

Annual Reports and Accounts

2018-19



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) 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 a financial impact of £539 million in 2018.



National Audit Office

National Audit Office **Annual Report and Accounts 2018-19**

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pursuant to Paragraph 25(8) of Schedule 2 and
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CONTENTS

1 Performance Report	4
• Overview	5
Chair's report	5
The C&AG's Statement	6
2018-19: Our year in highlights	8
About the National Audit Office	11
• Performance analysis	22
How we have performed against our performance framework	22
Developing and applying our knowledge	24
Increasing our influence	38
Delivering high performance	41
Our impact on the environment	47
2 Accountability report	49
• Corporate governance report	50
Statement of Accounting Officer's responsibilities	51
Governance Statement	52
• Remuneration and staff report	70
• Parliamentary accountability disclosures	81
3 Financial statements 2018-19	88
• Notes to the financial statements	93
• Statement of National Audit Office financial impacts for 2018	112
4 Contact us	118

This report can be found on the
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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

The unique framework of reporting powers given by Parliament to the Comptroller and Auditor General (C&AG) and, through him, to the NAO, enables the NAO to report independently, without fear or favour, on the government's use of public money. This annual report demonstrates how the NAO has exercised these powers to enable Parliament to hold government to account. During a year marked by great uncertainty and tremendous challenge for the public sector, the role of the NAO, including its independent voice, has never been more important.

The NAO audits all of government spending and our reports go to the core of government processes. During the reporting year we have continued to identify systemic issues across the public sector, including the impact of public services on users and citizens, and made recommendations for improvement. The high response rate from the audited bodies to the recommendations we make, as well as the thousands of requests we receive from members of Parliament and the public for information on issues affecting our nation, is a strong measure of the impact of our work, and the difference it can make to people's lives. Nonetheless, we are always looking to enhance the impact we have further, to improve the quality of public services.

The NAO's greatest asset will always be its people. Time and time again, the Board and I witness the way in which NAO people embody our values of independence, authoritativeness, collaboration and fairness. No one does this better than Amyas Morse. During his 10-year tenure as Comptroller and Auditor General, Amyas has made an outstanding contribution in driving public sector improvement and supporting Parliament in responding to the challenges faced by government. His track record of making difficult, independent and courageous audit judgements under pressure is undisputed. Amyas leaves the NAO in a very strong and healthy position to cope with the likely challenges it will face in the future. On behalf of the Board I would like to extend our heartfelt gratitude for the service Amyas has provided to the NAO, Parliament and the nation as a whole.

The C&AG's Statement



Sir Amyas Morse

Comptroller and Auditor General
National Audit Office

In the final year of my 10 years as Comptroller and Auditor General (C&AG), I have seen the public sector face the most significant and long-lasting change that many of us are likely to see in our lifetimes. While government has continued to grapple with the challenges of delivering better services to a changing population and with fewer resources, and delivering programmes of a gargantuan scale, such as High Speed 2, Smart Meters and the Ministry of Defence's 10-year Equipment Plan, it has also had to prepare for the UK's planned exit from the European Union.

At times like this, the independent oversight provided by the NAO has never been more essential. I was determined to provide transparency to help improve Parliament's and the public's understanding of government's preparedness for the UK's exit from the EU, and I am pleased with what we have achieved this year. From short, factual briefings to more in-depth reports on topics such as the financial settlement, departmental preparedness for EU exit and the UK border, no other organisation has the ability to undertake this important task.

Notwithstanding EU exit, we have continued to deliver a wide-ranging programme of work to assess value for money, providing transparency and driving change in critical areas of government spending. We have published reports on topics such as Windrush, Carillion, local authority governance and the financial sustainability of the NHS. In addition, we have also taken on the 2018-19 financial audit of some 20 or so additional accounts, including a number of BBC entities. I should like to extend my thanks to Parliament and in particular the Committee of Public Accounts, without whose support we would not have been able to achieve such impact.

Quality remains a top priority for the NAO, and we invest significantly in training and processes to support excellence in this area. This Annual Report and Accounts complements our Transparency Report, which demonstrates how we prioritise and pursue best practice and strive for the highest professional standards. Our audit work has driven significant impact during the year, both in terms of public sector improvement and transparency in the way public funds are spent, on behalf of Parliament and ultimately taxpayers.

Our strong performance during the year would not have been possible without the professionalism and positivity of my colleagues at the NAO, and I would like to thank all of them for their hard work, drive and ambition. Not only have they adapted quickly and effectively to necessary changes to our work programme to accommodate work relating to EU exit, and a number of quickly published investigations, but they have done so while also adapting to change within the NAO such as our office re-organisation, and implementation of new technology, which has enabled greater flexibility in how and where they work.

I am also delighted by the dynamism, passion and collaboration that the Leadership Team has displayed over the past year – being true role models for the rest of our people. I am proud of all that the NAO has achieved in the last year, and indeed the past ten years, and leave in the knowledge that Gareth Davies will be supported by a fantastic team as he takes over at the helm of this unique organisation.

10 years with Sir Amyas Morse as C&AG

1 June 2009

Amyas Morse becomes Comptroller and Auditor General (C&AG). One of the reports published in the C&AG's first week in office is on Supporting people with autism through adulthood. The report is an example of NAO's work in driving positive change in the way public services are delivered to make a real difference to people's lives.

2010

The NAO is appointed to the UN Board of Auditors by the UN Assembly for a six-year mandate. During its mandate the NAO worked with its Board colleagues using the unique perspective of external public audit to help the General Assembly hold UN entities to account for their use of public resources and improve the delivery of UN operations. This included assisting UN organisations with the introduction of international public sector accounting standards and annual reporting.

2011

The Budget Responsibility and National Audit Act receives Royal Assent. The Act confirms the NAO's statutory governance arrangements, including a fixed ten-year term of appointment for the C&AG. The Act also ensures there is proportionate and independent oversight of the NAO's operations while preserving the C&AG's independence with respect to audit judgements. Prior to Royal Assent, the NAO's governance arrangements had been operating in shadow form since 2009.

2012

The NAO delivers its second opinion on the Whole of Government Accounts (WGA) 2010-11. The WGA consolidates the audited accounts of over 1,500 organisations across the public sector, including central government departments, local authorities, devolved administrations, the health service, academy schools and public corporations. The WGA gives a comprehensive picture of what the Government owns, owes, spends and receives. It enables Parliament and the public to better understand and scrutinise how taxpayers' money is spent, and increases transparency and accessibility of information about public finances. The 2009-10 WGA was the first to be published and audited by the C&AG and provides a comparative benchmark for future WGAs.

2013

The NAO publishes the first in a number of risk-based investigations. Investigations allow the NAO to establish the facts when correspondence from MPs or members of the public, whistle-blowers, or findings from our audit or value for money work identify concerns about the use of public funds. Investigations give a rapid and timely account of a situation or an issue.

2014

The Local Audit and Accountability Act 2014 provides new responsibilities relating to the audit of local public bodies. The Act makes the C&AG responsible for the preparation and maintenance of the Code of Audit Practice and for the issuance of associated guidance to auditors. The Act also provides the C&AG with the right to perform value for money work across a wide range of local public services, offering an end to end view from national policy through to local delivery.

2015

The first full year that Network Rail is classified as a public sector body. The owner and operator of the majority of Britain's rail infrastructure, including 20,000 miles of track is now audited by the NAO.

2016

The Bank of England and Financial Services Act 2016 gives the C&AG powers to examine the effectiveness, economy and efficiency of the Bank, and makes the C&AG a statutory consultee on the appointment of the Bank's financial auditor.

2017

The BBC's constitutional basis is a Royal Charter. A new Charter came into effect on 1 January 2017 and established new arrangements in respect of the NAO's role. The Charter (and accompanying Framework Agreement) requires the BBC to appoint the C&AG as its financial auditor and aligns arrangements for our value for money work more closely to those in place for other public bodies. The C&AG can now examine the BBC's commercial operations (previously his remit was confined to the BBC's public service broadcasting).

2018 to date

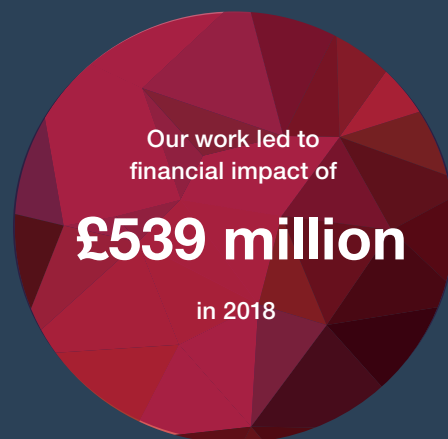
The C&AG directs the NAO's response to the challenges surrounding the UK's decision to leave the European Union. Preparing for Trade Negotiations, published in May 2019, is the last EU exit report published during Sir Amyas' tenure. The report is part of a series of 23 factual reports published since the outcome of the EU referendum. These reports support Parliament's understanding of EU exit issues by shining a light across the whole of Government. This includes scrutiny of the financial settlement with the EU.

2018-19: Our year in highlights



We make a difference to people's lives

An important part of our work is to drive positive change in the way public services are delivered to make a real difference to people's lives. For example, the recommendations from our report on Major Trauma Care in England have been associated with significant improvements in both the care process and outcomes of patients after severe injury, leading to a significant increase in the odds of survival for trauma patients treated at hospital. In *Rolling out Universal Credit* we found that some claimants had struggled to adjust to Universal Credit and had suffered difficulties and hardship during the rollout. One-fifth of claimants were not paid on time. We recommended that the programme should not expand



before business-as-usual operations can deal with higher claimant volumes – an approach which was taken.

The recommendations from our value-for-money reports and investigations help government improve public services; 94% of the recommendations we have put to departments since 2014 have been accepted.



Our people are our greatest asset

We care about what our people think and typically we achieve excellent response rates to our people survey (77% in 2018). The results continue to show strong levels of engagement from our people, which compare favourably with the organisations we benchmark against. We have worked hard to improve how we support our people through creating a more flexible work environment, and developing our ways of working.

During the year we have launched a new diversity and inclusion strategy which focuses on: gender, race and disability

to enable us to make a sustained and accelerated change over the next three years.

We are a recognised provider of the ACA professional training scheme; 83.4% of our trainees passed the Professional Stage examination at the first attempt (in line with the national average) and 94.3% passed the Advanced Stage examination, also at the first attempt, which is significantly above the national average of 85.2%.



We are an independent voice

The aim of our EU exit work is to provide an independent and authoritative voice on EU exit for Parliament; to have a positive impact on how departments prepare for and deliver Brexit; and to support Parliament's understanding of the financial settlement and ensure there are appropriate accountability arrangements in place. To achieve this aim we published 11 pieces of work on EU exit including two reports on the UK's financial settlement with the EU.

The Committee of Public Accounts (PAC) held 61 evidence sessions to tackle issues affecting the delivery of public services, all of which were informed by the evidence we presented.

Our reports have also provided select committees with authoritative and independent evidence to help inform their inquiries, for example the Business, Energy and Industrial Strategy Committee's inquiry into rolling out Smart Meters and the Treasury Committee and the Work and Pensions Committee's joint inquiry into Motability. In addition, we produced bespoke reports for the Environmental Audit Committee on packaging recycling obligations and environmental metrics.



We audit all of government spending

With the support of the NAO, the Comptroller and Auditor General certified the accounts of all government departments and commercial entities such as the BBC, financial services companies and other public sector bodies.

390 accounts certified
covering more than

£1.7 trillion

of public income
and expenditure

**66 major
outputs**

covering value-for-money
reports and investigations
including reports on local
public services such as
health and social care

We also audit a small number of international organisations

The C&AG serves as the external auditor of the World Intellectual Property Organization and the Pan American Health Organization. The C&AG chairs the UN Panel of External Auditors.



National Audit



About the National Audit Office

Our role

The National Audit Office (NAO) scrutinises public spending for Parliament. Its public audit perspective helps Parliament hold government to account and improve public services. To achieve this, the NAO provides system-wide, integrated and independent public audit, drawing on the distinctive framework of rights set out by Parliament.

The Comptroller and Auditor General

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

Responsibility for all audit opinions and judgements rests with the C&AG alone. The C&AG has extensive statutory rights of access to information held by a wide range of public sector organisations. These inspection rights extend to the records of many contractors to central government and those who receive public money from entities audited by the C&AG.

The C&AG has powers to:

- decide which value-for-money examinations and investigations to carry out;
- decide how to report results to Parliament; and
- use rights of access to documents and staff to get information and explanations.

The NAO's Exchequer Section supports the C&AG in fulfilling his statutory Comptroller responsibilities. These responsibilities require the C&AG to approve the release of funds to HM Treasury and other public bodies, once he has satisfied himself that requests for payment are in line with relevant authorities given by Parliament.

Both the C&AG and NAO staff are independent of government.

Our vision

The NAO enables Parliament to hold government to account and, in so doing, challenge the public sector to improve how it spends money and runs itself. Considering the pressures government is facing, our oversight has never been more relevant and essential.

Our unique public audit service has the power to help public servants identify good practice, to help Parliament to enhance its understanding of the practical effects of policy and to help government draw better connections between its decisions.

Our three strategic objectives

We set ourselves three longer-term clear strategic objectives by which we will achieve our vision (Figure below):

- **Knowledge:** we carefully plan our work so that it meets the needs of Parliament, and from this draw out the insights gained that are most likely to help drive positive change across the public sector.
- **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, so that government is more likely to implement our recommendations and look to us as a source of guidance.
- **High performance:** we use our funds cost-effectively and make sure we get the best from our people.

Our three strategic objectives



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.



COLLABORATIVE

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



FAIR

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

Our changing external environment

2018-19 has been a year marked by unprecedented change in our external environment. Exiting the EU continues to provide the civil service with a unique set of challenges, which have to be addressed in a context marked by high levels of uncertainty. Despite this, we anticipate there to be an ongoing and significant demand for our work, to examine how departments are preparing for EU exit and the arrangements that are put in place after we leave.

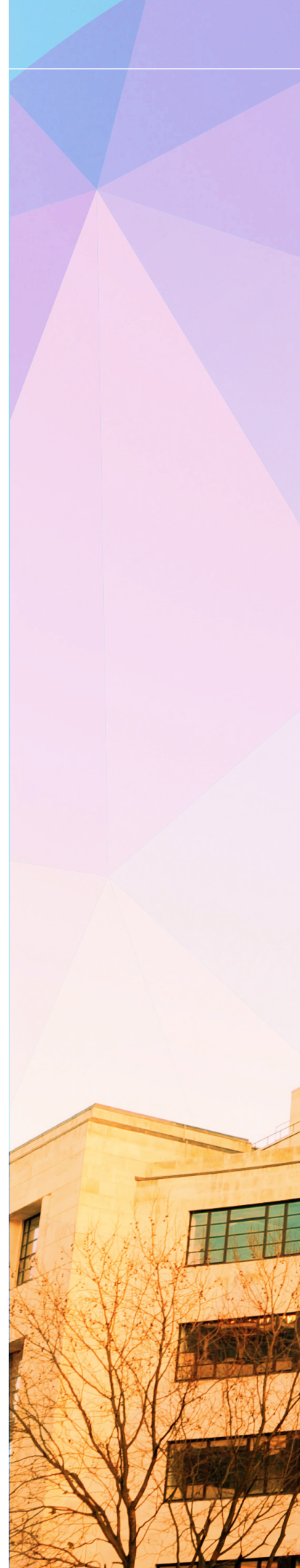
In addition, we experience increasing demand for our financial audit work year-on-year, which reflects the growing number of audits Parliament asks us to do. Our audit portfolio is becoming more complex as we take on a wider range of audits and sectors, including for example the BBC Group and its commercial subsidiaries. Expectations of financial audit quality are increasing, against the context of recent commercial failures and high-profile cases where auditors have not identified issues on a timely basis.

The delivery of public services continues to become more complex over time, for example through increasing devolution and a bigger role for private sector contractors, with greater risk exposure. The government also continues to run large transformation projects, which have significant digital technological components. Finally, our work in recent years has shown increasing pressure on the finances and service performance of many local bodies and we foresee these pressures continuing to increase.

Our priorities

Our four main priorities in 2018-19 have been to serve Parliament by:

- prioritising our work to focus on the issues that matter to government and Parliament in the current environment, particularly in light of the decision to leave the EU;
- innovating and adapting to developments in the audit industry so that we continue as ever to deliver high-quality work with the best of the audit profession;
- responding to feedback from public bodies for further cross-government insights and deepening our engagement with those we audit; and
- continuing to be a professional, innovative and data-led organisation that uses management information well and embeds new technology in our ways of working.





New expectations

Exiting the European Union

Changing audit environment

Service sustainability

Digital technology and transformation

Complex accountability arrangements

Complex delivery models

Increased commercial risk

Our work

In response to these external challenges, the NAO carries out a range of value-for-money audits, investigations, landscape reviews and good-practice reviews, as well as performing financial audits on the accounts of central government departments and other public bodies.

Financial audit

The C&AG, with the support of the NAO, provides an independent audit opinion on some 390 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

Our value-for-money reports examine whether public bodies achieve value for money – efficiency, effectiveness and economy – in their use of resources. Typically, these focus on a specific area of government expenditure and seek to reach a judgement on whether value for money has been achieved. We also make recommendations on where public services can be improved.

In addition to our value-for-money reports, we also carry out a wide range of other work to support Parliament in holding government to account. This includes:

- **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. In particular, we support 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 then typically publishes reports, including recommendations, to which the government must respond in a published Treasury Minute.

