



National Audit Office

| Transparency Report 2019-20



JULY 2020

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

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Transparency Report | 2019-20

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11935-001 07/20 NAO

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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



Leadership messages



Foreword from the Comptroller and Auditor General (C&AG)

Welcome to the 2020 National Audit Office (NAO) Transparency Report. The report explains the role we play as the nation's spending watchdog and how we support Parliament in holding government to account through our statutory public audits. The report also includes the findings from the latest round of external and internal inspection reviews on our audit quality, our staff survey results, the feedback from audited bodies and from MPs. In this report we set out the actions that I and the Executive Team, with the support of the NAO Board, are taking to address these findings in line with the ambitious plans we have set out in our new five-year strategy which we launched on 1 June 2020.

Soon after taking up my post on 1 June 2019, together with the Board, 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.

The strategic review also identified the need to refresh the NAO's values. With the input of our staff, we now have four values which I am confident will support our drive for quality in all our work. They capture well the attitudes, behaviours and culture that make for effective auditors:

- We act with courage and integrity
- We are inclusive and respectful
- We are curious and seek to learn
- We strive for excellence

One of the key objectives of our new strategy is to further improve our core purpose of providing support for effective accountability and scrutiny. To ensure we achieve this outcome we are putting in place plans that will enable us to continually improve the quality of our work and make better use of technology, data and knowledge. We will also increase our impact on outcomes and value for money by rigorously following 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 work more closely with audit committees as they address their organisations' value-for-money risks.

We are committed to achieving high quality in the audits we provide. While the external inspection scores on the value-for-money reports sampled this year show an improvement on last year's scores, we were disappointed with the overall results of our latest financial audit inspection results. Five of the seven audits inspected achieved good scores, demonstrating that our methodology and training is capable of supporting high-quality audits. The challenge is achieving that standard reliably and consistently and the results for two of the audits inspected show that we have not yet done this. This is a serious concern and indicates that the significant effort put into improving financial audit quality in recent years has not consistently had the desired effect. We have taken immediate action on the key issues leading to the lower grades to ensure they are not repeated in the 2019-20 audits. We are also undertaking a root cause analysis exercise to ensure that we have correctly identified the underlying causes. I have commissioned a new Audit Quality Plan setting out how we will ensure consistent high quality in our audits, building on what is already in the new five-year strategy on this theme.

The scale and nature of the current COVID-19 pandemic and government's response is unprecedented in recent history. We have quickly adapted our work programme to provide Parliament and the public with independent reporting on how public money is being used in the response. We also aim to help identify relevant learning which can be applied in subsequent phases of this pandemic as well as any future public health emergencies. Our 2019-20 audits of government departments and arm's-length bodies are addressing the many financial reporting challenges thrown up by the start of the pandemic just before the financial year end.

Since taking up my post I have been impressed by the strength in depth across the NAO and the commitment of my colleagues to rising to the improvement challenges identified in our strategic review. The hugely flexible and professional response of my colleagues to the unprecedented challenge of COVID-19 has allowed us to maintain our work programmes while working remotely. I am confident that this commitment and professionalism allied to our new strategy will help us play our vital role to maximum effect in this challenging time for our country.

Gareth Davies,
Comptroller and Auditor General



Elaine Lewis



Kate Mathers

Elaine Lewis, Executive Director responsible for Financial Audit Quality / Kate Mathers, Executive Director responsible for Financial Audit service line

Gareth Davies, together with the Board, has set out a clear ambition for our financial audit service line over the next five years to ensure our work is consistently high-quality, proportionate and adds clear value. The vision for our service line is that NAO's high-quality audits will support effective accountability and lead to public bodies having better financial reporting arrangements and stronger financial management. Our audit insights will be valued, and we will be a leading voice in public sector financial reporting and financial management.

We were disappointed in the outcome of the Financial Reporting Council's inspection of our work. The overall position shows we need to do more to ensure all our audits are consistently high-quality. We will tackle this challenge through a new Audit Quality Plan, which will build on the quality improvement approaches in our five-year strategy.

From our recent strategic review, we know our people are committed and motivated to deliver high-quality work and feel there are clear opportunities to do this more effectively, for example by modernising our audit methodology and addressing resourcing pressures including responding to learning and development needs for qualified staff.

Informed by this valuable feedback from our colleagues and from bodies we audit, we are committed to delivering an ambitious audit transformation programme consisting of:

- implementing a revised audit methodology to make it easier for NAO people to identify, test and rely on controls rather than use time-consuming sample testing. The new approach will be fully supported by new audit software;
- taking a data-led, automated approach to audit to free up more time for colleagues to exercise their professional judgement where it is most needed;
- generating insights that are valued by the bodies we audit, the wider finance profession and Parliament;
- enhancing our learning and development support to equip colleagues with the technical audit skills they need to carry out their role effectively, including supporting more varied career paths for financial auditors; and
- launching a new graduate training programme to fulfil our commitment to deliver an excellent trainee experience.

In addition to these key operational priorities, we will be a leading expert voice on public sector financial reporting and management and share our insights more effectively to help improve financial reporting and management in the bodies we audit. Last but not least, as an exemplar organisation we will use the opportunities of our audit transformation programme to use management information more effectively and manage audits more efficiently. We look forward to demonstrating progress in all these areas in next year's Transparency Report.



Leadership message from Rebecca Sheeran, Executive Director responsible for Value-for-Money service line.

Guided by the NAO's values, and working together with colleagues in the financial audit service line, the value-for-money and wider assurance service line is committed to shedding light on matters of public interest, to help Parliament hold government to account and to promote improvement in the delivery of public services. This commitment resonated clearly in the recent strategic review where our people told us that making a difference to the outcomes of public services and supporting effective accountability are what inspires them to work at the NAO. External stakeholders told us they value us for our insights and our ability to make complex issues clear and understandable; and they want us to make more of our insights and be even more influential.

To ensure we deliver on our crucial public service improvement objective, we are committed to:

- implementing a new approach to planning and resourcing our value-for-money work;
- ensuring our programme of work has a greater emphasis on issues where we can have an impact on long-term value-for-money. We will apply a rounded view of whether resources have been best used to achieve the intended outcomes, considering for example impacts on citizens; and understanding variation in impacts, including among different groups of citizens, or in different parts of the country;
- supporting our people to place more emphasis on ensuring our work has the impact we want, for example through improved follow-up of our recommendations and discussing our insights with people who can use them to make a difference; and
- placing a greater focus on our people's learning and development requirements including providing support to enable them to gain skills and expertise relevant to their work, including the opportunity to develop specialist areas of expertise to create more opportunities for career progression in a greater variety of ways.

We continue to identify ways to improve our processes and controls to maintain the quality of our value-for-money, investigation and other wider assurance work. A primary source of feedback is the sample of our reports that are reviewed each year by both internal and external reviewers. We have seen improvement in our scores this year, but reviewers also raised areas for improvement. We plan to address these through several approaches including clarifying guidance and sharing good practice. We are already addressing several areas through our Modernising VFM project where we are working to streamline our report production and publication process to ensure that we produce responsive outputs in a way that minimises risk. Through automation, improved workflows and new platforms to link evidence to our reports we can ensure that our control framework fully embeds quality. These improvements will also help us to support study teams in completing internal quality assurance processes efficiently through to publication.

| Part One

Overview

Role of the National Audit Office

1.1 We are the UK's independent public spending watchdog. We scrutinise public spending for Parliament and are 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.

1.2 By statute we must perform audits of public sector organisations for Parliament. 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.

1.3 We support Parliament and, in particular, the House of Commons' Committee of Public Accounts in their scrutiny of public spending and service delivery. We also support other select committees and individual MPs in this role.

1.4 We are responsible for maintaining and publishing the Code of Audit Practice, which is approved by Parliament. The code sets out what the auditors of local government and health bodies are required to do to fulfil their statutory responsibilities.

Role of the Comptroller and Auditor General

1.5 The National Audit Office (NAO) is led by the Comptroller and Auditor General (C&AG), Gareth Davies, who is an Officer of the House of Commons. The C&AG is responsible for making audit judgements, for deciding a programme of value-for-money examinations and for reporting the results of his work to Parliament. The C&AG's inspection rights extend to the records of many contractors to central government and those who receive public money from entities he audits. Gareth Davies became C&AG, and head of the NAO, on 1 June 2019 in succession to Sir Amyas Morse whose tenure ended on 31 May 2019.

1.6 To safeguard his independence from the government, the C&AG is appointed by HM The Queen for a single non-renewable term of 10 years and can only be removed from office by The Queen on an address by both Houses of Parliament.

1.7 The C&AG's powers are illustrated in **Figure 1** below.

Figure 1

Comptroller and Auditor General (C&AG)



Source: National Audit Office

1.8 The C&AG exercises his powers by:

- deciding whether, when and how many value-for-money examinations are carried out;
- determining whether and how the results of these examinations are reported to Parliament; and
- using rights of access to documents and staff and seeking additional information and explanations when reasonably required.

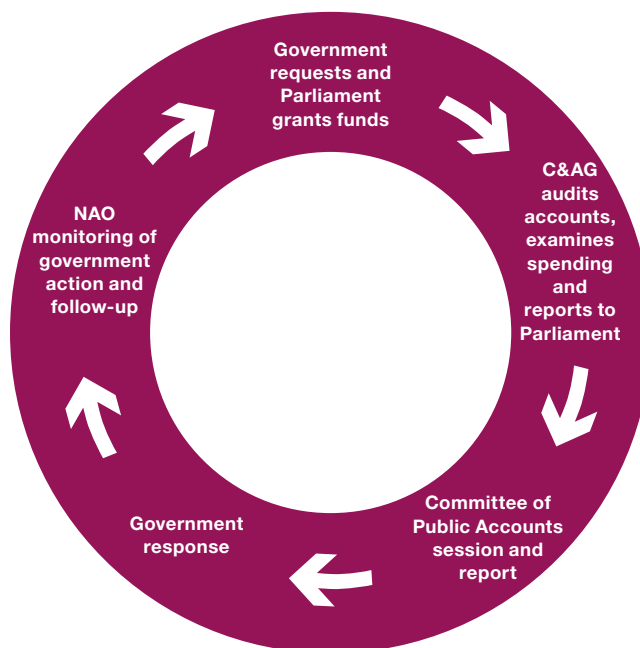
1.9 The extensive framework of powers provided to the C&AG means the NAO can exercise its role as the UK's public spending watchdog without fear of reprisal.

Our relationship with Parliament

1.10 We support Parliament's scrutiny of the government. We do this primarily by supporting the work of the Committee of Public Accounts, which takes evidence from our wider assurance work and significant issues arising from our financial audit work. The Committee subsequently publishes its own reports based on the full range of evidence and makes recommendations to which the government responds via Treasury Minutes published by HM Treasury. **Figure 2** below illustrates the Parliamentary accountability process.

Figure 2

The Parliamentary accountability process



Steps in the accountability process:

- a** Government requests and Parliament grants fund
- b** Comptroller and Auditor General (C&AG) audits accounts, examines spending and reports to Parliament
- c** Committee of Public Accounts session and report
- d** Government response
- e** National Audit Office (NAO) monitoring of government action and follow-up

Source: National Audit Office

Our values

1.11 During the year we carried out a wide-ranging consultation to understand how it feels to work at the NAO, what aspects of our culture were positive and energising, and what we needed to address to make the NAO a better place to work. NAO people are generally positive about their experience of working at the NAO, with high levels of engagement in what is perceived to be a welcoming, supportive and purpose-driven environment. People also fed back that they want our organisational culture to be more open still, enabling everyone to contribute more effectively to our strategic purpose by working together as a learning organisation. People said they wanted NAO to be more open to ideas and diversity of thinking both within and outside the organisation and projecting our knowledge and expertise with more confidence.

1.12 Based on the feedback, we have launched our new values, which are illustrated in **Figure 3** below:

Figure 3

National Audit Office values

We are at our best when we embrace diversity, draw on our collective talents and make everyone feel welcome and able to be themselves. We are happier when we and those around us are thoughtful, when we listen, and when we treat each other with courtesy and understanding.

Our independence, professional quality standards and ethics are fundamental to us. We must be honest, open and challenging of ourselves and others, and do the right things.



To identify the real issues we must be sceptical, investigate, make connections, and think about things from the perspective of others. We want to continuously improve our business and develop ourselves, including through learning from others.

We aim for the highest standards and do so by working together and sharing our knowledge and expertise. We care about achieving high-quality work that makes a difference.

Source: National Audit Office

Our strategy

1.13 During the year we have taken a fresh look at our strategy and how we carry out our work in the light of the challenges facing the UK, including those presented in recent months by COVID-19. We have considered how we can best serve Parliament and respond quickly to changes in the external environment that affect us as well as the bodies we audit.

1.14 Our work is held in high regard, but we are not complacent. We know that we can achieve more and that there are areas where we need to continue to adapt to ensure our work remains relevant and effective.

1.15 Our strategy is ambitious for the positive impact we can have 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;
- making better use of our knowledge;
- focusing more on long-term value-for-money issues;
- strengthening our focus on emerging and topical issues; and
- enhancing our expertise in the skills that are a priority for government.

1.16 More information on our strategic priorities and enablers is contained in the NAO's strategy, which is available on the NAO's external website.

Case study

NAO strategic review

In June 2019, with the arrival of a new Comptroller and Auditor General (C&AG), the NAO engaged in a wide-ranging strategic review, carrying out the most extensive internal and external engagement exercise we have undertaken for this purpose.

- We received more than 300 responses to a survey from members of the public, MPs, civil servants, accountants and auditors, and think-tanks.
- We held seven workshops where we had in-depth discussions with professional services firms, senior civil servants, thought leaders and leaders of local public service bodies.
- The C&AG discussed the strategic review with the accounting officers of all major government departments, members of the Committee of Public Accounts, other select committee chairs, the Civil Service Board and many Parliamentarians.

Our external stakeholders told us:

- they respect us as an organisation, value us for our insights and our ability to make complex issues clear and understandable; and
- they want us to make more of our insights and be even more influential.

