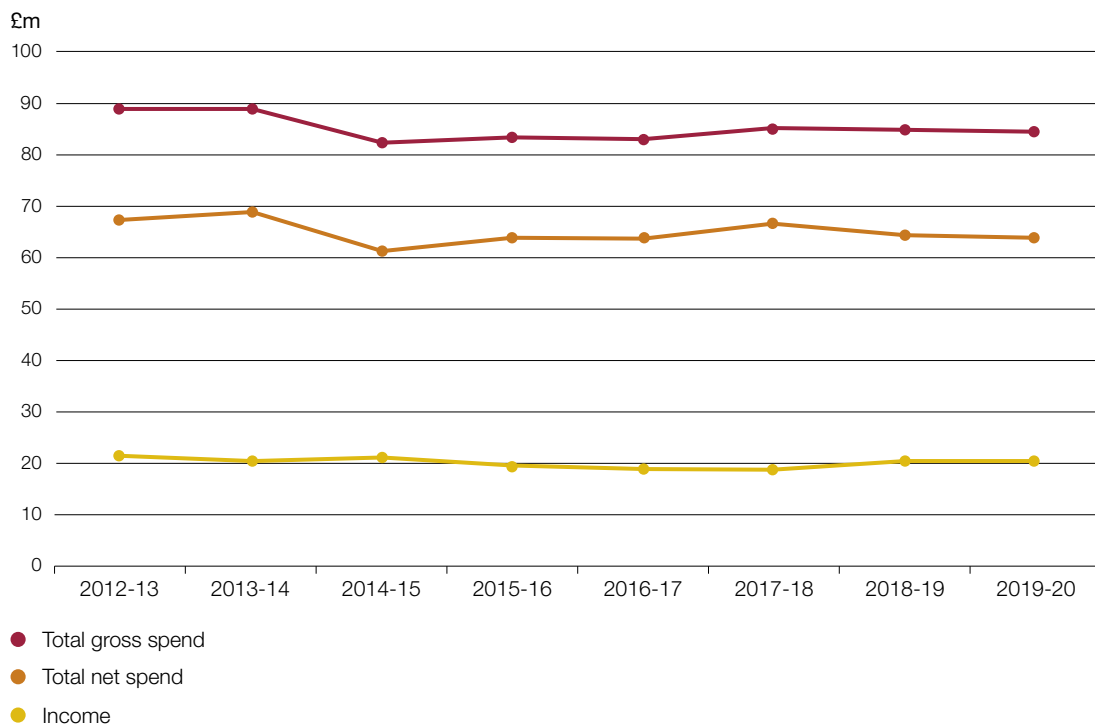
We must not compromise on quality. Our audits must also respond to externally driven factors beyond our control that may increase the scope or complexity of our audit work, for example the impact of the referendum to exit the EU. Therefore, while we continue to expect our audits to be credibly efficient, we are not actively seeking significant further cost reductions that would introduce a risk to the quality of our audits.

Around one-third of our audit costs are recovered through fees charged to clients. In 2016-17, international income reduced significantly, because our term on the UN Board ended during the year and our work has wound down. We earned around £1.0 million in 2016-17 and we expect to receive reduced audit fees from international work during 2017-18.

Digital technology has brought about significant changes in the financial audit environment. We are responding to these through investment and changes in our approach. We have appointed a new Director of Information Assurance and are introducing better IT audit tools to improve the efficiency of our audits.

## Actual and planned resources from 2012-13 to 2019-20

This figure shows the NAO's actual gross resource expenditure analysed across its six strategic objectives from 2012-13 to 2016-17 and planned gross resource requirement from 2017-18 to 2019-20. The total net resource and capital spend and income are shown.



	2012-13 Actual £m	2013-14 Actual £m	2014-15 Actual £m	2015-16 Actual £m	2016-17 Actual £m	2017-18 Plan £m	2018-19 Plan £m	2019-20 Plan £m
Audit and assurance	49.3	46.8	49.2	49.6	50.5	49.5	49.0	48.5
Value for money	17.4	17.5	16.6	16.9	16.1	18.1	18.0	17.9
Investigation and insight	15.0	13.0	9.5	10.3	9.9	11.2	11.2	11.1
Support for Parliament	7.1	5.0	5.3	4.9	5.1	5.4	5.4	5.4
International relations	–	2.1	1.8	1.4	1.4	1.0	1.0	1.0
Comptroller function	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Restructuring the NAO	–	4.2	–	–	–	–	–	–
<b>Total gross spend</b>	<b>89.0</b>	<b>88.8</b>	<b>82.7</b>	<b>83.2</b>	<b>83.1</b>	<b>85.4</b>	<b>84.8</b>	<b>84.1</b>
<b>Income</b>	<b>(21.5)</b>	<b>(20.3)</b>	<b>(21.4)</b>	<b>(19.3)</b>	<b>(19.2)</b>	<b>(18.8)</b>	<b>(20.2)</b>	<b>(20.2)</b>
<b>Total net spend</b>	<b>67.5</b>	<b>68.5</b>	<b>61.3</b>	<b>64.0</b>	<b>63.9</b>	<b>66.6</b>	<b>64.6</b>	<b>63.9</b>
Capital expenditure	1.1	1.5	1.2	1.1	0.9	1.3	0.7	0.7

### Note

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

We are increasing our investment in digital technology so that we are able to support the bodies we audit in their move to 'digital government'. We see many audited bodies introducing new IT systems and new ways of working to give citizens online access to government services. These investments increasingly affect financial matters and so are areas that fall within the remit of our financial audits.

We have benchmarked our working practices against the major commercial audit practices. It is clear that over the past five years the major commercial firms have invested significantly in technology (that is, reliance on controls and use of data analytics and audit automation). Our investment will allow us to develop the skills and tools we need to focus on how the bodies we audit use and control their businesses through technology. We will be able to provide them with greater independent insight on 'hot topic' areas such as cyber threats and resilience of IT systems and benchmark them against other similar organisations.



**Value for money:** In 2016-17, we produced a varied range of outputs in response to the Committee of Public Accounts' requirements. The Local Audit and Accountability Act 2014 gave the C&AG responsibility for preparing and maintaining the Code of Audit Practice and supporting guidance. We published the first code in April 2015. It applies for 2015-16 audits and beyond.

Although the work we do on local government has been part of business as usual since 2014-15, we have used these relatively new powers to add value centrally and locally by providing an end-to-end, system-wide view of the way national policy is delivered locally. In 2016-17, we produced 20 reports that either directly addressed local service delivery or used the wider insights we have gained from our local audit responsibilities to add value through a more end-to-end view of policy through to implementation.



**Investigations:** In 2016-17, we published 18 investigations and supported five Committee of Public Accounts evidence sessions through our investigation work. Our investigation work allows us to respond to indications of fraud, malpractice or systemic weakness in departments.

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## Case study

Our investigation into the collapse of the UnitingCare Partnership contract in Cambridgeshire and Peterborough found that weak commercial skills and a failure to consider exposure to risk, coupled with a disjointed approach to oversight, led to the failure of a multi-million pound contract after only eight months.

Following our report, NHS England set out, in the Committee of Public Accounts session, seven lessons it had learned. These covered commercial capability, contract design, transparency of information, and clear and joined-up systems of oversight and accountability. As a result, NHS England, together with NHS Improvement, has introduced an integrated support and assurance process to help make robust contracting decisions and to provide a whole-system view of contract proposals that focuses on what is required to deliver complex contracts successfully.

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**Correspondence:** During 2016-17, we provided 172 responses to correspondence from MPs, and 855 responses to correspondence from the public. We also responded to 84 enquiries under the Freedom of Information Act. We take our ability to respond promptly to concerned members of the public and MPs very seriously. In March 2017, we gave an initial response to 100% of correspondence from MPs within 10 days and 93% of correspondence from the public within 20 days.

**Support for Parliament:** Our reports improve the scrutiny of government by Parliament's select committees, particularly the Committee of Public Accounts. In 2016-17, we supported 62 Committee of Public Accounts evidence sessions through a combination of written outputs, oral briefings and expert advice.

We also gave formal and informal advice and support to other select committees. This included written outputs as well as oral briefings on individual NAO reports and wider strategic issues within a committee's remit. Published outputs for select committees included a sustainability overview of the 2015 Spending Review for the Environmental Audit Committee; a briefing on the Equality and Human Rights Commission for the Women and Equalities Committee; and a memorandum to inform the Work and Pensions Committee's inquiry into the future of Jobcentre Plus. We produced a briefing on EU-UK finances to provide Parliament with information about the financial relationship between the UK and the EU. This was to assist with scrutiny of the government's strategy for leaving the EU.

We produced 16 departmental overviews to help select committees scrutinise government departments' Annual Report and Accounts.

We seconded several of our staff to Parliament, including to the Treasury Committee, the Public Administration and Constitutional Affairs Committee, the Environmental Audit Committee, the Defence Committee, the Work and Pensions Committee, the House of Commons Scrutiny Unit and the House of Commons Library.

**International:** As one of the world's leading Supreme Audit Institutions, we take an active role in the international audit community, working with other audit offices around the world to improve the effectiveness of public audit.

Our continued membership of the International Organisation of Supreme Audit Institutions, the European Organisation of Supreme Audit Institutions and the Commonwealth Auditors General group has enabled us to develop strong working relationships with other audit offices. These forums allow us to share knowledge and experience gained through our respective domestic audit responsibilities, and to learn how other audit offices respond to audit challenges such as working with 'big data' and data analytics, auditing business transformations, and developments in international auditing and accounting standards.

As a leading audit institution, we are also conscious of the contribution we can make to help other audit offices build their capacity to deliver a high-quality audit service, and to improve the transparency and accountability of their governments in delivering public services. We continue to deliver a programme of technical and managerial advice to a range of audit offices around the world.



The C&AG is also the appointed external auditor for several international organisations, including the UN Organisation for the Prohibition of Chemical Weapons and the Special Tribunal for Lebanon. In 2016-17, the C&AG also completed his six-year term as a member of the United Nations Board of Auditors. This included overseeing the introduction of international accounting standards and annual financial statements across the UN system. The C&AG submitted a range of reports on the activities of the main UN Secretariat and other entities such as the UN High Commissioner for Refugees, with recommendations to improve the UN's operations and its internal controls.

## Integrated working

Although most of our work fits into the categories listed above, we have also continued to draw together the insights we obtain across our various disciplines to ensure that we capture and use our knowledge efficiently and maximise the value we add. For example:

- The integrated working between our financial audit, value-for-money teams and other specialists for Network Rail and the Department for Transport used our full range of knowledge and skills to understand the challenges facing both organisations. This supported the challenging financial audit of Network Rail and its consolidation into the Department for Transport's accounts for the first time. As auditors of both the Department for Transport and Network Rail, we were able to take a complete view of the services they provide, and ensure that our insights and recommendations reflected the broader system, not just one organisation.
- Our three reports on the government balance sheet published in 2016 explored some of the major risks to public finances highlighted in the Whole of Government Accounts. Our study teams drew on financial audit and value-for-money specialists and worked closely with the Whole of Government Accounts financial audit team and teams across the office, taking an integrated and cross-government approach. These reports, along with the Whole of Government Accounts 2014-15, assisted the Committee of Public Accounts in questioning the government on some of the most significant strategic issues and financial risks that it is facing.

## Our financial impact

Our work saves the public money. We assess our financial impact, identifying where our work or influence have resulted in an improvement with a financially quantifiable net benefit.

This includes any impact that results in more cash being available for public funding, improvement in productivity or an increase in output quality for the same or proportionately fewer resources. These financial impacts are agreed with the audited body and subject to an external audit review to ensure they are robust and reported accurately. A full list is included on page 119.

During the calendar year 2016 the total audited impact was £734 million. This represents a saving of £12 for every pound spent. Since 2010, our total cumulative financial impact has been £7.5 billion, representing a £16 saving for every pound spent.

The relative fall in our level saving to the public purse in 2016 is partly due to a significant reduction in the high-value, recurring impact for defence inventory (page 120), as our agreed five year claim period ended in the first quarter of 2016. Of course, some year-on-year variability is expected (see figure below) but we have in place a process to make sure we routinely capture all both our financial and non-financial impacts, to fully demonstrate the value we add.

### Our financial impacts since 2010





### Service family accommodation

The scrutiny of the conditions in some service family accommodation and the performance of CarillionAmey that resulted from our memorandum and the Committee of Public Accounts session contributed to significant improvements in performance by CarillionAmey.

## Improvements in the public sector

Not all beneficial changes from our work can be quantified, so these case studies capture some of the qualitative improvements we bring about. Such beneficial changes manifest in many ways and come from all areas of our work. These case studies have been agreed with the bodies to which they relate.

The case studies can be categorised as examples of where our work:

- has a direct, beneficial impact on the lives of people as users of government services;
- helps improve government capability;
- promotes transparency and accountability;
- draws attention to risks that government must manage; and
- adds insights that improve processes and aid decision-making.

Our work has a direct, beneficial impact on the lives of people as users of government services:

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### Improved maintenance of service family accommodation

Our June 2016 memorandum on service family accommodation set out details of the Ministry of Defence's provision of this accommodation. It highlighted the poor performance of CarillionAmey, the contractor responsible for maintaining it. The memorandum was the basis of a Committee of Public Accounts hearing on the subject in June 2016.

**Impact:** The scrutiny of the conditions in some service family accommodation and the performance of CarillionAmey that resulted from our memorandum and the Committee session contributed to significant improvements in performance by CarillionAmey. The percentage of tasks completed within the agreed response time rose from 91% at the beginning of 2016 to 96% in the summer of 2016 against a target of 95%. The number of complaints concerning maintenance of service family accommodation also reduced. The Committee praised CarillionAmey for working hard to improve the service it provides to military families. This underlines the value of quick, targeted work in helping to enhance performance.

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## A better experience for Syrian refugees

Our September 2016 report on the Syrian Vulnerable Persons Resettlement programme observed that there were inconsistencies between selecting refugees because of a disability and Department for Work & Pensions (DWP) rules preventing access to disability-related benefits until they had been in the UK for long enough. We also reported on the implications of granting humanitarian, rather than refugee status, such as accessing certain travel documents.

**Impact:** Stuart McDonald MP asked the Secretary of State for Work and Pensions about the implications of our finding that limited access to these benefits may cause difficulties and negatively impact refugees' experiences. The DWP has since allowed refugees to receive Disability Living Allowance without any residency requirement. In addition, the Home Office now grants all participants refugee, not humanitarian, status. Our report influenced these decisions.

## Delivering evidence-based support for personalised commissioning

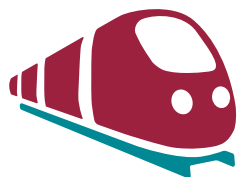
In our March 2016 report *Personalised commissioning in adult social care*, we recommended that the Department of Health and its national partners improve the evidence base on how best to implement personal budgets. For service users to get the most benefit from personal budgets and exercising control over their own care, they need effective help and support in implementation. Our report found that effective implementation matters in this area more than most, yet the evidence base is not good enough.

**Impact:** Following publication of our report, we contributed to a series of round-table discussions and workshops with senior representatives from across the adult social care sector to add our insight in identifying ways to address our recommendations. The discussions took place during 2016 and were convened by the Social Care Institute for Excellence on behalf of the national Think Local Act Personal Partnership. The outcome has been a consensus view of the existing evidence and performance measures, with recommendations for the Department of Health to take forward. Once these are put into practice, service users new to personal budgets should be able to rely on much better support.



