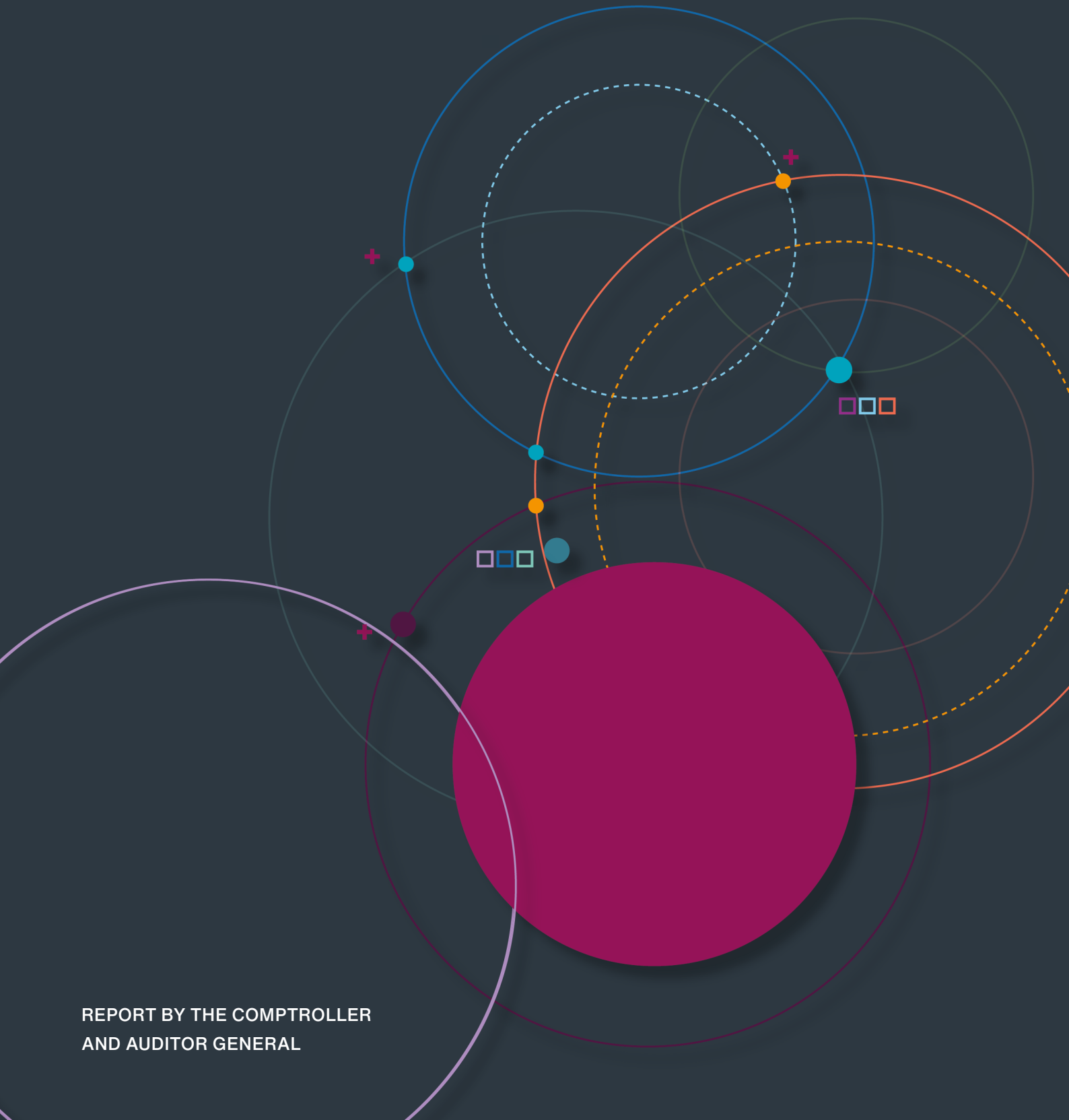




National Audit Office

# TRANSPARENCY REPORT

## 2020-21



REPORT BY THE COMPTROLLER  
AND AUDITOR GENERAL

# 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 2020, the NAO's work led to a positive financial impact through reduced costs, improved service delivery, or other benefits to citizens, of £926 million.

# National Audit Office

## Transparency Report 2020-21

Report by the Comptroller and Auditor General

Gareth Davies  
Comptroller and Auditor General  
National Audit Office


28 July 2021


This report can be found on the National Audit Office website at [www.nao.org.uk](http://www.nao.org.uk)


If you need a version of this report in an alternative format for accessibility reasons, or any of the figures in a different format, contact the NAO at [enquiries@nao.org.uk](mailto:enquiries@nao.org.uk)

For further information about the National Audit Office please contact:

National Audit Office  
Press Office  
157-197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP

 020 7798 7400

 [www.nao.org.uk](http://www.nao.org.uk)

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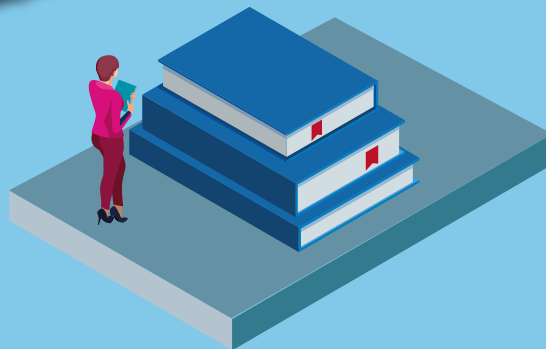
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# National Audit Office (NAO) at a glance

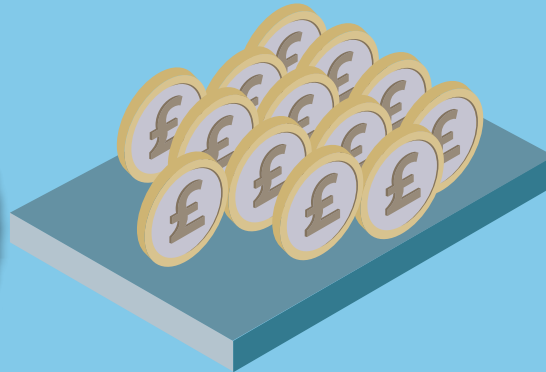
**407**  
financial statements certified



**61**  
VFM and wider reports



Financial impacts of  
**£13**  
for every pound spent



**95%**  
of our recommendations accepted by the bodies we audit



**863**  
full-time equivalent permanent employees



# Leadership messages

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



**Gareth Davies**  
Comptroller and Auditor  
General (C&AG)

Welcome to the 2021 National Audit Office (NAO) Transparency Report. This 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 five-year strategy, which we launched in June 2020.

We launched our strategy amidst the COVID-19 pandemic. Despite this, we made substantial progress on our strategic priorities. We delivered our commitments to Parliament in publishing a full programme of major outputs and our audits of the financial statements of the bodies we audit.

To achieve all this, we were agile in taking forward our programmes of work. Working with audited bodies, we revised timetables, to reflect the impact on both finance and audit teams of remote working and to take into account bodies' ability to produce robust audit evidence. We also revised our value-for-money (VFM) programme to cover the government's response to COVID-19 while also producing a programme of reports on other important areas of value-for-money risk.

In January 2021 we launched our first Quality Plan, setting out in detail the whole system approach we are taking to secure consistently high-quality in our audit work. The plan focuses on consistency because although our internal and external inspections tell us that the bulk of our audits meet high professional standards, there are exceptions to this. We are determined to address this and have made a good start in implementing the plan. This is a high priority for me, the NAO Board, the Executive Team and the whole organisation.

This Transparency Report explains all this in more detail. None of our success would have been achieved without the skills, commitment and dedication of all my colleagues in this demanding year. I am hugely proud of everything they have achieved together.



**Elaine Lewis**  
Executive Director  
responsible for Financial  
Audit quality

## **Elaine Lewis – Executive Director responsible for Financial Audit quality**

and

## **Kate Mathers – Executive Director responsible for Financial Audit service line**



**Kate Mathers**  
Executive Director  
responsible for Financial  
Audit service line

Audit quality is core to the NAO's purpose. It supports effective accountability, better financial reporting and stronger financial management. We want our audit insights to be valued, and to be a leading voice in public sector financial reporting and financial management. This must be based on a foundation of high-quality audits.

We can, and do, deliver high-quality financial audit work, but recognise that we do not always do so consistently. We are committed to ensuring that all our work meets our quality standards and continue to make progress, but realise we have more to do. This year, we were pleased that the quality of our work was maintained despite the challenges we faced in auditing remotely during the COVID-19 lockdowns. The Financial Reporting Council (FRC) judged that five of the seven audits it reviewed required no more than limited improvements – the same proportion as last year – and these results were consistent with the outcomes from our own internal review programme.

But our target is that none of our audits should require more than limited improvements. Achieving this will be challenging, but it is a challenge we are committed to meeting. We set out our plans to achieve this in our first Financial Audit Quality Plan in January 2021. We are adopting a whole-system approach to ensure that our people are fully supported in delivering high-quality work consistently.

Some initiatives, such as the transformation of our audit methodology and software, will take a number of years to come to fruition. Others, including enhanced learning and development and greater use of data analytics, are already underway.

This Transparency Report sets out in more detail the challenges we face and the progress we are making to address them.



**Rebecca Sheeran**  
Executive Director  
responsible for Value-  
for-Money service line

## Rebecca Sheeran – Executive Director responsible for Value-for-Money service line

Since we launched our strategy last year, we have made good progress in delivering the NAO's strategic priorities of improving our support for effective accountability, increasing our impact on outcomes and value-for-money and providing more accessible impact through our value-for-money (VFM) and wider assurance work.

During 2020-21 we have delivered a varied programme of work that has balanced our examination of long-term VFM issues through work on net zero and the environment or major capital programmes, for example against responding quickly to new issues, with a suite of reports on the government's response to the pandemic. As part of this programme of work we have also broadened the range of outputs we produce so that our work can be more accessible and meet accountability needs at the right time. These have included the factual overviews we delivered at pace at the very start of the pandemic to set out the government's response and our COVID-19 cost tracker, which shows how much the government has so far spent and committed to across its full range of response activities. In addition, we have published knowledge products to share more widely the insights we have drawn from our unique position of looking at issues across government, such as our fraud and error good-practice guide or our major programmes lessons learnt report.

We have also continued to produce our work to a high-quality, despite the impact of the pandemic on how we and our audited bodies work. This has been reflected in the results from our external and internal reviews, where we have continued to maintain or improve our scores from previous years.

Such progress has been enabled by developments and changes we have made in the way we work. For example, we now take a more structured approach to selecting our VFM and wider assurance work to help us manage the balance of our work programme across the most significant long- and short-term risks to public value. We also created six knowledge hubs, focused on the key cross-cutting themes of analysis, commercial, digital, financial and risk management, major project delivery and people and operations management. As these hubs become established, they will enable us to strengthen our expertise in these areas and make better use of our accumulated cross-government insights to further increase the impact from our work. Indeed, we have already begun to see the value of the hubs this year, such as through our new knowledge products.

Finally, as we aim to be an exemplar organisation, we will continue to learn from each other and from other organisations so that we produce impactful work of the highest quality and in the most efficient way. This will include learning from our external and internal reviews but also making the most of new technologies. Our Modernising VFM project has already helped us to improve the quality and efficiency of our approach to producing reports through automation and streamlined processes. We are now embarking on an update of our quality assurance approach so that it will be more risk-based and proportionate to each output. I look forward to reporting on progress in next year's Transparency Report.

# 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 We are required under statute to undertake audits of public sector organisations for Parliament. We audit the financial statements produced by government departments and other public bodies. We also examine and report on the value for money (VFM) of how public money has been spent.

1.3 We support Parliament's scrutiny of government. We primarily do this by supporting the Committee of Public Accounts through our scrutiny of the implementation of government policy. We also support other select committees with formal and informal briefings, reports and our programme of secondments. In addition, we respond to queries on public spending matters from individual members of Parliament and the public.

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 must do to fulfil their statutory responsibilities.

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 VFM 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. Further information on his role and NAO governance is in Part Four.

### Our strategy and values

1.6 Last year we launched a [five-year strategy](#). Our strategy builds on our strengths in providing high-quality, effective support to Parliament. It responds to feedback to share our knowledge and insights more effectively to support accountability and improvement in outcomes and value for money. Increased expectations of the quality and rigour of audit mean we must modernise how we carry out our audit work (**Figure 1**).

## Figure 1

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

### Our purpose

**We are the UK's independent public spending watchdog.**

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

### Our strategic priorities

**Improving our support for effective accountability and scrutiny.**

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

**Increasing our impact on outcomes and value for money.**

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

**Providing more accessible independent insight.**

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

### Our strategic enablers

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

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

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

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

**We aim to be an exemplar organisation.**

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

Source: National Audit Office

1.7 We launched the strategy in June 2020 during the first phase of the COVID-19 pandemic. We took the view that, despite the uncertainty caused by the pandemic, the strategy and associated investment would position us well to respond to the extra work needed of us. Parliament and other stakeholders had immediate expectations of us auditing the government's response to the crisis.

1.8 Our strategy is ambitious for the positive impact we can have on public services and the difference we will make to Parliament, the bodies we audit, and the public. This means changing the way we work, developing and improving our audit processes, systems and skills and becoming even more effective at what we do.



1.9 Alongside our strategy, we developed a new set of values that reflect who we are as the NAO and how we work together and with those outside the NAO to achieve our purpose and priorities (Figure 2).



1.10 The quality of all our work is central to our role in supporting Parliament in holding government to account. We want to create a golden thread through our values and a culture where all colleagues share our quality aspirations and challenge any potential barriers to achieving them. Quality is a shared endeavour, and we expect colleagues to consult to draw from the best that the NAO can offer, learning from each other and not being afraid to discuss issues when problems arise.

1.11 Our NAO values set out how we work together and with others to achieve our purpose and priorities. They reflect the culture we believe supports high-quality work:

- We act with courage and integrity. 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.
- We are inclusive and respectful. 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 more effective when we and those around us are thoughtful, when we listen, and when we treat each other with courtesy and understanding.



- We are curious and seek to learn. 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 strive for excellence. We aim for the highest standards by working together and sharing our knowledge and expertise. We care about achieving high-quality work that makes a difference.

## Our work

1.12 Parliament has provided the C&AG with a wide range of reporting powers, which the C&AG can draw upon where he decides it is appropriate to do so. These range from providing an annual audit opinion on the financial statements Parliament has appointed him to audit, assurance work on tax revenue-based accounts, the ability to report on issues of wider interest on accounts, and our VFM remit.

1.13 The C&AG, with the support of the NAO, provides an independent audit opinion on more than 400 financial statements, including those of government departments, arm's-length bodies, government-owned companies and other public bodies. This audit work is defined by international auditing standards.

1.14 During 2020-21, the C&AG provided unqualified opinions on most of the 2019-20 financial statements. However, the C&AG qualified his audit opinion on 13 financial statements where there were material misstatements or error within the accounts or where Parliamentary intentions had not been complied with (affecting our 'regularity' opinion). Some of these reflect the unplanned spending on the pandemic response. Appendix Seven summarises details of the issues that led to the qualified opinions.

1.15 In addition to providing an opinion on the [financial statements](#), the NAO carries out a number of other assurance engagements under statute. For example, we reported on the collection of revenue on behalf of government by the BBC, the Driver & Vehicle Licensing Agency and HM Revenue & Customs, including the administration of Scottish and Welsh income tax.

1.16 The C&AG is also able to use his statutory powers to report on the accounts, even where he has not qualified his audit opinion, to highlight a matter of importance to Parliament and to the reader of the relevant [financial statements](#). He produced four such reports on unqualified 2019-20 accounts.

1.17 In addition to our financial audit work, we also carry out a range of VFM and wider assurance work to support Parliament in holding government to account. This year, we expanded our range of work to include lessons learnt reports and factual overviews, for example on the UK government's response to COVID-19. In total, during 2020-21, we produced a full programme of 61 VFM and wider assurance reports, including 17 on COVID-19, along with nine departmental overviews to assist select committees and MPs in holding government departments to account.

1.18 Receiving, investigating and replying to correspondence is part of our core work. It is one of our direct contact points with MPs and the public. It is a rich and invaluable source of information for our audit work. We typically receive around a thousand letters from the public and a hundred letters from MPs each year; we provided 1,181 responses in 2020-21 (2019-20: 1,222). We value the letters we receive, and we aim to respond to correspondence from MPs within 10 working days and from the public within 20 working days. In 2020-21, we responded to 99% of letters from the public and 92% from MPs within our target timescales (2019-20: 99% and 89%); and 100% from MPs within 20 working days (2019-20: 100%).

### Joint working across disciplines

1.19 Where it is beneficial to do so, we produce outputs with joint teams of financial and VFM 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 STUDY: JOINT WORKING IN THE WINDRUSH COMPENSATION SCHEME

As part of our recent investigation into the Home Office's Windrush Compensation Scheme we decided to bring together our financial audit and VFM teams to pool our insights and work together. We thought there might be value in financial audit colleagues experiencing a high-profile investigation and that their testing work might help VFM colleagues uncover crucial audit evidence.

The wider knowledge the audit team accumulated enabled them to draw on various sources they would not otherwise have been exposed to. This, in turn, meant that they could better challenge the key estimate the Home Office had made to support the provision for the scheme in its accounts. The investigation benefited at every stage from the exchange of ideas and information between those involved, meaning that it covered many important aspects of the scheme's performance and delivered significant impact on publication.



### International

1.20 Working with audit offices across the world provides an insight into different approaches and new perspectives on ways of working. We have used these relationships to use international comparators to support 14 of our studies on subjects such as the environment, national defence and COVID-19.

1.21 In April 2021, we were elected to the seven-member Governing Board of the European Organisation of Supreme Audit Institutions (EUROSAI), with 51 constituent members.<sup>1</sup> Our role is to lead EUROSAI's consideration of emerging issues such as the impact of digitalisation, the UN Sustainable Development Goals and population and demographics on public services.

<sup>1</sup> A supreme audit institution is an independent national-level institution which conducts audits of government activities. EUROSAI is one of the regional groups of the International Organisation of Supreme Audit Institutions (INTOSAI).

1.22 We established an international project group on auditing the response to the COVID-19 pandemic. We shared information and experiences with the Supreme Audit Institutions of 34 countries, holding 20 knowledge-sharing events to strengthen our ability to report on test and trace, procurement, preparedness for vaccines, and children's education during the pandemic.

1.23 The NAO and our partners, the Commonwealth Parliamentary Association UK and the Government Internal Audit Agency, won a public finance award for our technical cooperation project supporting good governance and financial oversight in the UK Overseas Territories. We have been working with the audit institutions of overseas territories since 2016, training staff, developing audit approaches and arranging secondments.

