

Annual Report and Accounts 2019-20



We are the UK's independent public spending watchdog.

We support Parliament in holding government to account and we help improve public services through our high-quality audits.

The National Audit Office (NAO) scrutinises public spending for Parliament and is independent of government and the civil service. We help Parliament hold government to account and we use our insights to help people who manage and govern public bodies improve public services. The Comptroller and Auditor General (C&AG), Gareth Davies, is an Officer of the House of Commons and leads the NAO. We audit the financial accounts of departments and other public bodies. We also examine and report on the value for money of how public money has been spent. In 2019, the NAO's work led to a positive financial impact through reduced costs, improved service delivery, or other benefits to citizens, of £1.1 billion.



National Audit Office

National Audit Office

Annual Report and Accounts | 2019-20

Report by the Comptroller and Auditor General

Ordered by the House of Commons
to be printed on 22 June 2020.

This report is presented to the House of Commons
pursuant to Paragraph 25(8) of Schedule 2 and
Paragraph 9(3) of Schedule 3 to the Budget
Responsibility and National Audit Act 2011.

Gareth Davies
Comptroller and Auditor General
National Audit Office

15 June 2020

| Our staff working from home during the COVID-19 outbreak



Jessica



Antonia



Bea



Rob



Roxanna



Luke



Petra



Sebastian



Samad



Alison



Jonny



Bob



Sharida



Andrea



Tunmise



Vicky



Annie



Dean



Oliver



Sonia

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FINANCIAL SAVINGS

£1.7 trillion
expenditure of government bodies audited

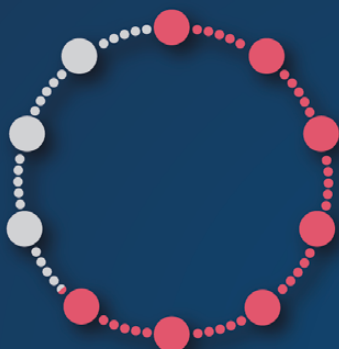


£16
of positive financial impact from our work for every

£1
the NAO costs (against a target of £10)



HOW STAKEHOLDERS SEE THE NAO

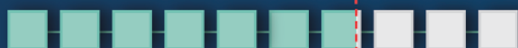


71%
of audited bodies actively seek NAO feedback on accounting and financial control issues



89%
of audited bodies agreed our financial audit work is high-quality

68%
of audited bodies rate the technical quality of our value-for-money (VfM) work as good



4.8
references to the NAO and Committee of Public Accounts in Parliament per day

STAFF

819 

full-time equivalent permanent employees

80% are proud to work at the NAO



87.8% first-time passes in the ACA Professional Stage exams



PUBLICATIONS

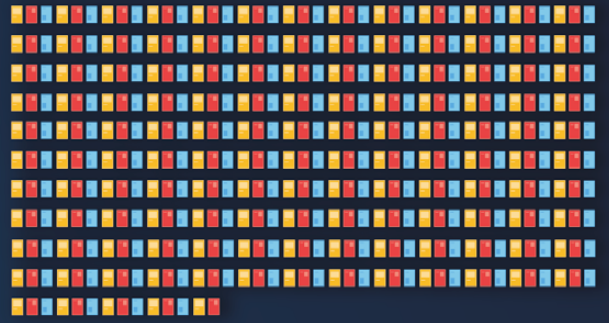
42 value-for-money studies



18 departmental overviews published



404 accounts certified



14 investigations



SUPPORT AND RECOMMENDATIONS

1,222
responses to
correspondence



15
other select committee
sessions supported



123
information requests from
63
overseas audit
institutions answered



34
Committee of Public Accounts
evidence sessions supported



01

Performance Report

This section is an overview of the National Audit Office (NAO); setting out our purpose and structure and analysing our performance against our strategic objectives.

| Chair's statement

Lord Richard | Chair



In 2019-20, Sir Amyas Morse completed his 10-year term as Comptroller and Auditor General and in June 2019, we welcomed new leadership in Gareth Davies. Our people ought to be hugely proud of how they handled this transition. It is not unknown for an organisation to struggle when there is a change at the top and yet 2019-20 was another year of strong performance.

We have continued to help Parliament hold the public bodies to account and examine how well they used public resources. There has been no let-up in our work with the audit committees and management of the bodies we audit, providing the assurance they need and highlighting improvement. We have further developed our capacity to carry out quicker, more responsive reviews when needed.

Each year we assess where our work has resulted in an improvement with a financially quantifiable benefit for the public purse. And this year our work had a positive financial impact of £1.1 billion, comfortably exceeding our target of £700 million. In this Annual Report we have included a range of case studies showing some of the qualitative benefits from our work. A further reflection of our strong performance and reputation; Parliament has continued to increase the portfolio of bodies we audit. We have become the auditor of the Financial Reporting Council, S4C (Channel 4 Wales) and of the delivery and sponsor bodies charged with carrying out the works to restore and renew the Palace of Westminster.

In 2019-20 we also reviewed our strategy, keeping us at the top of our game and able to respond to the challenges facing the public sector. These challenges include: the public spending implications of the government's ambitious infrastructure programme, the plan to achieve net zero emissions, the use of big

data and artificial intelligence in public services and the changes flowing from the UK's exit from the EU. And of course, in the last weeks of 2019-20, the government responded to the global COVID-19 outbreak, which will have a searing effect on society. Considering the wide range of activities that form the government's response, we intend to carry out a substantial programme of work to meet Parliament's accountability requirements and we will update our strategy accordingly.

I have constantly stressed the need for us to add value, to spread best practice and to measure our success by the impact we make, just as important in times of crisis as in times of business as usual. Is the public sector learning the lessons from our work? Yes, but not quickly enough. That is why the review of our strategy is important and why the arrival of Gareth Davies as Comptroller and Auditor General provides opportunities for us.

I have been the Chair of the National Audit Office for nearly six years. This role has afforded me the joy of working with people of the highest quality who have a passion for what they do. But all good things come to an end. Statute limits my term of office and I will soon step down. Chairing the NAO is a privilege and I wish the organisation every success.

**Lord Michael Bichard,
Chairman**

Comptroller & Auditor General's Statement



Gareth Davies | C&AG

The NAO supports Parliament in holding government to account and helps improve publicly funded services through high-quality audits. Since taking up my post in June 2019, I have been impressed by the strength in depth across the organisation and the commitment of my colleagues to delivering robust and well-evidenced public audit.



We will continue to develop our subject-matter expertise and will work more closely with audit committees as they address their organisations' value for money risks.

That commitment has carried through to the hugely flexible response of NAO team members to the unprecedented challenge of maintaining our work programmes while working remotely during the COVID-19 outbreak.

In 2019-20 we reported on government's progress in managing a wide range of risks to value for money including those associated with large infrastructure projects, information technology programmes, major procurement exercises and the preparations for the UK's exit from the EU. We also audited the accounts of 404 public bodies including government departments, arm's-length agencies, public corporations and publicly owned companies. Our work supported 34 inquiries by the Committee of Public Accounts and 15 sessions by other select committees of the House of Commons. In the last weeks of 2019-20 we saw the government respond to COVID-19, and the consequences for public spending and value for money will form a significant part of the NAO's work programme in 2020-21.


The outbreak occurred just before the financial year end and the task faced by the public sector of producing annual reports and accounts in these unusual circumstances should not be underestimated.

I am proud of my own team for keeping to our original timetable to produce this document, despite the disruption to our ways of working. However, it has given rise to financial reporting issues that we do not expect to see in more usual times. Specifically, we have had difficulties in obtaining a reliable valuation of our London property, and our independent auditors have appropriately included a reference to this in their report.

Soon after taking up my post I launched a strategic review of the NAO's purpose and objectives, designed to identify how we can play our role to best effect over the next five years.

I am grateful to the many stakeholders outside the NAO and the many colleagues inside who contributed their insight and ideas to the review. With their help we now have three new strategic objectives, supported by a programme of organisational development to ensure we deliver them.

Firstly, we aim to further improve our support for effective accountability and scrutiny. We will invest in our audit methodology and software platform to build in developments in data analytics and increasing the insight we derive from our financial audit work for the benefit of the audit committees we work with. This will support continuous



improvement in audit quality, responding to feedback from internal and external reviews and informing our training and development programme. We will ensure that our programme of value-for-money reviews focuses on the most important risks to the efficient and effective use of public money.

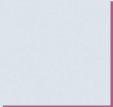
Secondly, we will increase our impact on outcomes and value for money. We will rigorously follow up our recommendations to judge their effectiveness and refine our approach where they have not had the intended effect. We will continue to develop our subject-matter expertise and will work more closely with audit committees as they address their organisations' value-for-money risks.

Thirdly, we will respond to the clear feedback from our stakeholders that we could do more to share the learning from our work. We are launching a new programme of lessons learned reviews, synthesising what we have found to work well and less well on common areas of government activity, such as major projects and commercial procurement. We will improve our website and strengthen our engagement in the professional networks sharing good practice across the public services.

I am confident that these priorities build on the proven strengths of the NAO while challenging us to add maximum value. They will guide our work on the government's response to the COVID-19 outbreak as well as the other major priorities set by the government for public spending including infrastructure improvement and progressing to net zero carbon emissions by 2050.

For an organisation charged with holding others to account, it is right that the NAO aims to be an exemplar organisation. We will continue to improve the way we manage and develop our people, achieve quality in all our work, make optimum use of data and technology, deliver value for money for every pound we spend and reduce our environmental impact. In doing so, we will continue to support Parliament and the public to the very best of our abilities.

Gareth Davies,
Comptroller and Auditor General



About the National Audit Office



Credit: Naomi Brown

Sir Bernard Weatherill, the Speaker of the House of Commons, officially opened the new NAO headquarters on 28 November 1986

| Our purpose

The NAO is the UK's independent public spending watchdog.

We support Parliament in holding government to account and help improve public services through our high-quality audits.

| The Comptroller and Auditor General

The Comptroller and Auditor General (C&AG), Gareth Davies, is the head of the NAO and is independent of government.

The C&AG certifies the accounts of all government departments and many other public sector bodies. They have statutory authority to examine and report to Parliament on whether departments and the bodies they fund have used their resources efficiently, effectively and with economy. They have extensive statutory rights of access to information held by a wide range of public sector organisations to support this.

The NAO's Exchequer Section supports the C&AG in fulfilling their statutory Comptroller responsibilities. These responsibilities require the C&AG to approve the release of funds to HM Treasury and other public bodies, checking that each conforms to Parliament's authority.

| Our relationship with Parliament

We support Parliament's scrutiny of the executive. We do this primarily by supporting the work of the Committee of Public Accounts. We also support individual members of Parliament and other select committees with formal and informal briefings, reports and our programme of secondments.

| Our strategy

2019-20 was the final year of the NAO's strategy which focused on the following three objectives:

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

In the second half of the year we reviewed how we can best deliver our role and purpose. From the 1 April, we will have a new strategy. We engaged parliamentarians, civil servants, those running local public bodies and members of the public. They all provided perspectives on how we can best fulfil our remit and prepare for the challenges ahead. Our people also provided valuable contributions based on their extensive experience of financial and value-for-money (VfM) auditing.

Our new strategy, covering the next five years, will ensure we provide effective support to Parliament in scrutinising the public sector's performance while making our insights available to those responsible for public services.

Our strategy is ambitious for the positive effect we can have on public services and the difference this will make to Parliament, the bodies we audit, and the public. The changes we will make to implement our strategy include:



- **Developing deeper insights from our financial audit work**

This will enable us to give Parliament and the public better information about how public money is being managed across government and provide the bodies we audit with fresh perspectives on their business. To do this we will invest in our financial audit software and methodology to ensure our work is carried out efficiently and meets regulatory quality standards.



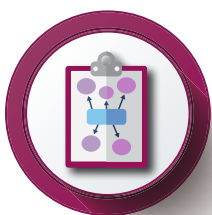
- **Making much better use of our knowledge**

We will make it easier for others to understand and apply the lessons from our work so that they can improve value for money. We will publish a new series of reports bringing together what we have learned from our work on important recurring issues, such as commercial contracting and digital transformation. We will use these outputs where big projects and programmes are at an early stage, such as the restoration and renewal of the Palace of Westminster, to better influence results. To do this we will invest in our knowledge management capability. We will redesign our website to make it easier to access the knowledge and insights from our work.



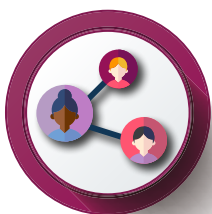
- **Focusing more on long-term value-for-money issues**

This will enable us to focus more work on, and help improve value for money in, areas that are important to making government more efficient and effective. These include: major project delivery; financial and risk management; commercial; people and operational management; and digital.



- **Strengthening our focus on emerging and topical issues**

We are building our capability to react quickly and effectively to support Parliamentary scrutiny of new issues as they emerge. Where these issues are of particular significance and cut across the work of government – such as government's response to COVID-19 – we will ensure this is reflected in our immediate programme of work to Parliament.



- **Enhancing our expertise in the skills that are a priority for government**

By improving our skills, we can focus more work on, and help improve value for money in, areas that are important to making the public sector more efficient and effective. These include major project delivery; financial and risk management; commercial; people and operational management; and digital.

Figure 1

Overview of the National Audit Office’s (NAO’s) strategy 2020-21 to 2024-25

Our purpose

We are the UK’s independent public spending watchdog.

We support Parliament in holding government to account and we help improve public services through our high-quality audits.

Our strategic priorities

Improving our support for effective accountability and scrutiny.

We provide assurance that public resources are accounted for accurately and used as intended. When this does not happen, we point it out. We will upgrade our methodology and software to deliver higher-quality audits using data analytics. This will provide Parliament with deeper insights to scrutinise public spending, and those responsible for the governance of the bodies we audit with the assurance they need.

Increasing our impact on outcomes and value for money.

Our work focuses on the issues that matter and we will place greater emphasis on where we can influence long-term value for money. We will make better use of our analytical and audit expertise to identify how public services can be improved. This will allow more insightful and practical recommendations that lead to better outcomes.

Providing more accessible independent insight.

We will be known as a valuable source of knowledge on how well public resources are used and how the governance and performance of public services can be improved. We will synthesise what we know on important issues and make it easier for others to understand and apply the lessons from our work.

Our strategic enablers

We will attract, retain and develop high-quality people.

Our people are proud to be part of our diverse, inclusive and healthy workplace. We attract talented people and support them to become even better at what they do, enhancing their careers and ensuring we have the skills and capabilities we need.

We will make more effective use of technology, data and knowledge.

We use technology and analysis of data to perform our audit work more effectively and to create and communicate new insights that cannot be achieved in other ways.

We aim to be an exemplar organisation.

We lead by example in holding ourselves to the high standards we expect from public bodies. We are efficient, provide value for money and focus on long-term sustainability.

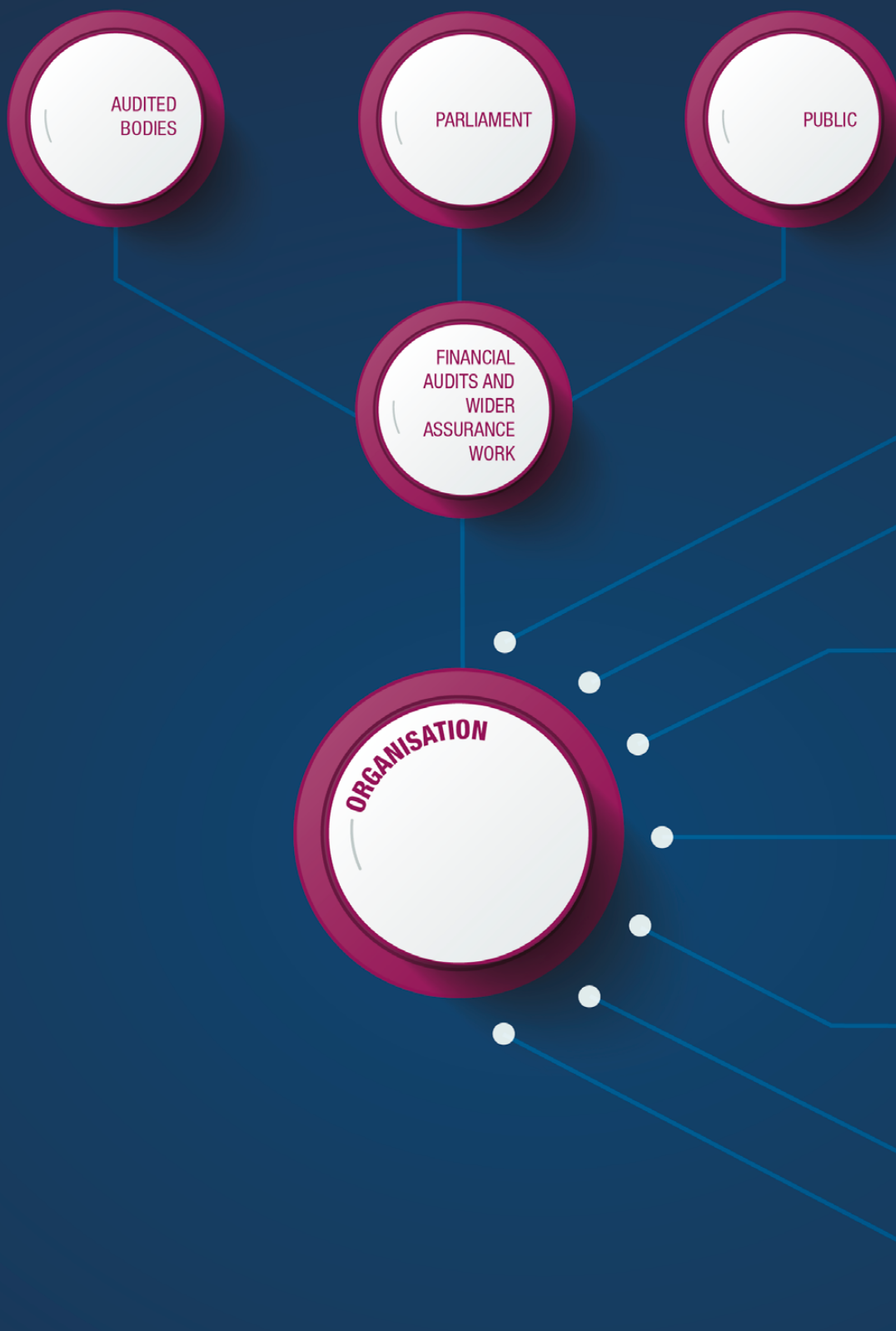
Source: National Audit Office



| Our values

Our values reflect who we are as the NAO, how we work together and with those outside the NAO, to achieve our purpose and priorities.

We will incorporate our new values into all our people policies and processes.



A new organisational structure is being implemented for 2020-21 onwards, to equip the NAO to deliver its new strategy.

BUSINESS GROUPS

1

**MASS MARKET
OPERATIONS**

MMO

2

**DELIVERY
THROUGH
NETWORKS**

DTN

3

**DELIVERING
MAJOR
PROGRAMMES**

DMP

4

**CORE
STRATEGIC
SERVICES**

CSS

5

**INFLUENCING
AND REGULATING**

I&R

6

**LOCAL SERVICE
DELIVERY AND
USER EXPERIENCE**

LSDUE

7

**EFFECTIVE
STRATEGIC
CENTRE**

ESC

Performance analysis

Our performance measurement framework

Given that this is the last year of our current strategy, a new performance measurement framework is being implemented from 2020-21 to measure our progress against our five-year strategy and make the best possible use of our resources. The new framework includes the new key performance indicators as set out in our Estimate memorandum for 2020-21.

Figure 3
Our performance measurement framework for 2019-20

Strategic objective	What we want to achieve	What success looks like	How we measure this	Achievements
Developing and applying our knowledge	Cost-effective delivery of our programme of work, leading to positive change.	Successful delivery of our programme of financial audit, value-for-money and wider work.	The total number of reports and outputs (including financial audits) we produce; the number of reports that supported a Committee of Public Accounts hearing.	404 accounts certified. 42 value-for-money studies, 14 investigations and 7 EU Exit outputs. 34 Committee of Public Accounts evidence sessions supported.
		Our work leads to positive change in accountability and/or public services in those we audit.	Case studies, agreed with the audited body, which give examples of positive changes resulting from our work.	14 case studies detailing some of the positive changes from our work (pages 37 to 43).
		Our work generates financial impacts of at least 10 times our operating costs.	Total value of financial impacts generated by our work, as agreed with the audited body, against our final net outturn.	Positive financial impact from our work of at least £16 for every pound spent, exceeding our target of £10.
Increasing our influence	Stakeholder awareness and response to our work.	Recommendations arising from the work of the National Audit Office (NAO) and the Committee of Public Accounts are accepted and implemented by government.	The percentage of Committee of Public Accounts recommendations that are accepted and implemented set out in Treasury Minutes. The percentage of all NAO recommendations since April 2014 that have been accepted.	Government accepted 92% of the Committee of Public Accounts' recommendations. Bodies we audit accepted 94% of our recommendations.
		Parliamentarians are familiar with and have a favourable opinion of the NAO and support the work we do.	Results of the annual MPs' survey we commission and monitoring of NAO mentions in Parliament.	65% of MPs felt they knew the NAO very well or a fair amount. 57% of MPs have a favourable opinion of the NAO. 67% rated the NAO as above average for influencing beneficial change.

Figure 3 *continued*

Our performance measurement framework for 2019-20

	Senior stakeholders in departments rate the quality of our work, and the impact we have, highly.	Annually commissioned independent feedback from the bodies we audit.	<p>89% of respondents agreed our financial audit work is of high quality.</p> <p>68% of respondents agreed technical quality of our value-for-money reports is good.</p> <p>60% of respondents agreed that recommendations from their most recent value-for-money report led to, or are likely to lead to, improvements in their organisation.</p> <p>52% of respondents said they have often used our insight to help their organisation improve.</p> <p>71% sought our feedback on accounting and financial control issues.</p>	
Delivering high performance	Cost-effective use of funds and organisational performance.	Continued efficiency without reduction in the quality of our work.	Our net expenditure, adjusted for new work, to show the like-for-like position using 2010-11 as the baseline.	Used 20% less resources than our 2010 baseline, after adjusting for the effect of inflation over the same period.
		At least 80% of our resources are spent on front-line activities.	Ratio of expenditure on front-line activities to expenditure on corporate services functions.	Maintained the ratio of expenditure on front-line activities to expenditure on corporate services activities to at least 80%.
		Our people show high work satisfaction and engagement.	The annual People Survey of NAO staff.	<p>An overall engagement score of 69%.</p> <p>80% feel proud to say they work at the NAO.</p> <p>87% are interested in the work they do.</p>

Source: National Audit Office

Highlights

| Effective accountability
and scrutiny



80%

of MPs say we act impartially and independently



All 12

of our VfM reports reviewed met or exceeded quality standards



71%

of our audited bodies actively seek NAO feedback on accounting and financial control issues

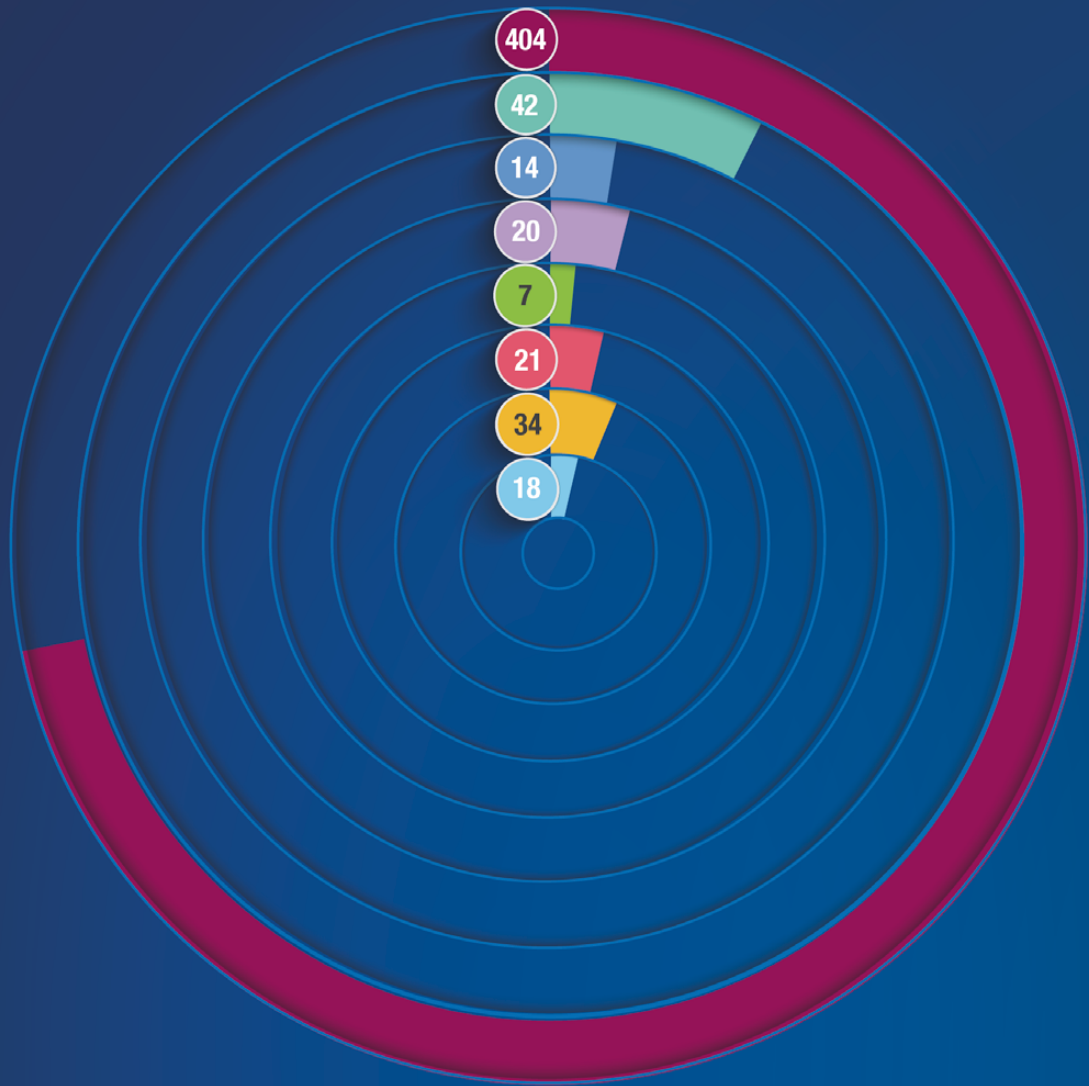


We strengthen governance and accountability of UK taxpayers' money overseas; answering 123 information requests from 63 overseas Audit Institutions



52%

of our audited bodies often use our insight to help their organisation improve



- financial statements certified
- value-for-money reports
- investigations
- new audit engagements
- EU Exit outputs
- international knowledge sharing visits hosted
- Committee of Public Accounts sessions supported
- departmental overviews

| Our work

The C&AG, with the support of the NAO, provides an independent audit opinion on around 400 accounts across the public sector, including the major government departments. This audit work is defined by international auditing standards. We also identify areas where management may improve their controls or processes. Our VfM and wider assurance work examines whether public bodies achieve value for money – efficiency, effectiveness and economy – in their use of public resources. We conduct investigations to establish the facts where there are concerns about public spending issues, such as service failures or financial irregularities. These concerns may be raised by MPs, the media or the public, or be identified through our work.

| Support for audited bodies

Financial Audit

Our financial audit work provides independent and objective assessments of the stewardship of public resources for public bodies' audit committees and boards. We survey those we audit to see how we can improve.

