
Annual Report and Accounts

2017-18



Our vision is to help the nation spend wisely.

Our public audit perspective helps Parliament hold government to account and improve public services.

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, nationally and locally, have used their resources efficiently, effectively, and with economy. The C&AG does this through a range of outputs including value-for-money reports on matters of public interest; investigations to establish the underlying facts in circumstances where concerns have been raised by others or observed through our wider work; landscape reviews to aid transparency; and good-practice guides. Our work ensures that those responsible for the use of public money are held to account and helps government to improve public services, leading to audited savings of £741 million in 2017.



National Audit Office

NATIONAL AUDIT OFFICE ANNUAL REPORTS AND ACCOUNTS 2017-18

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Contents

1 Performance report	6
Overview	7
Chair's report	7
The C&AG's Statement	9
2017-18: Our year in highlights	10
About the National Audit Office	15
Our values	21
Performance analysis	24
How we have performed against our performance framework	24
Developing and applying our knowledge	26
Increasing our influence	39
Delivering high performance	42
Our environmental impact	49
2 Accountability report	52
Corporate governance report	53
Statement of Accounting Officer's responsibilities	54
Governance Statement	55
Remuneration and staff report	72
Parliamentary accountability and audit report	85
3 Financial statements 2017-18	93
Notes to the Financial Statements	98
Statement of National Audit Office financial impacts for 2017	116
4 Contact us	120

1 | PERFORMANCE REPORT

This section provides an overview of the National Audit Office (NAO). It sets out our purpose and structure, and provides an analysis of how we have performed against our strategic objectives.



Lord Richard
Chair
National Audit Office

OVERVIEW

Chair's report

Effective and transparent accountability for spending public money is central to democratic government and good public administration. The NAO's role, independent of government, is to offer insight and expertise to support Parliament in ensuring accountability for public spending and drive improvement in public services. In 2017-18, the NAO has continued to play this vital role in what can only be described as a challenging time for the public sector.

New delivery models through private partnerships, increased localism and complex infrastructure programmes can blur established lines of accountability. This has made holding government to account a more challenging job for Parliament, making the NAO's role ever more crucial. The NAO has used its unique position to comment on the effectiveness of accountability arrangements to Parliament, seeing the system from inside, while ensuring independence from those it audits.

In addition, the UK's departure from the European Union is a major challenge for government and departments. It places demands upon their policy-making capacity and their ability to set up the systems and processes to enable an orderly European Union departure. The NAO's work has shown that, in this context, cooperation across departments, flexible planning and prioritisation are vital.

Alongside exiting the European Union, departments and local authorities continue to deliver essential services and a range of transformation projects during a period of scarce resources. The oversight which the NAO provides in these turbulent times has never been more important and sometimes involves the NAO highlighting to Parliament that resources are inadequate for the task.

Of course, the NAO itself has always needed to evolve to deal with changes in its operating environment and that is certainly the case at the moment. Changes in delivery models coupled with the use of complex financial instruments together with digitisation of public services and the audit process have all required the NAO to respond. I am proud of the way we have adjusted.

This Annual Report sets out the NAO's performance over 2017-18 and reflects on its achievements. As for the future, we remain determined to help the nation spend wisely and to do that by delivering system-wide, integrated, independent public audit.



Sir Amyas Morse

Comptroller and Auditor General
National Audit Office

The C&AG's Statement

2017-18 has been a year of extraordinary change in UK public life, and we at the NAO have been 'in the thick of it!'. I think that, in addition to the strengths normally associated with us: analytic rigour, professionalism and objectivity, we can add adaptability and agility in a changing environment.

I am really impressed with the way NAO people have embraced new financial reporting standards, on one hand, and the need to craft reports to reflect the fast changing Brexit situation, on the other. We are getting more and more fluent at dealing with change, and focusing on what a changing environment means to the bodies we audit and the public sector. This makes our work more challenging, but also more relevant and helpful.

Our aim is to use our work to help shape the future of the NAO and, to a significant extent, that of the public sector as well. In doing so, the Leadership Team, the Board and I are deeply grateful to all our NAO colleagues for what they are contributing to take us ahead.

2017-18: Our year in highlights

Our work informs debate



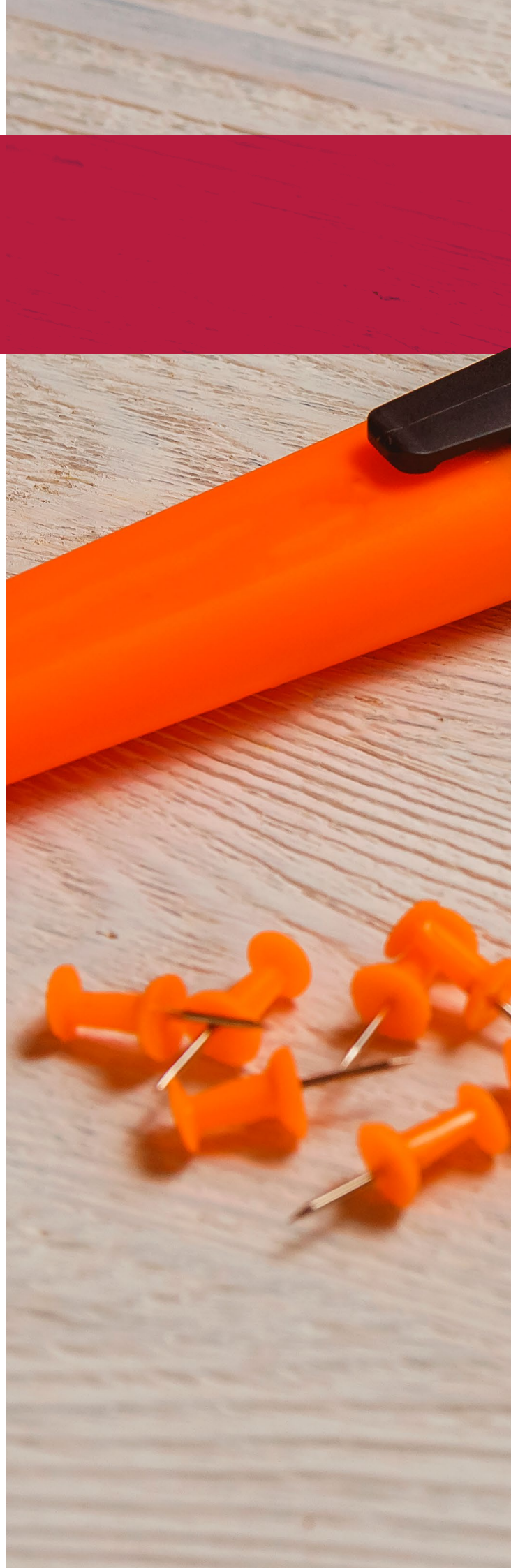
We certified the accounts of all government departments, including big commercial entities such as the BBC, Network Rail and financial service companies, and many other public-sector bodies.

370 accounts certified covering more than £1.6 trillion of public income and expenditure

65 major outputs published (value-for-money reports and investigations), including nine outputs on the government's preparedness for exiting the European Union

The Committee of Public Accounts held 51 evidence sessions to tackle issues affecting the delivery of public services to the taxpayer.

We have begun planning for the work we will do in 2018 and 2019 to develop and consult on a new Code of Audit Practice due in 2020. The Code sets audit standards for some 950 local authorities and local NHS bodies and 10,000 smaller bodies such as town and parish councils. In addition we have published 13 outputs that included aspects of local services.



Our work affects people's lives



Our major reports consider the user experience and make a real difference to people's lives. For example, our December 2017 study on the higher education market found that this market has yet to prove effective in driving improvements on price or quality. Our work directly influenced the development of the new regulatory regime, as well as contributing to the wider debate, with the Government launching a review of post-18 education funding in response. Our report also had influence in Parliament: it informed the Education Select Committee's inquiry into value for money in higher education, and the Treasury Select Committee drew directly on our study findings in its report on student loans, concluding that market mechanisms alone are not sufficient to drive improvements in quality.

We deliver significant impact



94%

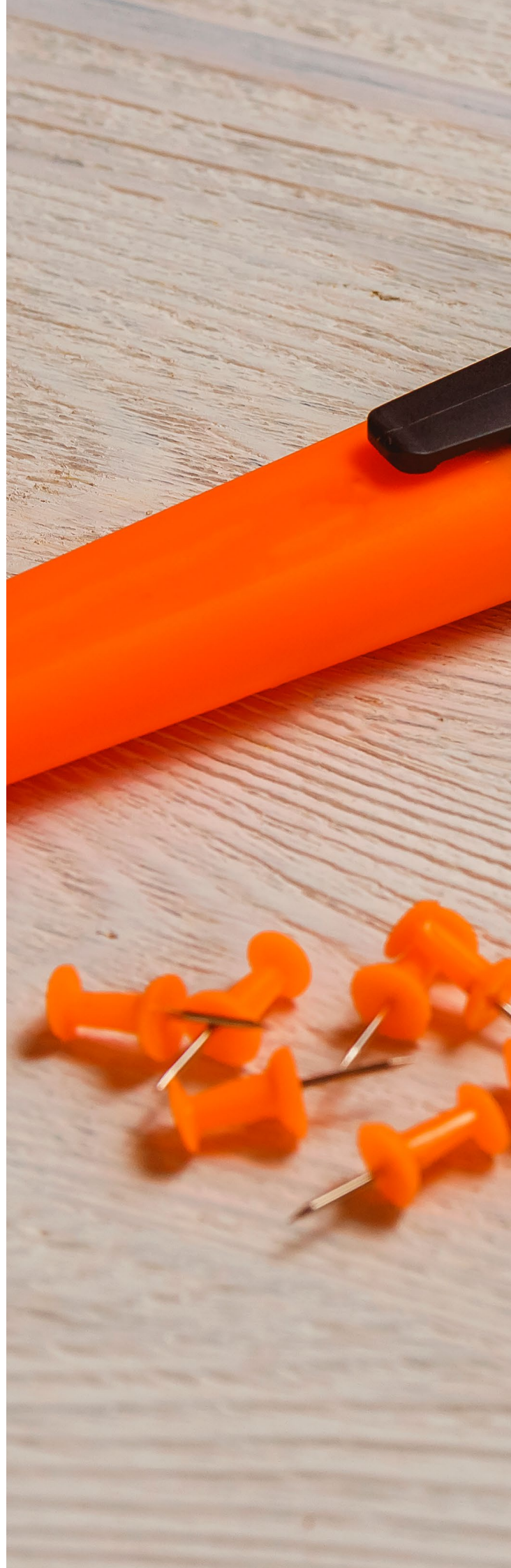
of the recommendations discussed with departments since April 2014 have been accepted.

Our briefing on Air Quality enabled an unprecedented four-way joint Parliamentary inquiry. It provided the committees with an understanding of why air quality matters and enabled MPs to question witnesses effectively and scrutinise the different policy options available.

Our work led to audited savings of

£741 million

in 2017. That's a saving of around £11 for every pound spent on running the NAO.



Our people are our greatest asset



We care about what our people think and typically get excellent response rates to our People Survey (78% in 2017). This reflects how engaged our people are in wanting to improve the way we work as an office. The Board and Leadership Team take the survey very seriously and respond to any concerns raised, as well as building on successes.

We are a recognised provider for the ACA professional training scheme and our trainees achieved a

94% pass rate

for the Professional Stage of the exams, beating the national average.

We are refreshing our Diversity and Inclusion strategy to make it more focused on achieving a diverse talent pipeline and creating an inclusive work environment.



National Aud



About the National Audit Office

OUR ROLE

The National Audit Office (NAO) is the statutory auditor of government departments and a range of public bodies. We report to, and are funded by, Parliament.

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

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. Both the C&AG and his staff are independent from government. We report objectively and independently on what the government does and we do not advise on policy objectives.

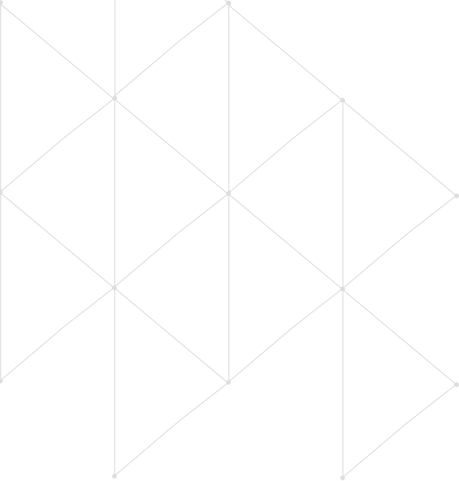
it Office

OUR VISION AND STRATEGY

We help the nation spend wisely. We do this by helping Parliament hold government to account and, in so doing, improve public services. What sets us apart from private sector audit firms is that we can strive to provide system-wide, integrated and independent public audit.

'System-wide' because the breadth of our remit gives us an opportunity to look across the public sector and beyond organisational boundaries. 'Integrated' because financial audit and value-for-money audit work can together provide Parliament with a fuller, broader and deeper understanding of the challenges facing the public sector. 'Public audit' because the NAO and the C&AG are statutorily independent, and this ensures our work provides an independent voice for the public interest represented by Parliament.

System-wide, integrated public audit can help to drive better public services for all. By looking across the public sector, one audit judgement building upon another with a clear view of the public interest, our role can be, and indeed should be, more than just driving accountability. It has the power to help public servants identify good practice, to help Parliament to understand better the practical effects of policy and to help government draw better connections between its decisions.



Achieving system-wide, integrated public audit relies in turn on our three strategic objectives for the NAO:

- **Developing and applying knowledge**

we aim to 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.

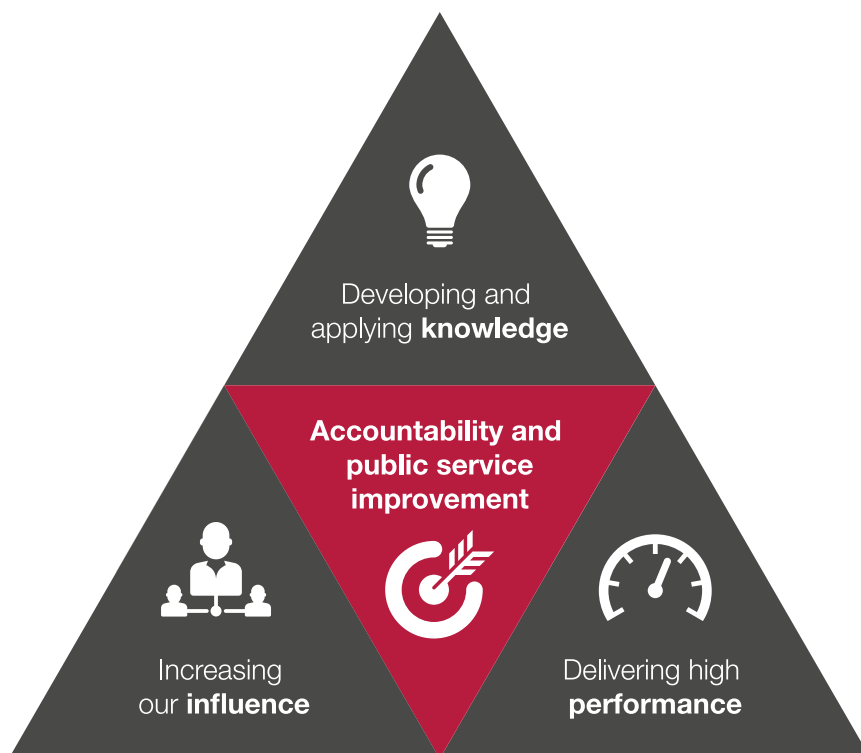
- **Increasing our influence**

we aim to improve the awareness and opinion of the NAO held by all our stakeholders, including members of Parliament and the bodies we audit such that government is more likely to implement our recommendations and look to us as a source of guidance.

- **Delivering high performance**

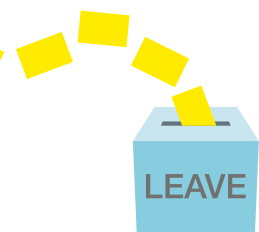
we use our funds cost-effectively and make sure we get the best from our people.

Our three strategic objectives



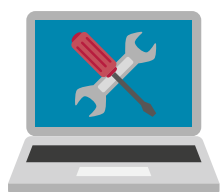
Meeting the challenges

Our work in 2017-18 has been defined by the high-level challenges faced by government. These are:



- **Exiting the European Union**

Public bodies are operating in a highly challenging and fluid environment, preparing for various scenarios and implementation timescales. These pressures place extraordinary demands on the civil service's policy-making capacity and its capacity to set up the systems and processes, and potentially new bodies, both to facilitate a smooth exit and maintain other areas of work.



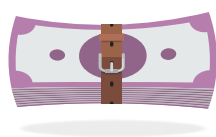
- **Digital transformation**

Technology and better data can help transform public service delivery; reducing costs and enabling more personalised services. But experience shows how difficult it is to achieve the intended benefits and that transformation programmes carry significant risks and a high chance of failure.



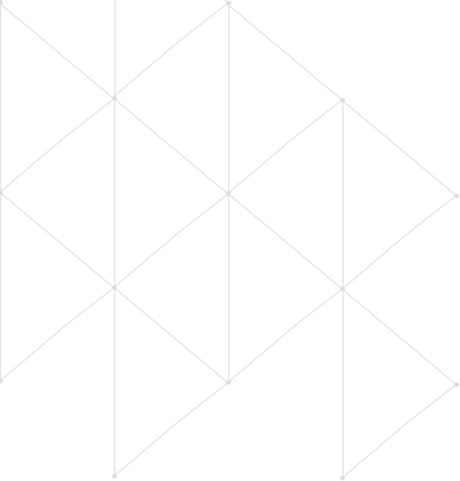
- **Accountability, localism and devolution**

New delivery models – such as private partnerships, increased localism and devolution, and complex infrastructure programmes – place considerable pressures on those implementing change, centrally and locally. They can also blur the lines of accountability, making it harder for Parliament to hold government to account. New, complex and novel accounting treatments, often requiring complex valuations, can also make financial reporting less accessible for the users of accounts.



- **Resource constraints**

The effect of ongoing spending constraint and limited government capacity, combined with the changing public needs and an ageing population, challenge the delivery of public services, including financial sustainability, in all sectors.



Our work

Our work is driven by our broad obligations to provide independent, statutory audits on behalf of Parliament and our aim of driving public sector improvement. It is always based on evidence, enabling us to form an opinion whether the financial statements of a public body present a true and fair view of the financial position and performance of the body in accordance with the statute, charter or other regulatory framework which underpins it. A focus on the evidence also allows us to get to the heart of why a programme or project underperformed or what made it successful. By comparing performance and insights between organisations and sectors, we detect systemic issues of wider importance, and identify good practice and lessons to be learnt.

Financial audit

The C&AG, with the support of the NAO, provides an independent audit opinion on some 370 individual accounts across the public sector, including the major government departments. The scope and nature of our audit work is defined by international standards in auditing. In the course of our audit we can also identify areas where management may improve their controls or processes.