- **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**

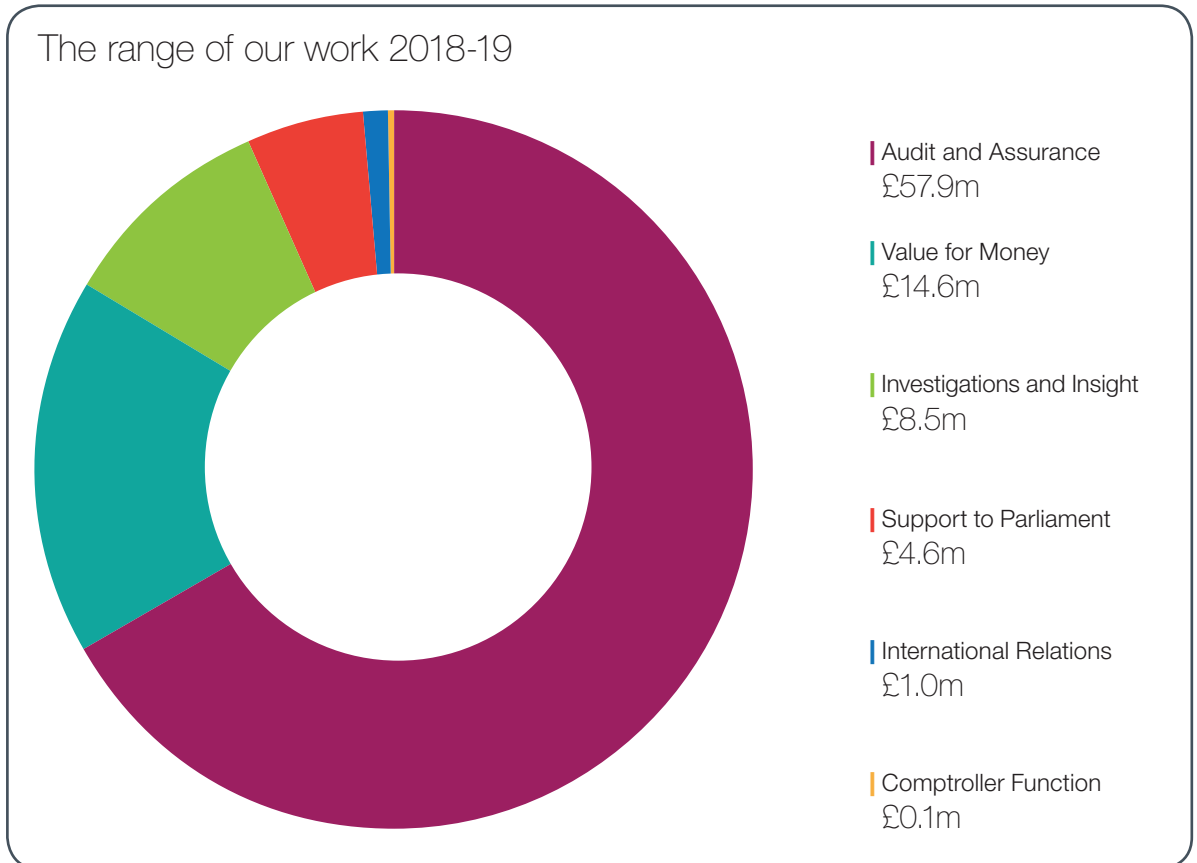
We deal with a high volume of correspondence from members of the public and MPs, representing a key point of direct contact. Coupled with intelligence from our work, correspondence is useful for bringing issues to our attention. It can lead to investigations or value-for-money studies.

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

- 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 figure below shows the range of our work in 2018-19 and the allocation of resources



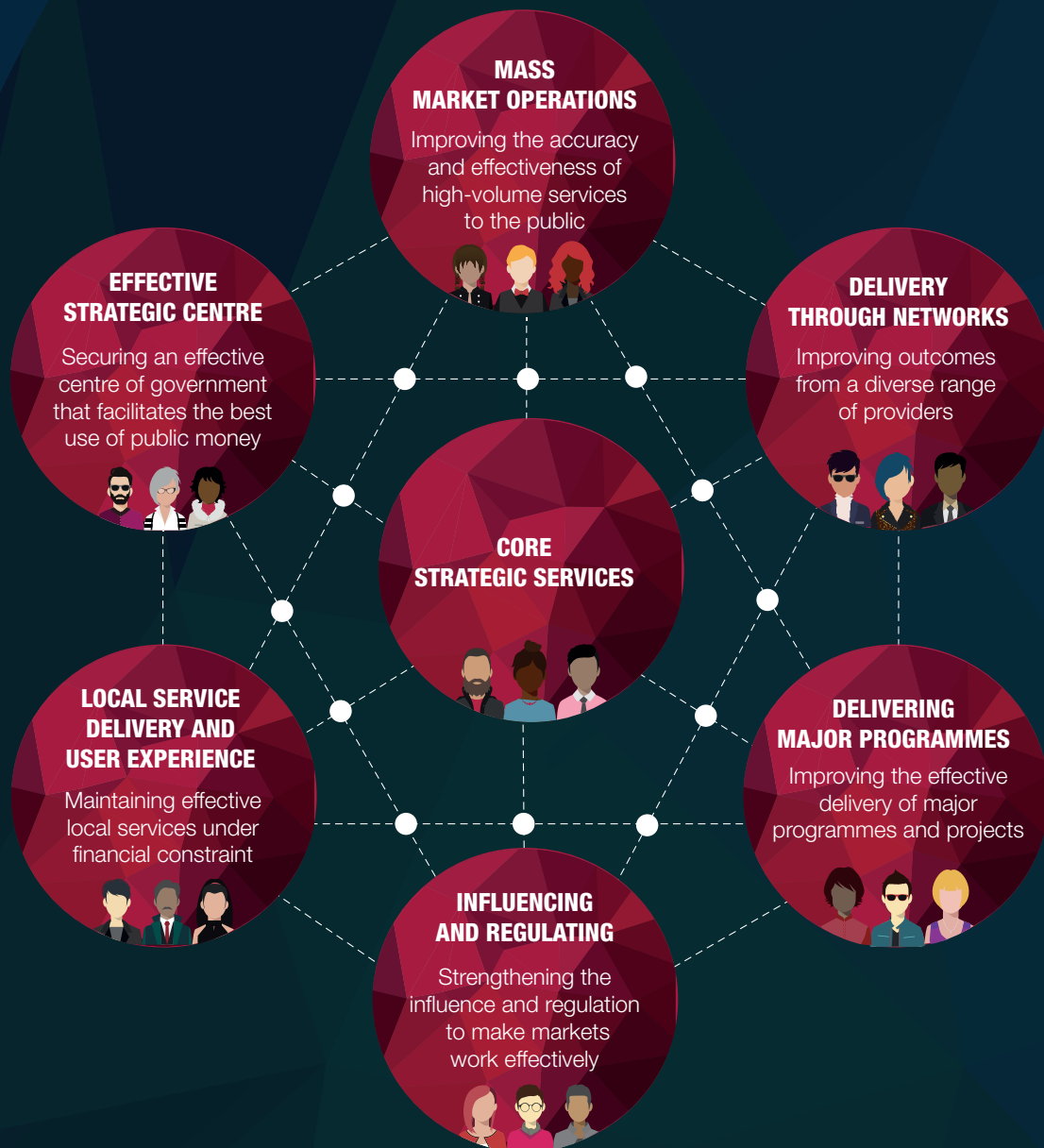
How we are organised

Our clusters

We structure our audit teams into six groups, known as clusters. Each cluster covers departments facing similar issues, such as major infrastructure projects and programmes or complex service delivery. They bring together skills from multiple disciplines to focus our resources where they are needed most. The NAO is supported by a central 'core strategic services' cluster, which provides expert advice on the quality of our work and makes sure our internal operations run smoothly.

Each cluster has a management structure comprising a strategy and planning director, a people director and a quality lead for wider assurance work. They are collectively responsible for operationalising our business priorities and developing the NAO's work programme. Each cluster is held accountable for delivery of the NAO's business priorities by an executive leader.

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.

Cluster strategies

Mass Market Operations

The cluster is concerned with how government maintains the efficient and accurate administration of benefits, taxes and pensions. It also looks at the themes of organisational transformation and sustained customer service performance.

Delivery Through Networks

The cluster considers the effectiveness of the oversight and intervention regimes that departments and other bodies have in place where their objectives are being delivered through other organisations, such as arm's-length bodies, charities and commercial entities. The cluster also reviews the services these bodies provide and their accessibility to the public.

Delivering Major Programmes

Much of the cluster's work focuses on the effective delivery of some of the largest programmes in government. These programmes consume a lot of resource, are inherently risky and are often 'too big to fail'.

Influencing and Regulating

The cluster's work relates to how government intervenes in, or exercises influence over, markets and complex delivery chains to benefit consumers, the environment, or the wider economy. This cluster focuses on the effectiveness of government's indirect interventions, such as influencing, regulating or subsidising private-sector activities, and how government could improve them.

Local Service Delivery and User Experience

Local government and health services are very important to the public, tax payers and Parliament. The priority of the cluster is to examine the financial sustainability of these services; along with ensuring the existence of sound systems and accountability and regulation.

Effective Strategic Centre

The cluster focuses on how well the centre of government works. This includes the preparations for the UK's exit from the EU, alongside its role in securing sustainable public finances and effective accountability for public money.

Core Strategic Services

The cluster is integral to the NAO achieving its objective. It supports the quality of the NAO's audit work and the value it delivers to audited bodies and Parliament. It aims to lead the way in modern, professional management practices and standards, looking to spot 'next practices' and share opportunities to help the NAO improve its ways of working.

Where we work

We operate across two sites, London and Newcastle. Most NAO staff are based in our London office. The London building is Grade II listed, designed by Albert Lakeman and originally built for Imperial Airways as its 'Empire Terminal'. In 2009 we undertook a significant refurbishment of the building to transform it into a modern, open-plan office. The refurbishment has also enabled the NAO to introduce many environmentally friendly features, such as rainwater harvesting. In 2018-19, following an internal re-organisation, including the take-up of flexible working, we rented out two additional floors to tenants, which reduces the costs of running the NAO for Parliament.

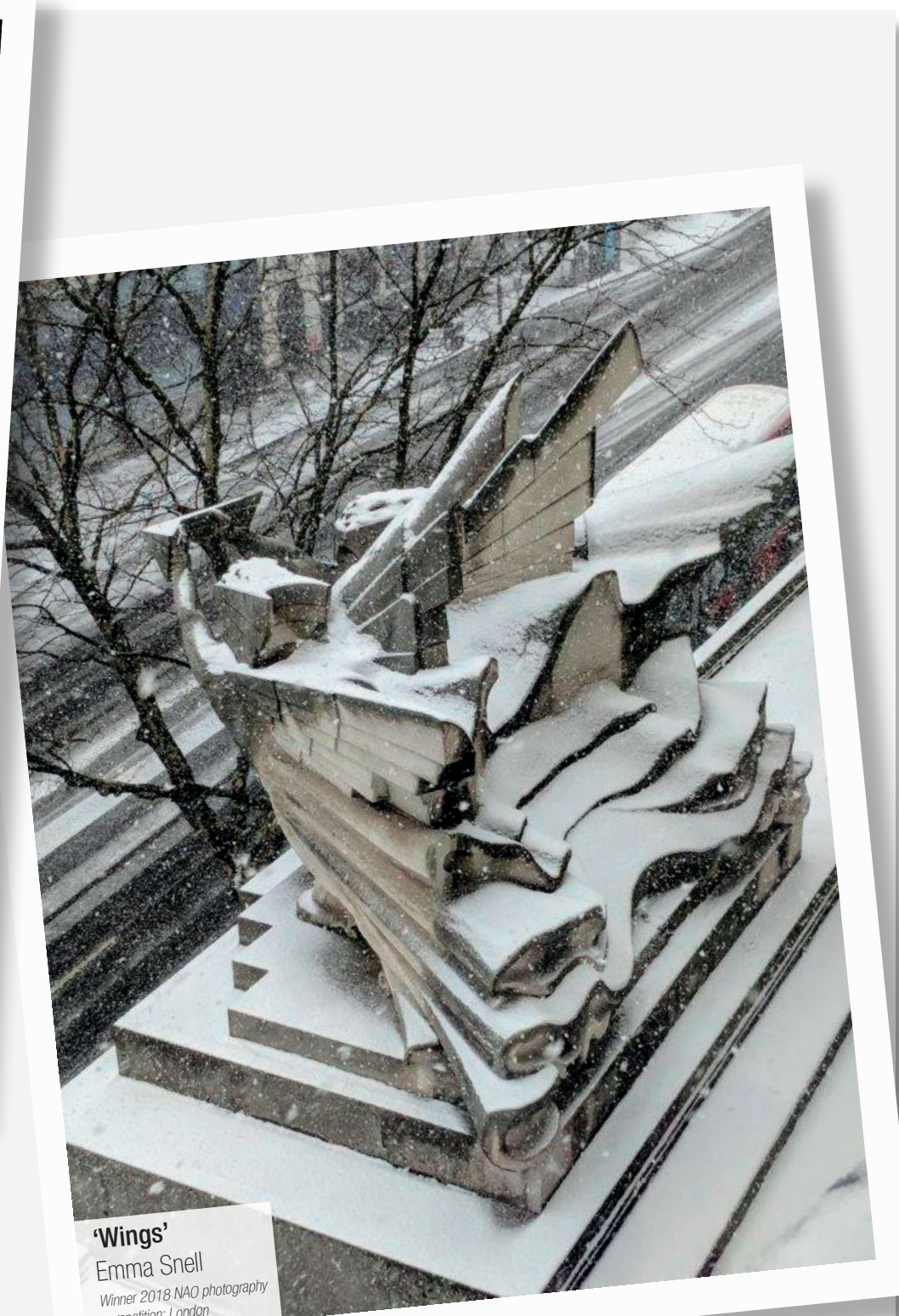
We participated in the Open House London event in September 2018, and welcomed 453 members of the public to tour the building.

We have had an office in Newcastle for more than 10 years, which benefits us in terms of our responsibility for a few large audits, such as the Department of Health & Social Care and the Department for Work & Pensions, as well as a number of smaller audits such as the Marine Management Organisation and the Equality and Human Rights Commission. Many of our audits combine both Newcastle and London staff. For example, our value-for-money report examining the Nuclear Decommissioning Authority's progress with reducing risk and hazard at its largest and most hazardous site, Sellafield, comprised a team of financial auditors, analysts and value-for-money experts from both offices.





'Tyne Bridge'
Simon Wakefield
*Winner 2018 NAO photography
competition: Newcastle*



'Wings'
Emma Snell
*Winner 2018 NAO photography
competition: London*

PERFORMANCE ANALYSIS

How we have performed against our performance framework

We measure our performance against our strategic objectives. These are set out in our *Strategy 2018-19 to 2020-21* which is available on our website. Our performance framework captures the areas we focus on 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 65 of the accountability report.

Our performance framework is set out in the figure opposite.

Our performance framework

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



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, value-for-money reports, investigations and wider assurance work. We also supported a full programme of evidence sessions for the Committee of Public Accounts.

Financial audits

We certified some 390 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. During 2018-19 we have taken on 21 new audit engagements such as the Office for Students and a number of additional commercial subsidiaries of the BBC Group.

We use the knowledge and insight gained from our financial audits to inform our other work, such as our value-for-money reports and investigations. Our report on NHS financial sustainability and our investigation into Land and property acquisition for Phase One (London–West Midlands) of the High Speed 2 programme, and the investigation into national security vetting all drew from insights gained from our financial audit work in these areas.

Our audit methods and approach must be high quality and keep pace with developments in audit practice more widely. We continue to make greater use of technology in our audits by:

- increasing our expertise in identifying and testing automated controls as part of our standard audit testing and Companies Act audit work; and
- investing in the use of data analytics to improve quality, insight and efficiency, which allows us to examine high volume data sets and focus on high-risk or unusual patterns in our audit work.

Wider assurance work

The NAO's programme of wider assurance work is shaped by our assessment of the external environment and what the issues are that Parliament should focus on. This is based on a rigorous assessment of where the greatest risks to value for money, public services and accountability lie. During the reporting year, we published 66 value-for-money reports and investigations in addition to factual reports, departmental overviews and best-practice guidance. The following paragraphs illustrate the range of our wider assurance work.

Exiting the EU

Following the outcome of the EU referendum in June 2016, the objectives of our EU exit work have been to provide an independent and authoritative voice on EU exit for Parliament; to have a positive impact on how departments prepare for and deliver Brexit; and to support Parliament's understanding of the financial settlement and ensure there are appropriate accountability arrangements in place.

One area of considerable public and Parliamentary interest is the UK's financial settlement with the EU. During the financial year we have reported twice on this topic: in April 2018, we reported on HM Treasury's central estimate of the cost of the financial settlement and concluded that the estimate that the financial settlement would cost between £35 billion and £39 billion was reasonable given the parameters HM Treasury had set for the estimate. In November 2018, we published a follow-up report to provide greater clarity on the financial settlement's place in the wider context of the government's agreement with the EU in advance of the 'meaningful vote'. Our work on the financial settlement drew on a multidisciplinary team consisting of financial and value-for-money auditors including our in-house experts in quantitative and statistical modelling. In addition, we sought external expert advice on EU pension liabilities.

In total our EU work during 2018-19 consisted of 11 outputs including two separate memoranda for the Committee of Public Accounts, published in February 2019, to support the government's preparedness for 'no deal'.

Our EU exit work has been used extensively by the Committee of Public Accounts and a range of select committees.

Investigations

We published 12 investigations and supported five Committee of Public Accounts evidence sessions through our investigation work. Our investigations provide Parliament with timely and targeted reports on emerging issues. For example, our investigation into the government's handling of the collapse of Carillion, published in June 2018, describes the government's exposure to Carillion before the company's collapse in January 2018, and the actions the government took to protect public services. Our investigation into NHS spending on generic medicines in primary care, published in June 2018, sets out the facts in relation to the increase in costs to the NHS of certain generic medicines in primary care in 2017-18. Furthermore, the investigation covers the possible causes of the price increases in the market for generic medicines and how the Department of Health & Social Care and its arm's-length bodies responded to the price increases.

Local public services

Since 2015, the C&AG has been responsible for setting the standards for local public audit, through maintaining a *Code of Audit Practice* and issuing associated guidance to local auditors. In addition, the Local Audit and Accountability Act 2014 gives the C&AG the powers to report on the value for money of public spending locally. We have recently launched a public consultation to identify the issues relevant to the next Code, which will come into force no later than 1 April 2020.

