



National Audit Office

March 2018

 Interactive

Round-up for Audit Committees

This interactive round-up comes out in spring and autumn, providing an overview of the NAO reports and communications most relevant to the needs of Audit Committees.





C&AG introduction

In our previous Roundup, I spoke about the importance of planning and prioritisation in relation to the decision to exit the European Union. The NAO has now carried out a programme of work that looks into how government is overseeing and taking forward implementation of [the UK's exit from the European Union](#). You may find this insight useful as you consider how prepared your organisation is for the implications of the UK's exit.

Another matter that is high on the government's agenda is the response to the collapse of Carillion. The events naturally call into question the role of all parties, including that of non-executive directors, which was raised during my appearance as a witness before the Liaison Committee in February.

Although there will be important lessons from Carillion that only emerge over time, the principles of good contract management are unlikely to change. You may now be considering your own organisation's reliance on suppliers with a new focus, both on the information visible to the Audit Committee about contracted-out services and how the Audit Committee can use this information to help ensure contracted-out services are managed effectively. Our [previous work in this area](#) could be valuable in your considerations.

It is also important to reflect on the respective roles and responsibilities of the auditor and those charged with governance, and how effectively these are discharged. Our client feedback exercise, in which many of you have participated, is important to enable the NAO to reflect on our performance as your auditor and how we can improve the value we deliver through our work.

Feedback from the bodies we audit remained very positive, but fewer respondents felt that the NAO conducted their audits to an agreed plan than in the prior year. Although last minute issues do crop up from time to time, and the General Election may have impacted on planned timetables in 2017, there is undoubtedly more we can do to communicate the progress of the audit and any impact of emerging issues on the planned timetable or fee.

You are likely to have held, or will in the near future, an Audit Committee meeting where the NAO reflects on progress against our audit plans. This is the most important meeting of the audit cycle for understanding whether the planned timetable remains realistic, as it allows resulting action to be taken if needed. Last year, we found that too much reliance was placed on the final audit process by bodies to produce a compliant set of accounts.

Let's have this conversation early – please don't hesitate to discuss with your NAO Director if more frequent or detailed progress updates would be useful for you. We have also updated our [technical guidance](#) to reflect new financial reporting changes for the 2017-18 financial year. This guidance should be useful in assisting you to exercise your responsibilities as those charged with governance and our teams can help discuss how you can best use these resources.

Sir Amyas Morse

Comptroller & Auditor General



Audit Committee resources

Effective Audit and Risk Assurance Committees (ARACs) play pivotal roles in ensuring that organisations function according to good governance, apply accounting and auditing standards, and adopt appropriate risk management arrangements.

We highlight here some useful recent resources we've published.

Question/Checklist	Yes	Comments
1. Do we have a minimum of three members, all of whom are independent of the organisation, and one who is not a director of the organisation?	<input type="radio"/>	
2. Do the Accounting Officers (AOs) of the organisation have the necessary skills and experience to carry out their duties as AOs?	<input type="radio"/>	
3. Have we consulted with the relevant bodies and other stakeholders (including the public) on the proposed arrangements for the AOs?	<input type="radio"/>	
4. Have we established with the relevant bodies and other stakeholders (including the public) a clear understanding of the responsibilities and expectations of the AOs?	<input type="radio"/>	
5. Have we established with the relevant bodies and other stakeholders (including the public) a clear understanding of the responsibilities and expectations of the AOs?	<input type="radio"/>	

It is also good practice for ARACs to assess their effectiveness annually. Our updated [Audit Committee self-assessment checklist](#) condenses the core good

practice principles of *HM Treasury's ARAC Handbook*, enabling ARACs to assess their own performance.

We can also help Committees by facilitating a workshop to assess performance. To arrange for a workshop please contact your NAO director in the first instance.

Cyber security



Our [Investigation: WannaCry cyber attack and the NHS](#) highlights the relatively unsophisticated nature of this attack and warns of the risk of more sophisticated cyber threats.

We therefore remind readers of our [Cyber security and information risk guidance for Audit Committees](#).