Fifty-two per cent say they have often used our insight to help their organisation improve (no 2018 comparator) and 71% actively seek NAO feedback on accounting and financial control issues (65% in 2018).

In our independently conducted survey and interview programme, 94% of survey respondents agreed their relationship with us is good or very good (97% in 2018) and 89% agreed our financial audit work is of high quality (90% in 2018).



Value for money

The bodies we audit recognise the value of our wider assurance work in supporting them in their governance and management functions. Of the bodies we audited, 60% believe that we bring a deep and accurate understanding about wider management issues beyond financial management and control matters, 17% higher than in 2018.

We were disappointed that the number of organisations agreeing that our reports showed balanced judgement decreased from 83% to 66% and that only 62% agreed we effectively managed the impact of the study's workload on their body (no 2018 comparator). Interviewees suggested some reports did not always show the full context of the situation, including what had gone well, and some press releases did not fully reflect the balanced nature of reports. These are some of the areas we are looking to address through our new strategy.

Sixty per cent agreed that recommendations from their most recent report led to, or are likely to lead to, improvements in their organisation, a 32% increase from 2018. Seventy-seven per cent of respondents were also positive about our audit team's understanding of the wider context in which their organisation works (66% in 2018).

The technical quality of our VfM reports is also recognised, with 68% rating it as good (76% in 2018) and 74% rating the NAO's knowledge of their sector and policy as good (73% in 2018).





I Support for Parliament

We support Parliament in holding government to account. We support the Committee of Public Accounts, other select committees and individual MPs in their scrutiny of how public bodies use public resources and deliver services.

The Committee of Public Accounts

In 2019-20 we supported 34 of the Committee of Public Accounts' (the Committee) evidence sessions through a combination of written and oral briefings. This was lower than in a typical year (61 in 2018-19), primarily due to the dissolution of Parliament for the general election in December 2019 and select committees not being constituted until March 2020.

The Committee held inquiries into issues supported by our VfM reports and investigations spanning the breadth of our work, as well as several financial audit reports, such as the Whole of Government Accounts. Following an inquiry, the Committee may choose to issue its own report and make recommendations, to which the government must respond in a published Treasury Minute. During 2019-20, the government accepted 275 of the Committee's 300 recommendations (92%). By comparison, in 2018-19 the government accepted 277 out of 308 (90%) of the Committee's recommendations.

34

Committee of Public Accounts'
evidence sessions
supported

Support to select committees

We second members of our staff to select committees to support the committee's inquiries and help develop our people's knowledge and skills. In 2019-20, we seconded 10 members of staff to the Scrutiny Unit and select committees, including the Defence Committee, the Justice Committee and the Treasury Committee.

We also published 18 overviews on government departments' accounts and performance as well as other cross-cutting issues. These are designed to assist select committees and MPs in holding government departments to account by providing an accessible overview of the department and its performance over the past year.



Support to members of Parliament

MPs can write to us to raise concerns they have over the misuse of public money or behaviour in public bodies we audit. It is useful for bringing issues to our attention and for MPs to draw on our knowledge and expertise as they seek to hold government to account. In 2019-20, we provided 90 responses to MPs' requests.

We send embargoed copies of our reports to MPs, based on subjects in which they have expressed an interest. Each report is sent to an average of 100 MPs. We also send regular updates on our work to all MPs through our Parliamentary newsletter.

In February 2020, we started sending our weekly newsletter to all members of the House of Lords with a known email address. In total, we send our Parliamentary newsletter to more than 920 individuals within Parliament.



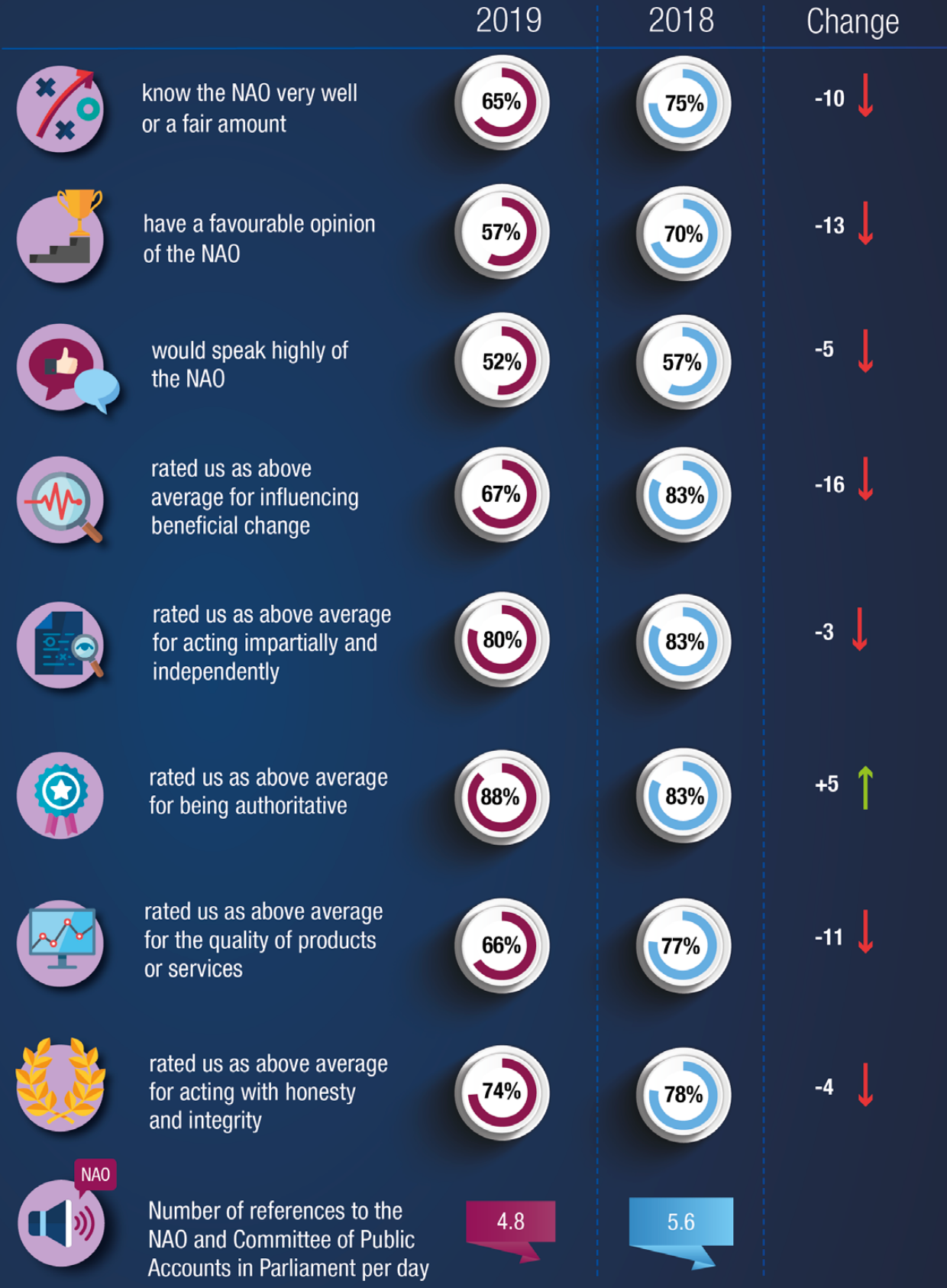
Case study



In October 2019, the then Chair of the Work and Pensions Committee, Rt Hon Frank Field MP, wrote to the C&AG raising concerns about the Department for Work & Pensions' response to a Parliamentary Question Mr Field raised in September 2019, on the topic of benefit claimants who had ended their lives by suicide. The C&AG, in his response to Mr Field, proposed that the NAO engage with the Department to establish what information the Department holds on benefit claimants who ended their lives by suicide, how that information is produced and how it is stored, accessed and used. We published our [subsequent report](#) in February 2020.¹

¹ Available at: www.nao.org.uk/report/information-held-by-the-department-for-work-pensions-on-deaths-by-suicide-of-benefit-claimants/

MPs' perception of the National Audit Office (NAO)



Notes

- 1 Sample: 398 MPs contacted, 134 MPs interviewed, 99 MPs answered the National Audit Office questions (versioning used to control interview length).
- 2 Quotas and weighting used so results reflect the House by ministerial status within political party.
- 3 Broad sample controls also set on region, gender and newly-elected MPs.
- 4 Fieldwork dates: 3 January – 5 March 2020, Face to face interviews with MPs.

We seek feedback from MPs to ensure our work continues to properly support them and to identify areas for improvement. This year we have seen a decline in some survey scores.

Our results for the percentage of MPs who are familiar with, or have a favourable opinion of, the NAO have declined compared with the previous year. The decline may have been driven by the proportion of MPs who were newly elected in December 2019 and that the survey fieldwork took place before our engagement campaign for the new Parliament.

Despite this, a majority of MPs surveyed still viewed the NAO positively. Although our results show a lower level of awareness of how the NAO can support MPs in their role in Parliament, the overwhelming majority expressed an interest in our services when they were outlined to them.

We take this decline in survey scores seriously and in 2020-21 we are focusing our engagement activities on communicating as effectively as possible with MPs and capitalising on high levels of interest in the support we can provide MPs. For example, we still routinely send our VfM reports to all MPs but now MPs opt-out rather than opt-in to receive our reports. We will also look to do more to tailor our communications to those MPs who currently have little knowledge of the NAO and what we do, for example newly elected MPs. This will include a 'virtual exhibition stand' for Parliamentarians with access to reading material, videos and webinars about our work.

Local public services

The Local Audit and Accountability Act 2014 gives the C&AG the powers to report on the value for money of public spending at a local level. The C&AG can do this in support of a VfM study of a central government body or by providing evaluation, commentary and advice to local bodies. This year our work covered financial sustainability in the NHS, local authority investment in commercial property, support for pupils with special educational needs and Local Enterprise Partnerships. Previous reports have looked at topics such as the financial sustainability of local authorities, local authority governance and housing and planning issues. We recently published a report on the NHS workforce and, going forward, we will be reporting on grant funding to local authorities. Our reports draw attention to and contribute to a consistent understanding of the biggest challenges facing local public bodies.

The C&AG is responsible for setting the standards for local public audit. He discharges this through maintaining the [Code of Audit Practice](#) and issuing associated guidance to local auditors.² We prepared a new Code which came into effect on 1 April 2020. The new Code puts a sharper focus on auditors' work on local bodies' arrangements to secure value for money and promotes more meaningful and timely reporting to local public bodies, supported by clear recommendations for improvement.

² Available at: www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2020/01/Code_of_audit_practice_2020.pdf

International

We strengthen accountability of UK taxpayers' money by working with overseas national audit offices (Supreme Audit Institutions, SAIs) in countries receiving UK aid and auditing international organisations who receive UK funding. Our international work gives interesting development opportunities for our people. In 2019-20 we:

- shared good practice in public audit with other SAIs, identifying international comparators for our own reports. We answered 123 information requests from 63 SAIs, and hosted knowledge sharing visits from 21 SAIs. We carried out a peer review of the Lithuanian audit office and started a similar review of the Netherlands audit office;
- hosted the Young EUROSAI Conference at our offices in London. Forty European SAIs sent representatives, aged 35 or under, to debate how SAIs can stay relevant given they work in environments which evolve as volumes of data are increasing, technologies advance and social and political attitudes develop;
- participated in the XXIII International Congress of Supreme Audit Institutions (INCOSAI) held in Moscow. The overarching themes of the Congress were the use of IT in public audit and the role that a national audit institution can play in achieving national priorities and goals;
- delivered a programme of work to help other SAIs improve their audit capacities. More than 50 staff contributed to projects with the SAIs of Nepal, Tanzania, Ukraine and Vietnam, UN Women and the audit bodies of the UK Overseas Territories; and
- fulfilled our role as the appointed external auditor of several international organisations, including the World Intellectual Property Office and the Pan American Health Organization. We were re-appointed as Chair of the Panel of UN External Auditors, a position which allows us to contribute to improving quality standards of audits across the UN system.



International cooperation, Courtney Ip Tat Kuen, Audit Principal

Joining the project team responsible for supporting the State Office of Vietnam (SAV) in Hanoi was my first experience of international technical co-operation.

My role on the project was to review its existing auditing standards and compare them to the International Standards of Supreme Audit Institutions. I was also tasked with producing bespoke training slides for the SAV auditors to incorporate best-practice by drawing on my UK audit experiences. It was challenging work, particularly understanding how international standards can be interpreted and applied in other jurisdictions, but this motivated me to think innovatively and improve my communication skills. My least favourite part of the trip was finding out my suitcase did not make the connecting flight, so I was without luggage for the first day of work!



International cooperation team

| Quality

Financial audit work

We assess our financial audit work through a range of internal and external reviews. We receive an external assessment carried out by the Financial Reporting Council's Audit Quality Review team and undertake our own internal cold review assessment. There is a lag in these assessments as they need to take place once the audit is finalised. Both assessment programmes, based on samples of our 2018-19 audits, are currently being finalised.

We continue to improve our audit methodology and how this is applied in practice. However, we need to improve the extent of challenge in areas of judgement, in particular for key assumptions used in valuations and estimates, strengthen the assessment and evaluation of work performed by experts and ensure testing procedures provide a sufficient level of audit evidence.

More detail, including the outcome of our internal and external programmes of reviews of our 2018-19 audits, can be found in our [Transparency Report](#).³ This Report also covers the steps we are taking to further improve the quality of our work through our Financial Audit Development Plan and wider initiatives.



Value-for-money and wider assurance work

Each year, external specialists review a sample of published VFM reports and investigations. In 2019-20 Risk Solutions and RAND Europe undertook this work, examining 12 reports in total. The reviews considered the scope of the report, quantitative and qualitative analysis, structure and presentation, graphs and statistics, methods used, synthesis of conclusions, recommendations (where made) and systematic issues, leading to an overall assessment.

The reviewers assessed all 12 reports as meeting or exceeding expected standards. This was an improvement on 2018-19, where reviewers rated one report as not meeting standards. Overall, this year, the reviewers agreed that the reports were generally accessible and easy to read, and that they contained clear and appropriate recommendations. They also highlighted the good use of quantitative analysis and, in some reports, improvements in the use of qualitative data.

The reviewers also identified areas for improvement. Overall, they felt that we could improve how we draw together our analyses into our key findings and, in some cases, we could have presented clearer conclusions on value for money. They also considered that we could have been more transparent generally in our presentation of data, both in the main report and in the methodology appendix, including greater consistency in our reporting on data limitations and omissions. Other areas noted included inconsistency in the description of the scope and, in some cases, the inclusion of information and data that were not needed.

More details on the findings of our external reviews, as well as details on our internal reviews and our work to improve quality, can be found in our [Transparency Report](#).⁴

³ Available at: www.nao.org.uk/about-us/our-work/governance-of-the-nao/transparency/

⁴ See note 3.

Highlights

| Our impact on outcomes
and value for money



1,222

responses to correspondence



We responded to

77

FOI requests



£16

of positive financial impact
from our work for every £1
the NAO costs



We provide benefits beyond
those quantifiable – improving
lives of people using
government services



We responded to
99% of letters from
the public within our
target timescales



We track the progress departments make in implementing our recommendations to measure our progress over time. Between 1 April 2014 and 31 December 2019 we made 1,186 recommendations. Of these, 938 have been discussed with audited organisations, and of those: 407 have been implemented; 479 are in the process of being implemented; and 52 have been rejected. This equates to an acceptance rate of 94% for our recommendations.

| Our impact

The bodies we audit recognise the value of our value-for-money and wider assurance work in supporting them in their governance and management functions. Sixty-four per cent of our surveyed audited bodies agreed that they made changes prompted by their engagement with us, although this has decreased from 73% in 2018. Around 60% agreed that recommendations from their most recent report have already, or are likely to, lead to improvements in their organisation, an increase from 2018 (32%).

| Correspondence

Receiving, investigating and replying to correspondence is part of our core work. It is one of our direct contact points with MPs and the public. It is a rich and invaluable source of information for our audit work.

We typically receive around a thousand letters from the public and a hundred letters from MPs each year; we provided 1,222 responses in 2019-20. We value the letters we receive, and we aim to respond to correspondence from MPs within 10 working days and from the public within 20 working days. In 2019-20, we responded to 99% of letters from the public and 89% from MPs within our target timescales; and to 100% from MPs within 20 working days. Correspondence gives us an opportunity to explain and inform people about our work and helps us focus our questions to public bodies to probe issues and concerns of interest to the public.

We also responded to 77 formal requests for information under the Freedom of Information Act 2000 and two requests under the Environmental Information Regulations 2004. People can ask what personal data we hold about them, and we answered five subject access requests under the Data Protection Act 2018.

I Financial impacts

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

This includes any impact that results in more cash being available for public funding, an improvement in productivity or an increase in output quality for the same or proportionately fewer resources. Financial impacts are agreed with the audited body and subject to an external audit review to ensure they are robust and reported accurately. A full list is included on pages 142 and 143.

During the calendar year 2019 the total audited impact was £1.1 billion. This represents a positive financial impact from our work of at least £16 for every pound spent, exceeding our target of £10.

Impact in focus

Strengthening the competition and consumer regime

The NAO produced several reports and other outputs on the work of the Competitions & Markets Authority (CMA) over recent years, covering its activities on competition enforcement and market studies, and the consumer protection regime. Taken together, the NAO's work has helped contribute to and build momentum to support CMA senior management's own aspirations for improving the organisation's performance.

Our £82 million financial impact is based on NAO recommendations and work to support CMA improvements to its flow of enforcement cases, closing down unfruitful cases, and increasing its capacity to take on more work and progress it more quickly and effectively. These improvements have supported the strengthening of the competition and consumer regimes, and increased deterrence of anti-competitive commercial practices.



Impact in focus

Online VAT fraud 2019

In April 2017, we reported on UK-based traders' concerns around the issue of overseas sellers fraudulently not charging VAT to UK customers. Our investigation focused on the issue that some sellers from outside the European Union who brought goods into the UK were not charging VAT on those online sales, undercutting UK traders. Our investigation found that there did not seem to be penalties of sufficient severity to act as a substantial deterrent. Following our investigation, a Committee of Public Accounts report concluded that HM Revenue & Customs' (HMRC's) estimate of the impact of online VAT fraud was out of date and flawed. It recommended that HMRC should inject more urgency by making stronger and more extensive use of its existing powers, especially third-party liability, and speeding up the introduction of new measures.

In the 2017 Finance Bill, the government introduced legislation extending the existing rules to include UK sellers and make online marketplaces liable for unpaid VAT on sales where "they knew or should have known" an overseas seller was not registered for VAT when they should be. Online marketplaces are also now required to display the valid VAT numbers of their sellers when provided with one. HMRC has produced an agreement to encourage collaboration between itself and online marketplaces in tackling this problem.

With the help of the new measures, the unprompted VAT liability declared in 2019 was £200 million. The NAO agreed with HMRC that the contribution of our work to this outcome amounts to £30 million.

I Wider impacts

Not all beneficial changes from our work are financially quantifiable. These case studies capture some of the qualitative improvements from our work and have been agreed with the bodies to which they relate. Such beneficial changes manifest in many ways and come from all areas of our work.

The case studies demonstrate where our work:

1

has a direct, beneficial impact on the lives of people as users of government services;

2

helps improve government capability;

3

promotes transparency and accountability;

4

draws attention to risks that government must manage; and

5

adds insights that improve processes and aid decision-making.

| Benefits from our work

Case in focus

Improvement to army recruitment process

Our 2018 investigation into the British Army Recruiting Partnering Project followed up our 2014 value-for-money report on army recruitment. We considered whether the British Army (the Army), partnering with Capita, had made progress in recruiting the quantity and quality of soldiers the Army requires. We also set out the findings from our investigation in two workshops with the Army and Capita, and challenged the evidence behind the forecast savings from their reforms.

Impact

The Ministry of Defence, the Army and Capita said our investigations helped them to think through the challenges in reforming the recruitment process. They considered we brought a different perspective, which they used to inform their priorities for change. Our insights helped Capita and the Army to make changes to the recruitment process and their management approach. Consequently, the Army developed a more accurate understanding of the forecast savings of its revised approach. The Permanent Secretary told the Chair of the Committee of Public Accounts that, as a result of our report, the Department had greater understanding of the projected benefits from the reformed recruitment process, and better mechanisms in place to monitor financial savings.

Case in focus

Submarine Delivery Agency

The Submarine Delivery Agency (SDA) became a new executive agency of the Ministry of Defence in April 2018. As such, it had to produce audited accounts for the first time. A large number of SDA staff had not been involved in producing accounts or responding to an audit before. To address this, the NAO financial audit team provided additional assistance to the SDA, drawing on the experience of the first year accounts preparation and audit of the SDA's sister agency, Defence Equipment & Support (DE&S). The NAO audit team were in constant communication with the SDA throughout the audit, and provided support and guidance to the SDA as it set up its financial control framework and produced its first set of accounts.

Impact

The 2018-19 accounts were signed with an unqualified audit opinion, a considerable achievement given the complexities involved and the previous experience of DE&S, whose first two years' accounts were qualified. Strong foundations have been laid for an efficient accounts production process going forward.



Case in focus

Removal of inspection exemption for outstanding schools

Our 2018 report on Ofsted's inspection of schools highlighted that schools Ofsted had graded as 'outstanding' were legally exempt from routine re-inspection. At August 2017, around 1,600 schools had not been inspected for six years or more, including nearly 300 schools that had not been inspected for 10 years or more. As a result, some pupils went through school without an independent assessment of their school's effectiveness. We recommended that the Department for Education review whether Ofsted provided enough independent assurance about the quality of schools.

Impact

As a result of our recommendation, in December 2018 the Department asked Ofsted to inspect more outstanding schools and colleges. In September 2019, the Secretary of State for Education announced plans to reintroduce regular Ofsted inspections for outstanding schools by removing the rules which exempted them from routine inspection. He said that, as a result of this change, parents would have up-to-date information about their child's school and could be confident that schools rated outstanding really were providing the highest standards. In January 2020, the Department ran a public consultation on removing the exemption.

Case in focus

Apprenticeships off-the-job training and provider improvements

In 2019, we did two pieces of work on apprenticeships. Our March 2019 report on the apprenticeships programme highlighted that the Department for Education did not have an effective way of identifying where apprentices were routinely receiving less off-the-job training than they are entitled to. Apprentices must spend at least 20% of their time doing off-the-job training to improve their knowledge, skills and behaviours. Alongside our report, we produced an online tool showing the apprenticeships that had started across England in recent years. The online tool allowed users to break down the totals according to criteria such as location, age group and educational level.

Impact

As a result of our report, the Department instructed training providers to start recording the number of planned off-the-job training hours for each apprentice. From August 2020, providers will also have to record the number of actual off-the-job training hours they have delivered. In addition, a large training provider used the online tool to identify groups missing out on apprenticeships. It developed an inclusion programme for under-represented groups, such as care leavers, people with learning difficulties, and young people who are not in education, employment or training. The provider also introduced additional training for staff, and a mentoring scheme for new apprentices. As a result, people are now doing apprenticeships who might otherwise have missed out on the employment and training opportunities that they provide.



Case in focus

Transforming Rehabilitation

The Ministry of Justice’s Transforming Rehabilitation reforms, introduced in 2014, sought to reduce reoffending by splitting the probation service into a public sector National Probation Service to manage higher-risk offenders, and 21, mainly privately owned, Community Rehabilitation Companies (CRCs), supervising medium- and lower-risk offenders. Over a series of reports on the reforms we identified fundamental issues that were seriously impacting the quality of probation services.