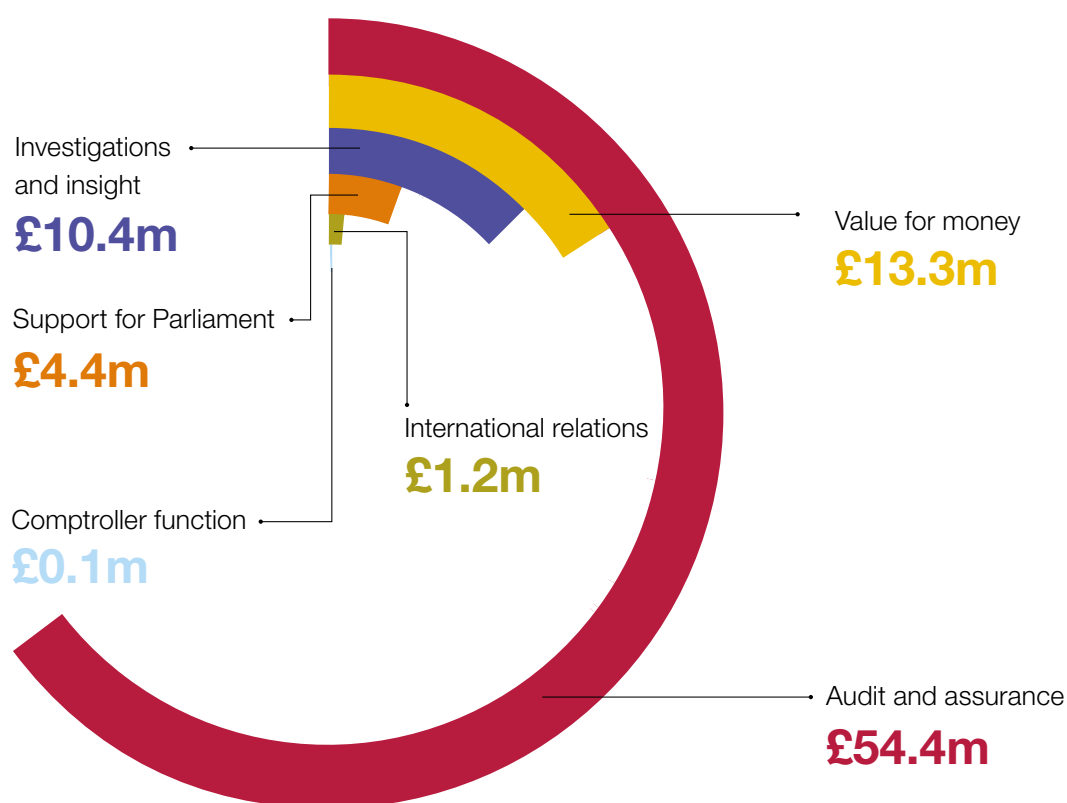
Wider assurance work

In addition to our financial audit work, the NAO carries out a wide range of other work to support Parliament in holding government to account. This includes:

- **Value-for-money work:** we examine the value for money – efficiency, effectiveness and economy – with which public bodies use their resources. Typically this focuses on a specific area of government expenditure and seeks to reach a judgement on whether value for money has been achieved. We also make recommendations on where improvements to public services can be made.
- **Investigations:** we conduct investigations to establish the facts when people or our work identify concerns about the use of public funds. Our investigations give a rapid and timely account of a situation or issue. To enable us to make this evidence available quickly, investigations do not seek to conclude on value for money.
- **Support for Parliament:** we support Parliament to hold government to account, supporting, in particular, the Committee of Public Accounts, other select committees and individual MPs in their scrutiny of public spending and delivery. The Committee of Public Accounts considers most of our value-for-money reports, and some of our investigations and financial audit work, in evidence sessions at which committee members take evidence from the senior officials of the organisations under scrutiny. The Committee of Public Accounts then typically publishes reports, including recommendations, the implementation of which is monitored and reported.

- **Local public services:** we report on the value for money of public spending locally, under the Local Audit and Accountability Act 2014. We are also responsible for the Code of Audit Practice, which sets out what local auditors need to do to meet their statutory responsibilities.¹
- **Correspondence:** we deal with a high volume of correspondence from members of the public and MPs, representing a key point of direct contact. Coupled with intelligence from our work, correspondence is useful for bringing issues to our attention. It can lead to investigations or value-for-money studies.
- **International work:** the C&AG is the appointed external auditor of a number of international bodies. In addition, as one of the world's leading public audit offices, we participate in a number of professional standard setting groups under the umbrella of the International Organisation of Supreme Audit Institutions (INTOSAI).

The range of our work 2017-18



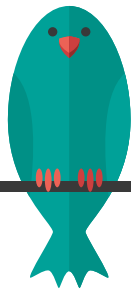
¹ National Audit Office, *Code of Audit Practice*, April 2015. Available at: www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2015/03/Final-Code-of-Audit-Practice.pdf

OUR VALUES

Our values underpin everything we do. We are:

INDEPENDENT

and objective, observing the highest professional and personal standards.



AUTHORITATIVE

in delivering work of the highest quality, drawing comprehensively on robust evidence and practice.



FAIR

and just in our work and the way that we treat people.



COLLABORATIVE

in our work with colleagues and stakeholders, to achieve our goals.



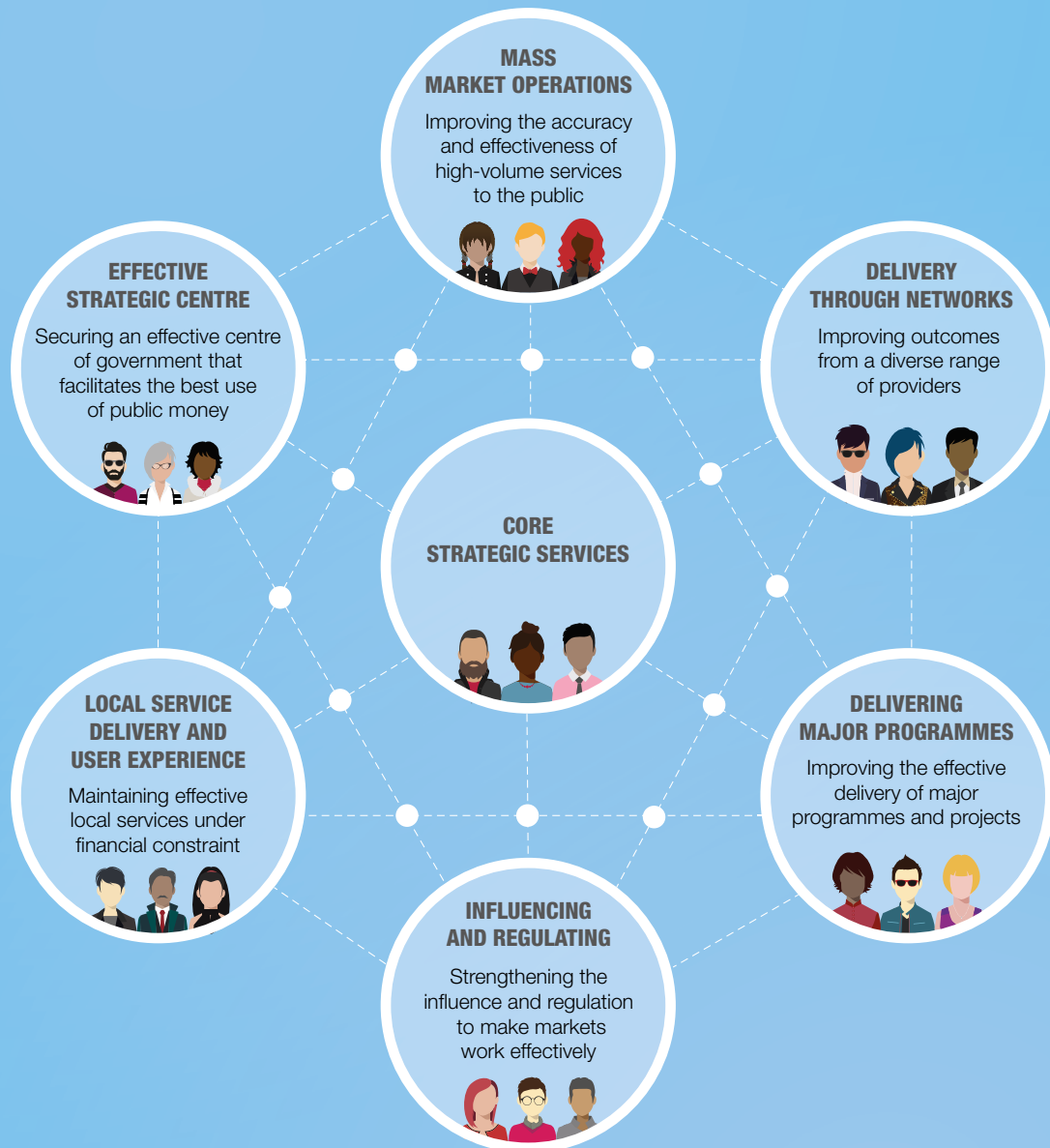
HOW WE ARE ORGANISED

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 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.

The NAO is supported by a central 'Core Strategic Services' cluster, which provides strategic input to the Leadership Team and expert advice on the quality of our work and the value we deliver to audited bodies and Parliament. This central cluster also ensures our internal operations run smoothly, our funds are used cost-effectively and our work and the insights from it are communicated widely to help drive public service improvement.

Our clusters and their objectives



Our clusters are supported by six networks of experts

- 1 Commercial and Contracting;
- 2 Corporate Finance;
- 3 Digital;
- 4 Operations and Process Management;
- 5 Project and Programme Management Delivery; and
- 6 Methods, Economics and Statistics.

PERFORMANCE ANALYSIS

How we have performed against our performance framework

We measure our performance against our strategic objectives, which are set out in our *Strategy 2017-18 to 2019-20*.² Our performance framework captures our areas of focus and aligns these with outcomes. We also closely monitor any risks and uncertainties that would prevent us from achieving our outcomes. More information on our strategic risk management is on page 67 in the Accountability Report.

Our performance framework is set out in the figure opposite.

² National Audit Office, *NAO Strategy 2017-18 to 2019-20*, December 2016. Available at: www.nao.org.uk/report/national-audit-office-our-strategy-2017-2018-to-2019-2020/

Our performance framework

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

DEVELOPING AND APPLYING OUR KNOWLEDGE

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

To serve Parliament's needs, we delivered a programme of work covering financial audits and wider assurance work. We also supported a full programme of evidence sessions for the Committee of Public Accounts. We plan our work so it is relevant to the issues that public bodies find most challenging and draws out the insights most likely to drive positive change across the public sector.

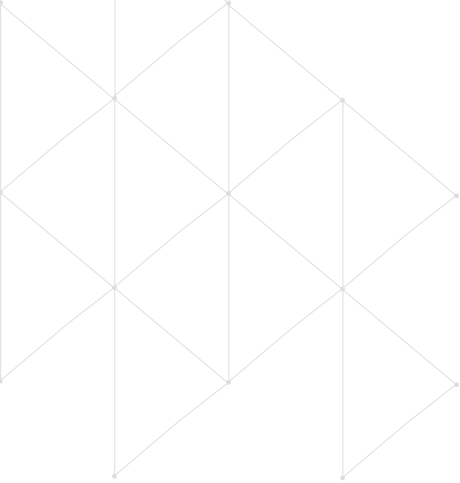
Financial audits

We certified 370 financial statements across public bodies including all government departments, agencies, arm's-length bodies, companies and charities. Our public sector audit portfolio increasingly includes commercial entities such as Network Rail, the BBC and UK Asset Resolution Ltd.

We use the knowledge and insight gained from our financial audits to inform our other work, such as our value-for-money studies and investigations. For example, through our financial audit and separately, correspondence, we identified delays and rising costs at the Disclosure and Barring Service, that we investigated further and reported on in our *Investigation into the Disclosure and Barring Service*.

Our audit methods and approach must be high quality and keep pace with the best of the private sector firms. We have carried on investing in our in-house IT audit capability to make greater use of technology in our audits to:

- **enhance quality:** by using automated tools that help our auditors focus their efforts on the key risks to their audits;
- **increase insight:** through improved understanding of business processes and supporting technology; and
- **deliver efficiency:** by automating the more routine aspects of our work to allow it to be done more quickly and so ensure we focus effort where in-depth work and professional judgement is needed.



Wider assurance work

In total, we published 65 value-for-money reports and investigations. Pages 30 to 36 captures some of the improvements we have brought about through this strand of our work.

We often work in multidisciplinary study teams so our wider assurance work can benefit from all our possible expertise. For instance, our value-for-money study into the government's balance sheet and government borrowing was undertaken by a team that included corporate finance experience and previous financial audit knowledge of the relevant audited bodies such as the Debt Management Office.

Exiting the EU

As part of our portfolio of work, nine reports provided Parliament with rigorous information about the implementation of EU Exit. These reports raised Parliament's awareness of the government's preparedness for exiting the EU.

Investigations

We have maintained a strong programme of investigations during the year, publishing 17 investigations, and supported five Committee of Public Accounts evidence sessions through our investigation work. For example, our investigation into the circumstances surrounding the monitoring, inspection and funding of Learndirect Ltd (the UK's largest commercial further education provider) was undertaken quickly in response to concerns reported in the media and raised by MPs, and provided clarity allowing Parliament to hold Learndirect Ltd and the government to account.

Local government

We deepened our relationships with finance directors and chief executives across local government, and worked closely with the Local Government Association, the Chartered Institute for Public Finance and Accountancy and the Society of Local Chief Authority Executives. We began planning for the work we will do in 2018 and 2019 to develop and consult on a new Code of Audit Practice due in 2020. In addition, we have published 13 outputs that included aspects of local services. For example, our study on *Combined Authorities* identified success factors and barriers to establishing a combined authority, and highlights risks to their long-term sustainability. It also addressed concerns set out by the Committee of Public Accounts.

Best-practice guidance

In response to feedback from the organisations we audit, where possible we publish documents summarising the insight, good practice or lessons learnt from across our work, and share the framework of questions and issues we consider when evaluating value for money. During 2017-18, we published seven such documents, for example *Cyber security and information risk guidance for audit committees*.

Support for Parliament

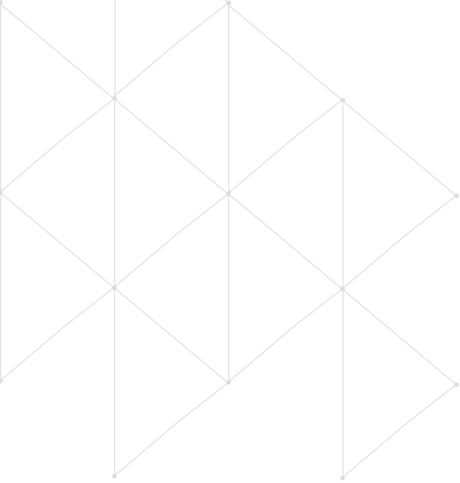
Our reports help Parliament to hold government to account for public spending. Our main route for this is by working with Parliament's select committees, particularly the Committee of Public Accounts. We supported 51 Committee of Public Accounts evidence sessions through a combination of written and oral briefings. We seconded nine NAO staff to various select committees.

We have been working to make more use of our financial audit work for Parliament. In the past year, the Committee of Public Accounts held evidence sessions on the accounts of the Department for Education, Department of Health, the Whole of Government Accounts and HM Revenue & Customs. Furthermore, bringing financial audit and value-for-money work together can provide Parliament with a deep understanding of the challenges facing public bodies. To this end, we supported an evidence session which brought together the Committee of Public Accounts' scrutiny of the Department of Health's accounts and our value-for-money report on the effectiveness of the Department's approach to managing the costs of clinical negligence.

At the beginning of this Parliament, we published 25 short guides on government departments including new short guides on the Department for Exiting the European Union, the Government Office for Science, the BBC and health arm's-length bodies. Short guides summarise what a department does, how much it spends, recent and planned changes and what issues MPs should look out when scrutinising government performance.

Correspondence

We provided 108 responses to correspondence from MPs, and 877 responses to correspondence from the public. We also responded to 87 enquiries under the Freedom of Information Act.



International

During the reporting year the C&AG was appointed as the external auditor of the World Intellectual Property Office and the Pan American Health Organization. In November 2017, he was elected as chair of the United Nations Panel of External Auditors. Our international audit engagements give us a valuable perspective on how public sector accounting is developed outside the UK and helps us identify good practice.

Our international work also includes a small portfolio of technical cooperation projects where we support other public audit offices build their capacity to deliver a high-quality audit service. These were performed on a full cost recovery basis, and we worked primarily with countries which have a wider UK interest.

Our impact

Each year we identify cases where our work or influence has contributed to better public services, or a financially quantifiable net benefit. We refer to this as our 'impact'. The following case studies, which have been agreed with the bodies to which they relate, capture some of the improvements we bring about.

Case studies

Our work has led to positive change

Home Office's effectiveness in tackling fraud

Our 2017 report on *Online Fraud* examined the Home Office's effectiveness in tackling fraud through the creation of the Joint Fraud Taskforce.

IMPACT

The publication of our report helped to raise the profile of the threat and received substantial media coverage. The British Retail Consortium used our report to urge closer partnerships between government, law enforcement and industry to tackle online fraud. As a result, bodies started to work more closely together, with the Taskforce expanding its membership. In addition, we encouraged greater transparency, and the Taskforce now publishes more information, including board minutes. Our report supported the Committee of Public Accounts by setting out the priority problems government needs to address.

The effectiveness of the Charity Commission

Our 2013 study into the regulatory effectiveness of the Charity Commission concluded that the Charity Commission was not an effective regulator. In autumn 2014, the Commission began a transformation programme in response to the concerns raised by our work and that of the Committee of Public Accounts. Our 2015 follow-up study found that the Commission was making good early progress, but that much hard work and challenges lay ahead.

IMPACT

The scope of the transformation programme the Commission put in place was influenced by our recommendations. Our dialogue with the Commission continued throughout the transformation and formed part of the ongoing audit engagement. In 2017, we carried out a review of progress against our, and Committee of Public Accounts', prior recommendations. We found the Commission continued to improve significantly from its position in 2013. The Commission has a clearer strategy, business plans and measures for its success.

Effect on consumers of future energy infrastructure projects

Our 2017 report on the government's deal for the Hinkley Point C nuclear power station reviewed the Department for Business, Energy & Industrial Strategy's (BEIS) economic and strategic case for proceeding with the deal. It found that the deal was risky and expensive for electricity consumers and that BEIS had not sufficiently appraised the alternative ways to structure the deal, or the costs and risks of the deal for consumers.

IMPACT

In response, BEIS has committed to incorporating an independent assessment of the impact on consumers of future energy infrastructure projects. It has also said that it will assess the cost and risk implications of a range of possible financing structures, with ministers being informed on a range of options, even where they are outside the prevailing policy.

Improving patient access to general practice

Our January 2017 study into improving patient access to general practice highlighted that 18% of practices closed by 3pm on at least one weekday. This was despite three-quarters of practices that closed receiving additional payments to provide access outside core hours. Our evidence suggested shorter opening hours are associated with poorer outcomes, including an increased chance of attending accident and emergency.

IMPACT

NHS England committed to review whether GP practices' opening hours are meeting patients' needs. In addition, NHS England and the British Medical Association agreed that, from October 2017, no practice that closes for half a day on a weekly basis would receive additional payments for extending their opening hours, unless by written prior agreement of NHS England. (To date, no practice has applied to do so.) This change ensures that patient access is maintained during core hours, while providing additional incentives to GP practices to open for longer, increasing patients' access to their GP.

Local support for people with a learning disability

In 2015 we reported that government had not met its target to move adults with a learning disability out of hospital. In the Committee of Public Accounts evidence session that followed, NHS England announced a programme to close mental health hospitals. In March 2017, we reported on progress and identified a number of barriers, including the lack of means to move money from mental health hospitals to pay for support in the community and not enough appropriate accommodation in the community.

IMPACT

Our continued efforts to shine a light on this issue are having an impact. The number of people with a learning disability in mental health hospitals has fallen, from 2,870 in March 2015 to 2,475 in December 2017. In its 2016-17 annual report, published in July 2017, NHS England outlined the measures it has in place and stated it was working with partners, including local government, to tackle some of the barriers identified in our report.