Our people told us that:

- there are many things about what we do and how we do it that our people like, and they do not think we need a radical change in our purpose. Making a difference through our role in helping improve public services is important to our people; and
- they see big opportunities for us to better support their careers and development, make much more use of what we know to achieve greater impact, and to step up and make a difference on the key challenges facing our stakeholders.

Developments in the accountancy profession

1.17 Parliament, audit committees of public bodies, civil servants and the public expect us to produce high-quality audits compliant with audit standards; to support government bodies as they implement any new accounting standards; and to keep pace with industry-wide developments in the audit profession.

1.18 There are also higher expectations around the quality of external audit. The audit profession's regulatory regime is developing following the review of the Financial Reporting Council by Sir John Kingman and the review by Sir Donald Brydon into audit quality and effectiveness.

1.19 These reviews provide the NAO and Parliament with the opportunity to put the right arrangements in place for the oversight of the quality of our audit work bearing in mind the unique position of the C&AG as an Officer of the House of Commons. We are working with government and the Public Accounts Commission, subject to legislation, to take forward those recommendations from Sir John Kingman's report that relate to the C&AG and the NAO. Our aim is to be transparent and accountable for our work and its quality and we will agree with Parliament measures so that those who appoint us to undertake audits on their behalf, that is, Parliament, are better able to hold us to account for the quality of our work.

COVID-19

1.20 Like many other organisations, the NAO has been home-based since lockdown restrictions were introduced by the government. In infrastructure terms, the NAO is well-prepared for homeworking as our systems are designed to support secure remote auditing. We are working hard to support our staff as they grapple with the practical and well-being challenges of the current situation. We are of course not the only ones in this situation and we recognise the unique challenges in financial reporting arising from the impact of COVID-19. As an organisation that supports Parliament, that has been especially brought home to us as we see the House of Commons resume business in a manner we have never seen before.

1.21 As Parliament adapts, so too do we, in order to ensure that we can help it to hold government to account. The response to the global pandemic will have implications for many years for public spending and public service delivery. It is too early to tell exactly what the impact will be, but it will be profound.

1.22 What is already clear is that MPs, and the public that they represent, will expect us to carry out a substantial programme of work on the COVID-19 response so we can learn for the future. This will include looking at government spending on the direct health response as well as the wider emergency response. We will also look at the spending on the measures to protect businesses and individuals from the economic impact.

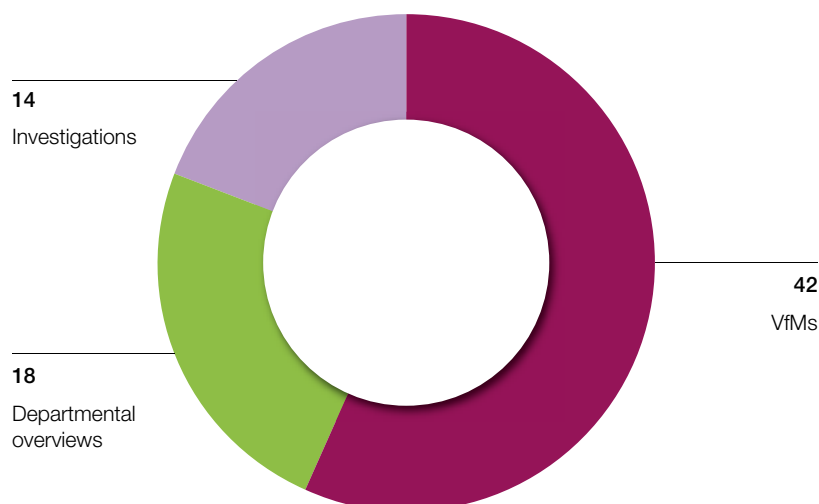
Our work

1.23 The C&AG, with the support of the NAO's staff, provides an independent audit opinion on 404 accounts across the public sector, including the major government departments. Of these 404 accounts, 287 are performed under statute, which means that the audited entity cannot replace us as auditor. For the remaining 117 audit engagements, the C&AG / NAO is appointed by agreement (which includes audits carried out under the Companies Act). In addition to certified financial statements, the NAO carries out a small number of other assurance engagements. These include: reports on the collection of revenue on behalf of government by the British Broadcasting Corporation, the Driver & Vehicle Licensing Agency and HM Revenue & Customs, including on the administration of Scottish and Welsh income tax.

1.24 In addition to our financial audit work, we also carry out a wide range of wider assurance work to support Parliament in holding government to account. In 2019-20, we published the following wider assurance products as illustrated in **Figure 4** below.

Figure 4

Value-for-money (VfM) and other wider assurance work in 2019-20



Source: National Audit Office

- **Value-for-money (VfM) reports:** we examine whether public bodies achieve value for money – efficiency, effectiveness and economy – in their use of resources.
- **Investigations:** we conduct investigations to establish the facts when people or our work identify concerns about the use of public funds. Our investigations give a rapid and timely account of a situation or issue. To enable us to make this evidence available quickly, investigations do not seek to conclude on value for money.
- **Departmental overviews:** we also publish 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.

1.25 We also deal with a high volume of correspondence from members of the public, as well as MPs and members of the House of Lords, representing a key point of direct contact. In 2019-20, we responded to some 1,300 items of correspondence, including 90 from MPs. Coupled with intelligence from our work, correspondence is useful for bringing issues to our attention. It can lead to investigations or value-for-money studies.

Joint working across disciplines

1.26 Where it is beneficial to do so, we produce outputs with joint teams of financial and wider assurance experts. Such multidisciplinary teams are often used to produce our investigations, the subject matter for which is sometimes driven by issues uncovered through our financial audit work. Working in this way brings our collective knowledge and skills together to best effect.

Case studies

Assisting select committees' annual oversight of departments' performance

We produce departmental overviews to assist select committees' annual oversight of departments' performance. These overviews are often produced by multidisciplinary teams and draw on a department's annual report and accounts, the NAO's financial audit and all relevant NAO wider assurance work. The resulting publication is a clear and concise summary of the key developments and issues relating to that department over the previous year.

Cost of EU Exit preparation

We published a report looking at the cost of EU Exit preparations in March 2020. Following the June 2016 referendum, departments undertook work to prepare for the UK's Exit from the European Union. They identified more than 300 work streams to support the EU Exit process and planned for both 'deal' and 'no deal' scenarios. We asked all 18 central government departments and two non-ministerial departments to provide us with information on the cost of the preparation activities carried out between June 2016 and 31 January 2020 and details of what they spent the money on. Our central EU Exit team worked closely with our financial audit and wider assurance client teams for all 20 departments and others to understand and categorise financial data. We identified that departments spent at least £4.4 billion on EU Exit preparations between June 2016 and 31 January 2020.

International

1.27 We are proactive in engaging with other Supreme Audit Institutions (SAIs) to share lessons and improve our own audit practice. We strengthen governance and accountability of UK taxpayer's money overseas by helping SAIs in countries receiving UK aid to improve and by auditing international organisations which receive UK funding. Our international work gives interesting development opportunities for our people.

Impact of our work

1.28 Each year we identify cases where our influence has contributed to better public services or financially quantifiable net benefit to the taxpayer. We refer to this as our 'impact'. Our *Annual Report and Accounts 2019-20*, which is available from NAO's external website, highlights 14 cases illustrating the wider impact brought about through our work. These wider impact case studies have been approved by the bodies to which they relate.

1.29 In addition to these case studies, each year we assess where our work has resulted in an improvement with a financially quantifiable net benefit. The audited bodies concerned confirm these financial impacts and our external auditor gives assurance on them. During the calendar year 2019 the total audited impact was £1.1 billion. This represents a positive financial impact from our work of at least £16 for every £1 that we cost Parliament, exceeding our target of £10.

Part Two

Audit independence and quality

How we ensure quality

2.1 For our work to have the impact and influence required, and for Parliament and the wider public to have confidence in the quality of our work, we must uphold high standards of ethics and integrity and work within a framework of values that preserve audit independence. Our values are explained in paragraph 1.11 and 1.12 in Part One of this report. Part Two of this report explains how we ensure quality across our financial audit and wider assurance work.

2.2 We require staff to adhere to the relevant internal and external quality standards for our work. For 2019-20, this includes:

- International Standards on Auditing (ISAs) (UK);
- our standards for value-for-money and other wider assurance work;
- the Financial Reporting Council's Ethical Standard (the Ethical Standard); and
- International Standard on Quality Control for audits 2016 (ISQC 1).

2.3 The directors of Financial Audit and Value-for-Money Practice and Quality, and the director of our financial audit Compliance and Quality Unit, are responsible for supporting audit teams' compliance with the relevant quality standards for their respective specialisms and for creating a culture of professionalism, rigour and openness to challenge.

Financial Audit

2.4 The following section describes our existing quality arrangements underpinning our financial audit service line. We also set out our commitment to support the ambition in our new strategy to improve the quality of our financial audits.

Quality arrangements: external engagement

2.5 All our financial audit work must comply with auditing standards. The Comptroller and Auditor General (C&AG) must perform certain discretionary audits under the ISAs (UK), and he has chosen to adopt these standards for all statutory UK financial statements audits where a true and fair opinion is required. These standards include International Standards on Quality Control 1 (ISQC 1 (UK)). Meeting these standards means that our financial audit work also complies with the relevant International Standards for Supreme Audit Institutions (ISSAIs) established by the International Organisation for Supreme Audit Institutions (INTOSAI).

2.6 We engage widely with the accountancy and auditing professions, through the professional institutes, with other UK and international public audit bodies and through our private sector framework partners. This helps us to share good practice and learn from other practitioners. We engage with our framework partners to keep in touch with developments across the wider profession and to ensure our methodology remains in line with best practice.

2.7 In addition, the National Audit Office (NAO) and its staff are appointed to a wide range of professional bodies and committees including: the Financial Reporting Council's Audit Technical Advisory Group; the Council of the Institute of Chartered Accountants in England and Wales (ICAEW) and relevant ICAEW boards and groups; the Council of the Chartered Institute of Public Finance and Accountancy (CIPFA) and relevant CIPFA boards and groups; HM Treasury's independent Financial Reporting Advisory Board; and INTOSAI standard setting groups. These appointments seek to ensure that the public sector perspective is properly reflected in developments within the accounting and auditing profession.

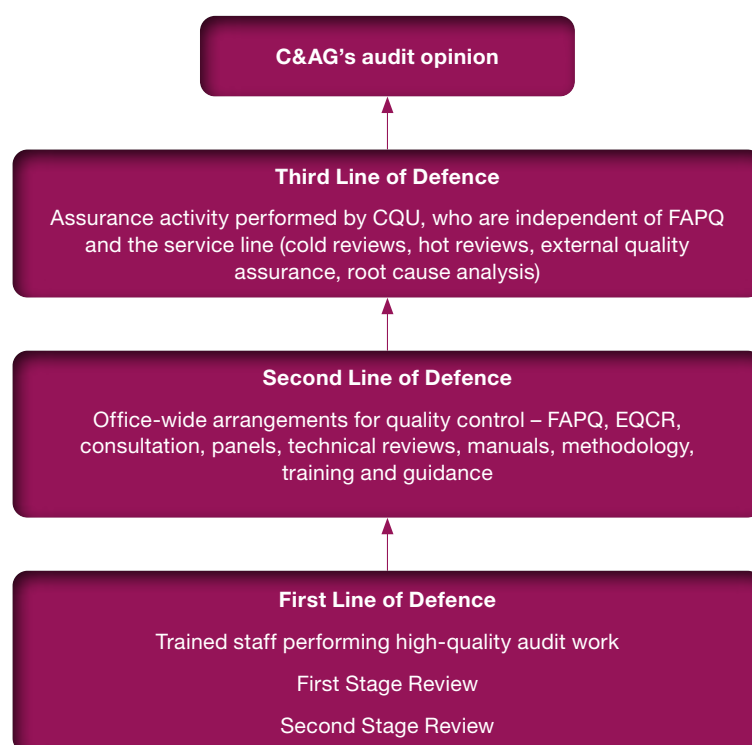
Quality arrangements: our methodology

2.8 Our audit methodology is outlined in our *Financial Audit Manual*, which is updated regularly. This complies with the requirements of the ISAs (UK) and provides guidance on interpreting and implementing those standards within the central government sector.

Figure 5 below shows our quality control framework and further details on our financial audit methodology and quality assurance processes are included in Appendix Three: Internal quality control system.

Figure 5

National Audit Office (NAO) Financial Audit: the quality control framework



Note

- 1 C&AG = Comptroller and Auditor General, FAPQ = Financial Audit Practice Quality, EQCR = Engagement Quality Control Reviewer, CQU = Compliance and Quality Unit

Source: National Audit Office

2.9 We build quality control into all stages of a financial audit to ensure that the work is of the highest technical quality. We extensively review our work and there are a number of specific review stages. All work undergoes a two-stage review by senior members of the engagement team. Some audits that include significant audit judgements also undergo an engagement quality control review by an independent and experienced director. The allocation for this additional layer of review is dependent on the nature of the engagement, the identification of unusual circumstances or risks, the requirements of laws and regulations and the size and complexity of the audited organisation. We place a premium on consultation-driven audit quality, in accordance with the requirements of ISQC 1 (UK).

2.10 We have established centres of expertise for pensions, property and estimates which provide specialist support to the financial audit service line and commission external advice as required. The estimates centre makes use of our internal specialist expertise for analysis and methods and our corporate finance team.

2.11 Consultation meetings are held at the planning stage of our highest-risk, highest-profile audits and for Companies Act audits. The consultations are a key component of the NAO's quality process and provide an early opportunity for engagement teams to consult with senior leaders on key aspects of the audit plan. For our 2019-20 audits, we introduced consultation meetings for a second tranche of riskier audits, led by directors. In addition, audit panels are convened to consider and consult on significant audit judgements, which can include new qualifications and cross-cutting audit issues. These meetings and panels comprise our relevant executive directors, the director of Financial Audit Practice and Quality, and senior engagement team members.