### How we adapted to COVID-19

1.24 We supported staff as we adapted to the challenges arising from the COVID-19 pandemic. We followed Public Health England's advice and took all necessary steps to minimise the risks to our people, their families and the wider public. Our systems are designed to be operated remotely and, because of this, most of our staff were able to work from home. Where there was a need to, we allowed a limited number of staff into our offices, making sure we were complying with government guidelines for safe working through robust risk assessments for our London and Newcastle offices. Our people have adjusted well to working remotely during the COVID-19 pandemic. Paragraphs 3.29 to 3.33 provides more about how we supported our people.

1.25 We have continued to deliver our financial audits, VFM reports and other assurance products effectively while working remotely, making sure that we deliver on our work plans and that quality did not suffer. We have done this by making changes in how our teams continue to work together and in working with our audited bodies so that we were able to gather sufficient appropriate evidence and which we could audit remotely, while maintaining the robustness of our challenge as expected under the professional standards to which we work (**Figure 3**).

1.26 We also adapted how we induct new staff into the organisation, and re-thought how we deliver training and events. In response to the government's roadmap out of lockdown, we are now focusing on developing a new working model for the way we work in consultation with staff (see Part Three).

1.27 We adjusted the timings of our financial audit work to respond to the impact of remote working on both finance and our audits teams and to enable some audited bodies to focus on their delivery of national priorities. We delivered 99% of our 2019-20 financial audits within the following financial year, certifying 42% of our audits before the Parliamentary summer recess in 2020, compared with 76% in 2019. Audit teams were able to complete their work while working remotely and the experience has generated efficiency improvements, which we will build into our future approach.

## Figure 3

How we responded to COVID-19

# 2020-21 at the National Audit Office

17 Mar 2020

We asked our people to work from home.



APR



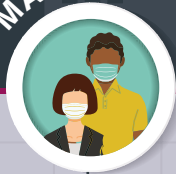
**Apr 2020**

We repurposed our work programme to allow us to report on COVID-19 while still maintaining focus on important long-term areas.

**24 Apr 2020**

We published our lessons learned report on *Restoration and Renewal of the Palace of Westminster*, drawing on our knowledge of challenges faced by major projects.

MAY



**21 May 2020**

Publication of our first COVID-19 overview report.

JUN



**1 Jun 2020**

We launched our new five-year strategy.

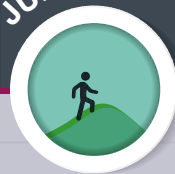
**24 Jun 2020**

We published our *Guide on Financial Reporting and Management during COVID-19* to help audit and risk committees examine the impact of COVID-19 on their organisations.

**26 Jun 2020**

The C&AG certified the first 2019-20 departmental account – Department for Work & Pensions.

JUL



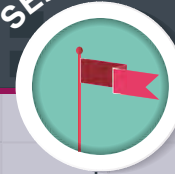
**21 Jul 2020**

The Comptroller & Auditor General (C&AG) certified the *Whole of Government Accounts 2018-19*, the consolidation of public sector bodies' accounts.

**22 Jul 2020**

The C&AG certified 170 financial statements before the summer recess.

SEP



**4 Sep 2020**

We published our lessons learned report on EU Exit, drawing together insights from 28 previous reports.

**8 Sep 2020**

We published the first version of our COVID-19 cost tracker, which provides estimates of the lifetime costs of pandemic response measures and how much has been spent so far.

OCT

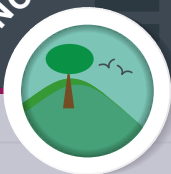
**5 Oct 2020**

We launched an office-wide consultation for our new Diversity & Inclusion strategy.

**13 Oct 2020**

We published our first Departmental Overview for 2020. During the year we published a total of 10.

NOV

**11 Nov 2020**

We published *Achieving net zero*, which applied experience auditing cross-government challenges to highlight risks government needs to manage.

**23 Nov 2020**

We signed the Race at Work Charter.

DEC

**Dec 2020**

In 2020 we generated £13 of positive financial impact for each £1 we spent.

**16 Dec 2020**

We published our diversity pay gap report (including both gender and ethnicity).

JAN

**1 Jan 2021**

Gaenor Bagley and Sir Martin Donnelly began their terms as non-executive members of the NAO Board.

**10 Jan 2021**

Dame Fiona Reynolds began her first term as Chair of the NAO Board.

**26 Jan 2021**

The C&AG certified the final 2019-20 departmental financial statements – the Department of Health & Social Care.

FEB

**10 Feb 2021**

We published our report on protecting and supporting the vulnerable during lockdown. In 2020-21 we published 61 value-for-money (VFM) and wider assurance reports.

**10 Feb 2021**

We launched our project to develop how we will work together in the future.

MAR

**Mar 2021**

In 2020-21 we supported 63 Committee of Public Accounts evidence sessions, 19 select committee sessions and supported eight select committees with secondees.

**29 Mar 2021**

We published internally our Diversity Dashboard to help us take a data-led approach to improving diversity and inclusion.

1.28 We continued to prioritise and focus on quality during this period. This included considering the additional risks that arose as a result of the pandemic, such as the risks associated with the significant increase in government expenditure and ensuring that funds were being used for the purposes intended by Parliament (our regularity work). To help our audited bodies, we also [produced a guide](#) to support audit and risk committee members as they considered the financial reporting implications of COVID-19. This guide covered:

- enhancing disclosures within annual reports on the risks bodies face as a result of the pandemic and how these are being addressed;
- the potential impact of the pandemic on the ongoing relevance of management's judgements which underpin the financial statements;
- maintaining a sound control environment; and
- ensuring that expenditure, such as that relating to the new government COVID-19 support schemes, adheres to the principles set out in HM Treasury's *Managing Public Money*, which include regularity, propriety and value for money.

1.29 New government interventions, and the increase in spending during the pandemic, has also meant we reprioritised our VFM work programme to include a range of published reviews on different elements of the government's response. These were targeted on areas where we concluded there were particular challenges and where we considered there is most to learn for the future, such as health equipment procurement and government financial support schemes. We recently drew on the learning from our published reports to identify common themes in [Initial learning from the government's response to the COVID-19 pandemic](#).



### CASE STUDY: TRANSPARENCY IN PROCUREMENT DURING THE PANDEMIC

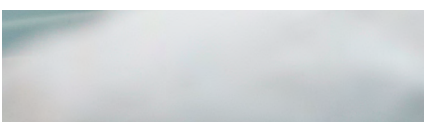


Our investigation into government procurement during the COVID-19 pandemic (November 2020) examined how government departments and other public bodies procured goods and services during the first wave of the pandemic.

Departments and public bodies were able to use faster emergency procedures under existing procurement regulations to buy the enormous volumes of goods and services needed for the pandemic response. However, concerns emerged about the risks to public money that could arise from greater use of these emergency procedures. For example, we received more than 20 pieces of correspondence from MPs and the public about the transparency of contracts awarded during the pandemic, potential bias or conflicts of interest in the procurement process, and the possibility some contracts may have been given to unsuitable suppliers.

We found examples of inadequate documentation of some key decisions, such as why particular suppliers were chosen or how government identified and managed potential conflicts of interest. Some contracts were also awarded after work had already begun, and many were not published in the timeframe they should have been, diminishing public transparency.

Given the high media and political interest in this topic, the impact of our report was substantial. Government has agreed to implement our specific recommendations on improving procurement processes, as part of wider reforms identified from its own review into government contracting. More broadly, our report and its conclusions have informed a wider debate about the importance of government transparency and the high standards of conduct expected to ensure public trust that taxpayers' money is being spent appropriately and fairly.



## Impact of our work

1.30 We make recommendations on how government can achieve better value for money and improve the services under examination. These are practical changes that government can make to lead to better outcomes.

1.31 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 2020-21](#) highlights the wider impact brought about through our work, including examples of:

- direct, beneficial impacts on the lives of people as users of government services, including differential impacts;
- helping to improve government capability;
- promoting transparency and accountability;
- drawing attention to risks that government must manage;
- adding insights that improve processes and aid decision-making; and
- highlighting issues with long-term implications on public spending.

These wider impact case studies have been approved by the bodies to which they relate.

1.32 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 2020, the total audited impact was £926 million. This represents a positive financial impact from our work of at least £13 for every pound spent, exceeding our target of £10.





## Developments in the audit profession

1.33 In March 2021, the government published its consultation document [\*Restoring trust in audit and corporate governance\*](#). This built on the recommendations made by Sir John Kingman, Sir Donald Brydon and the Competition and Markets Authority on the need to strengthen different aspects of the corporate governance and audit regimes and the regulation of auditors.

1.34 Although aimed at the commercial sector, there are lessons for the public sector to consider in terms of the financial reporting, governance and audit regimes. We will work with HM Treasury, Parliament and other stakeholders so that the public sector, including auditors, keep pace with these evolving professional expectations where appropriate.

1.35 We are also pleased to note that the government recognised that the oversight arrangements over the quality of the C&AG's financial audits should be amended to better reflect the C&AG's appointment by Parliament to audit bodies under statute and his independence from government. We consider this in more detail in Part Four of this report.



# 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 in Part One. Part Two explains how we ensure quality across our financial audit and wider assurance work.

2.2 Our approach to quality is to take a system-wide approach to ensure our staff operate in a framework designed to help them get things right the first time and makes it difficult to get things wrong. We have a range of interventions in progress to help achieve these aims. These are:

- creating an open culture, where people support each other to deliver quality audit work;
- improving access to appropriate technical support and expertise;
- updating audit methodology for our financial audit supported by improved audit software and technology;
- enhancing independent quality assurance of our audits;
- implementing a targeted learning and development programme; and
- ensuring even more effective people management.

2.3 This year, we have brought increased focus to quality by introducing a quality plan for our financial audit and a new Audit Quality Board (AQB), chaired by one of our non-executive directors, to challenge the effectiveness of the controls and processes we have in place supporting the quality of our financial audit, value-for-money and wider assurance work. More detail is set out in paragraph 4.20 and the AQB's terms of reference are available on our [website](#).

## Embedding quality

2.4 We are committed to embedding our new National Audit Office (NAO) values, which highlight our desire for excellence in everything we do and promote a culture of supporting each other to achieve this ambition. We encourage learning and knowledge-sharing throughout the organisation and strive to improve our processes and controls continuously. We learn from our internal and external reviews and use these to change processes, guidance, support and training. For example:

- We undertake a programme of 'root cause analysis' in our financial audits to help identify the causes of quality issues in order to prevent them from recurring. We also use this as a means of identifying good practice as part of our continuous improvement (see case study).
- We hold facilitated lessons learnt sessions with study teams shortly after the publication of their VFM or investigation report. These follow a standard format, designed to help the team draw out insights including: strategic issues and themes; client engagement; collaboration to make the best use of 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, and shared with all teams.

### CASE STUDY: USING ROOT CAUSE ANALYSIS TECHNIQUES TO IDENTIFY AND SHARE WIDER LESSONS TO HELP SUPPORT THE QUALITY OF OUR FINANCIAL AUDIT WORK



Root cause analysis (RCA) is a technique that helps to identify the root causes of problems. We have an annual programme of RCA sessions on a sample of financial audits which were reviewed as part of our internal and external quality inspections. During autumn 2020, we expanded our RCA programme to include a greater number of audits that were judged as good or poorer quality.

We held an RCA session on each audit and discussed with the relevant audit team: the barriers to audit quality; how these can be addressed; and what makes a good audit. These produced some common themes:

- **Organisational culture:** we need to embed a culture and focus on audit quality, which is reinforced throughout the organisation.
- **Team culture:** approachable team members where colleagues are not afraid to raise questions or ask for help.

- **Review mindset:** the need for auditors to adopt a sceptical approach in terms of developing their risk assessment and in considering information presented to them by audited bodies and taking forward previous quality failings.
- **Consultation:** using experts, or consulting internally, throughout the audit and being open to challenge.
- **Resourcing:** having the right mix of skills and expertise at the right time on the audit.

With these wider themes, we organised a programme of staff meetings to discuss these findings and to encourage all team members to consider how they might take them forward on each of their audits.

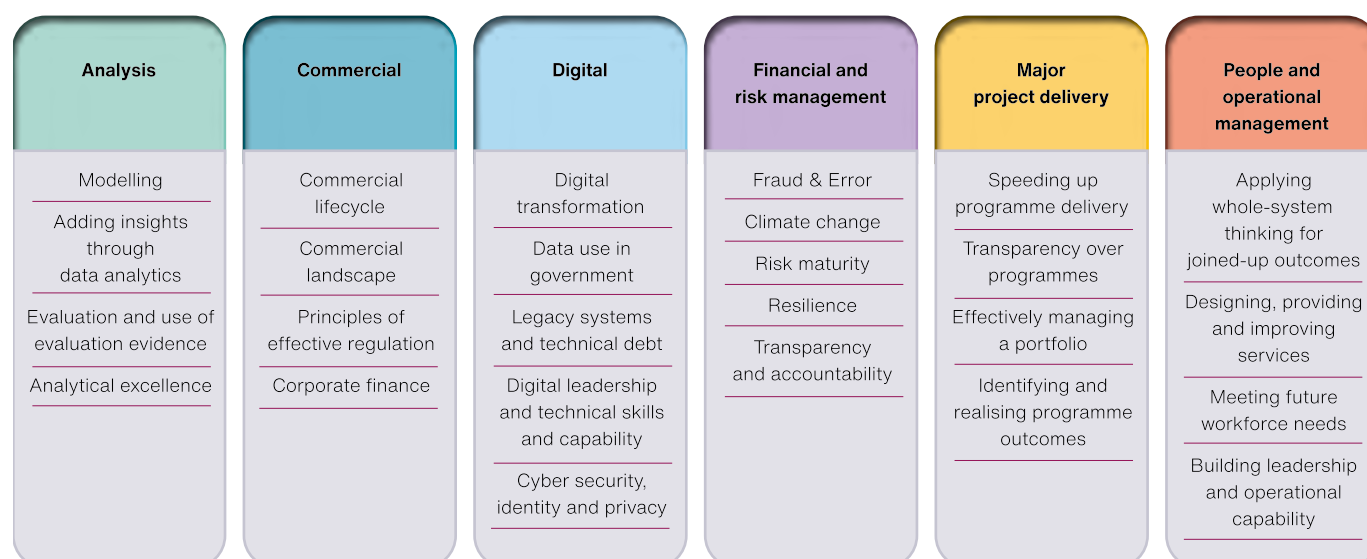
2.5 In the past year, we have taken significant steps to enhance quality by strengthening our knowledge management and specialist expertise support to financial audit, VFM and wider assurance audit work. Building such expertise enables us to make better use of our accumulated cross-government insights, make more informed judgements and make it easier for those delivering public services to apply the lessons from our work. We have:

- established six knowledge hubs that are focused on key cross-cutting themes relevant across our client base and areas of significant focus for government (**Figure 4**). The specialisms cover analysis, commercial, digital, financial and risk management, major project delivery and people and operations management; and
- consolidated our centres of financial audit expertise for pensions and property estimates and added new centres on financial instruments, and fraud and error, to provide specialist support. The estimates centre makes use of our internal expertise on analysis methods and corporate finance.

2.6 Audit quality also forms a key part of our performance management framework. We monitor quality principally through the delivery of annual programmes of internal and external reviews of a sample of individual financial and VFM audits. The outcomes from these reviews are considered as part of our performance discussions with relevant directors and their teams.

2.7 The rest of this Part goes on to discuss specific arrangements for our financial audit and VFM workstreams.

**Figure 4**  
Our knowledge hubs



## Financial audit

2.8 The bulk of our financial audits meet the required high-quality standards, but there are exceptions. We are committed to ensuring that all our work meets our quality standards and continue to make progress, but recognise we have more to do.

2.9 The following section describes our existing quality arrangements. It sets out the challenges we face and our commitment to improving the quality of our financial audits in a new quality plan.

### Quality arrangements: our quality framework

2.10 All our financial audit work must comply with auditing standards. For 2020-21, this includes:

- International Standards on Auditing (ISAs) (UK);
- the Financial Reporting Council's Ethical Standard (the Ethical Standard); and
- International Standard on Quality Control for audits (ISQC 1).

2.11 The Comptroller and Auditor General (C&AG) must perform certain audits under the ISAs (UK). He has chosen to adopt these standards for all statutory UK financial statements audits where a true and fair opinion is required. Meeting these standards means that our financial audit work also complies with the relevant international standards for Supreme Audit Institutions established by the International Organization for Supreme Audit Institutions.

2.12 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.

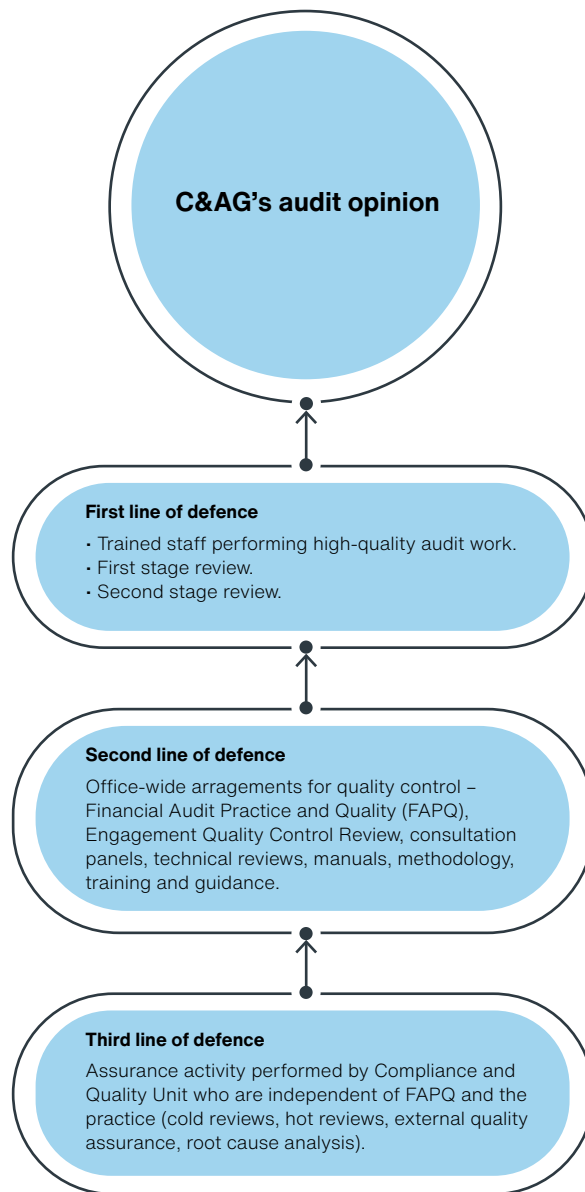
2.13 We adopt a 'three lines of defence' model to ensure that our audit work complies with the expectations of these standards and best professional practice.