Clients acknowledge the value of our work

Removal and transfer of parts between ships and submarines

Our investigation, *Equipment Cannibalisation in the Royal Navy* looked at the removal and transfer of parts between ships and submarines where insufficient parts are available. We found that cannibalisation had increased 49% since 2012; cost of the work could exceed the value of parts being transferred; and given a lack of information, the Ministry of Defence (MoD) decided to cannibalise parts without understanding the longer-term impacts.

IMPACT

The Permanent Secretary said it was “an extremely helpful” study that valuably highlighted how the MoD managed ship and submarine maintenance and parts. The MoD told us it is now: improving cannibalisation reporting; reviewing the longer-term impact of cost-saving decisions; investing more in parts; and investigating further the reasons behind increased cannibalisation. The Permanent Secretary committed to ensuring that the lessons it has learnt from the Navy are applied across the other services.



Redundancy payments at High Speed 2 Ltd

During our financial audit of High Speed 2 (HS2) Limited in 2017 we found weaknesses in its control environment. These weaknesses contributed to HS2 management paying £1.76 million more in redundancy payments than permitted under its agreement with government. In October 2017 the Committee of Public Accounts took evidence based on our findings and our suggested improvements.

IMPACT

As a result, HS2 management designed and are implementing a detailed plan to improve its control environment, particularly around human resources and the Purchase to Pay system to prevent overpayment and limit the risk of fraud and errors. Management provided mandatory training for staff to help ensure they make better use of public money and the HS2 chief executive officer acknowledged the help provided by NAO in offering challenge to work more efficiently. Our work will help HS2 management support the scale of work required to build the new high speed railway and ensure public money is spent wisely.

Parliament has confidence in the independent assurance of the NAO

Sales of the Green Investment Bank

In 2017-18 we reported on the recent *Green Investment Bank* sale and on *PF1 and PF2*. Both reports have been well received by Parliament, academics and industry professionals.

IMPACT

The reports have increased the quality and level of discourse around infrastructure requirements, their delivery and their financing across government and industry, and as a result of the work the NAO has been asked to speak at a number of panel debates. The reports have drawn Parliament's attention to the unfulfilled infrastructure requirement and how it might be funded, and we are feeding into the consideration of an infrastructure bank.

Low-carbon heating and the Renewable Heat Incentive

Our 2018 report on the *Renewable Heat Incentive (RHI)*, which has an estimated spend of £23 billion by 2041, reviewed progress made to date by the Department for Business, Energy & Industrial Strategy (BEIS) and Ofgem. The report concluded that there was no reliable estimate of the amount overpaid to participants who have not complied with regulations, or the impact of participants gaming them, which could accumulate to reduce the scheme's value significantly.

IMPACT


As part of legislative scrutiny of draft RHI regulation amendments, the House of Lords Secondary Legislation Scrutiny Committee quoted our report extensively, saying our study shone a “bright light on the RHI scheme” and illustrated “a number of deficiencies”. BEIS and Ofgem are now reviewing their approach to estimating the impact of fraud, non-compliance and gaming. In an evidence session, Committee of Public Accounts members noted that our report included “helpful suggestions and recommendations”, which have “formed part of a project to oversee those improvements”.

The higher education market

Our December 2017 study on the higher education market found that this market has yet to prove effective in driving improvements on price or quality. We concluded that the Department for Education needs a more comprehensive approach to overseeing the market, and must use regulatory reforms with the establishment of the Office for Students to address the deficiencies we identified.

IMPACT

Our work has directly influenced the ongoing development of the new regulatory regime, as well as contributing to the wider debate that culminated, in February 2018, with the government launching a review of post-18 education funding. Our report also had influence in Parliament: it informed the Education Select Committee's inquiry into value for money in higher education, and the Treasury Select Committee drew directly on our study findings in its report on student loans, concluding that market mechanisms, in and of themselves, are not sufficient to drive meaningful improvements in quality.



Overseas sellers failing to charge VAT on online sales

In April 2017, we reported on UK-based traders' concerns around the issue of overseas online sellers fraudulently not charging VAT to UK customers. We highlighted the scale of the problem and the impact on compliant businesses. Our report generated significant media coverage and led to a Committee of Public Accounts evidence session in September 2017.

IMPACT

Our work raised the profile of this risk and injected urgency to HM Revenue & Customs' response. In the 2017 Finance Bill, the government introduced stricter legislation extending the existing rules to make online marketplaces liable for unpaid VAT on sales where they "knew or should have known" an overseas seller was not registered for VAT when they should be. Online marketplaces are also now required to display the valid VAT numbers of their sellers when provided with one. HM Revenue & Customs has responded to public and Parliamentary expectations and produced an agreement to encourage collaboration between itself and online marketplaces in tackling this problem.

We are a recognised authority in our core areas of expertise

Examining the government's balance sheet

Since 2016 we have published four reports examining the government's balance sheet: pensions; financial assets and investments; provisions, contingent liabilities and guarantees; and government borrowing. These reports highlighted some of the major risks to public finances as seen in the Whole of Government Accounts and provided insight into the financial effect of government's decisions.

IMPACT

In response to these reports, the focus of the Committee of Public Accounts on the government balance sheet and subsequent recommendations, HM Treasury increased its resources for analysing the balance sheet and strengthened its approvals process for contingent liabilities. Most recently, HM Treasury initiated a review across government that aims to make more effective use of assets, improve the return from investments and reduce the cost of liabilities. HM Treasury hopes to make savings from this review to reinvest in public services in the future.

Fraud and error in the benefits system

The NAO reported on fraud and error within the Department for Work & Pensions (DWP) over many years, including as part of our financial audits and reports, such as *Minimising the cost of administrative errors in the benefit system* (2010), *Reducing losses in the benefits system caused by customers' mistakes* (2011), *Housing Benefit fraud and error* (2014), *Fraud and error stocktake* (2015). We also produce an annual report on the DWP Accounts setting out the level of fraud and error.

IMPACT

In 2015, in response to our recommendations, DWP began to take a more structured approach to tackling fraud and error, using analysis of the causes of fraud and error in each benefit to develop its strategy and interventions. DWP considers that this work led it to apply greater scrutiny to overpayments and underpayments. The value of this analysis was shown in our March 2018 report, *Investigation into errors in Employment and Support Allowance (ESA)*. Based on its new detailed analysis of the causes of error, DWP identified that it had a significant error relating to how people were transferred from previous types of incapacity benefit to ESA. Their investigation found that an estimated 70,000 people may have missed out on 'premium' payments which may on average be around £5,000 per person. In August 2017, DWP established a special team to contact people affected and pay arrears, where due, with the aim of correcting all underpayments by April 2019.

In addition to these case studies, each year, we assess where our work has resulted in an improvement with a financially quantifiable net benefit. The audited bodies concerned confirm these financial impacts and our external auditor gives assurance on them. During the calendar year 2017, our financial impact was £741 million which represents a saving of around £11 for every pound we spend. A list of financial impacts valued at more than £5 million is included on page 117.



Holding government to account on its environmental performance

We play an important role in holding government to account on performance against its environmental objectives. This is in addition to NAO's own direct environmental impact, which is covered on pages 49 to 51 of this report.

Our briefing on air quality

For example, to support the Environmental Audit Committee and Parliament more widely for holding government to account on its environmental performance, we published a briefing on government's approach to improving air quality in the UK. The briefing supported a joint inquiry by the Environmental Audit Committee, the Environment, Food and Rural Affairs Select Committee, the Health Select Committee and the Transport Select Committee.



Lilian Greenwood MP, chair of the Transport Select Committee:

"The NAO's Air Quality report proved extremely valuable in shaping the Select Committees' joint inquiry into air quality. It provided our committees with a clear and common understanding of why air quality matters; the government's latest plan to tackle pollution and the analysis that underpinned it; and the factors that would ensure the plan was successfully implemented or risk failing to meet its objectives. The NAO's work enabled us to question witnesses effectively, including ministers, in our oral evidence sessions, scrutinise the different policy options available and consider what resources were needed to tackle this pressing public health concern."



Neil Parish MP, chair of the Environment, Food and Rural Affairs Select Committee:

"The NAO's timely report on air quality provided our unprecedented four-way joint inquiry with a detailed and accessible assessment of the government's approach to tackling air pollution. The NAO's work was used to inform the briefings, evidence sessions and the four committees' joint Report. The NAO also provided welcome expertise with private briefings to members during the inquiry. We were pleased with the NAO's level of support and look forward to working with them in the future."

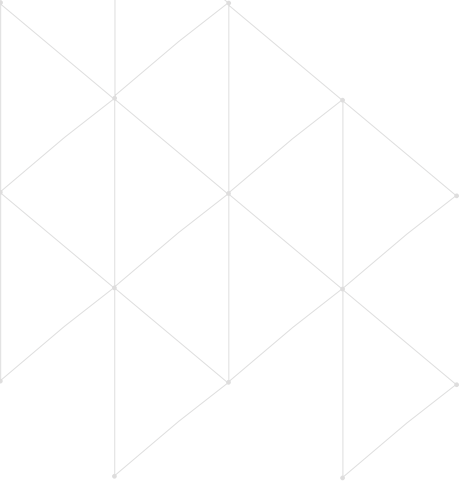


Mary Creagh MP, chair of the Environmental Audit Committee:

"The NAO's forensic analysis of government spending, its targets and achievements, as well as its responsiveness to our often unreasonable demands, has been invaluable to my committee. Its work enabled Parliament's joint inquiry into air pollution to drill down into the detail of the problem and the cost-effectiveness of the government's policies. The NAO's Defra and Energy team is developing new metrics to support Parliamentarians holding the government to account on environmental protection and sustainable development in the UK. They are a magnificent team, and a real joy to work with."

Sustainability at the Ministry of Justice

We reviewed the Ministry of Justice's approach to environmental issues across its estates management, procurement and governance. We found that it had met or was making progress against many of its environmental targets, and it was developing its approach to a number of key risks and opportunities for the environmental sustainability of its estate. However, there were still significant gaps and weaknesses in its accountability arrangements, and the Ministry of Justice was not yet meeting its ambition to embed sustainability in everything it does.



INCREASING OUR INFLUENCE

Response to recommendations arising from our work

To make sure our work has a beneficial effect and public bodies respond to our recommendations, we monitor Treasury Minutes documenting government's response to Committee of Public Accounts' reports and recommendations. During 2017-18, the government accepted 174 (90%) of the Committee's 194 recommendations. By comparison, in 2016-17 the government accepted 349 out of 397 (88%) of the Committee's recommendations and, in 2015-16, 195 out of 240 (81%).

We have been tracking the progress that departments have made in implementing recommendations arising from all our value-for-money reports since April 2014. Although there is substantial overlap between these and the Committee of Public Accounts recommendations, tracking all recommendations provides a broader measure of the impact of our work.

In our value-for-money reports between 1 April 2014 and 31 December 2017, we made 850 recommendations. Of these, 709 have been discussed with audited organisations, and of those: 208 have been implemented; 462 are in the process of being implemented; and 39 have been rejected. This equates to an acceptance rate of 94%.

Perceptions of the NAO

MPs

To achieve our aim of being an authoritative source of information and advice to support Parliament to hold government to account effectively, we engage with select committees, individual MPs, Parliamentary staff and the House of Commons Library.

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

The results of the 2017 survey show that our reputation among the MPs surveyed remains strong. The majority of MPs (nearly eight out of 10) across Parliament are familiar with us, or at least know a fair amount about us. This is well above average compared with the public and private organisations measured on the survey.

In response to direct survey questions:

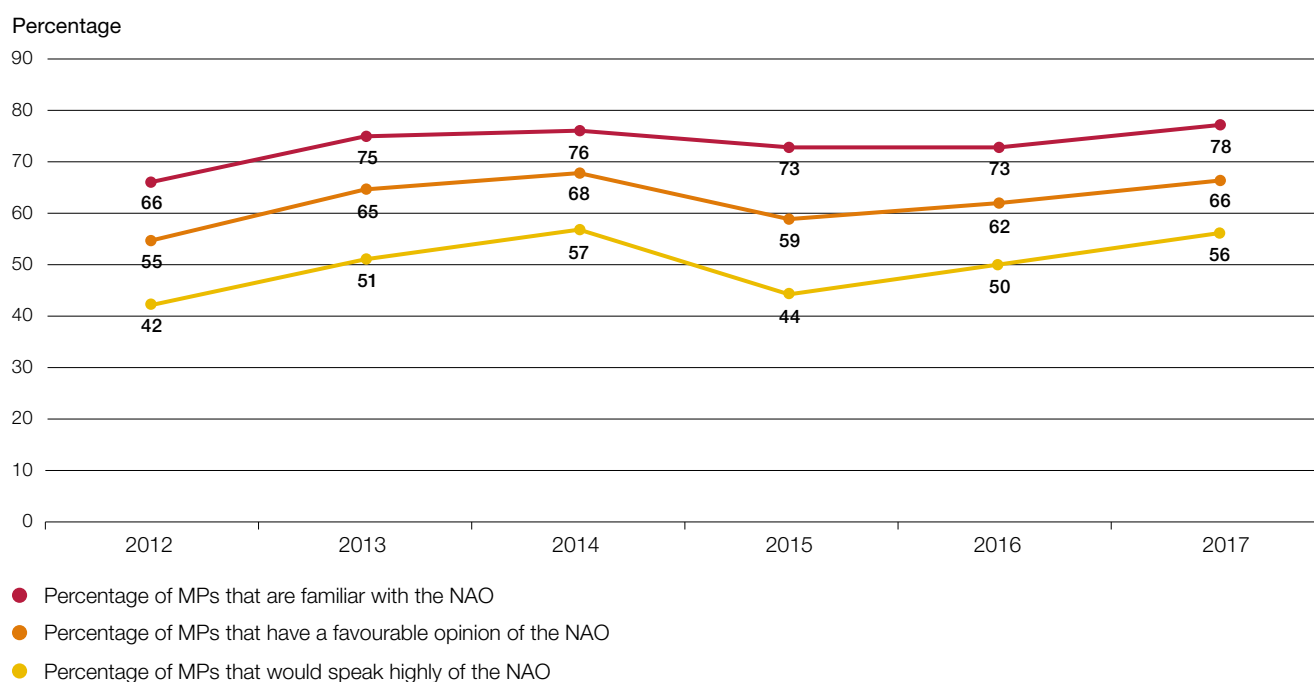
- 88% of MPs surveyed rated us as above average for being authoritative;
- 80% rated us as above average for being impartial and independent; and
- 77% rated us as above average for acting with honesty and integrity.

MPs' rating of our communication with them is higher than comparable organisations, but remains a focus for improvement. In 2017-18, we began new ways of communicating with MPs about our work. We sent each of our value-for-money reports and investigations to an average of 100–150 MPs, tailored to fit with their known areas of interest.

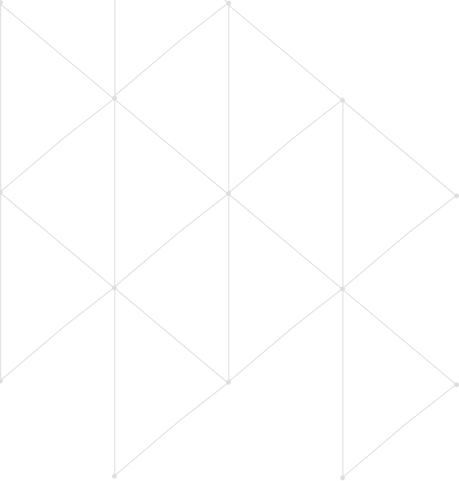
Since April 2012, we have monitored all references that Parliamentarians make to the NAO and the Committee of Public Accounts in Parliament. We received six references in Parliament per sitting day in 2017-18, which is one reference per day higher compared with last year.

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 (139), Conservative MPs (69), Labour MPs (58), SNP (7), Other (5), Winter 2017



Audited bodies

An important measure of the quality and effect of our work is how much it helps senior civil servants and chairs of audit committees to drive improvements in public services. So, we seek feedback on the NAO through an independently conducted survey.

In line with 2016, the bodies we audit remained satisfied with the NAO. Ninety-four per cent of survey respondents agreed that their relationship with us was good or very good. Respondents have a high regard for our financial audit work, with 88% agreeing it is of high quality and 88% saying that they would actively seek our feedback on accounting and financial control issues. We draw on feedback from survey respondents to support continuous improvement in our practice.

Of those respondents directly involved in value-for-money studies (61 people), around seven in 10 rated the quality of their most recent value-for-money study as good or very good. Around 70% also agreed that their most recent study aligned with their organisations' strategic priorities and covered the right issues. A majority, 59%, said our value for-money work overall brings valuable insights for their organisation, with 13% disagreeing. This feedback was in line with that in 2016. Each year we use this feedback to help us improve the quality of our value-for-money work.

Overall, 55% of respondents said the NAO's recommendations lead to improvements and 61% that during the NAO's work with them they had made changes prompted by the NAO's engagement.

Adding value through our audit work

We are now developing a programme of more active engagement with those we audit to recognise and promote the insights from our work and to ensure we share our work with those who need it. As our audited bodies face new challenges, such as cyber security, or continue to address issues in financial reporting, our aim is to build a better understanding and engagement with them.

We are starting to see this deeper engagement reflected in the way Accounting Officers talk about the work of the NAO, both in terms of our value for money work and our financial audit, including in areas where senior officials may not have appreciated the value before. For example, in October 2017 in giving evidence to the Committee of Public Accounts regarding the qualification of the HS2 Ltd financial statements, HS2 Ltd CEO, Mark Thurston told the Committee how he valued the work the NAO had done in identifying control weaknesses in the organisation. He said "we have accepted all the NAO's recommendations around our end-of-year accounts. We are putting most of those actions in place – many of them are already complete". He went on to say "we continue to meet the NAO every month, so they can see the measures we are taking to put corrective action in place to deal with some of our controls issues. We found the NAO Report really helpful."

DELIVERING HIGH PERFORMANCE

Financial performance

We are committed to the efficient use of public funds and making sure we maximise the value from what we do. This year we have been able to provide Parliament with a full programme of work and met all our statutory responsibilities within our agreed budget. We have achieved a 22% cost reduction in real terms against our 2010-11 baseline, during which time we have also taken on significant new responsibilities in local government. At least 80% of our resources were spent on front-line activity.

Financial performance 2017-18

	Budget	Outturn	Saving	Saving
	£m	£m	£m	%
Audit and assurance work	85.4	83.9	1.5	2
Income	18.8	19.1	0.3	2
Net resource requirement	66.6	64.8	1.8	3
Capital expenditure	1.3	0.8	0.5	38
Cash expenditure	67.2	64.1	3.1	5

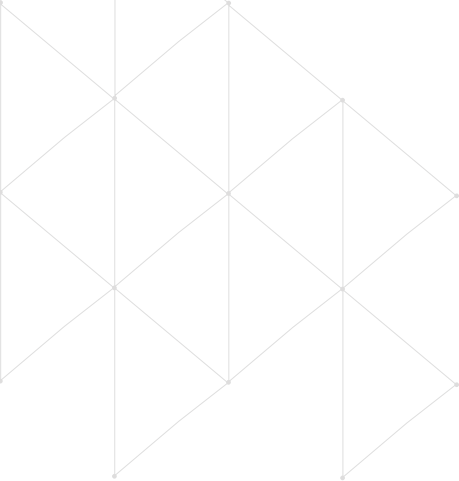
Note

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

Audit and assurance work

Our audit and assurance work, which includes financial audits, value-for-money studies, investigations, international work and direct support for Parliament – cost £83.9 million, compared with a budget of £85.4 million. This is a variance of around 2%.