During 2018-19 we published 12 reports that examined aspects of local services. For example, in our report *Local auditor reporting in England 2018*, we describe the local audit landscape; summarise the issues being reported by local auditors and how these have changed over time; and examine how local bodies, central government departments and arm's-length bodies use the information to address the weaknesses reported. We concluded that the number of NHS and local government bodies with significant weaknesses in their arrangements for delivering value for money for taxpayers is high and increasing. In our report on *The health and social care interface*, we presented and discussed 16 challenges to improving joint working between the health and social care sectors. Drawing on our experience and unique perspective of auditing the NHS and local government's approach to delivering health and social care, we aimed to contribute to the ongoing debate about how to improve joint working across health and social care in England.

Our work makes a difference to people's lives

An important part of our work is to assess the quality of public services. As part of this work, we produce several reports each year that look at front-line delivery of services to citizens and make recommendations for improvement. The reports listed below highlight some of the best examples of work that has had the most direct impact during 2018-19.

For example, in our report on *Rolling out Universal Credit*, published in June 2018, we concluded that Universal Credit has not delivered value for money and it is uncertain that it ever will. We found that some claimants had struggled to adjust to Universal Credit and had suffered difficulties and hardship during the rollout. One-fifth of claimants were not paid on time. The Department for Work & Pensions was unable to identify the needs of vulnerable claimants and tailor the support they needed. Universal Credit was pushing costs onto third parties, such as local authorities and charities, but organisations felt the Department was unresponsive to the issues they raised. We recommended that the Department should ensure that the programme does not expand before business-as-usual operations can deal with higher claimant volumes. The Department should also learn from the experiences of claimants and third parties, as well as the insights it has gained from the roll out so far. Furthermore, the Department should capture intelligence on claimants' issues and the opinions of delivery partners and external stakeholders in a systematic way.

Our report on the *Handling of the Windrush situation* examined how the Home Office handled the impact of its immigration policies on the Windrush generation. We sought to establish whether long-running problems with the way the Home Office handles information and immigration casework may have contributed to the situation. We concluded that the Home Office did not deliberately deny the Windrush generation their legal rights to be in the UK, but it failed to protect their needs when it designed and implemented its immigration policies. This led to serious consequences for people affected. Our report made a number of recommendations to the Home Office to reduce the risk of a similar situation happening again. This includes the Home Office considering its responsibility to be more proactive in identifying people affected, and developing a strategy to support potentially vulnerable people across the immigration system as a whole. We have also said the Home Office must improve its approach to assessing risks to individuals and groups before implementing policies.

In our *Investigation into the management of health screening*, we found that the proportion of eligible adults receiving health screening is inconsistent across different areas in England and that services are not operating to the agreed standards. All the screening programmes investigated failed to meet the standard target for the percentage of eligible people attending screening appointments in 2017-18.

Best-practice guidance

We also publish documents summarising the insight, good practice or lessons learned from across our work. For example, our *Survival guide to challenging costs in major projects* outlines some of the challenges in estimating and managing costs that we have observed in our work on major projects. It offers accounting officers and senior decision-makers some ground rules and thoughts on factors to consider when challenging costs.

Our departmental overview on *Commercial and Contracting* summarises the UK government's commercial management activity across departments. It includes sections on: getting it right at the start; managing contracts better by improving use of intelligence and performance measures; and improving government's market management. The overview also summarises our methodology for auditing commercial relationships.

Twice per year (spring and autumn) we publish an interactive *Round-up for Audit Committees* outlining the latest NAO resources (over the previous six months) for governance and oversight, risk management and strategic management issues. The round-up is designed to make it easy for audit committees, boards and other users to find the NAO resources most helpful for the strategic management of public sector organisations.

Support for Parliament

Our reports help Parliament to hold government to account for public spending. The main way we do this is by working with Parliament's select committees, particularly the Committee of Public Accounts. We supported 61 Committee of Public Accounts evidence sessions through a combination of written and oral briefings. We seconded 10 staff to select committees and organisations within Parliament.

We have been working to make more use of our financial audit work for Parliament. For example, in the past year, the Committee of Public Accounts held evidence sessions on the annual accounts of the Department of Health & Social Care, the academy schools sector and the Whole of Government Accounts.

In addition to our work for the Committee of Public Accounts, we have supported select committees in their inquiries into the spending and performance of government departments. This included appearing as witnesses to give formal evidence to the inquiries of the Treasury Committee, the Exiting the European Union Committee, the Public Administration and Constitutional Affairs Committee, and Restoration and Renewal (Joint Committee on the draft Parliamentary Buildings Bill). Our reports have also provided select committees with authoritative and independent evidence to help inform their inquiries, for example the Business, Energy & Industrial Strategy Committee's inquiry into rolling out smart meters and the Treasury Committee and the Work & Pensions Committee's joint inquiry into Motability. In addition, we also produced bespoke reports for the Environmental Audit Committee into packaging recycling obligations and environmental metrics.

In the last year, we published 19 departmental overviews on government departments to assist House of Commons select committees and members of Parliament. Departmental overviews provide a quick and accessible overview of the department and its performance over the past year. The overviews summarise what a department does, how much it spends, key developments in its areas of work and findings from our recent reports.

Correspondence

We provided 152 responses to correspondence from MPs, and 1,054 responses to correspondence from the public. We also responded to 12 subject access requests under the Data Protection Act 2018, 92 enquiries under the Freedom of Information Act and four enquiries under the Environmental Information Act.

International

During the year, the C&AG served as the external auditor of the World Intellectual Property Organization and the Pan American Health Organization, and as chair of the United Nations Panel of External Auditors. Our internal audit engagements give us a valuable perspective on how public sector accounting is developed outside the UK.

In November 2018, we hosted a two-day international seminar on using investigations to assist public accountability. The seminar explored best practice in responding consistently to issues in a timely manner, and to inform public debate actively and positively while an issue remains topical. The seminar was attended by 12 Supreme Audit Institutions from Europe, in addition to the audit offices of Scotland, Wales and Northern Ireland.

Our international work also includes a small portfolio of technical cooperation projects where we help other public audit offices to build their capacity to deliver a high-quality audit service. We worked primarily with countries that received UK development funds and where a strong national audit office is central to a country's sound financial management and oversight of the use of these monies.

Our impact

Our work has led to positive change

Major trauma care in England

Our 2010 report on major trauma care highlighted the unacceptable variation in major trauma care: for example, survival rates ranged from five unexpected survivals to eight unexpected deaths per 100 patients treated



Mental health in prisons

Our 2017 report on *Mental health in prisons* concluded that government did not know how many people in prison have a mental illness, how much it was spending on mental health in prisons or whether it was achieving its objectives, which were not well defined



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 through our work.

IMPACT

The report acted as a catalyst for planned improvements in the way major trauma care is delivered in England. An article published by *The Lancet* in 2018 highlighted the long-term impacts (up to 2017) arising from our recommendations around the establishment of major

trauma networks. It found that the changes to the system of trauma care were associated with significant improvements in both the care process and outcomes of patients after severe injury. For example, there was a significant increase in the odds of survival for trauma patients treated at hospital.

IMPACT

Since our report, the Ministry of Justice, the Department of Health & Social Care, NHS England, Her Majesty's Prison & Probation Service and Public Health England have published a new Partnership Agreement that describes their commitment to improving healthcare in prisons. It sets out how they are

working together to improve data and evidence and contains links to a detailed workplan, which outlines activities, deliverables and the timeframes within which they will be achieved. These workplans provide the basis for a better understanding of the progress being made in this important area and greatly improve transparency.

Reducing Modern Slavery

During our fieldwork while producing a report on *Reducing Modern Slavery* we discovered that there were no minimum care standards or an inspection regime for the safe house accommodation for potential victims of modern slavery



Packaging recycling obligations

In our 2018 report we found that the packaging recycling obligation system relied on exporting materials to other parts of the world, without adequate checks to ensure this material is recycled. The Environment Agency's compliance inspections fell well short of targets and inspections did not focus on companies it knew to be high risk



IMPACT

Because of our report the Human Trafficking Foundation worked with a range of experts from the sector to update its set of care standards, which the Home Office committed to adopting in its next Victim Care Contract and using it as a baseline in its design of an inspection regime. We acted in a consulting role, explaining our findings in detail and securing

introductions with other government organisations to help them develop the standards so that they could form the basis of an inspection regime. *The Slavery and Trafficking Survivor Care Standards 2018* were published in October 2018 and our work is mentioned within the standards as a driver for this change.

IMPACT

The Agency has since published a monitoring plan, setting out plans to double inspections for 'high risk' companies in 2019. Government has also issued a consultation on wholesale

reforms to the system, and highlighted that we were critical of the current system. Proposed measures include physical inspections of overseas recycling plants, paid for by exporters.

Investigation into NHS continuing healthcare funding

Our Investigation into NHS continuing healthcare (CHC) funding found that many people were not receiving timely decisions about whether they were eligible for CHC



IMPACT

Because of our work, NHS England has further improved the range and quality of data it collects on CHC from clinical commissioning groups (CCGs), allowing better oversight. This has led to improvements in waiting times. For example, the number of CCGs where more than 80% of people

assessed for CHC waited no longer than 28 days for a decision on eligibility increased from 25% in April to June 2017 to 56% in October to December 2018. Over the same time period, the number of people waiting longer than 16 weeks (112 days) reduced from 5,000 to 1,600.

Clients acknowledge the value of our work

Rolling out smart meters

In our 2018 report we concluded that leaving in place the 2020 deadline for energy suppliers to roll out smart meters increased risks to value for money, because it could put excessive pressure on the supply chain and push up costs or encourage the industry to roll out technology before it had been sufficiently tested



IMPACT

In the Department for Business, Energy & Industrial Strategy committee evidence session on smart meters, energy minister Claire Perry said she accepted the recommendation to assess

the value for money of leaving the 2020 deadline in place compared with adopting a new deadline. This assessment will be reflected in the programme's forthcoming update to its Cost-Benefit Analysis.

Department for International Trade financial audit

Our financial audit of the Department for International Trade highlighted issues in department-wide financial management processes and in controls over some significant areas of the department's activity



The collapse of Carillion

Carillion went into liquidation in January 2017. The Cabinet Office, aware of the many different public-sector contracts that Carillion delivered, coordinated contingency planning and ensured the Official Receiver kept services running



IMPACT

We made a number of detailed and specific recommendations which focused on the key changes the department needs to make to improve its short- and long-term organisational health. Senior management have taken our findings seriously and in response

have made a number of changes to processes and strengthened controls across the department, including redesigning the approach to expenditure processing and reorganising key central teams.

IMPACT

Over time our work has highlighted the need to manage contractors better. When we audited government's management of strategic suppliers in 2013, we found its ambition outstripped its ability. The Cabinet Office invested significantly in its people, processes and information. This put it in a much

better position to manage the collapse of Carillion, ensuring that ongoing services had minimal disruption. The government has since published a new *Outsourcing Playbook* for departments, building on a range of sources, including NAO findings.

Parliament has confidence in the independence of the NAO

Understanding the impact of asset sales on the public finances

Our work over many years has focused on the value for money of major asset sales, and the importance of their effective planning and execution. We have consistently recommended improvements in how the financial impact of asset sales is reported to ensure that decisions about whether and how to sell assets are well informed and the longer-term implications transparent. Our report on the sale of student loans, for example, highlighted how sales have different impacts on public finances depending on the measures and accounting frameworks used



Accountability to Parliament for taxpayers' money

In 2016 we recommended that Cabinet Office "...ensures that Accounting Officers' responsibilities are given more weight in the formal appraisal of each permanent secretary's performance"



IMPACT

Following HM Treasury's publication of asset sales disclosure guidance, government should now report on the impact of asset sales using a range of measures of financial performance and the assumptions

underlying decisions to sell, including how the sale price compares with its own valuation. UK Asset Resolution reported this information to Parliament following its sale of two loan portfolios in October 2018, and January 2019.

IMPACT

In January 2018 the Cabinet Office reported to its audit and risk committee that the way in which permanent secretaries discharge their Accounting Officer responsibilities will be specifically referenced in the formal inputs which are used to assess their

performance from 2017-18 year end onwards. It reported that Civil Service Talent was working with the HM Treasury permanent secretary to "...make this more explicit in the report ahead of the 2017-18 end of year process".

We are a recognised authority in our core areas of expertise

Ensuring sufficient skilled military personnel

Our report emphasised the importance of using data to analyse the scale, causes and impacts of shortfalls in key military trades. This was at a time when the Armed Forces were 5.7% below their overall requirement, but 18% below in key trades



Improving the disclosure around HM Treasury's economic analysis

In June 2017, in response to correspondence from an MP, we produced a report which looked at HM Treasury's analysis of the economic impact of leaving the EU. We found that HM Treasury's analysis did not highlight prominently enough the inherent uncertainties of estimating the impacts of future events, with the then Chancellor's foreword describing the results of the analysis as "economic facts"



IMPACT

Following our report, the Ministry of Defence commenced a review of how it collects and analyses these data for both Armed Forces and civilian personnel, and how that information could be used

to provide greater insight to better understand where particular groups of staff are under pressure from the shortfalls, and helps each Service manage these gaps and their impacts.

IMPACT

HM Government published an updated analysis of the economic impacts of leaving the EU in November 2018. In line with the recommendations

of our work it presented the inherent uncertainties in its analysis prominently and clearly, explaining that the results needed to be interpreted with caution.

The quality of service for personal tax payers and HMRC 2016-17 Accounts

For many years we have reviewed aspects of the way HMRC has developed its customer service, through value-for-money examinations, our annual reporting on the department's performance, and working alongside HMRC to explore the relationship between customer service and tax collected



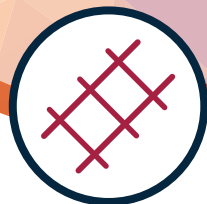
IMPACT

Our work has helped HMRC better understand and improve aspects of the service it provides, including for example the way people experience HMRC's telephone service and automated telephone system. HMRC has reduced the time customers spend listening to messages and made its messages more helpful. It has also committed to developing a broader 'scorecard' of performance measures for

customer service in line with our recommendations. Understanding performance in customer service is essential for improving the experiences of those using public services but also for improving their effectiveness and efficiency, and the NAO's ongoing engagement both challenges and supports HMRC in its continued progress in this area.

HS2 Ltd

In 2018 we performed an investigation looking at the estimated cost to acquire the land and property required to build HS2 Phase One. At the same time, our financial audit tested the accuracy of the recorded property values which the government had already committed to purchase



IMPACT

Our work provided important clarity on how the land and property cost estimate had evolved over time. However, it noted the programme is at a relatively early stage and uncertainty remains. It led to greater transparency in the Department for

Transport's accounts on the assumptions made when valuing property and provided improvement ideas on the formatting and structure of the property cost estimate. This will assist the Department in the next iteration of its estimate.

Financial impact

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. Between 2010 and 2017 we exceeded our financial impact target of £10 pounds for every £1 we spend. During the calendar year 2018, our financial impact was £539 million, which represents around £8 for every pound we spend. A list of financial impacts valued at more than £5 million is included on page 113.

The audited impacts in 2018 were less than our target of £10 for every £1 the NAO costs Parliament. One of our biggest impact results from work we did with the Department for Work & Pensions (DWP). Since 2011 DWP has underpaid Employment and Support Allowance (ESA) due to errors in calculating entitlements. DWP considers that work undertaken in response to our recommendations led it to apply greater scrutiny to overpayments and underpayments, including detailed analysis of ESA underpayments after May 2016. It was this analysis that, ultimately, led to the Department taking action on the issues covered in our report on ESA underpayments.

DWP has recognised the contribution of the NAO and estimates it will pay £920 million (forecast expenditure rounded to the nearest £10 million) in past underpayments over the financial years 2017 to 2020. In addition, it will pay higher awards to active claimants after their claim is corrected. These amount to around £40 million in 2018 to 2019, £120 million in 2019 to 2020, and then decline over time to £90 million in 2024 to 2025 as claimants leave the benefit. However, these estimates are only finalised once individual cases are reviewed and payments are made.

DWP is currently in the process of contacting, reviewing and, where necessary, correcting the cases of those potentially affected. During the calendar year 2018, which is our cut-off for recording impacts, DWP paid around £285 million in arrears payments and higher awards, to cases affected by underpayments on conversion from previous incapacity benefits to ESA. We have included these in our financial impacts performance against target for the year. However if these estimates of future payments prove to be accurate and we were to include these in our actual performance for the 2018 year, we may have met or exceeded our target.

Holding government to account for its environmental performance

We play an important role in holding government to account for its performance against its environmental objectives not least through our support to the Environmental Audit Committee. In its 25-year Environment Plan, the government committed to improving the natural environment in England within a generation. Meeting this ambition will require significant and coordinated action across a range of different sectors of the economy. Meeting climate change targets, for example, will require radical changes in energy, transport and housing by 2050. Improving the natural environment will also involve reversing some long-term trends of environmental decline, such as in the populations of pollinating insects and farmland birds.

In 2018-19, we published two reports for the Environmental Audit Committee, a select committee in Parliament with a remit to examine government's performance on environmental protection and sustainable development. These reports considered:

- the effectiveness of a key part of government's approach to packaging recycling, the Packaging Recycling Obligations. The impact of this report is featured on page 30; and
- the government's approach to measuring the state of the natural environment through environmental metrics, which is detailed in the following paragraph.

Environmental metrics

This report drew attention to the importance of government having an effective system for measuring its environmental performance, in order to understand whether it is on track to meet long-term environmental goals, to assess the effectiveness of new and existing policy interventions and to fulfil international obligations. We found that government had published a new draft framework for tracking progress against the 25-year Environment Plan. This was promising, as it took a broad ‘whole system view’. However, significant challenges still need to be overcome. A critical test will be whether there is strong ‘whole of government’ ownership of this new framework, with all parts of government actually using this information to monitor progress and take action if performance is not improving as quickly as possible.

