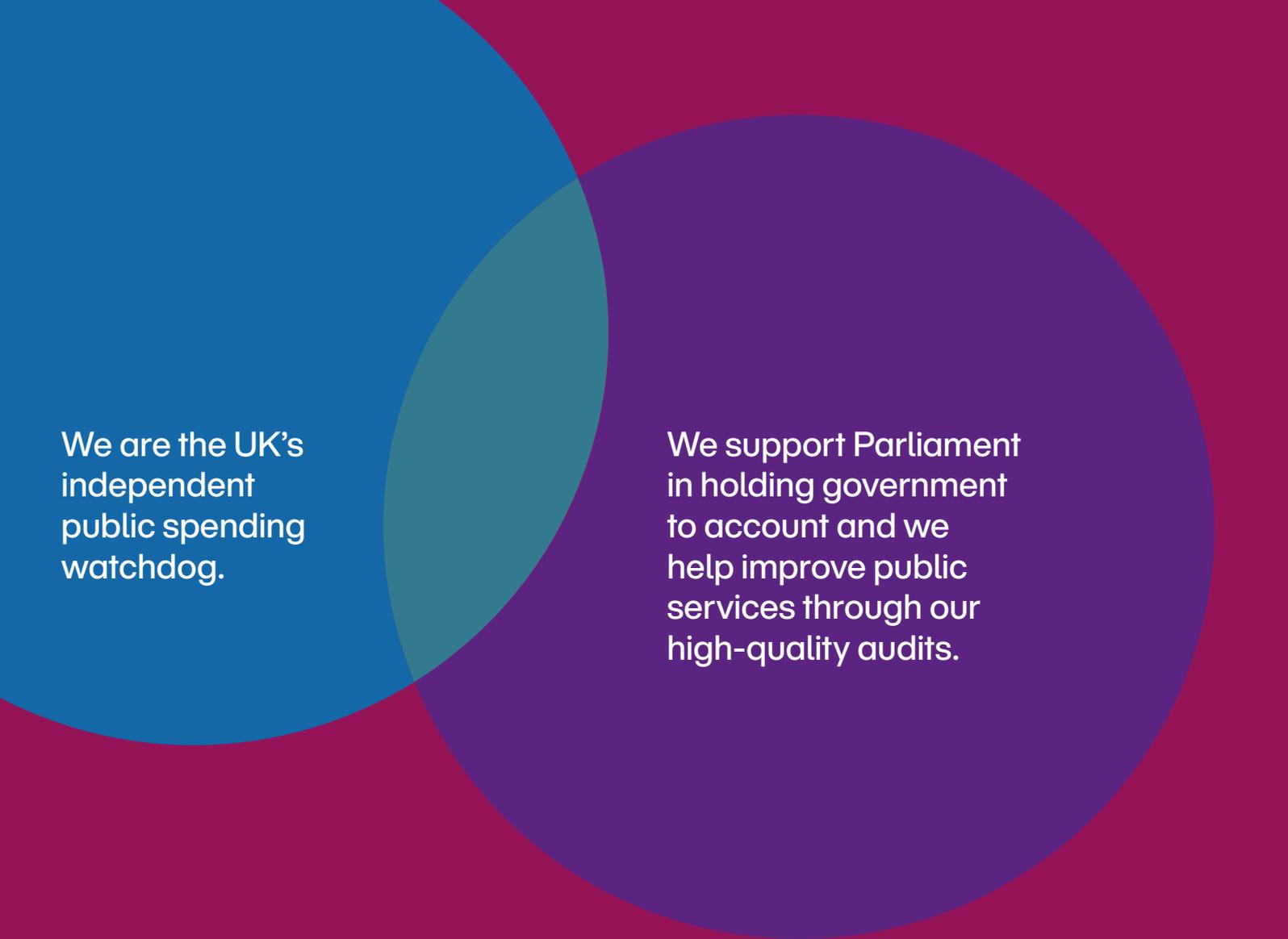




National Audit Office

# Transparency Report 2022-23



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 2022, the NAO's work led to a positive financial impact through reduced costs, improved service delivery, or other benefits to citizens, of £572 million.

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# Highlights of the year

As the UK's independent public spending watchdog, we help to improve public services through our high-quality audits.

## Supported Parliament in holding government to account



406

audit certifications published



62

value-for-money reports and wider assurance work published



63

Committee of Public Accounts sessions supported

## Encouraged government to learn and embed lessons



10

departmental overviews published



70%

of senior officials in the bodies we audit agree that our work leads to better outcomes

## Used our expertise across financial audit, value-for-money and wider assurance work to draw out impactful insights



11

good practice guides published



94%

of MPs say we are effective at supporting Parliament to hold government to account and scrutinise public services

## Had impact and made progress in other areas of our work and organisation



£7

of positive financial impact from our work for every £1 spent



7.6

out of 10: the score for our staff saying that they have the right technology and tools to do their work in this year's people survey

As a transparent organisation we also publish other corporate reports including our diversity pay gap report, annual report and accounts and strategy progress update.

“

The Committee of Public Accounts (PAC) would not be able to do its work without NAO reports. However, it's not just the reports that help the Committee hold government to account for taxpayers, but the staff across Value for Money and Financial Audit who share their knowledge and insights with us.

**We're privileged to work with the NAO**

and it is recognised by MPs across all parties as a trusted source of insightful analysis.

”

Dame Meg Hillier MP, Chair of the Committee of Public Accounts

“

We think the NAO's role in presenting a balanced view of government departments' performance is absolutely fundamental to the democracy.

**It is an absolutely vital role**

and we really genuinely support it and appreciate it.

”

Finance director, NAO survey of senior officials in bodies we audit, 2022

# Summary

## Leadership messages



Gareth Davies

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

High quality audit work is the bedrock of the National Audit Office. It is the quality of our work that enables us to provide Parliament and the public with assurance over public spending and to help drive improvement in financial management and public services. This is why maintaining and improving the quality of our work is a key priority for the NAO.

For our value-for-money (VfM) work, we have invested in specialist skills and a new learning and development programme for all VfM staff. We continue to develop our range of report formats to maximise the take-up and impact of our findings and are using our web-based recommendations tracker to assess the difference our VfM work is making.

For financial audit, our Audit Transformation Programme (ATP) is the largest investment in the NAO's history in our audit methodology and the technology we use to deliver it. This responds to the rapid developments in auditing standards and profession-wide practice in response to audit failures in the private sector in recent years. Our updated audit methodology complies with the revised international auditing standard 315 (identifying and assessing the risks of material misstatement) and we have applied it to our 2022-23 audits. We have also introduced extended auditor reports for all government departments for 2022-23, providing significantly more information about our audit approach for the users of those accounts.

We have developed a new technology platform to replace our previous audit software, and this will be used for all our 2023-24 audits. The new platform, which we call “Apex”, is designed to guide audit teams to deliver high-quality audits and make optimum use of data analytics and other new audit tools as they become available.

The results of the internal and external quality reviews of our 2021-22 financial audits show that these investments are needed to deliver high-quality work consistently and keep pace with rising quality standards across the profession. The scores for that year’s audits are disappointing and we are addressing the root causes of the issues identified. It is important to note, however, that the underlying findings do not indicate fundamental problems with our audit quality or the reliability of government accounts. They point to some areas where our quality improvement initiatives have already had a positive impact, such as the audit of harder-to-value assets and our use of auditor’s experts. Our focus in the coming year is on delivering the quality benefits of our Audit Transformation Programme, continuing to support an open culture building on our values, and implementing the actions identified by our root cause analysis. I am confident that we have the right initiatives in place to ensure that we deliver high quality work consistently.