**Figure 5** illustrates our internal quality control framework.

2.14 Audit teams are responsible for delivering audits that meet auditing standards. They are supported by the work of our Financial Audit Practice and Quality Team, which puts in place wider arrangements to secure the quality of our work including the regular updating of our Financial Audit Manual and methodology, the delivery of professional guidance and training, and providing technical advice and support as requested. Our Compliance and Quality Unit undertakes additional assurance activities to assess the quality of audit work and collates findings to help inform future guidance and audit policy.

## Figure 5

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



Source: National Audit Office

2.15 We build quality control into all stages of a financial audit to ensure that the work is of the highest technical quality. We place a premium on consultation-driven audit quality. At the planning stage of an audit, we require high-profile or high-risk audits to hold an audit planning consultation meeting to provide an early opportunity for engagement teams to consult with NAO senior management on key aspects of the audit plan. Other teams can voluntarily hold a session where they consider they would most benefit from challenge and consultation with colleagues.



2.16 We also use audit panels to consider and consult on significant audit judgements such as those that might lead to a qualified audit opinion and identify cross-cutting audit issues. These consultation meetings and panels comprise our executive directors with responsibility for the financial audit service line and audit quality, the director of Financial Audit Practice and Quality, and engagement team members.

2.17 We extensively review our work at a number of specific stages. All work undergoes a two-stage review by senior members of the engagement team. Some audits with significant audit judgements also undergo an engagement quality control review by an independent and experienced director. This additional layer of review is dependent on the nature of the engagement, unusual circumstances or risks, legal and regulatory requirements and the size and complexity of the organisation.

2.18 Our Compliance and Quality Unit reviews a sample of audits in progress (hot reviews). These reviews focus on our higher-risk and more complex audits. They are undertaken by independent audit managers at the planning stage and before the audit opinion is signed to provide further assurance to the C&AG over the quality of the work performed by audit teams.

## Quality assurance arrangements: internal and external monitoring

2.19 The quality of our financial audit work is a key corporate priority and features within our corporate risk register. We measure the quality of our work through an annual programme of internal and external inspections of a sample of individual audits. Our target is that 100% of our financial audits meet our quality standards. These standards are that, should an audit be inspected by a independent reviewer, the reviewer finds that the audit requires no more than limited improvement.

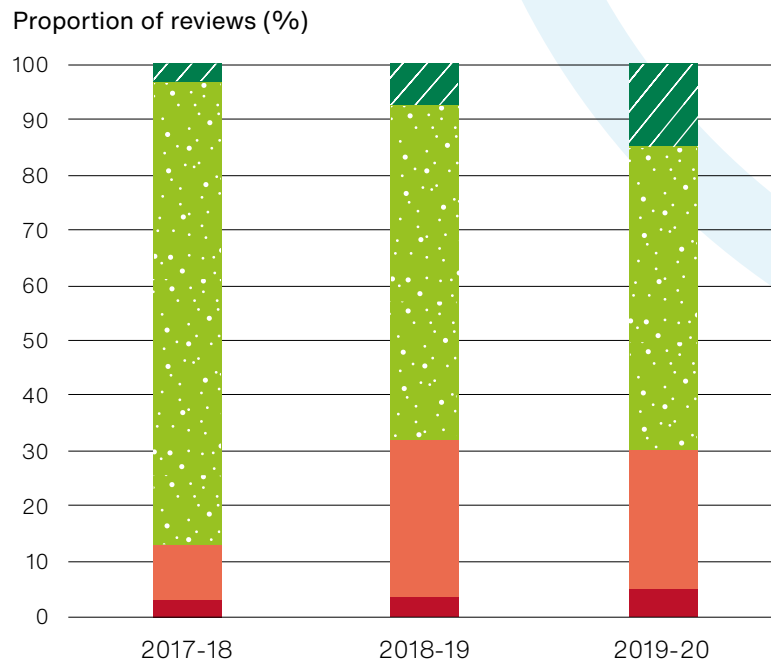
### Internal Inspection Programme

2.20 We complete an annual internal quality assurance programme to make sure that we comply with our Financial Audit Manual and ISA. Our Compliance and Quality Unit coordinates a quality assurance review of a sample of completed audits each year. These reviews are undertaken by experienced audit managers, overseen by independent financial audit directors. The purpose of each review is to assess an audit's compliance with professional auditing standards and our audit policies. This includes the planned response and work completed to address the main risks, and the quality of evidence obtained to support the recommended audit opinion.

2.21 During 2020-21, we reviewed 20 of our 2019-20 audits (28 of our 2018-19 audits). We reviewed fewer audits this year due to the impact of COVID-19 and so that we could follow-up the issues from those reviews last year which fell below our standards. Of those reviewed for the first time, some 70% (68% in 2019-20) required no more than limited improvements or better; 5% were assessed as requiring significant improvements (4% in 2018-19); and 25% as requiring improvement (compared with 28% in 2018-19). **Figure 6** shows the results from our internal quality reviews over the past three years.

**Figure 6**

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

**Above the quality threshold**

Green - good	1	2	3
Amber/green - limited improvements required	26	17	11

**Below the quality threshold**

Amber/red - improvements required	3	8	5
Red - significant improvements required	1	1	1
<b>Total</b>	<b>31</b>	<b>28</b>	<b>20</b>

Source: National Audit Office results from internal quality reviews

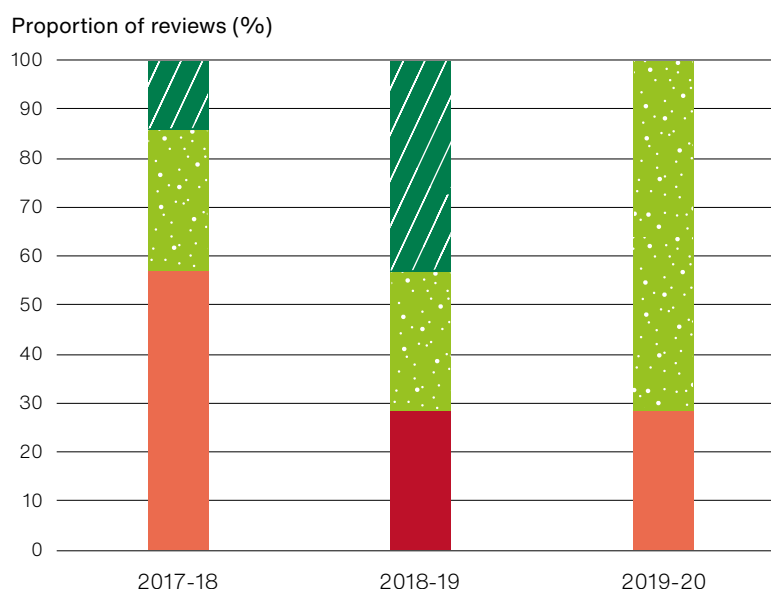


## External inspection programme

2.22 During 2020-21, the Audit Quality Review team of the Financial Reporting Council (FRC) reviewed a sample of seven 2019-20 audits (four audited under the Companies Act and three from the rest of our portfolio of audits). 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 (71% in 2018-19) required no more than limited improvements or better (**Figure 7**). More detail of the findings from these reviews is set out in Appendix Two.

### Figure 7

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



#### Above the quality threshold

Green - good	1	3	-
Amber/green - limited improvements required	2	2	5

#### Below the quality threshold

Amber/red - improvements required	4	-	2
Red - significant improvements required	-	2	-

<b>Total</b>	<b>7</b>	<b>7</b>	<b>7</b>
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Source: National Audit Office for the results from external quality reviews. Financial Reporting Council for the definition of quality scores

## Findings from these reviews

**2.23** When an individual audit is reviewed internally or externally, the audit team agree with the reviewers the areas for improvement they may need to take forward in the subsequent audit. Depending on the significance of the findings within each review, we consider additional support for teams as they take forward their agreed actions. For example, we may undertake a root cause analysis session (paragraph 2.4) to get to the heart of why an audit needed improvement, which might lead to further actions, and we could include an audit within our programme of hot reviews (paragraph 2.18) to ensure actions have been taken forward subsequently.

**2.24** Within this context, individual audit teams consider the impact of these findings on their subsequent audit. For example, this may include reconsidering the risks of material misstatement, re-assessing the sufficiency of evidence needed to support their previous audit judgements, the skills and expertise needed to undertake this audit, and discussions with the audited bodies as to the additional evidence needed.

**2.25** In drawing all these individual reviews together, both our external and internal reviews highlight that the majority of our audits comply with the standards expected of us. However, we are not yet achieving 100% consistency against these standards. We are doing more to embed and sustain quality within our financial audit service line while recognising that the standards we need to apply to our work are becoming increasingly rigorous.

### CASE STUDY: ADDRESSING ISSUES IDENTIFIED IN AN INSPECTION

As part of its inspection of our 2018-19 audits, the FRC identified that we needed to do more to strengthen the assessment and evaluation of work performed by experts and specialists, when challenging the reasonableness of assumptions used in a valuation. We make use of specialist expertise in certain cases, for example where there are valuations of complex financial instruments or in respect of the valuation of property, plant and equipment.

In addition to taking specific action on the audits involved, we took forward wider measures to address these issues. Alongside updating our Financial Audit Manual, we issued additional guidance to all teams for the 2019-20 audit cycle on when an expert should be considered and what to do if an expert identifies issues. Our centres of expertise are also providing a greater level of support in understanding the work of auditors' experts.

These steps will improve our assessment and evaluation of the work performed by experts and specialists. We will continue to make further improvements so that the lessons from this audit are implemented, where appropriate, throughout our financial audit work.



2.26 The key findings from these reviews highlight we need to do more to:

- improve the extent auditors apply scepticism in their challenge of management's judgement, in particular for key assumptions used in valuations and estimates such as expected credit losses when considering receivables balances;
- strengthen the assessment and evaluation of work performed by experts and specialists;
- ensure testing procedures provide a sufficient level of audit evidence in relation to the balance or transactions being tested, including our approaches in sampling items for detailed testing and the potential risk of fraud or management manipulation within the journal population in the accounting records;<sup>2</sup>
- where audit work done in previous periods forms part of our current period evidence base, assess whether this work remains relevant and sufficient so that we can continue to rely on judgements we have previously made;
- improve the procedures to evaluate the accuracy of disclosures in financial statements; and
- ensure the rationale for judgements made in setting materiality is clearly articulated.

More details of the findings from these reviews and how we have responded are highlighted in Appendix Two.

2.27 Some of these findings have been common over time to a number of bodies we audit where there are financial service-type transactions (such as financial instruments and investments). We are undertaking further analysis to establish what additional measures we might need to take to improve the quality of these audits.

2.28 Although the issues are consistent with those raised in private sector audit firms, we are not complacent about what we need to do to meet the rigorous standards expected of us. We set out in the next section the steps we are taking to meet this ambition by implementing our new quality plan.

## Financial audit quality plan

2.29 We are committed to achieving the highest standards and to do this in a way that is applied consistently across all our audit work and is sustainable.

2.30 To realise this ambition, we have produced our first annual Financial Audit Quality Plan, which sets out the steps we are taking over the next three audit cycles to further improve the quality of our work, with a particular focus on what we will do to support teams as they deliver our 2020-21 audit work.

2.31 Our Plan highlights that we have adopted a whole-systems approach to audit quality. This means that individual colleagues and teams operate in a culture and set of systems that are designed to ensure that quality standards are consistently met. The breadth of the Plan reflects this and covers our values, learning and development, formal training, routine sharing of good practice, technical support, review and governance.

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<sup>2</sup> A journal entry records a business transaction in the accounting system for an organisation.

2.32 Our Plan also points to the significant investment we are making in our use of technology and, in particular, our Audit Transformation Programme (ATP), the first key phase of which will become effective for our 2022-23 audits. Over time, our ATP will introduce revised methodologies driven by the introduction of new auditing standards and new software to improve the quality and efficiency of our financial audits through higher levels of standardisation and automation. We will also make increasing use of data analytics to help assess and inform our response to audit risk.

2.33 We launched our Quality Plan in January 2021 and, since then, we have already delivered the key actions to support teams as they deliver our 2020-21 audits. In addition to implementing our ATP, **Figure 8** sets out other actions and future priorities within our Plan.

2.34 In December 2020, the FRC announced the areas of focus for its audit quality reviews for 2021-22 and, in addition to the above, we have taken further action to support our teams as they address these issues:

- **Impact of COVID-19 on audited bodies particularly on areas of going concern, impairment of assets, inventory and group audits:** the government's response to COVID-19 has led to additional financial statement risks, including regularity, for the 2020-21 audit cycle. We have provided specific COVID-19 technical support for teams, and we will produce further guidance as matters develop, including as part of our formal training programme. We will keep our response under review as we gain a better understanding of the risks associated with the significant increases in government's borrowing and expenditure and the impact on the financial statements we audit.
- **Auditing accounting estimates:** we have introduced additional training for our audit staff on estimates and have produced additional tools and templates to help them to audit estimates across our audited bodies. We also continue to emphasise accounting estimates through our quality interventions throughout the stages of the audit and in our feedback to the practice on quality.
- **Addressing the risk of fraud:** we have introduced a Fraud and Error Centre of Expertise to support the quality of our work around fraud and error; and to address the additional risks and challenges arising from COVID-19 pandemic interventions. We have also published a recent guide to help reduce the risk of fraud and error.
- **Climate risk:** this follows the FRC's review of climate reporting, which identified the need for auditors to improve their consideration of climate-related risks when planning and executing their audits. We have introduced training on climate change to help audit teams identify potential risks to their audited bodies. In addition, our Financial and Risk Management hub has identified climate change risk as one of its areas of focus and is developing further guidance and good practice to support audited bodies and their auditors in this area.

**Figure 8**

## Financial audit quality plan actions

Area	Key actions taken in 2020-21	Key priorities for the next 1–3 years
Governance	Established an Audit Quality Board with a non-executive director (NED) chair and NED member, an advisory committee to the C&AG, to oversee the development and implementation of the Plan.	
Methodology	Updated our Financial Audit Manual and produced additional guidance on the requirements of the new auditing standards on going concern, estimates and the revised ethical standards.	Implementation of new office-wide quality standards (ISQM1 and 2) which come into effect from December 2022. We are reviewing existing procedures to identify how these need to be reformed or enhanced to ensure we comply with these standards.  Implement the new ISA 315 standard on identifying and addressing the risk of material misstatement; and feed this into our Audit Methodology Review.
Learning and development	Revised our learning and development programme to cover the audit of going concern and estimates, with a particular focus on the importance of audit scepticism around key judgements made by audited bodies.  Launched and delivered: <ul style="list-style-type: none"> <li>• a new development programme 'audit pathways' for our graduate and apprenticeship starters; and</li> <li>• a programme of director masterclasses, which provide the opportunity for financial audit directors to discuss our quality agenda. Topics covered so far include our quality plan, outcomes from our root cause analysis programme, the role of the quality control reviewer, emerging findings from our internal and external inspections, and raising of the quality bar.</li> </ul>	Procure new training for accounting and auditing standards from other providers.  Launch an annual plan of learning and development for each financial audit grade.
Technology and transformation	For our 2020-21 audits, our Audit Information Management System (AIMS) technology will be available for general ledger data and we expect audit teams to use AIMS as their default storage and analysis process. <sup>1</sup>	We will continue to enhance and develop our suite of data analytics applications, with payroll and fixed asset apps the next to be scheduled for development.
People	Invested in extra capacity in the financial audit service line so our people have sufficient time to carry out high-quality audit work.  To support our executive director who has responsibility for financial audit quality, we have appointed a full-time director to develop and take forward the quality plan and to ensure the effectiveness of our internal quality procedures.	Further development of training pathways for specialists.  Embed our reporting and professional development changes.

**Figure 8**Financial audit quality plan actions *continued*

Area	Key actions taken in 2020-21	Key priorities for the next 1-3 years
Communication and knowledge	<p>Disseminated emerging issues and further guidance arising from our internal and external inspection regimes in spring 2020 so teams had early opportunities to address these during their 2020-21 audits.</p> <p>Delivered a programme of additional staff meetings on: the importance of our quality plan and its ambitions, with opportunities to discuss cultural barriers that might contribute to poorer-quality audit work; and learning lessons from our root cause analysis programme, highlighting the role all team members on an audit have to play in delivering a good-quality audit.</p>	<p>More effective identification of the external professional environment to identify and react to issues more promptly and, through our benchmarking with our framework partners and UK national audit bodies, to assess further best practice we can apply to the National Audit Office.</p>
Expertise	<p>Launched a new Centre of Expertise for financial instruments to support audit teams.</p> <p>Fraud and error also now forms a key part of our new Financial and Risk Management hub.</p>	<p>Implement new framework contracts with private sector firms – this will provide better access to technical support in complex areas from our framework partners under our new contractual arrangements from 2021-22.</p>

**Note**

1 A general ledger is the record of accounting transactions for an organisation.

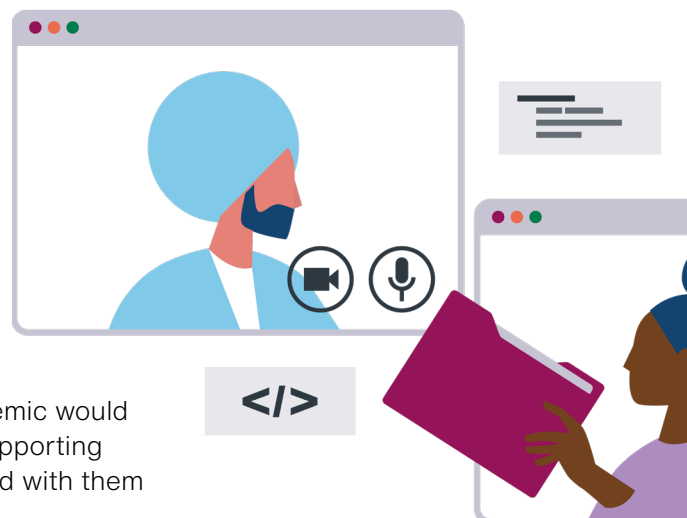
Source: National Audit Office

### Maintaining the quality of our 2019-20 financial audit work during the pandemic

As soon as the UK government's requirements to work from home came into effect from March 2020, we asked our staff to work from home and audit remotely. We adapted the way we went about our work to maintain its quality by ensuring teams were supported so that they were able to gather sufficient evidence, as defined by the auditing standards, to support the audit opinions given on each set of financial statements.

