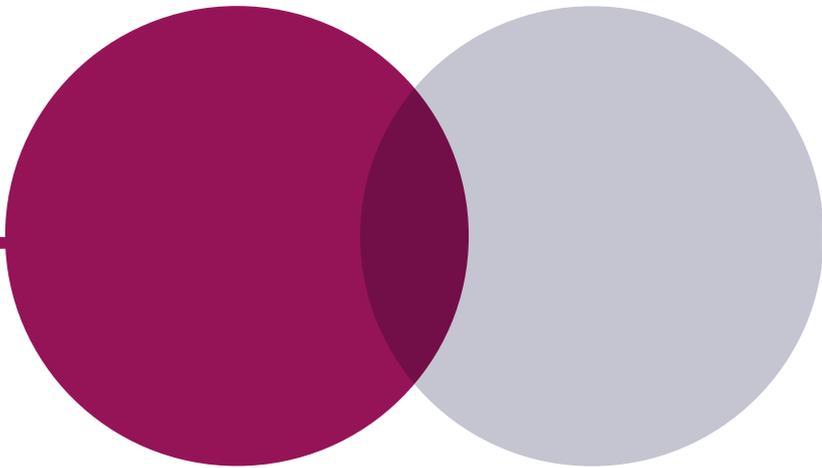




National Audit Office



# Code of Practice dealing with the relationship between the National Audit Office and the Comptroller and Auditor General

29 MARCH 2022  
HC 1230



**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

# Code of Practice dealing with the relationship between the National Audit Office and the Comptroller and Auditor General

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28 March 2022**

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Responsibility and National Audit Act 2011**

Code of Practice dealing with the relationship between the National Audit Office (NAO) and the Comptroller and Auditor General (C&AG).

The Budget Responsibility and National Audit Act 2011 established the NAO as a body corporate with a statutory board and makes explicit provision for the appointment of the Chair and members of the NAO (the NAO Board), and the role of both the NAO and the office of Comptroller and Auditor General (C&AG).

The Act requires a Code of Practice to govern the relationship between the NAO and the C&AG, preserving the independence of the C&AG while providing robust governance and oversight of the operations of the NAO.

A revised and updated Code of Practice was submitted by the NAO and the C&AG to the Public Accounts Commission for their approval.

The updated Code was approved by the Commission on 1 March 2022.

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## Relationship between the NAO and the C&AG Code of Practice

### Introduction

**1** The Comptroller and Auditor General (C&AG) is an Officer of the House of Commons with statutory responsibilities and powers to audit the financial statements and examine the use of resources by central government entities and a range of other public bodies. The C&AG has complete discretion when carrying out their functions, subject to any relevant legal constraints. Appendix One sets out the different types of activity that the C&AG performs.

**2** The National Audit Office (NAO) is a body corporate with nine members – the C&AG, five non-executive members (one of whom is the NAO Chair) and three employee members. The NAO resources, advises and monitors the carrying out of the C&AG's functions and, jointly with the C&AG, sets the strategic direction for the national audit functions.

**3** This Code of Practice (the Code) has been prepared jointly by the NAO and the C&AG. It sets out the relationship between the NAO and the C&AG as required the Budget Responsibility and National Audit Act 2011 (BRANA), Schedule 3, paragraph 10.

**4** The Code has been prepared with regard to relevant legislative requirements, corporate governance best practice and the ethical standards and behaviours necessary for the proper conduct of the C&AG's and the NAO's roles and responsibilities.

**5** The NAO and C&AG must comply with the provisions of the Code.

### Approval and amendments to the Code

**6** The Code, and any revision to it, must be agreed at a meeting of the NAO. The agreement may only be given if at least half of the non-executive members present and voting on the matter vote in favour. Any vote must also meet any other procedural requirements of the NAO as set out in terms of reference.

**7** The NAO and the C&AG must jointly review the Code regularly and revise it as appropriate – for example, on the appointment of a new C&AG, NAO Chair, statutory changes to the NAO's governance, or at any other time considered necessary by the NAO, C&AG or the Public Accounts Commission. In preparing or revising the Code, the NAO and the C&AG must consult HM Treasury.

**8** The NAO Chair and the C&AG must jointly submit the Code (or revision) to the Public Accounts Commission for its approval.

## **NAO Strategy**

**9** The C&AG will prepare a draft strategy that outlines the areas of focus and general work programme the C&AG and NAO will undertake. This includes performance of the C&AG's statutory responsibilities together with any discretionary services provided by the C&AG (the latter are known as NAO-approved services and are explained further in Appendix One). The NAO Strategy (the Strategy) will cover a period of the C&AG's choosing and updates must be provided to the Public Accounts Commission at least annually. At the time of writing, the NAO has a five-year Strategy and presents updates to the Public Accounts Commission annually, for a rolling three-year period. For each financial year covered by the update to the Strategy, it must specify the maximum amount of resource to be provided by Parliament to the NAO for that financial year.