Our own direct impact on the environment is covered on pages 47 and 48 of this report.



INCREASING OUR INFLUENCE

Communicating with our stakeholders

We recognise that, in order to influence improvement in the public sector, we must communicate in ways that make it easy for our stakeholders to access and understand our work.

New techniques have been introduced to help us do this, such as mini-videos summarising our reports in under two minutes, infographics and publishing every figure from each of our reports on our website so that readers can easily download and share them.

We will continue to listen to our stakeholders and improve how we communicate with them. We have recently made a number of changes to our website to make it more accessible, so that a wider range of stakeholders can access our work. We will be rolling out further accessibility improvements in the coming year.

Response to recommendations arising from our work

To measure our impact over time, we have been tracking the progress that departments have made in implementing recommendations arising from all our value-for-money reports since April 2014.

In our value-for-money reports between 1 April 2014 and 31 December 2018, we made 1,041 recommendations. Of these, 791 have been discussed with audited organisations, and of those: 341 have been implemented; 403 are in the process of being implemented; and 47 have been rejected. This equates to an acceptance rate of 94% for our recommendations.

The Committee of Public Accounts takes evidence from senior officials based on our reports to Parliament. The Committee issues its own reports and makes further recommendations, to which the government must respond in a published Treasury Minute. The Treasury Minute states whether government agrees with each of the Committee's recommendations and what action is being taken in response. During 2018-19, the government accepted 277 (90%) of the Committee's 308 recommendations. By comparison, in 2017-18 the government accepted 219 out of 245 (89%) of the Committee's recommendations and, in 2016-17, 349 out of 397 (88%).

Tracking the progress of NAO and Committee recommendations provides a broader measure of the impact of our work.

Perceptions of the NAO

MPs

To achieve our aim of being an authoritative source of information and advice to support Parliament in holding 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 2018 survey show that we continue to have a strong reputation among Parliamentarians, being both well-known and respected. Three-quarters of those surveyed felt that they knew the NAO very well or a fair amount. Seventy per cent of those surveyed said that their opinion of the NAO was favourable and almost two-thirds would speak highly of us. This is well above average compared with the public and private organisations measured on the survey.

In response to direct survey questions:

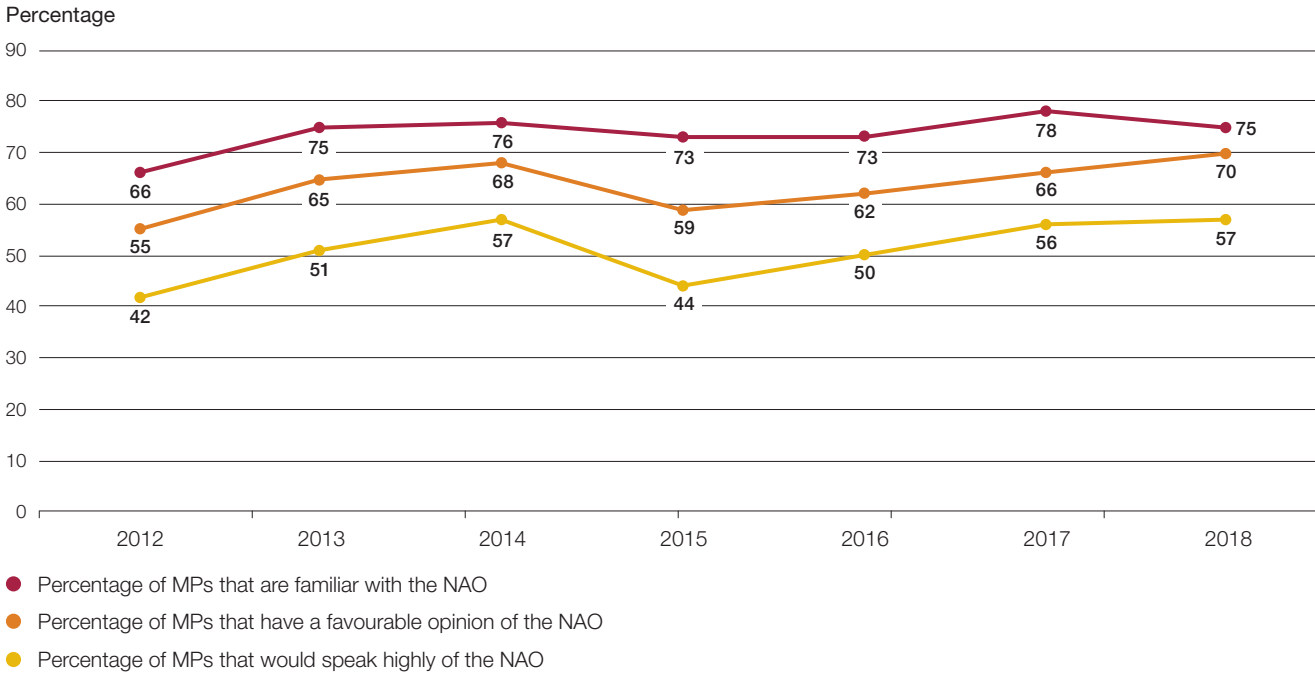
- **83%** of MPs surveyed rated us as above average for influencing beneficial changes;
- **83%** of MPs surveyed rated us as above average for being authoritative;
- **83%** rated us as above average for acting impartially and independently; and
- **78%** rated us as above average for acting with honesty and integrity.

MPs' rating of our communication has improved slightly since last year and remains higher than comparable organisations but an area for improvement. We continue to try new ways of communicating with MPs about our work. We send each of our value-for-money reports and investigations to an average of 150 to 250 MPs, tailored to fit with their known areas of interest, as well as regular updates on the NAO's programme of work.

Since April 2012, we have monitored all references that Parliamentarians make to the NAO and the Committee of Public Accounts in Parliament. We continued to receive an average of six references in Parliament per sitting day in 2018-19, which is consistent with 2017-18.

Members of Parliament’s perceptions of the National Audit Office (NAO) since 2012

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 2012



Source: Ipsos MORI. Base: All MPs interviewed (122), Conservative MPs (50), Labour MPs (45), SNP (6), Other (3), 99 MPs answered the National Audit Office questions, Winter 2018

Audited bodies

We seek feedback on our work through an independently conducted survey and interview programme. We draw on this feedback to support continuous improvement in our practice.

In line with the survey results in 2017, the bodies we audit remained satisfied with the NAO. Ninety-seven 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. Ninety per cent agreed it is of high quality; 70% said that our financial audit work brings valuable insights; and 89% said that they would actively seek our feedback on accounting and financial control issues.

Of those respondents directly involved in value-for-money studies (41 respondents), a higher proportion were positive about our work than in 2017. Seventy-six per cent rated the technical quality of their most recent value-for-money study as good or very good; 73% agreed that it aligned with their organisation’s strategic priorities; and 76% said that it covered the right issues.

Overall, 55% of respondents said that our recommendations led to improvements and 73% said that, during our work with them, they had made changes prompted by our engagement.



DELIVERING HIGH PERFORMANCE

Financial performance

We are committed to being cost-effective and making best use of the resources which Parliament gives us. Since 2010 we have reduced our net running costs by 20% in real terms against our baseline, despite having taken on significant new responsibilities in local government over the same period. We have achieved this through transformation in our operations, building teams around the major issues facing departments, which meant we could increase our outputs with smaller teams. We invested in our core systems, which has automated workflow and simplified process, leading to lower headcount in our corporate centre. As the total number of people working at the NAO has reduced by 10% over the past 10 years, we have rented out the surplus office space and this has created extra income which helps fund our work.

Financial performance 2018-19

	Budget	Outturn	Variance	Variance
	£m	£m	£m	%
Audit and assurance work	88.1	86.7	1.4	1.6
Less: Income	20.6	21.0	-0.4	-1.9
Net resource expenditure	67.5	65.7	1.8	2.7
Capital expenditure	1.4	1.3	0.1	7.1
Cash expenditure	65.7	63.2	2.5	3.8

Note

1 These figures exclude non-voted expenditure items, such as the Comptroller and Auditor General's and chair's salaries, which are paid directly by Parliament and are outside of the control of the National Audit Office.

Audit and assurance work

In 2018-19, our audit and assurance work, which includes financial audits, value-for-money studies, investigations, international work and direct support for Parliament, cost £86.7 million, which is £1.4 million variance compared with a budget of £88.1 million. This variance is largely a consequence of our staff numbers being lower than planned for the year.

Staff and staff-related costs make up approximately 70% of the NAO's cost base. The budget for 2018-19 allowed for a complement of 820 people and covered our annual pay award of 2%. However, we have operated under our complement, with an average full-time equivalent of 806 for the year. While we still managed to deliver our full range of statutory services to Parliament, this has put a lot of pressure on our staff. This is not sustainable, nor desirable, and we have taken action to increase recruitment. We plan to be back in line with planned headcount for 2019-20.

Income

The NAO receives income from UK and international fee-paying audits, providing services to international and overseas clients, secondments to other organisations and rental of surplus office space at NAO headquarters. Our income for the year was £21.0 million, which is £0.4 million more than our budgeted income of £20.6 million. This variance has allowed us to reduce the running cost of the NAO to Parliament.

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 £1.3 million was less than our budget of £1.4 million by £0.1 million, as a result of completion of capital works for less than planned.

Cash expenditure

We only needed to draw down cash funds from Parliament of £63.2 million against our cash allowance of £65.7 million in the year. This variance of £2.5 million (3.8%) 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 2019-20 and beyond

After allowing for £21.3 million of income, our 2019-20 net resource requirement is £71 million, which covers our audit and other assurance work. In addition, we also have a £1.0 million budget for capital expenditure. These budgets:

- include our programme of work dealing with the UK's departure from the EU, including continued review of the financial settlement;
- reflect the increased complexity of our existing financial audit portfolio, which includes overseeing the introduction of new reporting standards;
- adjust for increases in the number of audits we are asked to do each year, including an expansion of our audit of the BBC Group;
- set out our ongoing investment in the use of technology and data analytics in our work, so that we meet growing expectations of high-quality products and audits, and keep pace with changing technology in government departments; and
- allow us to invest in our people, making sure we have the right skills and capability to respond to changing priorities and the evolving nature of our work, and provide for increases in employer pension contributions to the Civil Service Pension Scheme as instructed by the Cabinet Office.

However, as stated in our Strategy 2018-19 to 2020-21, and the context of the process of the UK exiting the EU, we operate against a backdrop of uncertainty, which is difficult to budget for.² As events unfold, we may have to ask the Public Accounts Commission for further resources for 2019-20 should it become apparent that we do not have enough budget to fulfil all our statutory responsibilities and respond to requests from Parliament. The figure below provides further information on how our resources have changed over the previous five financial years and plans for the following two years.

Resource use over time

	2014-15 Outturn (£m)	2015-16 Outturn (£m)	2016-17 Outturn (£m)	2017-18 Outturn (£m)	2018-19 Outturn (£m)	2019-20 Estimate (£m)	2020-21 Proposed (£m)	2021-22 Proposed (£m)
Audit and assurance work	82.7	83.2	83.1	83.9	86.7	92.3	93.5	94.6
Income	-21.4	-19.3	-19.2	-19.1	-21.0	-21.3	-21.4	-21.4
Total net resource requirement	61.3	63.9	63.9	64.8	65.7	71.0	72.1	73.2
Capital expenditure	1.2	1.1	0.9	0.8	1.3	1.0	1.0	1.0

Getting the best from our people

We deliver high-quality work because we invest in recruiting, developing and retaining people of the right calibre. We are committed to providing the right working environment so that NAO 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 69 people recruited to our graduate scheme and nine to our school leaver scheme in 2018. 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, 83.4% of our trainees passed the Professional Stage examinations for the Association of Chartered Accountants qualification at the first attempt (in line with the national average) and 94.3% passed the Advanced Stage examinations at the first attempt (significantly above the national average of 85.2%).

The professional accountancy training for staff is supplemented by in-house bespoke training. All front-line staff working on audit must attend an annual assurance update and have further targeted training on specific areas such as auditing of pension schemes, auditing of accounting estimates, group audits, and statistics and research methods.

² National Audit Office, *NAO Strategy 2018-19 to 2020-21*, December 2017, available at: www.nao.org.uk/wp-content/uploads/2017/12/NAO-Strategy-2018-19-to-2020-21.pdf

We completed the rollout of an office-wide training programme called the Way we Work, which aimed at empowering NAO people to deliver their best in line with our business priorities and values. We are now evaluating the effectiveness of the programme. During the reporting year we have also launched two further talent programmes. The NAO's 2018-19 Transparency Report provides more information on the technical training offer for front-line audit staff.³

Supporting our people

We conduct an annual survey of our people and benchmark the results against comparable organisations. In 2018, 77% of NAO staff completed the annual survey, which was the same percentage as 2017.

We are pleased that the results continue to show strong levels of employee engagement within the NAO, which compare favourably with our benchmarks. Employee engagement, at 14% higher than the civil service average, reflects our people's pride and motivation at working at the NAO.

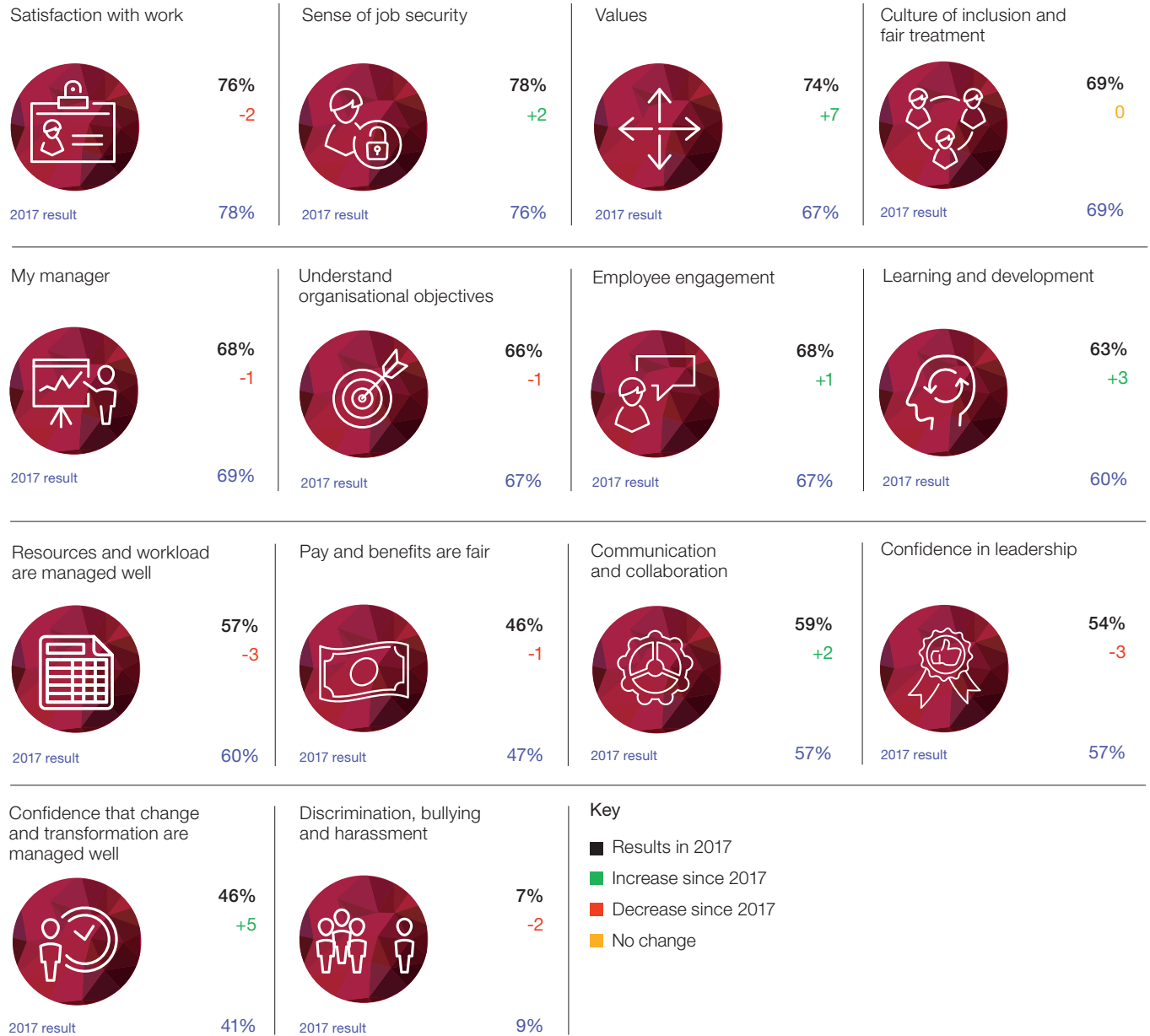
We have worked hard to improve how we support and engage our people through creating a more flexible environment, implementing more modern systems and developing our ways of working. However, we want to continuously improve what we do and ensure that we keep up to date with best practice for engaging the modern workforce. Our continued areas of focus in the coming year will be: to improve our workforce planning and peak workload management, develop and implement a new internal communication strategy and develop how our leaders engage with our people. We will also continue to strengthen our zero-tolerance response to bullying and discrimination, including through improving the profile of our dignity-at-work leads, to help build our people's confidence to challenge inappropriate behaviour, and to formally raise concerns if resolution cannot be reached informally.⁴

³ NAO Transparency Report 2018-19, available at: www.nao.org.uk

⁴ The role of dignity-at-work (DAW) leads is to support NAO people who experience or witness inappropriate behaviour.

National Audit Office People Survey results, by topic areas

Results of the survey in 2018 compared with 2017



Note

1 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 14 broad topic areas covered in the survey.

Source: National Audit Office

Diversity and inclusion

Building the diversity of our workforce and embedding a culture of fairness and inclusion remain key priorities for the NAO and are an integral part of our business strategy.