With our audited bodies, we quickly assessed how the pandemic would affect their ability to deliver their financial statements and supporting evidence within previously agreed timetables. We also worked with them to understand how we could carry out our audits remotely.

When the restrictions were lifted we assessed how we were able to safely visit sites where necessary. Our investments in cloud, cybersecurity, data management and analytics technology, and flexible modern end-user devices, meant that work we thought we could only do by visiting audited bodies could be performed remotely.



We also took into account the ability of our staff to do their work alongside their new working circumstances and responsibilities. We brought in temporary staff to help meet our revised deadlines.

We provided additional guidance to our teams on a range of issues including: how to audit virtually or onsite safely; judgements made on COVID-19 that might impact on our audits; financial reporting implications for audited bodies following amended guidance from HM Treasury; going concern; and the audit reporting implications as we concluded our audits.

The pandemic also created additional audit risks for us to consider. For example, the announcement of new UK government schemes and the significant sums involved meant that we needed to assess the robustness of management's internal controls to prevent fraud, error and potential irregularity in the use of public money. Also, some trading-based clients were at risk of ceasing to be a going concern due to their income streams being curtailed. We also needed to consider the wider economic impacts on the valuation of assets and liabilities, such as those held by pension schemes at the year-end.

The impact of these factors meant that we agreed with audited bodies a revised programme of deliveries such that we certified some 42% of our total portfolio of financial statements before Parliament's summer recess, compared with 76% in the previous year.

We also drew attention in a number of our audit certificates to the impact of the pandemic on year-end asset valuations and the going concern status of trading organisations.

#### CASE STUDY: HOW WE RESPONDED TO THE PANDEMIC AS PART OF OUR AUDIT OF THE MINISTRY OF DEFENCE

The Ministry of Defence's (MoD's) Resource Account is one of the NAO's biggest and most complex audits. When the first lockdown was announced, both we and the MoD immediately recognised that the provision of evidence and the audit would take longer given we were working in a virtual environment. Our ability to visit sites and inspect assets and records in the way we used to was not an option. We were committed not to let these circumstances affect the quality of evidence or our audit work so we quickly agreed a revised timetable and priorities with the MoD. We discussed our approach, and ongoing progress, with the audit committee and senior officials so that both we and the MoD kept the work on track. Where we needed to, and when the restrictions began to ease, we arranged site visits to complete stocktakes and the physical inspection of assets, taking care to ensure our staff were able to work in safe conditions.

The revised timetable allowed us to invest time to improve the quality of our consideration of the evidence and our audit documentation. The C&AG certified the financial statements in October 2020, against an initial timetable of July. Since then, we have reflected on the actions we took and how we can apply what we learnt for future audits. For example, as we have now tested the safety and security of receiving evidence virtually, we are able to use our resources more effectively as we no longer need to visit sites in person, saving staff travelling time and associated accommodation and travel costs.



## Audit transformation

2.35 As highlighted at paragraph 2.32, a key investment is the delivery of our Audit Transformation Programme (ATP). This will be a phased delivery programme over the next three years. During 2020-21, we completed detailed planning, started work to update our audit methodology and began the procurement process for our new audit software.

### CASE STUDY: USER BENEFITS FROM THE AUDIT TRANSFORMATION PROGRAMME (ATP)

Staff are already starting to see the benefits from the ATP and here a manager and audit lead share their thoughts on how it will change how they will do their audits.



*“The ATP will make our jobs as audit managers easier – it will make it easier to identify and respond to audit risks across government and provide up-to-date technology solutions including audit software and data analytics tools to use. These new tools and approaches will help improve the quality of our work, leading to greater insight and added value for our audited bodies. As an audit manager, any changes that make it easier to deliver high-quality, impactful audit work are welcomed.”*

*“As an audit lead, the ATP will benefit me and my work by improving risk assessment procedures and making sure our audit response is in line with the level of risk for our audited bodies. It will also ensure our compliance with the revised auditing standards; we are preparing ourselves early for the changes that are coming. The tools and software being developed as part of the ATP will bring consistency and efficiency to our approach and will help us be better able to plan and perform high-quality audits.”*



## Investment in technology

2.36 Technology and the use of data analytics are becoming more important across the audit profession and are key elements of our ATP. Audit firms are investing in technology in order to provide higher-quality audits, better insight and more efficient audit processes.

2.37 From the NAO's perspective, technology and data play a vital role supporting our work. They enable us to improve the quality of our work, efficiently risk-assess our audits and create insights about how public money is being managed that are not otherwise possible. Automation and data analytics enable us to perform routine work quickly, freeing up our people to focus on areas of greater complexity where professional judgement is required, enhancing the quality of our work.

2.38 Our technology also enables us to run an efficient workplace. We use technology to share, collaborate and communicate our knowledge simply, quickly and securely. We used the lessons learnt from operating as an entirely remote workplace during the COVID-19 pandemic to accelerate our progress in becoming a more agile organisation.

2.39 We also rolled out our new cloud-based data platform, Audit Information Management System (AIMS), across all our audits. This allowed us to enhance our journal testing and risk assessment applications. Our in-house data analytics team has built a suite of applications that automate time-consuming tasks, allowing our people to spend more of their time considering significant areas of judgement and analysing data in an approved and standardised way helping ensure audit quality.

2.40 We migrated MKinsight, our audit evidence application, away from NAO servers and into a cloud provision to support our digital plan. We improved remote access and performance for end users and ensured the security of our infrastructure is not compromised by legacy implementations. We also upgraded the version of the audit evidence application we use to benefit from the most recent enhancements to the product.

## External engagement

2.41 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 ensure our methodology remains in line with best practice.

2.42 In addition, the NAO and its staff are appointed to a wide range of professional bodies and committees including: the FRC'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 International Organisation of Supreme Audit Institutions (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.

## Wider assurance

### Quality arrangements: VFM standards and approach

2.43 We conduct our VFM and other wider assurance work in accordance with our VFM standards, which set out the mandatory principles that all our VFM and wider assurance work must meet. These standards are based on current NAO best practice. They are also consistent with the Fundamental Auditing Principles of the International Standards of Supreme Audit Institutions, tailored to meet the specific expectations and requirements of Parliament and the UK public sector. They are accompanied by more detailed guidance on implementing the standards.

2.44 Our VFM standards also underpin our quality approach, which consists of a set of core mandatory elements, along with additional steps where appropriate and proportionate to the specific piece of work.

2.45 Our quality approach is designed to address the two main areas of risk to the quality of our work:

- **Strategic quality** – we should be reporting on issues of strategic relevance to Parliament and our audited bodies on a timely basis otherwise we risk not having the impact we seek from our work.
  - An example of our approach to achieving strategic quality is how we select our work. Twice a year, the C&AG will determine our future programme of work to ensure that it focuses on the most significant value-for-money risks to government, both immediate and in the longer term. He will consider suggestions from Parliament, along with internal assessments of value-for-money risks to government. Our [five-year strategy for 2020–2025](#) sets out the long-term issues we are focusing on, including major infrastructure projects, the impact of government activity on different groups, progress towards the net-zero emissions target and the longer-term effects of EU Exit and COVID-19 on public spending.

- **Technical quality** – our work should be accurate, underpinned by a robust evidence base and performed in accordance with our standards. Examples of our quality approach include:
  - a requirement for peer review at all stages of the work. Depending on the type of work this may come from an experienced VFM practitioner independent of the study team, who will act as a constructive critic to the work being planned and produced. In other cases, peer review can also come from VFM colleagues with specific expertise in a relevant field;
  - a quality assurance review of innovative or complex methodologies by specialists from our analysis hub to ensure that the results are accurate and that the methodology used is robust; and
  - linking of all statements and data in our work to source evidence in our audit files.

2.46 Further details on our VFM standards and our quality approach are set out in Appendix One.

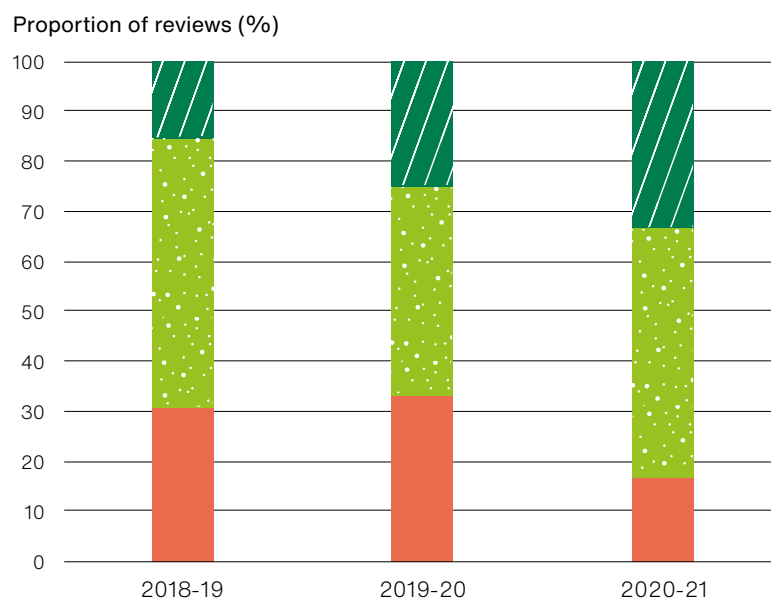
### Quality arrangements: internal and external monitoring

2.47 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 requirements 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.

2.48 In 2020-21, we reviewed 12 VFM studies and investigations. Against our four ratings, 10 met or exceeded our quality standards, having been rated as good/best practice or good with limited improvements. The remaining two were rated as having areas for improvement, with no reports considered to have significant areas for improvement. This was an improvement compared with the previous two years (**Figure 9**).

**Figure 9**

National Audit Office (NAO) internal value-for-money cold review results between 2018-19 and 2020-21

**Above the quality threshold**

Green – good/best practice	2	3	4
Amber/green – good with limited improvements needed	7	5	6

**Below the quality threshold**

Amber/red – areas for improvement	4	4	2
Red – significant areas for improvement	–	–	–

<b>Total</b>	<b>13</b>	<b>12</b>	<b>12</b>
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Source: National Audit Office

2.49 Our 2020-21 reviews found that there had been further improvements in teams' documentation of meeting quality assurance requirements and providing clear audit trails to demonstrate a high-quality audit file and robust evidence base. There was also a strong theme of collaboration between teams, ensuring that existing knowledge and expertise across the NAO was better utilised in current work, along with good examples of teams identifying ways to secure greater impact. The main issues identified were around the presentation of methodology details in the reports, including data limitations, and full compliance with mandatory policies such as 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.

2.50 The issues identified in 2020-21 were raised with staff as part of the annual VFM assurance update modules delivered between January and March 2021. We have also introduced new software that will assist teams with mandatory policy compliance, as part of our Modernising VFM project. We have also been reviewing our guidance to teams on documenting methodologies. More details on the project are set out in the case study on page 43.

2.51 Each year, we also invite external specialists to review a separate sample of published VFM reports and investigations. In 2020-21, RAND Europe and Risk Solutions undertook this work, examining 12 reports between them. The reviews considered the scope and context of the report, quantitative and qualitative analysis, structure and presentation, graphs and statistics, methods used, synthesis of analyses and conclusions, recommendations and summary, leading to an overall assessment. **Figure 10** shows external cold review results between 2018-19 and 2020-21.

2.52 The reviewers assessed all 12 reports as meeting or exceeding expected standards, as they did in the previous year, with each report having scored a 3 or higher out of the possible 5 rating. Overall, the reviewers agreed that the definition of our scope and the context for the report continued to be areas of strength and that quantitative analysis was used to good effect. The reviewers also considered that the report structures generally led to an easy-to-follow report and that the summaries were seen as helpful, stand-alone pieces of work. Reviewers did feel, however, that the summaries would have more impact if they were shorter and that the rationale for the scope could be set out more clearly.

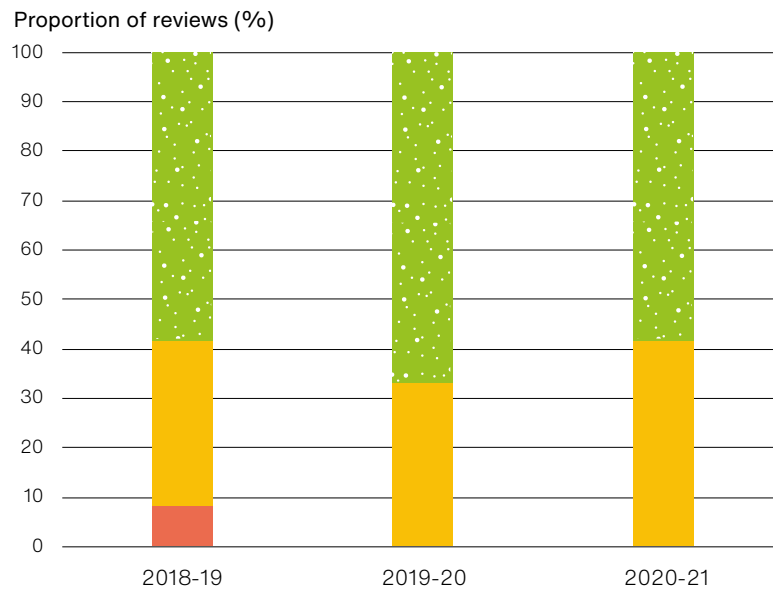
2.53 The reviewers also highlighted:

- improvements in some cases in the use of qualitative analysis and the detail provided on the methodologies used. There was still inconsistency across the reports in these areas.
- Potential to improve the clarity and targeting of recommendations, done well in some cases but in other cases needing greater specificity or a clearer link to supporting findings.
- Opportunities for explicit or stronger judgements, given the weight of evidence in some cases, or where a conclusion was not included, explaining more clearly why one was not made due to the scope or purpose of the work done.

2.54 This is the second year that we have asked RAND Europe and Risk Solutions to summarise their findings across the reports they have reviewed and more details can be found in Appendix Two.

**Figure 10**

National Audit Office (NAO) external value-for-money cold review results between 2018-19 and 2020-21

**Above the quality threshold**

Exemplary – good -practice example	-	-	-
Amber/green – above average/strong performance	7	8	7
Amber – sound performance and the expected standard for an organisation such as the NAO	4	4	5

**Below the quality threshold**

Amber/red – below average performance	1	-	-
Red – very poor performance – inherent risk to the NAO	-	-	-
<b>Total</b>	<b>12</b>	<b>12</b>	<b>12</b>

Source: National Audit Office

## Latest developments to VFM quality arrangements

2.55 As part of commitments to support our new strategy, we have progressed with our Modernising VFM project during 2020-21 to improve the quality and efficiency of our approach to producing VFM and wider assurance work.

### CASE STUDY: PROGRESS ON MODERNISING VFM

In October 2019, we initiated the 'Modernising VFM' project in order to improve the efficiency of the report production process, reduce the risk of error arising in our published outputs, and automate manual processes to free up more time for value-adding activities. The project is continuing to develop how we collaborate in our report template but, during 2020-21, has led to:

- new software for teams to use to document and store our audit work, including user-friendly forms for documentation of mandatory steps such as ethical declarations;
- a tool to support teams to automate linking our evidence to the report; and
- a more streamlined design and publishing process.

2.56 In the year ahead, we also plan to update our VFM quality approach to reflect a more risk-based approach that could be applied to all types of product. This is in recognition of the wider range of outputs we are now publishing to assist Parliament in its scrutiny of public sector expenditure and making greater use of our knowledge, such as lessons-learnt reports, good-practice guides and our [COVID-19 cost tracker](#). Assessing the main risks enables us to put in place specific quality assurance steps for each piece of work alongside the core mandatory elements required in all cases to meet our VFM standards.

## Ethics

2.57 The FRC has an Ethical Standard which sets out overarching principles of integrity, objectivity and independence. It includes specific circumstances that might arise in audit and other public interest assurance engagements which could undermine this basis for user trust and confidence. We are required to establish that we have identified and addressed relevant conditions and circumstances.

2.58 The NAO is compliant with the FRC's Revised Ethical Standard, which applies to both financial and non-financial audit work. The Ethical Standard 2019 came into effect from 15 March 2020 and we applied its requirements to all our 2020-21 financial audit engagements.<sup>3</sup> We also updated our policies and procedures appropriately on areas such as training and human resources.

<sup>3</sup> Financial audit engagements commencing prior to 15 March 2020 were subject to the previous iteration of the Ethical Standard 2016 where relevant.



2.59 The C&AG is the designated ethics partner and has overall responsibility for ethical matters. His independence is enshrined in statute as is our appointment to most audits (including VFM audits). This means that the audited entity cannot replace us as an auditor in response to negative audit opinions or conclusions. 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. However, to prevent over-familiarity of audit staff with the audited entity, we regularly rotate senior staff in line with the requirements of professional standards.

2.60 We are alert to areas where the NAO or our engagement teams' independence and objectivity could be, or perceived to be, threatened and have set up strong safeguards. Detailed procedures for identifying potential threats to independence and establishing appropriate safeguards are embedded into our audit methodology. For example, 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 complete a Declaration of Independence in advance of involvement in any audit or other public assurance engagement, which highlights where potential or actual conflicts of interest might exist. Examples could include staff members leaving to join an NAO-audited body or staff 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 promptly where circumstances change.

2.61 An ethics function supports the C&AG in discharging his role as ethics partner. It reviews 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.

## Feedback on the quality of our work from those we audit

2.62 An important measure of the quality and impact of our work is how much it helps public bodies 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 each year. We draw on this feedback to support continuous improvement in our audit practices. However, we decided not to conduct a survey of our audited bodies due to their Covid-related work pressures so we do not have results to report for 2020-21. We will resume this feedback programme for reporting in 2021-22.

### Feedback from MPs

2.63 We seek feedback from MPs to ensure that our work continues to support them and identify areas for improvement. This year we started to see a recovery in our scores following a decline after the 2019 general election. The percentage of MPs who are familiar with or have a favourable opinion of the NAO, and the percentage of those who would speak highly of us, have all improved slightly since last year. All our ratings for our image and reputation in Parliament have also improved (**Figure 11**).

2.64 The extent of our interactions with MPs has had a noticeable uplift this year. Far more MPs have seen, heard or read positive comments about the NAO in the media and in Parliament, and more MPs have read our reports or used them in their own work. Overall, MPs have turned to the NAO for support more often, suggesting that our plans for engaging with Parliament are working well. The increased usage of our support and services is likely to be linked to greater familiarity with what the NAO has to offer. MPs are less aware of some of the other forms of support that we can provide, such as advice on scrutinising departmental spending and annual reports and accounts. We will therefore focus our efforts in the coming year on raising awareness of these aspects of our work and what we can offer to those groups unfamiliar with them, including introductory sessions with MPs and their staff about the NAO and our expertise in financial scrutiny.