Staff and staff-related costs make up 70% of the NAO's cost base, and the budget for 2017-18 allowed for a complement of 805 people, and covered our annual pay award of 1%. Our budget also included flexibility to allow us to increase pay by an additional 1% should activity in the external recruitment market mean we needed to do so to retain the necessary skills and staff numbers. However, during the year, we achieved the planned numbers of people without needing to increase pay further. Accordingly, this budget has not been used.



In 2017-18 we resourced our programme of work as efficiently as possible. Although we included provision in our budget for professional input in areas where we do not have an in-house capacity or specialist skills, we only use this if we have to. We prefer to deploy our own resources where we can complete our planned work without risk to our statutory obligations. Our recent investment in new IT systems to replace legacy business processes is now realising benefits: increased productivity of our teams through better resource allocation tools and minimising downtime between projects. We achieved savings through reducing our need to buy in support from professional services firms.

Income

The NAO receives income from UK and international fee-paying audits, the provision of services to international and overseas clients, secondments to other organisations and rental of surplus NAO headquarters office space. Our income for the year was £19.1 million, which is £0.3 million more than our budgeted income of £18.8 million. This variance of 2% has allowed us to reduce the running cost of the NAO to Parliament. The main increase in income is from our audit portfolio, where we adjust fees to reflect the scope of the work done.

Capital expenditure

Each year the NAO has a separate capital budget to purchase assets, the use of which extends beyond one year, such as laptops, mobile phones and video conferencing equipment. The budget also covers enhancements to our office buildings.

Our capital spend of £0.8 million was less than our budget of £1.3 million, a variance of 38%. However, our budget for the year included £0.5 million allowance in case we needed to replace the roofing of the London building, where we suspected water damage to the roof. Detailed technical inspections found this was not the case and accordingly, this budget was not used.

Cash expenditure

We only needed to draw down cash funds from Parliament of £64.1 million against our cash allowance of £67.2 million in the year. This variance of 5% is mainly a consequence of our savings against both our resource and capital budgets, although it also reflects differences in timings of payments and receipts with suppliers and audit bodies with whom we charge an audit fee.

Resources for 2018-19 and beyond

After allowing for £20.6 million of income, our 2018-19 net resource requirement is £67.5 million. In addition, we also have a £1.4 million budget for capital expenditure. These budgets include:

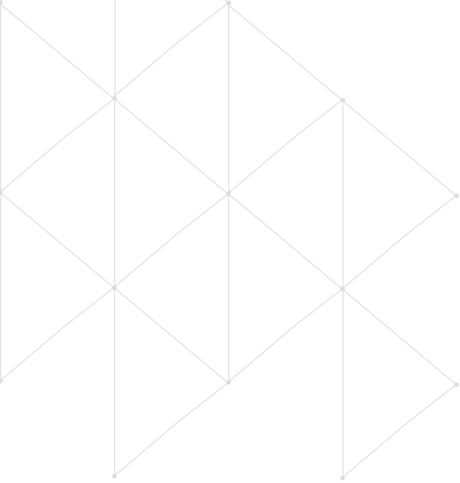
- £1 million to allow us to provide independent assurance to Parliament in regards to the financial settlement with the European Union (EU); and
- changes to the size of our audit portfolio of up to £0.8 million, reflecting the extra responsibilities we are asked to take on.

It is important we budget effectively for additional work, as responding to new requests can be a challenge to absorb within existing resource plans. For example, national devolution, and the development of new accountability and audit arrangements, may well mean extra audit work. We will have further discussion with the Public Accounts Commission on the impact of this change when it becomes clearer.

The figure below provides further information on how the NAO's resources have changed over the previous five financial years and plans for the following two years. Plans beyond 2018-19 are necessarily provisional and may change.

Resource use over time

	2013-14 Outturn (£m)	2014-15 Outturn (£m)	2015-16 Outturn (£m)	2016-17 Outturn (£m)	2017-18 Outturn (£m)	2018-19 Estimate (£m)	2019-20 Proposed (£m)	2020-21 Proposed (£m)
Audit and assurance work	84.6	82.7	83.2	83.1	83.9	88.1	87.3	86.8
Income	(20.3)	(21.4)	(19.3)	(19.2)	(19.1)	(20.6)	(21.0)	(21.1)
Net resources required for audit and assurance work	64.3	61.3	63.9	63.9	64.8	67.5	66.3	65.7
Restructuring of the NAO	4.2	–	–	–	–	–	–	–
Total net resource requirement	68.5	61.3	63.9	63.9	64.8	67.5	66.3	65.7
Capital expenditure	1.5	1.2	1.1	0.9	0.8	1.4	0.8	0.8



Getting the best from our people

We deliver high-quality work because we invest in recruiting, developing and retaining the right calibre people. We are committed to providing the right working environment so that people can achieve their full potential.

Attracting and retaining high-quality people

Our largest sources of talent are our graduate and school leaver programmes, with 62 people recruited to our graduate scheme and eight to our school leaver scheme in 2017. We also recruit professionals with expertise in a wide range of valuable areas, including economists, statisticians, business analysts and those with commercial and digital skills.

Last year, 94% of our trainees passed the Professional Stage examinations for the Association of Chartered Accountants qualification at the first attempt (compared with 83% nationally) and 85% passed the Advanced Stage examinations at the first attempt (which is in line with the national average).

In response to feedback from trainees that commented on the shift from a three-year training programme to support them before they qualified to a post-qualification situation, we have introduced a two-year programme that is designed to support audit principals and senior analysts moving into a lead role on audit engagements.

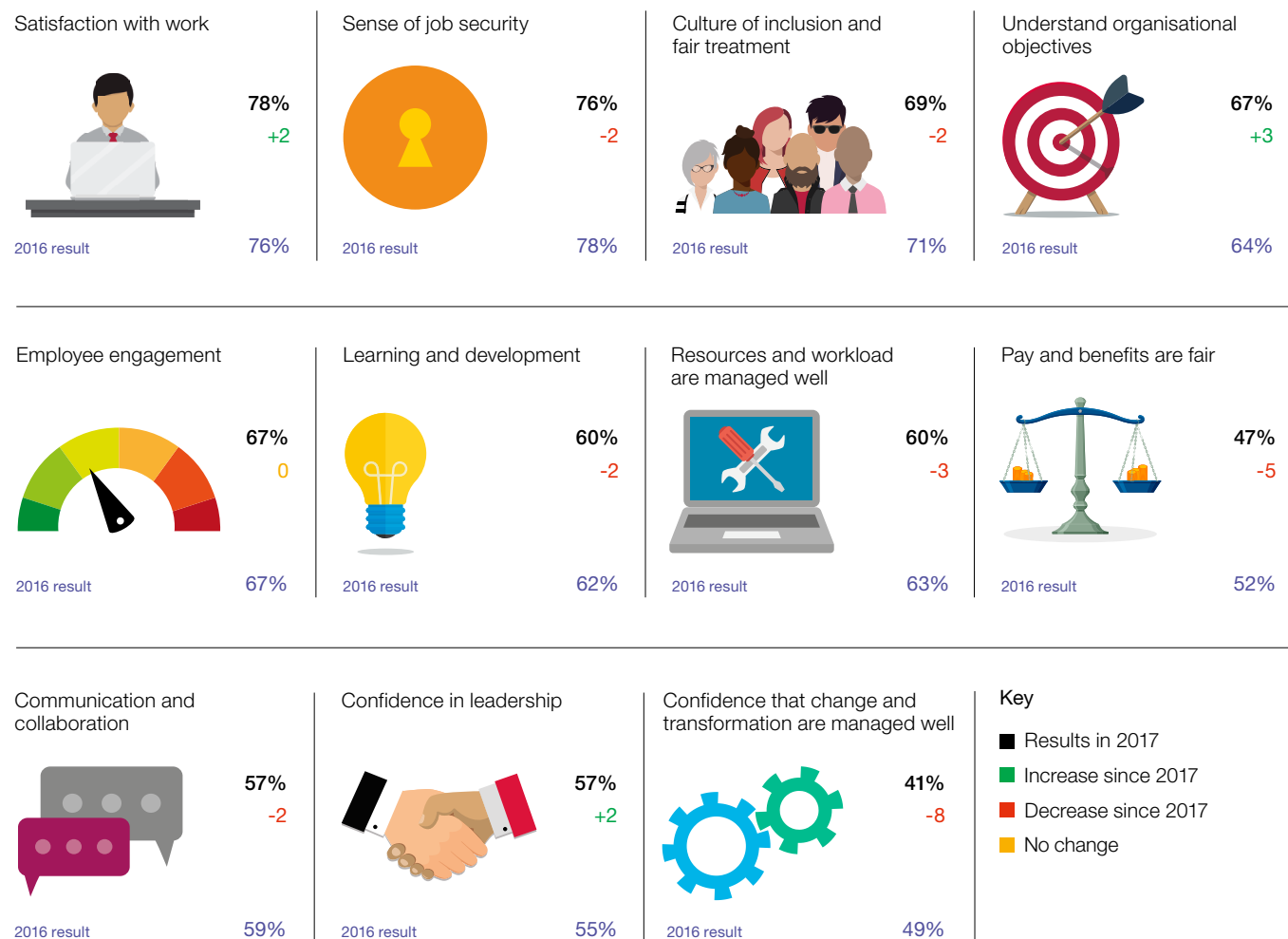
We have rolled out a training course to everyone in the organisation, under the name 'The Way We Work'. The programme aims to build on the current strengths we have and empower NAO people even more, so they feel more confident to contribute to our work and ultimately help us bring the best the NAO has to all of our work. Teams have undertaken the training over an 18-month period. Throughout this time, learning and behaviour change have also been embedded through peer coaching, team coaching, supplementary learning and optional team activities.

Supporting our people

We conduct an annual survey of our people and benchmark the results against comparable organisations. In 2017, 78% of NAO people completed the annual survey, which was the same percentage as 2016. The results are in the graphic below.

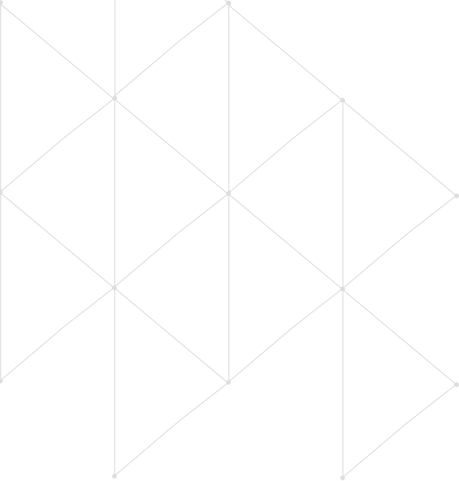
National Audit Office people survey results

Results of the survey in 2017 compared with 2016



Note

- 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. In total there are 75 questions in the survey, the results of which are summarised in the 11 topic areas listed above.



We are pleased that the results largely show a consolidation of the significant increases in our 2016 survey, and that they continue to compare favourably with our benchmarks. Employee engagement, at 15% higher than the civil service average, reflects the pride our people feel in working at the NAO and their motivation.

These results reflect our efforts to develop our culture and way of working to better support our people. Although we are pleased to maintain our positive level of engagement, we want to see further improvements in how our people feel about working at the NAO. Our key areas of focus in the coming year will be: to further improve our internal communications, particularly how we consult with our people; to be clearer about the changes we are making within the organisation and why we are making them; and to develop our workforce planning capability to improve our peak workload management.

Diversity and inclusion

The NAO has a three-year diversity and inclusion strategy, which will be refreshed later this year. The strategy is formed of three pillars: improving our talent pipeline; building an inclusive work environment; and reflecting diversity issues in our work. Highlights during 2017-18:

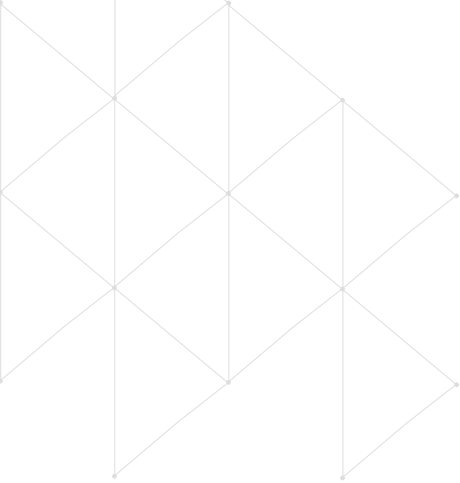
- We introduced a 'challenger' role into the appraisal moderation process to ensure all appraisal decisions are made using evidence against clear criteria. This helped us to achieve an appraisal profile where there was no material difference in the distribution of the highest performance ratings by gender, ethnicity or disability.
- We commissioned the Business Disability Forum (BDF) to conduct a review of our reasonable adjustments process and engagement levels of our disabled staff. We developed a detailed action plan to address the recommendations from the report and have already achieved Level 2 of the Disability Confident scheme.

However, we have made slower progress in other areas. For example, as members of Access Accountancy, our 2016 social mobility graduate data was benchmarked alongside other members. The NAO was found to have performed well in attracting those from disadvantaged backgrounds but was less successful in converting applications into training contracts. We have commissioned a review of our trainee selection process, including an analysis of the effect on diverse groups, to understand how we can address this.

In January 2018, the NAO reported a mean gender pay gap of 10.6% and a median pay gap of 11.3%. The gap is largely explained by a fewer number of women in senior positions at the NAO. We have identified a number of actions to support women to progress their careers, which will be incorporated into our new diversity and inclusion strategy to be launched in the summer.

The NAO Diversity and Inclusion 2017-18 Annual Report provides a more detailed account of progress over the third and last year of our diversity and Inclusion Strategy.³

³ National Audit Office, *Diversity and Inclusion Annual Report 2017-18*, June 2018. Available at: www.nao.org.uk/report/nao-diversity-annual-report-2017-18



Our environmental impact

It is our policy to manage our organisation in the most environmentally responsible manner, to comply with the applicable environmental legislation and with any other requirements necessary. Our direct environmental impacts include the greenhouse gas emissions associated with business travel and energy use, 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 and summarised in the table overleaf.⁴ 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.

In line with the publication of the new Greening Government Commitments we implemented new environmental targets in August 2017. We are pleased to report that we have achieved these new targets and have plans in place to improve upon these results in 2018-19.

We recognise the importance of independent assurance and have continued to maintain ISO 14001:2015 certification for our environmental management system.

⁴ National Audit Office, *Environmental and Sustainability 2017-18 Data*, June 2018. Available at: www.nao.org.uk/report/nao-annual-report-and-accounts-2017-18

NAO performance against the environmental targets in the Greening Government Commitments

Plant, equipment and purchased energy



Target

16%

reduction in CO_{2e}
(compared with 2010-11)

Result

31%

reduction
achieved

Business travel



Target

30%

reduction in domestic
flights (compared with
2009-10)

Result

60%

reduction
achieved

Water usage per full-time equivalent (FTE) employee



Target

**ratio of 4m³
to 6m³**

per FTE

Result

5.6m³

achieved

Waste generation and paper consumption



Target

Less than
10%

of waste to go to landfill

Result

0%

of waste sent
to landfill



Reduce the overall
amount of waste
generated from

**0.14
tonnes**

per FTE in 2011-12

Reduced to

**0.09
tonnes**
per FTE



Increase the proportion
of waste which is
recycled from

85%

in 2011-12

99%
recycled



50%

reduction in paper
(compared with
2009-10)

55%

reduction
achieved

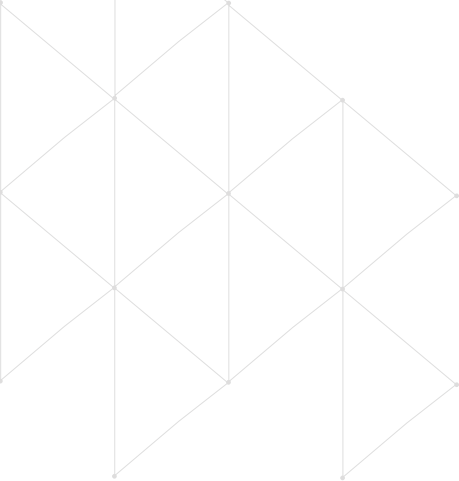


Explanation of variances

We have achieved a 31% reduction in greenhouse gas emissions related to plant, equipment and purchased energy. In 2017-18 we achieved a 6% reduction in our energy consumption. The result also reflects a significant change in the electricity factor for calculating the UK's CO_{2e} emissions, which could not have been anticipated at the time the target was set. The change in the electricity factor for 2017-18 reflects the significant reduction in the UK's reliance on coal-generated energy, and the reduction in emissions from power stations.

Our reliance upon domestic flights has reduced since 2009-10, following improvements in communications technology, changes to our travel policy and the relocation of work to our satellite office in Newcastle.

Building upon our recycling achievement of 99%, we will be further focusing on waste reduction (especially of single-use plastics) in the coming year.



Risks

Our main risks to achieving our targets have been highlighted as our electricity and gas consumption. These have been identified as having the main impact upon our environmental credentials and, as a result, energy consultants have been appointed to assist us with reduction strategies in 2018-19.

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 that unnecessary packaging is kept to a minimum.

The majority of our procurement is through Crown Commercial Services and Eastern Shires Purchasing Organisation frameworks; all suppliers on these frameworks have been through a rigorous selection criterion, which includes sustainability checks. If there is no suitable framework, we run a relevant Official Journal of the European Union (OJEU) process where all suppliers are tested to ensure they adhere to the current sustainable procurement legislation.

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. Over the past year the NAO's Great War Commemoration Group has planted 21 shrubs to mark the 100th anniversary of the deaths in the Great War of men from the Exchequer and Audit Department (E&AD – the predecessor to the NAO).

In addition to NAO's direct environmental impact, we also play an important role in holding government to account on performance against its environmental objectives and this is covered in pages 37 to 38 of this report.

Sir Amyas C E Morse KCB

Comptroller and Auditor General

21 June 2018

2 | ACCOUNTABILITY REPORT



CORPORATE GOVERNANCE REPORT

Directors' report

The directors of the National Audit Office comprise the Leadership Team and the non-executive Board members, whose details are set out in the Governance Statement.

Register of interests

Members of the Leadership Team and Board members have to complete a declaration of interests. There were no declarations of significant company directorships or other interests that may have conflicted with their management responsibilities and no member of the Board or the Leadership Team 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 note 1.6 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 70. 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 42 of the 'Performance analysis'. Additional information is included in the Remuneration Report on page 72. 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 'Financial Performance', which begins on page 42.

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.

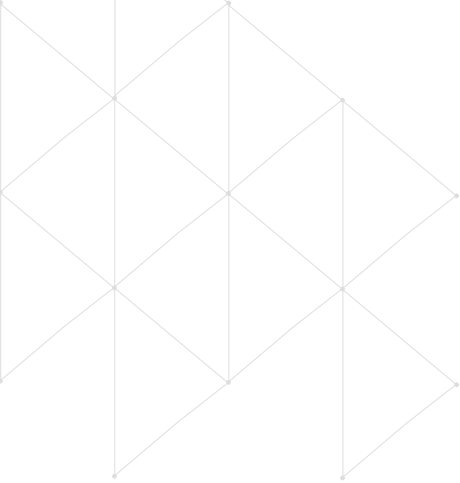
The directors who held office at the date of approval of this directors' report confirm that, as far as they are each aware, there is no relevant audit information of which the external auditors are unaware. Each director has confirmed that they have taken all the steps that they ought to have taken 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 Comptroller and Auditor General (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.