Elaine Lewis

### Elaine Lewis

Executive Director responsible for financial audit quality and



Kate Mathers

### Kate Mathers

Executive Director responsible for the financial audit service line

During 2022-23, we made good progress against the priorities set out in our Single Financial Audit Quality Plan. We have implemented our new audit methodology, the first phase in our Audit Transformation Programme (ATP). A key aspect has been a more granular risk assessment, which has enabled us to ensure that our audit work is appropriately targeted. Other quality interventions have included investment in our centres of expertise and better guidance for our teams in complex areas, such as harder-to-value financial instruments.

For our 2023-24 audits, and building on this first phase, we are introducing our new audit management software (which we call "Apex") which we have piloted on some of our 2022-23 audits. Apex is based on a guided workflow, which will help our teams to ensure that they are consistently achieving high-quality work. Alongside this, we are launching a programme of training focusing on the cultural factors that contribute to audit quality.

We are disappointed that these improvements are not yet fully reflected in the results of our internal and external quality reviews. Partly, this is due to a lag in the timetable for the reviews – the reviews this year relate to 2021-22 audits, before the interventions described above took effect. However, we recognise that, alongside ATP, we have more to do to achieve our quality objectives consistently. In the autumn, we will launch our updated Quality Plan which will set out the specific actions we are taking to respond to this year's reviews.

## Rebecca Sheeran

### Executive Director responsible for value-for-money service line

Over the past year, we have continued to produce high-quality value-for-money (VfM) and wider assurance work that remains critical to helping Parliament hold government to account. We consider quality to be an organisation-wide responsibility reflected in our values and the standards we set for our VfM and wider assurance work. This year, we have delivered a broad range of impactful pieces of work. In addition to 62 reports to Parliament, we also published 11 good practice guides; for example, a series on how to improve operational services. Through our VfM reports, we also continue to look at long term value-for-money challenges, such as delivering net zero and the wider environment plan and digital transformation. We know from the results of our 2022-23 survey of MPs that our work continues to be authoritative, with MPs valuing our impartiality and independence.

To support our continued delivery of high-quality, impactful work, we have focused the past year on embedding changes to our quality management system. We have aligned our approach with our values and made improvements to ensure our people have the guidance, skills and tools needed to deliver the high-quality work we expect. A central part of our quality management approach involves independent reviews of our work that deliver valuable insights and lessons to inform the way our quality management system works and the improvements we can make. This year we sought an independent review of more reports than ever before to provide greater assurance over the quality of our work both internally and externally. We take confidence in the robustness of our work from our independent reviews. However, as always there is also plenty of learning to take from our quality reviews and opportunities to further improve and to support our people to deliver consistently impactful and robust work.

I am excited to introduce a new learning and development programme for 2023 that builds on the learning we have taken through our independent reviews and provides a refreshed learning environment for our people. We are confident this will support our ongoing work to deliver an enhanced quality culture and look forward to developing the programme further into 2023-24.



Rebecca Sheeran

# Part One

## Overview

### Role of the National Audit Office

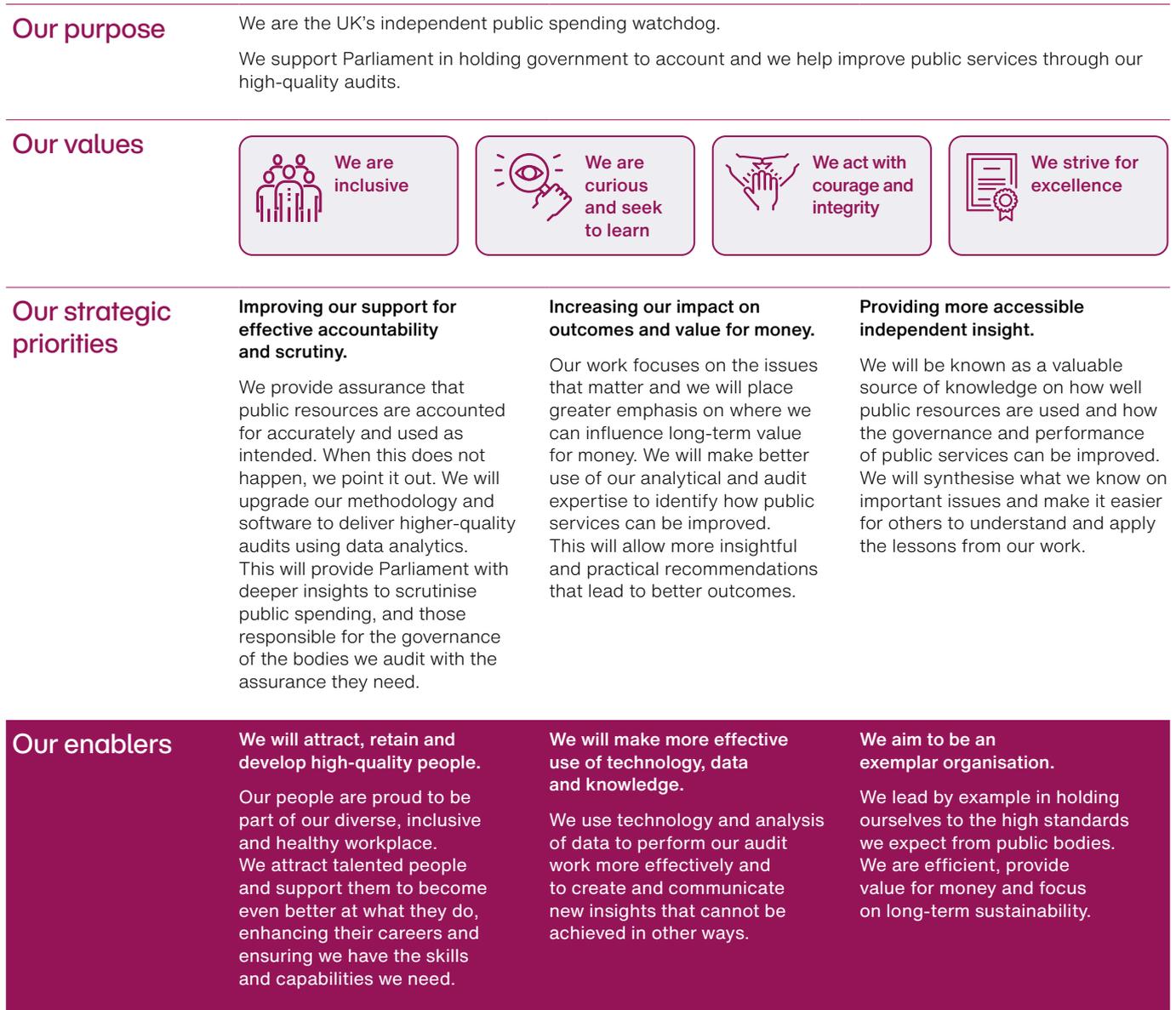
- 1.1** We are the UK's independent public spending watchdog. We support Parliament in holding government to account and help to improve public services through our high-quality audits.
- 1.2** We scrutinise public spending for Parliament. We are required under statute to undertake audits of public sector organisations, and we audit the financial accounts of all government departments and many other public bodies. We also examine and report to Parliament on the value for money (VfM) of how public money has been spent.
- 1.3** We are led by the Comptroller and Auditor General (C&AG), who is an officer of the House of Commons. He is responsible for making audit judgements, for deciding a programme of VfM examinations and wider assurance work, and for reporting the results of his work to Parliament. He has a wide range of reporting powers, including providing an annual audit opinion on the financial statements falling within the National Audit Office's (NAO's) remit, publishing assurance work on tax revenues, reporting on issues of wider interest on accounts, and reporting on value for money. Further information on his role and NAO governance can be found in Part Six of this report.