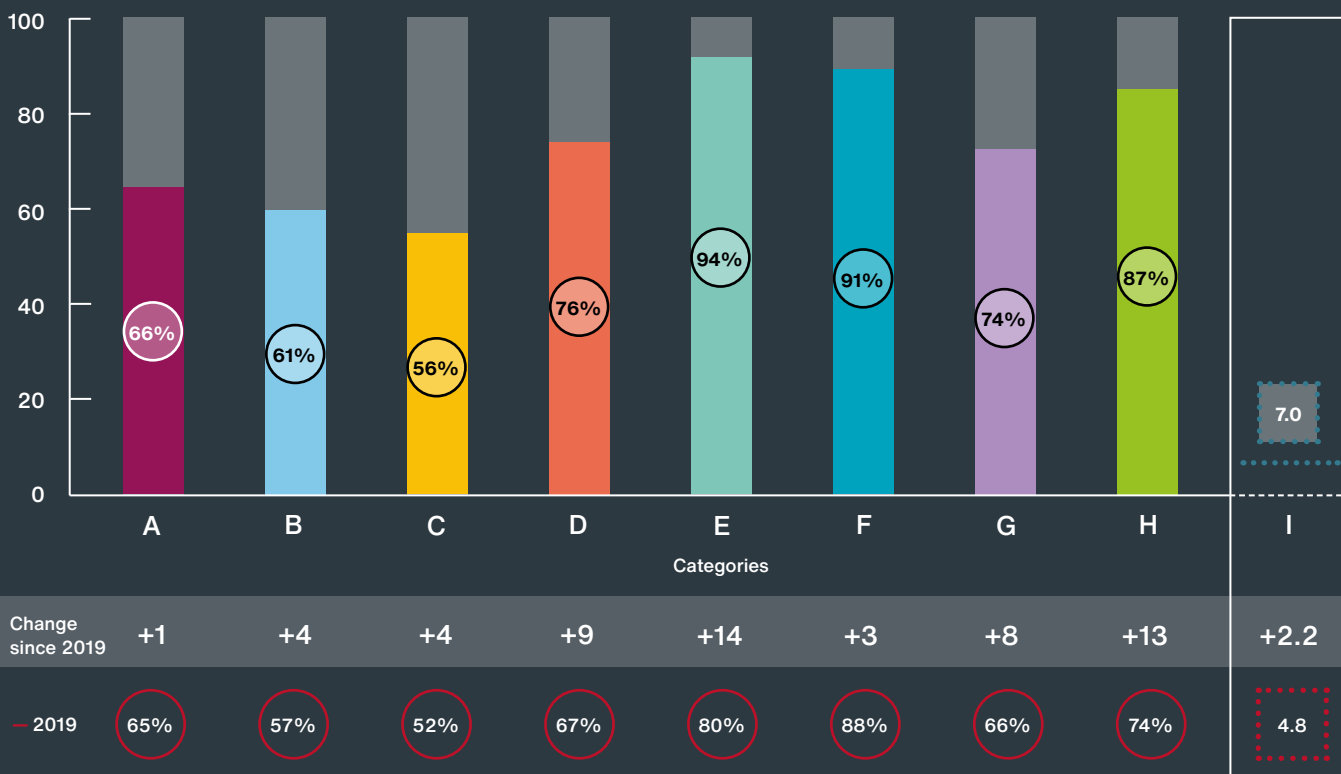
2.65 This year we also asked MPs a series of new questions to help determine progress against the NAO's strategy. The results show that MPs agree that the NAO is effective in supporting Parliament to scrutinise public services and the quality of our insights is highly regarded. To further improve, MPs suggest that we ensure that we use plain English in our reporting to ensure it is easily understood both by MPs and the public, as well as highlight the key information. MPs were more critical of our website, particularly how easy it is to find and access reports, which we are addressing over the year. Further information on the feedback from MPs is available in our [Annual Report and Accounts 2020-21](#).

Figure 11

## MPs' perception of the National Audit Office (NAO) 2019-2020

- A** Know the NAO very well or a fair amount.
- B** Have a favourable opinion of the NAO.
- C** Would speak highly of the NAO.
- D** Rated us as above average for influencing beneficial change.
- E** Rated us as above average for acting impartially and independently.
- F** Rated us as above average for being authoritative.
- G** Rated us as above average for the quality of products or services.
- H** Rated us as above average for acting with honesty and integrity.
- I** Number of references to the NAO in Parliament per sitting day.

Percentage



## Notes

- 1 Sample: 394 MPs contacted, 135 MPs interviewed, 101 MPs answered the National Audit Office questions (versioning used to control interview length).
- 2 Quotas and weighting used so results reflect the House of Commons by ministerial status within political party.
- 3 Broad sample controls also set on region, gender and newly elected MPs.
- 4 Fieldwork dates: 9 November–22 December 2020. Face-to-face interviews with MPs.

Source: Ipsos MORI MPs Winter 2020 survey

# Part Three

## People

3.1 Our people are key to delivering high-quality work. In line with our strategic priority to take forward our commitment to people development, we have focused more on personal and career development, invested in improving line management and ensuring we have the right skills, removed barriers to diversity and inclusion and supported staff through the pandemic to achieve a good work-life balance.

3.2 This part highlights the actions we are taking to develop all our people and the investment we are making in enhancing their skills.

### Investing in our talent pipeline

3.3 We are a training provider for the Institute of Chartered Accountants in England and Wales (ICAEW) professional training scheme. We recruit talent through our successful graduate and school leaver programmes, with 58 people recruited to our graduate scheme and 13 to our school leaver scheme in 2020.

3.4 To attract a wide range of strong candidates, we attend career events with universities and diversity networks, most of which were online in 2020-21. We hosted our own insight days, had brand ambassadors promoting our opportunities on campuses around the country and utilised our digital channels.

3.5 Throughout 2020-21, due to the COVID-19 lockdown, we moved our recruitment activities online, delivering our trainee assessment centres through a virtual platform and conducting interviews for other roles remotely.

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

### Professional training scheme

3.7 Last year, 85.7% of our graduates passed the Professional Stage examinations for the Associate Chartered Accountants qualification at the first attempt (above the national average of 83.2%) and 91.0% passed the Advanced Stage examinations at the first attempt (above the national average of 85.8%).


3.8 To support our new starters in 2020-21, we designed and delivered a new introductory training course (audit pathways) for our new financial audit trainees. The entire programme was delivered online supplemented by a 'live' case study and ongoing learning and development (L&D) support through action learning sets. See the case study on trainee development for further details.

CASE STUDY: **DEVELOPING OUR TRAINEES**

Audit pathways is a new development programme for people joining the National Audit Office (NAO) via the graduate and apprenticeship scheme. In 2020, we redesigned the programme to turn it into a modern and innovative learning experience. It aims to supplement professional ICAEW training and prepare trainee auditors to deliver financial and value-for-money (VFM) audits in the public sector by offering a blended curriculum focused on core technical competencies and essential non-audit skills.

The COVID-19 lockdown put the delivery of the programme at risk. The NAO had never delivered a remote training programme on this scale. The project team modified the programme to ensure successful remote delivery and 214 trainees participated in 83 interactive workshops covering 23 technical financial audit and VFM topics. We will continue to monitor the impact on this group of colleagues going forward, to ensure that no key learning has been missed.

The programme won multiple internal NAO awards and won a high commendation in the external Learning Excellence Awards 2021.



Last year  
**85.7%**  
passed their exams  
at the first attempt

## Learning and development

**3.9** Our learning and development offer is vital to support and embed quality in all our work. We combine technical training on financial audit and VFM skills alongside broader management skills training.

**3.10** In 2019, we launched an L&D strategy that focused on a wider blended learning offer giving people different means of access to a range of opportunities when they need it. It also emphasised a shift from mass training events to more tailored learning interventions based on individuals' needs. During 2020-21, we focused on changing our offer and amending policies in line with these aspirations alongside adapting our L&D programme in response to the pandemic. We took the opportunity to revisit how many of our learning activities were delivered, embracing new technologies and making them more efficient. This enabled us to quickly prioritise the learning activities that needed to be delivered virtually rather than in the classroom. For example, we:

- developed e-learning material and reduced the duration of training events by splitting them into modules. We have also curated content on many topics for our people and placed these on our learning platform. This has made the materials more readily accessible to people at the point of need;
- radically changed our audit training for new starters through audit pathways;
- focused more on people management skills to support more meaningful development conversations. We also launched targeted support for new managers and directors; and
- developed a coaching faculty to help people to better understand their learning and development needs.



3.11 We have changed our policies in line with how we have changed our learning and development. We have introduced a more user-centred personal development plan supported by performance coaches. We have also worked on clarifying the policies around mandatory training and the process for addressing non-compliance.

#### CASE STUDY: SUPPORTING THE DEVELOPMENT OF INDIVIDUALS



The NAO has moved from having line managers to performance coaches who receive specialist training and support to coach a small group of staff.

Performance coaches help people to identify where they want to develop and how they might go about it, broadening from a focus on past performance to include future development. Discussions help to inform a personal development plan which sets out:

- learning from previous performance and building on experience to deliver high-quality work;
- what sort of work they enjoy and are interested in;
- where they see themselves in the next two to five years; and
- what skills or experience they need to develop to get there.

3.12 We have improved our coordination of all our learning and development activities through our central L&D team so that interventions are in line with our strategy and with best practice. We have continued to develop our trainer cohort via a train-the-trainer suite of training (now including delivery on online events) and offer support and guidance to colleagues seeking to develop learning materials.

### Developing technical skills for financial auditors

3.13 Professional accountancy training for staff is supplemented by in-house bespoke training. All financial audit staff have access to a wide range of financial audit training, in addition to mandatory assurance modules issued throughout the year in Audit Skills (ASk) modules. The mandatory modules have focused on auditing accounting estimates (ISA 540), climate change risk assessment and disclosures and going concern (ISA 570), which are being implemented in our 2020-21 audits.

3.14 All front-line staff working on audit should do the ASk modules set for their grade. Completion of mandatory training is tracked and directors in each group are responsible for ensuring compliance to ensure our audit quality is not impacted.



3.15 Individuals can also select further training based on their role and prior experience. For example:

- introduction to the revised auditing standard ISA 315 on identifying and assessing the risks of material misstatement as part of our Audit Transformation Programme;
- introduction to digital financial audit so that our staff understand how we use technology in our audit work to audit IT systems and use data analytic tools;
- introduction to the NAO's financial audit methodology for direct entrants;
- the auditing of charities; and
- the auditing of property valuations.

We also delivered training in topics such as professional scepticism, ethics and anti-money-laundering.

3.16 We have a new programme in place in 2020-21 to support new financial audit managers adapting to the requirements of their new roles, with a focus on quality but also peer support and learning from the experiences of others. We also launched a director curriculum offering them the ability to undertake a bespoke range of development opportunities including becoming a trustee for a charity, undertaking leadership training with a leading university and one-to-one coaching.

#### CASE STUDY: BECOMING A TRUSTEE

Eighteen of our directors attended a seminar on the role of a charity trustee. Following on from this many are actively seeking trustee positions in charities.

They are keen to use such an opportunity to experience governance for themselves (and compare that to what they see in central government), to develop a greater understanding of challenges facing organisations at present, and to expand their external networks. We already have directors who are non-executive directors, governors and trustees. Before appointments are made, we have arrangements in place to identify and manage any potential conflicts of interest.

This aspect of the programme allows even more of our senior managers to gain a different experience and contribute to society.





## Developing technical skills for wider assurance staff

3.17 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 the specialist cross-cutting knowledge hubs.

3.18 To maintain the technical competence of staff engaged in wider assurance work, we provide a range of learning and development opportunities including:

- introductory courses for new financial audit trainees (as part of their wider audit pathways programme) and wider assurance analysts;
- ongoing support and communications to ensure that experienced practitioners access continuous professional development. For example, we deliver an annual assurance update, mandatory for all practitioners, to communicate the key quality assurance announcements to all practitioners. This is supplemented by regular audit bulletins and quality updates throughout the year. This year we replaced the annual update with a suite of shorter modules delivered virtually between January and March in response to the current working environment;
- the hubs also deliver seminars and training in specialist topics. For example, our analysis hub supports all our work on the use of a wide range of analytical techniques. As part of this support, it provides a range of training from specialist software for techniques such as mapping or web-scraping to the use of qualitative methodologies, as well as running regular seminars to share how techniques are being used in our work; and
- VFM practitioners across the office regularly meet together to share best practices to help them continue to improve quality within their work.

## Diversity and inclusion

3.19 We aim to be an exemplar organisation for all aspects of diversity and inclusion (D&I) and we have further progress to realise our ambitions. We are focused on the retention and progression of ethnic minority colleagues, the representation of women at the most senior levels of the business, and creating a disability-confident organisation where disabled colleagues can realise their full potential.

3.20 In June 2021, we launched our new four-year [D&I Strategy 2021-25](#), which sets out four priority areas:

- proactively strengthen the diversity of our people pipeline;
- maximising the potential of all our people;
- building a culture of inclusion and respect for others; and
- setting clear ambitions and holding ourselves to account.

3.21 Our D&I Strategy is supported by our Race Equality Action Plan launched in December 2020 and our Disability Equality Action Plan launched in April 2021. These plans contain ambitious targets to support engagement and progression of our ethnic minority and disabled colleagues.

3.22 Initiatives such as our revised recruitment and promotion protocols, implemented in August 2020, have secured positive results with improved representation of women and ethnic minorities at senior levels. We have exceeded our initial targets for senior-level representation and continue to attract a diverse pipeline of trainees to our accountancy training programmes. We continue to focus on this and building a culture of inclusion, ensuring our people feel accepted as individuals and can be proud of the value they bring to our organisation. Further information is set out in our [Diversity and Inclusion Annual Report 2020-21](#).

## Pay gap reporting

3.23 In December 2020, we published our diversity pay gap report, based on pay data as of 31 March 2020. The report voluntarily includes our ethnicity pay gap for the first time and outlines the actions we are taking to close our pay gaps.

3.24 The key factors affecting both pay gaps are the low proportion of female and ethnic minority colleagues in director roles and of ethnic minority colleagues at middle management level. We have made some progress in increasing the proportion of women in director roles (excluding the executive team) from 26% to 32% and of ethnic minority colleagues in director roles from 5% to 8%. We have also seen a rise in the proportion of ethnic minority colleagues employed at middle management level from 10% to 14% (**Figure 12**).

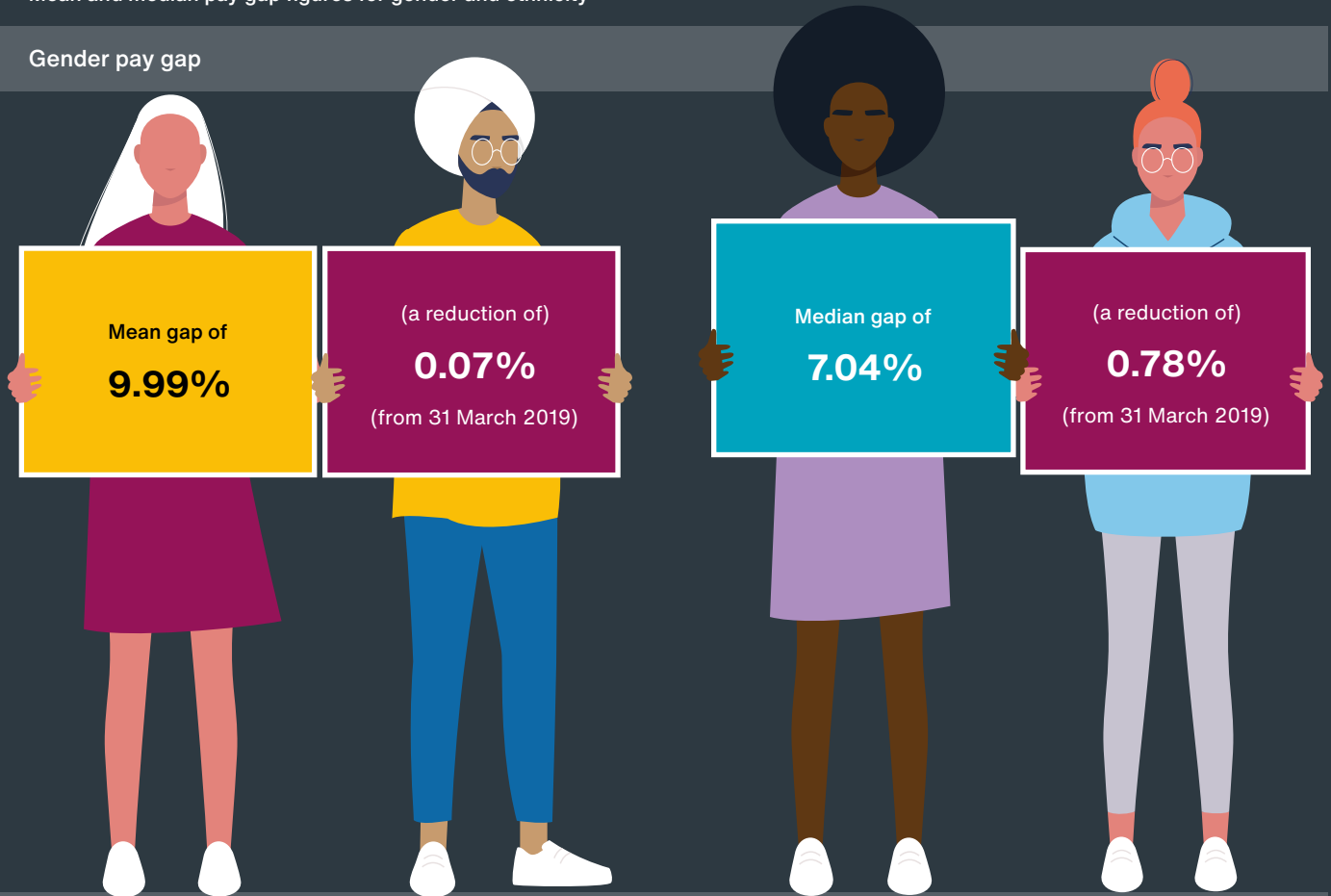
3.25 However, we need to go further to close these gaps fully. We will capitalise on our junior talent pipeline (ethnic minority colleagues make up 22% of the population and more than 40% of our new graduate trainee intake). We will support these colleagues in progressing their careers by removing the barriers to providing them with the development and opportunities to do so. Further information is set out in our [Annual Report and Accounts 2020-21](#).