Quality arrangements: internal and external monitoring

2.12 We complete an annual quality assurance programme to make sure that we comply with the *Financial Audit Manual* and ISAs. Our Compliance and Quality Unit (the Unit), which reports to the Executive Team and the C&AG, coordinates a quality assurance review programme of a sample of completed audits each year (cold reviews). These reviews are completed by experienced audit managers, overseen by financial audit directors. The purpose of the cold review is to assess an audit's compliance with professional standards and our audit policy, including the planned response and work completed to address the main risks; and the quality of evidence obtained. We reviewed 28 audits as part of our cold review exercise on 2018-19 audits.

2.13 In addition to reviews of completed audits, the Unit also reviewed a sample of audits in progress (hot reviews). These reviews focus on our higher-risk and more complex audits and are undertaken by independent audit managers at the planning stage and before the audit opinion is signed so as to provide further assurance to the C&AG over the quality of the work performed.

2.14 We continue to employ root-cause analysis techniques to highlight where we can further strengthen our audit work. This helps us to identify transferable learning for the wider audit practice, which we disseminate through training and support on thematic issues, including targeted training for those new to supervising or overseeing financial audits.

2.15 We continue to be inspected by our external regulator. During 2019-20, the Audit Quality Review (AQR) team of the Financial Reporting Council (FRC) reviewed a sample of seven 2018-19 audits (four audited under the Companies Act, under statute, and three from the rest of our practice). Our target is that 90% of our financial audits require no more than limited improvement. Based on the small number of reviews (which is not necessarily representative of our wider financial audit population), the FRC judged that 71% of audits (43% in 2017-18) required no more than 'limited improvements' or better. Two audits were assessed as requiring significant improvements (none in 2017-18) and none as 'requiring improvement' (compared to 4 in 2017-18).

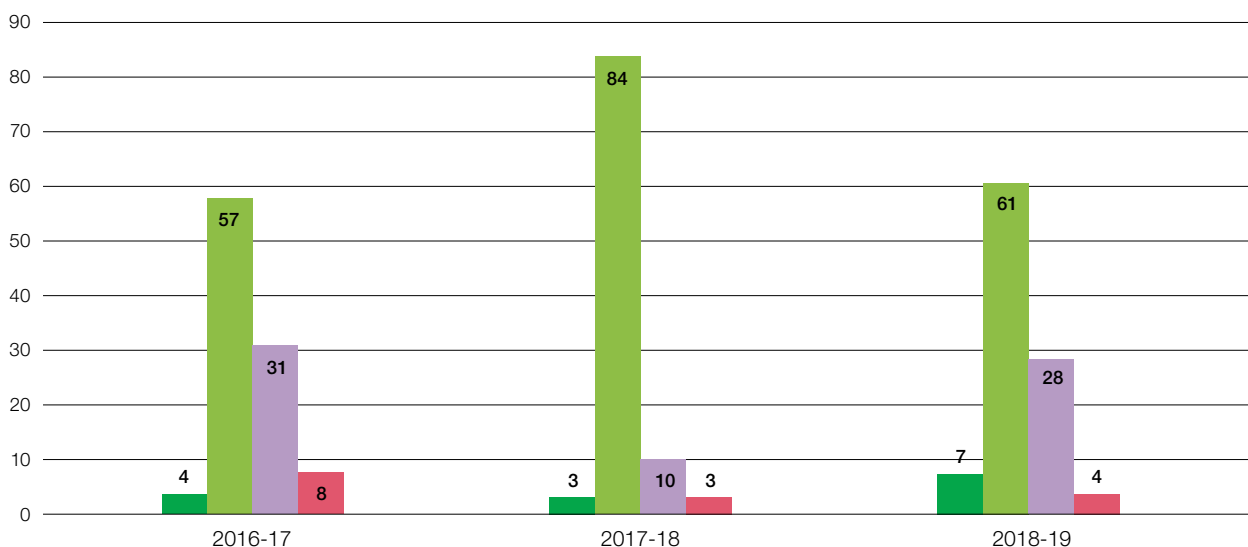
2.16 We use the same grading system in our internal reviews as used by the FRC to aid comparability of results over time. During 2019-20, the NAO's Compliance and Quality Unit reviewed a sample of 28 of our 2018-19 audits (31 of our 2017-18 audits). Of these reviews, some 68% (87% in 2017-18) required no more than 'limited improvements' or better; 4% was assessed as requiring significant improvements (3% in 2017-18) and 28% as 'requiring improvement' (compared to 10% in 2017-18).

2.17 Figure 6 shows the results from our internal and external quality reviews over the last three years.

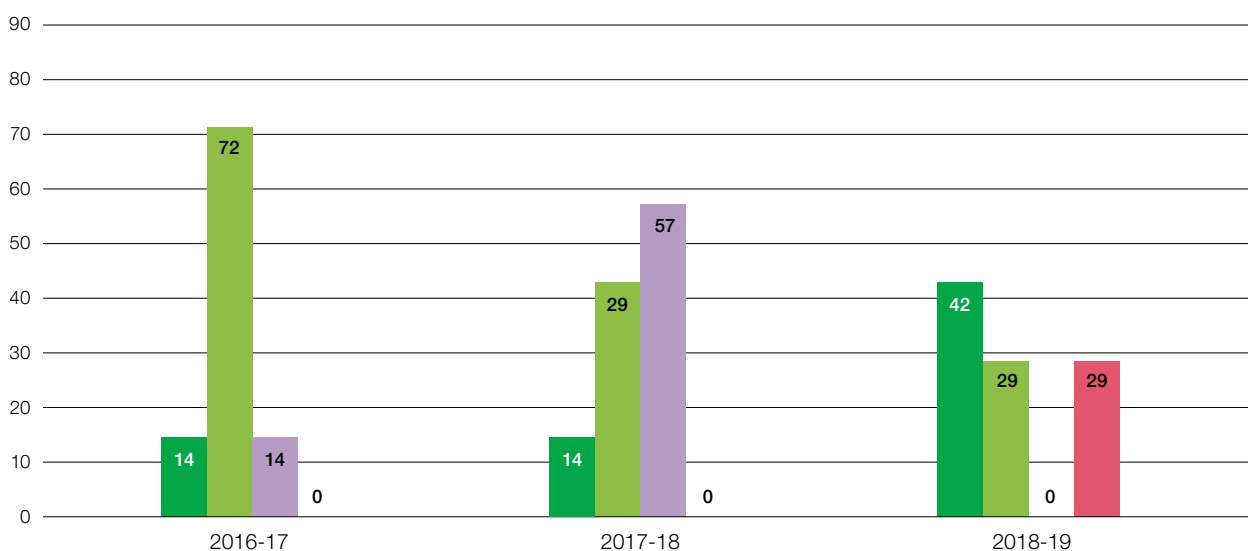
Figure 6

National Audit Office (NAO) results from internal and external quality reviews over the past three years

Internal quality review grades (%)



External quality review grades (%)



1 2A 2B 3

Notes

- 1 Good: no areas for improvement identified of sufficient significance to be formally reported.
- 2A Limited Improvements needed: only limited concerns have been reported.
- 2B More substantive improvements needed in relation to one or more issues identified.
- 3 Significant concerns in relation to the sufficiency or quality of audit evidence, the appropriateness of key audit judgements or other matters identified.

Source: National Audit office for the results from internal and external quality reviews. Financial Reporting Council for the definition of quality scores

2.18 Our internal and external reviews show where audit quality has improved and we are pleased to note that three 2018-19 audits received a category 1 rating from the Financial Reporting Council. However, we take the category 3 ratings awarded to audits extremely seriously.

2.19 Although the issues highlighted in these reviews are not inconsistent with those raised in private sector audit firms, we are not complacent about the steps we need to take to meet the standards expected of us. Both our external and internal reviews highlight that more needs to be done to further embed quality within our financial audit service line. We already have action plans to address the issues that have been raised in the individual 2018-19 audits identified by the FRC and the NAO as requiring improvement.

2.20 We have also taken measures to strengthen our financial audit service line against the increasing expectations of the auditing profession. We have communicated the lessons learnt from these reviews to all financial auditors through regular bulletins, our mandatory audit updates courses and, where appropriate, have incorporated them into further guidance and training and embedded them into our methodology. We have also:

- enhanced our mandatory consultation procedures for our highest-risk audits;
- updated our standard audit documentation templates and guidance;
- provided further guidance for teams on IFRS 9 and audit procedures to verify expected credit losses; and
- provided specific training and guidance to highlight the importance of, and providing effective challenge when, auditing the valuation of significant assets or an estimate.

2.21 We developed our centres of expertise in order to improve our challenge of areas of judgement around key assumptions used within valuations and estimates. We have three centres of expertise in property, pensions, and estimates and their work is embedded within our audit methodology. We also designed standardised testing approaches for lower risk property and pension valuations, thereby ensuring a level of challenge of key assumptions within these valuations.

2.22 More detail of the findings from these reviews and how we have responded during 2019-20 are highlighted in Appendix 4: External quality control system.

2.23 All this is against the context of us reinforcing a culture within the NAO of valuing the delivery of high-quality audit work which meets the needs of our stakeholders, principally Parliament as it scrutinises the work of those bodies it appoints us to audit. Our new *Strategy and Operational Development Plan* sets out key initiatives that we are taking forward to align our ambitions to the values and behaviours we expect from all our people and valuing our auditors for the work they perform.

2.24 Central to these initiatives are:

- the launch, in April 2020, of our values which set out the most important ways we work together, and with those outside the NAO, to achieve our purpose and priorities. Of our four values, “We strive for excellence” reinforces our commitment to achieve high-quality work that makes a difference;
- the appointment of one of our executive directors with specific responsibility for financial audit quality;
- the strengthening of our Compliance and Quality Unit with resources to do its work even more effectively;
- a wider review of our audit methodology and new audit software to support teams to better follow professional standards and in the quality of evidence gathered to support the audit opinion (detailed in paragraphs 2.25 to 2.29); and
- continued investment in technology and data analytics so as to gain better insights into our clients’ business and more efficient audit processes (see next section).

Investment in technology

2.25 The role of technology and data analytics is becoming ever more important across the audit profession, with all audit firms investing in new technology and data analytics to provide higher-quality audits, better insight and more efficient audit processes. We need to ensure that we follow industry-wide technological developments in auditing to provide the high-quality audit service expected from us.

2.26 We are investing in the digitalisation of our audits, in the further development of our audit methodology, and in our learning and development activities to support our people in adapting to these new audit techniques. Over the coming year we plan significant investment in our audit work to support further digitalisation of our audit methodology and the associated learning and development packages for our audit staff.

2.27 In 2019-20, we began moving audit data securely into the cloud to enable full utilisation of new analytics technologies. We have also invested in analytics for individual audits, and applications for use across the financial audit and value-for-money service lines.

2.28 Our self-service journals application allows auditors to assess the risks of management override of controls in transactions posted manually. The application helps auditors see the risks in clients’ data clearly and ensures clear documentation of the auditor’s risk assessment and response to those risks. It supports delivery of consistently high-quality audits across the NAO.

2.29 Our consolidation application, developed for particular large audits, has automated the process of checking that group consolidations performed by parent bodies has been completed correctly. This application has been tailored for each group to address the different ways in which government bodies consolidate their accounts. As a result of this investment, the audit of the consolidation is completed more quickly, with lower risk of error.

Promoting desired behaviours / high-quality performance

2.30 All financial audit staff have access to a wide range of financial audit training, in addition to mandatory assurance updates in spring and autumn.

2.31 In 2019-20, we moved more of our technical training including the annual assurance updates and technical training to virtual and online delivery mechanisms to allow all financial auditors to participate and improve their practice wherever they are working from. The annual assurance updates focused on risk assessments, updated auditing and new accounting standards and understanding our audited bodies through better data.

2.32 Other training can be selected based on the individual's role and prior experience. For example, targeted training was provided in the following areas:

- the auditing of accounting estimates;
- the auditing of pensions schemes;
- the auditing of properties schemes;
- the auditing of charities; group-audits; and
- new accounting standards.

2.33 We continue to provide further support and training for newly qualified audit principals and senior analysts taking on a lead role on audit engagements. We have embedded a two-year in-house training programme designed to address the challenges of moving from a three-year training programme into a post-qualification stage. This programme consists of learning and development activities and includes elements such as skills for new managers, workshops and opportunities to develop other, non-audit skills that will help colleagues get better at their job. The programme is also available to colleagues engaged in wider assurance work. This provides good opportunities for collaboration across the disciplines.

2.34 The professional accountancy training for staff is supplemented by in-house bespoke training. All front-line staff working on audit must attend annual assurance updates and have further training on specific areas, as detailed in paragraph 2.32 and in Appendix Four: External quality control system.

2.35 To support the 2019-20 audit cycle the annual assurance update was delivered in two stages. A two-day update to support planning and a one-day update to support the undertaking of year-end audit. Due to the impact of COVID-19 the year-end sessions were rapidly converted into e-learning modules and undertaken in April 2020.

2.36 Audit quality forms a key part of our financial audit performance management framework. Failings and good practice in audit quality are reflected in the performance assessment of directors and their teams.

2.37 On average, staff undertook 4.6 days of structured training during 2019-20. This includes training in areas of specialist accounting and central government audit.

Ethics

2.38 The NAO is compliant with the Financial Reporting Council's Revised Ethical Standards. The standard applies to bodies involved in audit engagement and other public interest assurance engagements. In the context of the NAO, the Ethical Standard applies to both financial and non-financial audit work. We have applied Ethical Standard 2016 to all 2019-20 financial audit engagements. We updated our firm-wide procedures to comply with the Revised Ethical Standard 2019 from the implementation date (15 March 2020).

2.39 The C&AG is the designated ethics partner (as defined by the Ethical Standard) and has overall responsibility for ethical matters. His independence is enshrined in statute. We are alert to areas where the NAO or our engagement teams' independence and objectivity could be, or perceived to be, threatened. An annual declaration is required by all staff to confirm that they are aware of their ethical and professional obligations.

2.40 The Ethical Standard sets out the overarching principles of integrity, objectivity and independence to set out a framework to follow, which provides a basis for user trust and confidence in the integrity and objectivity of any practitioner performing an engagement.

2.41 The Ethical Standard sets out specific circumstances that might arise in audit and other public interest assurance engagements which might undermine this basis for user trust and confidence.