### Our strategy, values and culture

- 1.4** Increased expectations of the quality and rigour of audit mean we are modernising how we carry out our audit work. We launched our [five-year strategy](#) in 2020. By 2025, our ambition is to have improved our support for effective accountability and scrutiny, increased our impact on outcomes and value for money, and provided more accessible independent insight. **Figure 1** on page 11 provides more information on these priorities.
- 1.5** Values are crucial to our work. They reflect who we are as an organisation and how we work together and with our stakeholders to achieve our purpose and priorities. We have consciously incorporated all of our values within our ways of working and operations and are clear in communications about the need to continue to challenge ourselves on our organisational culture. Effective auditing relies on us having a culture in place that values excellence, inclusivity and respect, courage, integrity, and curiosity.

**Figure 1**  
National Audit Office (NAO) five-year strategy plan on a page

The NAO strategy covers the period 2020-21 to 2024-25



■ Enablers support all strategic priorities

Source: National Audit Office analysis of strategy documents

## Our work

**1.6** Our financial audit work is critical in ensuring taxpayers' money is accounted for correctly and spent on its intended purposes. The C&AG, with the support of our people, provides an independent audit opinion on around 400 published financial statements each year, including those of government departments, executive agencies, arm's-length bodies, government-owned companies and charities.

**1.7** During 2022-23, we completed our audits of the 2021-22 financial statements. The C&AG provided unqualified opinions on most of these, although he issued a qualified audit opinion on 15 financial statements because there were material misstatements or errors within the accounts, the scope of the audit was limited, or Parliament's intentions had not been complied with (affecting our 'regularity' opinion). Unusually, in the case of the UK Health Security Agency, the C&AG was also unable to provide an audit opinion.<sup>1</sup>

**1.8** We also carry out VfM examinations and wider assurance work to support Parliament in holding government to account, including lessons-learnt reports and investigations, for example our investigation into the performance of HM Passport Office.<sup>2</sup> During 2022-23, we published 62 VfM and wider assurance reports, including nine on efficiency and financial management. We also published 14 insight products such as good practice guides and data visualisations.

**1.9** Our work adds value in many ways. We aim to influence government to improve its use of public money and to better understand its risks and level of resilience; and we support audited bodies to apply good practice. For example, we produce a range of external guidance to support audited bodies to consider climate and environmental issues in their reporting and risk management:

- In 2021, we published [Climate change risk: A good practice guide for Audit and Risk Assurance Committees](#), which helps audit and risk assurance committees to challenge senior management on climate change risks.
- In 2023, we refreshed our guide, [Good practice in annual reporting](#), which includes best practice in sustainability and climate change reporting.

**1.10** One of our priorities this year has been to work with the bodies we audit to improve the timeliness of the publication of government annual reports and accounts (see case study) in a way that does not compromise the quality of our audit work. We are working hard to return to a pre-COVID-19 pandemic timetable and our ambition is to complete 70% of our 2023-24 financial audits before the summer Parliamentary recess in 2024, prioritising the audits of the 16 main government departments' accounts.

**1.11** We certified 60% of 2022-23 financial statements prior to the summer Parliamentary recess in 2023, compared with 53% in 2022, 55% in 2021 and 42% in 2020. This included nine (56%) of the 16 main departmental audits, compared with 56% in 2022, 38% in 2021 and 35% in 2020.

1 National Audit Office, [Press release: Department of Health and Social Care annual report and accounts 2021-22](#), 26 January 2023.

2 Comptroller & Auditor General, [Investigation into the performance of HM Passport Office](#), Session 2022-23, HC 949, National Audit Office, December 2022.

## Impact of our work

**1.12** Among other impacts, our work saves public money. Each year, we assess the impact of our work by reviewing how our influence has contributed to better public services or a financially quantifiable net benefit to the taxpayer. These impacts result from both our financial audit and VfM work. Our *Annual Report and Accounts 2022-23* highlights the financial, wider and long-term impacts of our work.<sup>3</sup>

**1.13** We are improving the transparency of our long-term impact. We make recommendations about the services under examination in our value-for-money reports. Our [recommendations tracker](#) brings together the recommendations we have published since April 2019. The aim of the tracker is to increase transparency on the outcomes of our recommendations and promote scrutiny and Parliamentary accountability for government spending.

**1.14** As at 23 May 2023, of the 795 recommendations we made between 1 April 2019 and 31 March 2022, 727 (91%) have been accepted or partially accepted by government. In total, 396 (50%) have been implemented and 300 (38%) are work in progress. The remainder are either no longer relevant, have no information on implementation, or work has not yet started on their implementation.<sup>4</sup>

## Feedback from those we audit

**1.15** An important measure of the quality and impact of our work is how much it helps government bodies and their audit committees to drive improvement in public services. We seek feedback through an annual programme of interviews and an independent survey. We draw on this feedback to improve our audit practices. The most recent independent survey opened in July 2022 and closed in January 2023. We received 164 responses to our survey (a response rate of 37%) and interviewed officials from 35 audited bodies. We chose to limit who we surveyed about our VfM and wider assurance work to those organisations which we have examined in the previous 12 months, rather than in the previous 36 months. This allowed us to ask questions about specific engagements, but it means that the survey results are not directly comparable with previous years.

**1.16** Of the government finance directors and accounting officers we surveyed:

- 82% rated the quality of their most recent financial audit as good (91% in 2021);
- 87% agreed the NAO team made fair and balanced judgements (93% in 2021); and
- 75% agreed that the audit recommendations we made were realistic (80% in 2021).

**1.17** Most organisations that took part in the qualitative interviews were positive about their relationship with us, describing it as open, trusting, and collaborative, but several respondents perceived that we had struggled to complete their 2021-22 audits on time. Scores for survey questions about our financial audit work remained good overall, but there has been a decrease in our scores as some organisations felt that communication around the process of changing teams of contractors could be improved. Despite these findings, audited bodies said they were content overall with their working relationship with us.

<sup>3</sup> Comptroller and Auditor General, *Annual Report and Accounts 2022-23*, HC 1515, National Audit Office, June 2023.

<sup>4</sup> We also track progress against recommendations we have made since 1 April 2022. In most cases, information on their implementation status is not yet available.

**1.18** We have taken on board the feedback from the survey. We have made progress in recruitment and retention for the 2022-23 audit cycle. We are also working hard to return to a pre-COVID-19 pandemic audit timetable, allowing earlier planning for future audits (see paragraphs 1.10 and 1.11). We have also reviewed the causes of quality challenges with contracted-out audits and set out revised protocols for these audits (see case study on page 37 and Appendix Three).

**1.19** Our VfM and wider assurance work is positively received by senior officials:

- 97% agreed our VfM reports are clearly written (81% in 2021);
- 87% agreed that the NAO team understood the strategic priorities and wider context their organisation operates in (71% in 2021);
- 81% agreed the way the NAO does its work is independent, fair and balanced (70% in 2021); and
- 75% agreed that the recommendations in the VfM report led to, or are likely to lead to, improvements in their organisation (54% in 2021).

**1.20** Of the senior officials who were involved in a VfM study or a piece of wider assurance work in the 12 months prior to the survey, around half (57%) thought the NAO team communicated proactively and kept them appropriately informed of progress. Typically, finance directors and accounting officers engage with NAO teams at the start of a study, and during clearance of the draft findings and recommendations. During the fieldwork and analysis stages which precede clearance, NAO teams' engagement is with senior policy staff. Over the period covered by the online survey, senior policy staff told us in a separate survey that they were satisfied with how the NAO team kept them informed of progress, with 73% rating the teams' overall communication as very good, and 27% as fairly good. These findings have prompted us to reflect on how we communicate progress with our work to audited bodies when a VfM study is under way.