## Figure 12

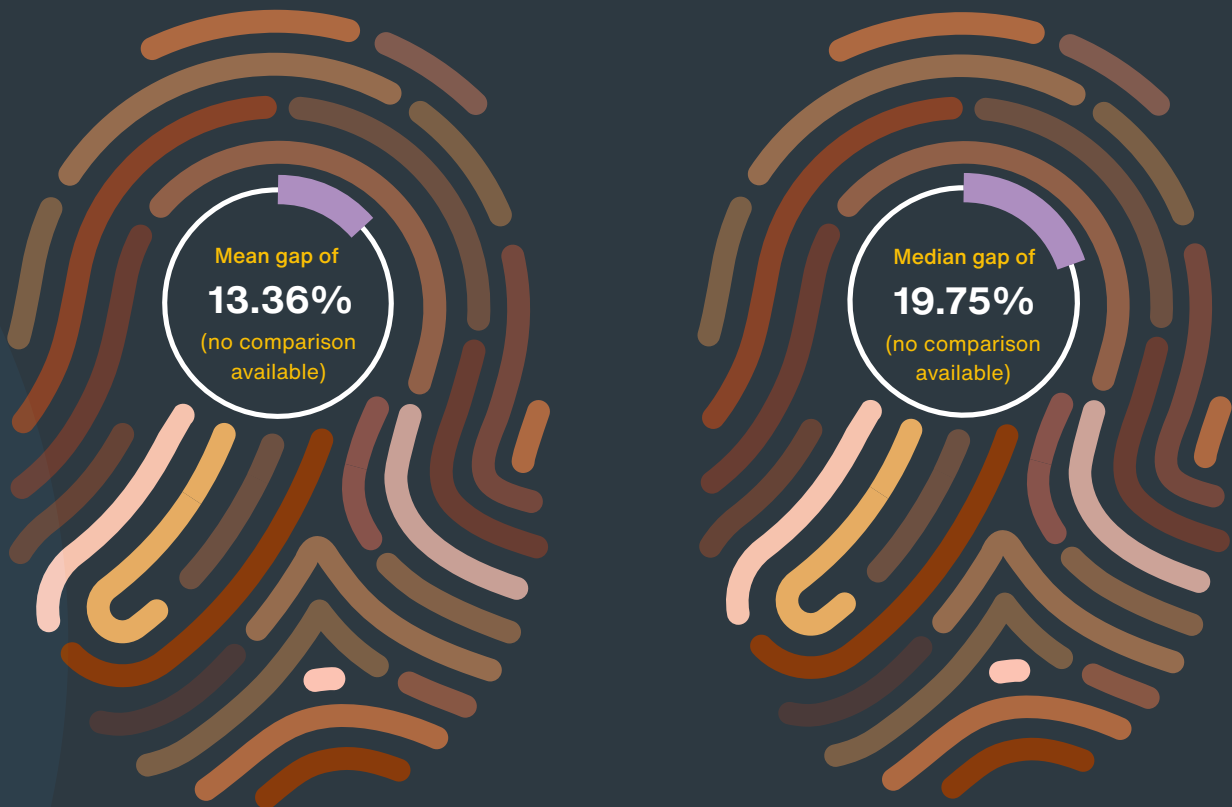
### Diversity pay gaps

Mean and median pay gap figures for gender and ethnicity

#### Gender pay gap



#### Ethnicity pay gap



## People survey

3.26 Until 2019, we conducted an annual survey of our people to help us understand how they felt about working at the NAO. In 2020, throughout the pandemic, we started doing regular pulse surveys every two to three weeks, which showed us how responsive the NAO can be when we are regularly listening to each other and making improvements based on that feedback. We decided that the new, more frequent and responsive model of the pulse surveys would be more desirable than the annual approach. Our new People Survey builds on the success of the pulse surveys and will ensure that our people remain engaged and at the heart of how we implement and prioritise changes.

3.27 We now conduct a monthly survey of our people to help us understand how they feel about working at the NAO. In the first quarter of 2021, 77% of NAO staff completed the survey. This is a decrease of 4% compared with 2019 (note that in 2020 due to a change in suppliers, we did not run a people survey but ran monthly pulse surveys instead). There were several positives from the survey including an overall engagement score of 7.3.<sup>4</sup> The drivers where the NAO scores the highest are: goal-setting (7.9), peer relationships (7.8) and management support (7.8) (**Figure 13**). This means that people know and understand what they are expected to deliver, they feel that they work well with colleagues and they feel they are getting the support they need from their manager.

3.28 However, our survey did highlight areas where we need to focus to improve engagement including around meaningful work, career path and equality. We have actions to address these in our Organisational Development Plan including the introduction of performance coaches, personal development plans, and a new diversity and inclusion strategy. We are seeking to understand how we can better demonstrate the link between individuals' work and our overall organisational impact, and how we ensure people feel their work makes best use of their strengths.

## Supporting our people through the pandemic

3.29 During a year that has significantly changed our way of working, we have demonstrated our ability to work flexibly and supportively through the COVID-19 lockdown, with a very high percentage of the office reporting that they felt well supported by the organisation. We remain conscious of the diversity and varied needs of our workforce and continue to respond inclusively and compassionately towards the changing needs of and pressures on our people.

3.30 As an organisation we have valued flexible working for some time. We had already invested in our capability to do so. This allowed us to respond swiftly and adapt to extended home working, minimising the pandemic's effect on our people and increasing organisational resilience.

3.31 Our people adapted remarkably well to remote working arrangements; however, it has been a challenging time. We have communicated regularly to keep colleagues informed of our latest guidance and the support they can access, which included:

- online resources on both physical and mental well-being;
- funding for people to buy key office equipment to work safely at home; and
- flexibility or a reduction in working hours for those who could not work their usual hours due to, for example, childcare commitments or their health.

4 Average scores out of 10.

**Figure 13**

## People survey results 2020-21

Average driver results out of 10



Source: National Audit Office

**3.32** Our colleagues have looked after each other, adapting how they work as teams and finding new ways to stay in touch such as virtual coffee clubs. We developed a dedicated area of our intranet for advice and support on managing physical and mental health. Our employee assistance programme and Mental Health First Aider network of 65 staff has provided support throughout the year, signposting people to sources of more help and support or just being available to listen.

**3.33** Looking to the future we have started an internal consultation to understand how and where our people would like to work, which is helping us shape an inclusive workplace model as we move through and out of COVID-19 restrictions. We already benefit from joint Newcastle and London teams and will capitalise on that success.

# Part Four

## Governance and accountability

4.1 This part explains the National Audit Office's (NAO's) governance and accountability arrangements. We describe the division of responsibility between the Comptroller and Auditor General (C&AG) and the NAO Board, and report on how governance activities have been discharged during the year.

### The Comptroller and Auditor General

4.2 The C&AG, Gareth Davies, leads the NAO and is an officer of the House of Commons. He and the staff of the NAO are independent of government. We are not civil servants and we do not report to a minister.

4.3 The C&AG certifies the accounts of all government departments and many other public sector bodies. The C&AG has statutory authority to examine and report to Parliament on whether departments and the bodies they fund have used their resources efficiently, effectively and with economy.

4.4 The C&AG uses their powers to:

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

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

### The legal framework underpinning our governance arrangements

4.6 The NAO's governance arrangements reflect our statutory position, balancing the need for appropriate controls and oversight against the preservation of the C&AG's independence. This balance is recognised in the Budget Responsibility and National Audit Act 2011, which establishes the statutory basis for the NAO's governance. The Act modernised the NAO's governance arrangements while protecting the independence of the C&AG in matters of audit judgement. Among other things, the Act established the NAO as a corporate entity with a statutory Board led by a non-executive chair.

## Who holds us to account?

4.7 The 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.

4.8 The Public Accounts Commission also appoints the C&AG as Accounting Officer for the NAO. The responsibilities of an accounting officer include responsibility for the propriety and regularity of the public finances for which the accounting officer is answerable, for keeping proper records and for safeguarding the NAO's assets.

4.9 The Commission met four times in 2020-21:

- In April 2020, it considered and approved the NAO's budget for 2020-21.
- In October 2020, it received evidence from the chair and C&AG on how the office had spent its budget and the NAO's external auditor's report on our impacts process.
- In December 2020, it:
  - appointed Gaenor Bagley and Sir Martin Donnelly and reappointed Dame Clare Tickell as non-executive Board members, on the recommendation of both outgoing and incoming chairs. The appointments were made following an open competition and according to the Commissioner for Public Appointments Code of Practice, and
  - questioned the incoming Chair, Dame Fiona Reynolds, on the priorities for the NAO.
- In March 2021, it considered and approved the update to the NAO's strategy and 2020-21 budget and received the external auditor's report on the NAO's finance function.



## The role of the Board

4.10 The role of the NAO Board is to provide effective support and challenge in improving the NAO's operations, providing additional rigour and discipline in decision-making and bringing insight from the wider experience of the non-executive members to inform and shape the strategic thinking of the NAO. Importantly, it sets the tone from the top. The Board is responsible for:

- promoting the highest standards of governance in the management of the operations of the NAO;
- 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 their statutory responsibilities;
- providing oversight of the NAO's use of resources, providing challenge and advice to the decision-making process;
- recommending an external auditor for the NAO for approval by the Public Accounts Commission; and
- ensuring compliance with a Code of Practice dealing with the relationship between the C&AG and the NAO.

## Board composition and membership

4.11 The Board consists of nine members: five non-executive members, including the chair, and four executive members including the C&AG, who is a permanent member of the Board. During the reporting year, Lord Bichard's six-year term as chair came to an end and he was succeeded by Dame Fiona Reynolds on 10 January 2021. Ray Shostak and Rob Sykes' respective six-year terms as non-executive members ended in December 2020 and their vacancies were filled by Gaenor Bagley and Sir Martin Donnelly from 1 January 2021. The executive members of the Board were Daniel Lambauer, Kate Mathers and Rebecca Sheeran.<sup>5</sup>

<sup>5</sup> Biographies of Board members are available on pages 82–85 of our Annual Report, available at: [www.nao.org.uk/wp-content/uploads/2021/06/NAO-Annual-Report-and-Accounts-20-21.pdf](http://www.nao.org.uk/wp-content/uploads/2021/06/NAO-Annual-Report-and-Accounts-20-21.pdf)

## Board meetings

4.12 The Board met six times during the year (in addition to its annual strategy day), in line with its terms of reference. During the year, the Board supported the executive team in addressing the COVID-19 crisis and considering our people's safety and well-being. It also:

- advised on a proposed framework for looking at the government's preparedness and response to the pandemic and in March 2021 discussed initial lessons learnt from our COVID-19 related work;
- input to the new performance and risk frameworks, the Audit Transformation Programme and the new diversity and inclusion strategy;
- completed a benchmark of the NAO's governance arrangements against the code of good practice for governance in central government departments and concluded the NAO complies with all principles and supporting provisions in the Code, where they apply to the NAO;
- delivered its core duties to oversee year one of the five-year strategy, oversee culture, governance and succession planning; and
- held, as part of its strategy day, a workshop on strategic foresight to consider key changes in the NAO's external operating environment.

4.13 In addition to the formal meetings of the Board, the new and established board members have held five induction briefings covering our relations with Parliament, strategy and resourcing, audit quality, VFM methodology and NAO people including our Diversity & Inclusion strategy.<sup>6</sup>

## Board ways of working

4.14 Due to the change in membership during the year, the Board did not carry out a traditional self-assessment exercise in 2020-21. Instead it continued its dialogue on Board ways of working and behaviours, initiated as part of the strategic review in 2019-20. During 2021-22, Dame Fiona will take forward an action plan to address the feedback from the Board.

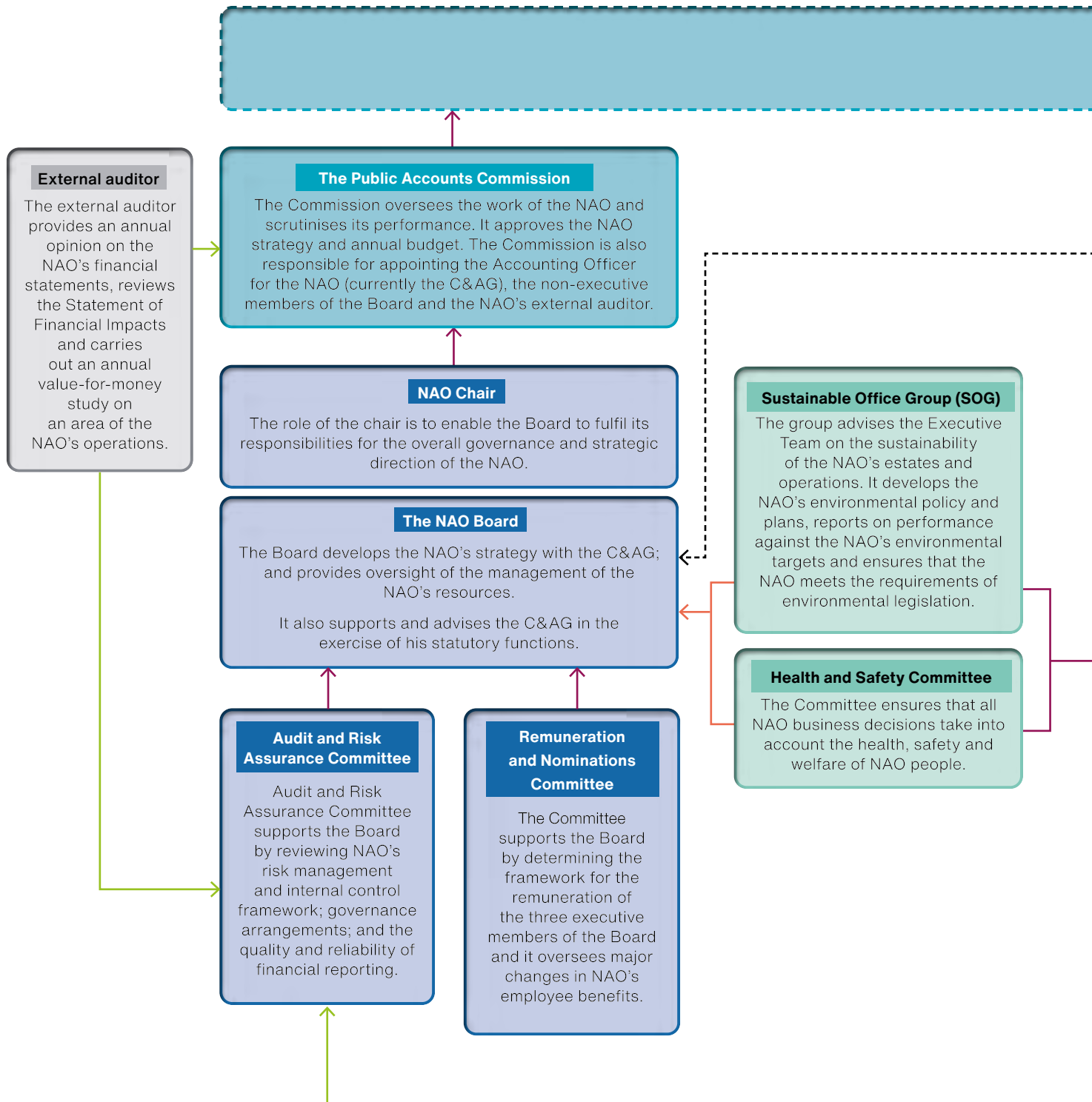
## Division of responsibility

4.15 **Figure 14** depicts the division of responsibility between the different entities involved in our governance framework.

<sup>6</sup> A breakdown of Board member attendance at committees is included in Figure 15 of the Annual Report and Accounts 2020-21. Available at: [www.nao.org.uk/wp-content/uploads/2021/06/NAO-Annual-Report-and-Accounts-20-21.pdf](http://www.nao.org.uk/wp-content/uploads/2021/06/NAO-Annual-Report-and-Accounts-20-21.pdf)

Figure 14

## National Audit Office (NAO) Governance Framework



### Note

1 Graphic also shows the two Board sub-committees and two committees that support the Executive Team.

Source: National Audit Office

### Parliament

Parliament is involved in the appointment and dismissal of the separate posts of Comptroller and Auditor General (C&AG) and NAO chair. Both posts are Crown appointments.

### Comptroller and Auditor General

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

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

### Internal Audit

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

### Executive Team

The Executive Team comprises the C&AG and six executive directors. The executive directors support the C&AG in the exercise of his statutory duties.

The Team has collective responsibility for the delivery of the NAO strategy and operational business priorities.

### Audit Quality Board

The Audit Quality Board advises the C&AG on the effectiveness of the controls that support financial audit and value-for-money (VFM) quality.

### Key

	National oversight		Reporting
	Parliament's independent statutory auditor		Accountability
	Independent assurance		Code of practice
	Executive management		Assurance
	Statutory governance		Information
	Advisory		



## Board committees

4.16 The Board has established the Audit and Risk Assurance Committee and the Remuneration and Nominations Committee, to which it has delegated specific responsibilities.

4.17 The Audit and Risk Assurance 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. The remit of the Audit Committee was extended, in June 2020, to become the Audit and Risk Assurance Committee, with a wider role in overseeing the NAO's risk architecture.

4.18 The Committee met four times during the year. The Committee's principal areas of activity included: agreeing the internal audit plan and thereafter reviewing internal audit reports and monitoring progress against recommendations for improvement; carrying out a deep-dive look at NAO's cyber security arrangements with particular emphasis on controls around remote working; scrutinising NAO's legal compliance framework and overseeing completion of actions for improvement arising from the benchmark of NAO's risk management against HM Treasury's Orange Book. The Committee also considered the findings from the external auditor's annual VFM review and audit of the NAO's annual report and accounts. The external auditor reviewed the NAO's finance function and concluded the finance function is proportionate to the size and complexity of the NAO and delivers good value for money.

4.19 The Remuneration and Nominations Committee, chaired by Dame Clare Tickell, looks at the pay and performance of the executive directors, human resources-related topics, and talent and succession planning. The Committee held two meetings during the year. In light of the change of membership on the Board during the reporting year, a big focus of the Committee was on advising the chair on the skills and competencies for the non-executive vacancies.

## Recent developments regarding the oversight and governance of our audit quality

4.20 As highlighted in Part Two of this report, we have strengthened our governance to support teams to deliver good quality audit work. A recent development has been the introduction of an advisory committee to the C&AG, the Audit Quality Board. It first met in March 2021 and agreed its terms of reference and that its composition should consist of two of the NAO's non-executive members (one of whom is its chair), the C&AG, the executive directors responsible for financial audit and VFM, and the executive director for Financial Audit Quality. The Audit Quality Board will cover both financial and VFM audit quality and will provide an independent perspective to challenge the effectiveness of the controls and processes we have in place supporting audit quality.