2.42 We are required to establish that we have identified and addressed relevant conditions and circumstances, including that we have:

- implemented, maintained and/ or complied with effective systems and processes;
- established and operated effective safeguards;
- evaluated threats and safeguards appropriately; and
- taken any additional steps that are necessary to meet the ethical outcomes required by the overarching principles and supporting ethical provisions.

2.43 Members of staff must complete an annual Code of Conduct return which confirms that they are aware of their ethical and professional obligations. Staff must also perform a Declaration of Independence, in advance of involvement in any audit or other public assurance engagements, which highlights where potential or actual conflicts of interest might exist.

2.44 We set up strong safeguards against threats to our independence. We are appointed to most audits (including value-for-money audits) by statute. This means that the audited entity cannot replace us as auditor in response to negative audit opinions. Moreover, we are not dependent on fees for non-audit services to audited entities. This reduces threats to independence that could arise from an auditor seeking to protect non-audit income.

2.45 Where appropriate, we fully implement the Ethical Standard's safeguards. For example, to prevent over-familiarity of audit staff with the audited entity, we regularly rotate senior staff on financial audit in line with the requirements of professional standards. Detailed procedures for identifying potential threats to independence and establishing appropriate safeguards are embedded into our audit methodology.

2.46 The NAO Ethics Function supports the C&AG in discharging his role as ethics partner, by performing a review of each reported conflict of interest against the Revised Ethical Standard 2019, to evaluate perceived or actual threats to independence, and determine appropriate and effective safeguards.

2.47 Examples of conflicts of interest include staff members leaving to join an NAO-audited body and staff members with family members or close associates working for NAO-audited bodies. Once safeguards are in place, they are checked regularly to ensure compliance, and impacted teams are expected to report back in timely manner where circumstances change.

Wider assurance

Quality arrangements: value-for-money (VfM) standards

2.48 We conduct our VfM, investigations and other wider assurance work in accordance with our VfM standards, which set out the mandatory principles that all our wider assurance work must meet. These standards are based on current NAO best practice and they are consistent with the Fundamental Auditing Principles of the International Standards of Supreme Audit Institutions (ISSAIs), tailored to meet the specific expectations and requirements of the UK public sector environment and Parliament. They are accompanied by more detailed guidance on implementing the standards. Further information on our VfM standards can be found in Appendix Two: Value-for-money standards.

2.49 Our VfM standards also underpin our multi-stage quality assurance process for conducting VfM studies and investigations. The process consists of a set of core mandatory elements, along with additional quality assurance steps where appropriate and proportionate to the specific piece of work. Further details on the process are set out in Appendix Three: Internal quality control system. Other wider assurance work follows tailored quality assurance arrangements, all of which are underpinned by the VfM standards.

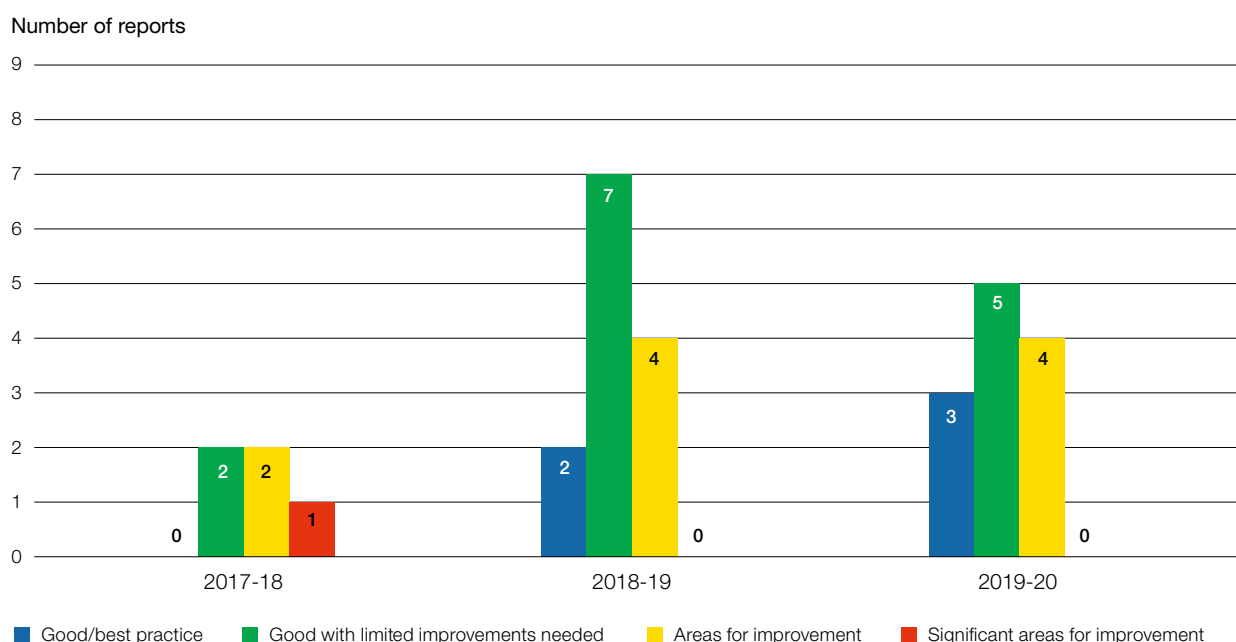
Quality arrangements: internal and external monitoring

2.50 We carry out an internal review of a sample of our wider assurance outputs twice a year. These reviews check adherence with the VfM standards and quality assurance process as well as identifying good practices. We use these findings to help improve our processes and guidance to staff, supported by additional training where required.

2.51 In 2019-20, we reviewed 12 VfM studies and investigations and, against our four ratings, eight were rated as good/best practice or good with limited improvements. The remaining four were rated as having areas for improvement, with no reports considered to have significant areas for improvement. Our internal reviews in 2018-19 found a similar spread of ratings across the 13 VfM and investigations reports sampled that year (**Figure 7**).

Figure 7

National Audit Office (NAO) internal cold review results between 2017-18 and 2019-20



Note

1 We reviewed five reports in 2017-18 under the current rating system, which was introduced during that year.

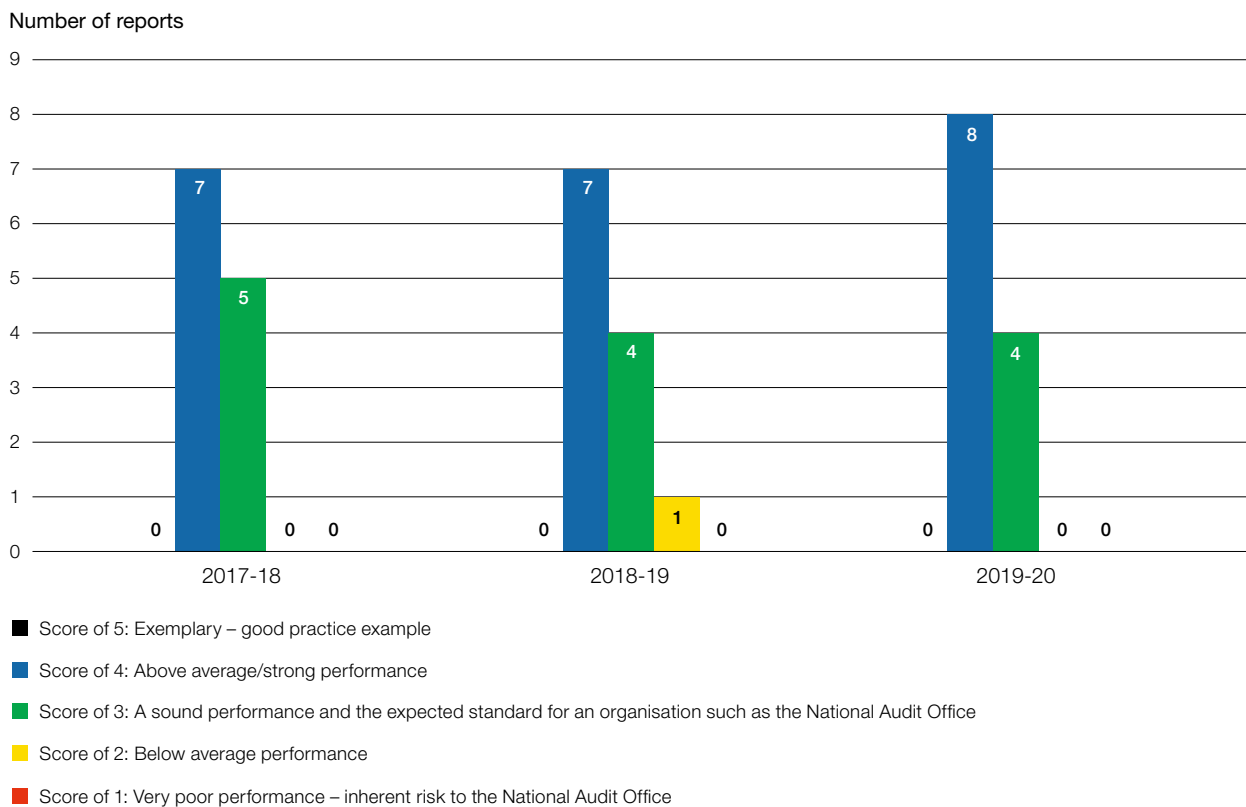
Source: National Audit office

2.52 Our 2019-20 reviews found that there had been improvement in teams' documentation of meeting quality assurance processes and evidence retention compared with 2018-19. The main issues identified were around having a clear audit trail to a report's findings; the identification and presentation of data limitations; and timely and full completion of ethical declarations. None of the issues identified had a material effect on the C&AG's judgements or conclusions in the reports that we reviewed.

2.53 The issues identified in 2019-20 have already been raised with staff as part of the annual VfM assurance update at the end of 2019. We also have a project under way to modernise the way we produce our reports which will help to address issues around ensuring clear evidence documentation, as set out in the case study at page 34.

2.54 Each year, we also invite external specialists to review a separate sample of published VfM reports and investigations. In 2019-20 Risk Solutions and RAND Europe undertook this work, examining 12 reports between them. 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. **Figure 8** below shows external cold review results between 2017-18 and 2019-20.

Figure 8
National Audit Office (NAO) external cold review results between 2017-18 and 2019-20



Source: Risk Solutions and RAND Europe

2.55 Overall, the reviewers assessed all 12 reports as meeting or exceeding expected standards. This was an improvement from 2018-19 where reviewers rated one report as below average, as they considered that the report presented limited analysis and did not have a clear VfM conclusion. 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.

2.56 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 of data limitations and omissions. Other areas noted included inconsistency in the description of the scope of our work and in some cases the inclusion of information and data that were not needed.

2.57 This is the first year that we have asked Risk Solutions and RAND Europe to summarise their findings across the reports they have reviewed and more details can be found in Appendix Four: External quality control system.

Continuous improvements to quality

2.58 We strive to make improvements to our processes and controls on a continuous basis. We learn lessons from our internal and external reviews and use these to change processes, guidance, support and training. If we become aware of a factual error in any of our published wider assurance work, we highlight this with a correction notice and amend the publication or re-print it. If we find an error, we review it to establish the cause and make necessary changes to processes, controls and guidance to help mitigate against similar mistakes being made again.

2.59 Study teams take part in a facilitated lessons-learned session shortly after publication of their VfM or investigation report. The session follows a standard format, designed to help the team draw out insights gained while undertaking the work. These include: strategic issues and themes; client engagement; collaboration with financial audit colleagues and others from across the business to make best use of in-depth specialist knowledge, expertise and learning from our previous work; how the output has added value pre- and post-publication; and output-specific lessons, for example how the team assured the technical quality of its work. These insights are collated and reviewed periodically to identify good practice and learning points, which are then made available to all teams.

2.60 As part of commitments to support our new strategy, we will be establishing six hubs of excellence in June 2020 that will house knowledge and expertise in important cross-cutting areas to support our financial audit and wider assurance audit work. We have also established a modernising VfM project, described in the case study below.

Case study

Modernising VfM project

In October 2019 we initiated the 'Modernising VfM' project in order to improve the efficiency of the report production process, reduce the possibility of errors arising in published outputs and to give our people more time to focus on checking quality during clearance and publication of their work. After consulting with a wide range of staff across the NAO, we have identified the key areas for improvement and set out a number of separate workstreams to drive improvement. These include developing a simpler way of documenting and storing our audit work, creating a tool to help how teams link evidence with their report more efficiently, and a streamlined design and publishing process that has now been implemented. It is within the scope of the project to consider how we embed this form of learning into a continuous cycle of improvement that is consistent with our new objectives and values.

Learning and development

2.61 Our learning and development offer is vital to support and embed quality in our work. We provide central training as well as encouraging a culture of learning and knowledge sharing throughout the organisation (**Figure 9**).