The NAO Board and Leadership Team



Lord (Michael) Bichard KCB

Chair of the Board

Michael Bichard worked at senior levels in local government and was Chief Executive at Brent Borough Council and Gloucestershire County Council. He then moved to 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 positions including Vice-Chancellor of the University of the Arts London, chair of the Legal Services Commission, founder Director of the Institute for Government, chair of Shakespeare's Globe Theatre, chair of the Design Council, and has recently retired as chair of the Social Care Institute for Excellence. He also chaired an enquiry into the Soham murders in 2004. Michael is currently chair of Bristol Business School Advisory Board, non-executive director at The Key (an education support company), and a Trustee of the

River & Rowing Museum. He received a knighthood in 1999 and became a cross-bench member of the House of Lords in 2010. He was for five years Deputy Speaker of the House. Michael's first term of three years as Chair of the NAO ended on 9 January 2018. He has been re-appointed as Chair for a final three-year term of office.



Sir Amyas Morse KCB

Comptroller and Auditor General
and member of the Board

Sir Amyas Morse was appointed Comptroller and Auditor General on 1 June 2009, for a fixed non-renewable term of 10 years. Amyas is a member of the Institute of Chartered Accountants of Scotland. He 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.



Janet Eilbeck 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), and the independent financial expert for the Department for Education and Employment. She has been a non-executive member of the Board and the chair of the NAO's Audit Committee since October 2016.

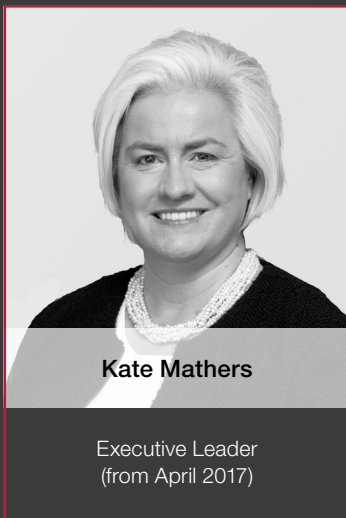


Abdool Kara was appointed to the Leadership Team as Executive Leader with strategic oversight of our work relating to local service delivery in February 2017.

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.

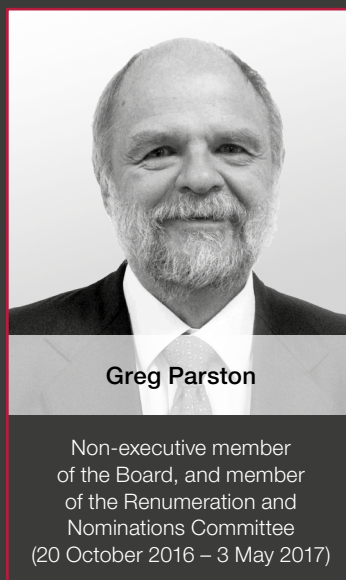


Daniel Lambauer joined the NAO in 2009 as a performance measurement expert and helped establish our local government value-for-money team. Prior to his appointment to the Leadership Team in April 2017, he led the development of the NAO's value-for-money practice. Daniel is the Executive Leader with responsibility for the NAO's strategy and operations. Prior to joining the NAO, Daniel worked in a range of sectors, including academia, management consultancy and the civil service.



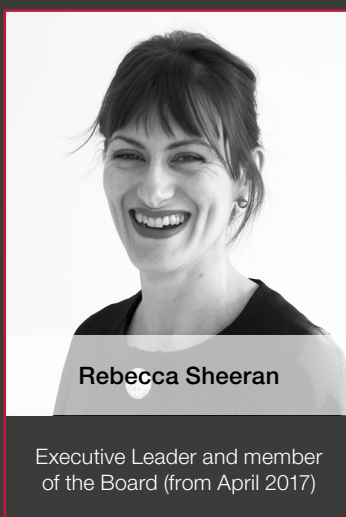
Kate Mathers joined the NAO in 2000 and joined the Leadership Team in April 2017 as Executive Leader with oversight of financial audit. Prior to her appointment to the Leadership Team, she led the development of the NAO's financial audit practice.

Kate is a Chartered Accountant with many years' experience auditing a wide range of public sector bodies. She held senior management positions in finance and operations while working on secondment at the Independent Parliamentary Standards Authority, and sits on the Institute of Chartered Accountants in England and Wales' (ICAEW's) Council.

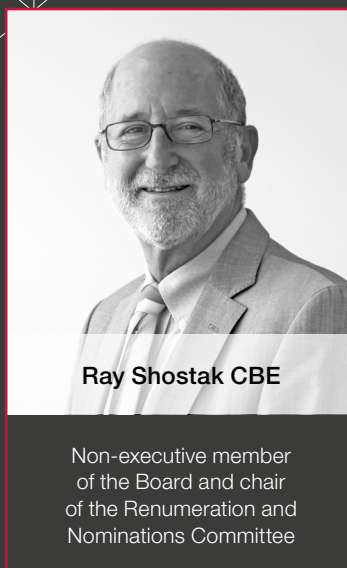


Greg Parston was appointed to the NAO Board in October 2016 as a non-executive member. Greg is a senior manager and organisation consultant with strong skills in governance, strategy and change management. He has extensive experience in public service delivery and policy and has advised leaders in government, 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 and chair of Dartington Hall Trust. Greg resigned in May 2017 due to his increasing external and overseas commitments.



Rebecca Sheeran joined the NAO in 2004, and joined the Leadership Team in April 2017 as Executive Leader with oversight for value for money. She is a Chartered Accountant with many years' experience auditing a wide range of public sector bodies, covering both financial and value-for-money audit. Prior to taking up post on the Leadership Team Rebecca led the NAO's value-for-money audit of the Department for Transport and Network Rail, including work on Modernising the Great Western Railway and progress with preparations for High Speed 2.



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 Her Majesty's 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 has been a non-executive member of the Board and chair of the Remuneration and Nominations Committee since January 2015. Ray completed his first three-year term as non-executive member of the Board on 31 December 2017, and his appointment was renewed on 1 January 2018 for a final three-year term.



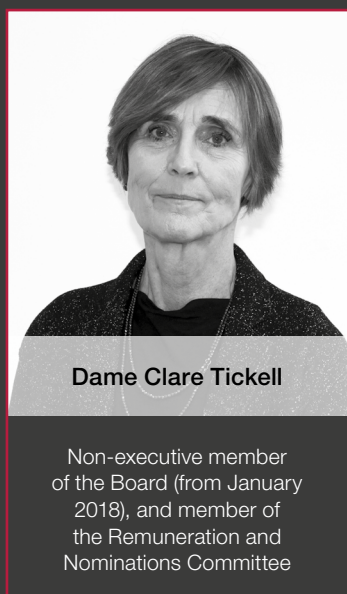
Stephen Smith joined the NAO in August 2015 as an Executive Leader. Before that, he had more than 20 years' experience as a partner with KPMG, where he led a number of initiatives for the firm, nationally and internationally. His experience ranges across a broad spectrum, including audit, mergers and 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.



Robert Sykes OBE has significant experience of working in local government, and served as Chief Executive of Worcestershire County Council for 10 years. He 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 Metropolitan Borough Council. He stepped down in the summer of 2014 when the intervention successfully ended. Robert is the NAO's Senior Independent Member. He completed his first three-year term as non-executive member of the Board on 31 December 2017, and his appointment was renewed on 1 January 2018 for a final three-year term.



John Thorpe joined the Leadership Team in January 2014 and from April 2017 has been one of the Executive Leaders on the NAO Board. He has experience across a range of portfolios throughout his NAO career, including employment, agriculture, international, and the NAO's technical team. As a director he was responsible for our financial audit of 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.



Dame Clare Tickell has extensive experience at Board level having led a variety of organisations across the charitable and public housing sectors. She is Chief Executive Officer of Hanover Housing Association, having previously been Chief Executive of Action for Children. In 2014 she became Chair of the Early Intervention Foundation. Dame Clare qualified as a social worker at Bristol University in 1984 and worked for social care and housing organisations including Centrepont, and Stonham Housing Association. She was also a commissioner on the Royal Society of Arts (RSA) 2020 Commission into Public Services; and former board member of The Guinness Partnership. She is a Fellow of the RSA, and Chair of the Community and Voluntary Services Honours Committee. From 2011 until 2013 she chaired the Commission on the Future of Hospice Care. She was appointed as non-executive member of the Board on 10 January 2018 by the Public Accounts Commission for a three-year term of office, renewable for a second and final three-year term.



Max Tse joined the NAO in 2011. For five years he led the NAO's value-for-money audit of the Department for Work & Pensions, and more recently has been responsible for the NAO's approach to digital transformation in government. Max is now the Executive Leader with oversight of Digital Transformation.

Prior to joining the NAO, Max worked as a consultant with McKinsey & Co. He has worked in the UK and overseas in a range of sectors, including logistics, regulatory strategy, retail, climate finance and health.



Michael Whitehouse OBE

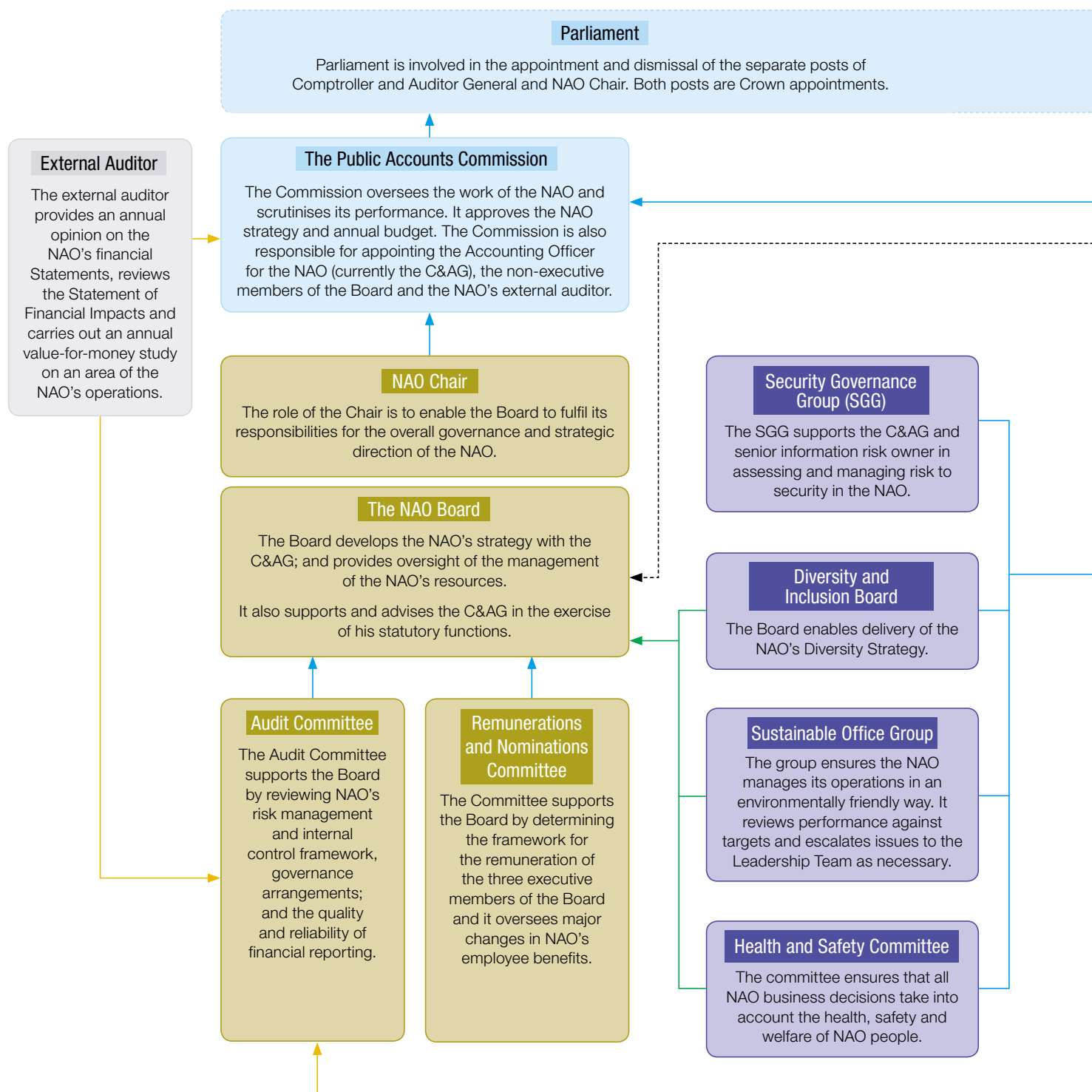
Chief Operating Officer and
member of the Board
(until 18 April 2017)

Michael Whitehouse OBE was appointed Chief Operating Officer in July 2009. Michael has extensive experience of value-for-money work across government and internationally and is a qualified accountant. Prior to retiring in April 2017, Michael was responsible for the strategy, capability and operational performance of the NAO, and led the NAO's work on cross-government issues. Michael was also chair of the Operational Capability Committee.

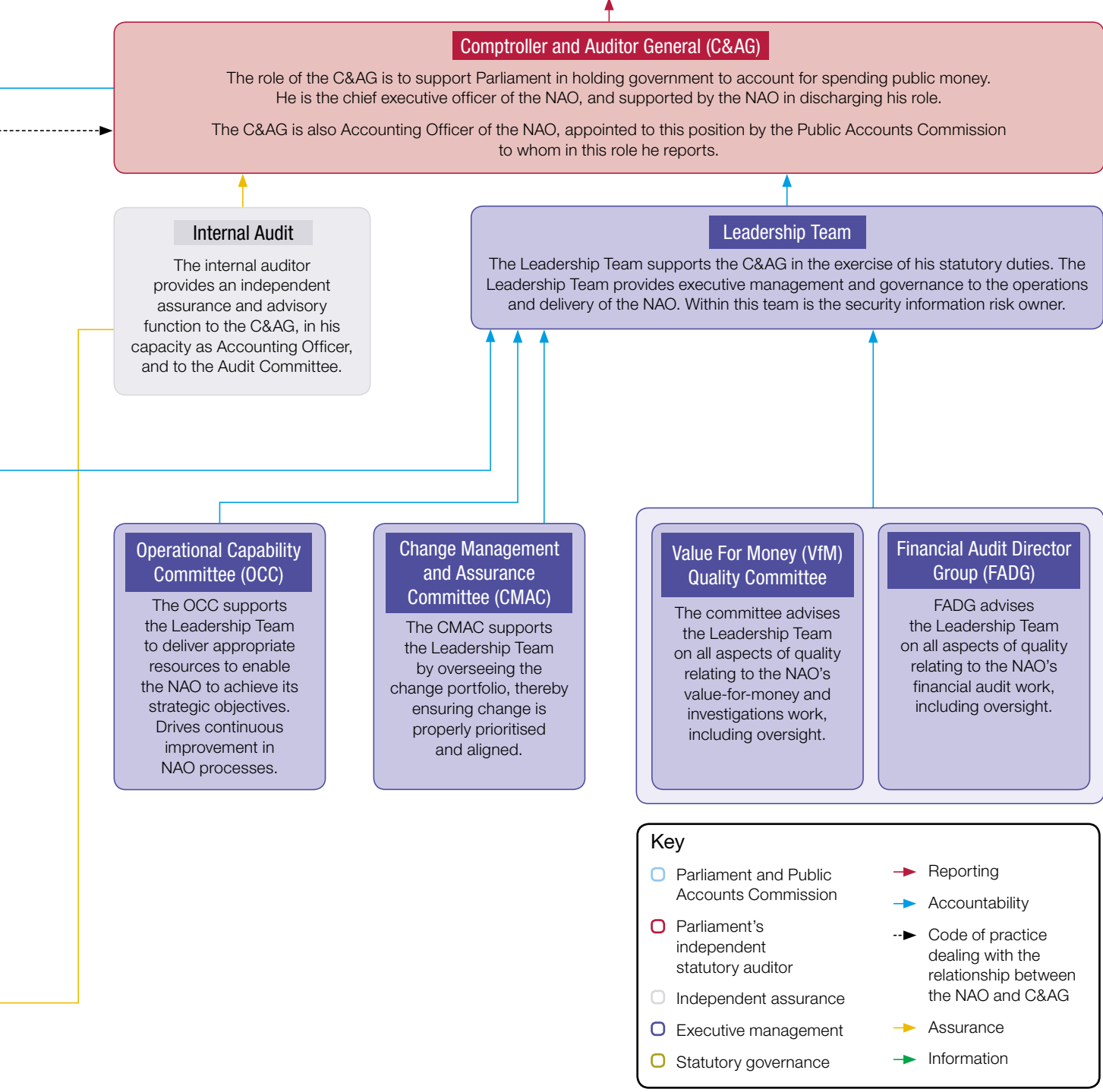
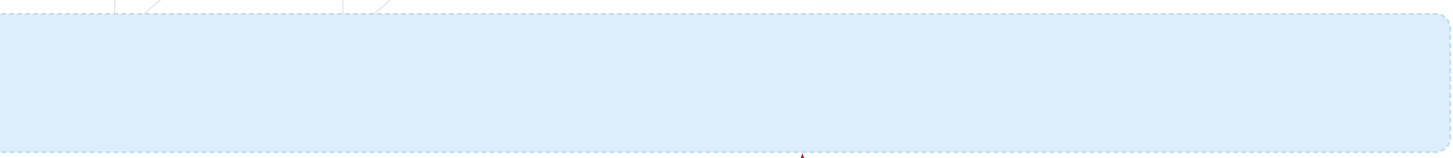
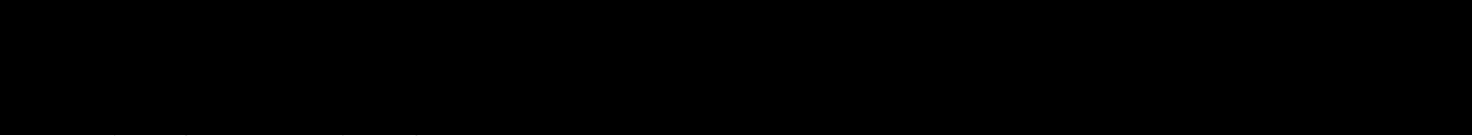
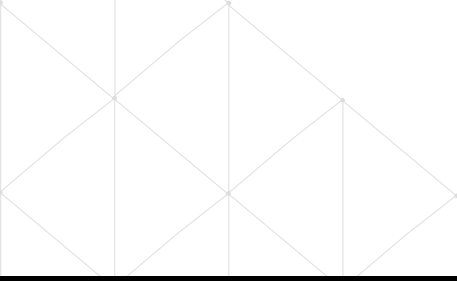
Structure of governance

Our governance structures ensure there is proportionate and independent oversight and controls of our own operations, while preserving my independence as the C&AG with respect to audit judgement. The graphic overleaf sets out NAO's governance framework.

NAO governance framework



Source: National Audit Office



The Public Accounts Commission

The NAO is accountable to Parliament via 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's annual budget (Estimate) and lay it before the House, to consider the NAO's strategy and to appoint the external auditor of the NAO.

The Commission met three times during 2017-18: in December 2017 it considered and approved the NAO strategy 2018-19 to 2020-21 and in March 2018 it approved the NAO's budget for the 2018-19 financial year. The Commission held a separate session in January 2018 to consider and approve the appointment of Dame Clare Tickell as a non-executive member 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 annual budget, and for the appointment of executive members of the Board.

The Board and I prepare a strategy for the NAO, an annual budget 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. I am a permanent member of the Board and the other executive members are appointed for a one-year renewable term by the non-executive members, based on my recommendation. The non-executive members are appointed by the Public Accounts Commission, with the exception of the NAO chair, who is appointed by the Queen under letters patent, based on 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 Board's performance

The Board met seven times and held an additional strategy meeting. 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 annual budget, consideration of the NAO's work programme and monitoring of progress during the year; and
- provision of support and advice – the Board addressed a range of specific issues drawn from our strategy such as local government, digitalisation, exiting the European Union, the NAO's financial audit development plan, and NAO's work on programme management, and commercial and contracting.