**10** The Strategy must be agreed by the C&AG and the NAO. The C&AG will present the draft Strategy to the NAO for comment and agreement. The NAO may request supplementary information as outlined in paragraphs 18 and 19 and may also suggest amendments to the Strategy. Amendments will be made as agreed and the C&AG will present the revised Strategy to the NAO. The NAO's agreement signifies its contentment with the Strategy as a whole and its approval of NAO-approved services. This agreement will be minuted formally.

**11** The NAO Chair and the C&AG will jointly submit the Strategy to the Public Accounts Commission and give evidence at any related meeting the Public Accounts Commission may hold.

**12** The Public Accounts Commission will review the Strategy and may modify it prior to approval.

**13** The NAO and the C&AG will give effect to the Strategy. The C&AG is required to inform the NAO of any significant change or departure from the approved Strategy. Any significant change or departure requires the same approval procedures as provided for in paragraphs 10 to 12.

**14** Proposed changes to the scope of NAO-approved services may not necessitate an amendment to the Strategy but will require the NAO's approval. The NAO will consider such changes as it judges necessary to discharge its responsibilities effectively. For example, proposals could be considered by individual project, type of work, or any other basis that the NAO considers appropriate. The NAO will provide approval prior to the service being delivered, if the service is consistent with the Strategy. The NAO may prepare a schedule of circumstances where prior approval would be given, for example, performing an audit of a subsidiary under the Companies Act where the NAO is the group auditor. The NAO would prepare any such schedule as part of the Strategy approval process.

### **NAO's resources**

**15** For each financial year, the NAO and the C&AG must jointly prepare an estimate of the NAO's use of resources to deliver the Strategy. The NAO Estimate (the Estimate) must cover the resources required for the performance of the C&AG's statutory responsibilities and NAO-approved services. The resources required for the C&AG's statutory responsibilities is a decision for the C&AG, the resources required for NAO-approved services is a decision for the NAO.

**16** The NAO Chair and the C&AG must jointly submit the Estimate to the Public Accounts Commission. The Public Accounts Commission will review the Estimate and lay it before the House of Commons with such modifications (if any) the Public Accounts Commission considers appropriate. The resources approved by the Public Accounts Commission are provided to the NAO through the Parliamentary Estimate process.

**17** The NAO will support the C&AG with the resources required to perform the C&AG's statutory responsibilities and NAO-approved services. If the C&AG considers more resources are needed in-year, the C&AG may choose to rebalance budgeted amounts. If this affects the delivery or budget of NAO-approved services, this may be considered a significant change or departure from the approved Strategy. In such cases the procedures in paragraph 10 would be followed. If the C&AG considers that more resources are required than the Public Accounts Commission has approved through the Estimate process, a Supplementary Estimate will be prepared in line with paragraphs 15 and 16.

### **Monitoring and providing advice on the C&AG's functions**

**18** The NAO must, in such manner as it considers appropriate, monitor the carrying out of the C&AG's functions. Examples of the advice the NAO may provide include but are not limited to, parliamentary and stakeholder engagement, feedback from audited bodies and people management. The NAO may also provide advice on the C&AG's functions. The C&AG must have regard to any advice given.

**19** The C&AG will provide the NAO with information to enable it to monitor effectively how the C&AG has carried out their duties. The NAO may require such information as it considers necessary, subject to the C&AG considering this to be a reasonable and efficient use of resources. This will include, but is not limited to, progress with Strategy implementation and expenditure against the Parliamentary Supply Estimate.

### **Charging of fees**

**20** The NAO may charge fees for audits carried out by the C&AG. Fees must be charged in accordance with BRANA, Schedule 3, paragraph 8 and set out in a scheme of fees. The scheme of fees will be prepared by the NAO.

**21** The scheme of fees will set out the general principles to enable the fees for each audit to be calculated. The scheme does not apply to NAO-approved services, where the C&AG may set such fees as provided for in the relevant agreement or arrangement.

**22** The scheme of fees (including any revision) must be approved by the Public Accounts Commission.

### **Delegation of functions**

**23** The NAO may delegate functions to any of its members, employees or committees, subject to limitations imposed by BRANA, Schedule 2, paragraph 23.

**24** The NAO may delegate any of its functions to the C&AG. The NAO will inform the Public Accounts Commission of its intention to make such a delegation and the reasons for doing so. The NAO will seek the Public Accounts Commission's approval before giving effect to a delegation to the C&AG.