Areas of focus during 2018-19 included:

- launching a refreshed three-year diversity and inclusion (D&I) strategy, building on the progress we made under the previous strategy, which ended in 2018. While promoting all aspects of D&I, our new strategy focuses on three characteristics – gender, race and disability – to enable us to make sustainable and accelerated change over the next three years. In addition, many of the actions set out in this strategy will help to improve equality for all under-represented groups in the NAO, as well as those who do not possess a protected characteristic. The strategy is built around two key pillars: building a diverse talent pipeline and creating an inclusive work environment;
- establishing a new governance structure to support delivery of the new strategy, foster a collaborative culture and ensure staff have appropriate avenues in which to raise concerns. The new governance structure includes a Diversity and Inclusion Strategy Group (DISG), involving all members of the Leadership Team and chaired by the C&AG, and a Diversity and Inclusion Operational Committee (DIOC), chaired by a member of the Leadership Team, which includes representatives from our D&I networks, people directors, dignity-at-work leads and human resources; and
- refreshing our trainee assessment and selection processes following recommendations from an external review. Changes include: updating our numerical reasoning test and moving to strength-based interviews to minimise potential bias; strengthening our attraction strategy to reach candidates from under-represented groups; and more active management of our candidate pipeline to encourage more women to progress their applications.

However, we have yet to make sufficient progress on other aspects of our D&I agenda.

For example, the make-up of our workforce is less diverse at more senior levels than we would like; engagement among our disabled colleagues continues to be comparatively low; and, while incidents are few, some staff still feel uncomfortable reporting unfair treatment and inappropriate behaviour. We will therefore make further efforts in these areas in order to make more tangible and sustained improvements.

In February 2019, we reported a mean gender pay gap of 9.9% and a median pay gap of 11.2% (as at 31 March 2018), both lower than the figures reported in 2018. The refreshed D&I strategy includes a number of actions to further support women to progress their careers and lead to ongoing reductions in our gender pay gap.

The *2018-19 Diversity and Inclusion Annual Report* provides a more detailed account of progress over the past year.⁵

⁵ National Audit Office, *2018-19 Diversity and Inclusion Annual Report*, available at: www.nao.org.uk/report/diversity-and-inclusion-annual-report-2018-19

Our impact on the environment

It is our policy to manage our organisation in the most environmentally responsible manner, to comply with environmental legislation and any other requirements necessary. Our direct impact on the environment includes the greenhouse gas emissions associated with business travel and the 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 published on our external website and summarised in the figure below. We assess the impact on the environment of our activities and use an environmental management system to provide a framework for setting and reviewing 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 most of these new targets and have plans in place to improve upon these results in 2019-20.

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

National Audit Office performance against the environmental targets in the Greening Government Commitments

Plant, equipment and purchased energy



Target	Result
16% reduction in CO ₂ e (compared with 2010-11)	48% target achieved

Waste generation and paper consumption



Target	Result
Less than 10% of waste to go to landfill	0% target achieved

Business travel



Target	Result
30% reduction in domestic flights (compared with 2009-10)	50% target achieved



Reduce the overall amount of waste generated from 0.14 tonnes per FTE in 2011-12	Reduced to 0.11 tonnes per FTE target achieved
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Increase the proportion of waste which is recycled from 85% in 2011-12	80% target not achieved
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Water usage per full-time equivalent (FTE) employee



Target	Result
ratio of 4m³ to 6m³ per FTE	5.6m³ target achieved



50% reduction in paper (compared with 2009-10)	63% target achieved
--	----------------------------------



Explanation of variances

We have achieved a 48% reduction in greenhouse gas emissions related to plant, equipment and purchased energy. This result reflects the energy reduction programme implemented during the year and the change in the electricity factor for calculating the UK's CO₂e emissions. The calculation change is due to 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.

The proportion of waste recycled was lower than the levels achieved in prior years because of the changes to our Materials Recovery Function (MRF) contract where low-quality recyclates were previously collected and sent to markets in South Korea, China and India. This option is no longer available as these markets will no longer accept low-quality waste.

Risks

The main risks to achieving our targets are our electricity and gas consumption. These have the most impact on our environmental credentials and, as a result, energy consultants have assisted 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 meet rigorous selection criteria, which include 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 the 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.

In addition to our direct impact on the environment, we also play an important role in holding government to account for its performance against its environmental objectives. This is covered in pages 36 to 37 of this report.

Sir Amyas C E Morse KCB

Comptroller and Auditor General

28 May 2019



2 ACCOUNTABILITY REPORT

CORPORATE GOVERNANCE REPORT

Directors' report

The directors of the National Audit Office are 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 notes 1.5 and 1.6 of the financial statements.

Auditor of the NAO

Crowe U.K. 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 directors' report have been included elsewhere in the Annual Report. Incidents related to personal data are reported in the Governance Statement on page 52. Disclosures on employment and training and on how we engage with our people are in the section titled 'Delivering high performance', which begins on page 41 of the 'Performance analysis'. Additional information is included in the remuneration report on page 70. 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 41.

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 are set out in the accounting officers' memorandum issued by the Public Accounts Commission. They include 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.

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 Deputy Speaker of the House of Lords from May 2012 to July 2016. 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

Amyas Morse was appointed Comptroller and Auditor General on 1 June 2009, for a fixed, non-renewable term of 10 years. He is the chief executive officer of the NAO and an officer of the House of Commons. 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. He is a non-executive board member of the Royal College of Surgeons.



Janet Eilbeck
Non-executive member of the Board
and chair of the Audit Committee
Non-executive dignity-at-work lead⁶

Janet is a chartered accountant with more than 40 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, and chairs two legacy staff pension schemes. She was also chair of the Internal Audit Standards Advisory Board (IASAB), and the independent financial expert for the Department for Education. She has been a non-executive member of the Board and the chair of the NAO's Audit Committee since October 2016.

⁶ The role of dignity-at-work (DAW) leads is to support NAO people who experience or witness inappropriate behaviour. Janet Eilbeck represents the formal reporting line for DAW leads into the Board.



Abdool Kara

Executive Leader and
member of the Board

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. He is jointly responsible for the leadership of the NAO's wider assurance workstream.

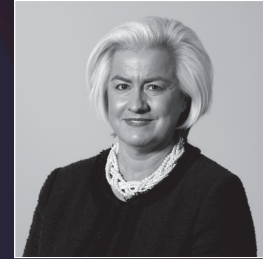
Abdool brings significant depth and breadth of experience from senior roles in local government and delivery of local services, as well as from his wider public sector accountability and inspection work. Before joining the NAO, he had been chief executive of Swale Borough Council since 2009.



Daniel Lambauer

Executive Leader and
member of the Board

Daniel Lambauer joined the NAO in 2009 as a performance measurement expert and helped to establish our local government value-for-money team. Before his appointment to the Leadership Team in April 2017, he led the development of the NAO's value-for-money workstream. Daniel is the executive leader with responsibility for the NAO's strategy and operations. He is jointly responsible for the leadership of the NAO's wider assurance workstream. Before joining the NAO, Daniel worked in a range of sectors, including academia, management consultancy and the civil service.



Kate Mathers

Executive Leader and
member of the Board

Kate Mathers joined the NAO in 2000 and joined the Leadership Team in April 2017 as executive leader with oversight of financial audit. Before her appointment to the Leadership Team, she led the development of the NAO's financial audit practice. Kate is jointly responsible for the leadership of the NAO's financial audit workstream.

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.



Rebecca Sheeran
Executive Leader
Executive dignity-at-work lead⁷

Rebecca Sheeran has worked at the NAO since 2004 and joined the Leadership Team in April 2017 as executive leader with oversight for our value-for-money work in a number of areas. She is a chartered accountant with many years' experience in both financial and value-for-money audit of a range of public sector bodies. Before taking up her post on the Leadership Team, Rebecca directed the NAO's value-for-money audit of the Department for Transport and Network Rail and continues to oversee much of the NAO's work looking at major infrastructure and equipment programmes. Since joining the Leadership Team, she has also overseen the NAO's response to government's preparation for EU exit and is jointly responsible for leadership of the NAO's wider assurance workstream.



Ray Shostak CBE
Non-executive member of the Board

Ray Shostak held a number of positions in local and central government, including head of the Prime Minister's Delivery Unit, director of public services in Her Majesty's Treasury and director of Hertfordshire's children, schools and families department. In addition to working internationally with other governments on performance and reform issues, Ray is currently the chair of trustees of the Consortium of Voluntary Adoption Agencies, a trustee of the Early Intervention Foundation, a member of the Public Policy Committee of the British Academy and is an Honorary Norham Fellow at Oxford University. He has been a non-executive member of the Board since January 2015 and chaired the Remuneration and Nominations Committee until January 2018.



Stephen Smith
Executive Leader

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 NAO's financial audit workstream, a portfolio of public sector bodies and, more generally, our corporate and financial sector-related work.

⁷ The role of dignity-at-work (DAW) leads is to support NAO people who experience or witness inappropriate behaviour. Rebecca Sheeran represents the formal reporting line for DAW leads into the Leadership Team.


Robert Sykes OBE

Non-executive member of the Board, Senior Independent Member, member of the Audit Committee, and the Remuneration and Nominations Committee

Robert Sykes 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 public and private sectors and has wide experience of coaching and leadership training. 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 director. 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 second and final three-year term.


John Thorpe

Executive Leader

John Thorpe joined the Leadership Team in January 2014. He has had experience across a range of portfolios throughout his NAO career, including employment, agriculture, and international. 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 NAO's financial audit workstream and international work.


Dame Clare Tickell

Non-executive member of the Board, and chair of the Remuneration and Nominations Committee

Dame Clare Tickell has extensive experience at board level, having led a variety of organisations across the charitable and public housing sectors. She was chief executive officer of Hanover Housing Association until its merger with Anchor Trust in November 2018, having previously been chief executive of Action for Children. In 2014 she became chair of the Early Intervention Foundation, one of the government's What Works Centres. Dame Clare qualified as a social worker at Bristol University and worked for social care and housing organisations, including Centrepoint and Stonham Housing Association. She was also a commissioner on the Royal Society of Arts (RSA) 2020 Commission into Public Services; chair of the Community and Voluntary Services Honours Committee from 2011 to 2018 and a former board member of The Guinness Partnership. She is a fellow of the RSA, and chair of the Big Society Trust. From 2011 to 2013, she chaired the Commission on the Future of Hospice Care.



Max Tse

Executive Leader
Executive dignity-at-work lead⁸

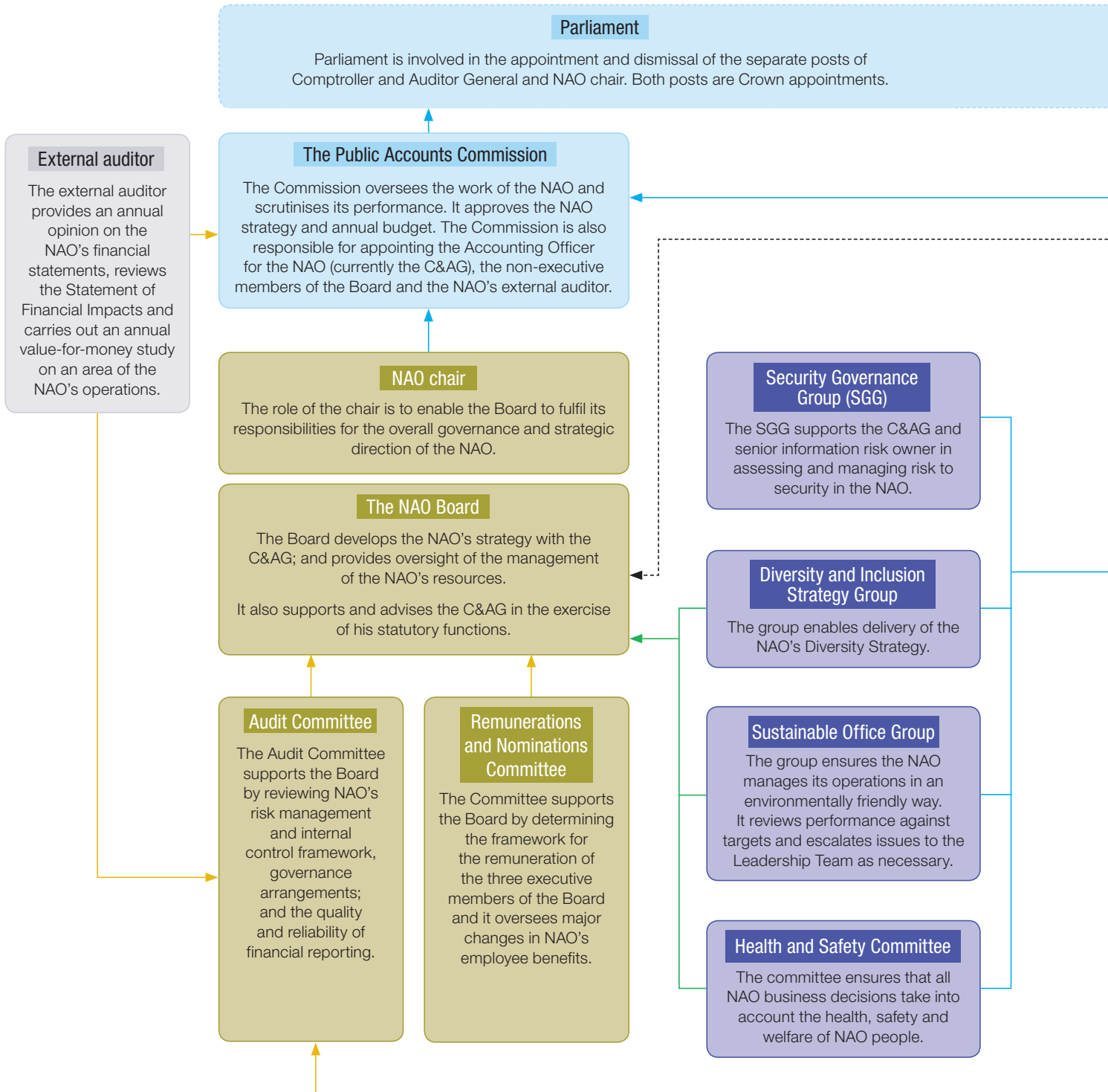
Structure of governance

Our governance structure ensures 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 on pages 58 and 59 sets out the NAO's governance framework.

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. He is jointly responsible for the leadership of the NAO's wider assurance work-stream. Before 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.

⁸ The role of dignity-at-work (DAW) leads is to support NAO people who experience or witness inappropriate behaviour. Max Tse represents the formal reporting line for DAW leads into the Leadership Team.

NAO governance framework



Source: National Audit Office

Comptroller and Auditor General (C&AG)

The role of the C&AG is to support Parliament in holding government to account for spending public money. He is the chief executive officer of the NAO, and supported by the NAO in discharging his role.

The C&AG is also Accounting Officer of the NAO, appointed to this position by the Public Accounts Commission to whom in this role he reports.

Internal Audit

The internal auditor provides an independent assurance and advisory function to the C&AG, in his capacity as Accounting Officer, and to the Audit Committee.

Leadership Team

The Leadership Team supports the C&AG in the exercise of his statutory duties. The Leadership Team provides executive management and governance to the operations and delivery of the NAO. Within this team is the security information risk owner.

Operational Capability Committee (OCC)

The OCC supports the Leadership Team to deliver appropriate resources to enable the NAO to achieve its strategic objectives. Drives continuous improvement in NAO processes.

Change Management and Assurance Committee (CMAC)

The CMAC supports the Leadership Team by overseeing the change portfolio, thereby ensuring change is properly prioritised and aligned.

Value For Money Quality Committee

The committee advises the Leadership Team on all aspects of quality relating to the NAO's value-for-money and investigations work, including oversight.

Financial Audit Director Group (FADG)

FADG advises the Leadership Team on all aspects of quality relating to the NAO's financial audit work, including oversight.

Key

○ Parliament and Public Accounts Commission	➔ Reporting
○ Parliament's independent statutory auditor	➡ Accountability
○ Independent assurance	➡ Code of practice dealing with the relationship between the NAO and C&AG
○ Executive management	➡ Assurance
○ Statutory governance	➡ Information

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

The Commission met twice during 2018-19. In December 2018, it considered and approved the NAO strategy 2019-20 to 2021-22 and re-appointed NAO's external auditor Crowe U.K. LLP for a three-year contract beginning on 1 April 2019. The Commission met again in March 2019 and approved the NAO's budget for the 2019-20 financial year.

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 Her Majesty 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 studies and reporting the results of this work to Parliament.

The NAO Board's performance

In 2018-19, the Board met seven times, including one meeting devoted to strategy. The Board focused its work on its core areas of responsibility:

- discharge of formal responsibilities for the NAO's governance;
- preparation of the NAO Strategy and annual budget; and
- 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.

In light of the C&AG's fixed 10-year non-renewable term of office coming to an end on 31 May 2019, the Board agreed a transition plan from one C&AG to the next at its meeting in September 2018. The plan focuses on enabling the next C&AG to discharge the full range of his statutory obligations from day one and includes a structured induction programme.

The chair of the Board was a member of the selection panel for the recruitment of the next C&AG, together with the chair of the Committee of Public Accounts and the permanent secretary to HM Treasury. The panel was chaired by the chair of the Committee of Public Accounts. On 6 March 2019, the House of Commons approved the motion moved by the Prime Minister to appoint Gareth Davies as the next C&AG from 1 June 2019. The motion was supported by the chair of the Committee of Public Accounts.

During the year, the Board addressed a range of specific issues drawn from our strategy, including our work on EU exit, accountability, audit quality, client feedback and cyber security. The Board also provided feedback on the diversity and inclusion strategy, and the communications strategy. The chair has evaluated the performance of the non-executive members and the chair's performance has been evaluated by the senior independent director. The Board completed a self-assessment of its performance in March 2019 and will discuss areas for improvement with the next C&AG in the autumn.