Impact

Responding to these issues the Ministry announced that it would end its contracts with CRCs early, and made proposals for a new generation of CRC contracts. Our March 2019 report diagnosed why the reforms had failed and drew out the learning from this, including the friction created by splitting the probation service. We recommended the Ministry pause and reflect on the lessons in the report to ensure its new proposals were both deliverable and consistent with its strategic aims for the probation system. The Ministry acknowledged it has reflected carefully on both our report and the recommendations of the Justice Select Committee and Her Majesty’s Inspectorate of Probation. On 16 May 2019 the Secretary of State for Justice announced a new model for probation, where the management of all offenders would be brought under the National Probation Service.

Case in focus

Delivering court reforms

The NAO first examined HM Courts & Tribunals Service’s (HMCTS) reform programme in 2017-18, highlighting the ambitious scope and timetable. While we recognised HMCTS had responded to early concerns and improved the way it managed the programme, we highlighted that it had already fallen behind schedule and identified several risks associated with delivering large-scale change programmes at pace. We recommended that HMCTS build in more time to engage with affected parties within the justice system.

The report from the Committee of Public Accounts echoed our findings. The Committee was concerned by the scale and speed of the reforms and the ability of stakeholders to engage with and influence the programme. It concluded that it had “little confidence that HMCTS [could] successfully deliver this hugely ambitious programme to bring the court system into the modern age”.

Impact

Following these reports, HMCTS revisited its delivery plans and extended its timetable by a year. In announcing this change it acknowledged the feedback received, including from the Committee of Public Accounts and the NAO.



Case in focus

Clarity over the ownership of transferred freehold properties

The Government Property Agency (the Agency) was launched in April 2018. Our first-year financial audit brought to the Agency's attention potential risks around the control and ownership of certain properties transferred to it by the Cabinet Office. The agreements signed with the Cabinet Office had a number of restrictions on use of the buildings and it was not clear whether this would apply after the end of the lease term. This created uncertainty about whether the Agency could decide what to do with the buildings once the initial lease period ended. It was unclear whether the properties should be recognised as assets in the Agency's accounts or not.

Impact

Our work prompted the Agency to question the adequacy of its risk transfer and control process for properties for which it now has responsibility. We revealed that the agreements did not achieve their intended effect of risk transfer to the Agency and this led to a lack of clarity over who really controlled the properties. The Agency liaised with the Department to redraft agreements to clarify the arrangements. This will enable the Agency to avoid similar issues in its future agreements with other central government bodies.

Case in focus

Value added through Cabinet Office financial audit

In previous end-of-audit management letters to the Cabinet Office, we raised concerns about a number of financial processes and recommended improvements to enhance financial discipline within and outside the finance function. In response to our work, it developed a control environment improvement programme, based around the themes in our management letter.

Impact

The Cabinet Office made progress in addressing our concerns which we confirmed during our 2018-19 audit. We observed significant improvements in the way in which it controlled its asset base, such as more timely checks on its IT inventory to ensure that assets were accurately and completely recorded in its accounts. There is now more active management of debt. This enabled the Department to reduce its provision for bad debts and to improve the quality of the financial data it uses to run its operations. It also enhanced accountability by enabling the Department to provide better quality annual accounts to Parliament on a more timely basis.



Case in focus

Early intervention in the development of the new UK farming policy

By leaving the EU, the UK will also be leaving the EU's Common Agricultural Policy, which provides financial support to farmers in its member states. The Department for Environment, Food & Rural Affairs is therefore developing the UK's own farming policy and associated processes and systems. Our study assessed the Department's progress at an early stage with the aim of assessing the feasibility of the programme given its challenging scope and timescale, and of drawing attention to the key risks in its approach.

Impact

In July 2019, the Department's Permanent Secretary told the Committee of Public Accounts our scrutiny was "incredibly helpful" and that there was "a whole range of learnings" that it had built into how it was going about implementing the new farming policy. The Programme's director general said our report was useful in helping the Department to consider how to develop a new IT system in the time available. As a result, the Department is now focused on ensuring that a basic system is ready by 2021 with a plan to extend its functionality over time.



Case in focus

Improving quality assurance through expert support

In 2016, we investigated the assumptions in the Department for International Development's cost-benefit analysis to support its investment in the St Helena airport. Our work considered the Department's ability, in partnership with the St Helena Government, to realise the benefits from improved access to the island that it expected the airport would provide. Our report on St Helena Airport and the subsequent Committee of Public Accounts evidence session drew attention to the wind shear issues prohibiting commercial flights from landing at the airport.

Impact

This scrutiny intensified the Department's determination to identify accountability for the airport's problems and to resolve the difficulties in landing. It established a panel of aviation experts that worked to find a solution that would allow commercial flights to land at the airport. The Department has also made use of independent expertise more widely to assist it with making several decisions relevant both to the airport project and wider matters relating to St Helena, such as helping the island to market itself as a tourist destination.



Case in focus

Problem debt: Improving debt collection practices in government

Our 2018 report on tackling problem debt highlighted that when people are struggling to repay their debts, good collection practices are beneficial to both the debtor and the creditor. Our report also identified that some creditors in central and local government are behind the retail lending sector in following good practice. Our report also showed that the Cabinet Office's work to improve practices across government has faced constraints.

Impact

Our report helped to raise the status and impetus of the Cabinet Office's work to ensure those people who owe money to government and can pay, do so on time, while providing proportionate support to vulnerable people and those in financial hardship. Our analyses of the effect of problem debt on people and public services, the benefits to creditors of treating struggling debtors well, and the negative effect of inappropriately aggressive debt collection, helped give the Department a stronger mandate to promote better practice. The Department also extended its cross-government debt strategy to incorporate local government and utilise the Digital Economy Act to improve how local councils recover unpaid council tax.

Case in focus

The management of adult diabetes services in the NHS: progress review

In 2012 we examined the management of adult diabetes services in the NHS, and followed up on progress in 2015. We observed that the percentage of newly diagnosed patients who were offered and attended structured education was low at 16% and 4% respectively in 2012. Yet with the appropriate education and support, many people with diabetes can manage their condition effectively. We recommended that NHS England should work with local commissioners to broaden the education offer available, for example by offering e-learning.

Impact

Partly as a result of our recommendations, the percentage of newly diagnosed patients offered structured education increased, from 16% in 2012-13 to 72% in 2017 (the latest year for which data are available). The percentage that attended structured education also increased, from 4% to 12% across the same time period. Recently, the NHS long-term plan committed to reducing the variation in the quality of diabetes care, and specifically supporting newly diagnosed people to manage their own health. The plans consist of expanding provision of structured education and digital self-management support tools, including expanding access to 'HeLP Diabetes', an online self-management tool for those with type 2 diabetes.



Case in focus

Managing the costs of clinical negligence in NHS trusts

Our 2017 report into managing the costs of clinical negligence in NHS trusts recommended that NHS Resolution build its capability to analyse and provide greater insights into the causes of clinical negligence claims. This included gaining a better understanding of what motivates people to make a claim, clarifying how it can best provide the information that trusts need, and apply its resources accordingly. NHS Resolution has an ongoing strategy to support safer services and to resolve concerns and disputes fairly. While this work focused on resolving concerns and disputes NHS Resolution is also continuing to support safer services.

Impact

In response to our report’s recommendations, NHS Resolution sought to improve its understanding of why some people bring a claim against the NHS, while others do not. Through a survey of former claimants it found most were unhappy with the initial response they received. It learnt that patients make a claim to find out what happened, for an apology, and to obtain compensation. NHS Resolution is now working with the Parliamentary and Health Service Ombudsman to develop the complaints standards framework. NHS Resolution also provided trusts with free training and education on the most relevant issues, such as consent and communication skills. Feedback from clinical maternity staff indicated that, after receiving the training, they felt more confident when speaking to parents following a serious incident, and that their conversations were better than those they had before the training. These changes should help build trust between patients and the NHS and allow more patients to find out what happened and receive the support they need more quickly.



Case in focus

HMRC finance improvement

As part of our 2018-19 financial audit, we supported HM Revenue & Customs (HMRC) to improve in the quality and efficiency of its accounts production process. These improvements included: increasing the level of automation involved in producing the HMRC Trust Statement, which sets out the revenues, expenditures, assets and liabilities related to taxes and duties in the financial year; and improving the quality assurance processes in place for the significant tax and other estimates included in the accounts. In both cases we provided real-time audit assurance and feedback while the new processes were being implemented, which helped the HMRC finance team understand and manage the related risks.

Impact

Our work contributed to a number of improvements in HMRC’s accounts production processes. For example, HMRC now focuses more on the quality of the supporting data and related governance arrangements. It has improved the quality and timeliness of communication between business functions, relevant to the accounts production process. In addition, as a result of the increased automation in production of the Trust Statement, HMRC identified and addressed some recurring errors from previous years, leading to improvements in the quality and precision of HMRC’s published financial information.



Highlights

More accessible
independent insight



77%

of our audited bodies say our teams successfully draw on the NAO's previous and cross-government work



We had 140% more click-throughs to our website from social media this year



We publish interactive data visualisations so users can access data relevant to them

Insight

We have a unique system-wide perspective that allows us to look across departmental boundaries to identify cross-government issues and share learning between departments. Fifty-seven per cent of our audited bodies said we share insight from other public bodies and how that affects their organisation (61% in 2018), and 77% said we successfully drew on our previous cross-government work (78% in 2018).



In 2019-20, we produced guides for audit committees on pertinent topics such as cloud services and brought together audit findings on cross-government topics including the challenges of using data across government and departments' use of consultants to support preparations for EU Exit. We also published a framework for how we review major programmes.

EU Exit

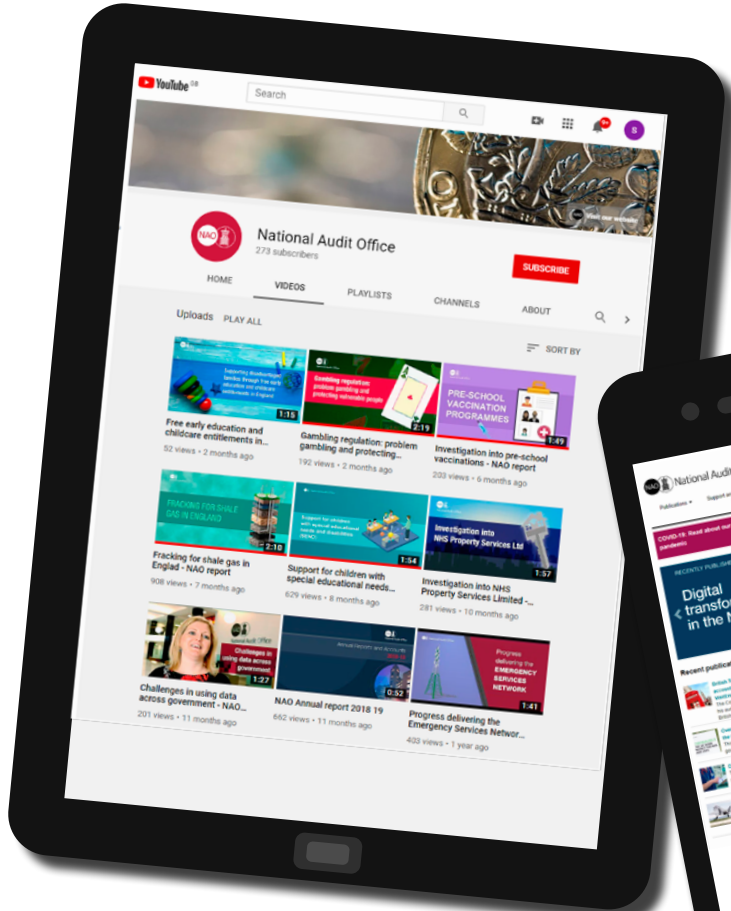
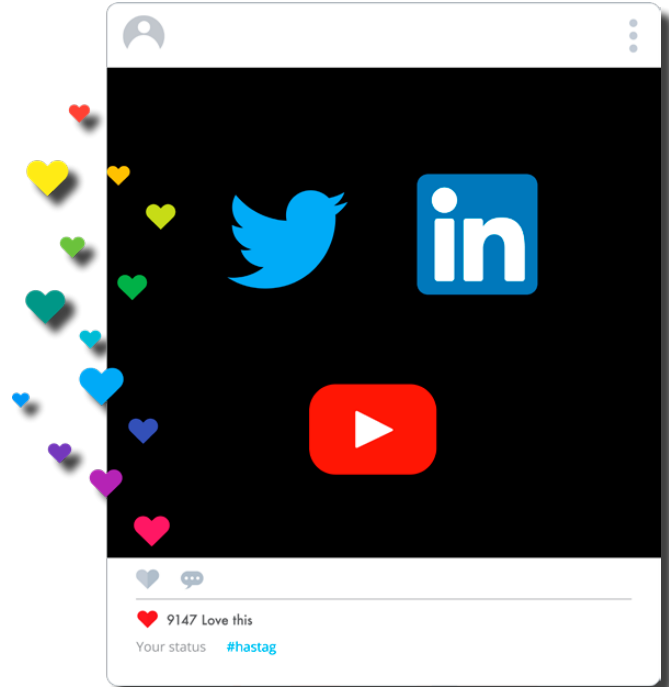
The process of preparing for the UK's exit from the EU on 31 January 2020 presented government departments with one of the biggest and most complex tasks they faced in decades. We became an authoritative and independent source of information on the scale of the task and the progress made across government.

Since the referendum of June 2016, we published 28 major outputs on EU Exit including a series of reports charting the progress of preparations made at the UK border and on specific aspects of these preparations, such as the procurement of additional ferry capacity. Most recently, in March 2020, we published a report setting out what departments spent on their activities preparing for EU Exit up to 31 January 2020.

Making our work accessible and interactive

We want people to know about and use our work to improve public services. People are increasingly using digital and social media to communicate and absorb information, and we must move with the times. We engaged more with our 140,000 followers on social media, seeing an increase of 140% in click-throughs to our website from LinkedIn and Twitter compared to 2018. We used videos and GIFs to promote important messages from our reports. We use our digital channels to promote our job opportunities, events we have been involved in and support our wider campaigns, such as World Mental Health Day. There were more than 260,000 downloads of our reports and 780,000 visits to the website.





Highlights

| Delivering high
performance



Anna



Keval



Anne



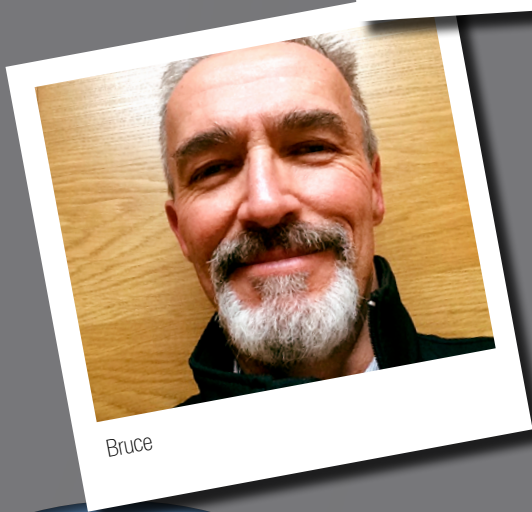
Ali



Benjamin



Kyra



Bruce



Jakub



80%

of our staff feel proud to say they work at the NAO



87.8%

of our graduates passed the Professional Stage examinations at the first attempt



We use 20% less resources each year than in 2010-11

Supporting our people

We conduct an annual survey of our people to help us understand how they feel about working at the NAO. In 2019, 81% of NAO staff completed the survey, a 3% increase on 2018.

There were several positives from the survey. For example, the overall engagement score of 69% was consistent with the prior year (69%) and 14% higher than the civil service average. Also, our people are highly committed to our purpose and engaged in the work they do: 80% feel proud to say they work at the NAO (82% in 2018), and 87% are interested in the work they do here (87% in 2018). In addition, our people value the flexible workplace we have created and feel they get recognition from their manager for good work.

However, our survey highlighted areas where we need to do more. For example, our people want to see:

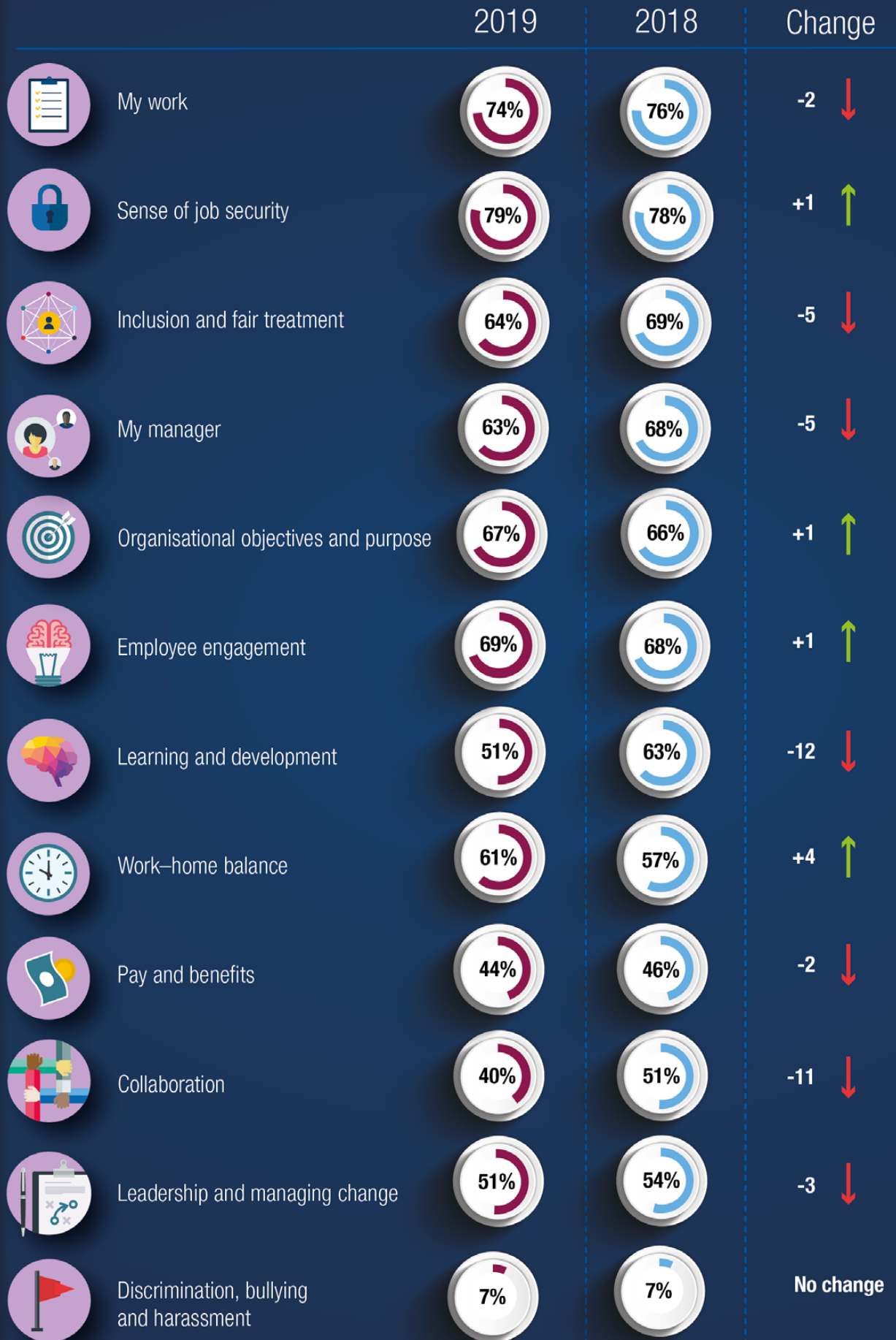
- improvements in the quality of our support for personal and career development (only 33% of staff surveyed agreed the NAO offers suitable opportunities for career development);
- better management of workload (only 61% achieved a good home–work balance);
- enhanced change management (just 37% thought change is managed well); and
- more accessible and less hierarchical leadership (only 54% of staff thought the Executive Team are sufficiently visible).

These issues were also raised during the internal consultation and engagement phase of our strategic review. These results confirmed the need for systemic improvement, and we are taking that very seriously. We are addressing these issues directly through our new, five-year organisational development plan. We want the NAO to be a fantastic place to work and one which supports our people to develop their careers and realise their potential. Our plan will aim to deliver a step-change in the quality of people management and development.

For instance, we will introduce new line management arrangements with fewer, better-supported line managers and support better career development by refocusing our learning and development and introducing personal development plans for all our people.



Overall People Survey results



Note

1 The survey was conducted between 4 and 18 December 2019 by Any-3 Ltd. All National Audit Office staff were asked to take part with an 81% completion rate.

Source: National Audit Office

Developing our people

We recruit talented people through our successful graduate and school leaver programmes, with 66 people recruited to our graduate scheme and 12 to our school leaver scheme in 2019.

To attract a wide range of strong candidates, we attended career events with universities and diversity networks. We hosted our own insight days, had brand ambassadors promoting our opportunities on campuses around the country and utilised our digital channels.

Since we moved to home-working as a result of COVID-19, we have explored opportunities to deliver our trainee assessment centres through a virtual platform and have successfully conducted a number of interviews for other roles remotely.

We also recruit experienced audit professionals and other specialists, including economists, statisticians, learning and development, and digital experts to ensure we keep pace with industry developments.

Last year, 87.8% of our graduates passed the Professional Stage examinations for the Association of Chartered Accountants (ACA) qualification at the first attempt (above the national average of 83.5%) and 88.3% passed the Advanced Stage examinations at the first attempt (above the national average of 84.9%).



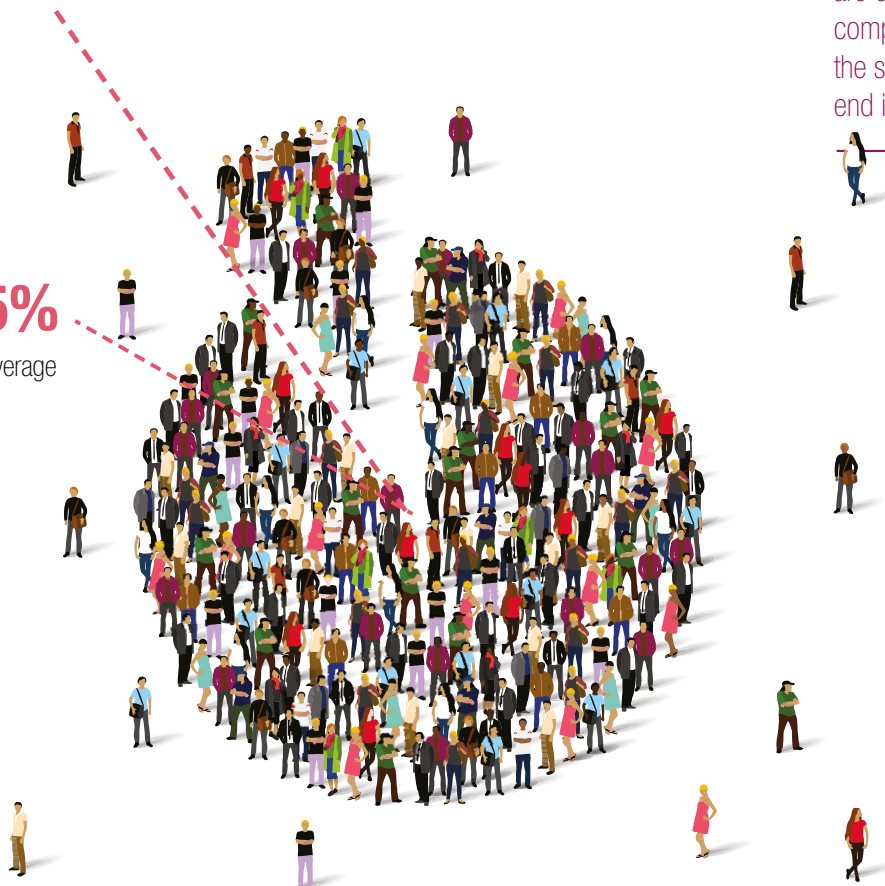
Training at the NAO, Natasha Pein, Auditor

After graduating, I wanted to find a job that would have a real-world impact while also allowing me to study towards a professional qualification and the NAO graduate scheme has ticked both those boxes. Since joining in September 2017, I have gained experience working on the financial audits of a variety of different clients in the education area. I have also had the opportunity to work on value-for-money reports and investigations, which have been particular highlights for me.

While at college, the NAO encourages trainees to focus solely on their studies, which is a big advantage when studying towards the ACA. The exams are challenging but, having now completed all 15, I can say that the sense of achievement at the end is worth it!

87.8% of our graduates passed the Professional Stage examinations at the first attempt

83.5%
national average
pass rate



Learning and development

We introduced a new approach for learning and development. This is designed to develop a modern, self-directed workforce who are purposeful, curious, adaptable and empowered to take ownership of their own learning and development.

We continue to develop our approach to professional training, tailoring it to different learning styles. We enhanced the induction process for our graduates and analysts, so our new joiners get the information they need in a range of different formats.

We created an online portal which tracks continuing professional development, provides valuable data analytics and gives our people better access to learning and development opportunities, wherever they are.