**25** The C&AG may delegate their functions in line with BRANA Schedule 3, paragraph 6 to employees of the NAO. For the C&AG to delegate their functions, they must prepare a scheme of delegation. This scheme of delegation (including any revisions) must be approved by the Public Accounts Commission.

### **Making public comment**

**26** The NAO Chair and the other non-executive members may comment publicly on the work of the NAO in general terms and on the governance of the organisation. They will not make public comments about questions of audit opinion and judgement, which are matters for the C&AG. The NAO's Code of Conduct contains provisions about personal conduct, including making public comment. The non-executive and employee members are bound by the principles, standards, values and provisions in the Code of Conduct.

### **Annual report and accounts**

**27** As soon as practicable after the end of each financial year, the NAO and the C&AG must prepare a report on the carrying out of the national audit functions.

**28** The C&AG will prepare a draft annual report. The annual report will cover one financial year and will provide details of the performance of the NAO during the year and any other commentary the C&AG considers relevant. It will also include the annual accounts and any other reporting requirements of the C&AG as the NAO's accounting officer. The annual accounts must be examined and certified by the NAO's external auditor.

**29** The annual report must be agreed by the C&AG and the NAO. The C&AG will present the draft annual report to the NAO for comment and agreement. If amendments are required, these will be made and the C&AG will present the revised draft annual report to the NAO for its agreement.

**30** The NAO Chair and the C&AG will jointly submit the annual report to the Public Accounts Commission and give evidence at any meeting that the Public Accounts Commission may hold on the report. The Public Accounts Commission will lay the annual report before Parliament.

### **C&AG vacancy or incapacity**

**31** If the office of C&AG is vacant or the C&AG's ability to carry out their functions is seriously impaired because of ill health then in accordance with BRANA, Schedule 3, paragraph 7 the NAO will, subject to the agreement of the Public Accounts Commission, authorise an employee to carry out those functions. The authorised employee may be identified and agreed in principle with the Public Accounts Commission in advance of any vacancy or incapacity arising.

**32** In the event of the C&AG being incapacitated because of ill health, the NAO Chair will contact the Public Accounts Commission as appropriate. The Public Accounts Commission will, taking account of such representations, contact the Speaker of the House of Commons as necessary. The period of incapacity because of ill health commences and ends as certified to the House of Commons by the Speaker. The authorised NAO employee may not carry out the functions of the C&AG for more than a period of six months.

### **Disagreement**

**33** In the event of a disagreement between the C&AG and the NAO that cannot be resolved through the normal course of business, then the senior independent director will attempt to mediate a resolution. If no agreement can be found, the NAO Chair and/or the C&AG may seek and will have regard to the views of the Public Accounts Commission.

## Appendix One

### Statutory responsibilities & NAO-approved services

**1** The C&AG has specific statutory responsibilities that they undertake by virtue of their office. Additionally, BRANA gives the C&AG discretion to provide services to any person in any place by agreement or other arrangement. Such discretionary activities are called “NAO-approved services” as the C&AG may only provide them with the NAO’s approval. It is for the NAO to determine the maximum resources that the C&AG may utilise for the provision of NAO-approved services. However, the C&AG is not required to perform the services, even if approved, if they consider the level of resources the NAO has made available is insufficient

**2** BRANA defines NAO-approved services as any service the C&AG provides that is not:

- a service to the NAO by virtue of BRANA, Schedule 2.
- part of, or incidental to, the C&AG’s functions under the following Acts:
  - i the Exchequer and Audit Departments Act 1866.
  - ii the Exchequer and Audit Departments Act 1921.
  - iii the National Loans Act 1968.
  - iv the National Audit Act 1983; and
  - v the Government Resources and Accounts Act 2000,
- part of, or incidental to, an audit, examination, or inspection that the C&AG is required or authorised to carry out by a statutory provision, other than section 1226 of the Companies Act 2006 (eligibility for appointment as a statutory auditor) and any provision of this Part of this Act

**3** The table on page 10 sets out our position on the division between NAO-approved services and the C&AG’s statutory responsibilities.

**NAO-approved services**

Financial audits by agreement for example under the Companies Audit 2006

Value-for-money examinations and investigations conducted by request or agreement

International relations work

**Statutory responsibilities**

Financial audits specified in statute for example the Government Resources and Accounts Act 2000 or Exchequer and Audit Departments Act 1921

Value-for-money examinations and investigations conducted under the National Audit Act 1983, including lessons learned, strategic insight and good practice guidance; and publication of these reports

Comptroller function under the Exchequer & Audit Department Act 1866

Incidental activities that relate to the performance of the C&AG's statutory functions for example: recommendations tracking, wider dissemination of reports published by the C&AG, correspondence, responding to whistleblowing concerns, and support to Parliamentary Committees

Preparation, publication, and maintenance of the Code of Audit Practice

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