### Personalised commissioning

Following publication of our report, we contributed to a series of round-table discussions and workshops with senior representatives from across the adult social care sector to add our insight in identifying ways to address our recommendations.



## East Coast passenger rail franchise

Since publication of our report, the DfT has taken steps to ensure it has enough staff with the skills it needs to manage its franchising programme.

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### Improving value for money of free childcare

In March 2016, our report *Entitlement to free early education and childcare* concluded that the Department for Education had made significant progress in delivering 15 hours of free childcare to parents of three- and four-year-old children and disadvantaged two-year-old children. However, implementing the commitment to double the entitlement to 30 hours would be challenging. In particular, without great care, disadvantaged two-year-olds, who benefit most from free childcare, could lose out. We concluded that, to prove the value for money of the new entitlement, the Department needed to set out clearly what it expected to achieve from offering extra hours of free childcare and measure progress towards these goals.

**Impact:** The government committed to roll out the extended entitlement a year early in eight local authority areas and to consider the recommendations in our report as part of this trial phase. The Department also agreed to evaluate the early implementation of the new entitlement. It has created a team to oversee local authorities' work to deliver the extended entitlement, which aims to ensure that there are enough places and that disadvantaged families do not miss out. It has issued an early years workforce strategy and agreed to publish the measures that it will use to evaluate the policy in the longer term.

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## Our work helps improve government capability

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### Developing skills to manage the InterCity East Coast passenger rail franchise

Our March 2011 report *The InterCity East Coast passenger rail franchise* recommended that the Department for Transport (DfT) should do more to ensure that it has appropriate staffing levels and retains corporate knowledge. Our cross-government work has also concluded that government departments need to put in place strategic workforce plans to ensure that they have staff with the right skills. The 2012 cancellation of the competition to let the InterCity West Coast franchise illustrates why this is so critical.

**Impact:** Since publication of our report, the DfT has taken steps to ensure it has enough staff with the skills it needs to manage its franchising programme. This includes agreeing with HM Treasury that it can pay some members of staff with essential skills more than would usually be the case. The Department now relies less on contractors, who currently make up 17% of the Passenger Services directorate (down from 42% in December 2013). It has also brought together teams working on awarding franchises and managing contracts, significantly improving its ability to use its corporate knowledge.

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## Strengthening government's commercial capability

Through a series of reports in 2014 and 2015, we highlighted a crisis of confidence in government contracting and encouraged government to improve its commercial capability. Our subsequent reports into commercial relationships have continued to comment on capability issues.

**Impact:** In an update to the Committee of Public Accounts in February 2017, government described the further progress it made in 2016 to address commercial capability issues that we helped identify. Government has put in place a new pay structure to attract and retain commercial staff, and has started assessing existing staff to identify the specialists who will qualify for this. The new Government Commercial Organisation will employ the most senior commercial staff centrally, enabling talent to be managed more effectively across government. Graduates have been recruited to a new commercial fast-stream programme. Most departments are well advanced in developing 'commercial blueprints' that show the capability they need. The Cabinet Office and HM Treasury have approved the first two blueprints (Department for Work & Pensions and Ministry of Justice). The update promises further significant progress in 2017.



### Energy bills

Government has since published a consumer bills report that goes some way towards addressing our recommendations, and has committed to going further to improve transparency.

## Our work promotes transparency and accountability

### Transparency over the costs that government policies add to energy bills

In October 2016, we reported on the Levy Control Framework, a budgetary framework introduced to control the costs that government policies add to energy bills. We recommended that government be more open about the Framework, including by fulfilling its promise to report to Parliament each year on the impact that energy policies have on bills.

**Impact:** In January 2017, the Secretary of State for Business, Energy & Industrial Strategy, Greg Clark MP, drew attention to the role we have played in encouraging government to be more open about the costs of policies for consumers' energy bills. Giving evidence to the House of Lords Select Committee, he said: "... prompted by the NAO and the PAC, we have been clearer in putting before Parliament the costs of some of the decarbonisation policies". Government has since published a consumer bills report that goes some way towards addressing our recommendations, and has committed to going further to improve transparency. The Permanent Secretary of the Department responsible for the Framework, Alex Chisholm, thanked us for a "comprehensive examination of the Framework [that] provided constructive challenge on areas which could be developed further".



## Apprenticeships

In response to our recommendation, the Department developed a comprehensive set of performance measures, covering aspects such as apprentices achieving higher earnings and more apprentices from disadvantaged backgrounds undertaking higher-value apprenticeships.

## Greater transparency on accountability across government

In February 2016, our report *Accountability to Parliament for taxpayers' money* concluded that, while public services have become increasingly complex, the essential elements of accountability have tended to be an afterthought. Furthermore, we concluded that accounting officers at the head of government departments had too little incentive to prioritise value for taxpayers' money compared with the incentive to satisfy ministers. Accounting officers were allowing projects and initiatives to proceed unchallenged, despite significant concerns arising about value for money.

**Impact:** While the government maintained that accounting officers often provide advice to ministers on value for money that is not visible externally, it agreed that the transparency and accountability of accounting officers' decisions could be strengthened. All departments will now publish, in an accounting officer system statement alongside the annual report, an explanation of all their accountability relationships and processes, from 2017 onwards. Accounting officers will also provide Parliament with positive assurance over the regularity, propriety, value for money and feasibility of major projects within the government's Major Projects Portfolio when they begin and again during implementation if they exceed expected levels of cost, benefit, timescale or risk. Summaries of these assessments will be published.

## Enhancing performance measures for apprenticeships

Our October 2016 report *Delivering value through the apprenticeships programme* recommended that the Department for Education should have much better ways of measuring the success of the programme, aside from the target of three million new apprenticeship starting between 2015 and 2020.

**Impact:** In response to our recommendation, the Department developed a comprehensive set of performance measures, covering aspects such as apprentices achieving higher earnings and more apprentices from disadvantaged backgrounds undertaking higher-value apprenticeships. These were set out in the programme's *Benefits Realisation Strategy*, which the Department published in March 2017. The Department will publish its performance against these measures as the programme develops. Focusing on these measures should improve the quality of the Apprenticeships programme. It will also make it easier for people to hold the Department to account for the way it is running the programme.

Our work draws attention to risks that government must manage

## Improving contingency plans for the Emergency Services Network

In September 2016, we published a report on the Home Office's programme to replace the Airwave system, which the emergency services currently use to communicate, with a new Emergency Services Network (ESN). The report was an early look at the Department's plans to provide this critical national service and assess the risks the Department had taken on and how it was managing them. We concluded that the programme was five to ten months behind schedule and the Department should work on its contingency plans to extend the Airwave service.

**Impact:** In fieldwork for our report, the Department took on board our ongoing feedback, for example updating its risk registers and appointing new staff to help engage users. When the report was published, the Department acknowledged that our judgement was valid and is now updating its plans to ensure that the current service will be available to bridge the gap until ESN comes online.

## Early intervention on financial sustainability in further education

Our July 2015 report *Overseeing financial sustainability in the further education sector* concluded that oversight bodies should identify and address emerging financial problems in further education colleges at an earlier stage.

**Impact:** In response, the Skills Funding Agency published its first ever 'early intervention strategy'. According to this strategy, the Agency will engage with colleges when their business plans or other indicators suggest that there is a risk of financial failure. Since then, following a set of clear triggers for early intervention, the Agency has worked more proactively with colleges to prevent financial problems from escalating and to help them return to a financially stable position.



### Emergency Services Network

In fieldwork for our report, the Department took on board our ongoing feedback, for example updating its risk registers and appointing new staff to help engage users.



### HM Revenue & Customs complaints

By the time we published our report, we were able to state that the average time taken to close complaints had fallen from 170 calendar days (in 2013-14) to 82 calendar days (in 2014-15).

Our work adds insights that improve processes and aid decision-making

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### Helping the Department for Communities and Local Government understand the accounting impact of the Housing and Planning Bill

In 2015, our financial audit team heard that the Office for National Statistics had reclassified the housing association sector in England from 'private' to 'public non-financial corporations'. It raised this issue with the Department for Communities and Local Government (DCLG), pointing out that there was a risk that DCLG would need to consolidate up to 1,500 housing associations, with approximately £65 billion of private debt, into both its own accounts and the Whole of Government Accounts. This would be a significant challenge, resource-intensive and was clearly an unintended consequence of the change in policy.

**Impact:** We continued to engage with DCLG and HM Treasury about the accounting impact of the reclassification. This resulted in DCLG not consolidating housing associations into its departmental resource accounts. Additionally, the Housing and Planning Bill was amended to remove several public sector powers over housing associations. Overall, our engagement helped the Department negotiate potential unintended consequences.

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### Faster resolution of HM Revenue & Customs complaints

Our May 2016 investigation into the role of HM Revenue & Customs (HMRC) and the (then) Department for Business, Innovation & Skills (BIS) in ensuring that employers comply with national minimum wage regulations resulted from correspondents' concerns about the time it took HMRC to investigate complaints.

**Impact:** BIS changed its 2014-15 service level agreement with HMRC to prioritise the timeliness of investigations. BIS revised its scorecard to include performance indicators on how quickly HMRC completed its reviews. By the time we published our report, we were able to state that the average time taken to close complaints had fallen from 170 calendar days (in 2013-14) to 82 calendar days (in 2014-15) – an overall reduction of 52%.

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# INCREASING OUR INFLUENCE

## Response to recommendations arising from our work

Through Treasury minutes<sup>3</sup> responses to the Committee of Public Accounts' reports, we can see that individual departments have accepted a large majority of the Committee's recommendations. For the recommendations reported as having been responded to during 2016-17, the government accepted 349 (88%) of the 397 recommendations that the Committee made. The equivalent figures for 2015-16 showed that the government accepted 187 out of 228 (82%) recommendations and, in 2014-15, 348 out of 400 (87%).

As part of our strategy to better understand the impact of our work better, we have been tracking the progress that departments have made in implementing recommendations arising from all value-for-money reports that we have published since April 2014. Although there is substantial overlap between these and the Committee of Public Accounts' recommendations, tracking all recommendations will provide a broader measure of the impact of our work.

In the value-for-money reports we published between 1 April 2014 and 31 December 2016, we made 620 recommendations. Of these, 509 have had a response from departments, and of those: 116 have been implemented; 363 are in the process of being implemented; and 30 have been rejected. This equates to an acceptance rate of 94%.

## Perceptions of the NAO

### MPs

Since 2010, we have participated in the annual Ipsos MORI omnibus survey of MPs, to assure ourselves that our work continues to meet their needs and to identify areas for improvement.

The results of the 2016 survey show that our reputation among the MPs surveyed is strong (see figure overleaf). A third of MPs surveyed said that they turn to us for information at least once a month. According to Ipsos MORI, "very few organisations are more positively viewed".

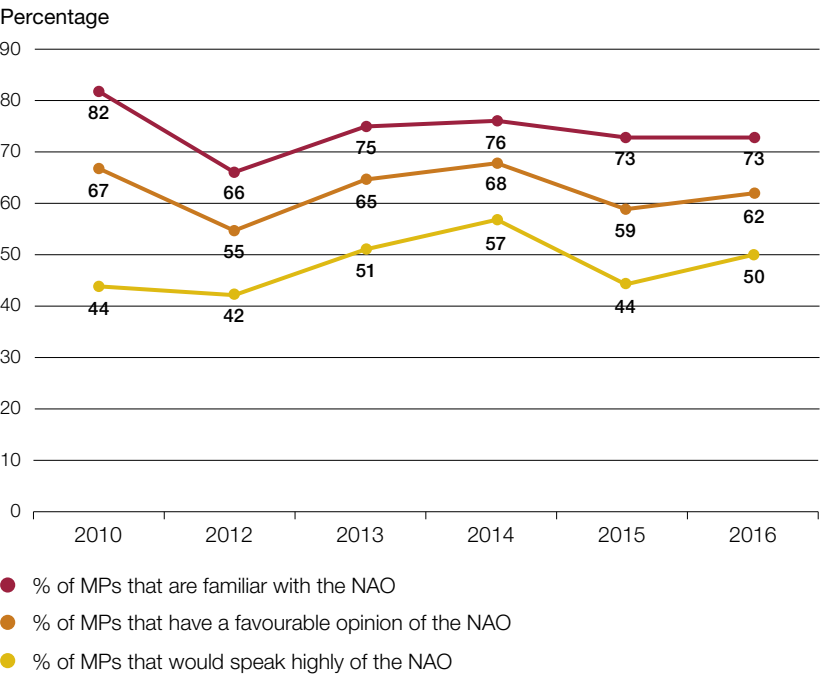
<sup>3</sup> Government departments respond to Committee of Public Accounts reports through a Treasury minute.

KEY FACTS

92%  
of audited bodies agree the  
NAO's work is of high quality

Members of Parliament's perceptions of the NAO since 2010

Each year, we commission a survey of MPs' opinions of the NAO. This graph summarises the percentage of MPs that gave a favourable response in the survey conducted for each of the years since 2010.



Source: Ipsos MORI. Base: All MPs (125), Conservative MPs (51), Labour MPs (40), SNP (6), Other (4). Summer 2015

Of those MPs who are aware of the NAO, more than eight in ten believe that we are “above average” for acting with authority, impartiality and independence, and honesty and integrity. Although this marks a small reduction since 2015, we continue to score very well for being authoritative (87% of MPs surveyed say that we are above average for this attribute); acting with honesty and integrity (83%), and acting impartially and independently (81%).

Our aim is to become a more clearly acknowledged source of authoritative information and advice within Parliament to help hold government to account more effectively. The focus of our wider engagement has been with select committees, individual MPs, parliamentary staff and the House of Commons Library.

Through the survey, we have identified communication with MPs as a focus for improvement. Around one in four MPs' offices, including Cabinet and Shadow Cabinet ministers, have signed up to receive embargoed copies of our reports.

Since April 2012, we have monitored all references that parliamentarians make to the NAO and Committee of Public Accounts in Parliament. We received five references in Parliament per sitting day in 2016-17, compared with four in 2015-16.

## Audited bodies

Each year, we gather feedback on the NAO from senior civil servants and chairs of audit committees. In 2016 we made substantial changes to the feedback process, enabling us to gather more comprehensive insights from a wider selection of organisations. As a result, however, we are unable to provide direct comparisons with previous years' feedback.

Overall, the independently-conducted survey showed that the bodies we audit remain very satisfied with the NAO: 94% of respondents agreed that their overall relationship with us was good or very good. Respondents have a very high regard for our financial audit work, with 92% agreeing it is of high quality and 85% saying that they would actively seek our feedback on accounting and financial control issues.

Of those respondents directly involved in value-for-money studies (56 respondents):

- 73% rated the quality of their most recent value-for-money study as good or very good;
- 52% said our value-for-money work overall has valuable insights for their organisation; and
- 33% said that their most recent value-for-money study either has already led to tangible improvements in their organisation's economy, efficiency or effectiveness, and 33% said it is likely to lead to these improvements.

The feedback also highlighted scope for improvement in the extent to which we share insight and good practice with the organisations we audit: 46% of respondents said we could do more and 20% said that their NAO team does not tell them about the NAO's work with other organisations and how that affects their own organisation. We are addressing the areas where we could improve further through our new programme of value management, which will improve the benefits and value we add to organisations through our work.