In addition to professional audit training, we implemented:

- a modular people management skills programme with coaching to improve team performance by giving our people managers the skills they need to motivate, develop and lead others. Two pilots were run in the autumn and the full programme launched in January 2020;
- an innovative 30-day programme to bring to life the techniques behind effective performance conversations. It prepared managers and appraisees for the annual performance appraisal round in December 2019, without requiring attendance at traditional classroom-based training; and
- a coaching skills training programme to develop an internal faculty of coaches to support our people in their professional development.



I Diversity and inclusion

Our new organisational development plan identifies the need for faster progress in addressing the under-representation of women and BAME (black, Asian and minority ethnic) staff at senior levels, and a new approach to inclusion to ensure that all our people feel able to maximise their potential at the NAO.

During 2019-20 we focused on the three priorities which are set out in our three-year Diversity and Inclusion (D&I) strategy. These are:

- gender;
- race; and
- disability.

The strategy is built around two pillars:

- building a diverse talent pipeline; and
- creating an inclusive work environment.

In support of the first of these pillars we focused attention on our trainee and analyst recruitment campaigns. We made several changes to our marketing and selection processes to encourage increased numbers of applicants from our target groups and improve the proportion progressing through our selection processes to final offer. Although based on only one year's data these developments have had mixed results. Forty-two per cent of our 2019 graduate intake was female, below our target of 50%, whereas we secured an intake of 66% females to our analyst stream.

Our focus on using campus ambassadors and digital marketing channels helped increase the proportion of BAME candidates applying to our graduate scheme to its highest level of 48%. However, this success did not translate into a similar proportion progressing through the assessment stages to final offer, with only 23% of offers being made to BAME applicants. We have seen a similar pattern in our analyst campaign. To address this, we have commissioned further analysis of the impact of each element of the assessment centre process to identify those components which adversely affect BAME candidates. For the 2020 campaign we have also actively managed attendance at each assessment centre to ensure the profile of candidates and assessors is diverse.



While our current strategy focuses on three priority groups, we actively monitor our performance in relation to other characteristics, for example opening employment opportunities to those from socially disadvantaged backgrounds. Through our membership of Access Accountancy, we take part in the comprehensive Bridge Group analysis of graduate recruitment data across the accountancy firms. Our 2019 campaign data showed improvements in both the attraction and success rates of candidates from lower socio-economic groups at all stages of our assessment process.

Our focus on ensuring the improved progression of our people with protected characteristics to more senior positions in the organisation has again had mixed results. The proportion of women at all grade levels in the organisation has continued to improve with 50% of qualified grades and 48% of managers being female. However, despite improving gender balance in our senior Executive Team, we have made limited progress in increasing the proportion of women employed at director level. Currently only 26% of our directors are women, a proportion which has remained relatively static for a number of years and one which we are committed to increasing over coming years. To achieve this we have undertaken detailed modelling of our director grade and set a realistic target of increasing the proportion of female directors to 40% by 2023 and achieving gender parity by 2027. Specific actions include providing tailored career support, providing greater flexibility in the design of work portfolios and actively focusing on diverse outcomes in our promotion and recruitment processes.

We will also be focusing on improving the retention of BAME staff and embracing their potential to reach more senior grades. Our BAME representation at trainee level is 28.5% but this falls to 10% at manager level. Our figures show that the representation of BAME staff reduces in more senior grades and that they are more likely to seek to develop their career with other organisations. This is a significant lost opportunity and one which we are addressing as a priority. We are setting more ambitious targets and metrics to review progress. We will ensure BAME staff have equal access to challenging and high-profile work opportunities and identify more role models to illustrate that the NAO is an organisation where BAME people can develop their career.

Responses to our annual People Survey also confirm that, despite relatively high levels of representation, we need to take further action to improve the career experience of disabled staff.

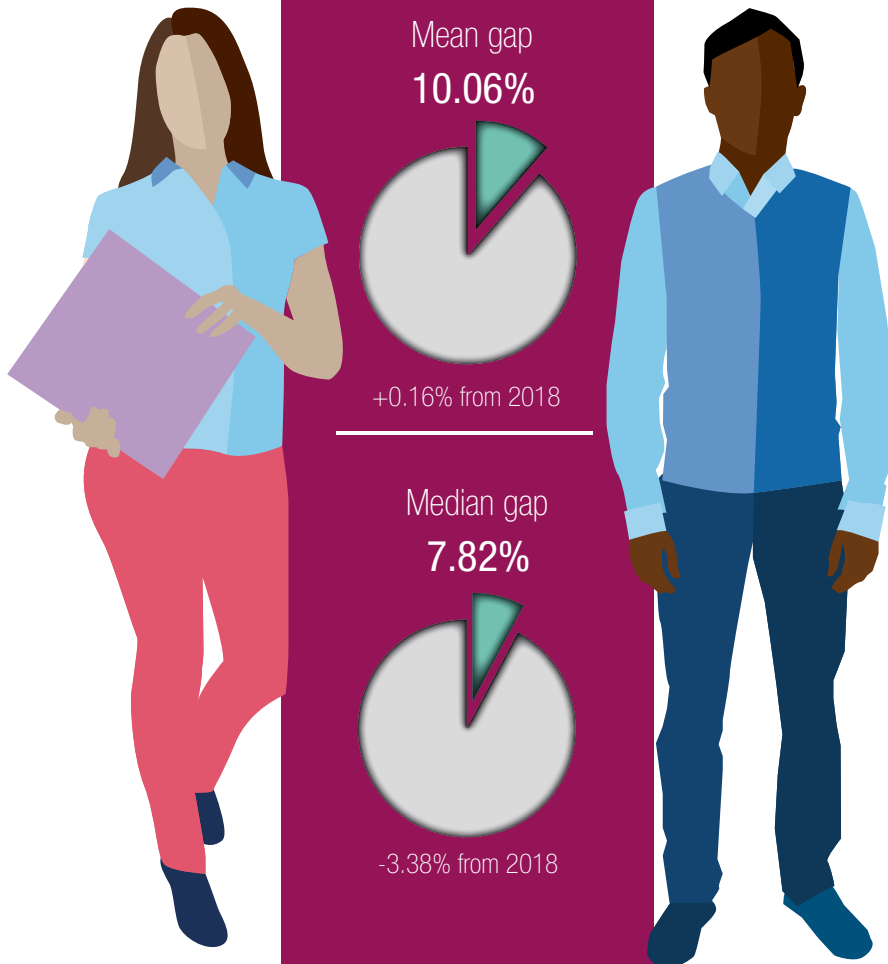
In support of our commitment to creating a more inclusive working environment for all our people, we took several actions recently, including:

- building on the success of our Dignity at Work leads and our Mental Health First Aiders, a particularly important source of support during the COVID-19 outbreak;
- launching our first diversity mentoring programme in October 2019, involving all members of the Executive Team and other senior colleagues; and
- creating a detailed D&I dashboard, which uses real-time data to highlight aspects of our people processes that may suggest unequal treatment across protected groups.

In March 2020, we published our third gender pay gap report, based on pay data as at 31 March 2019. This recorded a mean pay gap of 10.06% (a marginal increase of 0.16% on the 2018 figure) and a median pay gap of 7.82% (a reduction of 3.38% on the 2018 figure). While we have made progress in securing a better gender balance across grades up to manager level and on the Executive Team, increasing our female representation at director level needs to be addressed to see a substantial fall in our mean gender pay gap.

We completed initial assessments of our BAME and disability pay gaps and will be carrying out and publishing further detailed analysis in 2020-21.

Gender pay gap



| Sickness absence

We are committed to the physical and mental health of our people and have a comprehensive sickness management policy. We aim to keep our sickness absence rates comparable with the best of both public and private sector benchmarks and do this by regularly reviewing our occupational health policies. Data published in March 2020 show average working days lost across all industries in the UK was 5.8 days, with the public sector being higher at 8 days. Our own sickness absence rates have increased in 2019-20 to an average of 6.6 days per employee from 5.5 days in 2018-19.

While our sickness absence rates are lower than the public sector benchmark, they are above the average for all industries and higher than previous years when we consistently achieved levels below five days per person. To address this rise, we have implemented a new Human Resources Business Partner structure to provide greater support to line managers and employees to manage health and well-being effectively. We continue to review the causes of sickness absence, including the impact of stress-related conditions, and report these to the Health and Safety Committee and the Executive Team, so that we can take appropriate actions to continue to promote employee well-being.

We monitored sickness absence closely during the outbreak of COVID-19. The initial data suggest COVID-19 increased our sickness absence rates marginally. We implemented the official government advice quickly to enable our people to work from home to minimise the spread of infection with the result that relatively few colleagues recorded sickness absence due to COVID-19 symptoms. We have also provided additional support to promote employee well-being during this time. The benchmarking data quoted were compiled before the COVID-19 outbreak, so do not reflect the impact of the pandemic.

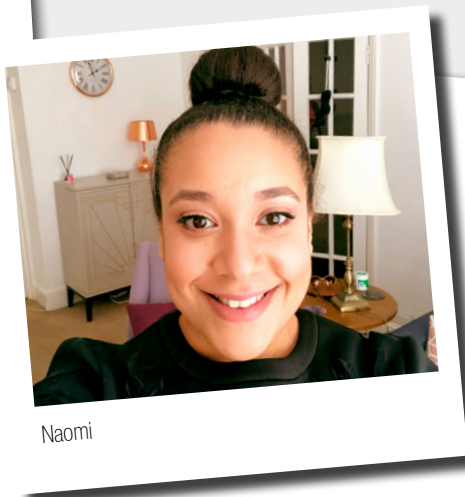
Technology and transformation

In 2019-20 we invested in the digitalisation of our audits, the development of our audit methodology and the learning and development activities needed to support our people in using new audit techniques. We began working towards introducing new audit software and expanding our data analytics approaches across our financial audit and VfM and wider assurance work. Modern audit software allows for: better automating of audit methodologies with a greater variety of built-in controls; and integration of data analytics methods into standard ways of auditing. This technology enhances the quality and efficiency of our audit work and creates more insights for the bodies we audit and Parliament.

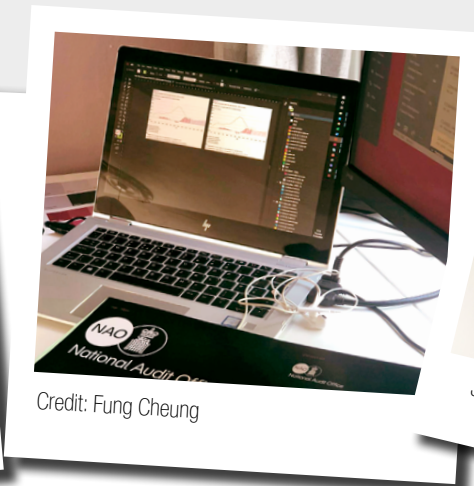


Our technology and our COVID-19 response

We changed how we manage and handle data from the bodies we audit. We moved communication and information management systems into secure cloud service provision and issued new, more secure laptops and mobile phones. This meant we were able to smoothly transition to home-working when the COVID-19 outbreak occurred. In the next phase of our cloud strategy we will move remaining content and data stores into cloud storage and continually strengthen our defence against cyberattacks.



Naomi



Credit: Fung Cheung



James



Audit Information Management System (AIMS), Franki Hackett, Data Analytics Audit Manager

This financial year, my team built AIMS: a system which stores financial audit data in the cloud. It took a cross-functional team made up of staff from across different parts of the NAO to build this secure platform, which uses innovative technology to automate data cleaning. AIMS will future-proof our ability to analyse and use our client data.



DCMS consolidation, Jonathan Brown, Data Analytics Audit Principal

The Department for Digital, Culture, Media & Sport's (DCMS's) group accounts consolidate more than 40 UK museums, galleries, lottery bodies and other government-run organisations. Manually pulling the data of these bodies together to audit the consolidation used to take three weeks. During my training for the Associate Chartered Accountant qualification I joined the data analytics team on a secondment to build my coding skills, and after returning to front-line audit I built an application which re-performed that consolidation automatically. This gives a big quality and efficiency boost to the audit and has given me the skills I needed to move into data analytics full-time. I am now Quality Assurance Lead on financial audit data analytics products for the NAO.

Technology is also reshaping relationships between people and public services. Our work has stressed the importance of protecting government information. It has highlighted both opportunities for the public sector to use data more effectively to improve outcomes and services, and areas where government may need to be more cautious. Our work on [English language tests](#) and the [challenges of using data across government](#) points to some of the limitations in using data alone to inform government decisions.^{5,6} We noted the challenges involved in reshaping processes and behaviours to support service improvements and efficiencies, as in the reports on [transformation of courts and tribunals](#) and the delivery of the [Emergency Services Network](#).^{7,8}

5 Available at: www.nao.org.uk/report/investigation-into-the-response-to-cheating-in-english-language-tests/

6 Available at: www.nao.org.uk/report/challenges-in-using-data-across-government/

7 Available at: www.nao.org.uk/report/transforming-courts-and-tribunals-a-progress-update/

8 Available at: www.nao.org.uk/report/progress-delivering-the-emergency-services-network/

Financial performance

We pride ourselves on being an exemplar organisation and demonstrating high standards of financial management. We are committed to being cost-effective and efficient with the resources provided to us by Parliament.

Since 2010 we have taken a greater role in local government, more Companies Act audits, including the BBC Group, and assurance work on the UK's departure from the EU. Despite this growth in our portfolio we used 20% less resources for the year than our 2010 baseline, after adjusting for the effect of inflation over the same period.

We achieved this through an upgrade and integration of back-office and project management systems and the transfer of many digital operations into the cloud. We were able to reduce headcount, reorganise the way we work and earn extra income from renting out surplus office space.

Our corporate services are proportionate to our need. During the year we maintained the ratio of expenditure on front-line activities to expenditure on corporate services activities to at least 80%, which is one of our key performance metrics.

Figure 6
Financial performance 2019-20

	Budget £m	Outturn £m	Variance £m	Variance %
Audit and assurance work	92.3	91.3	1.0	1.1
Less: Income	21.3	23.0	1.7	8.0
Net resource expenditure	71.0	68.3	2.7	3.8
Capital expenditure	1.0	1.0	–	–
Cash expenditure	69.6	67.0	2.6	3.7

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 the control of the National Audit Office.
- 2 Figures have been rounded.

Source: National Audit Office

Audit and assurance

Our audit and assurance work, including financial audits, value-for-money studies, investigations, international work and direct support to Parliament, has cost £91.3 million in 2019-20 compared with a budget of £92.3 million. The variance of £1 million is 1.1% of this budget.

Around 70% of our total expenditure is on staff salaries and staff-related costs. When we agreed the budget with Parliament, we acknowledged that we were working in a challenging and fast-moving external environment and, at the time, the outcome of negotiations with the EU was unclear. Accordingly, we included additional budgetary provision at the outset so that we could respond quickly to Parliamentary requests, scale up our operations quickly and buy in skills and experience at short notice. As the year progressed, we determined we did not need to draw down on this extra budget, and this comprises some £0.6 million of the variance.

The remaining 30% of our cost base comprises non-staff costs including the use of other audit offices and firms to help us with our work, travel to audit locations, training and development of our people, provision of IT equipment and support and the costs of running our London and Newcastle offices.

The impact of the global COVID-19 outbreak affected our operations in the last six weeks of the financial year. We cancelled planned travel to client sites, put on hold training courses and deferred several IT projects. This unplanned disruption has contributed to the remaining variance of £0.4 million.

Income

Parliament directly funds most of our UK financial audit work, including the major government departments. However, there are bodies who pay directly for their audit, usually arm's-length bodies or companies (including Network Rail and the BBC). The NAO also earns income from services provided to international and overseas organisations, secondments to other organisations and the rental of surplus office space.

We earned £23 million in 2019-20 compared with a budget of £21.3 million. The variance of £1.7 million is around 8% more than our income budget. Audit fees are determined by the hourly rates charged for the time we spend on audits and the size of our fee-earning portfolio.

Our audit fees are set to cover the full costs of our audit and assurance work, with the principles laid out in a scheme of fees approved by Parliament. Towards the beginning of the financial year we were informed of an increase in employer contribution rates into the Civil Service Pension Schemes, which we were able to accurately quantify as £2.7 million and include in our budgeted expenditure. For those audit bodies who pay a fee for their audit, we sought to recover the relevant proportion of these costs. We did not include this in our income budget because these increases are subject to discussion and agreement with relevant audit committees of the bodies affected. These took effect from September 2019 and increased overall audit fees for the financial year by £0.5 million.

There were unplanned changes to our fee-paying work in the year, including:

- updates to audit guidelines under which we provide assurance to the European Commission on the agricultural funding received in the UK; a change which increased the number of farm inspections and volume of sampling work we carry out, but for which we charge a fee. Our fees increased by £0.6 million more than planned. Because the nature of the work was linked to the UK's arrangements with the EU it was difficult to anticipate this;
- one-off assignments which arose in the year, such as where we were asked to carry out an additional audit engagement to provide assurance to support the sale of financial service companies as the government planned to return these to the private sector. This additional audit engagement alone comprised some £0.3 million of extra income; and
- other examples of where the expansion of our audit work grew more quickly than we planned, which contributed to the remaining variance of £0.3 million.

This additional income earned has allowed us to reduce the running costs of the NAO which are met directly by Parliament. Our forward budgets have been adjusted to reflect these higher income levels.

Capital expenditure

Each year we require a capital budget to purchase assets whose use extends beyond one year. Their cost is reflected over their useful life through a depreciation charge. Our capital budgets are based on detailed capital asset plans and cover a range of projects, from standard replacement cycle of assets to building enhancements. These budgets cover the purchase of IT assets such as laptops, mobile phones and video conferencing equipment.

We budgeted for £1 million of capital expenditure and spent this in full.

Cash expenditure

We budgeted a net cash requirement of £69.6 million but only drew down cash funds from Parliament of £67 million. The variance is partly the result of the reduced cost of our audit and assurance work and the extra income we earned, but also differences in timings of payments to suppliers and receipts from audit bodies with whom we charge an audit fee.

Resources for future years

The Public Accounts Commission approved our budget for the year ending 31 March 2021. After allowing for £23.1 million of income, our approved funding from Parliament is £75.9 million to cover our audit and other assurance work, and a £1.5 million budget for capital expenditure. These budgets include provision for:

- investment in our digital audit of £2 million, which will allow us to purchase a new IT platform for our audits, help us transform our audit methodology and provide the learning and development activities needed to support our people in adapting to new audit techniques;
- investment in our VfM expertise of £0.7 million, which will allow us to recruit and buy in more specialist expertise in areas where we have expertise and capability gaps, such as in environmental auditing and digital change;
- investment in our knowledge systems of £0.3 million, which will allow us to put in place better knowledge management processes and systems;
- growth in our statutory audit and assurance responsibilities, including the corresponding increase in audit fees that make sure we recover the full costs of our audit work where it is appropriate to do so; and
- annual increases to reflect our proposed pay award of 2% and inflation pressures on non-staff costs.

This budget was prepared and presented to the Commission before the full scale of the service disruption caused by the outbreak of COVID-19 was known. We recognise that this is likely to have consequences for many of our resources, such as travel and staff retention assumptions, and the final composition of our budget will change.

If necessary, we will hold another evidence session later in the year with the Commission to provide an update on our progress against plans. Where there are any modifications required to our budget, these could be passed into legislation through the supplementary estimates process.

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.

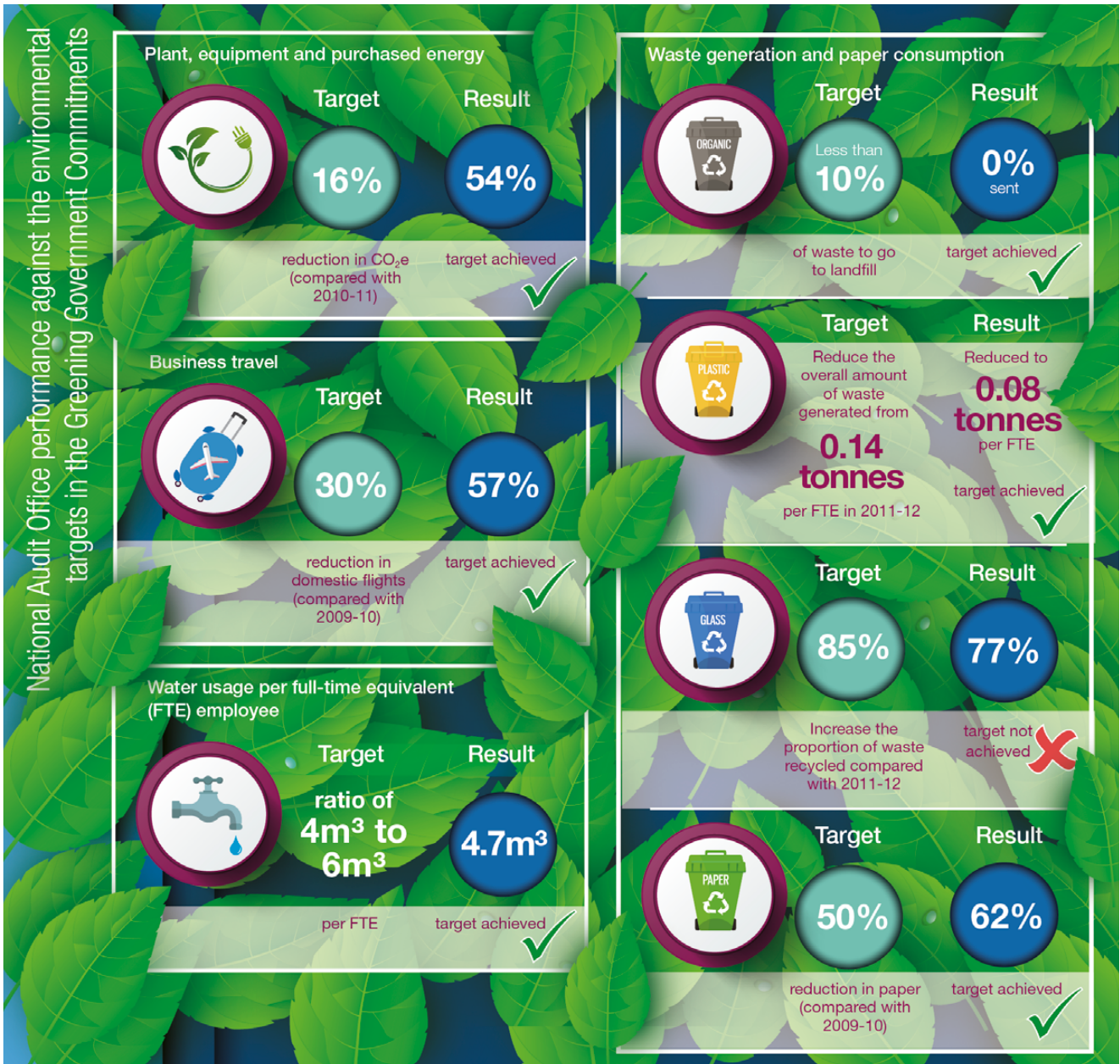
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
	Outturn (£m)	Outturn (£m)	Outturn (£m)	Outturn (£m)	Outturn (£m)	Estimate (£m)	Proposed (£m)	Proposed (£m)
Audit and assurance work	83.2	83.2	83.9	86.7	91.3	99.0	101.6	102.8
Less: Income	19.3	19.3	19.1	21.0	23.0	23.1	23.5	23.8
Net resources	63.9	63.9	64.8	65.7	68.3	75.9	78.1	79.0
Capital expenditure	1.1	0.9	0.8	1.3	1.0	1.5	1.3	2.1

Source: National Audit Office

Our impact on the environment

It is our policy to manage our organisation in the most environmentally responsible manner and 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 [website](#) and summarised in the figure below.⁹ We assess the impact on the environment of our activities and use an ISO 14001:2015 certified environmental management system to provide a framework for setting and reviewing targets to support continuous improvement.

In line with the [Greening Government Commitments](#),¹⁰ we implemented our environmental targets in August 2017. We are pleased to report that we have achieved all but one of these targets by the deadline of March 2020.



⁹ Available at: www.nao.org.uk/about-us/our-work/governance-of-the-nao/transparency/
¹⁰ Available at: www.gov.uk/government/collections/greening-government-commitments

Explanation of variances

We have achieved a 54% reduction in greenhouse gas emissions related to plant, equipment and purchased energy. This result reflects the energy reduction programme implemented over the past two years and the change in the electricity factor for calculating the UK's CO₂ emissions.

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

In the past our main risks to achieving our targets were 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 for the past two years.

We recognise that an 85% recycling target is difficult to achieve but have identified that more can be achieved through engagement and behaviour change and will be focusing on this area in the coming year to improve our current performance.

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.

A lot of our procurement is through government frameworks such as the Crown Commercial Service, Eastern Shires Purchasing Organisation, and many others. All suppliers on these frameworks meet rigorous selection criteria which includes sustainability checks. If a suitable framework is not available, we run a competitive tender via Contracts Finder or OJEU (Official Journal of the European Union) where all our suppliers are tested to ensure they adhere to current sustainable procurement legislation.

Biodiversity

We have a small landscaped area at our London office to enhance the local ecology, increase native species within the local area, provide additional green corridors in the city of London and improve the appearance of our surroundings. We have a biodiversity management plan in place to maintain and improve its ecological value.

Holding the government to account on environmental matters

Environmental and sustainability issues will be a key part of our new strategy. We play an important role in holding government to account for its performance against its climate change and wider environmental objectives, including 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.¹¹ And in June 2019, the UK increased its ambition on climate change, setting a 'net zero' climate change target in law, to bring greenhouse gas emissions to net zero by 2050. Meeting these ambitions will require significant and coordinated action across a range of different sectors of the economy, including land management, energy, transport and housing.