The NAO Board undertook an externally facilitated review of its performance. The review concluded the Board should move to a more strategic way of working, which it is implementing. The Chair has evaluated the performance of the non-executive members of the Board and the Chair's performance has been evaluated by the senior independent director.

Attendance at Board and committee meetings in 2017-18

Members	Board meetings		Audit Committee		Remuneration and Nominations Committee	
	No. of meetings attended	No. of eligible meetings	No. of meetings attended	No. of eligible meetings	No. of meetings attended	No. of eligible meetings
Michael Bichard (Chair)	7	7	–	–	–	–
Amyas Morse (C&AG)	7	7	–	–	–	–
Janet Eilbeck	7	7	4	4	–	–
Greg Parston ¹	–	1	–	–	–	–
Ray Shostak	6	7	–	–	2	2
Rob Sykes	6	7	4	4	2	2
Dame Clare Tickell	2	2	–	–	1	1
Daniel Lambauer	7	7	4	4	–	–
Rebecca Sheeran	6	7	–	–	–	–
John Thorpe	7	7	3	3	–	–

Notes

1 Resigned.

The Audit Committee

The Audit Committee met four times. The Committee considered the application to the NAO of new accounting standards, in particular IFRS 15 'Revenue from contracts with customers', which will become effective for public sector entities for the financial year ending 31 March 2019. In addition, the Committee reviewed 28 internal audit reports of which two contained a limited assurance opinion. The Committee also carried a self-assessment of its performance based on the NAO's own 'Audit Committee self-assessment checklist' and has implemented a small number of recommendations for improvement.¹⁰

The Committee received the external auditor's annual value-for-money review on *Delivery of benefits from the NAO's IT-enabled change programme*. The conclusion the external auditor has drawn is overall positive. The review makes 13 recommendations, which management is taking forward.

The report was submitted to the Public Accounts Commission in December 2017 and can be found on the Commission's website: www.parliament.uk/documents/public-accounts-commission/15-NAO-VFM-report-on-IT-enabled-change-programme.pdf

The Remuneration and Nominations Committee

The Remuneration and Nominations Committee held two meetings. The Committee focused on the remuneration of the executive members of the Board and the goals for the Leadership Team.

Leadership Team

I am supported by an executive Leadership Team, which meets weekly and provides executive management and governance of the operations and delivery of the NAO's objectives. I expanded the Leadership Team from five to seven members to provide for greater capacity for the team to be directly involved with assignments where appropriate, such as the audit of the BBC. The Leadership Team also supports me by overseeing the management of the NAO's financial resources, our people and our programme of work.

¹⁰ National Audit Office, *Audit and Risk Assurance Committee Effectiveness Checklist*, November 2017. Available at: www.nao.org.uk/report/audit-committee-self-assessment-checklist-2-2/

Risk management and control

Our strategic risk register captures those risks with the potential to have a significant adverse impact on the business and achievement of the objectives set out in the NAO's strategy. Each risk is owned by a member of the Leadership Team. Risks were reviewed and reported on each month and included as a standing item on the Board's meeting agenda. During the financial year, the Board and Leadership Team discussed specific areas of risk. The risk register is organised around key themes as summarised in the following table.

Risk area	Appetite	Key actions and issues in year
NAO Franchise/Reputation 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 line with our commitments.</p> <p>We have maintained a strong focus on priority outputs that address issues of relevance to Parliament and the wider public. We have continued to build on the high quality of our work through ongoing financial audit and value-for-money audit development plans.</p> <p>Adding value to our clients has been a focal point during the year as we seek to enhance awareness of the significant benefits that the NAO's work brings to central government and the wider public sector.</p> <p>The NAO has an integrated approach to stakeholder engagement, with strategies in place for managing our relationships with Parliament, and central and local government. Stakeholder feedback for 2017 was consistently positive and we are taking steps to address any issues arising – for example, building stakeholder awareness and understanding of NAO's investigation work.</p>
Operational 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 concluded our Business Improvement Programme and the introduction of a new enterprise management system. We have realised anticipated benefits and are seeing much greater data-driven oversight and decision-making in the business. The collaborative working and staff engagement inherent in this transition has continued. In particular, completion of the second phase of our 'Way We Work' training programme has helped to embed further these positive behaviours across all 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) and have continued to maintain external validation of our systems through International Standard for Information Security Management (ISO27001) and Public Services Network alignment and accreditations. We attained accreditation to government's Cyber Security Essential Plus Scheme in March 2018.</p>

Risk area	Appetite	Key actions and issues in year
Finance The risk that the NAO does not use its resources economically, efficiently or effectively or spends more than its approved budget (excess vote).	Averse	<p>We maintained close oversight of our financial position through the year. This involved active management during the first half of the financial year to mitigate cost pressures caused by unusually low staff turnover rates.</p> <p>We ended the year in a healthy financial position with no significant related issues arising from the work of NAO's internal or external auditors.</p>
Major projects 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 (CMAC) established in 2015-16 continued to provide oversight of proposed and ongoing change projects across the business. The C&AG now chairs this committee, reflecting the importance attached to its work and the need to manage change projects effectively.</p> <p>As noted above, this year saw the successful conclusion of our Business Improvement Programme. We also moved our payroll from in-house provision to an external supplier. A Payroll Board has overseen this important project, providing strong management to ensure successful operation of the payroll during the initial months of the new arrangements.</p> <p>We have been proactive in our preparations for the advent of the General Data Protection Regulation (GDPR) in May 2018. Overseen by the NAO Board and Leadership Team, we have established a GDPR Project Board to take forward a range of work streams. Chaired by an executive leader, the Project Board comprises experienced staff from across the business. Key actions include the appointment of a data protection officer; the update and refresh of standing documentation and data protection training for all NAO staff.</p>
Impact of government policy 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 actively engage with government policy developments that impact directly on the operations or work of the NAO.</p> <p>We have an ambitious programme of EU Exit-related work under way and produced nine EU Exit-themed reports during the year. This is a fluid area and we are taking an agile approach to ensure the NAO's contribution meets the expectations and needs of key stakeholders, while maintaining our objectivity and independence.</p> <p>We have continued to engage with HM Treasury colleagues to clarify audit and accountability arrangements arising from Scottish devolution and how this affects our work and reporting responsibilities.</p>

Notes

1 Risk appetites have the following definitions:

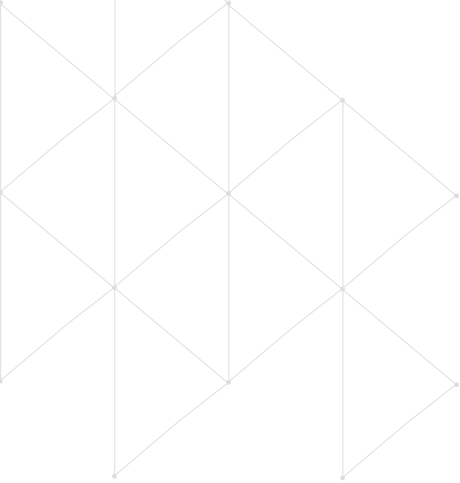
Averse: avoidance of risk and uncertainty is a key organisational objective;

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; and

N/A: while we need to be alert to government policy changes and monitor associated risks and opportunities closely, the emergence of such risks is not within the control of the NAO.



Internal whistleblowing

Staff and others who work for or provide services to us are able to raise a concern without fear of reprisal. Our policy covers situations where someone wants to raise a concern about suspected malpractice or impropriety within the NAO, which in their reasonable belief has occurred, is occurring or is likely to occur.

We have published our policy on our website to be transparent about how we manage internal whistleblowing.¹¹

In 2017-18 there has been one internal whistleblowing activity brought to the attention of NAO management, which is currently under investigation.

Complaints

An expression of dissatisfaction about the actions or inaction of the NAO can be considered under our complaints policy, which comprises a formal three-stage complaints process.¹² We will make every effort to resolve satisfactorily a complaint in the first instance, but if this is not the case a complaint will be reviewed by a member of staff who has not been involved in the case. The final stage of our process is consideration by a member of the Leadership Team.

In 2017-18, we handled six complaints under this process. One of these progressed through the three stages of our process.

Managing our 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 2017-18, we continued to develop our Information Security Management System (ISMS) to address the changing landscape. Key factors influencing the re-engineering of our information security strategy during 2017-18 have included:

- changes to the regulatory framework such as General Data Protection Regulation (GDPR);
- the number and sophistication of cyber threats continue to increase rapidly every year; and
- training and supporting NAO people to remain vigilant and alert to the threats and comply with our policies and procedures.

¹¹ National Audit Office, *Internal Whistleblowing Policy*, February 2018. Available at: www.nao.org.uk/about-us/wp-content/uploads/sites/12/2018/02/NAO-internal-whistleblowing-policy-EXTERNAL-2018.pdf

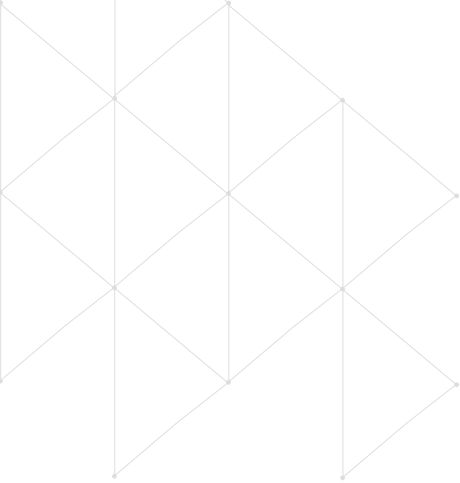
¹² Complaints about the National Audit Office webpage. Available at: www.nao.org.uk/contact-us/complaints-about-the-nao/

The NAO draws comfort from external challenge and validation of our ISMS through external assessment and accreditation. In particular:

- We have successfully maintained our Public Services Network (PSN) accreditation during the financial year; and
- in the opinion of an independent ISO27001 assessor *“The NAO has an effective Information Security Management System in place that is well communicated and embedded throughout the organisation. It is well managed and maintained by full-time 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”*.
- In March 2018 we were assessed by an accredited certification body against the government’s Cyber Security Essential Plus Scheme. NAO is now certified to ‘cyber security essentials plus’.

Personal-data-related incidents

There were no protected personal-data-related incidents reportable to the Information Commissioner’s Office in 2017-18. Neither were there centrally recorded protected personal-data-related incidents not formally reported to the Information Commissioner’s Office in 2017-18. 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 have been 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, and comments made by external auditors in their management letter and other reports.

I have noted the DIAA's 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 'bird's eye view' of the assurance framework;
- designing and applying a risk-based methodology, which has been validated by an External Quality Assessment commissioned by the Audit Committee as conforming to the Public Sector Internal Audit Standards;
- delivery of 28 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 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.

Significant internal control weaknesses

I am able to report that there were no significant weaknesses in the NAO's system of internal controls in 2017-18 that affected the achievement of the NAO's key policies, aims and objectives.

Sir Amyas C E Morse KCB
Comptroller and Auditor General

21 June 2018

RENUMERATION AND STAFF REPORT

Remuneration policy for senior management

Comptroller and Auditor General and NAO Chair

The Prime Minister and the Chair of the Committee of Public Accounts jointly determine the remuneration of the Comptroller and Auditor General (C&AG). The remuneration of the NAO Chair is determined by the Public Accounts Commission. In accordance with the provisions of Part 2, 13(5) of the Budget 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 the executive members of the Board. The non-executive members appoint the executive members for a renewable period of 12 months, on the recommendation of the C&AG. During 2017-18, Daniel Lambauer, Rebecca Sheeran and John Thorpe were executive 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 73 to 77 has been subject to audit.

Single total figure of remuneration (audited)

Non-executive Board members

Name	Salary		Benefits in kind		Pension benefits		Total remuneration	
	£000		(to nearest £100)		(to nearest £1,000)		£000	
	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17
Lord Michael Bichard (from 10 January 2015)	40–45	40–45	–	–	–	–	40–45	40–45
Ray Shostak	20–25	20–25	400	600	–	–	20–25	20–25
Robert Sykes	20–25	20–25	800	1,200	–	–	20–25	20–25
Janet Eilbeck (from 20 October 2016)	20–25	5–10 (full-year equivalent: 20–25)	600	300	–	–	20–25	5–10 (full-year equivalent: 20–25)
Dame Clare Tickell (from 10 January 2018)	0–5 (full-year equivalent: 20–25)	–	–	–	–	–	0–5 (full-year equivalent: 20–25)	–
Greg Parston (from 20 October 2016 to 03 May 2017)	0–5 (full year equivalent 20–25)	5–10 (full year equivalent: 20–25)	–	100	–	–	0–5 (full year equivalent 20–25)	5–10 (full-year equivalent: 20–25)
Joanne Shaw (up to 30 September 2016)	–	10–15 (full year equivalent: 20–25)	–	–	–	–	–	10–15 (full year equivalent: 20–25)

Single total figure of remuneration (audited) *continued*

Executive Leadership Team

Name	Salary		Benefits in kind		Pension benefits		Total remuneration	
	£000		(to nearest £100)		(to nearest £1,000) ¹		£000	
	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17
Sir Amyas Morse, Comptroller and Auditor General	220–225	215–220	–	–	–	–	220–225	215–220
John Thorpe	150–155	145–150	300	300	15,000	42,000	165–170	190–195
Stephen Smith ²	160–165	160–165	300	300	–	–	160–165	160–165
Abdool Kara ² (from 27 February 2017)	165–170	10–15 (full year equivalent: 165–170)	300	300	–	–	165–170	10–15 (full year equivalent: 165–170)
Kate Mathers ^{5,6}	115–120 (full year equivalent: 120–125)	–	200	–	168,000	–	285–290 (full year equivalent: 285–290)	–
Rebecca Sheeran ^{3,4,5,6}	100–105 (full time equivalent: 120–125)	–	3,200	–	–	–	105–110 (full time equivalent: 120–125)	–
Daniel Lambauer ^{5,6}	115–120 (full year equivalent: 120–125)	–	200	–	49,000	–	165–170 (full year equivalent: 120–125)	–
Max Tse ^{5,6}	115–120 (full year equivalent: 120–125)	–	200	–	49,000	–	165–170 (full year equivalent: 120–125)	–
Michael Whitehouse, Chief Operating Officer (up to 18 April 2017)	5–10 (full year equivalent 175–180)	175–180	–	400	1,000	41,000	5–10 (full year equivalent 175–180)	215–220
Sally Howes (up to 3 August 2016)	–	55–60 (full year equivalent: 165–170)	–	–	–	22,000	–	75–80
Sue Higgins (up to 7 July 2016)	–	40–45 (full year equivalent: 160–165)	–	–	–	25,000	–	65–70

Single total figure of remuneration (audited) *continued*

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. The real increase excludes increases due to inflation or any increase or decrease due to a transfer of pension right.
- 2 Stephen Smith and Abdool Kara do not participate in the NAO pension scheme.
- 3 Rebecca Sheeran participates in the NAO's Partnership Pension scheme. This is a defined contribution scheme and we are only required to disclose the contribution made by the NAO in the year. The total contribution made for 2017-18 was £13,000.
- 4 In addition to the death in service benefit, Rebecca Sheeran received added salary childcare vouchers. This scheme was open to all staff who were in post before 31 October 2013. The salary added childcare voucher scheme will be withdrawn from 1 November 2018.
- 5 Kate Mathers, Rebecca Sheeran, Daniel Lambauer and Max Tse became executive leaders on 03 April 2017 and therefore comparative information is not required.
- 6 Total remuneration includes the change in pension benefits which occurred during the year as a result of the joining the Leadership Team. The benefit is linked to each individual's length of service at the NAO and annual salary, depending on the nature of the pension scheme in which they are enrolled. The reported change in the value of pension benefit is significant in the year in which salaries are uplifted on joining the Leadership team, but is not expected to recur at this level.

Salary

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

Benefits in kind

The monetary value of benefits in kind covers any expenditure incurred by the NAO and treated by HM Revenue & Customs as a taxable payment. As part of the remuneration package, the NAO provides all its employees with additional death-in-service benefit equivalent to one year's salary. The NAO also provides eligible employees who were in post before 31 October 2013 with salary added childcare vouchers. Vouchers are liable for tax, unless childcare is provided by a registered childcare provider, but are not subject to National Insurance. The salary added childcare voucher scheme will be withdrawn from 1 November 2018. The benefits column in the table on page 74 shows the cost to the NAO of providing the death-in-service benefit and added salary childcare vouchers to members of the Leadership Team, and the associated income tax and National Insurance liability that was met by the NAO. The benefits in kind disclosed for non-executive members of the Board on page 73 relate to travel to the NAO for Board and other committee meetings and include the associated income tax and National Insurance liability, which was met by the NAO. The NAO has an agreement with HM Revenue & Customs to meet income tax and National Insurance on these benefits on behalf of non-executive Board members.

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 2017-18. His salary was in the range of £220,000 to £225,000 (2016-17: £215,000 to £220,000). This was 4.29 times (2016-17: 4.22 times) the median NAO staff salary paid, which was £51,870 (2016-17: £51,484).

In 2017-18, remuneration ranged from £17,034 to £220,000–£225,000 (2016-17: £18,122 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 Cash Equivalent Transfer Value (CETV) of pensions.

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

The pension entitlements of the most senior managers (NAO's executive leaders) of the NAO were as follows (audited):

Pension entitlements of NAO executive leaders

Name	Accrued pension at pension age as at 31 March 2018 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31 March 2018	CETV at 31 March 2017	Real increase in CETV
	£000	£000	£000	£000	£000
Michael Whitehouse (up to 18 April 2017)	80–85 plus a lump sum of 245–250	0–2.5 plus a lump sum of 0–2.5	1,926	1,922	1
John Thorpe	70–75 plus a lump sum of 105–110	0–2.5 plus a lump sum of 0	1,595	1,481	15
Stephen Smith ¹	–	–	–	–	–
Abdool Kara ¹	–	–	–	–	–
Kate Mathers ³	35–40	7.5–10	480	347	105
Rebecca Sheeran ^{2,3}	–	–	–	–	–
Daniel Lambauer ³	10–15	2.5–5	105	81	12
Max Tse ³	15–20	2.5–5	133	106	14

Notes

- 1 Stephen Smith and Abdool Kara do not participate in the NAO pension scheme.
- 2 Rebecca Sheeran participates in the Partnership Pension scheme of NAO's pension scheme. This is a defined contribution scheme and we are only required to disclose the contribution made in the year rather than the information in the table above. The total employer contribution made for 2017–18 was £13,000.
- 3 Kate Mathers, Rebecca Sheeran, Daniel Lambauer and Max Tse became Executive Leaders on 03 April 2017.

Cash Equivalent Transfer Value (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

The real increase in the value of the CETV reflects the increase 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 2017-18 (2016-17: no compensation for loss of office).

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 that 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 appropriate level to recruit, retain and motivate able, qualified and high-calibre people within the budget available to the NAO.