## Feedback from MPs

**1.21** MPs are a key audience for our work. We assist the Committee of Public Accounts, other select committees and individual MPs in their scrutiny of public bodies. The support we offer MPs includes briefings, reports and a programme of secondments. We seek feedback from MPs to ensure our work continues to properly support them and to identify areas for improvement.

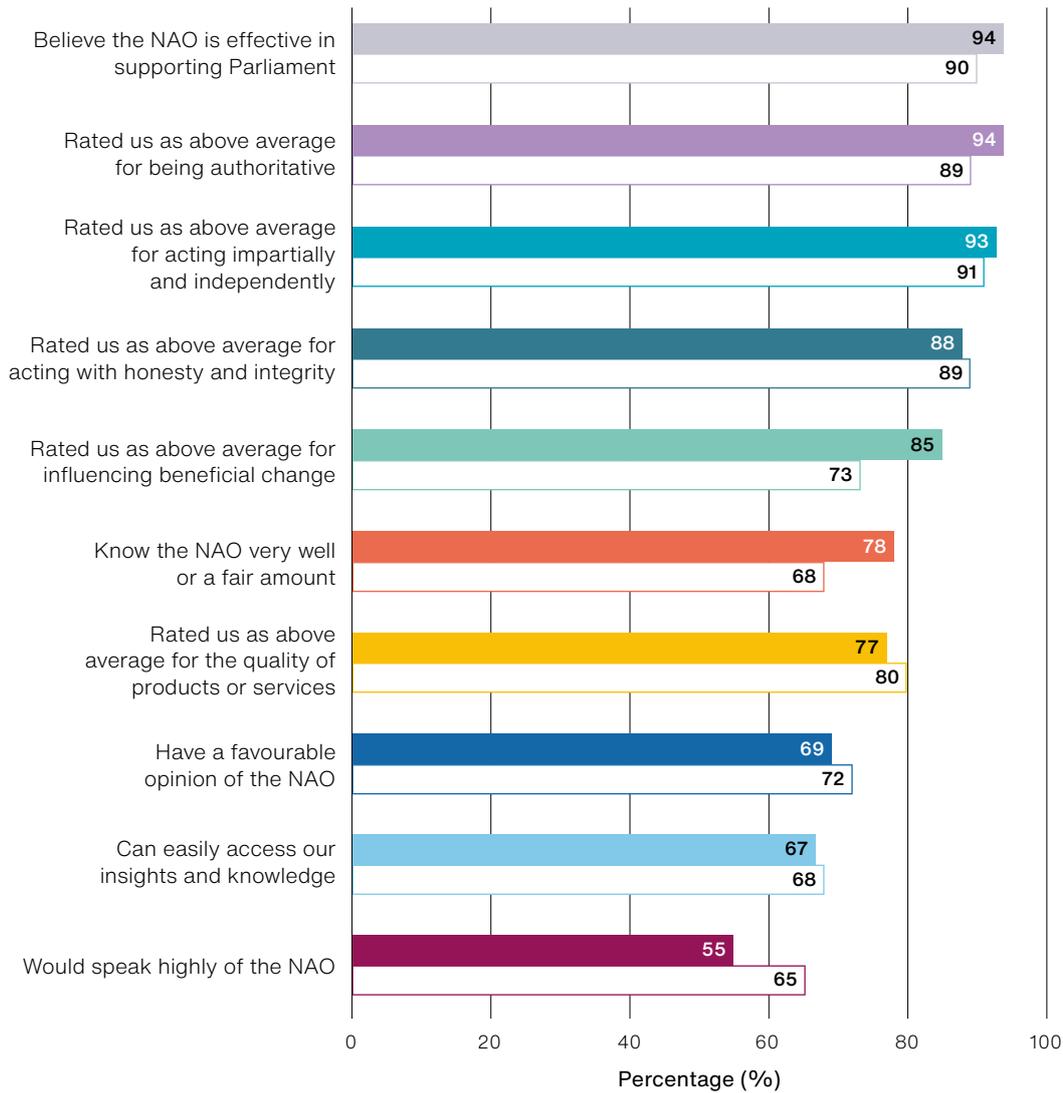
**1.22** According to our 2022-23 survey of members of Parliament, run for us by Ipsos, we maintained our strong reputation in Parliament. Of MPs surveyed, 78% stated that they knew the NAO very well or a fair amount, the highest score since we started the annual survey, and 69% of MPs recorded a favourable opinion of the NAO (**Figure 2** on page 15). Of MPs surveyed, 94% stated that our work is authoritative and 93% stated that they value our impartiality and independence. Further information on the support we provide to Parliament is available in our 2022-23 Annual Report and Accounts.

**Figure 2**

Members of Parliament’s (MPs’) perception of the National Audit Office (NAO), 2021 and 2022

**In 2022, many of the MPs survey scores improved, for example, on the NAO influencing beneficial change, or on being considered authoritative and impartial**

MPs:



■ 2022

□ 2021

**Notes**

1 Sample for 2022: 559 MPs contacted, 127 MPs interviewed, 96 MPs answered the National Audit Office questions (versioning used to control interview length). Sample for 2021: 478 MPs contacted, 123 MPs interviewed, 95 MPs answered the National Audit Office questions (versioning used to control interview length).

2 Fieldwork dates for 2022: November 2022 to January 2023. Fieldwork dates for 2021: November 2021 to February 2022.

Source: Ipsos MPs Winter 2022 survey; National Audit Office, [Annual Report and Accounts 2021-22](#), June 2022

# Part Two

## Our system of quality management

**2.1** The quality of all our work is fundamental to our credibility in supporting Parliament in holding government to account. It is essential to performing this role effectively, maintaining Parliament's trust in us, and preserving our professional reputation. This part describes our system of quality management, and how it works in practice, for our financial audit and value-for-money (VfM) service lines.

### Our quality culture

**2.2** Within the National Audit Office (NAO), embedding audit quality relies on having a culture in place that values excellence, inclusivity and respect, courage, integrity, and curiosity (see paragraph 1.5). To support this, we take a system-wide approach to quality, which is designed to help colleagues get things right the first time and to make it difficult to get things wrong. We do this by:

- creating an open culture, where people support each other to deliver quality audit work and learn from our experiences, including through a regular programme of root cause analysis;
- effective people and project management;
- a targeted learning and development programme;
- providing access to appropriate technical support and expertise;
- independent quality assurance of our work and ensuring we learn from the feedback; and
- keeping our methodologies up to date, supported by improved audit software and technology.

**2.3** Our approach to audit quality ensures we act on findings from our annual internal and external quality review programmes which highlight areas of good practice as well as where we need to improve further, and our associated root cause analysis. We put plans in place to learn from, and address, issues raised as promptly as possible.

### Our standards

**2.4** Producing high-quality work is critical to achieving our strategic objectives. We believe quality is an organisation-wide responsibility that is inherent to our values and underpins the standards that we set for our work. Our system of quality management is designed so that auditors apply best professional practice to their work, which is assessed for quality as it progresses, so that we are assured that our findings and conclusions are based on robust evidence.

**2.5** We must comply with standards. For 2022-23, these included:

- **International Standards on Auditing (ISAs) (UK).** The Comptroller and Auditor General (C&AG) has to undertake certain discretionary financial audits under the ISAs (UK). He has also 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 of Supreme Audit Institutions. The standards which we expect our VfM work to meet are based on NAO good practice and international standards on auditing.
- **The Financial Reporting Council's (FRC's) Revised Ethical Standard 2019 (the Ethical Standard).** We are required to comply with the ethical standard, which encompasses all our people and applies to all our audit engagements (see paragraphs 2.7 to 2.13).
- **The International Standard on Quality Control (UK) 1 (to 15 December 2022) and the International Standard on Quality Management (UK) 1 (ISQM1) (from 15 December 2022).** We implemented ISQM1 for our financial audit service line during 2022-23 by introducing a new financial audit system of quality management, taking this opportunity to reassess, refresh and update our existing policies and procedures. We have chosen to extend the application of ISQM1 to our VfM and wider assurance work to ensure alignment within our system of quality management.