Attendance at Board and committee meetings in 2018-19

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	–	–	2 ¹	2 ¹
Janet Eilbeck	7	7	4	4	–	–
Ray Shostak	7	7	–	–	2	2
Rob Sykes	7	7	4	4	2	2
Dame Clare Tickell	7	7	–	–	2	2
Daniel Lambauer	7	7	4 ¹	4 ¹	–	–
Abdool Kara	3	7	–	–	–	–
Kate Mathers	7	7	4 ¹	4 ¹	–	–

Note

1 Denotes attendance in 'attendee' capacity.

The Audit Committee

The Audit Committee met four times in accordance with its work plan, which was approved by the Board. The Committee's current terms of reference are disclosed on the NAO's website and were reviewed in December 2018. The Committee has spent its time on:

- interim and year-end financial reporting;
- considering the findings and management response from the external value-for-money review on NAO's contract management. The Committee has also recommended the topic of NAO's impact reporting for the external review in 2019;
- monitoring and reviewing internal controls; and
- reviewing the effectiveness of the external audit function, including tendering for future provision of external audit services.

During the year, the Committee has kept abreast of significant emerging accounting developments, in particular IFRS 15, which relates to income recognition. All members of the Committee attended a Financial Audit Update training event in January 2019, and the chair of the Committee, together with the Committee secretary, have provided two seminars on Adding Value to Audit Committees as part of the NAO's continuous professional development programme for lead auditors. The Committee has also carried out a deep-dive scrutiny of NAO cyber security arrangements. The chair of the Committee represented the NAO as an observer at the bi-annual meetings of the audit risk and assurance network of chairs of central government departments' audit committees.

The Committee received the external auditor's annual value-for-money review on NAO's contract management. The conclusion the external auditor has drawn is overall positive. The external auditor has provided assurance to the Board and the Public Accounts Commission that NAO's contract management is working effectively given the scale and size of activities, and has achieved its purpose with no major recent contract management failure. There are five recommendations for improvement, which management is taking forward.

The report was submitted to the Public Accounts Commission in December 2018 and can be found on the Commission's website: www.parliament.uk/documents/public-accounts-commission/TPAC18-15-National-Audit-Office-Crowe-2018-VFM-Report.pdf

The Remuneration and Nominations Committee

In September 2018, Dame Clare Tickell took over as chair of the Committee from Ray Shostak. In line with its terms of reference, the Committee held two meetings during the reporting year, at which it approved the remuneration of the executive members of the Board (not including the remuneration of the C&AG, which is outside its remit), and the goals for the Leadership Team.

Leadership Team

I am supported by an executive Leadership Team, which meets weekly. The Leadership Team supports me in the exercise of my statutory duties and together we take collective responsibility for delivering NAO's strategy and operational business priorities, engaging the NAO's people; strategic communications; overseeing the management of NAO's financial resources and internal management of the NAO. The Leadership Team is also the senior executive diversity and inclusion decision-making body with overall responsibility for the NAO's diversity and inclusion strategy. During the year we have also focused on the continuous improvements to our finance and wider assurance audit practices to ensure we are delivering high-quality audit work in line with professional, regulatory, and Parliamentary expectations. During 2018-19 we have also concluded a high-level review of the NAO's executive governance arrangements and clarified key roles and responsibilities of the individual executive leaders.

Risk management and control

Our strategic risk register captures those risks with the potential to have a significant adverse impact on the business and on whether we achieve 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 and Leadership Team's meeting agendas. In addition, during the year, the Board and Leadership Team carried out deep-dives on 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
<p>Quality of our work</p> <p>The risk that NAO work falls below professional standards and stakeholders do not regard the NAO's work as independent. This could lead to the NAO being seen as less relevant and an unauthoritative voice, undermining our impact.</p>	<p>Averse</p>	<p>We have a Financial Audit Development Plan with formal governance process, risk monitoring and action tracking with a focus on quality. This includes:</p> <ul style="list-style-type: none"> • Clear quality expectations and targets communicated to all audit teams. • Increased volume of mandatory financial audit training through a Spring Assurance Update and the introduction of IFRS 16 online training. • Developed centres of expertise on Estimates, Property and Pensions to provide central oversight of common issues. • Rigorous internal quality assurance cold and hot reviews of files. • Annual external review of quality by the Financial Reporting Council of a sample of files. <p>One of the key challenges has been resourcing, with our audit practice being under headcount for the year. We are taking action to improve this position for the 2019-20 audit cycle, including a greater use of framework partners to help support our audits.</p> <p>We have a similar priority on quality for our wider assurance work and have an annual programme of internal and external quality reviews. This also includes monitoring feedback from stakeholders</p> <p>Results show that our value-for-money and wider assurance work is judged as high quality by external bodies. Our internal reviews identified some areas where teams do not apply internal processes consistently and this is being addressed through mandatory training.</p>
<p>Impact of government policy (in particular EU exit)</p> <p>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.</p>	<p>N/A</p>	<p>We engage proactively with government officials about policy developments that impact on the operations or work of the NAO.</p> <p>We have continued with our significant programme of work related to EU exit, and produced a wide range of EU exit themed reports during the year. As expected, the uncertainties inherent in this area have required 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 continued our engagement with HM Treasury colleagues about audit and accountability arrangements arising from Scottish devolution. We are committed to working in accordance with the agreed framework that the UK and Scottish governments have now put in place.</p>

Risk area	Appetite	Key actions and issues in year
<p>People</p> <p>The risk that NAO does not have a workforce with the right skills or does not make best use of the diverse range of skills and experiences of its people. This could reduce our ability to perform our statutory obligations or be sufficiently agile in responding to high priority/profile issues.</p>	<p>Moderate</p>	<p>We have developed and launched a three-year training programme to train in digital skills and to focus on quality. We are building on the success of last year's 'Way we Work' training programme through a planned refresh in 2019 of our learning and development strategy.</p> <p>The NAO launched a new three-year diversity and inclusion (D&I) strategy during summer 2018, which focuses on priority areas and is underpinned by a stronger governance framework. During the reporting year we have held a range of events around inclusion and mental health awareness. We have also developed a diversity dashboard to enable real-time monitoring of D&I issues.</p>
<p>Operations</p> <p>The risk that NAO operations are not robust and resilient, reducing our capability to deliver our statutory programme and commitments to Parliament.</p>	<p>Moderate</p>	<p>We delivered successfully on our statutory work programme and commitments to Parliament during the year.</p> <p>Our new enterprise management system continued to realise anticipated benefits through enhanced data-driven oversight and decision-making in the business. We expect this positive impact to continue in the year ahead following the introduction of an improved user interface towards the year end, supported by tailored training to meet the needs of all our people.</p> <p>We have comprehensive disaster recovery plans in place and 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 accreditation to the government's Cyber Security Essential Plus Scheme.</p>
<p>Change</p> <p>The risk that the NAO does not manage strategically important projects well such that they fail to deliver the intended business benefits.</p>	<p>Open</p>	<p>The C&AG chairs our Change Management and Assurance Committee (CMAC) and this continued to provide oversight of proposed and ongoing change projects across the business. Our implementation of new data protection legislative requirements went smoothly, and this remains an area of continued focus as we ensure the long-term operation of robust business-as-usual arrangements. We are managing the NAO's transition from the Public Services Network to a new cloud-based platform. This work is ongoing and we are confident it will conclude successfully in the year ahead.</p>

Note

1 Risk appetites have the following definitions:

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

Source: National Audit Office

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 in order to be transparent about how we manage internal whistleblowing.⁹

One internal whistleblowing case raised in 2017-18 was concluded during the reporting year. There have been no new internal whistleblowing cases brought to the attention of NAO management during 2018-19.

Complaints

Anyone who comes into contact with the NAO and is unhappy or dissatisfied with the actions or inaction of the NAO can complain. For example, a complaint by a member of the public or an employee of a body audited by the NAO can be considered under our complaints policy, which sets out a formal three-stage complaints process.¹⁰ We will make every effort to resolve satisfactorily a complaint in the first instance, but if we cannot do this, the complaint will be reviewed by a member of staff who has not been involved in the case. In the final stage of our process, the complaint is considered by a member of the Leadership Team.

In 2018-19, we handled six complaints under this process. Two complaints were resolved at the first stage while four 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 2018-19, we continued to develop our Information Security Management System (ISMS) to address the changing landscape. Key factors influencing our information security strategy have included:

- changes to the regulatory framework, such as General Data Protection Regulation (GDPR);
- the number and sophistication of cyber threats continuing to increase rapidly every year; and
- the need to train and support our staff to remain vigilant and alert to the threats and comply with our policies and procedures.

⁹ National Audit Office, *NAO internal whistleblowing policy*, February 2018, available at: www.nao.org.uk/about-us/wp-content/uploads/sites/12/2018/02/NAO-interna-whistleblowing-policy-EXTERNAL-2018.pdf

¹⁰ Available at: www.nao.org.uk/contact-us/complaints-about-the-nao/

We draw 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;
- 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”; and
- in March 2019 we were assessed by an accredited certification body against the government Cyber Security Essential scheme. NAO is again certified to ‘Cyber Security Essentials Plus’.

Personal data-related incidents

No protected personal data-related incidents were reportable to the Information Commissioner’s Office in 2018-19. Unlike government departments, the NAO is not required to report significant incidents relating to personal data to the Cabinet Office. If it were required to do so, there would be no incidents to report.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the work of the director of internal audit and assurance (DIAA), the executive leaders within the NAO who are responsible 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 period to design an internal audit strategy and annual operational plan;
- consistently applying a risk-based methodology, which has been validated by an External Quality Assessment in 2017 commissioned by the Audit Committee as conforming to the Public Sector Internal Audit Standards;
- delivery of 29 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 internal audit recommendations throughout the year and assessing the progress as ‘good’.

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

The Board keeps its internal control arrangements under review in response to internal and external developments. The Board is independently advised by the Audit Committee, which met four times during the financial year.

Significant internal control weaknesses

I am able to report that there were no significant weaknesses in the NAO's system of internal controls in 2018-19 that affected the achievement of the NAO's key policies, aims and objectives.

Sir Amyas C E Morse KCB

Comptroller and Auditor General

28 May 2019

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 2018-19, Abdool Kara, Daniel Lambauer and Kate Mathers 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 71 to 74 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	
	2018-19	2017-18	2018-19	2017-18	2018-19	2017-18	2018-19	2017-18
Lord Michael Bichard (NAO chair)	40-45	40-45	-	-	-	-	40-45	40-45
Ray Shostak	20-25	20-25	200	400	-	-	20-25	20-25
Robert Sykes	20-25	20-25	700	800	-	-	20-25	20-25
Janet Eilbeck	20-25	20-25	400	600	-	-	20-25	20-25
Dame Clare Tickell (from 10 January 2018)	20-25	0-5 (full-year equivalent: 20-25)	-	-	-	-	20-25	0-5 (full-year equivalent: 20-25)
Greg Parston (from 20 October 2016 to 3 May 2017)	-	0-5 (full-year equivalent 20-25)	-	-	-	-	-	0-5 (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	
	2018-19	2017-18	2018-19	2017-18	2018-19	2017-18	2018-19	2017-18
Sir Amyas Morse, Comptroller and Auditor General	220–225	220–225	–	–	–	–	220–225	220–225
John Thorpe	150–155	150–155	200	300	24,000	15,000	175–180	165–170
Stephen Smith ²	165–170	160–165	300	300	–	–	165–170	160–165
Abdool Kara ²	165–170	165–170	300	300	–	–	165–170	165–170
Kate Mathers ^{5,6}	120–125	115–120 (full-year equivalent: 120–125)	200	200	57,000	168,000	180–185	285–290 (full-year equivalent: 285–290)
Rebecca Sheeran ^{3,4,5,6}	105–110 (full-time equivalent: 120–125)	100–105 (full-time, full-year equivalent: 120–125)	1,900	3,200	–	–	105–110 (full-time equivalent: 120–125)	105–110 (full-time, full-year equivalent: 120–125)
Daniel Lambauer ^{5,6,7}	120–125	115–120 (full-year equivalent: 120–125)	200	200	49,000	47,000	170–175	165–170 (full-year equivalent: 165–170)
Max Tse ^{5,6,7}	120–125	115–120 (full-year equivalent: 120–125)	200	200	49,000	47,000	170–175	165–170 (full-year equivalent: 165–170)
Michael Whitehouse, chief operating officer (up to 18 April 2017)	–	5–10 (full-year equivalent: 175–180)	–	–	–	1,000	–	5–10 (full-year equivalent: 175–180)

Notes

- 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 decreases due to a transfer of pension right.
- Stephen Smith and Abdool Kara do not participate in the NAO pension scheme.
- 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 2018-19 was £16,000.
- 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 was withdrawn from 1 November 2018.
- Kate Mathers, Rebecca Sheeran, Daniel Lambauer and Max Tse became executive leaders on 3 April 2017.
- Total remuneration for 2017-18 includes the change in pension benefits that occurred during the year as a result of 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.
- 2017-18 pension benefit has been restated to account for retrospective indexation applied to pension at 1 April 2017.

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 was withdrawn from 1 November 2018. The benefits column in the table on page 72 shows the cost to the NAO of providing the death-in-service benefit and salary-added-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 71 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 2018-19. His salary was in the range of £220,000 to £225,000 (2017-18: £220,000 to £225,000). This was 4.25 times (2017-18: 4.29 times) the median NAO staff salary paid, which was £52,389 (2017-18: £51,870).

In 2018-19, remuneration ranged from £17,205 to £220,000–£225,000 (2017-18: £17,034 to £220,000 to £225,000).

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 an unfunded scheme. 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 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 2019 and related lump sum £000	Real increase in pension and related lump sum at pension age £000	CETV at 31 March 2019 £000	CETV at 31 March 2018 £000	Real increase in CETV £000
John Thorpe	75–80 plus a lump sum of 105–110	0–2.5 plus a lump sum of 0	1,731	1,595	25
Stephen Smith ¹	–	–	–	–	–
Abdool Kara ¹	–	–	–	–	–
Kate Mathers ³	40–45	2.5–5	587	480	30
Rebecca Sheeran ^{2,3}	–	–	–	–	–
Daniel Lambauer ³	15–20	2.5–5	152	105	16
Max Tse ³	15–20	2.5–5	185	133	17

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 2018-19 was £16,000.
- 3 Kate Mathers, Rebecca Sheeran, Daniel Lambauer and Max Tse became executive leaders on 3 April 2017.
- 4 CETV = Cash Equivalent Transfer Value

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 2018-19 (2017-18: 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 number and related costs (audited)

Average number of persons employed

	2018-19	2017-18	2016-17
Full-time equivalent permanent staff	806	806	803
Inward secondees	2	3	3
Temporary staff	18	5	5
Total	826	814	811

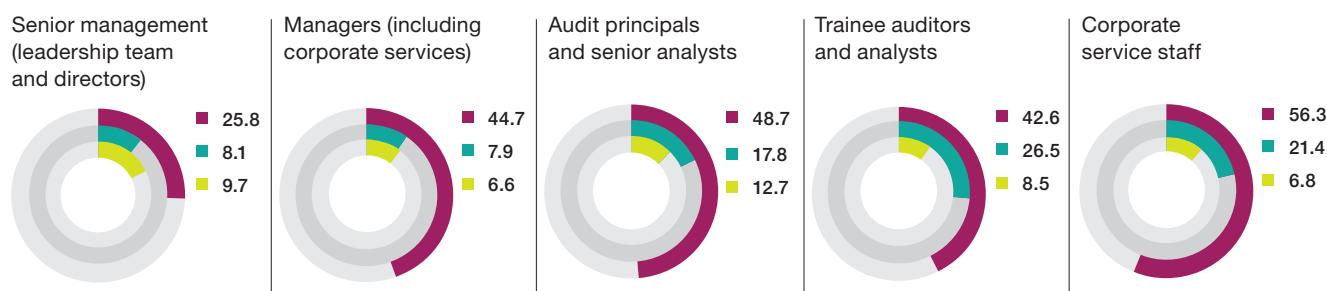
Staff costs comprise

	2018-19			2017-18		
	Total £000	Permanent £000	Temporary £000	Total £000	Permanent £000	Temporary £000
Wages and salaries	45,343	43,313	2,030	43,975	43,489	486
Social security costs ¹	5,116	5,116	–	5,117	5,117	–
Pension costs	9,069	9,069	–	9,086	9,086	–
Gross costs	59,528	57,498	2,030	58,178	57,692	486
Secondment income	(286)	(286)	–	(401)	(401)	–
Net costs	59,242	57,212	2,030	57,777	57,291	486

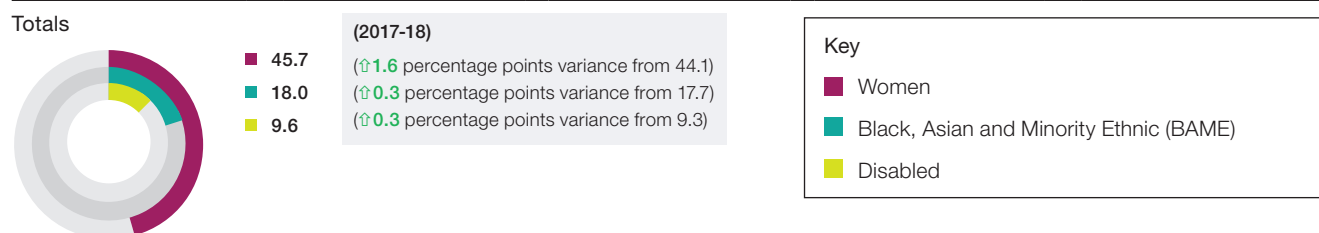
Note
 1 2018-19 includes £201,000 (2017-18: £200,000) apprenticeship levy costs. The Apprenticeship Levy was introduced in April 2017, requiring employers with a pay bill of more than £3 million each year to pay the levy.

Staff composition as at 31 March 2019

Grade diversity as at 31 March 2019 (%)



Percentage shown out of 100.



Note
 Data are expressed as a percentage of total population including staff who have not declared or selected 'prefer not to say'.
 Source: National Audit Office

As at 31 March 2019, the proportion of women above manager level was 25.8%, a decline on the previous year. We have faced challenges in improving the gender diversity of staff at more senior levels, including fewer female applicants for promotion to director.