Staff numbers and related costs (audited)

Average number of persons employed

	2017-18	2016-17	2015-16
Full-time equivalent permanent staff	806	803	796
Inward secondees	3	3	5
Temporary staff	5	5	9
Total	814	811	810

Staff costs comprise

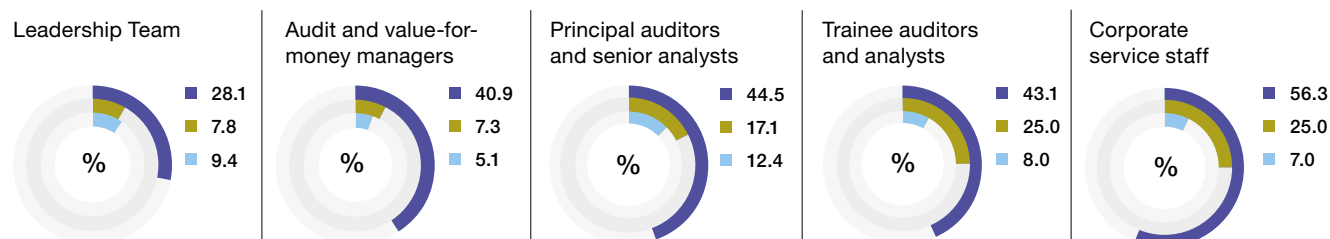
	2017-18			2016-17		
	Total £000	Permanent £000	Temporary £000	Total £000	Permanent £000	Temporary £000
Wages and salaries	43,975	43,489	486	43,631	43,186	445
Social security costs ¹	5,117	5,117	–	4,842	4,842	–
Pension costs	9,086	9,086	–	9,065	9,065	–
Gross costs	58,178	57,692	486	57,538	57,093	445
Secondment income	(401)	(401)	–	(568)	(568)	–
Net costs	57,777	57,291	486	56,970	56,525	445

Note

¹ 2017-18 includes £200,000 apprenticeship levy costs. The Apprenticeship Levy was introduced in April 2017, requiring employers with a pay bill of more than £3 million each year to pay the levy.

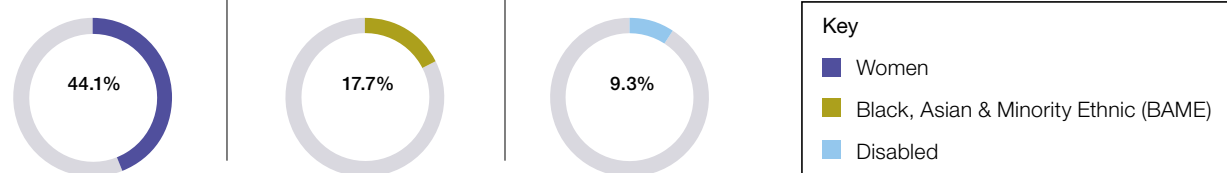
Staff composition as at 31 March 2018

Grade diversity as at 31 March 2018



Percentage shown out of 100.

Totals



Data are expressed as a percentage of total population including staff who have not declared or selected 'prefer not to say'.

As at 31 March 2018 the proportion of women above manager level was 28%, a figure that has not shifted significantly over the past three years. This is impacted by historically fewer female applicants for promotion from the feeder grade, and is an area we must focus our efforts on going forward. The gender balance in more junior grades is healthier, although we have faced challenges in consistently achieving a 50:50 ratio of women to men joining our graduate programme in recent years. We have taken a proactive approach as part of the current graduate recruitment campaign by encouraging female applicants to pursue their application through the NAO selection process, to help secure a more balanced intake. We also commissioned an external review of our trainee selection processes in March 2018 to identify further actions we can take to widen further the diversity of our intake.

Over the past three years representation of BAME colleagues has also remained static, at 18% of the workforce. We have made some progress in increasing BAME representation in our annual graduate intake and, currently, BAME staff make up more than 25% of the trainee population. However, the proportion of BAME staff above manager level remains low. We are determined to improve the diversity of our manager cadre and will take specific actions to improve BAME representation at manager level as part of our new diversity and inclusion strategy.

Off-payroll engagements

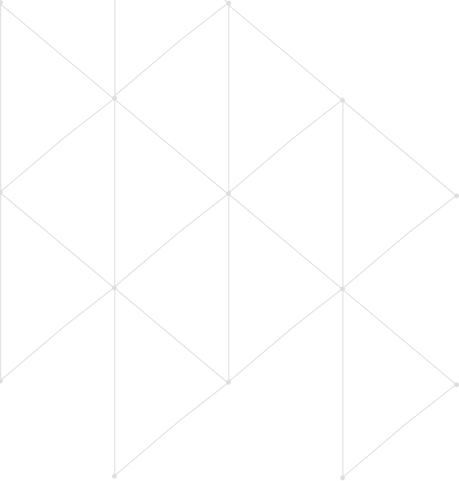
There were no off-payroll engagements in 2017-18 (2016-17: nil).

Expenditure on consultancy

The NAO spent £0.9 million on consultancy in 2017-18 (2016-17: £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 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 as the cost of benefits is 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 4.6% and 8.05% of Classic, Premium, Classic Plus, Nuvos and 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 8% and 14.75% (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 0.5% of pensionable salary 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.

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 reduction in our costs. Details of the packages offered during the year and the previous year are shown in the figure opposite. Compensation agreed for departures have not exceeded the Cabinet Office's recommended cap of £95,000.

In November 2016 Cabinet Office replaced the 2010 compensation terms with new terms, and this was applied to all departures subsequent to this date by the NAO. However, following a judicial review, the government has withdrawn these changes and has reinstated the 2010 terms to all packages agreed since 2016. We followed Cabinet Office guidance on revising compensation figures for releases since 2016 and have made payment adjustments where necessary. The comparative information in the table has been restated to reflect this.

These redundancy and other departure costs are paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year that the departure has been agreed. Where the NAO agrees early retirements, the additional costs would be met by the NAO and not by the civil service pension scheme. Ill-health retirement costs are met by the pension scheme and are not included in the figure.

Compensation packages offered during 2017-18

Comparative figures (in brackets) restated

Exit package cost band	Number of compulsory redundancies 2017-18 (2016-17)	Number of other departures agreed 2017-18 (2016-17)	Total number of exit packages by cost band 2017-18 (2016-17)
<£10,000	– (–)	3 (–)	3 (–)
£10,001–£25,000	4 (–)	8 (1)	12 (1)
£25,001–£50,000	– (1)	5 (3)	5 (4)
£50,001–£100,000	– (–)	5 (6)	5 (6)
£100,001–£150,000	– (–)	– (–)	– (–)
£150,001–£200,000	– (–)	– (–)	– (–)
£200,001–£250,000	– (–)	– (–)	– (–)
>£250,000	– (–)	– (–)	– (–)
Total number of exit packages by type	4 (1)	21 (10)	25 (11)
Total costs disclosed in financial statements (£000)			721 (584)

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. The latest data available are for 2017 and shows average working days lost across all industries as 6.6 days with the public sector being higher at 8.5 days. While we have performed better than our benchmarks, with an average of 5.5 days per employee, this is higher than previous years where we have achieved levels below five days per person for the past five years. We will keep sickness absence levels under close review to make sure this is not a longer-term trend, or indicative of an underlying issue.

Our policy on equality and disability

Disability

As part of our commitment to disabled colleagues we guarantee to interview all disabled applicants who meet the minimum criteria of the role. In addition we make workplace adjustments to help overcome disadvantage resulting from disability, for example making adjustments to the arrangements for interviews and selection tests, and agreeing a package of workplace adjustments when people join the NAO.

We aim to support people who become disabled during their employment to remain in work and achieve their potential. We 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).

Workplace adjustments are also made to allow employees with a disability to access suitable learning and development opportunities. When promotion opportunities arise, they are encouraged to apply and to discuss any adjustments they require to the selection arrangements to remove any disadvantage resulting from their disability.

Equality and fairness

We are committed to fostering an inclusive working environment in which individual differences are respected, and everyone is encouraged to reach their potential to make a full contribution to the NAO's corporate objectives.

We aim to ensure all staff receive equal treatment that is free of discrimination and we follow all employment-related procedures impartially and objectively. This approach includes decisions relating to training and development, performance management, reward and benefits, and promotion.

We do not tolerate bullying and harassment of any kind. We are working hard to ensure people feel confident they can raise issues in a safe, supportive and confidential environment and that we will investigate allegations quickly, sensitively and fairly. We have recently strengthened our team of Dignity at Work Leads who offer informal, confidential support to those who have experienced or witnessed inappropriate behaviour. The 'Way we Work', our corporate training programme, also embeds the principles of dignity at work and inclusion.

PARLIAMENTARY ACCOUNTABILITY AND AUDIT REPORT

Statement of Parliamentary Supply (SoPS)

The information on pages 85 to 88 have been subject to audit.

Summary of resource and capital outturn 2017-18

	SoPS note	2017-18 Estimate			2017-18 Outturn			2017-18 voted Outturn compared with Estimate: saving or (excess)	2016-17 Outturn
		Voted	Non-voted	Total	Voted	Non-voted	Total		
		£000	£000	£000	£000	£000	£000		
Resource	1.1	66,600	300	66,900	64,772	294	65,066	1,828	64,222
Capital	1.2	1,300	–	1,300	790	–	790	510	926
Total budget		67,900	300	68,200	65,562	294	65,856	2,338	65,148
Non-budget		–	–	–	–	–	–	–	–
Total		67,900	300	68,200	65,562	294	65,856	2,338	65,148

Net cash requirement 2017-18

	SoPS note	2017-18 Estimate	2017-18 Outturn	2017-18 net total Outturn compared with Estimate: saving or (excess)	2016-17 Outturn
		£000	£000	£000	£000
Net cash requirement	2	67,174	64,127	3,047	62,159

Administration costs 2017-18

	2017-18 Estimate	2017-18 Outturn	2017-18 net total Outturn compared with Estimate: saving or (excess)	2016-17 Voted Outturn
	£000	£000	£000	£000
Administration costs	66,600	64,772	1,828	63,931

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 42 to 44.

Notes to the Statement of Parliamentary Supply

SoPS1. Net outturn

SoPS1.1 Analysis of net resource outturn

Section	2017-18 Outturn			2017-18 Estimate		2016-17 Outturn
	Gross	Income	Net	Net	Net total compared with Estimate: saving or (excess)	Net total
	£000	£000	£000	£000	£000	£000
Voted						
Provision of audit and other assurance services	83,905	(19,133)	64,772	66,600	1,828	63,931
Total voted	83,905	(19,133)	64,772	66,600	1,828	63,931
Non-voted						
The Chair and the Comptroller and Auditor General costs	294	–	294	300	6	291
Resource outturn	84,199	(19,133)	65,066	66,900	1,834	64,222

Note

1 Explanations of variances between Estimate and Outturn are provided in the Performance Report on pages 42 to 44.

SoPS1.2 Analysis of net capital outturn

		2017-18 Outturn			2017-18 Estimate		2016-17 Outturn
		Gross	Income	Net	Net	Net total compared with Estimate: saving or (excess)	Net total
Section		£000	£000	£000	£000	£000	£000
	Voted						
A	Provision of audit and other assurance services	790	–	790	1,300	510	926
	Capital outturn	790	–	790	1,300	510	926

SoPS2 Reconciliation of net resource outturn to net cash requirement

SoPS2. Reconciliation of net resource outturn to net cash requirement

	SoPS note	Estimate	Outturn	Net total Outturn compared with Estimate: saving or (excess)
		£000	£000	£000
Resource outturn	SoPS1.1	66,900	65,066	1,834
Capital outturn	SoPS1.2	1,300	790	510
Accruals to cash adjustments:				
<i>Adjustments to remove non-cash items:</i>				
Depreciation		(3,048)	(2,949)	(99)
Change in provisions		4	4	-
Loss on disposal of assets		-	(30)	30
Impairment of non-current assets		-	-	-
<i>Adjustments to reflect movements in working balances:</i>				
Increase/(decrease) in receivables		833	2,933	(2,100)
(Increase)/decrease in payables		1,151	(1,552)	2,703
Use of provisions		334	159	175
<i>Removal of non-voted budget items:</i>				
Consolidated Fund Standing Services		(300)	(294)	(6)
Net cash requirement		67,174	64,127	3,047

Parliamentary Accountability Disclosures

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 provisions 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.

Fees and charges

2017-18	Income £000	Expenditure £000	Surplus/(deficit) £000
Audit and assurance work	16,883	18,102	(1,219)
Secondment income	401	668	(267)
Rental income	1,849	1,063	786
Total	19,133	19,833	(700)

2016-17	Income £000	Expenditure £000	Surplus/(deficit) £000
Audit and assurance work	16,797	16,883	(86)
Secondment income	568	923	(355)
Rental income	1,782	980	802
Total	19,147	18,786	361

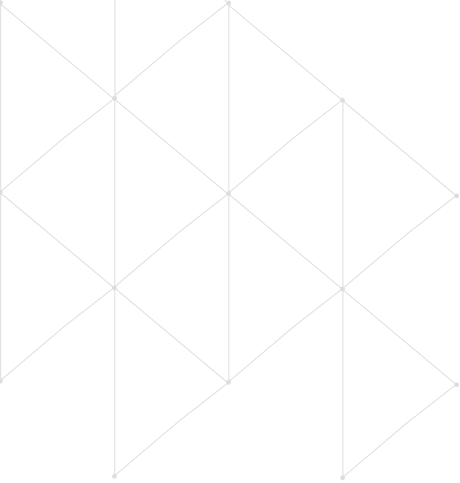
Special payments

There were no losses or special payments that require disclosure because of their size or nature in 2017-18.

Sir Amyas C E Morse KCB

Comptroller and Auditor General

21 June 2018



Independent Auditor's Certificate and Report to the House of Commons

Opinion

We certify that we have audited the financial statements of the National Audit Office (NAO) for the year ended 31 March 2018, which comprise the NAO's Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity and related notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the 2017-18 Government Financial Reporting Manual (FReM), which applies international financial reporting standards as adopted by the European Union (IFRSs).

In our opinion the financial statements:

- give a true and fair view of the state of the NAO's affairs as at 31 March 2018 and of the NAO's net operating costs for the year then ended;
- have been properly prepared in accordance with the 2017-18 Government Financial Reporting Manual; and
- have been prepared in accordance with the Budget Responsibility and National Audit Act 2011.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the NAO in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

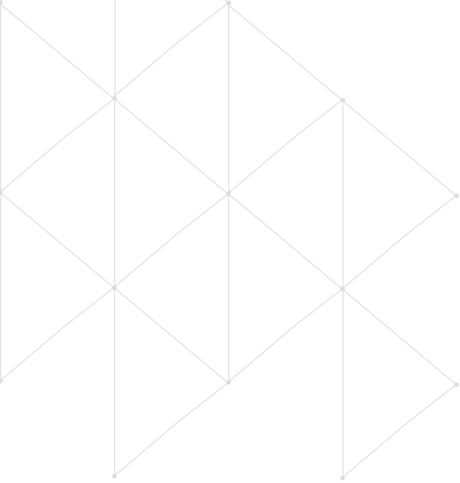
- the Accounting Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Accounting Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the NAO's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

Other information

The Accounting Officer is responsible for the other information. The other information comprises the information included in the Annual Report, other than: the financial statements, the parts of the Accountability Report that are described in that report as having been audited and our auditor's report thereon. Our opinion on the financial statements the Statement of Parliamentary Supply and 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 does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.



Opinion on regularity

We have audited the Statement of Parliamentary Supply and the related notes. 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 2018 and shows these 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 that govern them.

Opinion on other matters

We have also audited 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. In our opinion in all material respects:

- 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 are required to 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 Parliamentary Accountability Disclosures to be audited are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit; or
- the Governance Statement does not reflect compliance issued by HM Treasury.

Responsibilities of the Accounting Officer

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, and for such internal control as the Accounting Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Accounting Officer is responsible for assessing the NAO's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Accounting Officer intends to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our responsibility is to audit, certify and report on the financial statements in accordance with the Budget Responsibility and National Audit Act 2011. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

We are also 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 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.

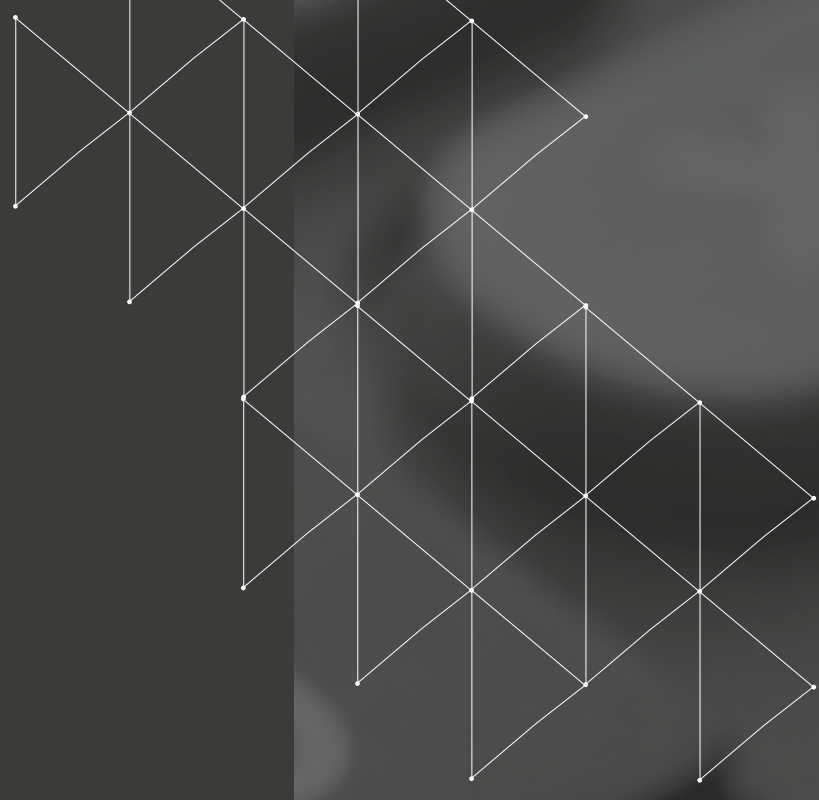
A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Crowe Clark Whitehill LLP

Statutory Auditors
St Brides House
10 Salisbury Square
London
EC4Y 8EH

21 June 2018

3 | FINANCIAL STATEMENTS 2017-18



Statement of Comprehensive Net Expenditure for the period ended 31 March 2018

		2017-18	2016-17
	Note	£000	£000
Income	6	(19,133)	(19,147)
Total operating income		(19,133)	(19,147)
Staff costs	3	58,178	57,538
Purchase of good and services	4	22,898	22,765
Depreciation and provision charges	5	2,975	2,906
Tax expense		148	160
Total operating expenditure		84,199	83,369
Net operating expenditure for the year		65,066	64,222
Other comprehensive net expenditure			
Items that will not be reclassified to net operating costs:			
Net gain on revaluation of property, plant and equipment	7	(1,454)	(4,298)
Total comprehensive net expenditure for the year		63,612	59,924

Statement of Financial Position as at 31 March 2018

			2017-18	2016-17
	Note	£000	£000	£000
Non-current assets:				
Property, plant and equipment	7	90,760		91,220
Intangible assets	8	456		731
Receivables falling due after one year	9	154		115
Total non-current assets			91,370	92,066
Current assets:				
Trade and other receivables	9	7,831		4,937
Cash and cash equivalents		12		39
Total current assets			7,843	4,976
Total assets			99,213	97,042
Current liabilities:				
Trade and other payables	10	(7,610)		(6,064)
Provisions	11	(320)		(282)
Total current liabilities			(7,930)	(6,346)
Total assets less current liabilities			91,283	90,696
Non-current liabilities:				
Payables falling due after one year	10	–		(21)
Provisions	11	(18)		(219)
Total non-current liabilities			(18)	(240)
Total assets less liabilities			91,265	90,456
Taxpayers' equity and other reserves:				
General fund			30,862	30,168
Revaluation reserve			60,403	60,288
Total equity			91,265	90,456

Sir Amyas C E Morse KCB

The Comptroller and Auditor General authorised these financial statements for issue on

21 June 2018

Statement of Cash Flows

for the period ended

31 March 2018

		2017-18	2016-17
	Note	£000	£000
Cash flows from operating activities:			
Net operating expenditure for the year		(65,066)	(64,222)
Adjustments for non-cash transactions	5	2,975	2,906
(Increase)/decrease in trade and other receivables	9	(2,933)	894
Increase/(decrease) in trade and other payables ¹	10	1,528	(1,085)
Use of provisions	11	(159)	(350)
Net cash outflow from operating activities		(63,655)	(61,857)
Cash flows from investing activities:			
Purchase of property, plant and equipment	7	(766)	(821)
Purchase of intangible assets	8	(24)	(105)
Increase/(decrease) in non trade payables ¹		24	333
Net cash outflow from investing activities		(766)	(593)
Cash flows from financing activities:			
From the Consolidated Fund (Supply)-current year		64,100	62,120
Consolidated Fund Standing Services	4	294	291
Net financing		64,394	62,411
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		(27)	(39)
Cash and cash equivalents at the beginning of the year		39	78
Cash and cash equivalents at the end of the year		12	39

Note

- 1 Payables for the purchase of property, plant and equipment have been removed from the movement in trade and other payables and disclosed as a separate line under cash flows from investing activities.