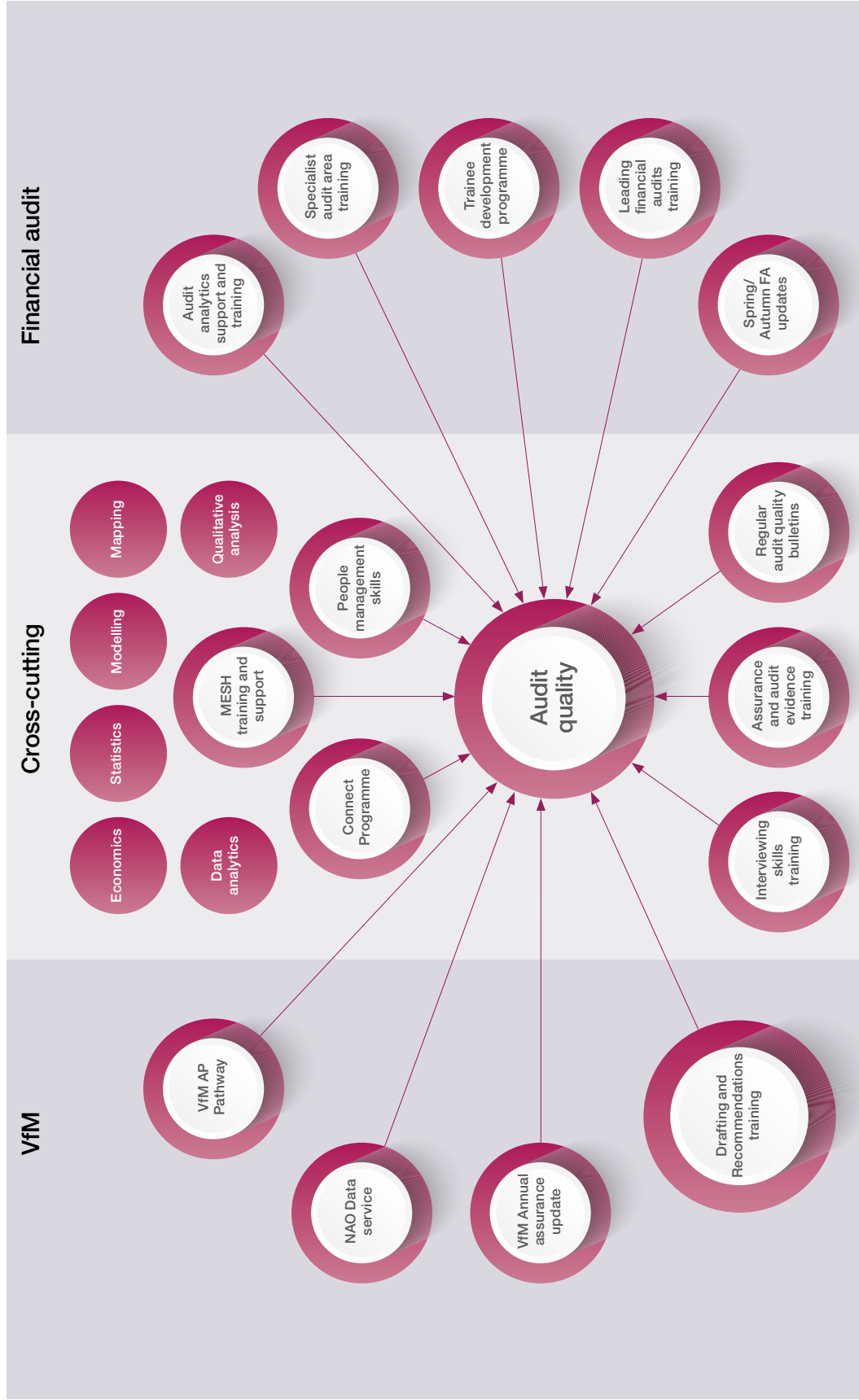
2.62 Staff engaged in VfM studies and investigations are qualified accountants (or training in accountancy) or specialists qualified to Masters level or equivalent in other disciplines such as economics, statistics, data science, social research and operational research. Staff can also use and develop specialist skills to support work across the office through communities of practice established within the NAO (these communities will form the basis of new specialist cross-cutting 'hubs' from June 2020). To maintain the technical competence of staff engaged in wider assurance work, we provide a full and varied training programme, ranging from introductory courses for new financial audit trainees and wider assurance analysts to technical courses for experienced practitioners.

2.63 Training is provided to support the key aspects of our wider assurance work programme. We ensure that all colleagues working in VfM and investigations work receive the necessary training to deliver impactful products. Specific modules cover scoping, fieldwork and drafting and we offer specialist sessions on interview techniques and statistical analysis while introducing a pathway to support recently qualified financial audit principals to develop into VfM practitioners.

2.64 Ongoing support and communications ensure that experienced practitioners access continuous professional development. We produce regular audit bulletins and quality updates along with a mandatory annual assurance update in the autumn to communicate the key quality assurance announcements to our people.

Figure 9

National Audit Office (NAO) learning and development support for audit quality in financial audit and wider assurance work



Note

1 FA: financial audit, VfM: Value-for-Money, MESH: Methods, Economics and Statistics.

Source: National Audit Office

2.65 The NAO routinely accesses large volumes of data. A dedicated team holds a number of large data sets in the NAO data service. The data service is supported by training at a beginner or expert level and guides study teams on how to extract and merge data from multiple sources to efficiently access data required for analysis. Our specialist Methods, Economics and Statistics (MESH) team coordinates across a range of specialist areas to support financial audit and wider assurance work.

Feedback on the quality of our work from those we audit

2.66 An important measure of the quality and impact of our work is how much it helps civil servants and the chairs of audit committees to drive improvement in public services. We seek feedback on our work through an independently conducted survey and interview programme. We draw on this feedback to support continuous improvement in our audit practices.

Financial audit

2.67 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).

2.68 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).

Wider assurance

2.69 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). 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.

2.70 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).

2.71 The number of organisations agreeing that our report 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). These are areas where we are looking to improve through our new strategy.

Feedback from MPs

2.72 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.

2.73 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. Further information on the feedback from MPs is available in our *Annual Report and Accounts 2019-20*, which is available on NAO's external website.

Case study

Making our work accessible and interactive

We want the general public to know about and use our work to improve public services. The general public 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 with 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 to support wider campaigns, such as World Mental Health Day. There were more than 260,000 downloads of our reports and 780,000 visits to the NAO's website.

| Part Three

People

3.1 Our new values which were launched in April 2020, and which are described in Figure 3 at page 15 help describe the culture we want to achieve to meet the ambitions in the National Audit Office's (NAO's) strategy. We are already applying these values in the current context of home-working and we will help our people to bring the new values to life and live by them, so that they are embedded in the day-to-day work of the office. We will also monitor progress on how our people are embedding the values and how they are reshaping our culture, and take action to make changes where necessary.

Talent pipeline

3.2 We are a training provider for the Association of Chartered Accountants (ACA) professional training scheme. We recruit talent 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.

3.3 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.

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

3.5 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.

Professional training scheme

3.6 Last year, 87.8% of our graduates passed the Professional Stage examinations for the 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%). We were delighted that two colleagues won prizes in the autumn set of the Institute of Chartered Accountants in England and Wales (ICAEW) ACA exams. One colleague won first place and the Knox prize for his Tax Compliance Professional stage exam. Another colleague won first place and the Watts prize for his Audit and Assurance Professional stage exam.

Case study

Offering a broader work experience for trainees

During summer 2019 the NAO sought to improve the experience of trainees by providing a number of opportunities for those interested in non-financial audit work. With the Comptroller and Auditor General's strong focus on establishing the NAO as a truly integrated public audit institution, these placements provided a good example of how we can achieve that. In all, 14 trainees took part in the exercise, working across the Investigations, Brexit, Value-for-Money (VfM) Practice and Quality, Department for Business, Energy & Industrial Strategy, Department for Work & Pensions and Ministry of Defence teams. The trainees were involved in a range of activities supporting these teams, including generating new investigations ideas, preparing briefings, analysing data and information, and supporting VfM studies in fieldwork. The outcomes from these placements were mutually beneficial: the teams were relieved of some of their resource pressures and presented with new ideas and high-quality work, and trainees learnt about the VfM and Investigations processes.

Learning and development

3.7 In 2019 we launched a new Learning & Development (L&D) strategy that focused on a wider blended learning offer giving people access to the L&D opportunity when they need it. We have completed the roll-out of an office-wide training programme called Connect (delivered as workshops, videos and online content) which focused on how to have better performance conversations so that, through constructive conversations, we could ensure the quality of our financial audits and wider assurance work. In parallel to this we began to train a cohort of internal coaches who will also be able to help people to understand what they can do to develop their skills and help them to see things from a different perspective. We also developed and began to run a series of 'train the trainer' events to strengthen the capacity of the NAO to deliver high-quality and engaging learning and development activities designed to maximise learning and maintain quality.

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

3.9 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.

Case study

Focus on line management

People development is a crucial part of NAO's new strategy and how we can best support, manage and develop our people is informed by the feedback we received from the annual staff survey results and the consultation with NAO people as part of our strategic review.

We rolled out an office-wide training programme in November 2019 which focused on how to have better performance conversations so that, through constructive conversations we could ensure the quality of our financial audits and wider assurance work. In total 350 line managers were invited to participate in the programme, of which 290 accessed the learning pages and 254 downloaded at least one resource.

Diversity and inclusion

3.10 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.

3.11 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.

3.12 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 of employment. 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.

3.13 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 of employment, 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.

3.14 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.

3.15 Our focus on ensuring the improved progression of staff with protected characteristics to more senior positions in the NAO 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.

3.16 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 colleagues can develop their career.

3.17 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 colleagues. In support of our commitment to creating a more inclusive working environment for all 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 diversity and inclusion dashboard which uses real-time data to highlight aspects of our people processes which may suggest unequal treatment across protected groups.

Pay gap reporting

3.18 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 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.

3.19 In anticipation of any future government requirements to publish pay gaps for other protected characteristics we completed initial assessments of our BAME and disability pay gaps and will be carrying out further detailed analysis in 2020-21.

Case study

Diversity mentoring

In October 2019, we launched NAO's first diversity mentoring programme with 18 mentoring relationships, involving people from across the NAO. Diversity mentoring involves the mentee (in this case the C&AG, executive directors and people directors) being mentored by someone from a different background to their own. Mentees involved in the diversity programme are looking to better understand what it is like for colleagues from a different background to their own to work at the NAO and to be challenged on their current thinking and perspectives.

Mentoring of this nature can develop a deeper and more personal understanding of diversity issues which the mentee may not have encountered during their own career. Other organisations have introduced similar schemes to address the potential disconnect between how senior leaders and more junior colleagues regard their organisational culture and to break down biases and challenge ingrained views. We are currently evaluating the six-month impact of the programme and, if judged successful, will be rolling it out more widely. Early indications are that both mentors and mentees are very positive about the programme and its impacts.

People survey

3.20 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 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.

3.21 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).

3.22 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.

Mental health

3.23 We know that our mental health is as important as our physical health. Over recent years we have built a greater understanding of this important area and worked hard to strengthen the support and guidance that we offer those facing a mental health issue. We continue to recognise important days such as World Mental Health Day and Time to Talk Day, taking these opportunities to remind people of the importance of well-being, keep the conversation going through stories and shared tools and break down the stigma that can be associated with mental health conditions.

3.24 Our trained mental health first aiders (MHFAs) help us to raise awareness and to support those facing a mental health issue. They provide confidential support and guidance to those who need it. In February 2020, we ran two MHFA courses, in London and Newcastle, to strengthen this team as well as running refresher training for our existing MHFAs to ensure their skills remain up to date. We currently have more than 70 MHFAs across the NAO from different grades, teams and locations.

Case study

Raising awareness for mental health

During October 2018, we ran a “This Is Me” poster campaign to end the stigma around mental health in the workplace. Following positive feedback about the posters which shared colleagues’ experiences of mental health, we launched a “This is Me” video in May 2019 to coincide with Mental Health Awareness Week. The video has been used many times and is integrated into our induction process. It has opened many opportunities for wide and frank conversations about mental health.

As part of Inclusion Week in September 2019 we held several activities, seminars and events with a focus on mental health.

| Part Four

Governance and accountability

4.1 Our governance framework has been developed and implemented in accordance with the requirements of the Budget Responsibility and National Audit Act 2011. The framework reflects our unique statutory position and Parliament's wish that our governance should independently control and oversee our operations, while preserving the Comptroller and Auditor General's (C&AG's) independence in giving audit judgements.

The Public Accounts Commission

4.2 The National Audit Office (NAO) is accountable to Parliament via the Public Accounts Commission. The role of the Commission is to:

- examine the NAO's annual budget (Estimate) and lay it before Parliament;
- consider the NAO's strategy;
- appoint the non-executive members of the Board; and
- appoint the external auditor of the NAO.

The role of the Board

4.3 The role of the Board is to ensure leadership through effective oversight and review. It shapes the strategic thinking of the NAO and sets the tone from the top. The Board is composed of five non-executive and four executive members. The C&AG is a permanent member of the Board.

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 the C&AG;
- ensuring that the NAO functions effectively so that the C&AG can discharge his statutory responsibilities; and
- providing support and advice to the C&AG in the exercise of his duties and bringing an independence of thought, informed by non-executive members' experience outside the NAO.

Board committees

4.4 The Board, which is chaired by Michael Bichard, has established the Audit Committee and the Remuneration and Nominations Committee, to which it has delegated specific responsibilities.

4.5 The Audit Committee, chaired by Janet Eilbeck, is responsible for reviewing and providing assurance to the Board on the effectiveness of NAO's internal controls, risk management framework, the integrity of the financial statements, including the statement that relates to NAO's financial impact, and overseeing the external audit process. In March 2020, the Board agreed the Audit Committee should expand its remit and become an Audit and Risk Committee to enhance the advice it provides to the Board on the management of risk in the NAO.

4.6 This Remuneration and Nominations Committee, chaired by Clare Tickell, looks at the pay and performance of the executive directors, human resources-related topics, and talent and succession planning.

Case study

External scrutiny of the NAO's performance

As part of its own external scrutiny of performance, the Board commissions its external auditors to undertake a value-for-money study annually on an area of NAO's operation to establish whether resources have been used economically, efficiently and effectively.

Since their appointment as NAO's external auditor in 2015, Crowe U.K. LLP has conducted reviews on the following areas of NAO's operations:

2015: HR processes

2016: Workforce deployment

2017: Delivery of benefits from NAO's IT-enabled change programme

2018: Contract management

2019: Impact reporting

2020: Efficiency of NAO's finance function (in progress)

The external auditors follow up every year on the progress the NAO has made in implementing the recommendations for improvement and report their findings to the Board. The external reviews are published on the Public Accounts Commission's external website.

Executive Team

4.7 The Executive Team supports the C&AG in the exercise of his statutory duties. During 2019, the Executive Team has taken collective responsibility for delivering NAO's strategy and operational business priorities, engaging the NAO's people, strategic communications, overseeing the management of NAO's financial resources and internal management of the NAO. The Executive Team is also the senior executive diversity and inclusion decision-making body with overall responsibility for the NAO's Diversity and Inclusion strategy.