**2.6** We are also working to implement new and revised auditing standards and the associated implications for our audit work:

- *ISA (UK) 220 – Quality Management for an Audit of Financial Statements* will be implemented from our 2023-24 audits. Financial auditors will be required to have an awareness of the system of quality management and consider the quality risks and responses that are applicable to their audits, as well as information from the NAO's monitoring and remediation process as communicated centrally. Additionally, there are increased expectations around professional scepticism and evidence of the direction, supervision and review of engagements. We are also working to implement the requirements of this standard with our framework partners on those audits which we currently contract out.
- *ISQM (UK) 2 – Engagement Quality Reviews* will be implemented from our 2023-24 audits. This standard has presented us with an opportunity to refresh how we allocate engagement quality reviewers to a particular engagement.
- *ISA (UK) 600 (Revised) – Audits of Group Financial Statements (including the work of component auditors)* will be implemented from our 2024-25 audits. Group financial auditors will be required to strengthen their responsibilities relating to professional scepticism, planning and performing a group audit, two-way communications between the group auditor and component auditors, and documentation.

## Safeguarding our independence

**2.7** Given the NAO's role, the highest standards of corporate and personal conduct are essential. Ethical values and professional standards must be at the heart of the way we conduct our business. The ethical standard applies to both our financial audit work and our wider assurance engagements.

**2.8** We are compliant with the 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 the basis for user trust and confidence. We are required to establish that we have identified and addressed relevant conditions and circumstances.

**2.9** The C&AG is the designated ethics partner. He has overall responsibility for ethical matters, and he is supported by the NAO's ethics function in discharging his role as ethics partner. Our ethics function reviews each reported conflict of interest against the ethical standard, to evaluate perceived or actual threats to independence, and to determine appropriate and effective safeguards. Examples of potential conflicts of interest could include staff members leaving to join an organisation audited by the NAO, or staff members with family or close associates working for NAO-audited bodies.

**2.10** We are alert to areas where the independence and objectivity of the NAO or our engagement teams could be threatened or could be perceived to be threatened. We have embedded detailed procedures for identifying potential threats to independence and establishing appropriate safeguards into our audit methodology. For example, staff must complete:

- an annual Code of Conduct return, which confirms that they are aware of their ethical and professional obligations;<sup>5</sup> and
- a declaration of independence on specific audits, in advance of involvement in any audit or other public assurance engagement, which highlights where potential or actual conflicts of interest might exist.

**2.11** Once safeguards are in place, they are checked regularly to ensure compliance, and teams are expected to report back promptly where circumstances change.

**2.12** The C&AG's independence is enshrined in statute. Our appointment as the external auditor of most of the entities we audit is also set out in statute (including for 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 funded directly by Parliament for most of our audit work, rather than being dependent on fees from the entities we audit. This reduces threats to independence that could arise from an auditor seeking to protect non-audit income. However, to prevent over-familiarity with the audited entity, we regularly rotate staff in line with the requirements of professional standards.

5 National Audit Office, [Code of Conduct](#), January 2023.

**2.13** We are often asked to work for bodies and on engagements beyond our formal statutory appointment framework. Such work can include audits of audited entities under the Companies Act, project audits, grant certification, due diligence work, specified procedures work, international work, and work where the NAO issues any form of other auditor's report or opinion. When we take on a new engagement or submit a tender to perform non-statutory work, we need to understand whether the engagement exposes us to an acceptable level of risk. Our engagement acceptance process enables us to consider whether the risk of the engagement outweighs the benefits to the NAO and the public interest of accepting the engagement, and the corporate priority we may wish to give this work. We apply the same process to reaccept existing audited entities and engagements. New engagements must also be approved by the C&AG.

### Audit quality indicators

**2.14** We need reliable and timely information to assess risks to audit quality. Central to this are audit quality indicators (AQIs). These highlight relevant data that allow us to challenge or confirm the effectiveness of the risk mitigations we have put in place and help to identify potential risks to the quality of our work as individual audits progress, so we can intervene where needed more effectively.

**2.15** During 2022-23, we have taken stock of all our existing management information and used this to develop a more comprehensive suite of AQIs. The first phase of our AQI programme, which is now complete, identified information to be reported using our existing systems and processes to capture data. Our next phase is to develop additional indicators using our new software solution implemented as part of our Audit Transformation Programme (see paragraphs 3.28 to 3.31).

**2.16** In our first phase, we developed a range of AQIs for external reporting. We have highlighted these throughout this report and brought them together in Appendix Eight. These AQIs build on those we have previously published and reflect the latest guidance outlined in the FRC's recent consultations on firm-wide AQIs. We also report AQIs internally, which help us to monitor and manage quality risks more effectively. These have been tailored depending on their audience: some of these will be scrutinised at the NAO's Board or Executive Team level; and others will be shared with all colleagues.

### Our financial audit system of quality management

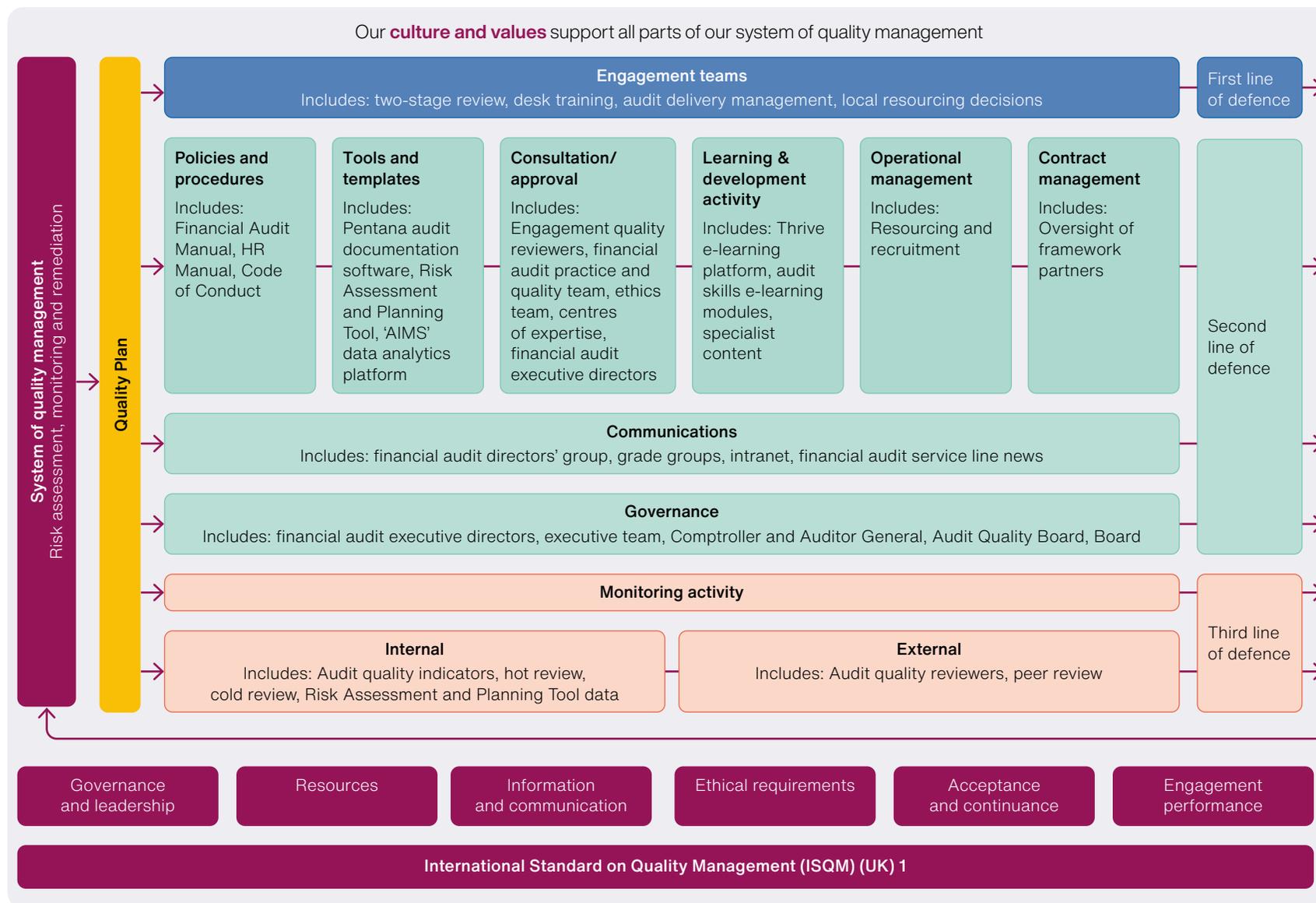
**2.17** In 2022-23, in response to ISQM1, we refreshed our system of quality management for financial audit. Our new system allows us to take a broader, more structured approach to our risk assessment, monitoring, evaluation and remediation processes and procedures.