In 2019-20, we published three reports that covered environmental issues:

- [Fracking for shale gas in England](#)¹² set out the facts about the government's plans to support shale gas development in England to help Parliament consider whether taxpayers' interests are being protected effectively. In October 2019, government announced a moratorium on all fracking activity in England;
- [Electricity networks](#)¹³ examined how effectively Ofgem has used electricity network price controls to protect consumers and achieve government's environmental goals; and
- [Early review of the new farming programme](#),¹⁴ the main element of which is a scheme intended to encourage better environmental outcomes by paying farmers and land managers for public goods such as improved air, water and soil quality, and increased biodiversity.

We also carried out a review of how the [Ministry of Defence manages its environmental impact](#),¹⁵ which we published in May 2020. As a national audit body, the NAO's audit work also contributes directly to the UK achieving Sustainable Development Goal 16: Peace, Justice and Strong Institutions.

Gareth Davies
Comptroller and Auditor General
15 June 2020

11 Available at: www.gov.uk/government/publications/25-year-environment-plan

12 Available at: www.nao.org.uk/report/shale-gas-fracking-hydraulic-fracturing/

13 Available at: www.nao.org.uk/report/electricity-networks/

14 Available at: www.nao.org.uk/report/early-review-of-the-new-farming-programme/

15 Available at: www.nao.org.uk/report/environmental-sustainability-overview/

02

Accountability Report

Directors' Report

The directors of the National Audit Office (NAO) are the Executive Team and the non-executive Board members, whose details are set out in the [Governance Statement](#).¹⁶

Register of interests

The Executive Team and Board members must 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 Executive Team or Board 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, 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 and staff report, and in notes 1.5 and 1.6 of the financial statements.

Personal data incidents

No protected personal data-related incidents were reportable to the Information Commissioner's Office in 2019-20. 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.

¹⁶ On page 71.

Auditor of the NAO

The Public Accounts Commission appointed Crowe U.K. LLP as our external auditor. It undertakes a value-for-money study of the NAO annually, 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. Disclosures on employment and training and people engagement are in the 'Delivering high performance' section, which begins on page 50. Additional information is included in the remuneration report on page 94.

The COVID-19 crisis has given rise to a period of significant uncertainty with major adverse impacts affecting global stock markets, future economic growth forecasts, and business and consumer confidence. These events pertain after the reporting date. They affect both the NAO's operations and those of the bodies it audits. Despite necessary changes in ways of working, the NAO continues to carry out its objectives successfully. Other future developments affecting our business are disclosed in the performance report under 'Financial performance' on page 63.

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.

In preparing these resource accounts, I, as the Comptroller and Auditor General (C&AG), adopted the Government Financial Reporting Manual (FReM) issued by HM Treasury, and have:

- 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 FReM, have been followed and disclosed, and explained any material departures in the resource accounts; and
- prepared the resource accounts on a going concern basis.

The Public Accounts Commission has appointed me, 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.

As the Accounting Officer, I have taken all the steps I ought to have taken to make myself aware of any relevant audit information and to establish that the NAO's auditors are aware of that information. So far as I am aware, there is no relevant audit information of which the auditors are unaware.

I confirm that this Annual Report and Accounts as a whole is fair, balanced and understandable. I take personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

| 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 2012.¹⁷ Schedule 2, 24(1) of the Act requires the NAO to prepare resource accounts.

¹⁷ Available at: www.legislation.gov.uk/ukpga/2011/4/enacted/data.pdf

The NAO Board and Executive Team

● Non-executive director ● Executive director ● Board member



Chair of the Board

Lord (Michael) Bichard KCB

Michael Bichard was appointed as chair of the NAO in January 2015 following confirmation by Parliament and HM The Queen. His first term ended in January 2018 when he was reappointed as chair for a final three-year term of office.

He has worked at senior levels in local government and was the chief executive at both Brent and Gloucestershire. He moved to central government 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, and chaired an inquiry into the Soham murders in 2004. Michael was also chair of the Design Council 2008-2013 and chair of the Social Care Institute for Excellence 2011-2017.

Michael is currently a non-executive director of The Key (an education support company).

He received a knighthood in 1999 and became a cross-bench member of the House of Lords in 2010.



Comptroller and Auditor General

Gareth Davies

Gareth Davies was appointed Comptroller and Auditor General on 1 June 2019, 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.

Before joining the NAO, he was a partner and UK head of public services for Mazars, the international audit and advisory firm. He joined Mazars in 2012 to lead its UK public services practice which is now an established provider of audit and assurance services to local authorities, NHS organisations, government agencies, housing associations and educational institutions.

Prior to joining Mazars, Gareth was managing director, audit practice at the Audit Commission. In his 25 years at the Audit Commission he gained wide experience of financial audit, value-for-money studies and performance assessments.

Gareth is a Fellow of the Chartered Institute of Public Finance and Accountancy and a member of the Institute of Chartered Accountants in England and Wales.



Chair of the Audit Committee

Janet Eilbeck

Janet Eilbeck was appointed by the Public Accounts Commission as a non-executive member of the NAO Board in October 2016 and was re-appointed to the role in October 2019 for a final three-year term. She has chaired the NAO's Audit Committee since October 2016.

Janet is a chartered accountant with more than 40 years' experience. She was an assurance partner at PricewaterhouseCoopers (PwC) until 2011, specialising in government and the broader public sector, including wide experience of external and internal audit, financial accounting advice and risk management. Janet also has an expertise in pensions. She chaired PwC's two legacy staff pension schemes for nine years until December 2019 and following her retirement from the firm she became the first chair of the Internal Audit Standards Advisory Board (IASAB), and the independent financial expert for the Department for Education, until December 2016.



Ray Shostak CBE

Ray Shostak was appointed by the Public Accounts Commission as a non-executive member of the Board in January 2015 and was re-appointed to the role in January 2018 for a final three-year term. He chaired the NAO's Remuneration and Nominations Committee until January 2018.

Ray has 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 member of the Public Policy Committee of the British Academy and is an Honorary Norham Fellow at Oxford University.



Robert Sykes OBE

Robert Sykes was appointed by the Public Accounts Commission as a non-executive member of the Board in January 2015 and was re-appointed to the role in January 2018 for a final three-year term. He is the NAO's senior independent director.

Rob 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.



Chair of the RNC

Dame Clare Tickell

Clare Tickell was appointed by the Public Accounts Commission as a non-executive member of the NAO Board in January 2018 and is the chair of the NAO's Remuneration and Nominations Committee (RNC).

She has extensive experience at board level, having led a variety of organisations across the charitable and public housing sectors. Clare was appointed as independent director of the John Lewis Partnership in October 2019. Prior to this, 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.

Until February 2020 Clare was the chair of the Early Intervention Foundation. 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.

She received a Damehood in 2010 for services to young people.

● Non-executive director ● Executive director ● Board member



Abdool Kara

Abdool Kara was appointed to the Executive Team as an executive director with strategic oversight of NAO work relating to local service delivery in February 2017. He was also 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

Daniel Lambauer was appointed to the Executive Team in April 2017 as executive director with responsibility for the NAO's strategy and operations. He was also jointly responsible for the leadership of the NAO's wider assurance workstream.

Daniel 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 Executive Team he led the development of the NAO's value-for-money workstream.

Prior to joining the NAO, Daniel worked in a range of sectors, including as university lecturer at Oxford University, management consultant and performance measurement specialist in the civil service.



Elaine Lewis

Elaine Lewis joined the Executive Team in October 2019 and was jointly responsible for leadership of the NAO's financial audit workstream.

Elaine is a chartered accountant and she has had experience across a range of portfolios throughout her NAO career, including defence, international, and culture, media and sport. Most recently she led the NAO's high-profile audit of the UK's financial settlement agreed with the European Union ahead of the UK's departure.

As a director, she was responsible for our financial audit of HM Treasury and the Department for Education. Elaine is jointly responsible for the leadership of the NAO's financial audit workstream.



Kate Mathers

Kate Mathers joined the NAO in 2000 and joined the Executive Team in April 2017 as executive director jointly responsible for leadership of the NAO’s financial audit workstream.

Before her appointment to the Executive 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

Rebecca Sheeran has worked at the NAO since 2004 and joined the Executive Team in April 2017 as an executive director 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 Executive 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 Executive 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.



Stephen Smith

Stephen Smith joined the NAO in August 2015 as an executive director. Before that, he had more than 20 years’ experience as a partner with KPMG, where he led several initiatives for the firm, nationally and internationally.

Stephen was 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.

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 retired in April 2020, after nearly five years at the NAO. We thank him for his service.

● Non-executive director ● Executive director ● Board member



John Thorpe

John Thorpe joined the Executive Team in January 2014. He had experience across a range of portfolios throughout his NAO career, including employment, agriculture and international work.

As a director, he was responsible for our financial audit of HM Treasury and HM Revenue & Customs. John currently shared the responsibility for the leadership of the NAO's financial audit workstream and international work.

John retired in October 2019 after joining the NAO as a trainee. We thank him for his service.



Max Tse

Max Tse joined the NAO in 2011, joining the Executive Team in 2017. For five years, he led the NAO's value-for-money audit of the Department for Work & Pensions, and more recently, has been responsible for the NAO's approach to digital transformation in government.

Max's current responsibilities include overseeing audit work covering the centre of government, supporting the NAO's development of analytical expertise, and leading the development of the NAO's new knowledge function.

He has held positions in both academia and the private sector. He has lectured in economics and advised on auction design and the economics of climate change.

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.

| National Audit Office governance

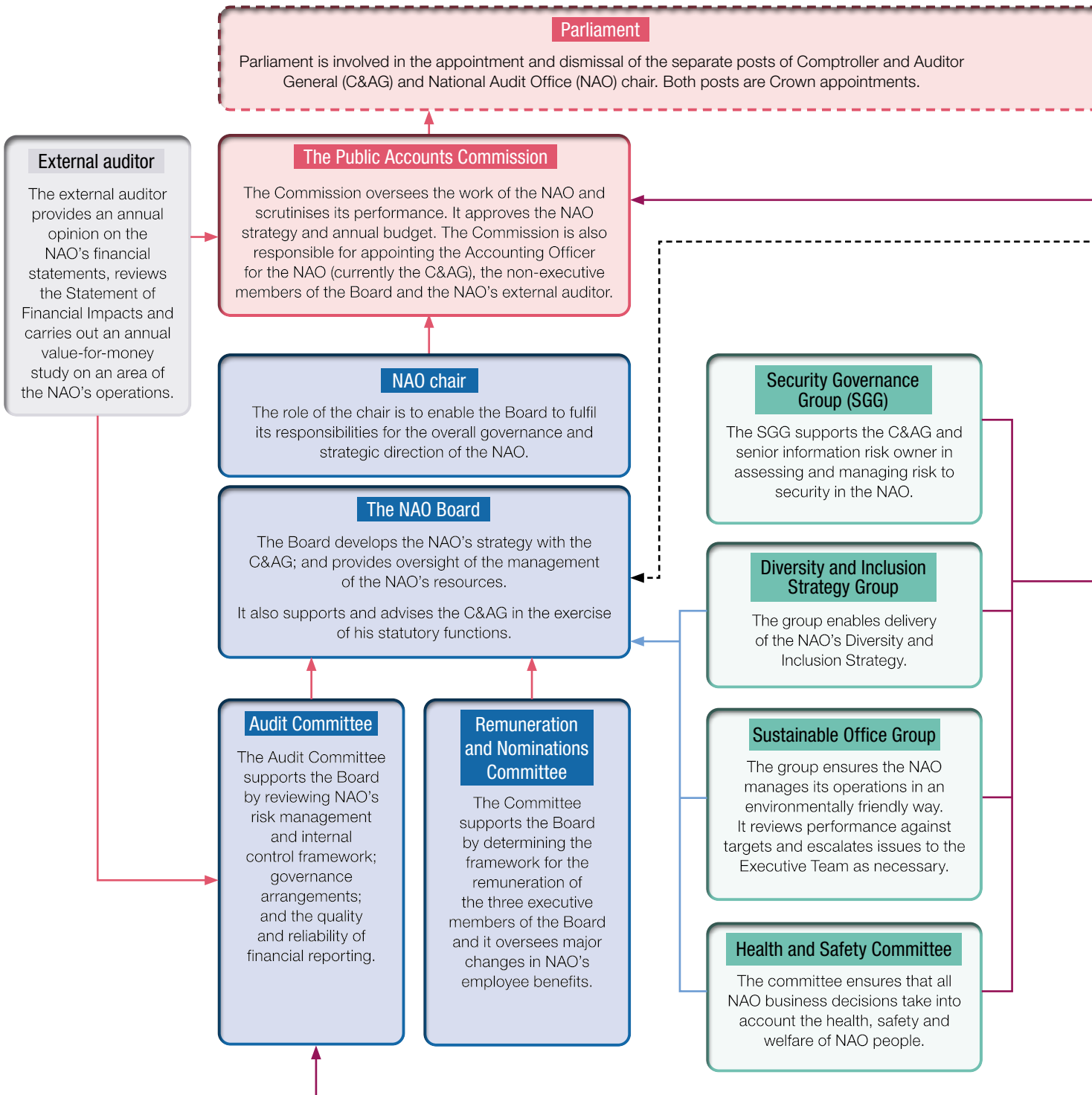
Framework

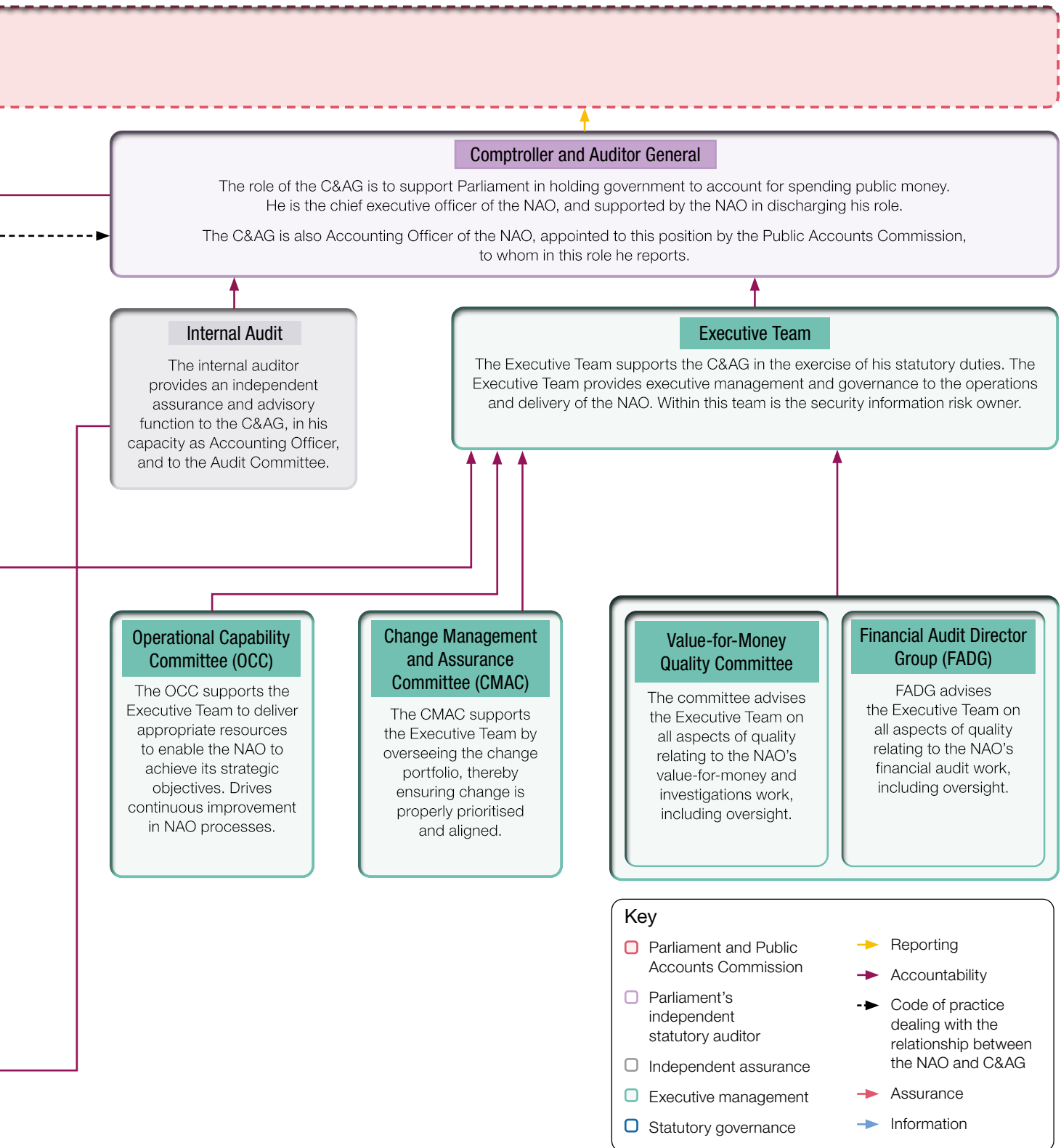
In response to the wide-ranging review of our role and purpose, together with the Executive Team, I have revised the NAO's Governance Framework. From 2020-21 onwards, there will be fewer formal committees of the Executive Team. Executive directors individually or the Executive Team collectively, will be accountable for the functions previously performed by the:

- Security Governance Group;
- Diversity and Inclusion Strategy Group;
- Operational Capability Committee;
- Change Management and Assurance Committee;
- Value-for-Money Quality Committee; and
- Financial Audit Director Group.

Our Annual Report and Accounts 2020-21 will take account of these changes.

NAO Governance Framework





| 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 2019-20. In October 2019, I was invited to an evidence session to introduce myself as the new C&AG. At this evidence session the Commission also approved the Chair's recommendation to re-appoint Janet Eilbeck as a non-executive member for a final three-year term of office. In March 2020, the Commission considered and approved the NAO strategy 2020-21 to 2024-25 and the NAO's response to the COVID-19 outbreak. The NAO Estimate for 2020-21 was approved at an evidence session on 23 April 2020.

| The NAO Board

The Board is composed of five non-executive and four executive members. I was appointed C&AG on 1 June 2019 following a rigorous and transparent appointment process overseen by Parliament in line with the requirements of the Budget Responsibility and National Audit Act, 2011. I am a permanent member of the Board for the duration of my 10-year statutory term of office. Upon the recommendation of my predecessor, the non-executive members approved the appointment of Daniel Lambauer, Stephen Smith and Max Tse as executive directors to the Board for 2019-20.

The role of the Board

The Board is responsible for ensuring leadership through effective oversight and review. It shapes the strategic thinking of the NAO and sets the tone from the top. The Board has established the Audit Committee and the Remuneration and Nominations Committee, to which it has delegated specific responsibilities.

Division of responsibility

Although the chair and I discuss emerging issues regularly throughout the year, there is a clear division of responsibility between the chair and my role as the C&AG. The chair is responsible for the leadership and effectiveness of the Board. As C&AG I have sole responsibility for the NAO's statutory audit work and programme of work, including all audit judgements, value-for-money (VfM) studies and other reports. The Board is responsible for:

- promoting the highest standards of governance in the management of the operations of the NAO – providing advice, oversight and challenge of the NAO's use of resources;
- agreeing and jointly presenting the strategy and budget for the NAO with myself as C&AG;
- ensuring that the NAO functions effectively so I can discharge my statutory responsibilities; and
- providing support and advice to me in the exercise of my duties and bringing an independence of thought, informed by non-executive members' experience outside the NAO.

Strategy days

The Board held two strategy days in 2019-20, focusing on the development of the new Strategy. The days analysed the NAO's operations, its people and the external environment – particularly the implications of changes to the parliamentary landscape following the general election. It considered potential changes to the regulatory environment for the audit profession and the impact arising from the Kingman, Redmond and Brydon reviews. ^{18,19,20}

The Board also discussed the skills, knowledge and expertise that would be needed on the Board within the next five years.

¹⁸ Available at: www.gov.uk/government/news/independent-review-of-the-financial-reporting-council-frc-launches-report

¹⁹ Available at: www.gov.uk/government/consultations/review-of-local-authority-financial-reporting-and-external-audit-call-for-views

²⁰ Available at: www.gov.uk/government/publications/the-quality-and-effectiveness-of-audit-independent-review

Board meetings

The Board held eight meetings during the year and two informal briefing sessions on the NAO’s digital strategy and analytical capability. The Board minutes and agendas are published on the NAO’s website.

The Board’s annual agenda follows the strategic priorities and themes set out in the business plan, in addition to risk and governance responsibilities. The themes and topics discussed by the Board are illustrated in **Figure 7**. Considering the end of Michael Bichard’s term of office as Chair on 9 January 2021 and of non-executive board members Ray Shostak and Rob Sykes’s on 31 December 2020, the Board discussed succession planning, including skills and experience for the two new non-executives. The succession for the Chair is led by Parliament.

Board evaluation

The effectiveness of the Board is reviewed annually. In 2019-20 the Board built on the results of the previous year’s evaluation through open and constructive discussions on how the Board can work together more effectively to maximise impact and outcomes for the NAO.

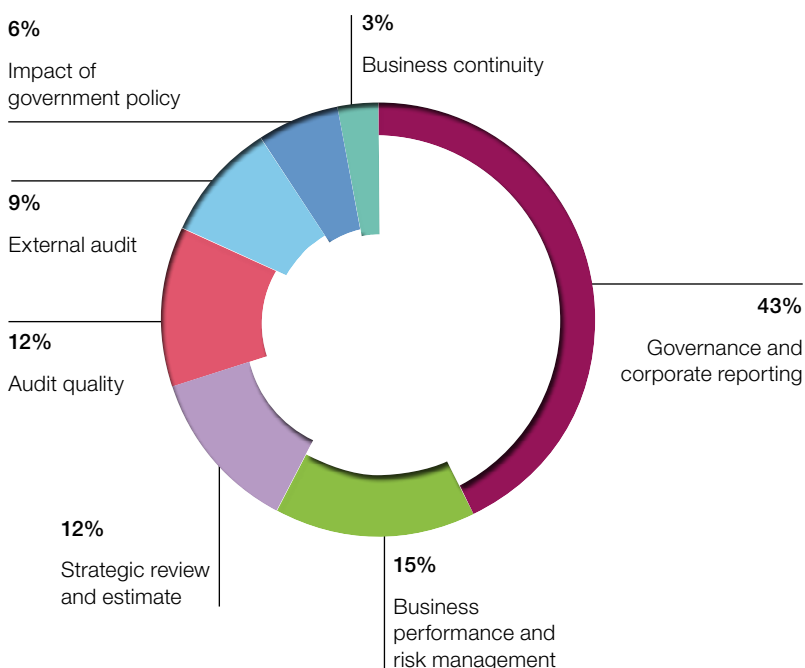
The Board concluded they are developing a strong collective sense of purpose, improving decision-making by building on each other’s views and effectively exploring when there are differences. The Board agreed to devote more time for strategic discussions in a more informal style to more effectively draw on each other’s skills and expertise.

The focus for the coming year will be on the induction of a new Chair and two new non-executives, and continuing to develop impactful ways of working. The Board also agreed to take forward an engagement plan with the wider NAO to better explain the role of the Board in supporting a culture that allows constructive debate and challenge. The Board will align their discussions to the new five-year strategy. The Chair assessed the performance of individual members of the Board. The annual performance assessment of the Chair was carried out by the senior independent member.

The Board concluded that the decisions they made during the year were supported by the right information.

Figure 7

Where the Board spent its time



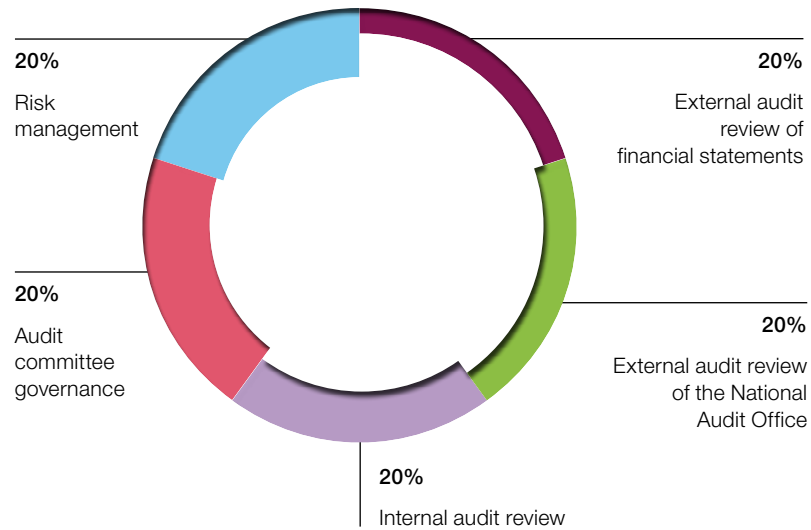
Source: National Audit Office

| Audit Committee

The Audit Committee, chaired by Janet Eilbeck, is responsible for reviewing and providing assurance to the Board on the effectiveness of the NAO’s internal controls, risk management framework, the integrity of the financial statements, including the statement that relates to the NAO’s financial impact, and overseeing the external audit process. **Figure 8** illustrates the main areas covered by the committee, which are detailed below.