4.8 At the beginning of Gareth Davies' tenure as C&AG (in June 2019), the Executive Team and Board decided to carry out a wide-ranging strategic review into the role and purpose of the NAO. The strategic review concluded in March 2020 and the NAO starts 2020-21 with a new five-year strategy focused on ensuring the NAO continues to provide effective support to Parliament in scrutinising the public sector's performance while making our insights available to those responsible for public services. The five-year strategy is available on the NAO's external website.

4.9 Alongside the strategic review the Executive Team has conducted a review of the NAO's executive management arrangements. From 2020-21 the executive directors will have stronger roles and responsibilities in relation to: managing groups of audit teams; the financial and value-for-money (VfM) service lines; and functional responsibilities.

Risk management

4.10 The NAO had 18 risks as at 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.¹
- **People and operations:** Risks involving people, systems and processes. Our risk appetite is cautious for this area of risks.²
- **Change management:** This risk addresses how the NAO manages change. Our risk appetite is open for this risk.³
- **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.

Figure 10 overleaf sets out the mitigations during the year against each risk category.

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

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

3 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 category

Risk category	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 category 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 vital 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 category 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 (business units) introduced Diversity and Inclusion action plans.</p> <p>This year we produced a new Learning and Development strategy 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 category 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>

Source: National Audit Office

Taking our risk management approach forward for 2020-21

4.11 Following the government's re-launch of the *Orange Book* in 2019, we have carried out a review of our current approach against the principles set out in the *Orange Book*. The findings from this review revealed that while we were compliant with the main principles set out in the *Orange Book*, there were 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.

4.12 At the same time, in response to our strategic review, we will: update our risk management process to reflect our new strategic priorities.

Whistleblowing

Internal whistleblowing

4.13 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. The policy is published on our website for transparency about how we manage internal whistleblowing.

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

External whistleblowing

4.15 The C&AG is a prescribed person listed in the Public Interest Disclosure (prescribed persons) Order 2014, to whom external persons can make disclosures relating to "the proper conduct of public business, value for money, fraud and corruption in relation to the provision of public services".

4.16 The Order does not require the C&AG to investigate every disclosure he receives; his decision whether to investigate is based upon various criteria designed to ensure the most effective use of the resources at his disposal in safeguarding the public interest.

4.17 We provide more than 1,300 responses to correspondence each year, many of these raise concerns about public bodies, some of which are concerns raised by workers about their employer. These whistleblowing disclosures are published in our whistleblowing annual report available on our external website. The *Whistleblowing report 2019-20* is due for publication in the autumn.

Complaints

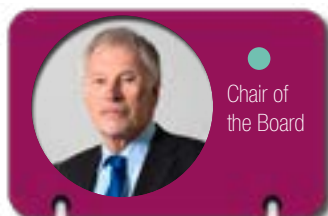
4.18 Anyone who encounters the NAO and is unhappy or dissatisfied can complain. The NAO has a formal three-stage complaints process. We make every effort to resolve satisfactorily a complaint in the first instance but, if we cannot, the complaint will be reviewed by a member of staff uninvolved with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

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

Appendix One

Biographies

● 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.

Michael has worked at senior levels in local government and was the chief executive at both Brent and Gloucestershire local authorities. 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, Gareth 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 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.

● Non-executive director ● Executive director ● Board member



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.



Dame Clare Tickell

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

Clare 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.



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 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.

● Non-executive director ● Executive director ● Board member



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, Kate 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.

Rebecca 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.



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, John was responsible for our financial audit of HM Treasury and HM Revenue & Customs. John 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.

I Appendix Two

Value-for-money standards

1 The National Audit Office's (NAO's) standards for value-for-money (VfM) and other wider assurance work (VfM standards) set out the expectations that all VfM studies, investigations and other wider assurance outputs must meet. Colleagues working on these types of work are expected to adhere to the standards and this is considered as part of the internal quality assurance arrangements. There are 12 standards covering:

- integrity, objectivity and independence;
- work proposal and selection;
- design and planning;
- evidence and analysis;
- forming conclusions and recommendations;
- reporting;
- quality assurance;
- project management and monitoring;
- engagement with audited bodies;
- engagement with other stakeholders;
- achieving impact; and
- learning lessons and sharing knowledge.

2 The VfM standards are supplemented by detailed guidance relating to specific stages in the lifecycle of a VfM study, investigation and/or other type of wider assurance work, including analytical and technical methods and approaches. The guidance is held electronically and updated as and when is required.

Appendix Three

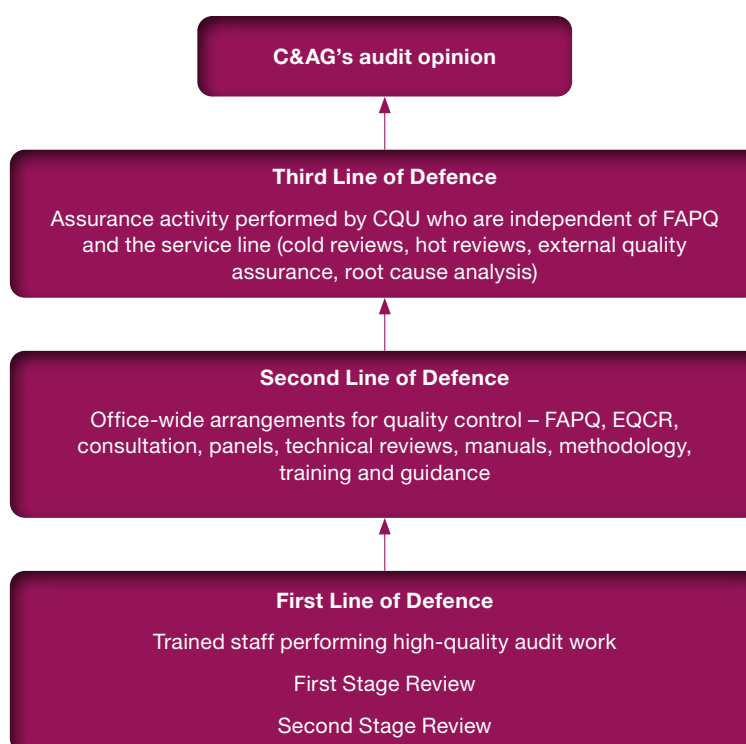
Internal quality control system

Financial audit

1 **Figure 11** below shows how internal quality control fits within our approach to quality assurance in financial audit. We have included further details of our internal quality control system in relation to financial audit in Part Two of this report, starting at paragraph 2.4 on page 21.

Figure 11

National Audit Office (NAO) Financial Audit: the quality control framework



Note

¹ C&AG = Comptroller and Auditor General, FAPQ = Financial Audit Practice Quality, EQCR = Engagement Quality Control Reviewer, CQU = Compliance and Quality Unit

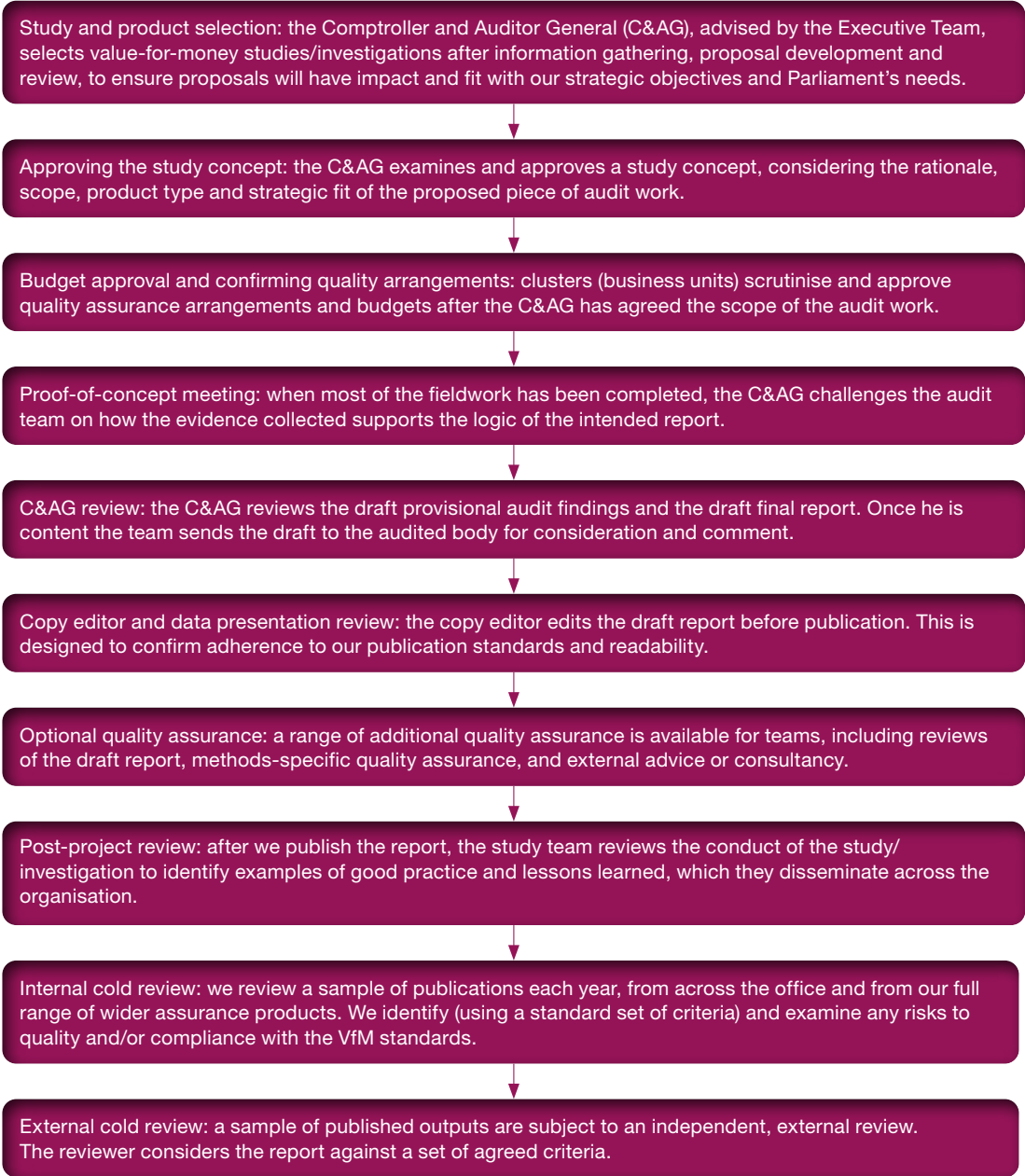
Source: National Audit Office

Value-for-money and wider assurance

2 **Figure 12** below shows the value-for-money (VfM) internal control framework. We have included further details of our internal quality control framework in relation to value-for-money and wider assurance work in Part Two of this report, starting at paragraph 2.48 on page 30.

Figure 12
National Audit Office (NAO) value-for-money (VfM) control framework

Directors ensure that there are proportionate and appropriate quality assurance arrangements for their studies and investigations. For each study there is a quality assurance plan, which is agreed by an independent director within the cluster (business unit). We assign a partner director and case manager: the partner director acts as a constructive critic and the case manager is available to provide technical and practical advice and guidance throughout the audit. Quality is controlled using the following mandatory framework.



Source: National Audit Office

| Appendix Four

External quality control system

Financial audit

1 The annual reviews of our financial audit work undertaken by the Audit Quality Review (AQR) team of the Financial Reporting Council and the National Audit Office's (NAO's) internal review programme (paragraphs 2.12 to 2.24) have identified areas of good practice and areas where we need to improve the quality of our audit work and to strengthen our firm-wide procedures to help support our audit teams.

2 In 2019, we developed our firm-wide response to address the issues found.

We:

- communicated findings from the reviews of samples of audits to all staff;
- incorporated the feedback into our *Financial Audit Manual*;
- provided audit update training in spring and autumn 2019 on issues raised;
- enhanced our mandatory consultation procedures for our highest-risk audits;
- updated our standard audit documentation templates and guidance;
- provided office-wide annual technical updates;
- strengthened the capacity and scope of our Compliance and Quality Unit; and
- redesigned our internal quality assurance review programme to provide greater challenge.

3 We also developed our centres of expertise in order to improve our challenge of areas of judgement around key assumptions used within valuations and estimates. As part of this, we have now established three centres of expertise in property, pensions, and estimates and their work is embedded within our audit methodology. We also designed standardised testing approaches for lower-risk property and pension valuations, thereby ensuring a level of challenge of key assumptions within these valuations.

4 We provided specific training and guidance to highlight the importance of, and providing effective challenge when, auditing the valuation of significant assets or an estimate.

5 In addition to continuing to perform root cause analyses on audits where reviews highlighted areas for improvement, we also performed an analysis with a range of individuals engaged on audits that had good results from internal and external reviews. This highlighted the following traits of a good-quality audit:

- the quality of the client's finance function;
- a comprehensive and well thought out risk assessment process;
- strong project management;
- a culture of scepticism and challenge;
- effective desk training and coaching;
- appropriate resourcing and access to specialist skills; and
- effective consultation of issues within the wider NAO.

6 In its review of our 2018-19 audit cycle, the AQR noted that the NAO had taken steps to address the key findings highlighted as part of its review of our 2017-18 audits. These steps included enhancing guidance over group audits, including how the group audit team evidences their direction, oversight and review of a component auditor, clarifying audit work programmes so that audit teams do not deviate from the NAO's approved methodology, and removing the concept of reliance on high-level controls. The AQR noted that there were no significant findings to raise in these areas in 2018-19. It also recommended previously that the NAO perform root cause analysis on the audits assessed as requiring more than limited improvements and the NAO has undertaken such reviews.

7 On the reviews of individual audits, the AQR highlighted that the NAO should:

- improve the extent of challenge in areas of judgement, in particular for key assumptions used in valuations and estimates, including audit work on the valuation of financial instruments and the allowance for expected credit losses for loans;
- strengthen the assessment of, and evaluation of work performed by internal and/or external experts and specialists;
- ensure testing procedures across all our audits provide a sufficient level of audit evidence in relation to the balance or transactions being tested;
- review the application of internal guidance over quality control so that quality control is consistently performed and evidenced; and
- instill a culture of challenge within the expected behaviours of the team so that there is a greater emphasis on their responsibilities to challenge management in areas of judgement, such as in key assumptions used in valuations and estimates.