Statement of Changes in Taxpayers' Equity for the period ended 31 March 2018

		General Fund	Revaluation Reserve	Total reserves
	Note	£000	£000	£000
Changes in taxpayers' equity				
Balance at 31 March 2016		30,438	57,492	87,930
Net Parliamentary Funding		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)	–
Balance at 31 March 2017		30,168	60,288	90,456
Net Parliamentary funding-drawn down		64,100	–	64,100
Net Parliamentary funding-deemed		39	–	39
Supply payable adjustment		(12)	–	(12)
Consolidated Fund Standing Services	4	294	–	294
Comprehensive net expenditure for the year		(65,066)	1,454	(63,612)
Realised element of revaluation reserve		1,339	(1,339)	–
Balance at 31 March 2018		30,862	60,403	91,265

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.

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 most appropriate to give a true and fair view of the particular circumstances of the NAO has been selected. They have been applied to all items that are material to the financial statements.

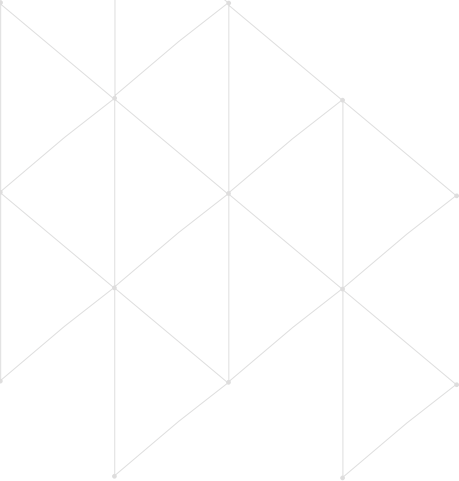
1.2 Basis of preparation

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 information relevant to assessing the possible impact that the initial application of the new standard would have on the financial statements.

There are two standards which are not yet effective that will have an impact on NAO's financial statements. These are IFRS 15 'Revenue from Contracts with Customers', which provides a new basis for recognising revenue; and IFRS 16 'Leases', which requires all significant leases to be recognised in the Statement of Financial Position. There is also IFRS 9 'Financial Instruments' (effective in the FReM from 2018-19), which reduces the accounting options available for types of financial instruments. We have determined that this will have no material impact on the NAO's financial statements.



IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 has been adopted by the FReM with effect from 1 April 2018. Management does not expect that adoption of this standard for the period ending 31 March 2019 will mean a change to the basis of the figures included in the financial statements. The NAO currently recognises revenue progressively on a percentage completion basis for its fees for audit and assurance work provided over a period of time, because it has an enforceable right to recover costs incurred at any particular date. Consequently, the same accounting policy will be permitted under IFRS 15. There will, however, be additional qualitative and quantitative disclosures in financial statements on the nature, timing and uncertainty of revenue and cash flows from contracts with customers.

IFRS 16 'Leases'

Management expects IFRS 16 will be adopted by the FReM with effect from 1 April 2019. Assuming this is implemented without adaptations, some of the leases held will require the recognition of a right of use asset and a liability for the future lease payment commitments in the Statement of Financial Position. Our existing future lease commitments are disclosed in Note 12. We are in the process of assessing the impact of the new accounting standard on the leases held as a lessee and are therefore not as yet in a position to give an accurate estimate of the impact of this on our financial statements. However, based on its requirements for recognising an asset, we do not anticipate that many of our existing lease commitments will fall within the scope of this new standard. The NAO holds a number of sub-leases with tenants for the use of space in the London property. As a lessor, the NAO will continue to account for the sub-leases as an operating lease and therefore the basis of recognising income and disclosures in the accounts will remain unaffected.

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

Staff costs include wages and salaries, social security costs and pension 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 any 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 My CSP on behalf of the Cabinet Office. NAO pays contributions into the PCSPS at agreed rates. 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

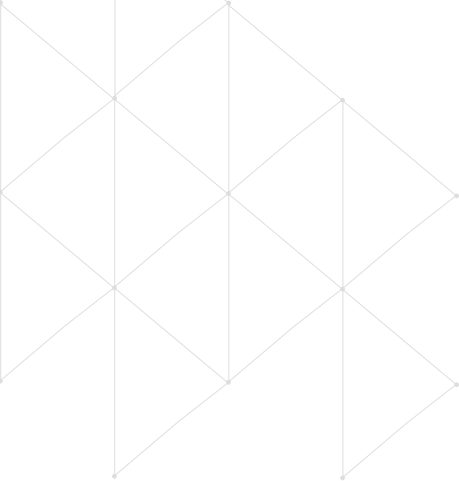
Where the NAO ends the employment of a staff member, and makes a compensation payment within the rules of the Civil Service Compensation Scheme (CSCS), the cost of that payment is recognised in full in the year the compensation offer is accepted by the individual. Any amounts unpaid at the reporting date are reported within accruals Note 10.

The CSCS rules were amended from October 2010. Prior to this, when the individual was eligible to take early retirement, the NAO met the 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 2018, this was 0.10% (2016-17: 0.24%). This provision is reported in Note 11. The NAO no longer meets such 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 HM Revenue & Customs 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 audit and assurance work

The NAO charges fees for financial audits and other services where it is permitted to do so under legislation. They principally comprise 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 progressively on a percentage completion basis, determined with reference to when the service is provided, less a provision for any unrecoverable amounts. Further information on the basis on which the income accrued is estimated is 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.

Where the NAO purchases cloud computing services from a third-party service provider, we do not capitalise the costs to use or access these services because we have no legal title to, or control of, the underlying assets.

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:

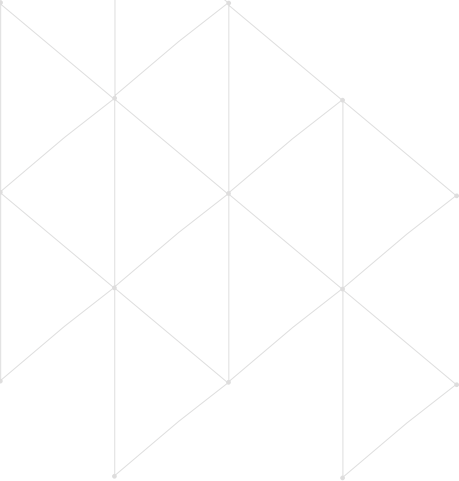
Land	Non-depreciable
Buildings	50 years
Plant and machinery	10–25 years
Computers and other equipment	3–10 years
Furniture, fixtures and fittings	5–10 years

Intangible assets

Intangible assets are licences for the use of software, which are capitalised where we purchase the licence, or the costs of developing internal software assets. Intangible assets are amortised on a straight-line basis over their useful economic life.

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. The bank accounts are held in the Government Banking Service.

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 unrecoverable amounts if there is evidence that the NAO may not 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 is provided by individual assignment managers.

1.20 Property valuation

The NAO operates in London and Newcastle. The NAO accounts for its London property (which is on a long lease of 130 years) as if it owns the building and rents office space in Newcastle. Each year the NAO considers the fair value 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 £7 million to £8 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 £2.4 million in the value of 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

	2017-18								
	Audit and assurance	Value for money	Investigations and insight	Support to Parliament	International relations	Comptroller function	Voted	Non-voted	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Gross expenditure	54,417	13,339	10,392	4,432	1,212	113	83,905	294	84,199
Income from services provided	(16,375)	–	–	(401)	(508)	–	(17,284)	–	(17,284)
Rental income	(1,199)	(294)	(229)	(98)	(27)	(2)	(1,849)	–	(1,849)
Net expenditure	36,843	13,045	10,163	3,933	677	111	64,772	294	65,066

The NAO reports expenditure and income under six operating segments, descriptions of which can be found on page 19 to 20. 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.

We consider the chief operating decision body of the NAO to be the Leadership Team, details of its membership can be found on pages 56 to 61. 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.

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

3 Staff costs

	2017-18	2016-17
	Total	Total
	£000	£000
Wages and salaries	43,975	43,631
Social security costs	5,117	4,842
Pension costs	9,086	9,065
Gross costs	58,178	57,538
Secondment income	(401)	(568)
Net costs	57,777	56,970

Details on staff numbers and related costs can be found in the Remuneration Report on pages 72 to 84.

4 Purchase of goods and services

	2017-18		2016-17	
	£000	£000	£000	£000
Professional services	10,075		10,101	
Audit Technology ¹	612		–	
Facilities management	4,903		4,884	
Travel, subsistence, hospitality	2,121		2,065	
Office supplies and equipment	3,019		3,241	
Recruitment and training	1,468		1,471	
Staff-related costs	688		986	
Overseas office costs for UN work	–		166	
External auditors – audit fee	56		55	
– other work	71		69	
Other administration costs	232		138	
Operating lease rentals	122		122	
VAT recoverable ²	(763)		(824)	
Total voted costs		22,604		22,474
Comptroller and Auditor General salary ³	250		247	
Chairman salary ³	44		44	
Total non-voted costs		294		291
		22,898		22,765

Notes

- 1 This is spend to support audit software and make better use of data analytics in our audit approach.
- 2 The NAO partially recovers VAT on its expenditure on an agreed methodology with HM Revenue & Customs, therefore VAT recovered cannot be directly attributed to specific expenditure and has been disclosed separately.
- 3 The Comptroller and Auditor General and Chairman's salaries include employer social security costs.

5 Depreciation and provision charges

	2017-18		2016-17	
	£000	£000	£000	£000
Non-cash costs:				
Changes to early departure provision	(4)		12	
Changes in provision		(4)		12
Depreciation on property, plant and equipment	1,535		1,698	
Depreciation on other items	1,115		1,028	
Amortisation on intangible assets	299		168	
Total depreciation		2,949		2,894
Loss on disposal		30		–
		2,975		2,906

6 Income

	2017-18	2016-17
	£000	£000
Audit fees-UK	16,200	14,626
United Nations Board of Auditors ¹	–	1,455
Audit fees-international	175	240
International technical cooperation	508	476
Secondment income	401	568
Rental of office space	1,849	1,782
Total income	19,133	19,147

Note

- 1 In 2010 the NAO was appointed to the United Nations Board of Auditors for a period of six years. The position ended in June 2016.

7 Property, plant and equipment

	2017-18					
	Land	Buildings	Plant and machinery	Computers and other equipment	Furniture fixtures and fittings	Total
	£000	£000	£000	£000	£000	£000
Cost or valuation						
At 1 April 2017	37,620	34,175	16,455	4,690	3,720	96,660
Additions	–	–	–	766	–	766
Disposals	–	–	–	(415)	(91)	(506)
Reclassification	–	–	–	–	–	–
Revaluation	251	(224)	(108)	–	–	(81)
Impairment	–	–	–	–	–	–
At 31 March 2018	37,871	33,951	16,347	5,041	3,629	96,839
Depreciation						
At 1 April 2017	–	–	–	2,970	2,470	5,440
Charged in year	–	721	814	750	365	2,650
Disposals	–	–	–	(412)	(64)	(476)
Reclassification	–	–	–	–	–	–
Revaluation	–	(721)	(814)	–	–	(1,535)
Impairment	–	–	–	–	–	–
At 31 March 2018	–	–	–	3,308	2,771	6,079
Net book value						
At 31 March 2018	37,871	33,951	16,347	1,733	858	90,760
At 31 March 2017	37,620	34,175	16,455	1,720	1,250	91,220

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 £88,169,000 as at 31 March 2018 (31 March 2017: £88,250,000). The net effect of the revaluation (after the annual depreciation charge) as at 31 March 2018 of £1,454,000 increase was accounted for through the Revaluation Reserve.

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

8 Intangible assets

2017-18	
Cost	Total £000
At 1 April 2017	1,692
Additions	24
Disposals	(64)
Reclassification	–
Impairment	–
At 31 March 2018	1,652
Amortisation	
At 1 April 2017	961
Charged in year	299
Disposals	(64)
Reclassification	–
Impairment	–
At 31 March 2018	1,196
Net book value	
At 31 March 2018	456
At 31 March 2017	731

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

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

9 Trade and other receivables

	2017-18	2016-17
	£000	£000
Amounts falling due within one year:		
Trade receivables	630	1,345
Deposits and advances	267	274
Other receivables	70	80
Accrued income	3,811	2,135
Prepayments	3,053	1,103
	7,831	4,937
Amounts falling due after more than one year:		
Deposits and advances	26	45
Other receivables	128	70
	154	115
Total	7,985	5,052

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

10 Trade and other payables

	2017-18	2016-17
	£000	£000
Amounts falling due within one year:		
Amounts payable to HM Revenue & Customs	398	304
Trade payables	12	126
Other payables	38	53
Accruals	6,600	4,938
Other payments received on account	550	604
	7,598	6,025
Amounts issued from the Consolidated Fund for supply but not spent at year end	12	39
	7,610	6,064
Amounts falling due after more than one year:		
Other payables	-	21
	-	21
Total	7,610	6,085

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

11 Provisions for liabilities and charges

	2017-18	
	£000	£000
Balance at 1 April 2017		501
Adjustments to opening provision	–	
Provided in the year	–	
Unwinding of discounts	(4)	
Change in discount rate	–	
Provisions not required written back	–	
Changes in provision during the year		(4)
Provisions utilised in the period		(159)
Provisions unutilised in the period		–
Balance at 31 March 2018		338

Analysis of expected timing of discounted flows

	Early departures	Other provisions	Total
	£000	£000	£000
Payable within 1 year	197	123	320
Payable later than 1 year and not later than 5 years	18	–	18
Payable in more than 5 years	–	–	–
Balance at 31 March 2018	215	123	338

12 Commitments under leases

	2017-18	2016-17
	£000	£000
Aggregate minimum lease payments are as follows:		
Obligations under operating leases comprise:		
Land and buildings:		
Payable within 1 year	52	122
Payable later than 1 year and not later than 5 years	–	52
	52	174
Other:		
Payable within 1 year	28	29
Payable later than 1 year and not later than 5 years	52	–
	80	29

13 Future income due under non-cancellable operating leases

	2017-18	2016-17
	£000	£000
Land and buildings		
Receivable within 1 year	1,232	1,384
Receivable later than 1 year and not later than 5 years	2,646	3,741
Receivable in more than 5 years	–	137
Total	3,878	5,262

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 virtually all government departments, executive agencies and other public bodies. The NAO is therefore not exposed to significant 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, 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 2018 (there was no material foreign currency exposure as at 31 March 2017).

15 Related party and other 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:

Party	Nature of relationship with the party	Rent and service charge earned	
		2017-18	2016-17
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	£296,861
Ordnance Survey	Central government body audited by the NAO. Occupied part of the NAO's headquarters building since January 2012	£289,336	£262,704
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 from December 2012 to January 2018	£227,589	£279,000

16 Events after the reporting period

There have been no significant events after 31 March 2018 that require adjustment to, or disclosure in, the financial statements.

Statement of National Audit Office financial impacts for 2017

The statement of financial impacts represents our estimate of the financial benefits achieved in 2017 following implementation of the NAO's recommendations to government. Financial impacts arise where there is a direct link between the NAO's work and a quantifiable beneficial change in an audited body. Financial impacts must be either:

- cashable, reducing expenditure or increasing revenue;
- non-cashable, leading to improvements in public sector efficiency through improved quality or service delivery; or
- represent benefits to third parties.

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

Not all impacts can be quantified precisely including those that relate to qualitative efficiency gains and wider economic benefits. In these instances, the NAO bases the financial impact on careful judgement and estimation. The NAO recommendations are not always separable from other influences. In these cases, it agrees a proportion of an overall financial impact with the audited body, based on an assessment of the likely level of influence of its work.

The statement of impacts has been prepared in accordance with internal guidance. Estimates are subject to internal quality assurance review by senior management and internal audit. The Leadership Team endorses all impacts. The NAO reports impacts on a calendar year basis. A summary of the principles it applies is below:

- **Causation** – There must be a causal link between work conducted by the NAO and the benefit.
- **Realisation** – Impacts must have been realised within, or before, the calendar year in which they are reported.
- **Valuation** – Reliable evidence or data support claims, or both, and implementation costs are acknowledged. There must be a robust methodology to value the impact.
- **Attribution** – The proportion of impact claimed should reflect the NAO's degree of contribution to the benefit realised.
- **Validation** – All impact claims need to be validated by the audited body concerned (at sufficiently senior level) and approved internally.

2017 NAO impacts valued at more than £5 million

Description	Impact identified (£m)	Nature of impact	Year of claim	Audited body with whom impact agreed
Increased HM Revenue & Customs debt recovery Additional debt collected by HMRC as a result of using the Debt Market Integrator Programme (a public-private joint venture set up by the Cabinet Office to offer a single route to private sector debt recovery).	202	Recurring	1 of 3	HM Revenue & Customs
Tax revenue from accelerated payments Additional tax revenue HMRC received through accelerated payments when addressing tax avoidance.	198	Recurring	3 of 5	HM Revenue & Customs
Care Act first-phase reforms Savings resulting from the Department's decision in July 2015 to delay Phase 2 (later cancelled) of the Care Act, due to concerns raised.	120	Recurring	2 of 2	Department of Health & Social Care
Long-Term Partnering Agreement with QinetiQ A reduction in the cost of outsourcing training and evaluation services.	78	One-off		Ministry of Defence
Increasing income from confiscation orders Our recommendations have led to a sustained increase in the amount collected from orders imposed by the courts to deprive criminals of the proceeds of their crimes.	52	Recurring	2 of 5	Ministry of Justice
Capital Funding for New School Places Improved funding allocation, by the Department, for school places.	23	Recurring	3 of 3	Department for Education
The procurement of consumables by NHS acute and Foundation trusts Savings achieved in procurement activity.	18	Recurring	3 of 4	Department of Health & Social Care
Asset sales Optimising the size of an asset sale to maximise proceeds.	11	One-off		UK Asset Resolution
Delivering the Cancer Reform Strategy Reduced rate of increase in the number of emergency admissions for cancer patients.	9	One-off		Department of Health & Social Care
The Start-up Loans scheme Reduced costs from an improvement in default rates.	7	Recurring	2 of 3	Department for Business, Innovation & Skills
PFI in Housing Cashable savings realised through reduced PFI contract values in the Ministry's housing portfolio.	7	Recurring	6 of 10	Ministry for Housing, Communities and Local Government
Subtotal	£725 million			
Impacts below £5 million	£16 million			
Total financial impacts	£741 million			

Note

1 The column may not add up due to rounding.

Independent statement to the Public Accounts Commission

The Accounting Officer, on behalf of the Public Accounts Commission, has asked us to carry out an independent review of the Statement of Financial Impacts for 2017.

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
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21 June 2018

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