During the year the Committee’s principal areas of activity included: agreeing the internal audit plan and thereafter reviewing internal audit reports and monitoring progress against recommendations for improvement; carrying out a deep dive on NAO’s cyber security arrangements; scrutinising NAO’s legal compliance framework and commissioning a review of the NAO’s risk management framework against the recently updated Orange Book on risk management. Further information on NAO’s principal risks and risk mitigations can be found on pages 87 and 88 of the Annual Report. The Committee has assured itself that the financial statements give a true and fair view and have been prepared with integrity. The Committee also considered the findings from the annual value-for-money review carried out by the external auditor. The topic in 2019 was the NAO’s impact reporting and the external auditor’s conclusion that the NAO’s impact reporting is generally fit for purpose and provides value for money when compared to the activities it undertakes. One of the recommendations for improvement is to set up a working group to consider the financial impacts metric and the wider reporting of NAO’s impact using a balanced scorecard approach. Work is already under way to take this forward. The external review can be found on the [Public Accounts Commission](#) website.²¹

Figure 8
Where the Audit Committee spent its time



Source: National Audit Office

²¹ Available at: <https://committees.parliament.uk/committee/207/public-accounts-commission/>

Remuneration and Nominations Committee

This committee, chaired by Clare Tickell, looks at the pay and performance of the executive directors, human resources-related topics, and talent and succession planning. For details of the committee’s members, its role and senior staff pay and pension entitlements, see the remuneration report later in this section. The committee held two meetings during the reporting year.

During the year the committee discussed with myself the actions the Executive Team have put in place to address the feedback provided by NAO people as part of the strategic review and the annual People Survey. This included the culture and values the NAO wants to embed to ensure the success of the NAO strategy. The Committee will play a key role in holding the executives to account for delivery of the comprehensive people agenda which consists of a step-change in people management and development, and becoming an exemplar organisation for diversity and inclusion.

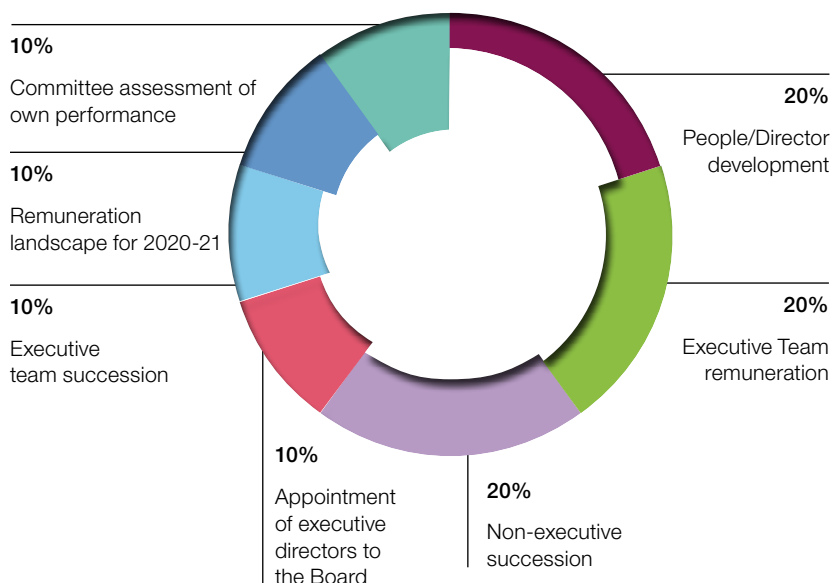
The Committee agreed a new framework for executive director pay with effect from 1 April 2020, informed by an independent external benchmark it commissioned during the year. The review looked at the competitiveness of executive director salaries in the NAO compared with the regulation, healthcare, local government and tertiary education sectors. The benchmark also addressed how the NAO might justify differential rates of pay among individual members of the Executive Team and what actions could be taken to close existing pay gaps. The review found the average executive director base salary of £147,000 was competitive with the external market. It also found that total cash levels for executive directors were broadly comparable with the healthcare, local government and higher education sectors but fell below the regulatory sector when bonuses, pensions and other benefits were taken into consideration.

However, when comparing external benchmark rates with the salaries of individual executive directors, the review found that competitiveness was more variable, particularly for those at the lower end of the executive director pay scale. Furthermore, current differences in the remuneration of each executive director for value-for-money and each executive director for financial audit might be a cause for concern regarding internal equity. To address these findings, the Committee agreed my recommendation to move to a framework consisting of three levels of pay for executive directors: a ‘developing rate’ for those new to the grade; a ‘target rate’ for those fully effective in the role; and a higher rate reserved for individuals with specific skills and experience recruited from the external market, or internally promoted executive directors who develop specific marketable skills. Any movement from one pay rate to the next will be subject to approval by the Committee based on my recommendation. The Committee also considered the remuneration landscape for 2020-21, and implications for the NAO, and endorsed the proposed pay envelope of 2% in light of pay trends in the private and public sectors, including the civil service.

Succession planning

The committee advised me on the skills and experience required for the replacement of John Thorpe following his retirement from the Executive Team in October 2019. In addition, the committee advised the chair on the skills and experience for the two new non-executive positions to replace Ray Shostak and Rob Sykes following the end of their respective tenures on 31 December 2020.

Figure 9 Where the Remuneration and Nominations Committee spent its time



Source: National Audit Office

| Executive Team

The Executive Team, which I chair, supported me in the exercise of my statutory duties since my appointment, formally meeting weekly until the end of January and then monthly until the end of 2019-20 with informal weekly meetings in between. The Executive Team has taken collective responsibility for delivering the NAO's strategy and operational business priorities, engaging the NAO's people, strategic communications, overseeing the management of the NAO's financial resources and internal management of the NAO. The Executive Team is also the senior executive diversity and inclusion decision-making body with overall responsibility for the NAO's Diversity and Inclusion Strategy.

At the beginning of my term as C&AG, I, the Executive Team and the Board decided to carry out a wide-ranging strategic review into the role and purpose of the NAO. We now start 2020-21 with a new strategy, covering the next five years. It ensures we continue to provide effective support to Parliament in scrutinising the public sector's performance while making our insights available to those responsible for public services.

Alongside, we conducted a review of the NAO's executive management arrangements. In consultation with the executive directors, from 2020-21 they will have stronger roles and responsibilities in relation to: managing groups of audit teams; the financial and VfM service lines; wider assurance service lines and functional responsibilities. As a result, we have rationalised the number of committees of the Executive Team. These management changes are designed to enable us to make progress against our strategy quicker and, in so doing, to better fulfil the remit Parliament has set us.

Attendance at committees

Attendance at Board and committees

Members	Board		Audit Committee		Remuneration and Nominations Committee	
	Number of meetings attended	Number of eligible meetings	Number of meetings attended	Number of eligible meetings	Number of meetings attended	Number of eligible meetings
Non-executive						
Lord Michael Bichard (Chair)	10	10	-	-	1 ⁴	-
Janet Eilbeck (Audit Committee Chair)	10	10	4	4	1 ⁴	-
Ray Shostak	10	10	-	-	2	2
Robert Sykes	10	10	3	4	2	2
Dame Clare Tickell	9	10	-	-	2	2
Executive						
Gareth Davies (C&AG) ¹	8	8	1 ⁴	-	2 ⁴	2
Sir Amyas Morse (former C&AG) ²	2	2	-	-	-	-
Daniel Lambauer	10	10	4 ⁴	4	-	-
Stephen Smith ³	6	10	1 ⁴	-	-	-
Max Tse	10	10	-	-	-	-

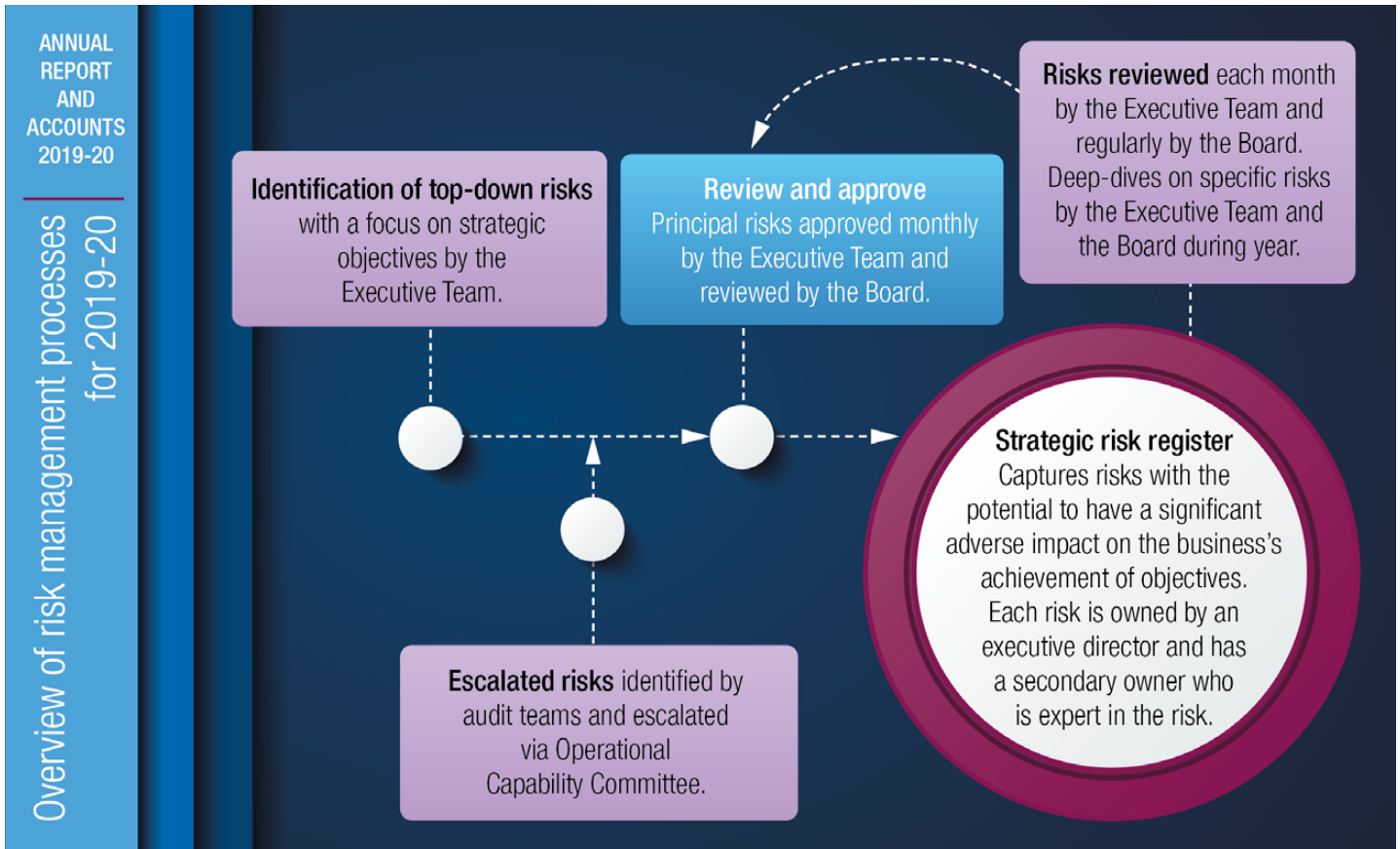
Notes

- 1 Gareth Davies became C&AG on 1 June 2019.
- 2 Sir Amyas Morse ceased to be C&AG on 31 May 2019.
- 3 Stephen Smith has been unable to attend since December 2019.
- 4 Denotes attendance in observer capacity.

Source: National Audit Office

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.



Principal risks and uncertainties

The NAO had 18 risks as at the 31 March 2020. These risks are grouped into the following categories:

- **NAO franchise and reputation:** These risks include those linked to the quality and impact of our work. Our risk appetite is averse for this area of risks.²²
- **People and operations:** Risks involving people, systems and processes. Our risk appetite is cautious for this area of risks.²³
- **Change management:** This risk addresses how the NAO manages change. Our risk appetite is open for this risk.²⁴
- **Impact of government policy:** Relating to (potential) changes to government policy to ensure that the NAO is responsive to the external environment in planning and performing its work. Our risk appetite is cautious for this area of risks.¹⁸

Figure 10 overleaf illustrates the movement of risk scores from 1 April 2019 to 31 March 2020 and explains the reason for the most significant variations.

²² Averse: avoidance of risk and uncertainty is a key organisational objective.

²³ Cautious: preference for safe delivery options with a low degree of inherent risk.

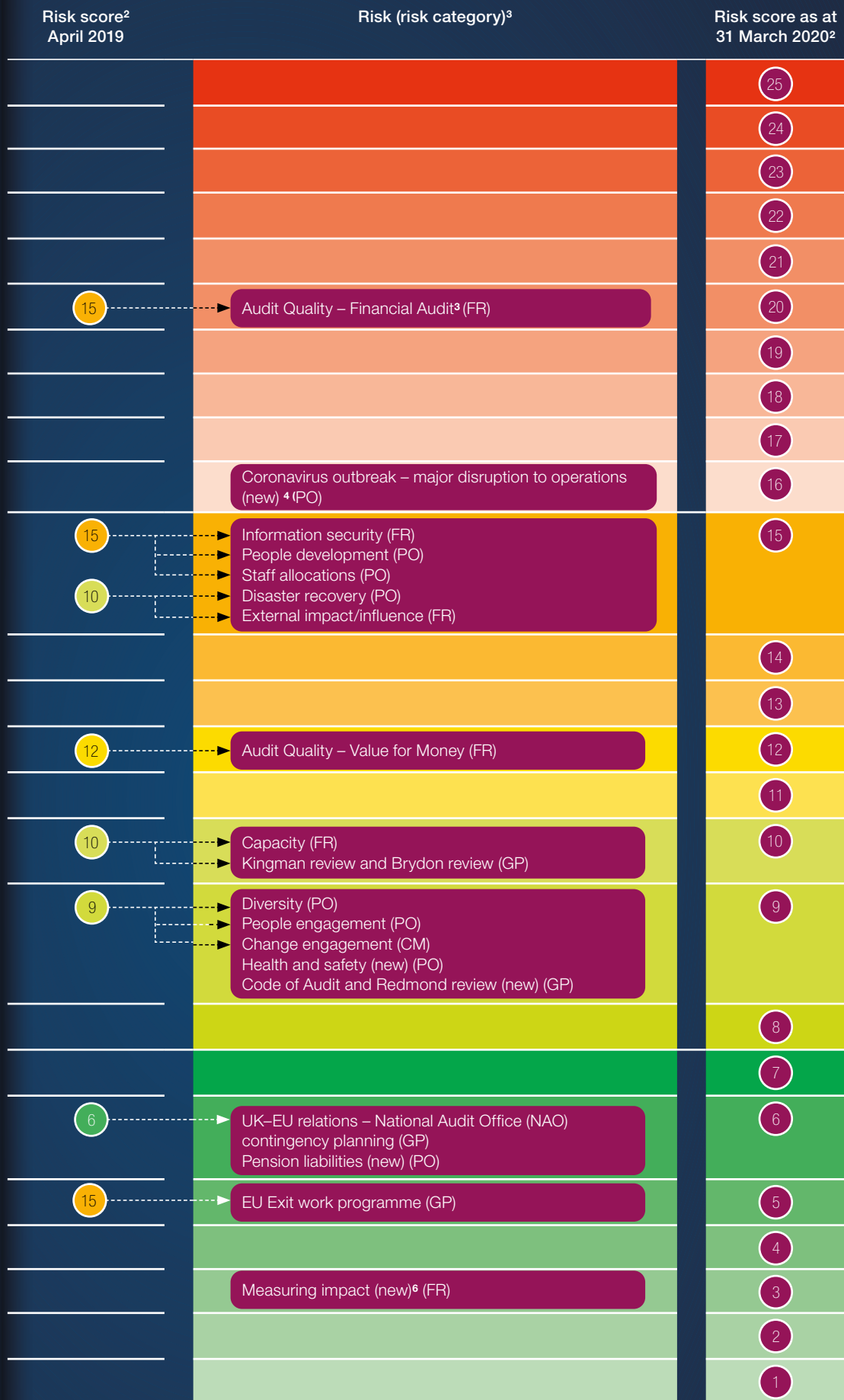
²⁴ Open: open to innovative approaches that bring both higher risk and greater potential benefits to the business.

Figure 10
Mitigations during the year against each risk area

Risk area	Detail	Key mitigations
National Audit Office (NAO) franchise and reputation	<p>The risk that NAO work falls below our own and professional standards. This could lead to:</p> <ul style="list-style-type: none"> ● incorrect audit opinions; ● sub-optimal advice on value for money; and ● the NAO being seen as less independent and authoritative. <p>This risk area also includes the risk that we are unable to demonstrate the impact of our work, with the risk that we are seen as less relevant.</p>	<p>Throughout the year we have had separate plans in place to improve the quality of our financial audits and wider assurance work respectively. These included:</p> <ul style="list-style-type: none"> ● improving audit methodologies; ● strengthening centres of excellence; ● ongoing review; and ● a process to check that data are consistent throughout each report. <p>These plans are now being taken forward as part of our response to our strategic review.</p> <p>Our work is subject to a rigorous system of internal and external review.</p>
People and operations	<p>Our people are our most valuable asset and key to the NAO achieving its impact. We aim to: ensure that we have people with the right capabilities and skills to deliver our work; and support our people to develop.</p> <p>This risk area also includes our business continuity plans.</p>	<p>Staff capacity is reviewed each month by the Executive Team, and we monitor resignations and recruitment.</p> <p>We also monitor diversity closely. 2019-20 was the second year of our Diversity and Inclusion Strategy and this year clusters introduced Diversity and Inclusion action plans.</p> <p>This year we produced a new learning and development plan to better align opportunities to business priorities and market those opportunities.</p>
Change management	<p>The risk that the NAO does not manage strategically important projects well such that they will fail to deliver the intended business benefits or incur unintended negative consequences.</p>	<p>The NAO has a change framework to support people undertaking change projects.</p> <p>2020-21 will see us implement our organisational development plan. We will need to ensure that we have the capacity to manage this project well.</p>
Impact of government policy	<p>The opportunity afforded by changes in the external environment in planning and performing our work.</p> <p>This risk area also includes the opportunity for the NAO to participate in the ongoing debate around the future of audit.</p>	<p>Throughout the year we closely managed our work around EU Exit, to meet our stakeholders' expectations and remain objective and independent. We will continue with this approach throughout the transition period.</p> <p>The NAO responded to the government's consultation on the Kingman review and will respond to Sir Tony Redmond's Call-for-Views to inform his review of audit in the local government sector.</p> <p>We are seeking to increase our transparency.</p>

Source: National Audit Office

Strategic risks as at 31 March 2020, showing changes¹ to risk scores since April 2019



Notes

- Overall change shown for the year, additional monthly fluctuations during the year have not been shown.
- The risk score is a combination of a score for probability of 1–5 and a score for impact of 1–5.
- Risk categories: FR=NAO franchise and reputation; PO=People and operations; CM=Change management; GP=Impact of government policy.
- The risk score for Audit Quality – Financial Audit has increased in response to different ways of working and additional pressures for our clients and ourselves as a result of the coronavirus outbreak.
- The risk that we will not be able to deliver critical functions or that there is a significant impact on delivery due to nationwide lockdown measures in response to coronavirus was added in February 2020.
- The measuring our impact risk was subject to fluctuation during the year, while we monitored our financial impacts against target for 2020. The rating of 3 reflects the position at 31 March 2020, when we had met our target.

Taking our risk management approach forward for 2020-21

In autumn 2019 a new team took over risk management to align it with the governance function. Our acting head of governance was appointed head of governance and risk at the end of 2019.

Following the government's re-launch of the *Orange Book* in 2019,²⁵ we carried out a review of the NAO's current approach against the principles set out. While we found that overall we were compliant with the main principles, it identified several areas where we could improve our processes in line with *Orange Book* principles. The Board has approved several actions arising from the review, which we will be taking forward in 2020-21, including the widening of the remit of the Audit Committee, which will become an Audit and Risk Committee.

At the same time, in response to our strategic review, we will: update our risk management process to reflect our new strategic priorities; update the new group structure, including the new roles of the executive directors; and align the strategic risk register to the new performance framework.

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 ensure that the personal and other sensitive information entrusted to it is safeguarded. During 2019-20 we have:

- continued to develop our Information Security Management System (ISMS) to address the changing landscape;
- successfully maintained our Public Services Network accreditation during the financial year;
- been recertified to 'Cyber Security Essentials Plus' by an accredited certification body against the government's Cyber Security Essential scheme in March 2020; and
- commissioned external assessors to review our ISMS and benchmark against ISO27001, who confirmed the NAO continues to be aligned to the standard. In March 2020 we completed stage 1 of the full certification process with no non-conformities recorded. Following a comprehensive and independent audit at stage 2 we have been accredited to the internationally recognised Information Security Standard ISO27001.

²⁵ Available at: www.gov.uk/government/publications/orange-book

Review of effectiveness of internal controls

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 directors within the NAO 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 in accordance with Public Sector Internal Audit Standards, concludes that the NAO "has adequate and effective governance, risk and control arrangements". He has arrived at this opinion by:

- using a detailed, risk-based audit needs assessment to prioritise activity over a three-year planning period and design an internal audit strategy and annual operational plan;
- consistently applying a risk-based methodology, validated by an External Quality Assessment commissioned by the Audit Committee as conforming to the Public Sector Internal Audit Standards;
- delivering 22 individual assurance assignments together with advisory reports 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 them have been sufficient to complete the operational plan and the safeguards in place have maintained their 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.

Internal control weaknesses

There were no significant weaknesses in the NAO's system of internal controls in 2019-20 that affected the achievement of the NAO's key policies, aims and objectives.

Internal whistleblowing

Staff and others who work for or provide services to us can raise a concern without fear of reprisal. Our policy covers situations where someone wants to raise a concern about suspected or actual malpractice or impropriety, improper conduct or unethical behaviour within the NAO. It is published on our website for transparency about how we manage internal whistleblowing.²⁶

There were no internal whistleblowing cases brought to the attention of NAO management during 2019-20.

Complaints

Anyone who encounters the NAO and is unhappy or dissatisfied can complain. The NAO has a formal three-stage complaints process. We make every effort to resolve satisfactorily a complaint in the first instance but, if we cannot, the complaint will be reviewed by a member of staff uninvolved with the case. In the final stage of our process, the complaint is considered by a member of the Executive Team.

In 2019-20 we handled three complaints under this process. Two were resolved at the first stage while one progressed through all three stages.

Gareth Davies
Comptroller and Auditor General
15 June 2020

²⁶ Available at: www.nao.org.uk/about-us/our-work/governance-of-the-nao/transparency/

03

Remuneration and Staff Report

Remuneration and staff report

Remuneration policy for senior management

Comptroller and Auditor General (C&AG) and National Audit Office (NAO) chair

The Prime Minister and the chair of the Committee of Public Accounts jointly determine the remuneration of the C&AG. The remuneration of the NAO chair is determined by the Public Accounts Commission. In accordance with the provisions of Part 2 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 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 2019-20, Daniel Lambauer, Stephen Smith and Max Tse were executive members of the Board.

The following table overleaf provides details of the remuneration and pensions for the NAO Board and Executive Team. The information on pages 95 to 98 has been subject to audit.

Single total figure of remuneration (audited)

Non-executive members of the Board

Name	Salary		Benefits in kind		Pension benefits ¹		Total remuneration	
	£000		(to nearest £100)		(to nearest £1,000)		£000	
	2019-20	2018-19	2019-20	2018-19	2019-20	2018-19	2019-20	2018-19
Lord Michael Bichard (NAO chair)	40–45	40–45	–	–	–	–	40–45	40–45
Janet Eilbeck	20–25	20–25	500	400	–	–	20–25	20–25
Robert Sykes	20–25	20–25	2,100	700	–	–	20–25	20–25
Ray Shostak	20–25	20–25	600	200	–	–	20–25	20–25
Dame Clare Tickell	20–25	20–25	–	–	–	–	20–25	20–25

Note

- ¹ The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) less (the contributions made by the individual). The real increase excludes increases due to inflation or any increase or decrease due to a transfer of pension rights.

Single total figure of remuneration (audited) *continued*

Executive Team

Name	Salary		Benefits in kind		Pension benefits ¹		Total remuneration	
	£000		(to nearest £100)		(to nearest £1,000)		£000	
	2019-20	2018-19	2019-20	2018-19	2019-20	2018-19	2019-20	2018-19
Gareth Davies, Comptroller and Auditor General (from 1 June)	180–185 (full-year equivalent: 220–225)	–	–	–	–	–	180–185 (full-year equivalent: 220–225)	–
Sir Amyas Morse, Comptroller and Auditor General (up to 31 May)	35–40 (full-year equivalent: 220–225)	220–225	–	–	–	–	35–40 (full-year equivalent: 220–225)	220–225
John Thorpe ⁷ (up to 31 October)	90–95 (full-year equivalent: 150–155)	150–155	–	200	47,000 (full-year equivalent 81,000)	24,000	135–140 (full-year equivalent 230–235)	175–180
Stephen Smith ²	165–170	160–165	300	300	–	–	165–170	165–170
Abdool Kara ²	165–170	165–170	300	300	–	–	165–170	165–170
Kate Mathers ⁷	135–140	120–125	200	200	93,000	57,000	225–230	180–185
Rebecca Sheeran ^{4,5}	115–120 (full-time equivalent: 135–140)	105–110 (full-time, equivalent: 120–125)	200	1,900 ⁵	–	–	115–120 (full-time equivalent: 135–140)	105–110 (full-time, equivalent: 120–125)
Daniel Lambauer ⁷	135–140	120–125	200	200	53,000	49,000	185–190	170–175
Max Tse ⁷	135–140	120–125	200	200	53,000	49,000	185–190	170–175
Elaine Lewis ^{3,6,7} (from 1 October)	60–65 (full-year equivalent: 120–125)	–	200	–	102,000	–	160–165 (full-year equivalent: 220–225)	–

Notes

- The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) less (the contributions made by the individual). The real increase excludes increases due to inflation or any increase or decrease due to a transfer of pension rights.
- Stephen Smith and Abdool Kara do not participate in the NAO pension scheme.
- Elaine Lewis became an executive director on 1 October 2019. Therefore there are no prior year comparative figures.
- 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 2019-20 was £17,000.
- In 2018-19, 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.
- Total remuneration includes the change in pension benefits which occurred during the year as a result of joining the Executive 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 Executive Team but is not expected to recur at this level.
- Pension benefit disclosed in this table is determined by the specific pension schemes enrolled in. Career average schemes accrue pension benefit as a fixed percentage of the salary earned in-year whereas the final salary pension schemes benefit accrue on the basis of length of service and the latest annual salary. Therefore, entitlements for individuals will differ in-year depending on what scheme they are in. Of the Executive Team, Daniel Lambauer and Max Tse are members of career average schemes only. Kate Mathers and Elaine Lewis are members of final salary schemes in addition to career average schemes. John Thorpe was a member of final salary schemes only.