**Figure 3** on page 20 illustrates the system and the interplay between its elements.

**2.18** Our system supports an open culture where we tackle quality shortfalls head-on without blame or fear, learning from our experiences so we all meet our aspirations. Audit quality is a shared endeavour, owned by all our professionals. As such, our culture and values infuse the whole system, reinforcing the role of every audit colleague to take personal responsibility for the quality of their work, knowing it contributes to our overall ambitions (see case study).

**Figure 3**

National Audit Office: our financial audit system of quality management



Source: National Audit Office

## Case study

### Learning from an audit quality inspection

We promote a culture of supporting people to deliver good quality audits. An example of this is how we responded to the issues raised from an inspection by the FRC's Audit Quality Review team (AQR) as it reviewed our 2020-21 audit of one of our government departments. The AQR graded this audit as 'Improvements required'.

Engagement directors and managers in the NAO group which included this audit now have regular conversations with their teams about risks to audit quality. These discussions have included how we improve our challenge of management's estimates and our audit of journals. Managers and audit leads have followed up with regular short sessions on quality with their wider teams. We have used these meetings to bring together our collective experience of an audit topic and to discuss the practical challenges of auditing this area and how we can address these and our expectations around quality. These sessions encourage colleagues to form practical solutions to problems and deal with issues. They also challenge teams to seek external expertise where necessary, for example, through our centres of expertise.

As a result of our AQR inspection, we also ensured financial reporting and audit quality is a shared priority with the government department we audit and its arm's-length bodies. This has helped us identify areas for improvement in the valuation produced by one of the department's most important financial models. As a result of our challenge, the department has implemented our recommendations to routinely assess credit risk and make better decisions on the allocation of financial support.

AQR subsequently selected another of this area's audits for review as part of its 2021-22 programme. The actions we set out above played a part in this audit receiving an improved quality assessment.

**2.19** At the heart of our system of quality management is a 'three lines of defence' model. This model is designed to ensure that our all our audit work complies with professional expectations:

- Audit teams are responsible for delivering audits that meet auditing standards and for ensuring that they have the right people, doing the right things, at the right time on each audit for which they are responsible.
- They are supported by our Financial Audit Practice and Quality (FAPQ) and our Financial Operations teams. They put in place NAO-wide arrangements to secure the quality of our work including: updating regularly our audit manual and methodology; delivering professional guidance and training; providing technical advice and support as requested by audit teams; managing resourcing and recruitment; and managing contracts with our framework partners.
- Our Compliance and Quality Unit (CQU) undertakes additional assurance activities to assess the quality of audit work. This includes managing our quality inspection programmes and collating findings from these to inform future guidance and audit policy.

**2.20** We build quality into all stages of a financial audit to ensure that the work is of the highest technical quality. All audit work undergoes a two-stage review by senior members of the engagement team. Some audits with significant audit judgements also undergo an engagement quality review by an independent director. This additional layer of review depends on the nature of the engagement, unusual circumstances or risks, legal and regulatory requirements, and the size and complexity of the audited organisation. We also use audit technical panels to consider and consult on significant audit judgements such as those that might lead to a qualified audit opinion, and to identify cross-cutting audit issues. These consultation meetings and panels comprise our relevant executive directors, the director of FAPQ, and the engagement team.

**2.21** At the planning stage of an audit, each NAO engagement director attends a portfolio review meeting, led by executive directors, to benefit from an early opportunity to consult with NAO senior management on their plans and for the audit approach to be challenged as to its rigour and technical quality. Audit teams are also expected to consult with colleagues from across the wider NAO so as to get the best advice to apply to their audits where needed. This includes consulting on complex areas with our centres of expertise and technical guidance from our FAPQ team.

**2.22** Our system of quality management now includes our formal assessment of our progress against the objectives aligned with the six components of audit quality set out under ISQM1. Each quality component is owned by an executive director. We have introduced a formal process through which we identify and assess the quality risks associated with each component, and design and implement responses which will mitigate these risks to an acceptable level. The six components are:

- **governance and leadership:** Our arrangements to support our culture of audit quality. Our governance also underpins the statutory independence of the C&AG. See Part Six for more information;
- **resources (human, technological and intellectual):** To deliver quality audits in a timely manner, we need to have the right people, at the right time, doing the right things. Our learning and development programmes are designed so that auditors have and maintain the skills they need. We apply our intellectual and technological resources to enhance our methodology and procedures so that auditors have a wide range of support tools to apply to their audits. See Part Five for more information;
- **engagement performance:** Each member of the audit team is responsible for ensuring that their work complies with the requirements of auditing standards. Individuals need to understand what is expected of them, apply our tools and procedures appropriately, evidence their professional judgement and scepticism, and consult with experts or other more experienced colleagues where necessary;
- **information and communication:** An effective risk management framework responds to issues promptly so that risks remain relevant, and mitigations are adjusted accordingly. We also need to be transparent with colleagues about what we are doing and their role in managing our risks. We use targeted quality indicators and risk registers to help manage our quality risks. See paragraphs 2.14 to 2.16 and 2.23 to 2.26 and Appendix Eight for more information;

- **engagement acceptance and continuance:** As auditors take on audits, especially where they are new to the NAO, they need to ensure they understand the nature of the entity they audit and the associated risks to the effective performance of that audit so it meets professional standards and applicable legal and regulatory requirements; and
- **ethical requirements:** We meet, and are seen to meet, ethical requirements, including those related to the independence of the auditor from those we audit. All our colleagues need to understand their responsibilities to comply with our ethical requirements. See paragraphs 2.7 to 2.13 above for more information.

**2.23** Our audit quality risk assessments are documented in a risk register for each component of the system of quality management. The most significant risks from each component risk register are summarised in a master quality risk register covering all ISQM1 components which, in turn, informs the NAO's overall corporate risk register. **Figure 4** on page 24 highlights our current assessment of the risk associated with each component (as at June 2023) and the actions we are taking to further manage the risk to audit quality. We will be revisiting the engagement performance component of our risk assessment to reflect on our recent AQR and cold review findings.

**2.24** We update our risk assessment for each component periodically, with the frequency of the updates depending on that component's risk profile and complexity. This allows us to reflect on the progress we are making and to feed in emerging issues which might give rise to deficiencies in the system of quality management, such as findings from our quality inspection programmes, as they happen. Our AQIs, which cover all our activity, also support our financial audit quality risk assessment (see paragraphs 2.14 to 2.16).