## KEY FACTS

85%

of audited bodies say they would actively seek NAO feedback on accounting and financial control issues

# DELIVERING HIGH PERFORMANCE

## Working efficiently

Our main estimate was approved in March 2016, but adjusted in December 2016 once it became certain that we were to be appointed the auditors of the BBC and of UK Asset Resolution Limited. Despite the challenges of preparing for our new audit responsibilities, we have continued to focus on efficiency. We have made savings of 1% against our approved budget position of £64.5 million for the year. This is in the context of efficiencies that we have already made. Since our baseline in 2010, we have reduced net resource costs by 21% in real terms, even while Parliament asked us to take on a much greater role in local government and as we prepare for a significant increase in our UK audit portfolio.

### Working efficiently

Resources	2016-17	2016-17	Saving	
	Estimate £m	Outturn £m	£m	%
Audit and other assurance services	83.2	83.1	0.1	–
Income	-18.7	-19.2	0.5	3
<b>Net resource requirement</b>	<b>64.5</b>	<b>63.9</b>	<b>0.6</b>	<b>1</b>
Capital expenditure	1.0	0.9	0.1	10
Net cash requirement	63.6	62.2	1.4	2

#### Note

- 1 These figures exclude non-voted expenditure items, such as the C&AG and Chairman's salary which are paid directly by Parliament and are outside of the control of the NAO.

## Audit and assurance work

The costs of our audit and assurance work of £83.1 million, which include our financial audits, value-for-money studies, investigations, overseas work and direct support for Parliament, were in line with our budget of £83.2 million.

Having experienced high levels of turnover in 2015, the external recruitment market stabilised significantly in 2016, leading to a marked increase in retention at all levels of the business. This ensured that we were well placed to resource our planned portfolio of work, as well as to resource preparatory work for our new clients, without embarking on external recruitment campaigns

Our budget increased during the year to take into account the change in our responsibilities. This included adjusting our overall staff complement to 805 full-time equivalents, which allowed us to begin preparatory work in relation to the BBC and to start audit work on UK Asset Resolution Limited, a body set up to return publicly owned commercial assets back to the public sector. We also provided assurance that the reorganisation of government departments and the establishment of new departments in 2016 took place effectively.

## Income

Our income of £19.2 million was more than our budgeted income of £18.7 million by £0.5 million (3% saving). We earned more from our financial audit work than planned. The main contributor to this was the extra work that we carried out to certify EU agricultural funding in 2016-17, which earned £0.3 million more than our budget. We managed to meet the challenge of this work by carefully reprioritising our internal staff assignments. We recovered the costs of this extra work through our audit fees.

## Capital expenditure

Our capital spend of £0.9 million was in line with our budget of £1.0 million (a 10% saving). Our budget for the year included resources to replace our IT assets as they reached the end of their useful lives. It also included installing a number of new meeting rooms. We plan to rent these out to third parties to earn additional income in future years.

## Resources for 2017-18

We are requesting total net resources of £66.6 million for 2017-18, a £2.1 million (3%) increase from 2016-17. The budget for 2017-18 allows for a complement of 805 people, to continue our work on the additional responsibilities Parliament has asked of us, such as the financial audit of the BBC.

It also includes funding for investment in the use of technology in financial audit. These plans ensure that our audit approach evolves in line with our clients' greater reliance on technology, makes sure we keep pace with changes in the financial audit industry and improves the level of insight we can provide to clients through our work. While audit-related expenditure will rise in the short term, we will continue to become more efficient in the way we work once we embed this new use of technology into our audit practice, and return to a downward underlying cost trajectory.

We are also investing in our capacity to respond to the wider challenges facing the public sector. The timing and nature of the UK's exit negotiations with the EU are unclear, but there is no doubt that these negotiations will permeate most aspects of government. There are major infrastructure investment projects under way, new delivery models for public services, which involve private sector partners, and greater devolution of powers to local bodies. All of these changes place strain on traditional accountability mechanisms, and present new challenges for parliamentary oversight. We need to maintain a broad range of skills and experience if we are to provide the high-quality assurance that Parliament needs.

## Getting the best from our people

Our people remain our most valuable and important asset. An important aspect of our strategy is to attract and retain the high-quality staff we need to deliver our business objectives. We aim to do this by providing an attractive, empowering workspace and supporting the development of our staff. We create the right working environment so that people can achieve their full potential.

### **Attracting and retaining high-quality people**

Our main sources of talent are our graduate and school leaver programmes, with 70 people recruited to our graduate scheme and 12 to our school leaver scheme in 2016. Recruitment to other levels was low because of improvements in retention during the year. In addition, we have a breadth of other valuable expertise, including skilled professionals such as economists, statisticians and business analysts as well as those with skills in important areas such as commercial and digital. We recognise the value of all the skills we have and what they can offer. We work in an integrated way through multi-disciplinary teams and knowledge-sharing so that we can bring the full range of our expertise to all of our work.

Our graduate pass rates are consistently above the national average. Last year, 91% of our trainees passed the Professional Stage examinations for the Association of Chartered Accountants qualification at the first attempt (compared with 86% nationally) and 91% passed the Advanced Stage examinations at the first attempt (compared with 85% nationally).

Following the introduction of recognition payments in 2016, we were well placed to retain a higher proportion of these skilled staff than in 2015-16. Our retention rate was improved by our focus on selling longer-term career opportunities within the NAO. A further contributor to improved staff retention was continuing uncertainty in the external market, both before and after the EU referendum in June 2016. While the market is currently depressed, competition for premium skills such as accountancy and finance remains. We need to be alive, therefore, to a potential shift in the market when business confidence returns.

### Supporting our people

We conduct an annual survey of our people and benchmark the results against public and private sector norms. In 2016, 78% of people completed the annual People Survey, compared with the 2015 figure of 71%. The results are in the figure below.

### NAO People Survey results

Each year the NAO conducts a People Survey to understand staff opinions on a range of work-related issues. This table presents a top-level summary against the categories used. The percentages show the level of positive responses.

Categories	2016 People Survey results (%)	2015 People Survey results (%)
Satisfaction with work	● 76	69
Sense of job security	● 78	68
Culture of inclusion and fair treatment	● 71	64
Understand organisational objectives	● 64	57
Employee engagement	● 67	57
Learning and development	● 62	57
Resources and workload are managed well	● 63	52
Pay and benefits are fair	● 52	48
Communication and collaboration	● 59	46
Confidence in leadership	● 55	46
Confidence that change and transformation are managed well	● 49	30

We are pleased that our 2016 survey showed improvements across all categories and that the results compare favourably with our benchmarks. Employee engagement has increased by 10 percentage points since 2015, reflecting the extent to which our people say they are interested in their work and the extent of their commitment to our purpose. The survey also shows a growing confidence in our leadership and the way we manage change, with a rise of 19 percentage points in the number of our people who say we do the latter well.

## Highlights



# 88%

of people are interested in their work



# 93%

of people have a clear understanding of the NAO's purpose



# 77%

of people say they feel proud when they tell others they are part of the NAO

These improvements reflect our efforts to develop our culture and way of working to better support our people. Our initiatives have covered four areas:

- **Open leadership:** Members of our Leadership Team have increased their visibility and communication with colleagues, being more open about decisions and providing more opportunities for people to contribute their views.
- **Performance management and support for development:** 2016 saw the introduction of our new performance management framework and a greater emphasis on regular, good-quality feedback and support for career planning. We also rolled out the first module of our 'Way We Work' training programme, a two- to three-year development programme that supports people in developing their personal, management and team-working skills and builds a more fulfilling, happier, more inclusive workplace.
- **Better change management:** We have developed a new, user-focused approach to change management, with better prioritisation and planning. This has been overseen by our Change Management and Assurance Committee, which makes sure our change portfolio is aligned with our strategy, well managed and working towards a set of common principles.
- **Managing our work:** Our Business Improvement Programme is helping us to improve the planning and profiling of our work. This will not only increase our efficiency but will lead to a better experience for our people.

We have made good progress, but there is more to do. Our Leadership Team has prioritised a series of actions, including: providing more information about its own way of working and activities; producing a clear plan to realise the benefits of our Business Improvement Programme; and setting up a campaign to better engage staff with our strategy. Our clusters, which are best placed to understand the needs of their people, are undertaking complementary activities.

## Diversity and inclusion

Over 2016-17 we have made good progress against our three-year strategy, launched in 2015, to embed diversity and inclusion across the NAO. The Diversity Delivery Board supports delivery of the strategy and is chaired by the C&AG. The strategy is centred around three pillars:

- to build a diverse pipeline of talent;
- to create an inclusive work environment; and
- to reflect diversity in our work.

## Talent pipeline

We have updated our graduate recruitment process to better support Black, Asian and minority ethnic (BAME) graduate candidates and recruit people from socially disadvantaged backgrounds. In particular, we launched a range of initiatives including 'blind screening' and contextualised recruitment methods, extending school work experience placements to the Newcastle office and focusing on recruiting undergraduates from socially disadvantaged backgrounds to our internship programme. We have also established a new social mobility network.

The proportion of applications to the graduate scheme from BAME candidates remained stable at 38% in 2016 and 39% in 2017. However, the proportion of BAME graduate candidates receiving job offers increased from 21% to 41%. The number of black graduates joining the NAO has increased from one in 2014 to four in 2016, with 11 due to join the scheme in 2017 in line with our aim to address the under-representation of Black African and Caribbean people in the accountancy profession.

We have made progress in the gender diversity at director grade (25% in 2015-16 to 29% in 2016-17) due to an increase in the success rate of female applicants, (25% of candidates who applied in 2015-16 to 50% in 2016-17). Four out of five (80%) promotions to director in 2016-17 were female. The gender diversity of our Managers has remained relatively stable over the past three years. Four of the nine (44%) promotions to manager were female in 2016-17.

Although we are making progress, we recognise that more improvement is needed, and we are taking action to better understand the issues at play with regard to promotion.

## Inclusive working environment

We have continued to embed inclusive practices and behaviours into our ways of working, which has been reflected in our improved scores in the 2016 People Survey, with more employees reporting feeling that the NAO respects individual differences and that they are treated fairly at work than in 2014.

## KEY FACTS

### Diversity

45%

of our people are women

There has been a major focus on raising awareness of 'unconscious bias' to help us become an even fairer and more inclusive workplace. We invited an external provider to conduct an independent review of our process for selecting staff for our Emerging Leaders talent programme. We followed this up with the launch of an e-learning training module to help staff recognise their unconscious biases, which we all have, and to minimise the impact of those biases at work. In 2016, the NAO launched a three-year training programme for all staff called 'The Way We Work'. One of the programme's objectives is to improve the way we bring together our collective skills and knowledge to create a more fulfilling, inclusive work setting. More than 90% of our people completed module one of the programme, which focused on understanding individual work preferences.

We have raised awareness of mental health issues via workshops and worked in particular to improve line managers' confidence in supporting those in their teams with mental health issues. We trained around 40 staff to become mental health first aiders, to help support staff with mental health issues. We also commissioned an external review of our 'reasonable adjustments' process and guidance, to ensure that we remain at the forefront of best practice in the area of disability.

#### **Diversity in our work**

Our main target in this area is to ensure that we consider diversity issues in the course of our work and develop our understanding of diversity in public bodies and services.

Over the past 12 months we have updated our internal guidance for our people to ensure diversity issues are considered early on in the VfM study scoping process. We have also highlighted a number of diversity-related issues through our VfM studies.

We have published a range of VfM reports in 2016-17 that contain a diversity and inclusion aspect including: *Mental health services: preparations for improving access*; *Children in need of help or protection*; *Recovering the cost of NHS treatment for overseas visitors*; and *Local support for people with a learning disability*.



# OUR ENVIRONMENTAL IMPACT

## Holding government to account on its environmental performance

Our greatest potential environmental impact arises from our role in holding government to account on performance against its environmental objectives. One way we do this is through our support to the Environmental Audit Committee, a parliamentary select committee that has a cross-cutting remit on sustainable development and environmental protection.

During 2016-17, we reported on:

- **Sustainability in the Spending Review:** We assessed how effectively HM Treasury designed and implemented the 2015 Spending Review to ensure that it considered environmental issues. We found that, while coordination of environmental issues and the quality of information about them were better than in 2010, HM Treasury had not made the most of the opportunity to improve cross-government working on issues such as climate change and biodiversity.
- **Sustainability at the Department for Transport:** This is the fourth in a series of sustainability overviews, which give a high-level assessment of a department's success in fulfilling its environmental remit. We concluded that there was an opportunity for the Department for Transport to go further and take a leadership role on sustainability in the transport sector.

We have also assessed the value for money of three environmental schemes in reports for the Committee of Public Accounts:

- In April 2016, we reported that the Green Deal finance scheme was an ambitious and novel attempt to increase the scale and cost-effectiveness of the market for energy efficiency measures. However, the then Department of Energy & Climate Change's £240 million expenditure on it had not generated additional energy savings because the design and implementation of the scheme did not persuade people that energy efficiency measures are worth paying for.
- In October 2016, we reported on government's budgetary framework for the costs of subsidising renewable energy: the Levy Control Framework. We concluded that the Framework had played an important role in making clearer some of the effects of these policies on consumers, but that the government had missed opportunities to exploit its full potential.
- In January 2017, we reported that government had not achieved value for money from the £100 million it spent on a competition to fund a demonstration of carbon capture and storage technology. We recognised that there are challenges in getting this technology established, but concluded that the Department of Energy & Climate Change faced an uphill battle because of the way it ran the competition.

## Our direct impact

We also have a direct impact on the greenhouse gas emissions associated with business travel and energy use, and the water use, paper consumption and waste generated in our buildings. We have challenging sustainability targets in all these areas; the related data are on our website.<sup>4</sup> 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.

Our London headquarters building, which represents 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 include a passive chilled beam system for office cooling, high-efficiency gas-fired condensing boilers, extensive metering and an intelligent lighting control system.

Recent work on the sustainability of our operations has included:

- a full energy survey to assess areas for improving our efficiency and reducing CO<sub>2</sub> emissions; and
- continued ISO 14001:2004 certification for our environmental management system

<sup>4</sup> Available at: [www.nao.org.uk/about-us/our-work/governance-of-the-nao/transparency](http://www.nao.org.uk/about-us/our-work/governance-of-the-nao/transparency)

## Improving our environmental sustainability

We manage our business in an environmentally responsible manner, with a continued focus on sustainability. This involves carefully controlling our use of resources and consumables, and minimising waste. Information about our environmental and sustainability policy, including roles and responsibilities, is on our website.<sup>5</sup>

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### Plant and equipment

Target	Result
20% reduction in CO <sub>2</sub> e by 2016-17 (compared with 2010-11)	12%

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### Business travel

Target	Result
20% reduction in domestic flights by 2016-17 (compared with 2009-10)	39%

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### Waste generation and paper consumption

Target	Result
25% reduction in generated waste by 2016-17 (compared with 2011-12)	26%
20% reduction in paper by 2016-17 (compared with 2009-10)	66%

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### Water usage per full time equivalent (FTE) employee

Target	Result
Ratio of 4m <sup>3</sup> to 6m <sup>3</sup> per FTE by 2016-17	5.4m <sup>3</sup>

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<sup>5</sup> Available at: [www.nao.org.uk/about-us/wp-content/uploads/sites/12/2013/02/NAO-Environmental-Policy.pdf](http://www.nao.org.uk/about-us/wp-content/uploads/sites/12/2013/02/NAO-Environmental-Policy.pdf)

## Impact

From 2010-11 to 2016-17, we have achieved a 12% reduction of greenhouse gas emissions. Although this is less than our target of 20% over this period, it must be viewed in context that the NAO building was refurbished just prior to 2010-11, and we had used this opportunity to ensure the building was highly energy efficient at that time, making further reductions challenging. However, we continue to seek ways to improve, for example this year we installed LED lighting, and for 2017-18 we plan to use our building management system to ensure that we run more sustainably.