Encouragingly, there has been an increase in the proportion of women employed across the NAO, including in the feeder grades to director. We continue to focus on establishing a diverse trainee base, taking action to improve equality in our trainee selection process and building on the actions taken in 2017-18. Our new D&I strategy provides further impetus to improve the progression of women to senior grades.

Representation of Black, Asian and Minority Ethnic (BAME) colleagues within the NAO as a whole has remained unchanged against the previous year, at 18%. Representation has, however, increased marginally in grades at manager and above. We remain focused on improving our ethnic diversity at all levels and have started to explore how we can better support the progression of BAME colleagues through sponsorship and mentoring programmes.

Over the past three years, 9% of the graduates we have recruited have had a declared disability, which is significantly higher than the intakes of the majority of graduate employers. However, we continue to explore how we might better market our offer to disabled candidates. We are focusing on improving the workplace experience of disabled colleagues, ensuring we are making effective adjustments and building line managers' confidence in managing colleagues with a disability. Having achieved level 2 of the disability confidence scheme, we are now working towards level 3 accreditation.

Off-payroll engagements

There were no off-payroll engagements in 2018-19 (2017-18: nil).

Expenditure on consultancy

The NAO spent £0.9 million on consultancy in 2018-19 (2017-18: £0.9 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 the way it does business and to put in place new systems and processes that result in sustainable reductions in operating costs. 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. This 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 to 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 updated 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 table below. Compensation agreed for departures have not exceeded the Cabinet Office's recommended cap of £95,000.

Compensation packages offered during 2018-19

Comparative figures (in brackets)

Exit package cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
	2018-19 (2017-18)	2018-19 (2017-18)	2018-19 (2017-18)
<£10,000	1 (-)	- (3)	1 (3)
£10,001–£25,000	2 (4)	- (8)	2 (12)
£25,001–£50,000	- (-)	- (5)	- (5)
£50,001–£100,000	- (-)	1 (5)	1 (5)
£100,001–£150,000	- (-)	- (-)	- (-)
£150,001–£200,000	- (-)	- (-)	- (-)
£200,001–£250,000	- (-)	- (-)	- (-)
>£250,000	- (-)	- (-)	- (-)
Total number of exit packages by type	3 (4)	1 (21)	4 (25)
Total costs disclosed in financial statements (£000)			132 (721)

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 table.

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 published in 2018 show average working days lost across all industries as 5.9 days, with the public sector being higher at 8.4 days. Our sickness absence rates have remained stable with an average of 5.5 days per employee. While we have performed better than these benchmarks, our absence rates in 2017-18 and 2018-19 remain marginally higher than in previous years where we achieved levels below five days per person. We will continue to review sickness absence levels and take relevant actions to promote employee wellbeing.

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 for the role. In addition, we make workplace adjustments to help overcome disadvantage resulting from disability. For example, we make adjustments to the arrangements for interviews and selection tests, and agree 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, disabled colleagues are encouraged to apply and to discuss any adjustments they require to the selection arrangements to remove any disadvantage resulting from their disability.

In 2019-20, we are reviewing our current workplace adjustments process and guidance with a view to updating this in line with latest best practice. We are considering an online system for recording workplace adjustments that offers greater flexibility for updating these when necessary and better sharing of information between individuals and line managers.

Equality and fairness

We are committed to fostering an inclusive working environment in which individuals' 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 that 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 recruitment, training and development, performance management, reward and benefits, and promotion.

We do not tolerate bullying or harassment of any kind. We are working hard to ensure people feel confident that they can raise issues in a safe, supportive and confidential environment and that we will investigate allegations quickly, sensitively and fairly. We have a strong team of dignity-at-work leads, who offer informal, confidential support to those who have experienced or witnessed inappropriate behaviour. Our dignity at work and unconscious bias training programmes also embed the principles of fair treatment and inclusive behaviours.

Parliamentary accountability and audit report

Statement of Parliamentary Supply (SoPS)

The information on pages 81 to 84 has been subject to audit.

Summary of resource and capital outturn 2018-19

	SoPS note	2018-19 Estimate			2018-19 Outturn			2018-19 voted Outturn compared with Estimate: saving or (excess)	2017-18 Outturn
		Voted £000	Non-voted £000	Total £000	Voted £000	Non-voted £000	Total £000		
Resource	1.1	67,500	320	67,820	65,684	296	65,980	1,816	65,066
Capital	1.2	1,400	–	1,400	1,268	–	1,268	132	790
Total budget		68,900	320	69,220	66,952	296	67,248	1,948	65,856
Non-budget		–	–	–	–	–	–	–	–
Total		68,900	320	69,220	66,952	296	67,248	1,948	65,856

Net cash requirement 2018-19

	SoPS note	2018-19 Estimate £000	2018-19 Outturn £000	2018-19 net total Outturn compared with Estimate: saving or (excess) £000	2017-18 Outturn £000
Net cash requirement	2	65,707	63,247	2,460	64,127

Administration costs 2018-19

	2018-19 Estimate £000	2018-19 Outturn £000	2018-19 net total Outturn compared with Estimate: saving or (excess) £000	2017-18 Voted Outturn £000
Administration costs	67,500	65,684	1,816	64,772

Notes

- Figures in the areas outlined are voted totals or other totals subject to Parliamentary control.
- All of our resources are deemed equivalent to resource departmental expenditure limit (DEL) or capital DEL.
- Explanations of variances between estimate and outturn are provided in the Performance Report on pages 41 to 43.

Notes to the Statement of Parliamentary Supply

SOPS1.Net outturn

SoPS1.1 Analysis of net resource outturn

Section	2018-19 Outturn			Net	2018-19 Estimate		2017-18 Outturn
	Gross	Income	Net		Net	Net total compared with Estimate: saving or (excess)	
	£000	£000	£000	£000	£000	£000	£000
Voted							
Provision of audit and other assurance services	86,747	(21,063)	65,684	67,500	1,816		64,772
Total voted	86,747	(21,063)	65,684	67,500	1,816		64,772
Non-voted							
The Chair and the Comptroller and Auditor General costs	296	–	296	320	24		294
Resource outturn	87,043	(21,063)	65,980	67,820	1,840		65,066

Note

1 Explanations of variances between estimate and outturn are provided in the Performance Report on pages 41 to 43.

SoPS1.2 Analysis of net capital outturn

Section	2018-19 Outturn			2018-19 Estimate		2017-18 Outturn
	Gross	Income	Net	Net	Net total compared with Estimate: saving or (excess)	
	£000	£000	£000	£000	£000	£000
Voted						
A Provision of audit and other assurance services	1,268	–	1,268	1,400	132	790
Capital outturn	1,268	–	1,268	1,400	132	790

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	67,820	65,980	1,840
Capital outturn	SoPS1.2	1,400	1,268	132
Accruals to cash adjustments:				
<i>Adjustments to remove non-cash items:</i>				
Depreciation		(2,955)	(2,888)	(67)
Change in provisions		(12)	(26)	14
Loss on disposal of assets		–	(11)	11
<i>Adjustments to reflect movements in working balances:</i>				
Increase/(decrease) in receivables		(217)	1,060	(1,277)
(Increase)/decrease in payables		(206)	(2,058)	1,852
Use of provisions		197	218	(21)
<i>Removal of non-voted budget items:</i>				
Consolidated Fund Standing Services		(320)	(296)	(24)
Net cash requirement		65,707	63,247	2,460

Special payments

There were no losses or special payments that require disclosure because of their size or nature in 2018-19.

Fees and charges

We charge fees for our audit work and other services where it is permitted to do so under legislation. These are charged in accordance with a scheme prepared by NAO which is developed with consideration of best practice set out in *Managing Public Money* (guidance published by HM Treasury) and approved by the Public Accounts Commission.

Fees for audit and assurance work are set to cover the full planned cost attributable for the service. This makes sure that the NAO neither plans to profit at the expense of the consumer of its services nor makes a loss for taxpayers to subsidise. Costs are calculated on an accrual basis, including overheads. This includes the time that people spend on activities, which is set using a standard hourly rate. As our audit portfolio has diversified and become more challenging, there have been transitional and associated costs which we have not been able to recover directly from the audited body, and for which Parliamentary funding was sought.

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. Rental income is earned in line with agreed rental rates for office space per square foot, with any rent-free period amortised over the period of the lease. Any surplus on rental income is subject to corporation tax.

Fees and charges

2018-19	Income	Expenditure	Surplus/(deficit)
	£000	£000	£000
Audit and assurance work	18,889	21,658	(2,769)
Secondment income	286	464	(178)
Rental income	1,875	1,121	754
Grant income	14	14	–
Total	21,064	23,257	(2,193)

2017-18	Income	Expenditure	Surplus/(deficit)
	£000	£000	£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)

Sir Amyas C E Morse KCB

Comptroller and Auditor General

28 May 2019

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 2019, 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 2018-19 Government Financial Reporting Manual (FRoM) 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 2019 and of the NAO's net operating expenditure for the year then ended;
- have been properly prepared in accordance with the 2018-19 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 2019 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 with guidance 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 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 U.K. LLP
Statutory Auditors
St Brides House,
10 Salisbury Square, London, EC4Y 8EH

28 May 2019



3 FINANCIAL STATEMENTS 2018-19



STATEMENT OF COMPREHENSIVE NET EXPENDITURE FOR THE PERIOD ENDED 31 MARCH 2019

		2018-19	2017-18
	Note	£000	£000
Contract income	6	(18,888)	(16,883)
Other income	6	(2,175)	(2,250)
Total operating income		(21,063)	(19,133)
Staff costs	3	59,528	58,178
Purchase of good and services	4	24,464	22,898
Depreciation and provision charges	5	2,925	2,975
Tax expense		126	148
Total operating expenditure		87,043	84,199
Net operating expenditure for the year		65,980	65,066
Other comprehensive net expenditure			
Items that will not be reclassified to net operating costs:			
Net gain on revaluation of property, plant and equipment	7	(8,198)	(1,454)
Total comprehensive net expenditure for the year		57,782	63,612

STATEMENT OF FINANCIAL POSITION AS 31 MARCH 2019

	Note	2018-19		2017-18	
		£000	£000	£000	£000
Non-current assets:					
Property, plant and equipment	7	97,491		90,760	
Intangible assets	8	292		456	
Receivables falling due after one year	9	197		154	
Total non-current assets			97,980		91,370
Current assets:					
Trade and other receivables	9	5,852		4,020	
Contract assets – accrued income	9	2,996		3,811	
Cash and cash equivalents		15		12	
Total current assets			8,863		7,843
Total assets			106,843		99,213
Current liabilities:					
Trade and other payables	10	(8,822)		(7,060)	
Contract liabilities – payments received on account	10	(849)		(550)	
Provisions	11	(12)		(320)	
Total current liabilities			(9,683)		(7,930)
Total assets less current liabilities			97,160		91,283
Non-current liabilities:					
Provisions	11	(134)		(18)	
Total non-current liabilities			(134)		(18)
Total assets less liabilities			97,026		91,265
Taxpayers' equity and other reserves:					
General fund			29,814		30,862
Revaluation reserve			67,212		60,403
Total equity			97,026		91,265

Sir Amyas Morse KCB

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

28 May 2019

STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 31 MARCH 2019

		2018-19	2017-18
	Note	£000	£000
Cash flows from operating activities:			
Net operating expenditure for the year		(65,980)	(65,066)
Adjustments for non-cash transactions	5	2,925	2,975
(Increase)/decrease in trade and other receivables	9	(1,875)	(1,257)
(Increase)/decrease in contract assets	9	815	(1,676)
Increase/(decrease) in trade and other payables	10	1,482	1,582
Increase/(decrease) in contract liabilities	10	299	(54)
Use of provisions	11	(218)	(159)
Net cash outflow from operating activities		(62,552)	(63,655)
Cash flows from investing activities:			
Purchase of property, plant and equipment	7	(1,261)	(766)
Purchase of intangible assets	8	(7)	(24)
Increase/(decrease) in non-trade payables	10	277	24
Net cash outflow from investing activities		(991)	(766)
Cash flows from financing activities:			
From the Consolidated Fund (Supply)-current year		63,250	64,100
Consolidated Fund Standing Services	4	296	294
Net financing		63,546	64,394
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		3	(27)
Cash and cash equivalents at the beginning of the year		12	39
Cash and cash equivalents at the end of the year		15	12

STATEMENT OF CHANGES IN TAXPAYERS' EQUITY FOR THE PERIOD ENDED 31 MARCH 2019

		General Fund	Revaluation Reserve	Total reserves
	Note	£000	£000	£000
Changes in taxpayers' equity				
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 as previously reported		30,862	60,403	91,265
Impact of change in accounting policy		–	–	–
Adjusted balance at 31 March 2018		30,862	60,403	91,265
Net Parliamentary Funding drawn down		63,250	–	63,250
Net Parliamentary Funding deemed		12	–	12
Supply payable adjustment		(15)	–	(15)
Consolidated Fund Standing Services	4	296	–	296
Comprehensive net expenditure for the year		(65,980)	8,198	(57,782)
Realised element of revaluation reserve		1,389	(1,389)	–
Balance at 31 March 2019		29,814	67,212	97,026

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. Each year the NAO transfers an amount equal to the excess annual depreciation from the revaluation reserve to the general fund, which makes sure that by the time the asset is fully depreciated there is no residual balance associated with the asset in the revaluation reserve.

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, except as otherwise set out in the accounting policies. Figures are presented in pounds sterling and are rounded to the nearest £1,000. Transactions in foreign currencies are translated into sterling at the exchange rate at the dates of the transaction. Any assets and liabilities in a foreign currency are translated into sterling at the exchange rate on the date of reporting. Translation differences are recognised in the Statement of Comprehensive Net Expenditure.

1.3 Impending application of newly issued accounting standards not yet effective

The NAO discloses wherever it has not yet applied a new accounting standard and provides any information relevant to assessing the possible impact that the initial application of the new standard would have on the financial statements. There is one standard which is not yet effective that will have an impact on NAO's financial statements. This is IFRS 16 'Leases', which requires all significant leases to be recognised in the Statement of Financial Position.

IFRS 16 'Leases'

Management expects IFRS 16 will be adopted by the FReM with effect from 1 April 2020. We have carried out an initial assessment of the new standard on leases to which the NAO is a party, and have concluded that the only significant leases are those relating to the use of property. Other leases are for low-value items, such as office equipment, and are not significant.

The NAO has a 130-year lease for the use of the London property, which is at a peppercorn rent: this is currently recognised as an asset in the Statement of Financial Position. We do not expect any change in our treatment of this lease under the new standard.

The NAO has a 10-year lease for the use of office space in Newcastle which commenced in 2013. We expect that this will require the recognition of a right of use asset and a liability for the future lease payment commitments. This will require an adjustment in the Statement of Financial Position. The change will be applied to transactions relevant to the period after the date of the policy change and will not affect prior periods. We estimate that, as at 1 April 2020, we will recognise a right of use asset and related liability of approximately £691,000.

The NAO has sub-leases with tenants for the use of parts of its London property, which are used to cover some expenditure as described in Note 1.4. The NAO currently recognises the full value of its London property in its Statement of Financial Position, and any rental payments in respect of the sub-leases for use of part of this space are disclosed in Note 6. We do not expect a change in our treatment of these sub-leases under the new standard.

1.4 Financing

The NAO covers some of its expenditure by charging fees for certain financial audit assignments and other services. These 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 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. These schemes are administered by My CSP on behalf of the Cabinet Office. NAO pays contributions into these schemes at an agreed rate. As one of many participating organisations, the NAO is not able to identify its share of any liability for making future pension payments to members and accordingly, NAO accounts for this as if it were a defined contribution scheme and recognises the costs of these contributions when they fall due.

Employees may opt to join a personal stakeholder pension scheme instead, providing the scheme meets the minimum criteria set by government. These are defined contribution schemes where the NAO pays established 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.

1.8 Leases

The NAO does not hold any finance leases except for the London office, which is a peppercorn lease. The NAO does have operating leases and payments in relation to operating leases are charged to the Statement of Comprehensive Net Expenditure on a straight-line basis.

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

As a body corporate under the Budget Responsibility and National Audit Act 2011, the NAO is liable for corporation tax on rental income earned. The tax expense is recognised in the Statement of Comprehensive Net Expenditure.

Accounting policies for income

1.11 First time adoption of IFRS 15 Revenue from contracts with customers

IFRS 15 Revenue from contracts with customers has been adopted by the FReM with effect from 1 April 2018. Income earned from fee-paying audits and other technical cooperation services provided to overseas institutions falls within the scope of IFRS 15. However, the income recognition criterion introduced by IFRS 15 is consistent with how the NAO previously accounted for income and there is no impact of the new standard on opening balances.

Income earned from secondments is the recovery of salary costs from the organisations that staff are seconded to and is not part of NAO's ordinary activities. It is therefore outside the scope of IFRS 15. Rental income earned from letting office space is outside the scope of IFRS 15 and is accounted for under IAS 17 Leases until IFRS 16 Leases is adopted by the FReM from 1 April 2020.

1.12 Revenue from contracts with customers

The NAO charges fees for financial audits and other services where it is permitted to do so under legislation. This includes both UK and international institutions. Income is recognised progressively as the performance obligations associated with these engagements are satisfied over time.

Further details of the NAO's application of IFRS 15 to financial audit and other services are set out in Note 6.

1.13 Secondment income

At times the NAO second staff to other organisations, including Parliamentary committees. It will typically seek to recover the associated salary costs of the staff member on secondment. However, the NAO may at times subsidise the cost of this secondment where the experience and skills gained through the secondment will bring future benefit to the NAO.

1.14 Rental income

The NAO has entered into agreements to sublet part of its London property, which are used to cover some expenditure as described in Note 1.4. In line with the requirements of IAS 17, 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 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.

1.15 Apprenticeship Levy

The NAO can draw upon Apprenticeship Levy funds that are paid into its Digital Apprenticeship Service (DAS) account to arrange approved training for its employees. The FReM requires the use of the DAS account to be treated as a government grant for accounting purposes. Notional grant income is recognised at the same point in time that an associated expense for training services is recognised.