Salary

'Salary' includes gross salary and any other allowance to the extent that it is subject to UK taxation. This report is based on accrued payments made by the NAO and thus recorded in these accounts.

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 benefits column in the table on page 96 shows the cost to the NAO of providing the death-in-service benefit to members of the Executive 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 95 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 members of the Board.

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 2019, Gareth Davies waived his pension benefit entitlement.

Executive Team

Executive directors 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 our most senior managers (NAO's executive directors) were as follows overleaf (audited).

Pension entitlements of National Audit Office executive leaders

Name	Accrued pension at pension age as at 31 March 2020 and related lump sum	Real increase in pension and related lump sum at pension age	CETV ⁴ at 31 March 2020	CETV ⁴ at 31 March 2019	Real increase in CETV ⁴
	£000	£000	£000	£000	£000
Kate Mathers	45–50	5–7.5	679	587	59
Max Tse	20–25	2.5–5	222	185	19
Elaine Lewis ³ (from 1 October)	30–35 plus a lump sum of 65–70	2.5–5 plus a lump sum of 10–12.5	496	422	67
Daniel Lambauer	15–20	2.5–5	186	152	18
John Thorpe (up to 31 October)	80–85 plus a lump sum of 110–115	2.5–5 plus a lump sum of 0–2.5	1,804	1,731	49

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 2019-20 was £17,000.
- 3 Elaine Lewis became an executive director on 1 October 2019. In this instance the CETV balance in the column 31 March 2019 is the balance as at 1 October 2019.
- 4 CETV = Cash Equivalent Transfer Value.

Source: National Audit Office

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 an arrangement to secure pension benefits in another pension scheme or an arrangement when the member leaves a scheme and chooses to transfer the pension benefits they have 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 calculated in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

The real increase in the value of the CETV

The real increase in the value of the CETV reflects the increase in accrued pension that is funded by the employer. It does not include the increase in accrued pension due to inflation or 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 director in 2019-20 (2018-19: no compensation for loss of office).

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.

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

Fair pay disclosure

	2019-20	2018-19
Remuneration banding for highest paid individual	£220,000 to £225,000	£220,000 to £225,000
Median remuneration	£51,609	£52,389
Ratio	4.31	4.25
Remuneration range	£17,550–£220,000 to £225,000	£17,205–£220,000 to £225,000

Source: National Audit 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.

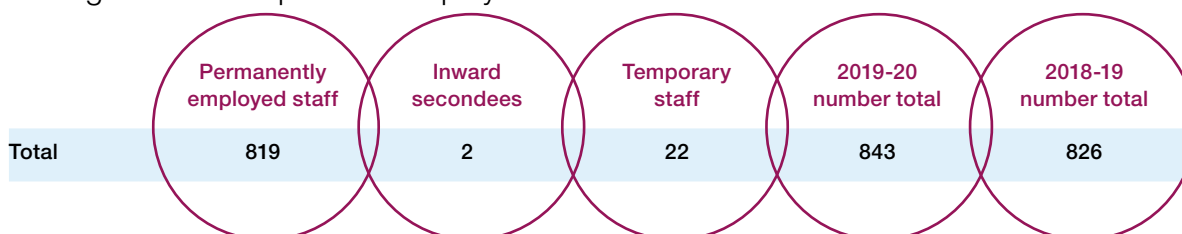
NAO staff normally hold appointments which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

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

Staff numbers and related costs (audited)

The average number of persons employed during the year was as follows.

Average number of persons employed



Staff costs comprise

	2019-20			2018-19		
	Total £000	Permanent £000	Temporary £000	Total £000	Permanent £000	Temporary £000
Wages and salaries	47,119	44,395	2,724	45,343	43,313	2,030
Social security costs	5,286	5,286	–	5,116	5,116	–
Pension costs	12,006	12,006	–	9,069	9,069	–
Gross cost	64,411	61,687	2,724	59,528	57,498	2,030
Less recoveries in respect of outward secondments	(269)	(269)	–	(286)	(286)	–
Net cost	64,142	61,418	2,724	59,242	57,212	2,030

Note

1 2019-20 includes £207,000 (2018-19: £201,000) 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.

Source: National Audit Office

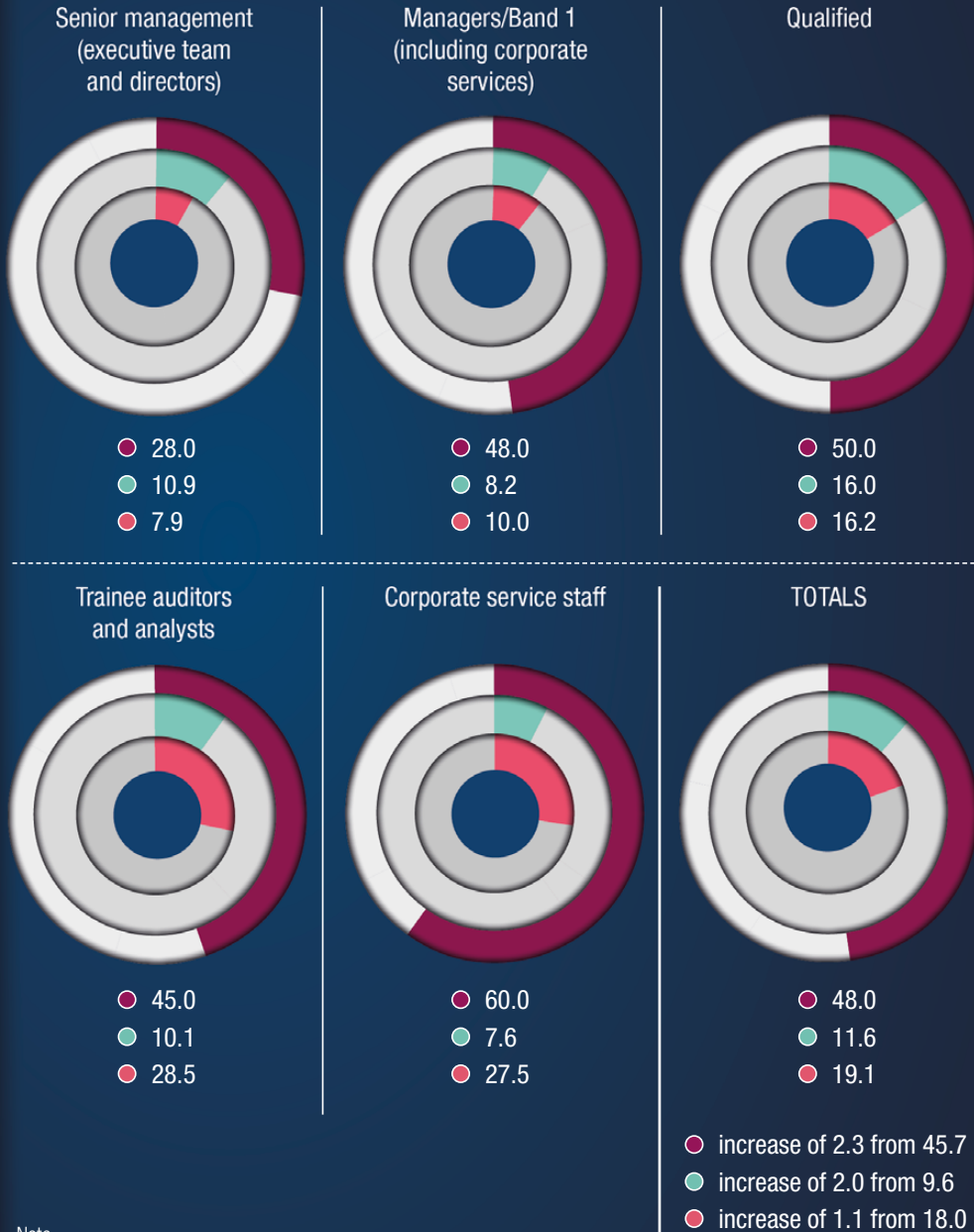
FIGURE

12

Staff composition as at 31 March 2020

Grade diversity as at 31 March 2020 (%)

● Women ● Disabled ● Black, Asian and Minority Ethnic (BAME)



Note
 1 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

NAO staff pension arrangements

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

These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus, nuvos and alpha are increased annually in line with Pensions Increase legislation. Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and 5 months from their normal pension age on 1 April 2012 will switch into alpha sometime between 1 June 2015 and 1 February 2022. All members who switch to alpha have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes.) Members joining from October 2002 may 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% for members 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 his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. Benefits in alpha build up in a similar way to nuvos, except that the accrual rate is 2.32%. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The Partnership Pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 8% and 14.75% (depending on the age of the member) into a stakeholder pension product chosen by the employee from the appointed provider. 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.

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.

The table overleaf shows the total cost of exit packages agreed and accounted for in 2019-20 (2018-19 comparative figures are also given). Exit costs are accounted for in full in the year that the departure is 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.

Compensation packages offered during 2019-20

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
	2019-20 (2018-19)	2019-20 (2018-19)	2019-20 (2018-19)
<£10,000	– (1)	– (–)	– (1)
£10,001–£25,000	1 (2)	– (–)	1 (2)
£25,001–£50,000	– (–)	– (–)	– (–)
£50,001–£100,000	– (–)	1 (1)	1 (1)
£100,001–£150,000	– (–)	– (–)	– (–)
£150,001–£200,000	– (–)	– (–)	– (–)
£200,001–£250,000	– (–)	– (–)	– (–)
>£250,000	– (–)	– (–)	– (–)
Total number of exit packages by type	1 (3)	1 (1)	2 (4)

Total costs disclosed in financial statements (£000) 75 (132)

Source: National Audit Office

Off-payroll engagements

There were no off-payroll engagements in 2019-20 (2018-19: nil).

Expenditure on consultancy

The NAO spent £1.2 million on consultancy in 2019-20 (2018-19: £0.9 million) to obtain objective advice relating to strategy, structure, management or operations. Use of consultancy is closely aligned to the delivery of the NAO's IT Strategy including the migration into the cloud. 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.



Our policy on equality and disability

Disability

We are committed to building a disability inclusive workplace. We have a positive record of recruiting staff with existing disabilities, partly supported by our commitment to guarantee interviews to all disabled candidates who meet the minimum criteria for the role and adjustments to our selection processes. In addition, we have a supportive approach to implementing workplace adjustments to help overcome disadvantage when disabled colleagues join the NAO.

We support people who become disabled during their employment to remain in work and realise their potential. Where appropriate, we seek specialist advice, through our occupational health advisers and other specialist organisations such as Lexxic (specialists in dyslexia and dyspraxia), on adjustments which will support colleagues to continue in their current post. We have more than 70 trained mental health first aiders who provide confidential support and guidance to those facing a mental health issue.

Workplace adjustments are also made to allow employees with a disability to access suitable learning and development opportunities, with a specific focus on supporting our graduates through their professional training programme. When promotion and other development opportunities arise, disabled colleagues are encouraged to apply and to discuss any adjustments they might require to the selection arrangements to remove any potential disadvantage resulting from their disability.

In 2020-21 we will be updating our workplace adjustments process and guidance in line with latest best practice and developing an online system for recording adjustments. This will provide greater opportunity for adjustments to be kept up to date and shared between individuals and their 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 realise their potential to make a full contribution to the NAO's corporate objectives. Inclusion is a key element of our three-year Diversity & Inclusion Strategy (D&I) 2018-21, with our Diversity and Inclusion Operational Committee and our Diversity and Inclusion Strategy Group taking responsibility for monitoring progress against our targets and providing advice on how we might address the D&I challenges we are facing. The work of these committees is supported by our highly effective diversity networks who play a key role in developing our approaches to a range of D&I issues and in enhancing the profile of our work. Our D&I Strategy will continue to develop to support the achievement of our wider business strategy, while the launch of our refreshed NAO values in April 2020 placed inclusion at the heart of our agenda.

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

We do not tolerate bullying and harassment of any kind and emphasise the importance of respecting others in a range of people policies. We are working hard to ensure people feel confident they can raise issues in a safe, supportive and confidential environment and that we will investigate allegations quickly, sensitively and fairly. We have 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.

I Parliamentary accountability and audit report

Statement of Parliamentary Supply

In addition to the primary statements prepared under the International Financial Reporting Standards (IFRS), the Government Financial Reporting Manual (FRM) requires the NAO to prepare a Statement of Parliamentary Supply (SoPS) and supporting notes.

The SoPS and related notes are subject to audit, as detailed in the Certificate and Report of the Comptroller and Auditor General to the House of Commons.

The SoPS is a key accountability statement that shows, in detail, how an entity has spent against their Supply Estimate (the estimate). Supply is the monetary provision (for resource and capital purposes) and cash (drawn primarily from the Consolidated Fund), that Parliament gives statutory authority for entities to utilise. The estimate details supply and is voted on by Parliament at the start of the financial year.

Should an entity exceed the limits set by their estimate – called control limits – their accounts will receive a qualified opinion.

The format of the SoPS mirrors the estimates, published on gov.uk, to enable comparability between what Parliament approves and the final outturn.

The SoPS contains a summary table, detailing performance against the control limits that Parliament has voted on, cash spent (budgets are compiled on an accruals basis and so outturn will not exactly tie to cash spent) and administration.

The supporting notes detail the following: Outturn by estimate line, providing a more detailed breakdown (SoPS1); a reconciliation of outturn to net operating expenditure in the Statement of Comprehensive Net Expenditure (SOCNE), to tie the SoPS to the financial statements (SoPS2) and a reconciliation of outturn to net cash requirement (SoPS3).

Summary tables

Statement of Parliamentary Supply

Summary table 2019-20, £000

Type of Spend	SoPs note	Outturn £000			Estimate £000			Outturn vs Estimate Saving/ (excess) £000		Prior Year Outturn Total 2018-19 £000
		Voted	Non-voted	Total	Voted	Non-voted	Total	Voted	Total	
Departmental Expenditure Limit										
Resource	1.1	68,300	294	68,594	71,000	320	71,320	2,700	2,726	65,980
Capital	1.2	973	–	973	1,000	–	1,000	27	27	1,268
Total budget expenditure		69,273	294	69,567	72,000	320	72,320	2,727	2,753	67,248
Non-budget expenditure		–	–	–	–	–	–	–	–	–
Total budget and Non-budget		69,273	294	69,567	72,000	320	72,320	2,727	2,753	67,248

Notes

- Figures in the areas shaded cover the voted control limits voted by Parliament. Refer to the *Supply Estimates* guidance manual, available at: www.gov.uk, for detail on the control limits voted by Parliament.
- All of the NAO's resources are deemed equivalent to resource DEL or capital DEL (Departmental Expenditure Limit).

Source: National Audit Office

Net cash requirement 2019-20

Item	SoPs note	Outturn £000	Estimate £000	Outturn vs Estimate, Saving/(excess) £000	Prior Year Outturn Total, 2018-19 £000
Net cash requirement	3	66,997	69,616	2,619	63,247

Source: National Audit Office

Programme costs 2019-20

£000's

Item	SoPs note	Outturn £000	Estimate £000	Outturn vs Estimate, Saving/(excess) £000	Prior Year Outturn Total, 2018-19 £000
Programme costs	1.1	68,300	71,000	2,700	65,684

Source: National Audit Office

Notes to the Statement of Parliamentary Supply, 2019-20 (£000)

SoPS1 Outturn detail, by Estimate Line

SoPS1.1 Analysis of resource outturn by Estimate line

Type of spend (resource)	Resource outturn			Estimate £000 Net	Outturn vs Estimate Saving/(excess) £000	Prior Year Outturn Total, 2018-19 £000
	£000					
	Gross	Income	Net total			
Spending in Departmental Expenditure Limits (DEL)						
Voted expenditure						
A – Provision of audit and other assurance services	91,269	(22,969)	68,300	71,000	2,700	65,684
Total voted DEL	91,269	(22,969)	68,300	71,000	2,700	65,684
Non-voted expenditure						
B – Chairman and the Comptroller & Auditor General costs	294	–	294	320	26	296
Total non-voted DEL	294	–	294	320	26	296
Total spending in DEL	91,563	(22,969)	68,594	71,320	2,726	65,980

Source: National Audit Office

SoPS1.2 Analysis of net capital outturn

Type of spend (resource)	Resource outturn			Estimate £000 Net	Outturn vs Estimate Saving/(excess) £000	Prior Year Outturn Total, 2018-19 £000
	£000					
	Gross	Income	Net total			
Spending in Departmental Expenditure Limits (DEL)						
Voted expenditure						
A – Provision of audit and other assurance services	973	–	973	1,000	27	1,268
Total voted DEL	973	–	973	1,000	27	1,268

Source: National Audit Office

SoPS2 Reconciliation of outturn to net operating expenditure

No reconciliation is required as total resource outturn in SoPS is the same as net operating expenditure in the SoCNE.

SoPS3 Reconciliation of net resource outturn to net cash requirement

	Note	Outturn £000	Estimate £000	Outturn vs Estimate, Saving/(excess) £000
Resource Outturn	SoPS 1.1	68,594	71,320	2,726
Capital Outturn	SoPS 1.2	973	1,000	27

Accruals to cash adjustments

Adjustments to remove non-cash items				
Depreciation		(2,848)	(3,000)	(152)
Change in provisions		(187)	(1)	186
Loss on disposal of assets		–	–	–
Impairment of non-current assets		–	–	–
Adjustments to reflect movements in working balances				
Increase/(decrease) in receivables		(720)	174	894
(Increase)/decrease in payables		1,467	393	(1,074)
Use of provisions		12	50	38
Total		67,291	69,936	2,645
Removal of non-voted budget items:				
Consolidated Fund Standing Services		(294)	(320)	(26)
Net cash requirement		66,997	69,616	2,619

Note

- 1 As noted in the introduction to the SoPS above, outturn and the estimates are compiled against the budgeting framework, not on a cash basis. Therefore, this reconciliation bridges the resource and capital outturn to the net cash requirement.

Source: National Audit Office

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 the 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 familiarisation costs which we have not yet been able to recover directly from the audited body. We continue to invest in our audit methodology to design an efficient and sustainable approach. The NAO's objective is to break even on its fee-paying work and to address short-term deficits arising.

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

	Income £000	Expenditure £000	Surplus (deficit) £000
Audit and assurance work ¹	20,418	24,090	(3,672)
Secondment income	269	437	(168)
Rental of office space	2,237	1,154	1,083
Grant income	45	45	–
Total income	22,969	25,726	(2,757)

Note

- 1 Income received from clients is affected by any movement in provision for future deficits; a provision which is required by accounting standards.

Source: National Audit Office

Fees and charges 2018-19 restated

	Income £000	Expenditure £000	Surplus (deficit) £000
Audit and assurance work ¹	18,889	22,732	(3,843)
Secondment income	286	464	(178)
Rental of office space	1,875	1,121	754
Grant income	14	14	–
Total income	21,064	24,331	(3,267)

Note

- 1 Income received from clients is affected by any movement in provision for future deficits; a provision which is required by accounting standards. We have restated the prior year deficit of £2.8 million to £3.8 million because our previous methodology did not correctly reflect this adjustment.

Source: National Audit Office

Losses and special payments (audited)

There were no losses or special payments that require disclosure because of their size or nature in 2019-20.

Gareth Davies
Comptroller and Auditor General
15 June 2020

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

Opinion on financial statements

We certify that we have audited the financial statements of the National Audit Office (NAO) for the year ended 31 March 2020, 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 2019-20 Government Financial Reporting Manual (FReM) which applies International Financial Reporting Standards as adopted by the European Union (IFRSs).

In our opinion the financial statements:

- give a true and fair view of the state of the NAO's affairs as at 31 March 2020 and of the NAO's net operating expenditure for the year then ended;
- have been properly prepared in accordance with the *2019-20 Government Financial Reporting Manual*; and
- have been prepared in accordance with the Budget Responsibility and National Audit Act 2011.

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 2020 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.

Basis for opinions

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. 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.

Emphasis of matter – material uncertainty regarding property valuation

We draw attention to the disclosures in note 1.21 to the financial statements in relation to the valuation of the land and buildings held by the NAO under a long lease. This property is annually revalued by an independent valuer and included in the financial statements at this value. A valuation of £101.8 million was obtained at 31 March 2020, however the valuation draws attention to the fact that the disruption to the UK economy generally and the property market in particular as a result of the COVID-19 crisis means there is a material uncertainty as to the value of the property at the balance sheet date. Note 1.21 includes details of the potential impact to the valuation of movements in the key assumptions underpinning this valuation. Our audit opinion is not modified in respect of this matter.

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 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 conclude that the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary Control Totals and that those totals have not been exceeded. The voted Parliamentary Control Totals are Departmental Expenditure Limits (Resource and Capital), Annually Managed Expenditure (Resource and Capital), Non-Budget (Resource) 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

Date: 15 June 2020

04

Financial statements

Financial Statements

Statement of Comprehensive Net Expenditure (SoCNE) for the period ended 31 March 2020

	Note	2019-20 £000	2018-19 £000
Contract income	6	(20,418)	(18,888)
Other income	6	(2,551)	(2,175)
Total operating income		(22,969)	(21,063)
Staff costs	3	64,411	59,528
Purchase of good and services	4	23,901	24,464
Depreciation and provision charges	5	3,035	2,925
Tax expense		216	126
Total operating expenditure		91,563	87,043
Net operating expenditure for the year		68,594	65,980
Other comprehensive net expenditure			
Items that will not be reclassified to net operating costs:			
Net gain on revaluation of property, plant and equipment	7	(8,717)	(8,198)
Total comprehensive net expenditure for the year		59,877	57,782

Source: National Audit Office

Statement of Financial Position as at 31 March 2020

	Note	£000	2019-20 £000	£000	2018-19 £000
Non-current assets:					
Property, plant and equipment	7	104,455		97,491	
Intangible assets	8	170		292	
Receivables falling due after one year	9	46		197	
Total non-current assets			104,671		97,980
Current assets:					
Trade and other receivables	9	5,814		5,852	
Contract assets - accrued income	9	2,465		2,996	
Cash and cash equivalents		518		15	
Total current assets			8,797		8,863
Total assets			113,468		106,843
Current liabilities:					
Trade and other payables	10	(6,730)		(8,822)	
Contract liabilities - payments received on account	10	(1,977)		(849)	
Provisions	11	(194)		(12)	
Total current liabilities			(8,901)		(9,683)
Total assets less current liabilities			104,567		97,160
Non-current liabilities:					
Provisions	11	(127)		(134)	
Total non-current liabilities			(127)		(134)
Total assets less total liabilities			104,440		97,026
Taxpayers' equity and other reserves:					
General fund			30,033		29,814
Revaluation reserve			74,407		67,212
Total equity			104,440		97,026

Gareth Davies

The Comptroller and Auditor General authorised these financial statements for issue on 15 June 2020

Source: National Audit Office

Statement of cash flows for the period ended 31 March 2020

		2019-20 £000	2018-19 £000
Cash flows from operating activities:			
	Note		
Net operating expenditure for the year		(68,594)	(65,980)
Adjustments for non-cash transactions	5	3,035	2,925
(Increase)/decrease in trade and other receivables	9	189	(1,875)
(Increase)/decrease in contract assets	9	531	815
Increase/(decrease) in trade and other payables	10	(2,626)	1,482
Increase/(decrease) in contract liabilities	10	1,128	299
Use of provisions	11	(12)	(218)
Net cash outflow from operating activities		(66,349)	(62,552)
Cash flows from investing activities:			
Purchase of property, plant and equipment	7	(941)	(1,261)
Purchase of intangible assets	8	(32)	(7)
Increase/(decrease) in non-trade payables	10	31	277
Net cash outflow from investing activities		(942)	(991)
Cash flows from financing activities:			
From the Consolidated Fund (Supply) – current year		67,500	63,250
Consolidated Fund Standing Services	4	294	296
Net financing		67,794	63,546
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		503	3
Cash and cash equivalents at the beginning of the year		15	12
Cash and cash equivalents at the end of the year		518	15

Source: National Audit Office

Statement of changes in taxpayers' equity for the period ended 31 March 2020

	Note	General fund £000	Revaluation reserve £000	Total reserves £000
Changes in taxpayers' equity				
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
Net Parliamentary Funding drawn down		67,500	–	67,500
Net Parliamentary Funding deemed		15	–	15
Supply payable adjustment		(518)	–	(518)
Consolidated Fund standing services	4	294	–	294
Comprehensive net expenditure for the year		(68,594)	8,717	(59,877)
Realised element of revaluation reserve		1,522	(1,522)	–
Balance at 31 March 2020		30,033	74,407	104,440

Note

- 1 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.
- 2 The general fund accounts for all other changes in financial resources.