From 2017-18 we will be implementing the new Greening Government Commitment targets published by the Department for Environment, Food & Rural Affairs (Defra) on 23 January 2017. We will implement all targets with the exception of the greenhouse gas emissions reduction. We will keep this at our current target reduction of 20% rather than 32% for the reasons stated above.

### **Sustainable procurement**

We seek to reduce waste in all its forms through our procurement practices. This includes assessing our contractors' environmental credentials and ensuring that goods supplied come from sustainable sources and unnecessary packaging is kept to a minimum.

We use Crown Commercial Service and Eastern Shires Purchasing Organisation (ESPO) frameworks where there is a suitable framework for procuring goods and services. If there is no suitable framework, we will run a relevant Official Journal of the European Union (OJEU) process, where suppliers' policies on the environment and sustainability are tested against the 2017 sustainable procurement standard BS ISO 20400.

### **Biodiversity**

We have a Biodiversity Management Plan for our small landscaped area at our London office to enhance the local ecology, increase native species within the local area, provide additional green corridors in the city of London and improve the appearance of our surroundings. We regularly review our performance against the plan as part of our environmental targets; we met all targets in 2016-17.

**Sir Amyas C E Morse KCB**  
**Comptroller and Auditor General**

**19 June 2017**

# ACCOUNTABILITY REPORT



# CORPORATE GOVERNANCE REPORT

## 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 managers or Board members held significant company directorships or other interests that 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. It carries out a value-for-money study of the NAO each year, provides assurance over the Statement of NAO's Financial Impact and advises on various matters as required. Full details of remuneration for both audit and non-audit work are disclosed in note 4 of the financial statements.

## Other disclosures

Some disclosures required within the director's report have been included elsewhere in the Annual Report. Incidents related to personal data are reported in the Governance Statement on page 59. Disclosures on employment and training and on how we engage with all of our people are in the section titled 'Delivering high performance', which begins on page 44 of the 'Overview'. Additional information is included in the Remuneration Report on page 76. No important events have affected the NAO since the reporting date, and future developments affecting our business are disclosed in the Performance Report in the section entitled 'Working efficiently', which begins on page 44.

**Sir Amyas C E Morse KCB**  
**Comptroller and Auditor General**

**19 June 2017**

# 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 it has acquired, held, or disposed of during the year and the resources it has used 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.

The directors who held office at the date of approval of this directors' report confirm that, as far as they are each aware, there is no relevant audit information of which the external auditors are unaware. Each director has confirmed that they have 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.

In preparing these resource accounts, the C&AG 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 Accounting Officer confirms that this Annual Report and Accounts as a whole is fair, balanced and understandable. The Accounting Officer takes personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

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.

# GOVERNANCE STATEMENT

As Accounting Officer, and working together with the NAO Board, I have responsibility for maintaining effective governance and a sound system of internal control that supports the achievement of the NAO's policies, aims and objectives, while safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me by the Public Accounts Commission.

## Budget Responsibility and National Audit Act 2011

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

## NAO BOARD AND LEADERSHIP TEAM

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### Key to committee membership

- NAO Board
- Audit Committee
- Remuneration and Nominations Committee
- Leadership Team
- Operational Capability Committee
- Audit Practice and Quality Committee
- Change Management and Assurance Committee

### 1 Lord (Michael) Bichard KCB

#### Chairman of the NAO Board

Michael Bichard has served at senior levels in local government, including as chief executive of both Brent Council and Gloucestershire County Council. 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 Sir Amyas Morse KCB

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

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

### 3 Michael Whitehouse OBE

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

Michael Whitehouse OBE 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. Michael retired in April 2017.

## 4 Janet Eilbeck

### Non-executive member of the NAO Board and chair of the Audit Committee (from October 2016)

Janet Eilbeck was appointed to the NAO Board in October 2016 as a non-executive member. Janet is a chartered accountant with more than 30 years' experience. She was an assurance partner at PricewaterhouseCoopers until 2011, specialising in government and the broader public sector, including wide experience of internal audit. She was also chair of the Internal Audit Standards Advisory Board (IASAB), as well as being the independent financial expert for the Department of Education and Employment. She has been the chair of the NAO's Audit Committee since October 2016. Janet took over from Joanne Shaw.

## 5 Sue Higgins

### Executive Leader (left July 2016)

Sue Higgins joined the NAO in January 2014 as an executive leader. She was 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. Before 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 served as an executive member of the NAO Board during 2015-16. Sue made a significant contribution to the NAO through her work on transitioning Audit Commission people and functions and building our profile with local bodies. She also led the design of our new approach to performance assessment and development. Sue left the NAO in July 2016 to take up the role of Auditor General of the Cayman Islands.

## 6 Dr Sally Howes OBE

### Executive Leader (left August 2016)

Sally Howes OBE joined the NAO in April 2010 as a director and was appointed as an executive leader in April 2013. For more than six years, Sally used her experience of business change and technology to guide the introduction of new approaches to learning, development and knowledge management and championed our communities of practice. Sally served as an executive member of the NAO Board for 2015-16 and has made an important contribution in ensuring that the NAO is recognised as a thought leader in the digital challenges which government faces. Sally left the NAO in August 2016 and has a portfolio of strategic consultancy and non-executive roles in digital and cyber.

## 7 Abdool Kara

### Executive Leader (from February 2017)

Abdool Kara was appointed to the Leadership Team as executive leader with strategic oversight of our work relating to local service delivery.

Abdool brings a significant depth and breadth of experience from senior roles in local government and delivery of local services, as well as from his wider public sector accountability and inspection work. Before joining the NAO, he had been chief executive of Swale Borough Council since 2009.

## 8 Greg Parston

### Non-executive member of the NAO Board (from October 2016 to May 2017)

Greg Parston was appointed to the NAO Board in October 2016 as a non-executive member. Greg is a senior manager and organisation consultant. He has much experience in governance, strategy and change management, skills which are required by the NAO Board. He has extensive experience in public service delivery and policy and has advised leaders in government, the civil service and charitable organisations around the world on how to improve social and economic outcomes.

Greg Parston is currently the senior adviser at the Institute of Global Health Innovation at Imperial College London. He is also chair of Dartington Hall Trust. Greg resigned in May 2017 due to his increasing external and overseas commitments.



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## 9 Joanne Shaw

### **Non-executive member of the NAO Board and chair of the Audit Committee (left September 2016)**

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. She is currently Deputy Chair of Nuffield Health and Chair of the British Equestrian Federation. She was the chair of our Audit Committee until September 2016. Joanne Shaw left the Board at the end of September 2016 to join the Board of NHS England.

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## 10 Ray Shostak CBE

### **Non-executive member of the NAO Board and chair of the Remuneration and Nominations Committee (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.

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## 11 Robert Sykes OBE

### **Non-executive member of the NAO Board (from January 2015)**

Robert Sykes OBE has significant experience of working in local government, and served as chief executive of Worcestershire County Council for 10 years. He also has non-executive experience in the private and public sectors, most recently serving on the board 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.

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## 12 Stephen Smith

### **Executive Leader and member of the NAO Board (Board member from April 2016)**

Stephen Smith joined the NAO in August 2015, as an Executive Leader. Before that, he had more than 20 years' experience as a partner with KPMG, where he led a number of initiatives for the firm nationally and internationally. His experience ranges across a broad spectrum, including audit, mergers and acquisitions, and business advice, as well as a secondment to HM Treasury Accounting Group. Stephen is jointly responsible for leadership of the financial audit work-stream, a portfolio of public sector bodies and more generally the NAO's corporate finance-related work.

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## 13 John Thorpe

### **Executive Leader and member of the NAO Board (Board member from April 2016)**

John Thorpe joined the Leadership Team in January 2014. He has experience across a range of portfolios throughout his NAO career including employment, agriculture and international, as well as the NAO's technical team. As a director he was responsible for our financial audit in HM Treasury and HM Revenue & Customs. John currently shares the responsibility for the leadership of the financial audit work-stream and NAO's international work.

## Structure of governance

Our governance structures have been developed and implemented in accordance with the requirements of the Budget Responsibility and National Audit Act 2011, which sets out Parliament's wishes regarding the governance of the NAO. These structures reflect the need to demonstrate that we practise what we preach through exercising proportionate and independent oversight and controls of our own operations, while preserving my independence as the C&AG with respect to audit judgement.

In October 2016, the Public Accounts Commission appointed Janet Eilbeck and Greg Parston to the NAO Board as non-executive members, to fill the vacancies arising from Naaz Coker's death and the resignation of Joanne Shaw. Janet and Greg's appointments took effect from 20 October 2016.

As well as joining the Board, on her appointment, Janet Eilbeck replaced Joanne Shaw as chair of the NAO Audit Committee. Details of the role of the Audit Committee can be found on page 68.

The Board is served by two committees, as shown below.

### 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 and advise the C&AG in the exercise of his functions.

#### Leadership Team

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

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

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

#### Remuneration and Nominations Committee

The Committee is responsible for:

- determining the framework for the remuneration of the 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.

#### Change Management and Assurance Committee

The Committee works to oversee the corporate change portfolio and provide advice and assurance to the Leadership Team on the portfolio and, where appropriate, individual projects.

## The Public Accounts Commission

The NAO is accountable to Parliament via the Public Accounts Commission. Both the National Audit Act 1983 and the Budget Responsibility and National Audit Act 2011 define the role of the Public Accounts Commission. In addition to appointing the non-executive members of the Board, the Commission's principal duties are to examine the NAO Estimate and lay it before the House of Commons, to consider the NAO's strategy and to appoint the external auditor of the NAO.

The Commission met twice during 2016-17. The first time, in December 2016, was to consider the NAO's strategy for the next three years. The second, in March 2017, was to approve its resource Estimate for the 2017-18 financial year. The Commission had a separate session in October 2016 to consider and approve the appointments of Janet Eilbeck and Greg Parston as non-executive members to the NAO Board.

## The NAO Board

The NAO Board's role is to provide effective support and challenge in improving the NAO's operations, providing additional rigour and discipline in decision-making and bringing 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's strategy and resource Estimate, and for the appointment of executive members of the Board.

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 in recommending 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 chair of the Board and my role as C&AG; the chair 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 undertakes periodic voluntary reviews of its governance against the Code of Good Practice for Governance in Central Government (the Code), published by HM Treasury in July 2011. Through its work during the year and informed by its review and approval of this Governance Statement, 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. Where the NAO's statutory requirements and the Code differ, the NAO will always seek to comply with statute, which reflects the wishes of Parliament. For example, Schedule 2 of the Budget Responsibility and National Audit Act 2011 sets out the membership requirements of the NAO Board, which differs from those set out in the Code for government departments.

The Board held seven formal meetings during 2016-17 to discharge its responsibilities. In addition, it held two strategy discussions, which focused on the NAO's strategic framework for the strategy submission to the Public Accounts Commission, which took place in December.

## The NAO Board's performance

In 2016-17, the Board focused its work on its core areas of responsibility:

- discharge of formal responsibilities for the NAO's governance;
- oversight of the management and use of the NAO's resources, through scrutiny and approval of the NAO's resource estimate, consideration of the NAO's work programme and monitoring of progress during the year; and
- providing support and advice – the Board addressed a range of specific issues in 2016-17, focusing on the recent changes in Parliament following the UK's decision to leave the EU and considering the NAO's international strategy following its second tenure on the United Nations Board of Audit, which came to an end in July.

To help the Board fulfil its duties, it is supported by two committees:

- The Audit Committee provides oversight of the NAO's internal controls, risk management processes and governance arrangements, as well as the quality and reliability of its financial reporting. It is responsible for considering the external auditor's annual value-for-money report on the NAO.
- The Remuneration and Nominations Committee determines the framework for the remuneration of the three executive members of the Board (this does not include the remuneration of the C&AG, which is determined by the Prime Minister and chair of the Committee of Public Accounts). The Committee oversees any major changes in NAO employee benefits, and advises the chair and the C&AG on issues of succession planning for the Leadership Team and Board.

The NAO Board undertakes a review of its performance each year. During 2016-17, it carried out an external evaluation and review. The focus of this review was on the infrastructure and individual behaviours of the Board. The evaluation concluded at the Board's meeting in September 2016. The Board undertook a separate discussion at its meeting in January 2017 to discuss its compliance with its terms of reference.

During the year, the Board held, in a less formal setting, two strategy days. This year, the focus was on the NAO's strategic framework. The Board discussed future scenarios for the way public services are delivered with The Future Group (a group that prepares NAO colleagues for senior positions).

The non-executive members and chair have continued their engagement with NAO people throughout the year. The chair has established a programme of routine surgery sessions, encouraging members of staff to raise issues of relevance or concern to them and individual non-executive members have engaged with NAO teams on issues such as our international work and understanding the value-for-money audit process. During 2016-17, the Board as a whole continued its practice of holding a meeting in the NAO's Newcastle office, and took the opportunity to meet with a number of Newcastle-based colleagues. The non-executive members also held a session at the NAO's learning and development week this year.

The NAO maintains a register of interests to ensure that any potential or actual conflicts of interest are identified and addressed in advance of the Board's discussions. Where conflicts exist, they are recorded in the Board minutes, along with any appropriate action taken to address them. During 2016-17, no issues relating to conflicts of interest arose that impacted on the Board's ability to conduct its work effectively.

## Attendance at Board and Committee meetings in 2016-17

Members	Board meetings (7 in year)	Audit Committee (4 in year)	Remuneration and Nominations Committee (3 in year)
Michael Bichard (Chair)	7	–	–
Amyas Morse (C&AG)	7	–	3
Janet Eilbeck	4	2 <sup>1</sup>	–
Greg Parston	2	–	0
Joanne Shaw	3	2 <sup>2</sup>	–
Ray Shostak	7	–	3
Robert Sykes	7	4	3
Michael Whitehouse	7	4	–
John Thorpe	7 <sup>3</sup>	–	–
Stephen Smith	7 <sup>3</sup>	–	–
Martin Smith (with effect from November 2015)	–	4	–

### Notes

- 1 Took up post mid-year and chaired the two remaining Audit Committee meetings.
- 2 Resigned from the Board mid-year after chairing the first Audit Committee meetings.
- 3 Stood down at a Board meeting for the Board to remain quorate.

## The Audit Committee

The Committee met four times in 2016-17. The first two meetings were chaired by the former chair, Joanne Shaw; Janet Eilbeck chaired the subsequent two meetings. During the course of the reporting year, the Committee has paid particular attention to the control environment, risk management process and governance arrangements underpinning the implementation of the Business Improvement Programme (BIP). At its meeting in May 2017 the Committee noted the director of Internal Audit's positive assurance opinion on the review of BIP benefits realisation.

The Public Accounts Commission appoints the NAO's external auditor. In December, it agreed to extend the appointment to 31 March 2019. In March, the Board approved the Audit Committee's recommendation to extend the appointment of Martin Smith, external independent member, by a further year to 31 May 2018. Janet was invited to join the network of the chairs of central government Audit Committees, and attended her first meeting of the network in March 2017.

Each year, the NAO's external auditor undertakes an annual value-for-money review of a specific aspect of the NAO's business. In 2016-17, this review addressed the NAO's workforce deployment and utilisation. The review concluded that it is clear that the NAO has been on a transformation journey over a number of years. The NAO has focused on aligning its work with the way private sector accounting firms operate, in terms of methodologies and approaches and the systems and processes that support them. However, there are limits to how far the NAO could and should align itself with these methods and approaches. Most of the NAO's work is not fee-based, so the commercial drivers of a professional accounting firm do not always apply. The BIP is the next significant step in the NAO's transformation and will provide the platform on which the NAO will operate in future.