Over the next few months we will be publishing similar guidance for Audit Committees on Transformation and the use data – see our [Support for Audit Committees](#) web-page.

Conflicts of interest



[Managing conflicts of interest and keeping public trust](#) is a blog-post that provides a thorough overview of this subject based on our recent [briefing for the Bank of England](#). It defines conflicts of interest, outlines the various types and summarises how to prevent, detect, address and report them. It links to our relevant publications, including our earlier report, [Conflicts of interest](#).

Other resources

- For people who are preparing financial statements, we have published an updated [Disclosure guide for entities who prepare financial statements in accordance with the Government Financial Reporting Manual \(FRoM\)](#).
- In March we will publish 'Building Public Trust Awards – Examples of good practice in annual reports 2017'. It will be a 'related publication' to our [2016 guide](#).
- The [NAO's Modern Slavery and Human Trafficking Statement \(PDF\)](#) is in accordance with the Home Office's [Guidance for businesses](#) on how to ensure that slavery and human trafficking is not taking place in your business or supply chain. In addition, our report [Reducing modern slavery](#) examines progress in England and Wales.
- Our fifth [Environmental sustainability overview](#), reviewing sustainability within the Ministry of Justice, includes our good practice framework (Appendix One).



EU Exit and transforming public service

Running the government is more technical and complex than ever, with numerous, major projects intended to transform public services. At the same time, civil servants are implementing the decision to leave the European Union (EU), which, unlike many other projects, may have an immovable, hard deadline.



To deliver effectively, and certainly to transform services, government must know what is, and isn't, working; which requires good information, and the skills to interpret

it. Austerity has meant the civil service is often being asked to do more than resource plans allow for. Projects frequently draw on the same skills pool and many contain an optimism bias that they will be able to meet their skill needs at an appropriate cost.

To manage these complexities, tough decisions and effective prioritisation are needed.

For more, see Sir Amyas Morse's blog-post: [EU exit: tough decisions and prioritisation needed.](#)

Exiting the EU



Our web-page [Exiting the EU](#) includes our series of briefings on implementing the UK's exit from the European Union (EU). Covering the key bodies delivering EU exit programmes, each briefing outlines issues such as the scale of the task, how it is going about it, and likely impact of EU exit activities on the organisation.

As noted on page 6, our [Short Guides](#) also reference the implications of the EU Exit.

Cross-government coordination



Our recent report, [Cross-government funding of research and development](#), focuses on government investment in science. The report web-page also includes an [Evaluative Framework \(pdf – 209KB\)](#) that can apply equally to any cross-government coordination. It highlights good practice in leadership arrangements, setting priorities, sharing information and data to make informed decisions, and evaluating outcomes. Both are summarised in our blog-post, [Cross-government collaboration: lessons from R&D.](#)

Resources for transforming public service

- Collecting, analysing and using data effectively is essential. Two recent NAO reports provide examples: [The BBC's understanding of its audiences and users](#) and [Care Quality Commission \(CQC\) regulating health and social care.](#)
- Our [Market Analytic Toolkit for assessing public service markets](#) can help oversee new models of provision across the spectrum of 'public service markets', and ensure consumers are protected and effective competition and innovative delivery achieved. It was applied in our report, [The higher education market](#), summarised in our blog-post, [Is the market for higher education working?.](#)



Contract and programme management

Recent news about Carillion highlights both that government bodies retain responsibility for the services that they contract out, and the risks of being reliant on a small number of providers in certain markets.

Since 2013, the government has been reforming its management of contracts and commercial relationships. Cabinet Office has taken responsibility for a programme of commercial capability improvement across government and in 2016 launched new Commercial Operating Standards. Each department must now publish an Accounting Officer System Statement (summarised in the last [Round-up](#)). The best accountability systems no longer rely on the contract alone, but on a range of sources of assurance.

The reforms are going in the right direction. However, the problems are systemic, deep rooted and cultural, so will take sustained effort to address.

Commercial relationships



[A short guide to commercial relationships](#) summarises the key issues we have encountered when auditing government's commercial relationships, the progress government has made addressing these, and the risks that remain. It particularly highlights insights and examples from NAO work relating to: managing contracted-out service delivery; commercial capability; and managing markets.