8 We have already responded to these findings and have developed a plan to monitor the progress of agreed actions. For example, we have already communicated these findings to all staff through a Financial Audit Bulletin in April 2020. We included the findings as a key component of our mandatory financial audit update courses in spring 2020. We also issued subsequent guidance to clarify where we might want to seek our own experts to help us audit complex areas and in the initial risk assessment of significant areas of an audit.

Value-for-money (VfM) reports and investigations

9 For more than two decades we have used external specialists to review our wider assurance reports. In 2019-20, a sample of 12 reports were reviewed by independent experts from Risk Solutions and RAND Europe. Our reviewers assess the report against a set of criteria covering:

- scope and rationale;
- context;
- structure and presentation;
- quantitative and qualitative analysis;
- graphics and statistics;
- methods used;
- summary;
- relevance of content;
- synthesis of analyses and conclusions, recommendations (where made) and systemic issues (VfM studies only); and
- fulfilment of scope and sufficiency of evidence (investigations only).

10 Our reviewers provide a written review assessing how each report performs against the criteria, leading to an overall assessment. This year, we have also requested for the first time from our external specialists a summary of the key points from across the reports they have reviewed, focusing on areas that were of particular high quality and areas for improvement. Key findings from the external cold reviews are set out in **Figure 13** overleaf.

Figure 13

Key findings on the National Audit Office (NAO) from the external cold reviews

Review criteria	Review comments
Scope and rationale	<ul style="list-style-type: none"> Overall, the scope and rationale were considered appropriate and well-defined. However, this was not always the case and there was sometimes inconsistency in what was included in the scope of a report. In some cases, the scope was also not fully met compared with what the report set out to cover and it was not made clear when there were changes in scope.
Context	<ul style="list-style-type: none"> The context was usually very well described and informative and has always been an area of strength.
Structure and presentation	<ul style="list-style-type: none"> The structure and presentation of NAO reports was recognised as a consistent strength. Language was usually jargon-free and easy to read. The tone was generally neutral, and the information presented balanced. However, the standard structure for NAO reports sometimes resulted in repetition or lack of “flow”.
Methodology, graphics and statistics.	<ul style="list-style-type: none"> Most reports included useful and appropriate graphics and statistics, such as for showing trends and comparisons, although the quality of visuals varied between and within reports. Good use was made of quantitative analysis and is now consistently one of the highest scoring of the assessment criteria. Qualitative data analysis has also improved in some reports. However, there could be increased transparency in how quantitative and (especially) qualitative data are presented and referred to. For example, clarity around statistical significance given likely sampling errors, greater context and explanation of omissions or focuses. The lack of detail provided in the methodology in some reports can also sometimes make it difficult to know if the analysis has been used effectively. This is a noted area of inconsistency.
Relevance of content	<ul style="list-style-type: none"> In general, NAO reports are good at making a compelling case without using superfluous data, while ensuring that all the data presented are fully exploited in supporting the conclusions and recommendations. However, in some cases there was the inclusion of information that did not add to the narrative or where, for example, tables were not fully exploited in the text.
Summary	<ul style="list-style-type: none"> NAO report summaries were generally helpful standalone pieces of work, presenting a coherent story supported by the evidence in the main report. However, the use of more direct language that more clearly states the findings would make summaries more persuasive, along with further clarity and shortening in some cases. There was also sometimes a mismatch between the headline finding in bold and the rest of the paragraph content or between the emphasis and tone of the summary and the main report.
Synthesis of analyses and conclusions (VfM only)	<ul style="list-style-type: none"> The synthesis of analyses and conclusions presented in the value-for-money (VfM) studies were sometimes weaker than other elements. For example, risks highlighted in the main report were not mentioned in the conclusion or recommendations or there was often little consideration of the counterfactual or alternative explanations for observed outcomes. In some cases, the conclusion could have been clearer as to whether VfM had been achieved or (if not possible) explaining why a VfM conclusion has not been made.
Recommendations (VfM only)	<ul style="list-style-type: none"> Where relevant, recommendations were set out clearly and unambiguously, appeared practical and well targeted and were supported by the underlying evidence.

Note

- Reviewers also had comments on how the criteria for external review may be refined, for example on whether the inclusion of relevant systemic issues should be considered, given the often narrow focus of a report.

Source: Risk Solutions and RAND Europe

Appendix Five

Review of effectiveness

1 The Comptroller and Auditor General's (C&AG) review of effectiveness is informed by the work of the director of internal audit and assurance (DIAA), the executive directors within the National Audit Office (NAO) who are responsible for developing and maintaining the internal control framework, and comments made by external auditors in their management letter and other reports.

2 In his 2019-20 annual report to the C&AG, the DIAA concludes that the NAO "has adequate and effective governance, risk and control arrangements". The DIAA 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'.

3 The DIAA has assured the C&AG that the resources made available to them have been sufficient to complete the operational plan and the safeguards in place have maintained their independence.

4 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

5 The C&AG states in the NAO's *Annual Report and Accounts 2019-20* (which can be found on our website) that 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.

I Appendix Six

Financial information

1 Our full financial information is contained in our *Annual Report and Accounts 2019-20*, which can be found on our website. **Figure 14** below sets out our expenditure and income under six operating segments. As would be expected from the nature of our work, the largest segment of expenditure relates to financial audit, which represents 68% of the National Audit Office's (NAO's) voted gross expenditure. The remainder relates to other assurance work. The Comptroller and Auditor General's (C&AG's) comptroller function is reported as a separate segment.

Figure 14

National Audit Office (NAO) 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 10 to 47 of the *NAO Annual Report and Accounts 2019-20*, which can be found on our website. 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 of the *NAO Annual Report and Accounts 2019-20*. 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.

Source: National Audit Office 2019-20 Annual Report and Accounts

Appendix Seven

Transparency report disclosure requirements

1 **Figure 15** below shows the disclosures required by Article 13 of Regulation (EU) No 537/2014 and how the National Audit Office (NAO) complies with these disclosures.

Figure 15

How the National Audit Office (NAO) complies with the disclosures required by Article 13 of Regulation (EU) No 537/2014

Provision of Regulation (EU) 537/2014	How the National Audit Office complies with Regulation (EU) 537/2014
A description of the legal structure and ownership of the audit firm.	The Comptroller and Auditor General (C&AG), Gareth Davies, leads the NAO and is an Officer of the House of Commons, as established by statute. He and the staff of the NAO (about 825 people) are independent of government. They are not civil servants and do not report to a minister.
Where the statutory auditor or the audit firm is a member of a network:	N/a. The NAO is a Supreme Audit Institution and not part of a network.
<ul style="list-style-type: none"> i a description of the network and the legal and structural arrangements in the network; ii the name of each statutory auditor operating as a sole practitioner or audit firm that is a member of the network; iii the countries in which each statutory auditor operating as a sole practitioner or audit firm that is a member of the network is qualified as a statutory auditor or has his, her or its registered office, central administration or principal place of business; and iv the total turnover achieved by the statutory auditors operating as sole practitioners and audit firms that are members of the network, resulting from the statutory audit of annual and consolidated financial statements. 	
A description of the governance structure of the audit firm.	The NAO's governance structure is shown in Part Four: Governance and accountability.
A description of the internal quality control system of the statutory auditor or of the audit firm and a statement by the administrative or management body on the effectiveness of its functioning.	See Part Two for a description of the NAO's internal quality control system. As described in this report, our internal quality control system is made up of many different processes and reviews. Drawing on our ongoing analysis of all aspects of the system in place gives us reasonable assurance that our internal quality control system is functioning effectively.

Figure 15 *continued*

How the National Audit Office (NAO) complies with the disclosures required by Article 13 of Regulation (EU) No 537/2014

Provision of Regulation (EU) 537/2014

An indication of when the last quality assurance review referred to in Article 26 of Regulation (EU) 537/2014 was carried out.

A list of public interest entities for which the statutory auditor or audit firm carried out statutory audits in the preceding financial year.

A statement concerning the statutory auditor's or the audit firm's independence practices which also confirms that an internal review of independence compliance has been conducted.

A statement on the policy followed by the statutory auditor concerning the continuing education of statutory auditors referred to in Article 13 of Directive 2006/43/EC.

Information concerning the basis for the partners' remuneration in audit firms.

A description of the statutory auditor's or the audit firm's policy concerning the rotation of key audit partners and staff in accordance with Article 17(7) of Regulation (EU) 537/2014.

How the National Audit Office complies with Regulation (EU) 537/2014

A review of our statutory audit performance was completed by the Audit Quality Review (AQR) team of the Financial Reporting Council. We have set out some details of this review in Part Two: Audit independence and quality and Appendix Four: External quality control system.

In 2019-20, the NAO audited three public interest entities:

- 1 Network Rail Infrastructure Finance PLC
- 2 CTRL Section 1 Finance PLC
- 3 LCR Finance PLC

The NAO continues to audit NRAM Limited, and HM Treasury UK Sovereign SUKUK PLC, which were previously categorised as public interest entities, but no longer meet the relevant criteria.

See Part Two: Independence section for details of our independence procedures. Consideration of our independence practices is completed throughout the year. We can therefore confirm that an internal review of our practices has been conducted in 2019-20.

The NAO's policies and practices are designed to ensure that our staff continue to maintain their theoretical knowledge, professional skills and values at a sufficiently high level. See Part Three: People for further detail of these policies and practices.

The NAO is not an audit firm and has no partners. For details of the NAO's remuneration policy, see Part Four: Governance and accountability. Remuneration details for the NAO's executive team are contained in the remuneration table on page 96 in the NAO *Annual Report and Accounts 2019-20*, which is available on our website.

Directors are rotated at least every five years and are required to ensure that other team members are not involved in an engagement for more than seven years.

Figure 15 continued

How the National Audit Office (NAO) complies with the disclosures required by Article 13 of Regulation (EU) No 537/2014

Provision of Regulation (EU) 537/2014

Where not disclosed in its financial statements within the meaning of Article 4(2) of Directive 2013/34/EU, information about the total turnover of the statutory auditor or the audit firm, divided into the following categories:

How the National Audit Office complies with Regulation (EU) 537/2014

Most NAO audits are funded by the money provided to us by Parliament. The organisations we audit must show the cost of the audit in their financial statements as part of the cost of them operating. Therefore we agree a 'notional' fee which reflects the cost of carrying out the audit which they then disclose in their accounts but they make no payment to us.¹

The NAO covers some of its expenditure by charging cash 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 of the *Annual Report and Accounts*, which is available on our external website.

Disclosures in **i-iv** below relate to cash fees.

i	revenues from the statutory audit of annual and consolidated financial statements of public-interest entities and entities belonging to a group of undertakings whose parent undertaking is a public-interest entity;	i	£0.05million
ii	revenues from the statutory audit of annual and consolidated financial statements of other entities;	ii	£17million
iii	revenues from permitted non-audit services to entities that are audited by the statutory auditor or the audit firm; and	iii	£4million Of this: £1.5million relates to other assurance engagements, including EU Agricultural Funds (£1million) and the audit of interim financial statements and special purpose accounts of a small number of companies. £1million relates to rent and service charge income from three bodies who rent office space in our headquarters building from the NAO. See (iv) below for rent and service charge, and miscellaneous income from other entities. £1.5million relates to fees raised on behalf of, and passed onto Audit Scotland, Wales Audit Office, and Northern Ireland Audit Office in connection with EU Agricultural Funds work. The NAO provides capacity building services to other Supreme Audit Institutions and receives funding to cover the costs of this work. The funding can come from a variety of sources including from government bodies. In 2019-20, the NAO received £14,776 from the Department for International Development, and £21,765 from the Foreign & Commonwealth Office.
iv	revenues from non-audit services to other entities.	iv	£1.5million, of which £1.4million relates to rent, service charges and miscellaneous income.

Note

- ¹ On page 18 of this report, we note that the NAO also provides reports on the collection of revenue on behalf of government by the British Broadcasting Corporation, the Driver & Vehicle Licensing Agency and HM Revenue & Customs, including on the administration of Scottish and Welsh income tax. These are financed using Parliamentary funding.

Source: National Audit Office

Appendix Eight

Review of National Audit Office (NAO) compliance with the Audit firm governance code (Revised 2016)

- 1** The NAO is not required to comply with the Audit firm governance code as compliance is required for those firms having 20 or more listed entities as clients. However, in the spirit of adhering to best practice, to the extent that the code is relevant to the NAO, which is a Supreme Audit Institution, we set out how we comply with the Audit firm governance code.
- 2** Throughout the code reference to 'a firm' means a firm that audits listed companies in the UK. **Figure 16** below shows how the NAO has complied with the provisions in the code.

Figure 16
Review of National Audit Office (NAO) compliance with the Audit firm governance code (Revised 2016)

A – Leadership

Provision of the code	How the NAO complies with the code
A.1: Owner accountability principle – The management of a firm should be accountable to the firm’s owners and no individual should have unfettered powers of decision.	The owner accountability principle does not directly apply to the NAO. The Comptroller and Auditor General (C&AG) has statutory powers given by Parliament.
A.1.1: The firm should establish board or other governance structures, with matters specifically reserved for their decision, to oversee the activities of the management team.	All other provisions are covered by Part Four: Governance and accountability and relevant sections of our <i>Annual Report and Accounts 2019-20</i> , which is available on our external website.
A.1.2: The firm should state in its transparency report how its governance structures and management team operate, their duties and the types of decisions they take.	This is covered in Part Four of the Transparency Report and in the NAO’s <i>Annual Report and Accounts 2019-20</i> : Structure of Governance section
A.1.3: The firm should state in its transparency report the names and job titles of all members of the firm’s governance structures and its management team, how they are elected or appointed and their terms, length of service, meeting attendance in the year and relevant biographical details.	Covered in Part Four of the Transparency Report and in Appendix One. In addition see <i>Annual Report and Accounts 2019-20</i> , Governance Statement (page 71). Meeting attendance record is noted on page 86 of the Annual Report and Accounts.