1.16 Value Added Tax on sales

Where output tax is chargeable, income is stated net of VAT. The NAO does not charge VAT for any work it carries out under statute.

Accounting policies for assets and liabilities

1.17 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 are 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.

Payments in respect of cloud computing services purchased from a third-party service provider are not capitalised because we have no legal title to, or control of, the underlying assets associated with this service.

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	4–10 years

1.18 Cash and cash equivalents

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

1.19 Contract receivables and trade receivables

Contract receivables are amounts invoiced and due from audited bodies in respect of the fee-paying audit assignments. Secondment and rental income which is due and has been invoiced is recognised as trade receivables.

1.20 Contract assets (accrued income) and liabilities (payment on account)

Contract assets (accrued income) relates to our enforceable right to consideration for our completed performance in respect of fee-paying engagements where that work has not yet been invoiced. It is determined on the basis of percentage completion of contractual work, less any provision for unrecoverable amounts.

Payments received in advance of performance under the contract are recognised as contract liabilities (payment on account). This is then recognised as revenue as work is performed.

1.21 First time adoption of IFRS 9 Financial Instruments

IFRS 9 has been adopted by the FReM with effect from 1 April 2018. We have determined that this has no material impact on the classification or measurement of the NAO's financial instruments. IFRS 9 eliminates the threshold in IAS 39 for the recognition of credit losses and it is no longer necessary for a credit event to have occurred before credit losses are recognised. However, because the NAO has a very low credit risk for the reasons set out in Note 14, there is no expected credit loss to recognise as at 31 March 2019.

Accounting estimates and judgements

1.22 Contract assets (accrued income)

In calculating accrued income for audit services, the NAO estimates 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.

1.23 Property valuation

The NAO operates in London and Newcastle. The NAO accounts for its London property (which is on a 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, who considers 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 this 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 £7.5 million to £8.5 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 £2.6 million in the value of the building.

Any change in the value of the building is 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 cannot be separated from the building and do not comprise the significant portion of the building's use; therefore the NAO has judged it not appropriate to account for these elements separately as if they were an investment property. If it were to do so, then changes in values of the sub-let parts of the building would be accounted for through the Statement of Comprehensive Net Expenditure.

2 National Audit Office operating segments

	2018-19								
	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	57,864	14,600	8,507	4,633	1,024	119	86,747	296	87,043
Income from services provided	(18,478)	–	–	–	(410)	–	(18,888)	–	(18,888)
Rental and other income	(1,451)	(366)	(213)	(116)	(26)	(3)	(2,175)	–	(2,175)
Net expenditure	37,935	14,234	8,294	4,517	588	116	65,684	296	65,980

Notes

- 1 The NAO reports expenditure and income under six operating segments, further information about which can be found on page 17. Non-voted expenditure comprises 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.
- 2 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 work. Rental income cannot be directly attributed to the NAO's operating segments and has been apportioned in line with gross expenditure.
- 3 We consider the chief operating decision body of the NAO to be the Leadership Team, details of its membership can be found on pages 53 to 57. 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.

	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

3 Staff costs

	2018-19	2017-18
	Total	Total
	£000	£000
Wages and salaries	45,343	43,975
Social security costs	5,116	5,117
Pension costs	9,069	9,086
Gross costs	59,528	58,178
Secondment income	(286)	(401)
Net costs	59,242	57,777

Details on staff numbers and related costs can be found in the Remuneration Report on pages 76 to 79.

4 Purchase of goods and services

	2018-19		2017-18	
	£000	£000	£000	£000
Professional services	11,367		10,075	
Audit Technology ¹	492		612	
Facilities management	5,237		4,903	
Travel, subsistence, hospitality	2,424		2,121	
Office supplies and equipment	3,133		3,019	
Recruitment and training	1,557		1,468	
Staff-related costs	644		688	
External auditors – audit fee	57		56	
– other work	59		71	
Other administration costs	258		232	
Operating lease rentals	52		122	
VAT recoverable ²	(1,112)		(763)	
Total voted costs		24,168		22,604
Comptroller and Auditor General salary ³	252		250	
Chairman salary ³	44		44	
Total non-voted costs		296		294
		24,464		22,898

Notes

- Spent on audit software and use of technology in the NAO.
- 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.
- The Comptroller and Auditor General and Chairman's salaries include employer social security costs.

5 Depreciation and provision charges

	2018-19		2017-18	
	£000	£000	£000	£000
Non-cash costs:				
Changes to early departure provision	22		(4)	
Changes to other provision	4		–	
Changes in provision		26		(4)
Depreciation on property, plant and equipment	1,586		1,535	
Depreciation on other items	1,131		1,115	
Amortisation on intangible assets	171		299	
Total depreciation		2,888		2,949
Loss on disposal		11		30
		2,925		2,975

6 Income

In line with its accounting policy, the NAO has applied the requirements of IFRS 15 to income earned from fee-paying audits and other services.

Identification of a contract

The basis of the different streams of audit work are set out below.

Audit income stream	Basis for identifying a contract	Performance obligation
Statutory Audit	For those audits where we are appointed auditors under statute and we charge a fee directly to the body. There is no legal contract with fee-paying statutory audit clients but there is deemed to be a contract in accordance with the FReM adaptation of IFRS 15 that the definition of a contract is expanded to include legislation and regulations enabling an entity to receive income. The contract is deemed to be as set out in the Letter of Understanding between the NAO and the audited body.	Issue a certificate and report of the C&AG to Parliament
Agreement Audit (including international audits)	For those audits where we are appointed auditors by the organisation's board under their own governance arrangements and have a contract with them in the form of a Letter of Engagement.	Issue a certificate and report of the C&AG to Parliament
Companies Act Audit	For these audits, we are appointed auditors by the board of the organisation under the Companies Act 2006 and therefore have a contract with them in the form of a Letter of Engagement.	Issue an independent auditor's report to the members of the company
International Relations	For these assignments we contract with international bodies to provide advisory and capacity building services.	Issue a report or advice as per the terms of the engagement

Identification of performance obligations

The NAO has determined that there is a single performance obligation for each engagement which is identified as the objective of these assignments in the Letter of Understanding or Letter of Engagement, or contract for services in the case of other services provided to international bodies. In the case of audits, other outputs, such as interim reports and reports to those charged with governance of the audited body, are produced during audit assignments, but these other outputs are integral to the audit opinion: they are highly interrelated with the delivery of the audit certificate or report, so do not qualify as distinct performance obligations.

Determination of when performance obligations are satisfied

The NAO has determined that the performance obligations described above are satisfied over time rather than at a point in time. This is because the NAO's performance of the engagement does not create an asset with an alternative use to the NAO and the NAO has an enforceable right to payment for performance completed to date.

The majority of the NAO's financial audits are on an annual cycle. The fee (which is based on estimated costs to the NAO) and invoicing schedule is agreed between the individual assignment teams and the client. The NAO is entitled to recover costs in respect of work completed to date at any stage of the audit. The typical schedule is to invoice audits with fees of more than £50,000 in two instalments and all other audits are invoiced when the audit is complete. The payment terms are that audit fee invoices should be paid within 30 days. Contracts for audit services do not have a significant financing component and the consideration amount is not variable except in respect of fee increases where it has become necessary to perform additional work.

Allocation of transaction price to performance obligations

Revenue is recognised in relation to percentage completion against budgeted costs. Income is recognised as the services are provided, determined by reference to the proportion of budgeted costs that have been spent to date for each engagement, less a provision for any unrecoverable amounts. This provides a faithful depiction of the transfer of services because the nature of work is that the costs of staff time, travel expenses and other costs incurred represent progress towards satisfaction of the performance obligation. There is a direct relationship between these inputs and the transfer of services to the audit client.

	2018-19	2017-18
	£000	£000
Contract income		
Audit and assurance		
Statutory Audit Income	8,995	8,822
Agreement Audit Income	5,800	4,623
Companies Act Audit Income	3,683	2,930
International Relations	410	508
	<u>18,888</u>	<u>16,883</u>
Other income		
Secondment income	286	401
Rental of office space	1,875	1,849
Grant income	14	–
	<u>2,175</u>	<u>2,250</u>
Total income	<u>21,063</u>	<u>19,133</u>

Note

1 Included within contract income earned for the year is £532,000 (2017/18 £556,000) which had been received in advance at the last reporting date and had been included as a contract liability (payment on account) in the prior year Statement of Financial Position.

Included within contract income is £817,000 in relation to increases in fee quotes to audits that were in progress at the previous reporting date. The effect of this increase has been included in the revenue figure for the year. The prior year equivalent was an increase of £351,000.

As at the current reporting date, we expect to earn future income of £11,530,000 (2017-18 £10,032,000) for audits which are currently in progress. The typical audit cycle is a year and therefore we expect to recognise the majority of this income in the next reporting period.

Prior year comparatives have been presented in line with the new classification of income streams under IFRS 15.

7 Property, plant and equipment

	2018-19					
	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 2018	37,871	33,951	16,347	5,041	3,629	96,839
Additions	–	–	18	1,028	215	1,261
Disposals	–	–	–	(1,308)	–	(1,038)
Revaluation	4,704	1,300	608	–	–	6,612
At 31 March 2019	42,575	35,251	16,973	5,031	3,844	103,674
Depreciation						
At 1 April 2018	–	–	–	3,308	2,771	6,079
Charged in year	–	732	854	811	320	2,717
Disposals	–	–	–	(1,027)	–	(1,027)
Revaluation	–	(732)	(854)	–	–	(1,586)
At 31 March 2019	–	–	–	3,092	3,091	6,183
Net book value						
At 31 March 2019	42,575	32,251	16,973	1,939	753	97,491
At 31 March 2018	37,871	33,951	16,347	1,733	858	90,760

The NAO obtains a professional valuation of its land and buildings each year. The NAO London headquarters is valued using the valuation techniques in the RICS Valuation – Global Standards 2017 (“The Red Book”) and UK National Supplement (2019) to estimate the existing use value of the portion of the building occupied by the NAO and the market value of the portion that is available for occupation by tenants. The valuers have regard to the building’s location, style, part sub-let/part owner-occupied nature and prevailing market conditions, as well as the rents paid for other office spaces on the market. The valuers calculate the depreciated replacement cost of the building and use this to apportion the total value of the property between the land and buildings elements. Montagu Evans (independent property consultants and surveyors and a member of RICS) valued the land and buildings, and plant and machinery at £94.8 million as at 31 March 2019 (31 March 2018: £88.2 million). The net effect of the revaluation (after the annual depreciation charge) was an increase of £8.2 million which was accounted for through the revaluation reserve.

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)
Revaluation	251	(224)	(108)	-	-	(81)
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)
Revaluation	-	(721)	(814)	-	-	(1,535)
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

8 Intangible assets

2018-19		2017-18	
	Total £000		Total £000
Cost		Cost	
At 1 April 2018	1,652	At 1 April 2017	1,692
Additions	7	Additions	24
Disposals	(324)	Disposals	(64)
At 31 March 2019	1,335	At 31 March 2018	1,652
Amortisation		Amortisation	
At 1 April 2018	1,196	At 1 April 2017	961
Charged in year	171	Charged in year	299
Disposals	(324)	Disposals	(64)
At 31 March 2019	1,043	At 31 March 2018	1,196
Net book value		Net book value	
At 31 March 2019	292	At 31 March 2018	456
At 31 March 2018	456	At 31 March 2017	731

9 Trade and other receivables

	2018-19	2017-18
	£000	£000
Amounts falling due within one year:		
Contract receivables	1,849	558
Trade receivables	134	72
Deposits and advances	230	267
Other receivables	228	70
Contract assets – accrued income	2,996	3,811
Prepayments	3,411	3,053
	8,848	7,831
Amounts falling due after more than one year:		
Deposits and advances	17	26
Other receivables	180	128
	197	154
Total	9,045	7,985

There were no impairment losses on any receivables or contract assets in 2018-19 (2017-18: nil). Other receivables include lease incentives granted to tenants of our London office.

10 Trade and other payables

	2018-19	2017-18
	£000	£000
Amounts falling due within one year:		
Amounts payable to HM Revenue & Customs	396	398
Trade payables	20	12
Other payables	70	38
Accruals	8,321	6,600
Contract liabilities – payments received on account	849	550
	9,656	7,598
Amounts issued from the Consolidated Fund for supply but not spent at year end	15	12
Total	9,671	7,610

Note

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

11 Provisions for liabilities and charges

	2018-19	
	£000	£000
Balance at 1 April 2018		338
Provided in the year	26	
Provisions not required written back	–	
Changes in provision during the year		26
Provisions utilised in the period		(218)
Balance at 31 March 2019		146

Analysis of expected timing of discounted flows

	Early departures	Other provisions	Total
	£000	£000	£000
Payable within 1 year	12	–	12
Payable later than 1 year and not later than 5 years	6	128	134
Payable in more than 5 years	–	–	–
Balance at 31 March 2019	18	128	146

12 Commitments under leases

	2018-19	2017-18
	£000	£000
Aggregate minimum lease payments are as follows:		
Obligations under operating leases comprise:		
Land and buildings:		
Payable within 1 year	174	52
Payable later than 1 year and not later than 5 years	594	–
	<u>768</u>	<u>52</u>
Other:		
Payable within 1 year	25	28
Payable later than 1 year and not later than 5 years	27	52
	<u>52</u>	<u>80</u>

13 Future income due under non-cancellable operating leases

	2018-19	2017-18
	£000	£000
Land and buildings		
Receivable within 1 year	1,427	1,232
Receivable later than 1 year and not later than 5 years	2,179	2,646
Receivable in more than 5 years	–	–
Total	<u>3,606</u>	<u>3,878</u>

Note

- 1 The lease information above relates to the letting of office 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.

All financial assets and financial liabilities recognised in Notes 9 and 10 are measured at amortised cost.

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. Audited bodies are funded by Parliament, which is a reliable funding source, and there is no history of defaults on audit fees. 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, the NAO seeks to identify the potential exposure to exchange rate variations and to manage the risk accordingly. The NAO does not maintain significant assets or liabilities in foreign currency, except for minor operational cash balances to meet short-term costs of overseas assignments. There is no material foreign currency exposure risk as at 31 March 2019 (there was no material foreign currency exposure as at 31 March 2018).

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 are not related party transactions but given the role of the NAO, they may be of interest to users of the financial statements and have been disclosed for the purposes of transparency. These transactions consist of:

- the provision of accommodation, training courses and the hosting of seminars for public sector bodies for which the NAO may charge a fee. The amounts are not material to the parties involved.
- Routine transactions with HM Revenue & Customs to meet statutory taxation requirements and with the Cabinet Office, which operates the Principal Civil Service Pension Scheme.
- Contractual relationships with organisations who occupy space in the NAO's headquarters building and pay rental to the NAO on commercial terms. Before we enter into agreements we assess the ethical considerations of this and make sure that safeguards are in place to preserve the independence of the C&AG. Further information on these transactions is set out in the table below.

Party	Nature of relationship with the party	Rent and service charge earned	
		2018-19	2017-18
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	£289,336
The Skills Show	Trading name of Find a Future (subsequently renamed Worldskills UK), which is funded mainly by the Education and Skills Funding Agency, a central government body audited by the NAO. Occupied part of the NAO's headquarters building from December 2012 to January 2018	–	£227,589
Home Office	Central government department audited by the NAO. Occupied part of the NAO's headquarters building since May 2018	£238,616	–

The NAO also claims apprenticeship funding from the Education and Skills Agency.

16 Events after the reporting period

There have been no significant events after 31 March 2019 that require adjustment to, or disclosure in, the financial statements.

Statement of National Audit Office financial impacts for 2018

The statement of financial impacts represents our estimate of the financial benefits achieved in 2018 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.

2018 NAO IMPACTS VALUED AT MORE THAN £5 MILLION

Description	Impact identified (£m)	Nature of impact	Year of claim	Audited body with whom impact agreed
<p>Errors in Employment and Support Allowance</p> <p>Increase in Employment and Support Allowance paid correctly to claimants following correction of a systemic underpayment error affecting people whose benefits transferred to ESA from older incapacity benefits.</p>	285,000,000	Recurring	1 of 8	Department for Work & Pensions
<p>Tax revenue from accelerated payments</p> <p>Additional tax revenue HMRC received through accelerated payments when addressing tax avoidance.</p>	81,700,000	Recurring	4 of 5	HM Revenue & Customs
<p>Increased HM Revenue & Customs debt recovery</p> <p>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).</p>	63,000,000	Recurring	2 of 3	HM Revenue & Customs
<p>Overseas sellers failing to charge VAT on online sales</p> <p>Impact of HMRC's measures in tackling online VAT fraud and error.</p>	39,120,000	Recurring	1 of 4	HM Revenue & Customs
<p>Delivering the Cancer Reform Strategy</p> <p>Reduced rate of increase in the number of emergency admissions for cancer patients.</p>	23,600,000	Recurring	2 of 2	Department of Health & Social Care
<p>Reversal of overpayments to MyCSP</p> <p>A refund of excess amounts paid to MyCSP relating to early retirement payments, and agreement that there is no additional future liability.</p>	10,800,000	One-off	1 of 1	HM Land Registry
<p>Student loan payments to alternative higher education providers</p> <p>Action taken to prevent payment of ineligible student loan payments to alternative higher education providers and their students.</p>	7,400,000	One-off	1 of 1	Department for Education
<p>PFI in Housing</p> <p>Cashable savings realised through reduced PFI contract values in the Ministry's housing portfolio.</p>	6,982,371	Recurring	7 of 10	Ministry of Housing, Communities & Local Government
<p>NHS Pay Modernisation: New Contracts for General Practice Services in England</p> <p>Reallocation of NHS payments to general practice so that funding better reflects need.</p>	6,500,000	Recurring	3 of 6	Department of Health & Social Care
Subtotal	£524 million			
Impacts below £5 million	£15 million			
Total financial impacts	£539 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 2018.

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 U.K. LLP

Statutory Auditor
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28 May 2019

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