Private Finance Initiative



[PFI and PF2](#) is a briefing on the rationale, costs and benefits of the Private Finance Initiative; the use of and impact of PFI, and ability to make savings from operational contracts; and the introduction of PF2.

Other resources



- [Commercial and contract management: insights and emerging best practice](#) sets out key issues across our seven-stage commercial relationship lifecycle. See our [Contract insights series](#) of blog-posts for further insights.
- [The Ministry of Defence's arrangement with Annington Property Limited](#) highlights lessons for government; such as the importance of demonstrating that contracts will be affordable in the longer term using a number of different measures.
- [Framework to review programmes](#) offers a detailed set of questions to ask about the purpose, value, set-up and delivery of programmes.
- A guide to effective evaluation of programmes and services for those managing and overseeing them will be published in March on our [Performance Measurement](#) web-page.



Adding value to the public sector

The NAO continues to improve the support we bring to the organisations we audit. Although our primary role is to help Parliament hold government to account for spending public money, we know from the feedback from the organisations we audit that they value the unique insight we gain from our work across government.

Where possible we share the frameworks we use to review value for money – to be found on our [Self-assessment resources](#) web-page; we share insights through our [NAO Blog](#); and we make available resources such as our Short Guides, [Support for Audit Committees](#) and other good practice publications.

At times, as the new NAO – University of Birmingham Tax Centre illustrates, we also work with organisations to explore issues in a ‘safe place’.

Short Guides

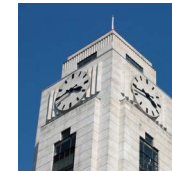


We have published over 20 ‘[Short Guides](#)’, each giving:

- an overview of a department or issue;
- who does what;
- how much it costs;
- recent and planned changes;
- what to look out for; and
- possible implications of the UK’s exit from the European Union.

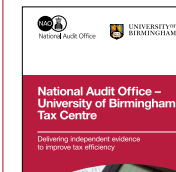
The guides cover the main departments and local authorities, the BBC, NHS, selected health arm’s-length bodies, regulation, the Government Office for Science, and Commercial Relationships, summarised earlier.

Our strategy



The [NAO’s Strategy 2018-2019 to 2020-2021](#) sets out how the NAO will help Parliament hold government to account for spending public money and drive improvements in public services. It describes our priorities, including how we will address the issues that matter to government and Parliament, particularly in light of the decision to leave the EU.

NAO – University of Birmingham Tax Centre



This new [Tax Centre](#) was launched on 23 January 2018 to provide independent evidence to help improve tax efficiency. It will also encourage debate, stimulate ideas and improve the exchange of knowledge. At its launch event, co-founder Professor Kimberley Scharf spoke about the two organisations’ work on Gift Aid, summarised in this blog-post [Who benefits from Gift Aid? Ask the new Tax Centre](#).



Further information

We have started a programme of improvements to our website, which has introduced some new sections and moved others.

New: [Support and guidance](#) provides easy access to resources most useful for specific types of users and purposes, including:

- [Support for Audit Committees](#)
- [Support for Boards](#)
- [Self-Assessment Resources](#) – frameworks and guides to aid organisations’ self-assessment and decision making.

This page also links to other Technical Guidance, including [The Financial Reporting Manual \(FReM\)](#), on which you can find:

- Updated – [Disclosure guide for entities who prepare financial statements in accordance with the Government Financial Reporting Manual \(FReM\)](#)

New: [Publications on key issues](#) links to the publications most useful for understanding good practice and lessons learnt about key issues facing the public sector.

Improved: [Publications search](#) now includes the ability to search by department.

On the NAO Blog

Recent posts include:

- [Engaging, sharing, innovative Award winners](#) – Sir Amyas Morse outlines how the 2017 Civil Service Awards winners show what’s possible when teams: engage users and providers; come up with new ways to break down barriers; truly learn from experience; and collaborate with others.
- [The future of government offices: early lessons](#) summarises changes to government property, including regional “Hubs” and an integrated public sector estate and the challenges to be addressed.

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