4.21 Also, we were pleased to note in its recent consultation document [Restoring trust in audit and corporate governance](#) that the government recognised that the oversight arrangements over the quality of the C&AG's financial audits should be amended to better reflect the C&AG's appointment by Parliament to audit bodies under statute.

4.22 The Secretary of State has previously appointed the Financial Reporting Council (FRC) to act as the Independent Supervisor over our Companies Act audit work. The government has concluded that it is not appropriate for the C&AG to continue to be supervised by a body appointed by a minister as this has the potential to undermine the independence of the C&AG. Instead, it proposes to change legislation so that responsibility for establishing the oversight arrangements over the quality of our financial audit work moves from the Secretary of State to Parliament.

4.23 We are working with government and Parliament, through the Public Accounts Commission, to take forward these proposals, including the necessary changes to relevant legislation. Our aim is to be transparent and accountable for our work so that those who appoint us to undertake audits on their behalf, Parliament, are better able to hold us to account for quality.

4.24 In practical terms this will mean that, subject to legislation, the FRC's current statutory role over the NAO will be repealed. This will be replaced by an arrangement through which the Public Accounts Commission, on behalf of Parliament, will hold the C&AG to account for the quality of our work. We will continue to appoint an independent body to inspect our work, albeit under a voluntary arrangement, and for its findings to be considered by the Commission.

4.25 Government is expecting legislation to be in place by April 2023. In the meantime, we are working with the Commission to pilot these oversight arrangements from autumn 2021.

## Executive Team

4.26 The Executive Team is responsible for supporting the C&AG in running the NAO. It comprises the C&AG and six executive directors. Each executive director has functional responsibility, and is accountable, for the performance of an area of our work that is essential for the successful delivery of our five-year strategy. The executive directors are responsible for that function across the NAO. Each executive director also leads, and is accountable for, the performance of one of NAO's six groups.<sup>7</sup>

4.27 The Executive Team met monthly throughout 2020-21 to provide strategic and operational leadership, set goals, develop our strategy and ensure it is executed effectively informed by high-quality management information. The team also met informally every week, to keep each other up-to-date with developments in their areas of the business.

<sup>7</sup> Biographies of the Executive Team are available on pages 82–85 of the 2020-21 Annual Report and Accounts, available at: [www.nao.org.uk/wp-content/uploads/2021/06/NAO-Annual-Report-and-Accounts-20-21.pdf](http://www.nao.org.uk/wp-content/uploads/2021/06/NAO-Annual-Report-and-Accounts-20-21.pdf)

4.28 In response to the emergence of the COVID-19 pandemic and the decision to ask NAO people to work from home, the Executive Team made the decision to meet daily so as to make swift business continuity decisions. The agendas for these daily meetings were also driven by feedback from the weekly pulse survey, which gathered information from our people on their physical and mental well-being, their ability to work productively at home and how they felt about their workload. In addition to making decisions to ensure the availability and security of IT services, the Executive Team also agreed policies regarding the health and well-being of NAO people and how, as lockdown restrictions eased, our office building and ways of working within it could be adapted to allow the return of those colleagues who needed to work away from home. The Executive Team also carried out a significant review of our programme of work and, in consultation with audited bodies, decided to rephrase some of our financial audits and make changes to our programme of VFM and wider assurance work.

## Risk management

4.29 During 2020-21, we made several changes to our risk management process in response to our review against HM Treasury's Orange Book, our strategic review and good practice. Our approach to risk management is set out in **Figure 15**. Further details of our principal risks as of 31 March 2021 are in our Annual Report and Accounts 2020-21.<sup>8</sup>

## Whistleblowing

### Internal whistleblowing

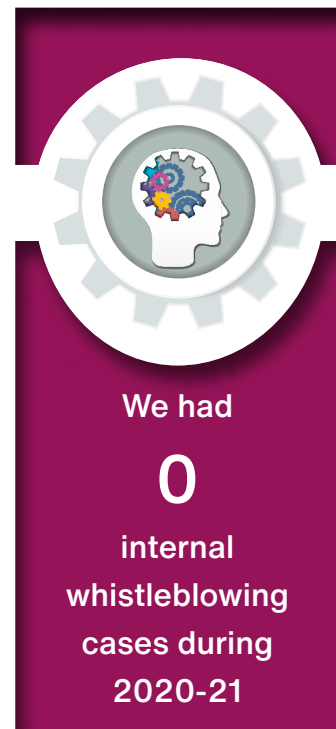
4.30 Our people and others who work for or provide services to us can raise a concern without fear of reprisal. Our internal whistleblowing policy covers situations where someone wants to raise concerns about suspected or actual malpractice or impropriety, improper conduct or unethical behaviour within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

4.31 There were no internal whistleblowing cases brought to the attention of NAO management or the Audit and Risk Assurance Committee during 2020-21.

### External complaints

4.32 Anyone who engages with the NAO and is unhappy or dissatisfied can complain. We have a formal three-stage complaints process. We make every effort to resolve a complaint at the first stage satisfactorily. In the event of the matter remaining unresolved, the complaint will move to the second state of our process for review by a manager with no prior involvement in the case. In the third and final stage of our process, the complaint is considered by a member of the Executive Team.

4.33 In 2020-21 we handled five complaints under this process. Three were resolved at stage 1, one at stage 2 and one at stage 3.

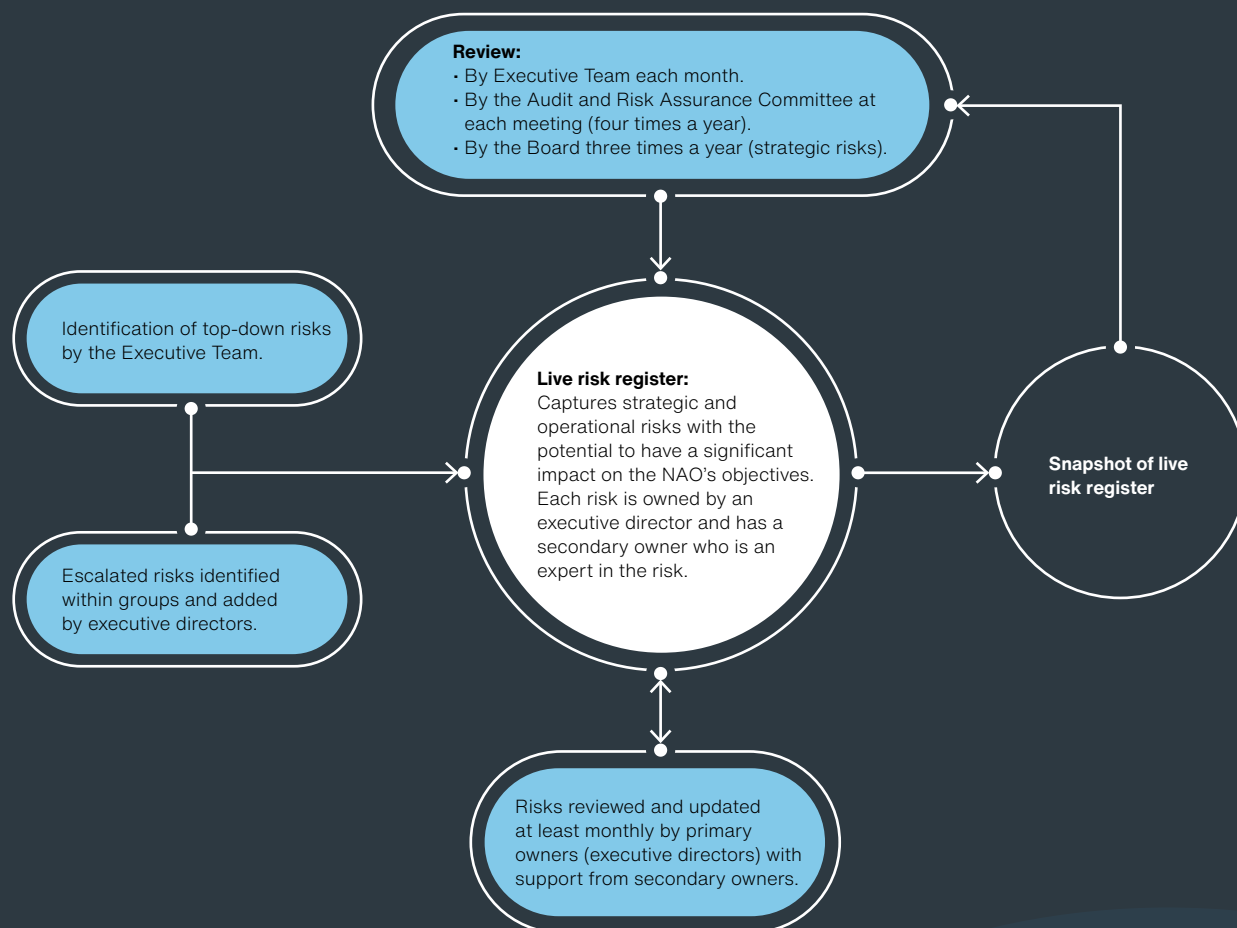


<sup>8</sup> See page 95-96 of the Annual Report and Accounts 2020-21 for further details. Available at: [www.nao.org.uk/wp-content/uploads/2021/06/NAO-Annual-Report-and-Accounts-20-21.pdf](http://www.nao.org.uk/wp-content/uploads/2021/06/NAO-Annual-Report-and-Accounts-20-21.pdf)



Figure 15

## National Audit Office (NAO) risk management process



Source: National Audit Office Annual Report and Accounts 2020-21

# Appendix One

## Value-for-money standards and quality approach

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 These 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.

3 **Figure 16** shows our approach to VFM quality. We have included further details of our approach in relation to value-for-money and wider assurance work in Part Two of this report.

## Figure 16

### National Audit Office (NAO) value-for-money (VFM) quality approach

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 the executive director and an independent director within their group (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 approach.

**Study and product selection:** the Comptroller and Auditor General (C&AG), advised by the Executive Team, selects value-for-money studies and wider assurance work after information-gathering, proposal development and review, to ensure proposals will have impact and fit with our strategic objectives and Parliament's needs.

**Approving the study concept:** the C&AG examines and approves a study concept, considering the rationale, scope, product type and strategic fit of the proposed piece of audit work.

**Budget approval and confirming quality arrangements:** groups (business units) scrutinise and approve quality assurance arrangements and budgets after the C&AG has agreed the scope of the audit work.

**Proof-of-concept meeting:** when most of the fieldwork has been completed, the C&AG challenges the audit team on how the evidence collected supports the logic of the intended report.

**C&AG review:** the C&AG reviews the draft provisional audit findings and the draft final report. Once he is content the team sends the draft to the audited body for consideration and comment.

**Copy editor and data presentation review:** the graphics reviewer and copy editor review the draft report before publication. This is designed to confirm adherence to our publication standards and readability.

**Optional quality assurance:** a range of additional quality assurance is available for teams, including reviews of the draft report, methods-specific quality assurance, and external advice or consultancy.

**Post-project review:** after we publish the report, the study team reviews the conduct of the study/investigation to identify examples of good practice and lessons learned, which they disseminate across the organisation.

**Internal cold review:** we review a sample of publications each year, from across the NAO and from our full range of wider assurance products. We identify (using a standard set of criteria) and examine any risks to quality and/or compliance with the VFM standards.

**External cold review:** a sample of published outputs are subject to an independent, external review. The reviewer considers the report against a set of agreed criteria.

# Appendix Two

## External quality control framework

### Financial audit

1 Each year, the Audit Quality Review (AQR) team of the Financial Reporting Council (FRC) reviews a sample of the National Audit Office's (NAO's) financial audits and aspects of our firm-wide procedures.

2 The FRC is required under statute to review our Companies Act audit work and related firm-wide procedures. Given this, the NAO invites the FRC to review, under an annual agreement between the C&AG and the AQR, the rest of our financial audit portfolio. This means that the FRC reviews seven of our audits: four undertaken under the Companies Act and three under other statute and bases.

3 Although not aiming to be representative of our entire audit portfolio, these reviews provide the NAO with feedback as to where we need to improve the quality of our audit work and to strengthen our firm-wide procedures to help support our audit teams. The work provides valuable insights as to the issues facing the wider auditing profession, of which we are part, and allows us the opportunity to benchmark our performance against the major audit firms.

4 At the time of writing this report, the FRC has completed its reviews of our 2019-20 audits and related firm-wide procedures. Although it has yet to finalise its report to the C&AG summarising its conclusions, the key areas arising from their work highlight that we need to do more to:

- perform sufficient procedures when placing reliance on the work undertaken by others (such as assessing the use of external information sources and the work of management's experts) to understand and evaluate their work, for example when relying on valuations of property investments;
- be sceptical of management's judgements and assumptions and challenge these more effectively in areas such as in testing compliance with the requirements of IFRS 9 covering expected credit losses and the fair value of loans, and the appropriateness of valuations determined by fund managers;
- ensure that materiality levels are set to identify misstatements which could reasonably be expected to influence the economic decisions of all users of the financial statements;
- ensure testing procedures provide a sufficient level of audit evidence in relation to the balance or transactions being tested, for example when evidencing our approach in sampling items for testing; and
- sufficiently assess the risk of fraud and management override of controls when testing journal entries within the accounting records.

5 The FRC also highlighted that we need to do more to support those teams who audit financial statements which contain complex financial service elements (such as financial instruments and investments) as some of our lower rated audits over time have arisen in this area and we need to do more to improve the consistency in the quality of these audits.

6 We responded promptly to these findings so that teams could address these as soon as possible. For example, we have established our Financial Instruments centre of expertise to support relevant teams as they audit complex transactions. Also, throughout the first half of 2021, we communicated the emerging findings from our external reviews so that all staff were able to consider whether these were relevant to their audits and to take appropriate action. We published a guide to audit teams covering seven areas of focus when completing their 2020-21 audits. Finally, we produced a comprehensive guide on auditing IFRS 9 expected credit loss estimates.

7 We are undertaking a thorough root cause analysis across relevant audits to establish where further action is needed to improve the quality of our audits. We will also reflect carefully on the need for further training and guidance in these areas and will refresh our quality plan as appropriate.

8 More generally, the FRC highlighted that it had identified no specific concerns around the quality of our audit work as a result of the COVID-19 pandemic. This reinforces the strong processes we had in place at the start of the pandemic to ensure our audit work continued without significant disruption.

### 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 2020-21, a sample of 12 reports were reviewed by independent experts from RAND Europe and Risk Solutions. 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 again requested from our external specialists a summary of the key points from across the reports they have reviewed, focusing on areas of particular high quality and areas for improvement. Key findings from the external cold reviews are set out in **Figure 17**.

## Figure 17

Key findings from external cold reviews on National Audit Office (NAO) value-for-money (VFM) reports and investigations

Review criteria	Review comments
<b>Scope and rationale</b>	<p>Overall, the reports set out clearly defined scope and objectives, recognising the timeliness and relevance of work in covering live issues. There had also been improvements in how reports set out explicitly what areas are excluded from the scope.</p> <p>However, it would be useful to have fuller explanations for the rationale behind the scope and the timing of reports, to help a reader assess whether the report, particularly investigations, had fulfilled its scope and to better understand some of the limitations of evidence.</p>
<b>Context</b>	<p>The setting out of the context continues to be an area of strength, being clear to the non-expert reader and well-described.</p> <p>In some cases, areas for improvement were raised around level of detail, source referencing and the inclusion of the broader context for that sector.</p> <p>There were also mixed comments over the extent to which past NAO reports on similar topics were referenced, with some reports doing it well and opportunities to have done more in others.</p>
<b>Structure and presentation</b>	<p>Overall report structure was seen to provide a strong flowing narrative, with clear signposting and good choice of sections leading to a report that is easy to follow for a reader.</p> <p>However, in some cases, there was unnecessary repetition and key information not being introduced until too late into the report.</p> <p>The standard structure for NAO reports where key findings and recommendations are only in the summary and not also in the main body of the report was also considered counter-intuitive.</p>
<b>Methodology, graphics and statistics</b>	<p>Quantitative analysis continues to be a strength, with graphs and statistics found to be useful and appropriately applied throughout the reports. In some cases, there could have been benefit from additional analysis or if more context had been provided, including through benchmarking.</p> <p>There have been some improvements in the use of qualitative analysis in the reports, for example better use of case studies. However, there remains limited evidence of qualitative evaluation techniques, for example to make better use of interview material.</p> <p>There have also been improvements in the detail provided on methodologies, with some good examples in reports identified. However, there could still be more consistency in the information presented, for example details on sources of evidence.</p>
<b>Summary</b>	<p>NAO report summaries were generally helpful standalone pieces of work, presenting a fair and balanced summary of the main body of the report.</p> <p>However, the standard structure for NAO reports allows for summaries of several pages in length when they could be more impactful if shorter.</p> <p>There were also instances where the emphasis in the summary did not reflect the focus of the main body of the report.</p>
<b>Synthesis and value-for-money conclusions</b>	<p>As fewer VFM reports in the sample reviewed reached conclusions, in part due to the changing nature of NAO products, this was an area that was considered weaker. Given the weight of evidence in some cases, there were opportunities for explicit or stronger judgements, or where it was not possible, explaining why a VFM conclusion was not made instead. This is particularly if it is a consequence of being a different type of product, in which case readers would benefit in general from an upfront explanation of why it differs from a standard VFM report.</p>
<b>Recommendations</b>	<p>This was another area where variation was seen. In some cases, recommendations were set out clearly, appeared practical and were well-targeted. However, in others, the recommendations could have been more specific, more explicitly linked to particular findings and conclusions or been added to address clearly identified weaknesses or risks.</p>

### Note

- 1 The key findings are based on the summary findings by RAND Europe and Risk Solutions on 11 reports published in 2020-21 that they reviewed. Due the timing of publication of the twelfth report and when it could be available for review, it was not included in time for these summaries but will be included as part of next year's findings.



# QUALITY



# Appendix Three

## Review of effectiveness

1 As Accounting Officer, the C&AG has responsibility for reviewing the effectiveness of the system of internal control. This review is informed by the work of the NAO's director of internal audit and assurance (DIAA), the executive directors within the NAO responsible for developing and maintaining the internal control framework, and comments made by external auditors in their management letter and other reports.

2 The DIAA's annual report concludes that the NAO has "adequate and effective governance, risk and control arrangements". The DIAA has arrived at this opinion by:

- delivering an annual operational plan for 2020-21, approved by the Executive Team and Audit Committee, set against a detailed Audit Needs Assessment to prioritise activity over a three-year planning period, and designing an internal audit strategy and annual operational plan;
- consistently applying a risk-based methodology, validated by an External Quality Assessment as conforming to the Public Sector Internal Audit Standards;
- delivering 28 individual assurance assignments, together with advisory support 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.