The report was submitted to the Public Accounts Commission in December 2016 and can be found on the Commission's website: [www.parliament.uk/documents/public-accounts-commission/HC875-External-Auditors-VFM-Report-Workforce-Deployment.pdf](http://www.parliament.uk/documents/public-accounts-commission/HC875-External-Auditors-VFM-Report-Workforce-Deployment.pdf)

On the Committee's advice, the Board agreed in January that the topic for the annual external review on the NAO in 2017 should be management of the delivery of benefits from the NAO's IT-enabled change programme. The NAO's external auditor will carry out the review and submit it to the Public Accounts Commission in the autumn.

## The Remuneration and Nominations Committee

In 2016-17, the Remuneration and Nominations Committee held three meetings, instead of its regular two. The first two meetings focused on the remuneration of the executive members of the Board (not including the remuneration of the C&AG, which is outside its remit), and the objectives for the Leadership Team in 2016-17. The third meeting focused on drafting and clarifying the remuneration and nomination policies, which were given formal approval at the Board meeting in January.

## 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's objectives. The Leadership Team holds our audit teams to account for achieving agreed objectives, as well as overseeing the management of the NAO's financial resources and people. It supports me by overseeing the agreed programme of audit work.

Throughout 2016-17, the Leadership Team was supported by three 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 the year, APQ oversaw a review of the NAO's standards for its value-for-money audit work. The Change Management Assurance Committee provides a single point of oversight for all change projects within the organisation, led by the director for engagement and change. Each year, we publish information on the results of quality assurance work in our Transparency Report.<sup>6</sup>

<sup>6</sup> National Audit Office, *Transparency Report*, December 2016, available at: [www.nao.org.uk/about-us/wp-content/uploads/sites/12/2013/02/11284-001-Transparency-report-2016\\_TDP.pdf](http://www.nao.org.uk/about-us/wp-content/uploads/sites/12/2013/02/11284-001-Transparency-report-2016_TDP.pdf)

By the end of 2016-17, we completed the recruitment process for new members of the Leadership Team to replace Sally Howes and Sue Higgins. The new executive leaders are Daniel Lambauer, Kate Mathers, Max Tse and Rebecca Sheeran, all internal candidates who took up post at the beginning of 2017-18, and Abdool Kara, who has 25 years' experience in the local government sector and took up post in February 2016-17. We had a strong field of candidates and we thank all people who applied. I am not surprised many of our internal candidates were successful. The quality of our staff is extremely high. I have been very pleased with the progress the NAO has made in recent years to achieving our strategic objectives and the new Leadership Team arrangements should allow the NAO to build on the positive developments in our ways of working that have helped us to perform.

By having more members of the Leadership Team, executive leaders will now have greater capacity to be directly involved with assignments where appropriate. We have had great feedback on our work when we have done this. Direct involvement in service delivery not only brings the Leadership Team closer to the realities of the NAO, but also increases the opportunity to deliver direct value to our clients through deepening our relationships with the bodies we audit.

## Risk management and control

Our internal controls accord with HM Treasury's guidance and with professional best practice. They have been in place for the whole of 2016-17. 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 an appropriate, proportionate balance between control, cost and risk-taking. Our tolerance for individual risks is informed by their potential impact on the NAO's ability to fulfil its function as independent auditor.

We manage risks in a structured manner. During 2016-17, areas of strategic risk were reviewed and reported on monthly and included as a standing item on the Board's meeting agenda. Each risk is owned by a member of the Leadership Team. During the financial year, the Board and Leadership Team have discussed specific areas of risk. We have agreed a new format for our strategic risk register to further inform these discussions. This has helped to ensure that there is an appropriate framework of controls and mitigating actions to manage identified and potential exposure to risk.

Risk area	Appetite	Key actions and issues in year
<b>NAO franchise/reputation</b>  The risk that the NAO is seen to not practise what it preaches in relation to its own operations or the behaviour of its staff. The NAO's franchise could also be threatened, should stakeholders not regard the NAO's work as independent or authoritative.	Averse	<p>We have obtained Parliament's approval for our strategy and budget and continued to make efficiencies and reduce central costs in a way that is consistent with the resource challenges faced by our client bodies.</p> <p>We have maintained our focus on priority outputs that are most likely to be of interest to Parliament. We continue to move forward with our financial audit and value-for-money audit development plans. These are driving improvements in audit quality. They include a training programme to upskill staff in digital capability.</p> <p>The NAO has an integrated approach to managing stakeholders, with strategies in place for managing our relationships with Parliament, and central and local government. We have taken on significant new audit responsibilities during the year, for example in respect of the Bank of England and the BBC. These developments are indicative of the confidence that stakeholders have in the quality and integrity of the NAO's work.</p>
<b>Operational</b>  The risk that the NAO's operations are not robust and resilient, leading to a failure to deliver our statutory work programme and commitments to Parliament.	Moderate	<p>We have successfully managed the transitional stage of our Business Improvement Programme. This has seen the introduction of a new enterprise management system, which is facilitating more data-driven oversight and decision-making in the business. Collaboration and engagement with our staff has played a part in this successful project and we are working to further embed such behaviours, championed through the 'Way We Work' training programme, which has been rolled out across NAO teams.</p> <p>We have comprehensive disaster recovery plans in place and we have reviewed and tested these during the year. We have a robust Information Security Management System (ISMS) in place. In March 2017, external experts confirmed the alignment of the NAO's security policies and procedures with the International Standard for Information Security Management (ISO27001). We are accredited to be part of the Public Services Network (PSN).</p>
<b>Finance</b>  The risk that the NAO does not use its resources economically, efficiently or effectively or incurs an excess vote.	Averse	<p>In October 2016, we moved to a new finance system as part of the Business Improvement Programme. The transition went smoothly and there were no significant issues raised following review by the NAO's internal and external auditors.</p> <p>We adjusted our budget for 2016-17 in response to significant new audit responsibilities for the Bank of England and the BBC. This involved a supplementary estimate and the necessary scrutiny and approval by the Public Accounts Commission.</p>
<b>Major projects</b>  The risk that the NAO does not manage strategically important projects well such that they fail to deliver the intended business benefits.	Open	<p>The Change Management Committee established in 2015-16 continued to provide oversight of proposed and ongoing change projects across the business. As noted above, the most significant project during the year was the Business Improvement Programme. This has proceeded to time and budget and the anticipated benefits are beginning to flow through in line with expectations.</p> <p>We are in the process of moving our payroll from in-house provision to an external supplier. A Payroll Board chaired by the chief operating officer has overseen this important project. Parallel running of the old and new systems has been performed successfully.</p>
<b>Impact of government policy</b>  The risk that the NAO does not reflect major developments in its external environment when planning/performing its work such that we are unresponsive to associated risks and opportunities.	N/A	<p>We are working through the expected impact on the NAO of major developments during the year. The continued devolution of powers to the Scottish and Welsh legislatures will require government to establish revised accountability arrangements for certain bodies. This will impact on audit and reporting arrangements. We are engaged with the executive and our counterparts in Scotland and Wales to agree future arrangements and assess the implications for the NAO.</p> <p>We anticipate that Brexit will have a significant impact on our future work programme as government policy becomes clearer and decisions are taken. Continuing to build a detailed understanding of the implications of Brexit and how the NAO can maximise its influence and impact will be a priority for us in the year ahead. We recognise that a flexible, responsive approach will be needed to address a fluid environment where priorities and needs are likely to develop at pace.</p>

#### Note

1 Risk appetites have the following definitions:

- Averse:** avoidance of risk and uncertainty is a key organisational objective.
- Cautious:** preference for safe delivery options with a low degree of inherent risk.
- Moderate:** willing to consider different potential delivery options and choose the one that is most likely to achieve a successful outcome while providing acceptable benefits to the business.
- Open:** open to innovative approaches that bring both higher risk and greater potential benefits to the business.

During 2016-17, the NAO has operated a 'three lines of defence' model of risk management:

- Line 1: Business operations – Integrated Programme Office, clusters and planning groups – the arrangements within these areas can be used to gain assurance on how objectives are being met and resources and risks managed;
- Line 2: Corporate oversight – Leadership Team and Board (and their committees); and
- 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.

As the NAO is a supplier of audit services employing a large number of qualified accountants, its staff are bound by the ethical requirements of their professional bodies. The NAO conforms to the 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 about 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 maintains technical quality in its work, and audited bodies value the skills and professionalism of its teams. 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 highly the NAO's understanding of the issues and key risks that they face, but there is further scope to improve how we draw out systemic 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 benefits outside core financial audit and value-for-money work; further integrate financial audit with clients' business risk and the provision of a wider range of assurance products to enhance impact and influence; and focus more at the planning stage on the desired outcomes from our work.

The Audit Quality Review Team of the Financial Reporting Council undertakes an annual external review of the NAO's financial audit. Its latest review covered six audits from the 2015-16 financial audit cycle. The Audit Quality Review Team highlighted areas where improvements have been made and areas for further improvement. We are taking action against the recommendations.

Our value-for-money work is also independently reviewed by Oxford Business Schools, Risk Solutions and Rand Europe. The reviews completed during the year examined 11 reports. The reviews considered the scope of the study, qualitative analysis, structure and presentation, graphs and statistics, methods used, synthesis of value-for-money conclusions, recommendations, systematic issues and overall perception.

Overall, the reviewers assessed reports as well structured and well written, with high ratings for how the team set the scope, objectives and evaluative criteria, brought analysis and conclusions together, used graphics to present data, and made recommendations. Reviewers noted some cases where we could have provided more details about our methodology and dealt more fully with systemic issues raised by our reports.

The outcomes of these reviews are reported to the Board annually. The most recent report to the Board was in November 2016.

## Whistleblowing

In accordance with our values, we are committed to the highest standards of openness, probity and accountability. A vital part of accountability and openness is having a way for our people, including contractors, trainees and agency staff, to voice any concerns responsibly and effectively. The NAO has a clear policy and processes, promulgated to all staff, to raise issues both internally and externally.

It is in every employee's contract that they will not disclose confidential information about our work. Staff are also covered by the terms of the Official Secrets Acts 1911 and 1989. Nevertheless, someone may discover information that they believe shows serious malpractice within the NAO. In this case, there are clear processes for staff to disclose this information internally without fear of reprisal. We have separate arrangements to do this independently of management.

In line with best practice, we consider it is important that staff have the opportunity to raise issues with independent third parties, as prescribed under the Public Interest Disclosure Act 1998. Our policy and framework set out to staff how they can do this should they genuinely believe that the management of the NAO is engaged in an improper activity or where they remain dissatisfied with the outcome of any investigation conducted by the NAO into concerns raised internally.

There have been no internal whistleblowing activities brought to the attention of NAO management in the period covered by this Annual Report.

## 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 and other sensitive information entrusted to it is safeguarded.

During 2016-17, we continued to develop our ISMS to address the changing landscape. In addition to safeguarding the data and information we currently handle, we have to monitor emerging and future threats. The number and sophistication of cyber threats affecting the public and private sectors continue to increase every year. A key change in 2016-17, which potentially increased the risk of the data and information we handle being compromised during transmission, was the announcement by a number of our audit clients that they had moved away from, or were planning to move away from, the Public Services Network (PSN) to cloud-based solutions. To address this risk, we set up other solutions to ensure the secure transmission of data and information with those audit clients who had moved away from the PSN.

The NAO's ISMS provides a systematic approach to managing data and information so that it remains secure. The ISMS coverage includes people, processes and IT systems and applies a risk management process. This systematic approach reduces the risk of an information security incident occurring.

The NAO draws comfort from external challenges to our approach through external assessment and accreditation. We have successfully maintained our PSN accreditation for the period and continue to be assessed as aligned to the Information Security Management (ISO27001) standard. An external assessor concluded that:

"The NAO has an effective Information Security Management System that is known about and operated throughout the organisation. It is well managed and maintained by NAO staff... It is the opinion of the reviewer that the ISMS is documented and operated in a manner that is compliant with the requirements of the ISO27001 standard."

## Personal data-related incidents

There were no protected personal-data-related incidents reportable to the Information Commissioner's Office in 2016-17. Neither were there centrally recorded protected personal-data-related incidents not formally reported to the Information Commissioner's Office in 2016-17. Unlike government departments, the NAO is not required to report significant incidents relating to personal data to the Cabinet Office. If it were required to do so, there would be no incidents to report.

## Review of effectiveness

As accounting officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the work of the Director of Internal Audit and Assurance (DIAA), the executive leaders within the NAO who have responsibility for developing and maintaining the internal control framework, comments made by external auditors in their management letter and other reports.

The DIAA 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 and annual operational plan;
- updating our three lines of defence model, which is aligned to our corporate risk register to provide a ‘birds-eye view’ of the assurance framework reviewed by both my Leadership Team and the Audit Committee;
- designing and applying a risk-based methodology, which he has self-assessed as conforming to the Public Sector Internal Audit Standards;
- delivery of 30 individual assurance assignments and advisory reports during the year and, where appropriate, agreeing an action plan with system owners to secure improvements; and
- monitoring the implementation of his recommendations throughout the year and assessing the progress as good.

The DIAA has assured me that the resources made available to him have been sufficient to complete his operational plan and the safeguards in place have maintained 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 four times during the financial year.

## Significant internal control weaknesses

I am able to report that there were no significant weaknesses in the NAO’s system of internal controls in 2016-17 that affected the achievement of the NAO’s key policies, aims and objectives.

**Sir Amyas C E Morse KCB**  
Comptroller and Auditor General

**19 June 2017**

# REMUNERATION AND STAFF REPORT

## Remuneration policy for senior management

### **Comptroller and Auditor General and NAO chair**

The remuneration of the Comptroller and Auditor General (C&AG) and of the NAO chair is determined jointly by the Prime Minister and the chair of the Committee of Responsibility and National Audit Act 2011, their remuneration is charged on, and paid out of, the Consolidated Fund.

### **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 leadership team**

The NAO Remuneration and Nominations Committee determines and agrees the remuneration of its executive leaders. Executive leaders can serve on the Board. They are appointed by the non-executive members for a renewable period of 12 months, on the recommendation of the C&AG. During 2016-17, Michael Whitehouse, Stephen Smith and John Thorpe were members of the Board.