Source: National Audit Office

I Notes to the Financial Statements

Note 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 (FRM) issued by HM Treasury.

The accounting policies adopted by the National Audit Office (NAO) are described below. Where the FRM 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 (SoCNE).

COVID-19 was declared a global pandemic by the World Health Organisation (WHO) in March 2020 and the UK entered a period of restricted movement on 23 March 2020, shortly before the year end. This has resulted in a number of uncertainties that have needed to be reflected in certain estimates and judgements, which are set out within the accounting policies.

1.3 Reporting standards issued but not yet effective

There is one newly issued accounting standard (IFRS 16 Leases) which is not yet effective that will have an impact on NAO's financial statements in future periods.

Changes to accounting for leases introduced by IFRS 16 will be far-reaching for the public sector once this is effective. The new standard requires an organisation to recognise all the assets which it leases, such as any property, vehicles or equipment, in the Statement of Financial Position as if they were owned outright. All future payments due under the terms of lease are to be recognised upfront as a corresponding liability. Current effective standards do not require all leased assets to be recognised in this way, and future payment commitments are simply disclosed.

IFRS 16 has been adopted by the FRM and was planned to be effective from 1 April 2020. However, HM Treasury has agreed with the Financial Reporting Advisory Board (FRAB) to defer the implementation of IFRS 16 Leases until 1 April 2021. This is because of the circumstances caused by COVID-19.

We have carried out an assessment of the new standard on leases to which the NAO is a party, and have concluded that the only significant leases that will be affected by this new standard are those relating to the use of property.

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. 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 only be applied to transactions relevant to the period after the date of the policy change. We estimate that on the 1 April 2021 we will recognise a right of use asset and related liability of approximately £520,000.

There is one newly issued accounting standard (IFRS 17 Insurance Contracts) which is not yet effective that will not have an impact on the NAO's financial statements in future periods.

IFRS 17 Insurance Contracts was issued in May 2017 replacing IFRS 4 Insurance Contracts. The effective date of IFRS 17 in the public sector is for accounting periods beginning on or after 1 January 2023. IFRS 17 requires that insurance liabilities be measured at present value of future insurance cash flows, resulting in more uniform measurements and presentation for all insurance contracts. Management has assessed the likely effect of the new standard and has concluded that there are no material assets or liabilities recognised as insurance contracts in the NAO, and therefore this standard will have no impact on the NAO financial statements.

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 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 individual accepts the terms of the compensation payment.

1.8 Leases

The NAO only holds one finance lease which is a long lease for the London property at a peppercorn rent. The NAO has operating leases for use of property in Newcastle and other office equipment. Payments in relation to operating leases are charged to the Statement of Comprehensive Net Expenditure on a straight-line basis. Future payment commitments under operating leases are disclosed in Note 12. The accounting policy will be amended by IFRS 16 'Leases' adopted by the FReM with effect from 1 April 2021. The impact of the new standard has been disclosed in Note 1.3.

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 and Customs (HMRC) and consequently, it is difficult to attribute VAT recoverable to specific items of expenditure. Therefore, all expenditure disclosed in Note 4 includes any VAT paid and VAT recoverable is shown separately.

1.10 Corporation tax

As a body corporate, the NAO is considered to be 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 Revenue from contract with customers**

The NAO charges fees for financial audits and other services where it is permitted to do so under legislation. Income is recognised progressively as the performance obligations associated with these engagements are satisfied over time. Further information on revenue from contracts with customers is set out in Note 6.

1.12 Secondment income

At times the NAO second staff to other organisations. Depending on the arrangement, the NAO seeks to recover part or all of the associated salary costs of the staff member on secondment.

1.13 Rental income

The NAO rents parts of its London property to third parties. Rental income is recognised as it falls due at the agreed rate per square foot. Any financial incentives offered, such as rent-free periods, are accounted for separately and apportioned across the non-cancellable term of the lease. Rental income includes a service charge levied on an annual basis to recover central costs borne by the NAO.

1.14 Apprenticeship Levy

The NAO can make use of eligible Apprenticeship Levy funds to meet the costs of providing training for its employees. The FReM requires the use of such funds to be treated as a government grant with grant income recognised at the same point in time that an associated expense for training services is incurred.

1.15 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**1.16 Property, plant and equipment and intangible assets**

Expenditure of £5,000 or more on property, plant and equipment or intangible assets is capitalised where it is expected to bring benefit over future years. On initial recognition, assets are measured at cost and include all costs directly attributable to bringing them into working condition.

All non-current assets are reviewed annually for impairment and are carried at fair value. Property, plant and equipment is depreciated, and intangible assets amortised, on a straight-line basis over their useful lives to ensure that they are reported at their estimated residual value at the end of their lives.

Property, plant and equipment

Land, buildings, plant and machinery are stated at their current value with reference to a professional valuation carried out at the end of each financial year. All non-property operational assets are valued on the basis of depreciated historic cost as a proxy for fair value. This is because these are relatively short-life or low-value 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	2–10 years
Furniture, fixtures and fittings	5–20 years

Intangible assets

An intangible asset is an asset that is not physical in nature. In the NAO intangible assets consist of licences for the rights to use software, which are capitalised where we purchase and own the licence, or the costs of developing our own internal software where this software meets the definition of an asset. Intangible assets are amortised on a straight-line basis over their useful economic life.

Asset lives are in the following ranges:

Software	2–10 years
Licences	2–10 years

Where the NAO makes payments in respect of the use of cloud computing services purchased from a third-party service provider (which may include the use of software, the use of an operating environment in which the NAO can develop its own software, or the use of digital processing capability), then these are not capitalised as the NAO has no legal title to, or rights to control of, the underlying assets associated with these services.

Where we have incurred additional implementation costs to adapt third-party service provider systems to enable us to use the service, there is scope for capitalisation of these costs if they meet the criteria of development activities per International Accounting Standard (IAS) 38 (Intangible Assets). These are considered on a case-by-case basis.

1.17 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.

1.18 Contract receivables and trade receivables

Contract receivables are amounts invoiced and due in respect of the fee-paying audit assignments or other services.

Trade receivables are amounts invoiced and due in respect of secondments of NAO staff to other organisations and rental income.

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

Contract assets (accrued income) relate to our enforceable right to consideration for our completed performance in respect of fee-paying audit assignments or other services which have 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 completed performance are recognised as contract liabilities (payment on account). This is then recognised as income as work is performed.

Accounting estimates and judgements

1.20 Contract assets (accrued income)

In order to calculate the income to be recognised in respect of audit services, the NAO estimates the stage of completion of each audit so that income can be recognised progressively as services are provided. The stage of completion is determined with reference to the proportion of total budgeted costs which have been incurred at the reporting date. This percentage completion rate is then applied to the audit fees to allocate income to the reporting period, less any provision required for unrecoverable amounts. The future budgeted costs and audit fees of a project are based on estimates provided by individual project managers, which are derived from their experience of prior year audits and knowledge of the audit bodies (management estimate).

The circumstances caused by COVID-19 will impact on the cost of completion of some of these audits in a way which will not be fully known at the date of reporting. These variances against plan could impact on the estimates used to calculate income to be recognised at the reporting date and any provision for unrecoverable amounts.

There is likely to be a change in the costs of carrying out audits which are a result of audit work being done remotely rather than having teams based on location. However, management has reviewed available information on the impact of these changes. The estimated increase in costs from inefficiency will be offset by the reduced travel costs and as a result no adjustment to work in progress estimates has been made (management judgement).

There will also be new risks arising as a direct result of the COVID-19 outbreak on the operations of audit bodies and this will likely mean that extra audit work is carried out. Audit fees will be increased to cover the extra work required. While the full scope of this is not yet known at reporting date, management has modelled a range of possible scenarios and outcomes. Management has concluded that because the extra work relates to events that fall largely to the end of and beyond the reporting period of the bodies we audit, and because the costs will be recovered through additional fees, then this will not have a material impact on the basis by which income is recognised (management judgement).

Further information on accrued income is provided in Note 6.

1.21 Property valuation

The NAO accounts for its London property (which is on a lease of 130 years) as if it owns the building. Each year the NAO considers the fair value of this property, 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 a reduction of £6.8 million to an increase of £13.2 million in the value of the building.
- A change in value of market rental value by +/- £1 per square foot could lead to an increase in value of £4.9 million or a decrease in value of £0.3million in the value of the building.

The professional valuer has drawn management's attention to the fact that the ongoing COVID-19 outbreak introduces significant uncertainty in relation to many factors that have historically acted as drivers for property market activity. This could affect market values and rental yield assumptions which are used as the basis for the valuation. Management acknowledges the uncertainty but considers that there is little or no empirical evidence available that there is an impact of COVID-19 on local property market activity relevant to the valuation of the London property. While this lack of evidence reduces the level of certainty that can be attached to such a valuation, management considers that the valuation provided is an appropriate basis on which to determine the property's fair value at the date of reporting (management estimate).

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 (management judgement).

1.22 Accounting treatment of IT change projects in year

The NAO has engaged in a project to replace legacy communication tools. This included updating and integrating mobile, desk and meeting room telephony and audio-visual systems, and will include video conferencing in subsequent years. Purchase and installation costs directly attributable to bringing these IT assets into use were capitalised. Implementation costs which are not attributable to bringing the assets into use have been expensed. This included implementation costs related to preparatory data cleansing of NAO information systems and overall project planning activities and which were not considered to be directly attributable to bringing these assets into use (management judgement).

The NAO has also enhanced its process for storing and managing the data and information it takes from the bodies that it audits. The NAO now uses a cloud-based platform to manage these data and makes subscription payments for using the service. The NAO has developed compatible software applications to transfer and retrieve client data into the data storage facility. Costs associated with configuration and software development allowing the NAO to access the service have not been assessed as giving rise to a separable asset and have been expensed. This judgement has been taken on the basis that the configured software is bespoke to using this service and central government data sets, with no option to sell, transfer, license, rent or exchange it with a third party (management judgement).

Note 2. National Audit Office operating segments

	2019-20								
	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	62,047	16,029	7,597	4,331	1,149	116	91,269	294	91,563
Contract Income	(20,214)	–	–	–	(204)	–	(20,418)	–	(20,418)
Other Income	(1,735)	(448)	(212)	(121)	(32)	(3)	(2,551)	–	(2,551)
Net expenditure	40,098	15,581	7,385	4,210	913	113	68,300	294	68,594

Notes

- 1 Voted expenditure and income is allocated to the NAO by a Parliamentary vote each year through the Supply and Appropriation Act. The NAO reports the use of this expenditure and income under its main operating segments about which further information can be found in the Performance Report on pages 25 to 30. Non-voted expenditure comprises the Comptroller and Auditor General's (C&AG's) and Chairman's salaries and is paid directly from the Consolidated Fund. This is outside of the control of the NAO and is not subject to the same annual Parliamentary approval process.
- 2 Contract income 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. Other income cannot be directly attributed to the NAO's operating segments and has been apportioned between them in line with gross expenditure.
- 3 The chief operating decision body of the NAO is considered to be the Executive Team and details of its membership can be found on pages 72 to 76. Due to the nature of the NAO's activities, the Executive Team does not receive assets and liabilities analysed by operating segment and therefore such an analysis is not presented here.

	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
Contract Income	(18,478)	–	–	–	(410)	–	(18,888)	–	(18,888)
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

Source: National Audit Office

Note 3. Staff costs

	2019-20 Total £000	2018-19 Total £000
Wages and salaries	47,119	45,343
Social security costs	5,286	5,116
Pension costs	12,006	9,069
Gross costs	64,411	59,528
Secondment income	(269)	(286)
Net costs	64,142	59,242

Note

1 Details on staff numbers and related costs can be found in the Remuneration Report on page 100.

Source: National Audit Office

Note 4. Purchase of goods and services

	2019-20		2018-19	
	£000	£000	£000	£000
Professional services	11,993		11,367	
Audit technology ¹	450		492	
Facilities management	4,761		5,237	
Travel, subsistence, hospitality	2,146		2,424	
Office supplies and equipment	2,916		3,133	
Recruitment and training	1,655		1,557	
Staff-related costs	605		644	
External auditors – audit fee	42		57	
– other work	61		59	
Other administration costs	377		258	
Operating lease rentals	174		52	
VAT recoverable ²	(1,573)		(1,112)	
Total voted costs		23,607		24,168
Comptroller & Auditor General salary ³	250		252	
Chairman salary ³	44		44	
Total non-voted costs		294		296
		23,901		24,464

Notes

- 1 Spend on audit software and developing the use of technology in audit methodology.
- 2 The NAO partially recovers VAT on its expenditure on an agreed methodology with HMRC, therefore VAT recovered cannot be directly attributed to specific expenditure and has been disclosed separately.
- 3 The Comptroller and Auditor General and Chairman's salaries include employer social security costs.

Source: National Audit Office

Note 5. Depreciation and provision charges

	2019-20		2018-19	
	£000	£000	£000	£000
Non-cash costs:				
Changes to early departure provision	–		22	
Changes to other provisions	187		4	
Changes in provision		187		26
Depreciation on property, plant and equipment	1,717		1,586	
Depreciation on other items	984		1,131	
Amortisation on intangible assets	147		171	
Total depreciation		2,848		2,888
Loss on disposal		–		11
Impairment of non-current assets		–		–
		3,035		2,925

Source: National Audit Office

Note 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.

Continued

	2019-20	2018-19
	£000	£000
Contract income		
Audit and assurance		
Statutory Audit income	9,389	8,995
Agreement Audit income	5,713	5,800
Companies Act Audit income	5,112	3,683
International Relations	204	410
Other income		
Secondment income	269	286
Rental of office space	2,237	1,875
Grant income	45	14
Total income	22,969	21,063

Notes

- 1 Included within contract income earned for the year is £788,800 (2018-19 £532,000) 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.
- 2 Included within contract income is £893,000 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 £817,000.
- 3 As at the current reporting date, we expect to earn future income of £13,705,000 (2018-19 £11,530,000) 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.
- 4 Prior year comparatives have been presented in line with the new classification of income streams under IFRS 15.

Source: National Audit Office

Note 7. Property, plant and equipment

	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 2019	42,575	35,251	16,973	5,031	3,844	103,674
Additions	–	–	27	685	229	941
Disposals	–	–	–	(668)	(574)	(1,242)
Reclassification	–	–	–	7	–	7
Revaluation	1,015	4,040	1,945	–	–	7,000
At 31 March 2020	43,590	39,291	18,945	5,055	3,499	110,380
Depreciation						
At 1 April 2019	–	–	–	3,092	3,091	6,183
Charged in year	–	778	939	727	250	2,694
Disposals	–	–	–	(668)	(574)	(1,242)
Reclassification	–	–	–	7	–	7
Revaluation	–	(778)	(939)	–	–	(1,717)
At 31 March 2020	–	–	–	3,158	2,767	5,925
Net book value						
At 31 March 2020	43,590	39,291	18,945	1,897	732	104,455
At 31 March 2019	42,575	35,251	16,973	1,939	753	97,491

Note

- 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 2020 (“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 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 £101.8 million as at 31 March 2020 (31 March 2019: £94.8 million). The net effect of the revaluation (after the annual depreciation charge) was an increase of £8.7 million which was accounted for through the revaluation reserve.

Further information on the key judgements relating to the valuation are provided in Note 1.21.

Continued

	Land	Buildings	Plant and machinery	2018-19 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	–	–	–	(1,038)	–	(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	35,251	16,973	1,939	753	97,491
At 31 March 2018	37,871	33,951	16,347	1,733	858	90,760

Source: National Audit Office

Note 8. Intangible assets

2019-20		2018-19	
Cost	Total	Cost	Total
	£000		£000
At 1 April 2019	1,335	At 1 April 2018	1,652
Additions	32	Additions	7
Disposals	(595)	Disposals	(324)
Reclassification	(7)		
At 31 March 2020	765	At 31 March 2019	1,335
Amortisation		Amortisation	
At 1 April 2019	1,043	At 1 April 2018	1,196
Charged in year	154	Charged in year	171
Disposals	(595)	Disposals	(324)
Reclassification	(7)		
At 31 March 2020	595	At 31 March 2019	1,043
Net book value		Net book value	
At 31 March 2020	170	At 31 March 2019	292
At 31 March 2019	292	At 31 March 2018	456

Source: National Audit Office

Note 9. Trade and other receivables

	2019-20	2018-19
	£000	£000
Amounts falling due within one year:		
Contract receivables	2,408	1,849
Trade receivables	195	134
Deposits and advances	215	230
Other receivables	198	228
Contract assets – accrued income	2,465	2,996
Prepayments	2,798	3,411
	8,279	8,848
Amounts falling due after more than one year:		
Deposits and advances	3	17
Other receivables	43	180
	46	197
Total	8,325	9,045

Note

- 1 There were no impairment losses on any receivables or contract assets in 2019-20 (2018-19: nil). Other receivables include lease incentives granted to tenants of our London office.

Source: National Audit Office

Note 10. Trade and other payables

	2019-20	2018-19
	£000	£000
Amounts falling due within one year:		
Amounts payable to HMRC	693	396
Trade payables	21	20
Other payables	103	70
Accruals	5,395	8,321
Contract liabilities – payments received on account	1,977	849
	8,189	9,656
Amounts issued from the Consolidated Fund for supply but not spent at year end	518	15
	8,707	9,671
Total	8,707	9,671

Note

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

Source: National Audit Office

Note 11. Provisions for liabilities and charges

	£000	£000
Balance at 1 April 2019		146
Provided in the year	187	
Changes in provision during the year		187
Provisions utilised in the period		(12)
Balance at 31 March 2020		321

Analysis of expected timing of discounted flows

	Early departures	Other provisions	Total
	£000	£000	£000
Payable within 1 year	7	187	194
Payable later than 1 year and not later than 5 years	–	127	127
31 March 2020	7	314	321

Source: National Audit Office

Note 12. Commitments under leases

Aggregate minimum lease payments are as follows:

	2019-20 £000	2018-19 £000
Obligations under operating leases comprise:		
Land and buildings:		
Payable within 1 year	172	174
Payable later than 1 year and not later than 5 years	526	594
	698	768
Other:		
Payable within 1 year	19	25
Payable later than 1 year and not later than 5 years	10	27
	29	52

Source: National Audit Office

Note 13. Future income due under non-cancellable operating leases

Aggregate minimum lease payments are as follows:

	2019-20 £000	2018-19 £000
Land and buildings:		
Receivable within 1 year	1,785	1,427
Receivable later than 1 year and not later than 5 years	1,341	2,179
	3,126	3,606

Note

- 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.

Source: National Audit Office

Note 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 note 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 charges fees for both audit and other services. There has been no history of default on any amounts due to the NAO and management assess its counter-parties to not present a significant credit risk. However, the circumstances caused by the COVID-19 outbreak are unusual and previous experience may not be a reliable guide.

Management has assessed the NAO's credit exposures:

- The majority of bodies for which the NAO charges for audit services are government-owned companies and other public bodies. These are guaranteed or receive funding from Parliament. There may be other financing priorities which means the NAO may not receive payment as quickly as it would in usual circumstances. However, the NAO considers that on balance it is not likely that this presents a material credit risk and ultimately the NAO has recourse directly to Parliament to cover the costs of the audit. Amounts due from audit bodies in respect of work invoiced as at 31 March 2020 was £2.6 million.
- The NAO also rents out space in its London building to third parties for which it charges quarterly. The NAO has been in communication with its tenants over rental charges and has no concerns over their ability to pay. There is no amount outstanding for rental charges and service income as at 31 March 2020.

Management has concluded that the NAO is not exposed to significant credit risk.

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 2020 (there was no material foreign currency exposure as at 31 March 2019).

Note 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;
- the NAO provides capacity-building services to overseas national audit offices in countries receiving UK aid and receives funding to cover the costs of this work. The funding can come from many sources but may be directly from government bodies. In 2019-20 the NAO received £14,776 (prior year: nil) from the Department for International Development and £21,765 (prior year: nil) from the Foreign & Commonwealth Office;
- routine transactions with HM Revenue & Customs to meet statutory taxation requirements and with the Cabinet Office which operates the Principal Civil Service Pension Scheme; and
- contractual relationships with organisations who occupy space in the NAO's headquarters building and pay rent 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 transaction values is set out in the table below.

Party	Nature of relationship with the party	Rent and service charge earned	
		2019-20	2018-19
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.	£324,096	£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
Home Office	Central government department audited by the NAO. Occupied part of the NAO's headquarters building since May 2018.	£481,425	£238,616

Note 16. Events after the reporting period

There are no events after 31 March 2020 that require an adjustment to the financial statements. There are, however, events which are non-adjusting. That is to say that additional disclosure is required in the financial statements in respect of these events.

The COVID-19 outbreak has given rise to a period of significant uncertainty with major adverse impacts affecting global stock markets, future economic growth forecasts, and business and consumer confidence. These events pertain after the reporting date. They affect both the NAO's operations and those of the bodies it audits. Despite necessary changes in the way of working the NAO continues to carry out its objectives. However, these events have indicated uncertainty over the valuation of the NAO's property and the level of completion of its audits. No adjustments have been required to the financial statements in respect of this. However, additional disclosures regarding the uncertainty over the valuation of and progress of its audit work have been included (see Accounting Policies Notes 1.20 and 1.21).

The Accounting Officer authorised these financial statements for issue on 15 June 2020.

| Statement of National Audit Office financial impacts

The statement of financial impacts represents our estimate of the financial benefits achieved in 2019 following implementation of our recommendations to government. Financial impacts arise where there is a direct link between our 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.

We record 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, we deduct 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, we base the financial impact on careful judgement and estimation. Our recommendations are not always separable from other influences. In these cases, we agree 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 Executive Team endorses all impacts.

We report impacts on a calendar year basis; applying the following principles:

- **Causation** – there must be a causal link between work conducted by us 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, and implementation costs are acknowledged. There must be a robust methodology to value the impact.
- **Attribution** – the proportion of impact claimed should reflect the degree of our contribution to the benefit realised.
- **Validation** – all impact claims must be validated by the audited body concerned (at sufficiently senior level) and approved internally.

2019 NAO impacts valued at more than £5 million

Description	Impact identified (£)	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 (ESA) paid correctly to claimants following correction of a systemic underpayment error affecting people whose benefits transferred to ESA from older incapacity benefits.</p>	390,000,000	Recurring	2 of 8	Department for Work & Pensions
<p>Discharging older patients from hospital</p> <p>Avoidance of delayed transfers of care of patients.</p>	249,236,497	Recurring	1 of 4	NHS England
<p>Efficiency savings</p> <p>Change to the management model of Sellafield Ltd.</p>	177,275,000	Recurring	1 of 3	Nuclear Decommissioning Authority
<p>Strengthening the competition and consumer regime</p> <p>Improvements to the effectiveness in competition regulation and consumer protection enforcement.</p>	81,740,000	One-off	1 of 1	Competitions and Markets Authority
<p>M25 PFI contract</p> <p>NAO share of £149 million reduction in the interest payable over the remaining life of the programme as a result of refinancing.</p>	74,500,000	One-off	1 of 1	Highways England
<p>Debt market integrator</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>	40,950,000	Recurring	3 of 3	HM Revenue & Customs
<p>Online VAT fraud</p> <p>Overseas sellers failing to charge VAT on online sales – impact of HMRC’s measures in tackling online VAT fraud and error.</p>	30,000,000	Recurring	2 of 4	HM Revenue & Customs
<p>Customer saving from DBS fee reduction</p> <p>Implementation of fee reduction and surrender of accumulated surplus in response to NAO report.</p>	26,150,221	Recurring	1 of 5	Disclosure and Barring Service (DBS)
<p>NHS Property Services Ltd income model</p> <p>Working with the organisation to develop a methodology to ensure that all recoverable costs are appropriately recharged.</p>	20,000,000	Recurring	1 of 2	NHS Property Services Ltd
<p>Recovering the cost for overseas visitors</p> <p>Increased the recovery of costs of NHS treatment for overseas visitors.</p>	17,596,000	Recurring	1 of 3	NHS England
<p>Tax revenue from accelerated payments</p> <p>Additional tax revenue HMRC received through accelerated payments when addressing tax avoidance.</p>	14,150,000	Recurring	5 of 5	HM Revenue & Customs

continued

Description	Impact identified (£)	Nature of impact	Year of claim	Audited body with whom impact agreed
NHS Pay Modernisation: New Contracts for General Practice Services in England Reallocation of NHS payments to general practice so that funding better reflects need.	8,300,000	Recurring	4 of 6	NHS England
PFI in Housing Cashable savings realised through reduced PFI contract values in the Ministry's housing portfolio.	6,982,370	Recurring	8 of 10	Ministry of Housing, Communities & Local Government
Subtotal	£1,137 million			
Impacts below £5 million	£7 million			
Total financial impacts	£1,144 million			

Note

1 The column may not add up due to rounding.

Source: National Audit Office

I 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 2019.

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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Date: 15 June 2020

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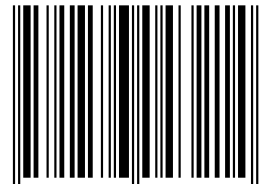


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