3 The DIAA has assured the C&AG that the resources made available 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 and Risk Assurance Committee.

## Internal control weaknesses

5 There were no significant weaknesses in our system of internal controls in 2020-21 that affected the achievement of our key policies, aims and objectives.



# Appendix Four

## Financial Information

<sup>1</sup> Our full financial information is contained in our Annual Report and Accounts 2020-21, which can be found on our website. **Figure 18** 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 statutory financial audit, which represents 68.3% of the National Audit Office's (NAO's) 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 18**

## National Audit Office (NAO) operating segments

2020-21

	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	67,469	16,671	8,239	5,117	829	126	<b>98,451</b>	293	<b>98,744</b>
Contract Income	(21,858)	-	-	-	(44)	-	<b>(21,902)</b>	-	<b>(21,902)</b>
Other Income	(1,847)	(457)	(226)	(140)	(23)	(3)	<b>(2,696)</b>	-	<b>(2,696)</b>
<b>Net expenditure</b>	<b>43,764</b>	<b>16,214</b>	<b>8,013</b>	<b>4,977</b>	<b>762</b>	<b>123</b>	<b>73,853</b>	<b>293</b>	<b>74,146</b>

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	<b>91,269</b>	294	<b>91,563</b>
Contract Income	(20,214)	-	-	-	(204)	-	<b>(20,418)</b>	-	<b>(20,418)</b>
Other Income	(1,735)	(448)	(212)	(121)	(32)	(3)	<b>(2,551)</b>	-	<b>(2,551)</b>
<b>Net expenditure</b>	<b>40,098</b>	<b>15,581</b>	<b>7,385</b>	<b>4,210</b>	<b>913</b>	<b>113</b>	<b>68,300</b>	<b>294</b>	<b>68,594</b>

**Notes**

- 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 72 to 75 of the Annual Report and Accounts 2020-21. Non-voted expenditure comprises the Comptroller and Auditor General's and Chair'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.
- 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.
- The chief operating decision body of the NAO is considered to be the Executive Team and details of its membership can be found on page 82 of the Annual Report and Accounts 2020-21, available at: [www.nao.org.uk/report/nao-annual-report-and-accounts-2020-21/](http://www.nao.org.uk/report/nao-annual-report-and-accounts-2020-21/). 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

# Appendix Five

## Transparency report disclosure requirements

1 **Figure 19** sets out National Audit Office (NAO) compliance with disclosures required by Article 13 of Regulation (EU) 537/2014 as it forms part of the law of England and Wales, by virtue of section 3 of the European Union (Withdrawal) Act 2018, and as amended by the Statutory Auditors and Third Country Auditors (Amendment) (EU Exit) Regulations 2019/177.

### Figure 19

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 statutory auditor, if it is a 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 860 FTE) 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: <ul style="list-style-type: none"> <li>i a description of the network and the legal and structural arrangements in the network;</li> <li>ii the name of each member of the network that is eligible for appointment as a statutory auditor, or is eligible for appointment as an auditor in an EEA State or in Gibraltar;</li> <li>iii for each of the members of the network identified under paragraph (ii), the countries in which they are eligible for appointment as auditors or in which they have a registered office, central administration or a principal place of business; and</li> <li>iv the total turnover of the members of the network identified under paragraph (ii) resulting from statutory audit work or equivalent work in the EEA States or Gibraltar.</li> </ul>	N/A. The NAO is a Supreme Audit Institution and not part of a network.
A description of the governance structure of the statutory auditor, if it is 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 and a statement by the 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.
An indication of when the last quality assurance review referred to in Article 26 of Regulation (EU) 537/2014 was carried out.	The results from our latest review of our statutory audit performance are set out in Part Two and Appendix Two.

**Figure 19** *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	How the National Audit Office complies with Regulation (EU) 537/2014
A list of public interest entities for which the statutory auditor carried out statutory audits during the preceding financial year.	<p>In 2020-21, the NAO audited three public interest entities:</p> <ol style="list-style-type: none"> <li>1. Network Rail Infrastructure Finance PLC.</li> <li>2. CTRL Section 1 Finance PLC.</li> <li>3. LCR Finance PLC.</li> </ol> <p>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 currently meet the relevant criteria.</p>
A statement concerning the statutory auditor's independence practices which also confirms that an internal review of independence compliance has been conducted.	See Part Two 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 2020-21.
A statement on the policy followed by the statutory auditor concerning the continuing education of statutory auditors referred to in paragraph 11 of Schedule 10 to the Companies Act 2006.	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.
Information concerning the basis for the remuneration of members of the management body of the statutory auditor, where that statutory auditor is a firm.	The NAO is not an audit firm and has no partners. For details of remuneration, see Part Four: Governance and accountability.
A description of the statutory auditor's policy concerning the rotation of key audit partners and staff in accordance with Article 17(7) of Regulation (EU) 537/2014.	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.
Where not disclosed in its accounts, information about the total turnover of the statutory auditor, divided into the following categories:	<p>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.<sup>1</sup></p> <p>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.</p> <p>Disclosures in <b>i-iv</b> below relate to cash fees.</p>
<b>i</b> revenues from the statutory audit of accounts of public-interest entities and members of groups of undertakings whose parent undertaking is a public-interest entity;	<b>i</b> £0.08 million
<b>ii</b> revenues from the statutory audit of accounts of other entities;	<b>ii</b> £18.3 million
<b>iii</b> revenues from permitted non-audit services to entities that are audited by the statutory auditor; and	<p><b>iii</b> £4.75 million</p> <p>Of this:</p> <ul style="list-style-type: none"> <li>• £1.55 million relates to other assurance engagements, including EU Agricultural Funds (£0.7 million) and the audit of interim financial statements and special purpose accounts of a small number of companies.</li> </ul>

**Figure 19** *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	How the National Audit Office complies with Regulation (EU) 537/2014
iv revenues from non-audit services to other entities	<ul style="list-style-type: none"> <li>● £1.2 million relates to rent and service charge income from three bodies who rent office space in Buckingham Palace Road from the NAO. See (iv) below for rent and service charge, and miscellaneous income from other entities.</li> <li>● £2 million 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.</li> <li>● 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 2020-21, the NAO earned income of £82,543 from the Foreign, Commonwealth &amp; Development Office and its contractors (2019-20: £14,776 from the Department for International Development and £21,765 from the Foreign &amp; Commonwealth Office).</li> </ul>
	iv £1.4 million, of which £1.35 million relates to rent, service charges and miscellaneous income.

**Note**

- 1 In paragraph 1.15 of this report, we note that the NAO also provides reports on the collection of revenue on behalf of government by the BBC, the Driver & Vehicle Licensing Agency and HM Revenue & Customs, including on the administration of Scottish and Welsh income tax. These are financed through our Parliamentary funding.

Source: National Audit Office

# Appendix Six

## Review of National Audit Office compliance with the Audit Firm Governance Code (Revised 2016)

- 1 The National Audit Office (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. The NAO does not audit listed entities.
- 2 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 in **Figure 20** how we comply with the relevant provisions of the Audit Firm Governance Code.
- 3 Throughout the Code, reference to 'a firm' means a firm that audits listed companies in the UK.

### Figure 20

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
<b>A</b> Leadership	<b>A.1:</b> 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.
	<b>A.1.1:</b> 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 Annual Report and Accounts 2020-21, which is available on our external website.
	<b>A.1.2:</b> 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 Annual Report and Accounts 2020-21: Governance Statement section (pages 81-95).
	<b>A.1.3:</b> 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. In addition, see Annual Report and Accounts 2020-21, Governance Statement (pages 81-95). Meeting attendance record is noted on page 94 of the Annual Report and Accounts.
	<b>A.1.4:</b> 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.

**Figure 20** *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
	<b>A.2:</b> 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 and Auditor General (C&AG) and National Audit Office. We comply fully with requirements. The management team's terms of reference are set out in the NAO's Annual Report and Accounts 2020-21, and in this Transparency Report. <sup>1</sup>
	<b>A.2.1:</b> 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 external strategy is also published online.
<b>B</b> Values	<b>B.1:</b> 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. Our values are set out in paragraph 1.11 of the Transparency Report.
	<b>B.1.1:</b> 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 paragraph 1.11 of the Transparency Report.
	<b>B.1.2:</b> 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>B.2:</b> 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.
	<b>B.2.1:</b> The firm should incorporate the principles of this Audit Firm Governance Code into an internal Code of Conduct.	The NAO's Code of Conduct, which is approved by the Board, sets out the NAO's framework of professional and ethical behaviour.
	<b>B.3:</b> 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.	This provision is addressed through our values set out at paragraph 1.11 and Part 2 of this Transparency Report.
<b>C</b> Independent non-executives	<b>C.1:</b> 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.	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. Part 4 of this report highlights our Board structure and that it is supported by the Audit and Risk Assurance Committee and the Remuneration and Nominations Committee.

**Figure 20** *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
<b>C.1.1:</b> 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.
<b>C.1.2:</b> 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.
<b>C.2:</b> 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.
<b>C.2.1:</b> 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.
<b>C.3:</b> 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.	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.
<b>C.3.1:</b> Each independent non-executive should have a contract for services setting out their rights and duties	We comply fully with this provision.
<b>C.3.2:</b> The firm should ensure that appropriate indemnity insurance is in place in respect of legal action against any independent non-executive.	Indemnification of independent non-executives is covered by section 24 of the Budget Responsibility and National Audit Act 2011.
<b>C.3.3:</b> 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.	We provide sufficient resources to the independent non-executives to undertake their duties.
<b>C.3.4:</b> 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.	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.



**Figure 20** *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
<b>D</b> Operations	<b>D.1:</b> Compliance principle – A firm should comply with professional standards and applicable legal and regulatory requirements.	These provisions are covered in Part Two: Audit independence and quality.
	<b>D.1.1:</b> 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.	The NAO Financial Audit Manual sets out our audit methodology which ensures compliance with legal and regulatory requirements, and relevant standards.
	<b>D.1.2:</b> 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.	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 continuing 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.
	<b>D.1.3:</b> The firm should state in its transparency report how it applies policies and procedures for managing potential and actual conflicts of interest.	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 year. See 'ethics' section in Part 2 of the report.
	<b>D.1.4:</b> The firm should take action to address areas of concern identified by audit regulators in relation to the firm's audit work.	See Part Two: External review – financial audit.
	<b>D.2:</b> 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.	These provisions are covered in Part Four: Governance and accountability and Appendix Three.
	<b>D.2.1:</b> 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.	See Appendix Three: Review of effectiveness.
	<b>D.2.2:</b> 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.	See Appendix Three: Review of effectiveness.

**Figure 20** *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>D.2.3:</b> In maintaining a sound system of internal control and risk management and in reviewing its effectiveness, the firm should use a recognised framework such as the Turnbull Guidance and disclose in its transparency report the framework it has used.</p>	<p>The director of internal audit and assurance (DIAA), who advises the C&amp;AG and the Board on the adequacy of the framework of internal controls, uses a three lines of defence assurance model. The C&amp;AG's review of effectiveness as set out in the 2020-21 annual report and accounts is also informed by the work of the NAO's executive directors who are responsible for developing and maintaining the internal control framework, and comments made by the external auditors in their management letter. The NAO's risk management framework is aligned to HM Treasury's Orange Book as described in Part Four: Governance and accountability.</p>
	<p><b>D.3:</b> 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.</p>	<p>These provisions are covered in Part Three, as well as the Annual Report and Account 2020-21.<sup>1</sup></p>
	<p><b>D.3.1:</b> 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.</p>	<p>The NAO does not need to publicly commit to the Audit Firm Governance Code due to the NAO's unique statutory position.</p> <p>This Transparency Report contains relevant details and is published on our website.</p>
	<p><b>D.3.2:</b> Independent non-executives should be involved in reviewing people management policies and procedures.</p>	<p>Independent non-executives are involved in this review through the Remuneration and Nominations Committee.</p>
	<p><b>D.4:</b> 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.</p>	<p>These provisions are covered in our Code of Conduct. Further details in Part Four of this report.</p>
	<p><b>D.4.1:</b> 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.</p>	<p>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.<sup>2</sup></p>
<p><b>E</b> Reporting</p>	<p><b>E.1:</b> 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.</p>	<p>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.</p>

**Figure 20** *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
<b>E.2:</b> 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 Annual Report and Accounts 2020-21 published on our external website. <sup>1</sup>
<b>E.2.1:</b> 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.
<b>E.2.2:</b> The firm should report that it is a going concern, with supporting assumptions or qualifications as necessary.	See E.2.
<b>E.3:</b> 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.
<b>E.3.1:</b> 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.
<b>E.4:</b> 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.
<b>E.4.1:</b> 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.	As above, this Transparency Report provides the disclosures required by this section of the Code and is available on our website. <sup>3</sup>
<b>E.5:</b> 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.
<b>E.5.1:</b> 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 and Risk Assurance Committee terms of reference are published on our website, including membership. <sup>3</sup> The Committee publishes a short description of how it has discharged its duties in the Annual Report and Accounts.

**Figure 20** *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
<b>F</b> Dialogue	<b>F.1:</b> 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.	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.
	<b>F.1.1:</b> 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.	Not applicable to NAO because of NAO's unique statutory position.
	<b>F.2:</b> Shareholder dialogue principle – Shareholders should have dialogue with audit firms to enhance mutual communication and understanding.	See F.1.
	<b>F.3:</b> 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.	See F.1.

**Notes**

- 1 Available at: [www.nao.org.uk/wp-content/uploads/2021/06/NAO-Annual-Report-and-Accounts-20-21.pdf](http://www.nao.org.uk/wp-content/uploads/2021/06/NAO-Annual-Report-and-Accounts-20-21.pdf)
- 2 Available at: [www.nao.org.uk/about-us/wp-content/uploads/sites/12/2018/02/NAO-interna-whistleblowing-policy-EXTERNAL-2018.pdf](http://www.nao.org.uk/about-us/wp-content/uploads/sites/12/2018/02/NAO-interna-whistleblowing-policy-EXTERNAL-2018.pdf)
- 3 Available at: [www.nao.org.uk/freedom-of-information/wp-content/uploads/sites/13/2021/05/NAO-ARAC-terms-of-reference-updated-December-2020.pdf](http://www.nao.org.uk/freedom-of-information/wp-content/uploads/sites/13/2021/05/NAO-ARAC-terms-of-reference-updated-December-2020.pdf)

Source: National Audit Office

# Appendix Seven

## Summary of the issues that led to the Comptroller and Auditor General (C&AG) qualifying his opinion on 2019-20 financial statements

### Where the financial statements were not true and fair as they did not follow accepted professional accounting standards

<b>The Ministry of Defence</b>	The C&AG qualified his audit opinion for an eleventh consecutive year because the Ministry had not accounted for the assets and liabilities arising from certain lease contracts, in accordance with the relevant accounting standard.
<b>Department for Environment, Food &amp; Rural Affairs and the Environment Agency</b>	<p>The C&amp;AG qualified his audit opinion because the infrastructure assets used by the Environment Agency to manage flood and coastal erosion risks were not valued in accordance with the required reporting framework. The C&amp;AG was not able to obtain sufficient evidence to confirm that the valuation is free from material misstatement.</p> <p>As the Environment Agency is a significant component of the Department, the financial statements of the Department were qualified for the same reason.</p>
<b>Department of Health &amp; Social Care</b>	The Department had not recognised the need to impair the value of loans issued to some NHS trusts where there was little or no prospect of repaying these loans. The value of such an impairment was material to the core Department's financial statements, which are reflected in these financial statements, but not to the group financial statements as such loans are eliminated on consolidation.
<b>Whole of Government accounts</b>	<p>The accounts for 2018-19 were certified in 2019-20 on the following basis:</p> <ul style="list-style-type: none"> <li>• disagreements on the definition and application of the accounting boundary;</li> <li>• disagreement relating to inconsistent application of accounting policies;</li> <li>• underlying qualifications of the audit opinions of bodies falling within the accounts; and</li> <li>• disagreement relating to the consolidation of components with non-coterminous year-ends.</li> </ul>

### Where the financial statements contained material levels of fraud or error and, as such, transactions did not accord with the intention of Parliament or other relevant authority ('regularity')

<b>Department for Work &amp; Pensions</b>	The C&AG qualified his audit opinion for the 32nd consecutive year because of the material level of fraud and error in benefit expenditure.
<b>HM Revenue &amp; Customs</b>	The C&AG qualified his opinion for the 17th consecutive year because of the material level of fraud and error in Personal Tax Credits. He also qualified his opinion for the first time in relation to Corporation Tax research and development reliefs because of material levels of fraud and error.
<b>Child Maintenance Client Funds Account (1993 and 2003 Schemes)</b>	The C&AG qualified his audit opinion for the 27th consecutive year because the Department for Work & Pensions had not managed the 1993 and 2003 child maintenance schemes cases with sufficient accuracy.

### Where the financial statements did not comply with the requirements of HM Treasury's *Managing Public Money* ('regularity')

<b>Health Research Authority</b>	The C&AG qualified his regularity opinion in 2019-20 because the Authority did not comply with the requirements of HM Treasury's <i>Managing Public Money</i> in relation to a non-contractual payment to an individual as a result of an employment dispute.
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**Where the Department did not comply with Parliament's intentions as it exceeded its Parliamentary control totals ('regularity')**

<b>Home Office</b>	The C&AG qualified his audit opinion because the Home Office drew down more cash in the year (breached its net cash requirement) than Parliament approved.
<b>HM Treasury</b>	The C&AG qualified his audit opinion because HM Treasury breached one of its capital expenditure limits authorised by Parliament by more than £32 million.
<b>HM Revenue &amp; Customs</b>	The C&AG qualified his audit opinion because the Department breached its cash limit by £726 million.
<b>Department for Business, Energy &amp; Industrial Strategy</b>	The C&AG qualified his audit opinion because the Department breached its resource limit authorised by Parliament by £4,895 million. This is because of commitments under the Small Business Grants Fund and Retail Hospitality and Leisure Grants Fund schemes set up in response to the COVID-19 pandemic.
<b>Ministry of Housing, Communities &amp; Local Government</b>	The C&AG qualified his audit opinion because the Ministry breached its resource and net cash limits because of early payment of grants to local authorities in response to the COVID-19 pandemic.

**Notes**

- 1 This table includes qualifications up to 31 March 2021. More detail of each of these qualifications can be found at: [www.nao.org.uk/about-us/our-work/audit-of-financial-statements/](http://www.nao.org.uk/about-us/our-work/audit-of-financial-statements/)
- 2 More detail on the issues that led to the breach of Parliamentary control totals can be found here: <https://committees.parliament.uk/publications/4691/documents/47127/default/>

Source: National Audit Office