The following table provides details of the remuneration and pension of the NAO Board and executive Leadership Team. The information on pages 77 to 78 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) <sup>1</sup>		Total remuneration	
	£000						£000	
Name	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16
Lord Michael Bichard (from 10 January 2015)	40–45	40–45	–	–	–	–	40–45	40–45
Naaz Coker (up to 29 September 2015)	–	10–15 (full-year equivalent: 20–25)	–	–	–	–	–	10–15 (full-year equivalent: 20–25)
Joanne Shaw (up to 30 September 2016)	10–15 (full-year equivalent: 20–25)	20–25	–	100	–	–	10–15 (full-year equivalent: 20–25)	20–25
Ray Shostak	20–25	20–25	600	700	–	–	20–25	20–25
Robert Sykes	20–25	20–25	1,200	1,300	–	–	20–25	20–25
Janet Eilbeck (from 20 October 2016)	5–10 (full-year equivalent: 20–25)	–	300	–	–	–	5–10 (full-year equivalent: 20–25)	–
Greg Parston (from 20 October 2016)	5–10 (full-year equivalent: 20–25)	–	100	–	–	–	5–10 (full-year equivalent: 20–25)	–

### Note

- 1 The value of pension benefits accrued during the year is calculated as the real increase in pension multiplied by 20, plus the real increase in any lump sum, less contributions made by the individual, the real increase 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) <sup>1</sup>		Total remuneration	
	£000						£000	
Name	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16
Amyas Morse, Comptroller and Auditor General	215–220	215–220	–	–	–	–	215–220	215–220
Michael Whitehouse, Chief Operating Officer	175–180	170–175	400	400	41,000	83,000	215–220	255–260
John Thorpe	145–150	140–145	300	300	42,000	76,000	190–195	220–225
Stephen Smith (from 1 August 2015) <sup>2,3</sup>	160–165	100–105 (full-year equivalent: 160–165)	300	300	–	–	160–165	100–105
Abdool Kara (from 27 February 2017) <sup>3</sup>	10–15 (full-year equivalent: 160–165)	–	300	–	–	–	10–15	–
Sally Howes (up to 3 August 2016)	55–60 (full-year equivalent: 165–170)	160–165	–	300	22,000	63,000	75–80	225–230
Sue Higgins (up to 7 July 2016)	40–45 (full-year equivalent: 160–165)	155–160	–	300	25,000	97,000	65–70	255–260
Martin Sinclair (up to 31 August 2015)	–	60–65 (full-year equivalent: 150–155)	–	–	–	40,000	–	100–105
Gabrielle Cohen (up to 26 April 2015)	–	5–10 (full-time equivalent: 150–155)	–	–	–	4,000	–	10–15

**Notes**

- 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.
- 2 Estimated pension benefits are impacted by the inflation assumptions which are used in the calculation. The inflation assumption has changed from 0% to 1% year-on-year, which affects the value of reported benefit.
- 3 Stephen Smith and Abdool Kara do not participate in the NAO pension scheme.

## 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 in the benefits column in the table on page 78. The benefits in kind disclosed for non-executive members of the Board on page 77 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.

## Pension arrangements (including audited cash equivalent transfer value figures)

### 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.

### Executive leadership team

Executive leaders are covered by the provisions of the Principal Civil Service Pension Scheme. Details of the scheme can be found at: [www.civilservicepensionscheme.org.uk](http://www.civilservicepensionscheme.org.uk)

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

Name	Accrued pension at pension age as at 31 March 2017 and related lump sum £000	Real increase in pension and related lump sum at pension age £000	CETV at 31 March 2017 <sup>1</sup> £000	CETV at 31 March 2016 £000	Real increase in CETV <sup>2</sup> £000	Employer contribution to partnership pension account £000
Michael Whitehouse	80–85 plus lump sum of 245–250	0–2.5 plus lump sum of 5–7.5	1,922	1,798	41	–
John Thorpe	70–75 plus lump sum of 105–110	2.5–5 plus lump sum of 0–2.5	1,481	1,378	40	–
Sally Howes (up to 3 August 2016)	20–25	0–2.5	335	320	12	–
Sue Higgins (up to 7 July 2016)	95–100	0–2.5	1,254	1,236	13	–
Stephen Smith (from 1 August 2015) <sup>3</sup>	–	–	–	–	–	–
Abdool Kara (from 27 February 2017) <sup>3</sup>	–	–	–	–	–	–

#### Notes

- 1 The factors used to calculate the cash equivalent transfer value (CETV) were reviewed by the scheme actuary in 2015, so the tables of factors used to calculate the CETV in 2015 are not the same as those used to calculate the CETV in 2016.
- 2 The real increase in CETV is the increase in the value of the pension arising from an extra year of service and excludes the effect of other factors, for example inflation or additional voluntary contributions made by an employee.
- 3 Stephen Smith and Abdool Kara do not participate in the NAO pension scheme.

## CETV

A 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 Scheme (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction in benefits resulting from Lifetime Allowance Tax that 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.

### Compensation for loss of office (audited)

No compensation for loss of office was agreed for any executive leader in 2016-17 (2015-16: no compensation for loss of office was agreed).

### Fair pay disclosure (audited)

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the median remuneration of the organisation's workforce.

The C&AG was the highest-paid individual in the NAO in 2016-17. His salary was in the range of £215,000 to £220,000 (2015-16: £215,000 to £220,000). This was 4.22 times (2015-16: 4.5 times) the median NAO staff salary paid, which was £51,484 (2015-16: £48,008).

In 2016-17, remuneration ranged from £18,122 to £215,000–£220,000 (2015-16: £14,800, for a part-time working arrangement, to £215,000 – £220,000).

Total remuneration includes salary, non-consolidated performance-related pay and benefits in kind. It does not include severance payments, employer pension contributions and the CETV of pensions.

## Staff numbers and related costs (audited)

### Average number of persons employed

	2016-17	2015-16	2014-15
Full-time equivalent permanent staff	803	796	779
Inward secondees	3	5	3
Temporary staff	5	9	9
<b>Total</b>	<b>811</b>	<b>810</b>	<b>791</b>

### Staff costs comprise

	2016-17			2015-16		
	Total £000	Permanent staff £000	Temporary staff £000	Total £000	Permanent staff £000	Temporary staff £000
Wages and salaries	43,631	43,186	445	44,066	43,030	1,036
Social security costs	4,842	4,842	–	3,902	3,902	–
Pension costs	9,065	9,065	–	9,088	9,088	–
<b>Gross costs</b>	<b>57,538</b>	<b>57,093</b>	<b>445</b>	<b>57,056</b>	<b>56,020</b>	<b>1,036</b>
Secondment income	(568)	(568)	–	(613)	(613)	–
<b>Net costs</b>	<b>56,970</b>	<b>56,525</b>	<b>445</b>	<b>56,443</b>	<b>55,407</b>	<b>1,036</b>

## Staff composition as at 31 March 2017

Prior year comparative figures (in brackets). Based on number of NAO people in post as opposed to full-time equivalents.

	<b>Male</b>	<b>Female</b>
Directors and above	73% (74%)	27% (26%)
Below director	54% (54%)	46% (46%)
All staff	55% (55%)	45% (45%)

## Off-payroll engagements

There were no off-payroll engagements in 2016-17 (2015-16: nil).

## Expenditure on consultancy

The NAO spent £0.8 million on consultancy in 2016-17 (2015-16: £0.8 million) to obtain objective advice relating to strategy, structure, management or operations. Use of consultancy is closely aligned to IT and project management expertise to help the NAO transform how it does business and to put in place new systems and processes that result in sustainable operating cost reductions. The NAO also uses specialist legal advice on specific matters of policy or commerce where it is not economical to maintain this expertise in-house.

## NAO staff remuneration policy

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 that apply to 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.

Levels of remuneration are set at an applicable level to recruit, retain and motivate suitably able, qualified and high-calibre people within the budget available to the NAO.

## NAO staff pension arrangements

Pension benefits are provided through the civil service pension arrangements. From 1 April 2015, a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme, or alpha – which provides benefits on a career average basis, with a normal pension age equal to the member's state pension age (or 65 if higher). From that date, all newly appointed civil servants and most of those already in service joined alpha. Before that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections: three providing benefits on a final salary basis (classic, premium or classic plus) with a normal pension age of 60; and one providing benefits on a whole-career basis (nuvos) with a normal pension age of 65.

These statutory arrangements are unfunded, with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus, nuvos and alpha are increased annually in line with pensions increase legislation. Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and five months from their normal pension age on 1 April 2012 will switch into alpha sometime between 1 June 2015 and 1 February 2022. All members who switch to alpha have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave alpha. The pension figures quoted for officials show pension earned in PCSPS or alpha, as appropriate. Where the official has benefits in both the PCSPS and alpha, the figure quoted is the combined value of their benefits in the two schemes. Members joining from October 2002 could opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are salary-related and range between 3% and 8.05% of pensionable earnings for members of classic (and members of alpha who were members of classic immediately before joining alpha) and between 4.6% and 8.05% for members of premium, classic plus, nuvos and all other members of alpha. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid, with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos, a member builds up a pension based on their pensionable earnings during the period when they were a member of the scheme. At the end of the scheme year (31 March), the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with pensions increase legislation. Benefits in alpha build up in a similar way to nuvos, except that the accrual rate is 2.32%. In all cases, members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% up to 30 September 2015 and 8% and 14.75% from 1 October 2015 (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary up to 30 September 2015 and 0.5% of pensionable salary from 1 October 2015 to cover the cost of centrally provided risk benefit cover (death in service and ill-health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus; 65 for members of nuvos; and the higher of 65 or state pension age for members of alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha, as appropriate. Where the official has benefits in both the PCSPS and alpha, the figure quoted is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages.)

Further details about the civil service pension arrangements can be found at the website: [www.civilservicepensionscheme.org.uk](http://www.civilservicepensionscheme.org.uk)

## Reporting of civil service and other compensation schemes – exit packages (audited)

We offer compensation when staff agree to leave the organisation in circumstances where the departure provides an opportunity to refresh our skills base and contributes to a sustained reduction in our costs. Details of the packages offered during the year and the previous year are shown in the table below.

Redundancy and other departure costs were accounted for within the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. All departures agreed after June 2015 have been limited to the Cabinet Office's cap of £95,000. 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.

### Compensation packages offered during 2016-17

Comparative figures (in brackets)

Exit package cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
	2016-17 (2015-16)	2016-17 (2015-16)	2016-17 (2015-16)
<£10,000	– (–)	– (1)	– (1)
£10,001–£25,000	– (–)	1 (2)	1 (2)
£25,001–£50,000	1 (–)	6 (1)	7 (1)
£50,001–£100,000	– (–)	3 (8)	3 (8)
£100,001–£150,000	– (–)	– (1)	– (1)
£150,001–£200,000	– (–)	– (1)	– (1)
£200,001–£250,000	– (–)	– (–)	– (–)
>£250,000	– (–)	– (–)	– (–)
<b>Total number of exit packages by type</b>	<b>1 (–)</b>	<b>10 (14)</b>	<b>11 (14)</b>
<b>Total cost (£000)</b>			<b>451 (1,089)</b>

## Our policy on equality and disability

Our diversity and inclusion strategy states that our ultimate aim is to have a workforce that reflects the diversity of the wider population that we serve. One pillar of that strategy focuses on our talent pipeline and, as part of this, we guarantee to interview all disabled applicants who meet the minimum criteria of the advertised vacancy grade.

In such cases, we have a duty to make reasonable adjustments to help overcome disadvantage resulting from disability and to facilitate recruitment and selection by, for example, making adjustments to the arrangements for interviews and selection tests.

We aim to support people who become disabled during their employment to remain in work and achieve their potential. To that end, we will seek specialist advice on adjustments that would enable the person concerned to continue in their current post via our occupational health advisers or other specialist organisations such as Lexxic (specialists in dyslexia and dyspraxia). We then agree a package of reasonable adjustments for the person, in discussion with their line manager, and review these reasonable adjustments on a regular basis as the person's needs or their role change.

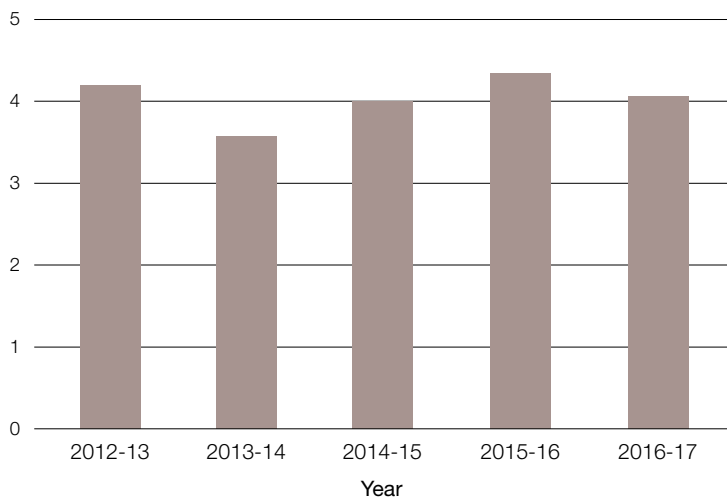
To ensure that all employees have access to learning and development opportunities, reasonable adjustments will include any specific requirements to allow the employee to access suitable learning and development opportunities. When promotion opportunities arise, employees with a disability are encouraged to apply and to discuss any adjustments they would require to the selection arrangements to remove any disadvantage resulting from their disability.

## Sickness absence

We are committed to the physical and mental health of our staff 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. We have achieved levels below the target of five days per person for the past five years.

### Average working days lost to sickness absence 2012-13 to 2016-17

Average working days lost (days)



**Sir Amyas C E Morse KCB**  
Comptroller and Auditor General

19 June 2017

# PARLIAMENTARY ACCOUNTABILITY AND AUDIT REPORT

## Statement of Parliamentary Supply (SoPS)

The information on pages 89 to 92 has been subject to audit.

### Summary of resource and capital outturn 2016-17

		2016-17 Estimate			2016-17 Outturn			2016-17 Voted outturn compared with Estimate: saving or (excess)	2015-16 Outturn
	SoPS note	Voted £000	Non- voted £000	Total £000	Voted £000	Non- voted £000	Total £000	£000	Net Total £000
Resource	1.1	64,500	300	64,800	63,931	291	64,222	569	64,198
Capital	1.2	1,000	–	1,000	926	–	926	74	1,144
Total budget		65,500	300	65,800	64,857	291	65,148	643	65,342
Non-budget		–	–	–	–	–	–	–	–
<b>Total resources</b>		<b>65,500</b>	<b>300</b>	<b>65,800</b>	<b>64,857</b>	<b>291</b>	<b>65,148</b>	<b>643</b>	<b>65,342</b>

### Net cash requirement 2016-17

	SoPS note	2016-17 Estimate £000	2016-17 Outturn £000	2016-17 Net total outturn compared with Estimate: saving or (excess) £000	2015-16 Outturn £000
Total net cash requirement	2	63,570	62,159	1,411	63,103

### Administration costs 2016-17

	2016-17 Estimate £000	2016-17 Outturn £000	2016-17 Net total outturn compared with Estimate: saving or (excess) £000	2015-16 Voted Outturn £000
Total administration costs	64,500	63,931	569	63,909

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

All of our resources are deemed equivalent to resource DEL or capital DEL (Departmental Expenditure Limit).

Explanations of variances between Estimate and outturn are provided in the Performance Report on pages 6 to 51.

The notes on pages 101 to 118 form part of these accounts.

## Notes to the Statement of Parliamentary Supply

### SoPS1 Net outturn

#### SoPS1.1 Analysis of net resource outturn

		Gross	Income	2016-17 Outturn Net	Net	2016-17 Estimate Net total compared with Estimate: saving or (excess) £000	2015-16 Outturn Net total
		£000	£000	£000	£000	£000	£000
<b>Section</b>	<b>Voted</b>						
A	Provision of audit and other assurance services	83,078	(19,147)	63,931	64,500	569	63,909
	<b>Total voted</b>	<b>83,078</b>	<b>(19,147)</b>	<b>63,931</b>	<b>64,500</b>	<b>569</b>	<b>63,909</b>
	<b>Non-voted</b>						
B	Chair and the Comptroller and Auditor General costs	291	–	291	300	9	289
	<b>Resource outturn</b>	<b>83,369</b>	<b>(19,147)</b>	<b>64,222</b>	<b>64,800</b>	<b>578</b>	<b>64,198</b>

Explanations of variances between Estimate and outturn are provided in the Performance report on pages 6 to 51.