Figure 16 continued

Review of National Audit Office (NAO) compliance with the Audit firm governance code (Revised 2016)

Provision of the code	How the NAO complies with the code
A.1.4: The firm's governance structures and management team and their members should be subject to formal, rigorous and ongoing performance evaluation and, at regular intervals, members should be subject to re-election or re-selection.	The C&AG is appointed for a fixed, non-renewable term of 10 years. The non-executive members of the Board are appointed for a three-year term, renewable for one further three-year term. Executive members of the Board are appointed each year by the non-executive members, renewable annually. The chair of the Board evaluates the performance of the non-executive members of the Board. The C&AG evaluates the performance of the Executive Team. The performance of the chair is evaluated by the senior independent director.
A.2: Management principle – A firm should have effective management which has responsibility and clear authority for running the firm.	The Budget Responsibility and National Audit Act 2011 (Part 2, Schedules 2 and 3) make provision for a Comptroller & Auditor General, and National Audit Office. We comply fully with requirements. The management team's terms of reference are set out in the <i>Annual Report and Accounts 2019-20</i> , and in this Transparency Report.
A.2.1: The management team should have terms of reference that include clear authority over the whole firm, including its non-audit businesses and these should be disclosed on the firm's website.	See A:2 above. The NAO's governance framework including the respective roles of the Board and the Executive Team is set out in the 'about us' section in the NAO's external website.
B – Values	
B.1: Professionalism principle – A firm should perform quality work by exercising judgement and upholding values of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour in a way that properly takes the public interest into consideration	These provisions are covered by our Code of Conduct and NAO corporate reporting, available on our website.
B.1.1: The firm's governance structures and management team should set an appropriate tone at the top through its policies and practices and by publicly committing themselves and the whole firm to quality work, the public interest and professional judgement and values.	This provision is covered by our Code of Conduct and NAO corporate reporting, including this Transparency Report and the NAO strategy, available on our website. Our values are set out at paragraphs 1.11 and 1.12 of the Transparency Report.
B.1.2: The firm should have a Code of Conduct which it discloses on its website and requires everyone in the firm to apply.	All NAO people, including the non-executive members of the Board, complete a Code of Conduct return annually. Confirmation of this is contained in this Transparency Report, which is published on our website.
B.2: Governance principle – A firm should publicly commit itself to this Audit firm governance code.	We are not required to comply with the Audit firm governance code, however, in the spirit of adhering to best practice, to the extent that the Code is relevant to the NAO, which is a Supreme Audit Institution, we set out how we comply with the Audit firm governance code in this Transparency Report.

Figure 16 *continued*

Review of National Audit Office (NAO) compliance with the Audit firm governance code (Revised 2016)

	Provision of the code	How the NAO complies with the code
	<p>B.2.1: The firm should incorporate the principles of this Audit firm governance code into an internal Code of Conduct.</p> <p>B.3: Openness principle – A firm should maintain a culture of openness which encourages people to consult and share problems, knowledge and experience in order to achieve quality work in a way that properly takes the public interest into consideration.</p>	<p>The NAO's Code of Conduct, which is approved by the Board, sets out the NAO's framework of professional and ethical behaviour.</p> <p>This provision is addressed through our values set out at paragraphs 1.11 and 1.12 of this Transparency Report.</p>
C – Independent non-executives	C.1: Involvement of independent non-executives principle – A firm should appoint independent non-executives who through their involvement collectively enhance shareholder confidence in the public interest aspects of the firm's decision-making, stakeholder dialogue and management of reputational risks including those in the firm's businesses that are not otherwise effectively addressed by regulation.	Please see the Governance Statement for details of independent non-executives, and their significant, relevant experiences. This provision does not apply to the NAO in view of the C&AG's statutory independence as set out in the Budget Responsibility and National Audit Act 2011. The NAO has disclosed information about independent non-executives on its website including Board and Executive Team terms of reference. The Board is supported by the Audit Committee and the Remuneration and Nominations Committee.
	C.1.1: Independent non-executives should: have the majority on a body that oversees public interest matters; and/or be members of other relevant governance structures within the firm. They should also meet as a separate group to discuss matters relating to their remit.	See C.1
	C.1.2: The firm should disclose on its website information about the appointment, retirement and resignation of independent non-executives, their duties and the arrangements by which they discharge those duties and the obligations of the firm to support them. The firm should also disclose on its website the terms of reference and composition of any governance structures whose membership includes independent non-executives.	See C.1
	C.2: Characteristics of independent non-executives principle – The independent non-executives' duty of care is to the firm. They should command the respect of the firm's owners and collectively enhance shareholder confidence by virtue of their independence, number, stature, experience and expertise.	See C.1
	C.2.1: The firm should state in its transparency report its criteria for assessing the impact of independent non-executives on the firm's independence as auditors and their independence from the firm and its owners.	Not applicable to the NAO because of the NAO's unique statutory position.

Figure 16 continued

Review of National Audit Office (NAO) compliance with the Audit firm governance code (Revised 2016)

Provision of the code

C.3: Rights of independent non-executives principle – Independent non-executives of a firm should have rights consistent with their role, including a right of access to relevant information and people to the extent permitted by law or regulation, and a right to report a fundamental disagreement regarding the firm to its owners and, where ultimately this cannot be resolved and the independent non-executive resigns, to report this resignation publicly.

C.3.1: Each independent non-executive should have a contract for services setting out their rights and duties.

C.3.2: The firm should ensure that appropriate indemnity insurance is in place in respect of legal action against any independent non-executive.

C.3.3: The firm should provide each independent non-executive with sufficient resources to undertake their duties including having access to independent professional advice at the firm's expense where an independent non-executive judges such advice necessary to discharge their duties.

C.3.4: The firm should establish, and disclose on its website, procedures for dealing with any fundamental disagreement that cannot otherwise be resolved between the independent non-executives and members of the firm's management team and/or governance structures.

How the NAO complies with the code

These provisions are set out in Schedule 2, Part 2 of the Budget Responsibility and National Audit Act 2011 with which we comply fully. The chair of the NAO may resign by giving written notice to the Prime Minister, and any other non-executive member by giving written notice to the Public Accounts Commission. In respect of right of access to relevant information, this is covered in the Board Terms of Reference available on our website.

We comply fully with this provision.

Indemnification of independent non-executives is covered by section 24 of the Budget Responsibility and National Audit Act 2011.

We provide sufficient resources to the independent non-executives to undertake their duties.

In the event of any fundamental disagreement between the independent non-executive members and NAO management, resolution would be sought through discussion by the NAO Board. In the unlikely event that the issue remained unresolved, it would be for the C&AG to determine the most appropriate course of action consistent with his independent statutory role and status. We make this disclosure in this Transparency Report, which is published on our website.

D – Operations

D.1: Compliance principle – A firm should comply with professional standards and applicable legal and regulatory requirements.

D.1.1: The firm should establish policies and procedures for complying with applicable legal and regulatory requirements and international and national standards on auditing, quality control and ethics, including auditor independence.

These provisions are covered in Part Two: Audit independence and quality

The NAO *Financial Audit Manual* sets out our audit methodology which ensures compliance with legal and regulatory requirements, and relevant standards.

Figure 16 *continued*

Review of National Audit Office (NAO) compliance with the Audit firm governance code (Revised 2016)

Provision of the code

D.1.2: The firm should establish policies and procedures for individuals signing group audit reports to comply with applicable standards on auditing dealing with group audits, including reliance on other auditors whether from the same network or otherwise.

D.1.3: The firm should state in its transparency report how it applies policies and procedures for managing potential and actual conflicts of interest.

D.1.4: The firm should take action to address areas of concern identified by audit regulators in relation to the firm's audit work.

D.2: Risk management principle – A firm should maintain a sound system of internal control and risk management over the operations of the firm as a whole to safeguard the owners' investment and the firm's assets.

D.2.1: The firm should, at least annually, conduct a review of the effectiveness of the firm's system of internal control. The review should cover all material controls, including financial, operational and compliance controls and risk management systems.

D.2.2: The firm should state in its transparency report that it has performed a review of the effectiveness of the system of internal control, summarise the process it has applied and confirm that necessary actions have been or are being taken to remedy any significant failings or weaknesses identified from that review. It should also disclose the process it has applied to deal with material internal control aspects of any significant problems disclosed in its financial statements or management commentary.

How the NAO complies with the code

Individuals supervising, managing or directing a financial audit will usually hold a relevant 'audit licence'. One of the criteria for being granted a general audit licence is having undertaken appropriate Continuous Professional Development (CPD) in the previous year. This includes completion of the NAO's assurance update training which covers group audit requirements to comply with applicable standards.

The NAO Code of Conduct requires all staff to complete an annual declaration of interests via the Code of Conduct and confirm how any conflicts of interest have been managed. All NAO staff are required to notify the relevant engagement director and HR of any possible conflict of interest as soon as it becomes apparent during the course of the year.

See Part Two: External review – financial audit

These provisions are covered in Part Four: Governance and accountability.

See Appendix Five: Review of effectiveness.

See Appendix Five: Review of effectiveness.

Figure 16 continued

Review of National Audit Office (NAO) compliance with the Audit firm governance code (Revised 2016)

Provision of the code	How the NAO complies with the code
D.3: People management principle – A firm should apply policies and procedures for managing people across the whole firm that support its commitment to the professionalism, openness and risk management principles of this Audit firm governance code.	These provisions are covered in Part Three, People – Our People section, as well as the <i>Annual Report and Account 2019-20</i> published on our website
D.3.1: The firm should disclose on its website how it supports its commitment to the professionalism, openness and risk management principles of this Audit firm governance code through recruitment, development activities, objective setting, performance evaluation, remuneration, progression, and other forms of recognition, representation and involvement.	The NAO does not need to publicly commit to the Audit firm governance code due to the NAO's unique statutory position. This Transparency Report contains relevant details and is published on our website.
D.3.2: Independent non-executives should be involved in reviewing people management policies and procedures.	Independent non-executives are involved in this review through the Remuneration and Nominations Committee. These provisions are covered in our Code of Conduct.
D.4: Whistleblowing principle – A firm should establish and apply confidential whistleblowing policies and procedures across the firm which enable people to report, without fear, concerns about the firm's commitment to quality work and professional judgement and values in a way that properly takes the public interest into consideration.	
D.4.1: The firm should report to independent non-executives on issues raised under its whistleblowing policies and procedures and disclose those policies and procedures on its website.	The report on any issues raised under our whistleblowing policies is a permanent agenda item for the Audit Committee meetings. The whistleblowing policy is published on our website.
E – Reporting	
E.1: Internal reporting principle – The management team of a firm should ensure that members of its governance structures, including owners and independent non-executives, are supplied with information in a timely manner and in a form and of a quality appropriate to enable them to discharge their duties.	Members of the governance structures have been supplied with information in a timely manner and in a form and of a quality appropriate to enable them to discharge their duties.
E.2: Financial statements principle – A firm should publish audited financial statements prepared in accordance with a recognised financial reporting framework such as International Financial Reporting Standards or UK GAAP.	These provisions are covered by our <i>Annual Report and Accounts 2019-20</i> published on our external website.

Figure 16 *continued*

Review of National Audit Office (NAO) compliance with the Audit firm governance code (Revised 2016)

Provision of the code	How the NAO complies with the code
E.2.1: The firm should explain who is responsible for preparing the financial statements and the firm's auditors should make a statement about their reporting responsibilities.	See E.2
E.2.2: The firm should report that it is a going concern, with supporting assumptions or qualifications as necessary.	See E.2
E.3: Management commentary principle – The management of a firm should publish on an annual basis a balanced and understandable commentary on the firm's financial performance, position and prospects.	See E.2
E.3.1: The firm should include in its management commentary its principal risks and uncertainties, identifying those related to litigation, and report how they are managed in a manner consistent with the requirements of the applicable financial reporting framework.	See E.2
E.4: Governance reporting principle – A firm should publicly report how it has applied in practice each of the principles of the Audit firm governance code excluding F.2 on shareholder dialogue and F.3 on informed voting and make a statement on its compliance with the Code's provisions or give a considered explanation for any non-compliance.	This Transparency Report provides the disclosures required by this section of the Code and is available on our website.
E.4.1: The firm should publish on its website an annual transparency report containing the disclosures required by Code Provisions A.1.2, A.1.3, C.2.1, D.1.3, D.2.2 and D.2.3.	See E.4
E.5: Reporting quality principle – A firm should establish formal and transparent arrangements for monitoring the quality of external reporting and for maintaining an appropriate relationship with the firm's auditors.	See E.2
E.5.1: The firm should establish an Audit Committee and disclose on its website information on the Committee's membership and terms of reference which should deal clearly with its authority and duties, including its duties in relation to the appointment and independence of the firm's auditors. On an annual basis, the firm should publish a description of the work of the Committee in discharging its duties.	The Audit Committee terms of reference are published on our website, including membership. The Committee publishes a short description of how it has discharged its duties in the Annual Report and Accounts. In June 2020, the Audit Committee's terms of reference changed to become the Audit and Risk Committee.

Figure 16 *continued*

Review of National Audit Office (NAO) compliance with the Audit firm governance code (Revised 2016)

F – Dialogue

Provision of the code

F.1: Firm dialogue principle – A firm should have dialogue with listed company shareholders, as well as listed companies and their audit committees, about matters covered by this Audit firm Governance Code to enhance mutual communication and understanding and ensure that it keeps in touch with shareholder opinion, issues and concerns.

F.1.1: The firm should disclose on its website its policies and procedures, including contact details, for dialogue about matters covered by this Audit firm governance code with listed company shareholders and listed companies. These disclosures should cover the nature and extent of the involvement of independent non-executives in such dialogue.

F.2: Shareholder dialogue principle – Shareholders should have dialogue with audit firms to enhance mutual communication and understanding.

F.3: Informed voting principle – Shareholders should have dialogue with listed companies on the process of recommending the appointment and re-appointment of auditors and should make considered use of votes in relation to such recommendations.

How the NAO complies with the code

The NAO conducts regular meetings with senior management and we undertake internal and external dialogue.

The NAO does not need to publicly commit to the Audit firm governance code due to the NAO's unique statutory position.

Not applicable to NAO because of NAO's unique statutory position.

See F.1

See F.1

Source: National Audit Office



National Audit Office