#### SoPS1.2 Analysis of net capital outturn

		Gross	Income	2016-17 Outturn Net	Net	2016-17 Estimate Net total compared with Estimate: saving or (excess) £000	2015-16 Outturn Net total
		£000	£000	£000	£000	£000	£000
<b>Section</b>	<b>Voted</b>						
A	Provision of audit and other assurance services	926	–	926	1,000	74	1,144
	<b>Capital outturn</b>	<b>926</b>	<b>–</b>	<b>926</b>	<b>1,000</b>	<b>74</b>	<b>1,144</b>

# SoPS2 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
<b>Resource outturn</b>	<b>SoPS 1.1</b>	<b>64,800</b>	<b>64,222</b>	<b>578</b>
<b>Capital outturn</b>	<b>SoPS 1.2</b>	<b>1,000</b>	<b>926</b>	<b>74</b>
<b>Accruals to cash adjustments:</b>				
<i>Adjustments to remove non-cash items:</i>				
Depreciation		(2,950)	(2,894)	(56)
Change in provisions		(9)	(12)	3
Loss on disposal of assets		–	–	–
Impairment of non-current assets		–	–	–
<i>Adjustments to reflect movements in working balances:</i>				
Increase/(decrease) in receivables		(221)	(894)	673
Increase/(decrease) in payables		913	752	161
Use of provisions		337	350	(13)
<b>Removal of non-voted budget items:</b>				
Consolidated Fund Standing Services		(300)	(291)	(9)
<b>Net cash requirement</b>		<b>63,570</b>	<b>62,159</b>	<b>1,411</b>

## Parliamentary Accountability Disclosures

### Special payments

There were no losses or special payments that require disclosure because of their size or nature in 2016-17.

### Fees and charges

We charge fees for our audit work and other services where it is permitted to do so under legislation. Fees are based on an estimation of the time required to carry out the work plus other costs directly attributable to the assignment. We use standard hourly rates for staff to estimate the costs, and we include provision to cover a share of office overheads. Our objective is to break even on our audit and assurance work, although short-term surpluses or deficits will arise in situations where, for example, we take on new work and incur upfront costs to understand the client and design an efficient, sustainable audit approach.

Secondments are usually arranged on a full cost recovery basis. However, we may at times subsidise the cost of a secondment where the experience and skills gained through the secondment will bring future benefit to the NAO.

2016-17	Income	Expenditure	Surplus / (deficit)
	£000	£000	£000
Audit and assurance work	16,797	16,883	(86)
Secondment income	568	923	(355)
Rental income	1,782	980	802
<b>Total</b>	<b>19,147</b>	<b>18,786</b>	<b>361</b>
2015-16	Income	Expenditure	Surplus / (deficit)
	£000	£000	£000
Audit and assurance work	16,911	17,274	(363)
Secondment income	613	988	(375)
Rental income	1,788	1,029	759
<b>Total</b>	<b>19,312</b>	<b>19,291</b>	<b>21</b>

## 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 2017 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. These financial statements have been prepared under the accounting policies set out within them. We have also audited the Statement of Parliamentary Supply and the related notes, and the information in the Remuneration and Staff Report and the Parliamentary Accountability Disclosures within the Accountability Report that is described in those reports and disclosures as having been audited.

The financial reporting framework that has been applied in their preparation is applicable law and the 2016-17 Government Financial Reporting Manual (FReM), 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 also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

### Opinion on regularity

In our opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary Control Totals for the year ended 31 March 2017 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 2017 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 and Staff Report and the Parliamentary Accountability Disclosures to be audited has been properly prepared in accordance with guidance issued by HM Treasury; and
- the information given in the Performance Report and the unaudited part of the Accountability 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 and Staff Report and the Parliamentary Accountability Disclosures 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 Auditors**

St Brides House  
10 Salisbury Square  
London  
EC4Y 8EH

**19 June 2017**

# FINANCIAL STATEMENTS



## Statement of comprehensive net expenditure for the year ended 31 March 2017

	Note	2016-17 £000	2015-16 £000
Income from sale of goods and services	6	(19,147)	(19,312)
<b>Total operating income</b>		<b>(19,147)</b>	<b>(19,312)</b>
Staff costs	3	57,538	57,056
Purchase of goods and services	4	22,765	23,526
Depreciation and provision charges	5	2,906	2,776
Tax expense		160	152
<b>Total operating expenditure</b>		<b>83,369</b>	<b>83,510</b>
<b>Net operating expenditure for the year</b>		<b>64,222</b>	<b>64,198</b>
<b>Other comprehensive net expenditure</b>			
Items that will not be reclassified to net operating costs:			
Net gain on revaluation of property, plant and equipment	7	(4,298)	(4,070)
<b>Total comprehensive net expenditure for the year</b>		<b>59,924</b>	<b>60,128</b>

The notes on pages 101 to 118 form part of these accounts.

**Statement of financial position as at 31 March 2017**

	Note	2016-17 £000	2015-16 £000
<b>Non-current assets</b>			
Property, plant and equipment	7	91,220	88,773
Intangible assets	8	731	848
Receivables falling due after one year	9	115	172
<b>Total non-current assets</b>		<b>92,066</b>	<b>89,793</b>
<b>Current assets</b>			
Trade and other receivables	9	4,937	5,774
Cash and cash equivalents		39	78
<b>Total current assets</b>		<b>4,976</b>	<b>5,852</b>
<b>Total assets</b>		<b>97,042</b>	<b>95,645</b>
<b>Current liabilities</b>			
Trade and other payables	10	(6,064)	(6,804)
Provisions	11	(282)	(338)
<b>Total current liabilities</b>		<b>(6,346)</b>	<b>(7,142)</b>
<b>Total assets less current liabilities</b>		<b>90,696</b>	<b>88,503</b>
<b>Non-current liabilities</b>			
Payables falling due after one year	10	(21)	(72)
Provisions	11	(219)	(501)
<b>Total non-current liabilities</b>		<b>(240)</b>	<b>(573)</b>
<b>Total assets less liabilities</b>		<b>90,456</b>	<b>87,930</b>
<b>Taxpayers' equity and other reserves</b>			
General fund		30,168	30,438
Revaluation reserve		60,288	57,492
<b>Total equity</b>		<b>90,456</b>	<b>87,930</b>

Sir Amyas C E Morse KCB  
Comptroller and Auditor General

19 June 2017

The notes on pages 101 to 118 form part of these accounts.

## Statement of cash flows for the year ended 31 March 2017

	Note	2016-17 £000	2015-16 £000
<b>Cash flows from operating activities:</b>			
Net operating expenditure for the year		(64,222)	(64,198)
Adjustments for non-cash transactions	5	2,906	2,776
(Increase)/decrease in trade and other receivables	9	894	2,061
Increase/(decrease) in trade and other payables	10	(1,085)	(2,363)
Use of provisions	11	(350)	(524)
<b>Net cash outflow from operating activities</b>		<b>(61,857)</b>	<b>(62,248)</b>
<b>Cash flows from investing activities:</b>			
Purchase of property, plant and equipment	7	(488)	(984)
Purchase of intangible assets	8	(105)	(160)
<b>Net cash outflow from investing activities</b>		<b>(593)</b>	<b>(1,144)</b>
<b>Cash flows from financing activities:</b>			
From the Consolidated Fund (Supply) – current year		62,120	63,100
Consolidated Fund Standing Services	4	291	289
<b>Net financing</b>		<b>62,411</b>	<b>63,389</b>
<b>Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund</b>		<b>(39)</b>	<b>(3)</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>78</b>	<b>81</b>
<b>Cash and cash equivalents at the end of the year</b>		<b>39</b>	<b>78</b>

The notes on pages 101 to 118 form part of these accounts.

## Statement of changes in taxpayers' equity for the year ended 31 March 2017

	Note	General fund £000	Revaluation reserve £000	Total reserves £000
<b>Changes in taxpayers' equity</b>				
<b>Balance at 31 March 2015</b>		<b>29,912</b>	<b>54,754</b>	<b>84,666</b>
Net parliamentary funding		63,100	–	63,100
Net parliamentary funding – deemed		81	–	81
Supply payable adjustment		(78)	–	(78)
Consolidated Fund Standing Services	4	289	–	289
Comprehensive net expenditure for the year		(64,198)	4,070	(60,128)
Realised element of revaluation reserve		1,332	(1,332)	–
<b>Balance at 31 March 2016</b>		<b>30,438</b>	<b>57,492</b>	<b>87,930</b>
Net parliamentary funding – drawn down		62,120	–	62,120
Net parliamentary funding – deemed		78	–	78
Supply payable adjustment		(39)	–	(39)
Consolidated Fund Standing Services	4	291	–	291
Comprehensive net expenditure for the year		(64,222)	4,298	(59,924)
Realised element of revaluation reserve		1,502	(1,502)	–
<b>Balance at 31 March 2017</b>		<b>30,168</b>	<b>60,288</b>	<b>90,456</b>

The Revaluation Reserve records the gain or loss on the revaluation of assets. The depreciation charge on the revalued asset will be different to the depreciation that would have been charged based on the historical cost of the asset. As a result of this, the NAO transfers an amount equal to the excess depreciation from the Revaluation Reserve to the General Fund.

The General Fund accounts for all other changes in financial resources.

The notes on pages 101 to 118 form part of these accounts.

# NOTES TO THE FINANCIAL STATEMENTS

## 1 Accounting policies, key accounting estimates and judgements

### 1.1 Statement of accounting policies

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted and interpreted by the *Government Financial Reporting Manual* (FReM) issued by HM Treasury.

The accounting policies adopted by the NAO are described below. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the NAO for the purpose of giving a true and fair view has been selected. 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 and are rounded to the nearest £1,000. Transactions in foreign currencies are translated into sterling at the exchange rate at the dates of the transaction. Any assets and liabilities in a foreign currency are translated into sterling at the exchange rate on the date of reporting. 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 are a number of standards which are not yet effective. These include IFRS 9 'Financial Instruments' (effective 2018), which reduces the accounting options available for types of financial instruments; IFRS 15 'Revenue from Contracts with Customers' (effective 2018), which provides more guidance on recognition of revenue; and IFRS 16 'Leases' (effective 2019), which requires all significant leases to be recognised as a financing lease and included in the Statement of Financial Position. These standards are not yet adopted by the FReM. Management will make an assessment of the impact of these standards once it becomes clear how they will be adapted for the public sector.

### 1.4 Financing

The NAO covers some 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 and disclosed in Note 6.

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

## Accounting policies for expenditure

### 1.5 Staff costs

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 or present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) and/or Alpha (a new pension scheme introduced on 1 April 2015), which are defined benefit schemes open to participating public sector bodies in which the benefit the employee receives during retirement is dependent on factors such as age, length of service and salary. The scheme is administered by MYCSP on behalf of the Cabinet Office. NAO pays contributions into the PCSPS at an agreed rate. As one of many participating organisations, the NAO is not able to identify its share of any liability for making future pension payments to members and accordingly NAO accounts for this as if it were a defined contribution scheme and recognises the costs of these contributions when they fall due.

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 obligation 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 is accepted by the individual. Any amounts unpaid at the reporting date are reported within accruals Note 10.

The CSCS rules were amended from October 2010. Prior to this, where the individual was eligible to take early retirement, the NAO met any costs of the individual drawing their pension early. These costs were provided for in full when the early departure was approved, based on 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 2017, this was 0.24% (2015-16: 1.37%). This provision is reported in Note 11. The NAO no longer meets these costs for staff leaving the NAO after October 2010.

### 1.8 Leases

Payments in relation to operating leases 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 and VAT recoverable is shown separately.

**1.10 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 income

**1.11 Fees for UK and international audit and other work**

The NAO charges fees for financial audits and other services where it is permitted to do so under legislation. This principally comprises fees charged on UK and international audits, and fees charged for some of the NAO's international relations and overseas capacity-building work. Income is recognised as it is earned, determined with reference to when the service is provided, less a provision for any unrecoverable amounts. Details on the accrued income calculation can be found in note 1.19.

**1.12 Secondment income**

This represents costs recovered on the NAO's outward secondment programme to support Parliament and other government bodies. Secondments are usually arranged on a full cost recovery basis. However, the NAO may at times subsidise the cost of this secondment where it is in its strategic interests to do so and where the experience and skills gained through the secondment will bring future benefit to the NAO.

**1.13 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. Any 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.

**1.14 Value Added Tax on sales**

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

## 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 useful lives.

## Property, plant and equipment

Land, buildings, plants and machinery are stated at their current value in existing use 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, because these are relatively short-life assets whose values do not fluctuate significantly over the period they are in use.

Asset lives are in the following ranges:

Land	Non-depreciable
Buildings	50 years
Plant and 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.

Where the NAO purchases IT services which are cloud-based, we do not capitalise the costs to use these services because we have no legal title to the software or hardware on which the service is provided.

Asset lives are in the following ranges:

Software	4–10 years
Licences	2–10 years

### 1.16 Cash and cash equivalents

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 invoiced and due from audited bodies in respect of the fee-paying audit assignments. These are recognised at fair value less a provision for non-recovery if there is evidence it is less than probable that the NAO will recover the full amount due.

### 1.18 Accrued income

Accrued income is income earned but not yet invoiced in respect of fee-paying audit assignments and is determined on the basis of percentage completion of contractual work, less any provision for unrecoverable amounts.

## Accounting estimates and judgements

### 1.19 Accrued income

In calculating accrued income for audit services, the NAO makes judgements as to the stage of completion of audit work. This involves an estimate at the year end of the remaining time and costs needed to complete the work, which are provided by individual assignment managers.

### 1.20 Property valuation

Each year the NAO considers the valuation of its buildings, and whether there has been a change year-on-year. The NAO uses a professional valuer to help arrive at these estimates, which takes into account expected future rental rates of return and rental values per square foot. The value is apportioned between land and components of the building using an apportionment ratio consistent with longer-term trends. More information on the basis of valuation is included in Note 7.

Sensitivity analysis:

The valuation is sensitive to changes in the underlying assumptions. The key sensitivities are as follows:

- A change in value of rental yield of 0.5% could lead to fluctuations between £5 million to £6 million in the value of the building.
- A change in value of market rental value by £1 per square foot could lead to fluctuations of up to £2.3 million in the value of the building.

The NAO accounts for its London property (which is on a long lease of 130 years) as if it owns the building. Any change in the value of the building are accounted for through the Revaluation Reserve. The NAO does not apply a different accounting treatment to those floors of the building sub-let to third parties. These sub-let areas are not considered to be an investment property because they cannot be separated from the building and do not comprise the significant portion of the building's use.

## 2 National Audit Office operating segments

	2016-17								Total £000
	Audit and assurance £000	Value for money £000	Investigations and insight £000	Support to Parliament £000	International relations £000	Comptroller function £000	Voted £000	Non-voted £000	
Gross expenditure	50,468	16,102	9,912	5,079	1,362	155	83,078	291	<b>83,369</b>
Income from services provided	(16,321)	–	–	(568)	(476)	–	(17,365)	–	<b>(17,365)</b>
Rental income	(1,083)	(345)	(213)	(109)	(29)	(3)	(1,782)	–	<b>(1,782)</b>
<b>Net expenditure</b>	<b>33,064</b>	<b>15,757</b>	<b>9,699</b>	<b>4,402</b>	<b>857</b>	<b>152</b>	<b>63,931</b>	<b>291</b>	<b>64,222</b>

	2015-16								Total £000
	Audit and assurance £000	Value for money £000	Investigations and insight £000	Support to Parliament £000	International relations £000	Comptroller function £000	Voted £000	Non-voted £000	
Gross expenditure	49,490	16,932	10,303	4,925	1,367	204	83,221	289	<b>83,510</b>
Income from services provided	(16,330)	–	–	(613)	(581)	–	(17,524)	–	<b>(17,524)</b>
Rental income	(1,063)	(364)	(221)	(107)	(29)	(4)	(1,788)	–	<b>(1,788)</b>
<b>Net expenditure</b>	<b>32,097</b>	<b>16,568</b>	<b>10,082</b>	<b>4,205</b>	<b>757</b>	<b>200</b>	<b>63,909</b>	<b>289</b>	<b>64,198</b>

We consider the chief operating decision body of the NAO to be the Leadership Team, details of whom can be found on page 60.

The NAO reports expenditure and income under six operating segments, full descriptions of which can be found on pages 28 to 31. Included in the audit and assurance operating segment is international audit work with a gross expenditure of £1.2 million and income of £1.7 million.

Non-voted expenditure includes the C&AG's and Chairman's salaries and is paid directly from the Consolidated Fund, which is outside of the control of the NAO.

Income from services 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 operating segments and has been apportioned in line with gross expenditure.

Due to the nature of the NAO's activities, the Leadership Team does not receive assets and liabilities analysed by operating segment and therefore such an analysis is not presented here.

### 3 Staff costs

	2016-17	2015-16
	Total £000	Total £000
Wages and salaries	43,631	44,066
Social security costs <sup>1</sup>	4,842	3,902
Pension costs	9,065	9,088
<b>Gross costs</b>	<b>57,538</b>	<b>57,056</b>
Secondment income	(568)	(613)
<b>Net costs</b>	<b>56,970</b>	<b>56,443</b>

**Note**

- 1 The change in social security costs is due to the increase in employer national insurance contributions following the reforms to the state pension, which means that employees are no longer contracted out of the scheme.

Details on staff numbers and related costs can be found in the Remuneration Report on pages 76 to 87.

## 4 Purchase of goods and services

	£000	2016-17 £000	£000	2015-16 £000
Professional services	10,101		10,537	
Facilities management	4,884		4,874	
Travel, subsistence, hospitality	2,065		2,249	
Office supplies and equipment	3,241		3,180	
Recruitment and training	1,471		1,855	
Staff-related costs	986		795	
Overseas office costs for UN work	166		113	
External auditors – audit fee	55		53	
External auditors – other work	69		95	
External auditors – prior year <sup>1</sup>	–		(41)	
Other administration costs	138		136	
Operating lease rentals	122		169	
VAT recoverable <sup>2</sup>	(824)		(778)	
<b>Total voted costs</b>		<b>22,474</b>		<b>23,237</b>
Comptroller & Auditor General salary	247		245	
Chairman salary	44		44	
<b>Total non-voted costs</b>		<b>291</b>		<b>289</b>
		<b>22,765</b>		<b>23,526</b>

### Notes

- 1 The final fees figure of the prior year VfM was lower than anticipated.
- 2 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 Depreciation and provision charges

	£000	2016-17 £000	£000	2015-16 £000
<b>Non-cash costs</b>				
Changes to early departure provision	12		34	
Changes in provision	12		34	
Depreciation on property, plant and equipment	1,698		1,528	
Depreciation on other items	1,028		1,021	
Amortisation on intangible assets	168		193	
		<b>2,906</b>		<b>2,776</b>

## 6 Income

	2016-17 £000	2015-16 £000
Audit fees – UK	14,626	13,519
United Nations Board of Auditors <sup>1</sup>	1,455	2,651
Audit fees – international	240	160
International technical cooperation	476	581
Secondment income	568	613
Rental of office space	1,782	1,788
<b>Total income</b>	<b>19,147</b>	<b>19,312</b>

### Note

- 1 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 between the board members. The position ended in June 2016.

## 7 Property, plant and equipment

	2016-17					
	Land	Buildings	Plant and machinery	Computers and other equipment	Furniture fixtures and fittings	Total
<b>Cost or valuation</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
At 1 April 2016	35,750	33,856	16,226	5,428	3,450	94,710
Additions	–	–	–	551	270	821
Disposals <sup>1</sup>	–	–	–	(1,283)	–	(1,283)
Reclassification	–	–	–	(6)	–	(6)
Revaluation	1,870	319	229	–	–	2,418
Impairment	–	–	–	–	–	–
<b>At 31 March 2017</b>	<b>37,620</b>	<b>34,175</b>	<b>16,455</b>	<b>4,690</b>	<b>3,720</b>	<b>96,660</b>
<b>Depreciation</b>						
At 1 April 2016	–	–	182	3,644	2,111	5,937
Charged in year	–	705	993	669	359	2,726
Disposals <sup>1</sup>	–	–	–	(1,283)	–	(1,283)
Reclassification	–	–	–	(60)	–	(60)
Revaluation	–	(705)	(1,175)	–	–	(1,880)
Impairment	–	–	–	–	–	–
<b>At 31 March 2017</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>2,970</b>	<b>2,470</b>	<b>5,440</b>
Net book value						
<b>At 31 March 2017</b>	<b>37,620</b>	<b>34,175</b>	<b>16,455</b>	<b>1,720</b>	<b>1,250</b>	<b>91,220</b>
At 31 March 2016	35,750	33,856	16,044	1,784	1,339	88,773

### Note

1 In 2016-17 the NAO introduced a new accounting system. As part of this process, its asset registers were reviewed and fully depreciated assets removed.

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 other finance leases and the NAO owns all other property, plant and equipment.

The NAO obtains a professional valuation of its land and buildings each year, which is prepared in accordance with the Royal Institute of Chartered Surveyors (RICS) Valuation Standards; the 'Red Book'. Montagu Evans (independent property consultants and surveyors and a member of RICS) valued the land and buildings and plant and machinery at £88,250,000 as at 31 March 2017 (31 March 2016: £85,650,000). The net effect of the revaluation as at 31 March 2017 of £4,298,000 increase was accounted for through the Revaluation Reserve.

## 7 Property, plant and equipment *continued*

	2015-16					
	Land	Buildings	Plant and machinery	Computers and other equipment	Furniture fixtures and fittings	Total
	£000	£000	£000	£000	£000	£000
<b>Cost or valuation</b>						
At 1 April 2015	36,050	31,730	15,020	4,910	3,291	91,001
Additions	–	–	307	518	159	984
Disposals	–	–	–	–	–	–
Reclassification	–	–	–	–	–	–
Revaluation	(300)	2,126	899	–	–	2,725
Impairment	–	–	–	–	–	–
<b>At 31 March 2016</b>	<b>35,750</b>	<b>33,856</b>	<b>16,226</b>	<b>5,428</b>	<b>3,450</b>	<b>94,710</b>
<b>Depreciation</b>						
At 1 April 2015	–	–	–	2,983	1,750	4,733
Charged in year	–	644	883	661	361	2,549
Disposals	–	–	–	–	–	–
Revaluation	–	(644)	(701)	–	–	(1,345)
Impairment	–	–	–	–	–	–
<b>At 31 March 2016</b>	<b>–</b>	<b>–</b>	<b>182</b>	<b>3,644</b>	<b>2,111</b>	<b>5,937</b>
Net book value						
<b>At 31 March 2016</b>	<b>35,750</b>	<b>33,856</b>	<b>16,044</b>	<b>1,784</b>	<b>1,339</b>	<b>88,773</b>
At 31 March 2015	36,050	31,730	15,020	1,927	1,541	86,268

## 8 Intangible assets

	2016-17
	Total
<b>Cost</b>	<b>£000</b>
At 1 April 2016	3,415
Additions	105
Disposals <sup>1</sup>	(1,834)
Reclassification	6
Impairment	–
<b>At 31 March 2017</b>	<b>1,692</b>
<b>Amortisation</b>	
At 1 April 2016	2,567
Charged in year	168
Disposals <sup>1</sup>	(1,834)
Reclassification	60
Impairment	–
<b>At 31 March 2017</b>	<b>961</b>
Net book value	
<b>At 31 March 2017</b>	<b>731</b>
At 31 March 2016	848

### Note

- 1 In 2016-17 the NAO introduced a new accounting system. As part of this process, its asset registers were reviewed and fully amortised assets removed.

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

## 8 Intangible assets *continued*

	2015-16
	Total
<b>Cost</b>	<b>£000</b>
At 1 April 2015	3,255
Additions	160
Disposals	—
Impairment	—
<b>At 31 March 2016</b>	<b>3,415</b>
<b>Amortisation</b>	
At 1 April 2015	2,374
Charged in year	193
Disposals	—
Impairment	—
<b>At 31 March 2016</b>	<b>2,567</b>
Net book value	
<b>At 31 March 2016</b>	<b>848</b>
At 31 March 2015	881

## 9 Trade and other receivables

	2016-17 £000	2015-16 £000
<b>Amounts falling due within one year:</b>		
Trade receivables	1,345	688
Deposits and advances	274	327
Other receivables	80	354
Accrued income	2,135	2,990
Prepayments	1,103	1,415
	<b>4,937</b>	<b>5,774</b>
<b>Amounts falling due after more than one year:</b>		
Deposits and advances	45	72
Other receivables	70	100
	<b>115</b>	<b>172</b>
<b>Total</b>	<b>5,052</b>	<b>5,946</b>

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

## 10 Trade and other payables

	2016-17 £000	2015-16 £000
<b>Amounts falling due within one year:</b>		
Amounts payable to HMRC	304	376
Trade payables	126	259
Other payables	53	57
Accruals	4,938	4,972
UN Board of Auditors payments received on account	–	526
Other payments received on account	604	536
	<b>6,025</b>	<b>6,726</b>
Amounts issued from the Consolidated Fund for supply but not spent at year end	39	78
	<b>6,064</b>	<b>6,804</b>
<b>Amounts falling due after more than one year:</b>		
Other payables	21	72
	<b>21</b>	<b>72</b>
<b>Total</b>	<b>6,085</b>	<b>6,876</b>

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

## 11 Provisions for liabilities and charges

	£000	£000
Balance at 1 April 2016		839
Provided in the year	–	
Unwinding of discounts	11	
Change in discount rate	1	
Changes in provision during the year		12
Provisions utilised in the period		(350)
<b>Balance at 31 March 2017</b>		<b>501</b>

## 11 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	160	122	282
Payable within 2–5 years	219	–	219
<b>Balance at 31 March 2017</b>	<b>379</b>	<b>122</b>	<b>501</b>

## 12 Commitments under leases

### Aggregate minimum lease payments are as follows:

	2016-17 £000	2015-16 £000
<b>Obligations under operating leases comprise:</b>		
Land and buildings:		
Payable within 1 year	122	122
Payable within 2–5 years	52	174
<b>Total</b>	<b>174</b>	<b>296</b>
Other payables:		
Payable within 1 year	29	103
Payable within 2–5 years	–	281
<b>Total</b>	<b>29</b>	<b>384</b>

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 five years (due to expire in 2018).

The other commitments relate to photocopiers with a contract that expires in October 2017 and software as a service which runs to January 2018. The software as a service was paid during 2016-17 and accounted for in prepayments.

### 13 Future income due under non-cancellable operating leases

	2016-17 £000	2015-16 £000
Land and buildings:		
Receivable within 1 year	1,384	1,338
Receivable within 2–5 years	3,741	2,867
Receivable in more than 5 years	137	371
<b>Total</b>	<b>5,262</b>	<b>4,576</b>

The lease information above relates to the sub-letting of surplus space in the London headquarters building. 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.

### 14 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. The only financial instruments held by the NAO are those which arise from the NAO's day-to-day operational activities and include trade and other receivables (Note 9) and trade and other payables (Note 10). The carrying value of the financial instruments approximates to their fair value and the NAO is exposed to limited credit, liquidity or market risk.

#### Liquidity risk

The NAO's net revenue resource requirements and capital expenditure are financed by resources voted annually by Parliament or through fees charged to bodies funded 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

From time to time, the NAO has some exposure to foreign currency markets 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 risk as at 31 March 2017.

## 15 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 does not have any related-party relationships as defined by IAS 24 Related-party disclosures.

The NAO does have transactions with government departments and central government bodies which are also audited by the NAO. These include the provision of accommodation, training courses and the hosting of seminars for public sector bodies. Some of these transactions have been with entities which are fee-paying clients.

The NAO also had transactions with HM Revenue & Customs to meet statutory taxation requirements and with the Cabinet Office which operates the Principal Civil Service Pension Scheme.

The NAO has a commercial relationship with certain organisations which are both audited by the NAO and tenants of portions of the NAO's headquarters building. These are distinct from related-party relationships under IAS 24 Related-party disclosures but have been disclosed below for the purpose of transparency:

Related party	Nature of relationship with the party	Rent and service charge earned	
		2016-17	2015-16
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	£296,861	£279,386
Ordnance Survey	Central government body audited by the NAO. Occupied part of the NAO's headquarters building since January 2012	£262,704 <sup>1</sup>	£289,336
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	£279,000

### Note

1 Includes effect of rent-free period offered on renewal of lease.

## 16 Events after the reporting period

There have been no significant events after 31 March 2017 that require adjustment to, or disclosure in, the financial statements.

The financial statements were authorised for issue by the Comptroller and Auditor General on 19 June 2017.

## Statement of National Audit Office financial impacts for 2016

The statement of financial impacts represents our estimate of the financial benefits achieved in 2016 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's 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.

## 2016 NAO impacts valued at more than £5 million

Description	Impact identified <sup>1</sup> (£m)	Nature of impact	Year of claim	Audited body with whom impact agreed
<b>Tax revenue from accelerated payments</b> Additional tax revenue HMRC received through accelerated payments when addressing tax avoidance	365	Recurring	2 of 5	HM Revenue & Customs
<b>Capital funding for new school places</b> Improved funding allocation, by the Department, for school places.	91	Recurring	2 of 3	Department for Education
<b>Care Act first-phase reforms</b> Savings resulting from the Department's decision to delay Phase 2 of the Care Act, due to concerns raised.	88	Recurring	1 of 6	Department of Health
<b>Managing the Defence Inventory</b> Reduction in inventory where there are already sufficient levels of stock	79	Recurring	5 of 5	Ministry of Defence
<b>Transforming NHS Ambulance Services</b> Savings identified through opportunities to manage demands in the ambulance call cycle	60	One-off	1 of 1	NHS England
<b>Investing for development</b> Savings in CDC pay achieved in the period 2011–2015 following the introduction of improved controls over remuneration	14	One-off	1 of 1	Department for International Development
<b>PFI in Housing</b> Cashable savings realised through reduced PFI contract values in the Department's housing portfolio	11	Recurring	6 of 10	Department for Communities and Local Government

### Note

1 The column may not add up due to rounding.

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2016 NAO impacts valued at more than £5 million *continued*

Description	Impact identified <sup>1</sup> (£m)	Nature of impact	Year of claim	Audited body with whom impact agreed
<b>Student Loan repayments</b> Increased review from additional repayments collected as a result of the Student Loan Company's new processes	8	One-off	1 of 1	Department for Business, Innovation & Skills
<b>The Start-up Loans scheme</b> Reduced costs from an improvement in default rates	6	Recurring	1 of 3	Department for Business, Innovation & Skills
<b>Subtotal</b>	<b>721</b>			
Impacts below £5 million	13			
<b>Total financial impacts</b>	<b>734</b>			

**Note**

1 The column may not add up due to rounding.

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## 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 2016.

### 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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**19 June 2017**

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