**2.25** Our Financial Audit Management Board considers the risk registers fortnightly and challenges the progress we are making in mitigating the risk, the risk rating, and actions in hand.<sup>6</sup> In addition, our Audit Quality Board, which meets quarterly, challenges the effectiveness of the controls we have in place and the progress we are making (see paragraph 6.8). These discussions form part of the NAO Audit and Risk Assurance Committee's assessment of our corporate risks which are, in turn, considered periodically by the NAO Board.

**2.26** As a result, we now have better visibility of the specific issues that are driving our quality risks, which allows us to be more effective in the way in which we manage existing and emerging risks to audit quality (see case study).

**2.27** Under ISQM1, we are also required annually to formally evaluate the effectiveness of the system of quality management. Our CQU will agree an annual monitoring plan for this work, informed by our quality risk registers and feedback from the executive team and the Audit Quality Board. Based on the execution of this plan and the evidence collected, it will provide its independent conclusion to the C&AG that there is reasonable assurance that the objectives of the NAO's system of quality management are being achieved, or otherwise. This work will be completed by December 2023 and any actions or deficiencies raised will feed into our risk assessment and into our Single Financial Audit Quality Plan for 2024. The conclusions reached will be included in next year's Transparency Report.

<sup>6</sup> This consists of the executive directors for the financial audit service line and the directors of FAPQ, CQU and financial audit operations.

**Figure 4**

The National Audit Office's (NAO's) financial audit quality risks, June 2023

Component	NAO definition	Risk rating	Current status
Resources (human, technological and intellectual)	Includes human resources (staff with the competence and capabilities we need), technological resources (such as audit software) and intellectual resources (such as methodology guidance).	Amber 	<p>We have made significant progress in recruitment and retention for the 2022-23 audit cycle, such that overall staffing levels are not driving our 'Resource' quality risk rating. The current key risk areas are:</p> <ul style="list-style-type: none"> <li>the continued development of skills and expertise in the audit of financial instruments; and</li> <li>effective project management skills to progress our ambition of delivering more audits before the summer Parliamentary recess while meeting our quality standards.</li> </ul> <p>Our actions to address these areas are on track but not yet sufficiently advanced to fully mitigate the risk.</p>
Engagement performance	The quality of our audit engagements, for example, whether engagement teams exercise appropriate professional judgement and professional scepticism, whether they receive sufficient direction and supervision, and whether differences of opinion are raised and resolved.	Amber/red 	<p>We are making progress in addressing the risks surrounding engagement performance. A key response to this risk is the Audit Transformation Programme (ATP), through which we are introducing a new risk-focused methodology and audit software with a guided workflow to assist our teams in ensuring audit quality. In our internal conversations about quality, we have also re-emphasised the critical importance of professional scepticism. The current key risk areas for engagement performance are:</p> <ul style="list-style-type: none"> <li>ensuring that teams have appropriate skills and support for auditing complex technical areas, including financial instruments, including new work programmes, tools and templates;</li> <li>ensuring that our staff have a consistently good understanding of our revised risk assessment and planning process in year one of the revised ISA (UK) 315; and</li> <li>timeliness and quality of documentation on the audit file to facilitate a timely and high-quality review. Implementing the second phase of the ATP will support an improved audit workflow and project management, helping us to address this risk.</li> </ul> <p>Our actions to address these areas are on track but not yet sufficiently advanced to mitigate the risk.</p>
Governance and leadership	How our culture, our leadership's actions and behaviours, our organisational structure and accountability arrangements, and/or our resource management, affect audit quality.	Green 	This reflects our independent status and our culture of quality, which is reflected in our values and tone from the top.
Information and communication	The exchange of information within the NAO and with external parties such as audited bodies and regulators.	Amber 	We have suitable information and communication systems in place to support the delivery of our audit engagements. The current risk status reflects our ongoing development of audit quality indicators to support the operation of our system of quality management, including improvements in system-generated metrics through the new Audit Management System. The ongoing development of audit quality indicators will provide us with additional tools to identify risks to audit quality at an early stage.
Engagement acceptance	Our judgements about whether it is appropriate to accept or continue a client relationship or specific engagement.	Green 	This reflects the statutory nature of most of our engagements, limited new engagement requests, and our mature policies and procedures for considering engagement acceptance.
Ethical requirements	Our compliance with relevant ethical requirements, including those related to independence.	Green 	This reflects our independent status as a statutory auditor, alongside mature policies and procedures for managing ethical risk, and risks associated with the application of our director rotation policy.

Source: National Audit Office

## Case study

### Our experience of implementing our new system of quality management

We introduced our new system of quality management in December 2022, as part of our process for implementing ISQM1. This system, which builds on our existing system of quality control, allows us to escalate emerging quality risks on a timelier basis and take action to mitigate emerging issues before they crystallise.

Our initial quality risk register for the engagement performance component featured a long-standing quality risk surrounding the implementation of our methodology for auditing journals, which had been raised in both our internal and external quality inspection programmes of reviews. During February 2023, early feedback from our inspection programmes and from our financial audit directors at one of our masterclasses, indicated that our existing mitigations were not sufficient to fully address this risk.

Consequently, we escalated this risk through our system of quality management for discussion at the Financial Audit Management Board. As a result of this discussion, we took the following actions to mitigate this risk further for the 2022-23 audit cycle:

- We launched new journals refresher training ahead of the final audit peak.
- This was supplemented by targeted use of existing journals training modules where particular issues had been identified within teams.
- An audit team, in a video blog, highlighted their experience of auditing journals and the good practice they applied in identifying and testing risks associated with journals.

Our system provides us with a clearer mechanism for escalating and addressing this quality risk for the current audit cycle.

### Our system of quality management for value-for-money and wider assurance work

**2.28** Our system of quality management for value-for-money and wider assurance work exists in parallel to our system for financial audit and operates under the same principles, applying processes adapted to the nature of this work. This section describes our quality arrangements for VfM and wider assurance work, including the changes we have made throughout 2022-23 and the improvements we intend to make in 2023-24. We made the decision in 2022-23 to apply ISQM1 to our VfM and wider assurance work and updated our existing system of quality management accordingly.

**2.29** As in previous years, we have produced timely and impactful VfM and wider assurance reports that deliver against our organisational values and the quality standards we set for our work. We have achieved this in a year of change where we have placed more emphasis on the way we proportionally manage quality risks in our work.

**2.30** Producing high-quality VfM and wider assurance work is critical to achieving our strategic objectives. Our system of quality management is designed to address two main risks:

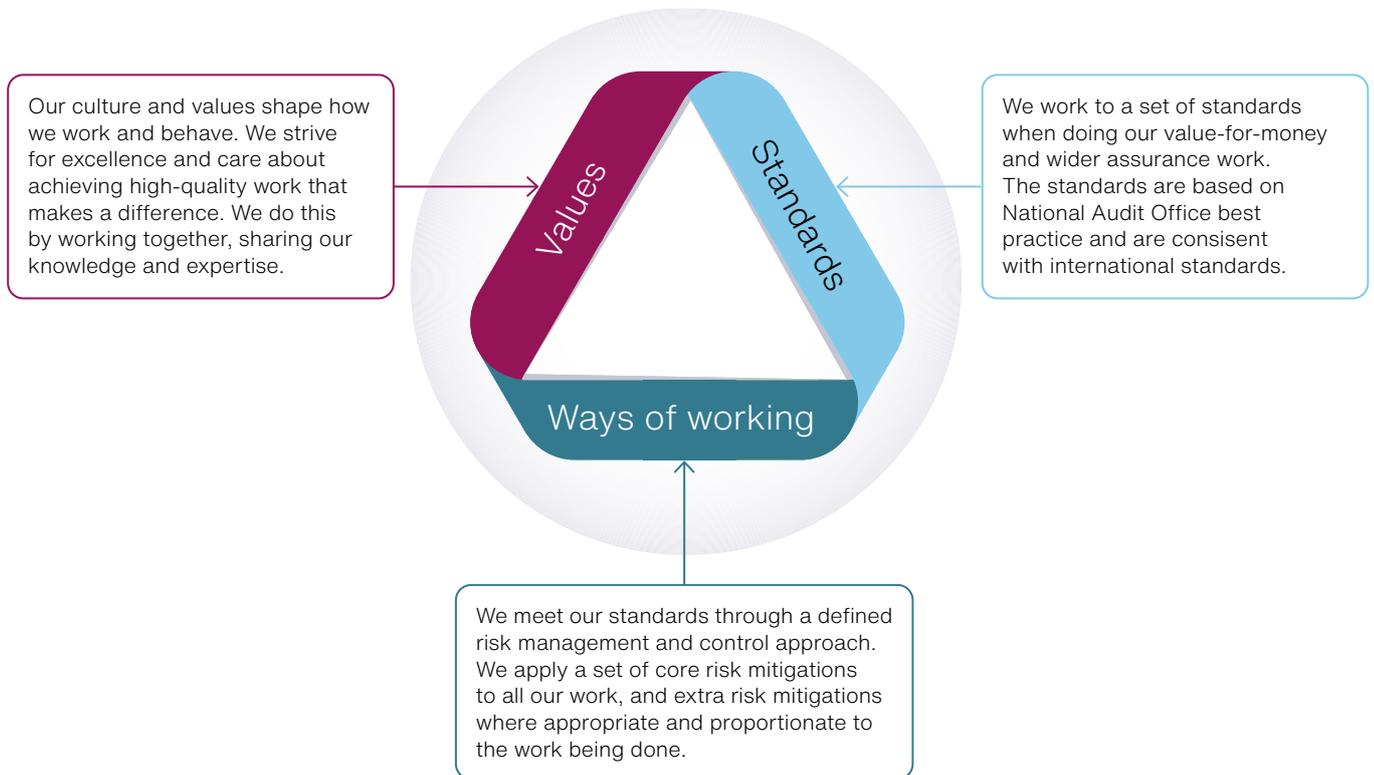
- **Strategic quality:** we should be reporting on, and following up, issues of strategic relevance to Parliament and our audited bodies in a timely way; otherwise, we risk not having the impact we want from our work. Examples of our approach to achieving strategic quality include:
  - **How we select our work:** twice a year, the C&AG sets 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. In reaching his judgement, the C&AG considers suggestions from Parliament, alongside internal assessments of value-for-money risks to government. Our strategy for 2020–2025 includes a focus on major infrastructure projects; progress towards the net-zero emissions target; the use of technology and data to transform services; and government’s resilience in the face of significant challenges such as the COVID-19 pandemic. The future programme of work is enhanced by our ability to deliver responsive pieces of work as issues arise throughout the year that the C&AG decides we should report on; and
  - **How we get impact from our recommendations:** we make recommendations in our VfM reports that are clear and focused on the actions government needs to take, and are likely to lead to sustained, significant improvements for our audited bodies. We follow up on the progress audited bodies make in implementing our recommendations and publish a recommendations tracker, to provide transparency over our impact.
- **Technical quality:** all our work should meet our quality standards, which are aligned to our organisational values. We have adopted a risk-based quality management system to help us do this (as set out in paragraphs 2.36 and 2.37). Examples of our approach to maintaining technical quality include:
  - a requirement for peer review. Each study team is required to develop a proportionate, risk-based quality plan at the start of a project. This enables the study team to receive advice from, and be challenged by, sectoral and technical specialists within the NAO on important aspects of the audit including the: approach being adopted, quality of the evidence base, formation of audit judgements, and risk management;
  - a quality assurance review of innovative or complex methodologies that is undertaken by specialists from our analysis hub to check the results are accurate and the methodology used is relevant and robust; and
  - a requirement for a robust evidence base that links all statements and data in our work to source evidence in the audit file.

**2.31** Quality is an organisation-wide responsibility that is inherently linked to our values and underpins the quality standards we set for our work (**Figure 5** on page 27). Our people are provided with guidance and tools, specialist advice and feedback to help them understand their individual role, and our collective roles, in delivering high-quality VfM and wider assurance work to Parliament and wider audiences.

**2.32** In 2022-23, we clarified how we communicate the quality standards underpinning our work to make it easier for practitioners to keep them in focus through their work. Our standards, as set out in **Figure 6** on page 27, flow directly from our values and are based on NAO best practice and international standards. The clarifications to the standards have also informed improvements to our quality management system and how we go about our work.

**Figure 5**

The quality standards for our work are linked to our values and ways of working



Source: National Audit Office

**Figure 6**

National Audit Office value-for-money quality standards

<p><b>We are:</b></p> <p><b>Independent</b> We meet international standards for quality, behaviour and ethics.</p> <p><b>Professional</b> We meet our legal and professional obligations.</p> <p><b>Open</b> We value different perspectives and invite feedback and challenge.</p> <p><b>Efficient</b> We scope our work to meet the objectives for the audit.</p>	<p><b>Our work is seen as:</b></p> <p><b>Relevant</b> We focus our work on the right issues at the right time to make the greatest difference.</p> <p><b>Accurate</b> We use robust evidence and show clearly how we have reached our judgements.</p> <p><b>Accessible</b> Our work is clear, inclusive and engaging.</p> <p><b>Focused on outcomes</b> We can show our work leads to positive changes in public services.</p>
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Source: National Audit Office

**2.33** VfM and wider assurance projects are supported by our quality management system in three main ways to help mitigate against strategic and technical risks (**Figure 7**). This approach enables us to continuously consider what might impact on the quality of our work, develop proportionate mitigations and take action to reduce our exposure to risks. We also commission independent reviews of a sample of completed audits each year to assess how well they meet our quality standards and to identify areas where we can improve our practice.

**Figure 7**

Our quality management system is based on our three lines of defence model



Source: National Audit Office

**2.34** To promote and maintain quality while an audit is ongoing, our quality management system offers a range of options that allow study teams to develop a comprehensive and proportionate risk management approach. The system includes:

- **Study team:** Directors and their study teams are responsible for developing and implementing a quality and risk plan, which is agreed by an executive director and a quality director, who are both independent of the team. The quality and risk plan acts as the basis for continually assessing and managing risks throughout the project;
- **C&AG:** The C&AG considers and helps shape the audit approach adopted by teams at the beginning of the project. The C&AG then tests the emerging audit findings and draft audit report to ensure it remains strategically relevant and is on course to deliver impact for the audited body and Parliament; and
- **Support and review outside of the study team:** Study teams draw on sectoral and technical expertise through hubs which include analytical methods, commercial practices and major projects expertise. A value-for-money practice and quality team provides guidance, processes and pathways, which have been developed in line with our values, to teams to help deliver work that meets our quality standards.

**2.35** Independent reviews of our completed work are an important part of our quality approach. Each year, a sample of completed VfM and wider assurance reports are reviewed to assess how well they meet our standards and to identify good practice and improvements for our quality management system. In 2022-23, 32 VfM and wider assurance reports were reviewed in this way. Independent reviews are conducted in two ways:

- **Internal reviews:** These reviews are performed and moderated by VfM and wider assurance staff who are independent of the study team whose work is being reviewed. The reviews consider how the study team managed strategic and technical risks and the overall quality of the final report. In 2022-23, we completed 12 internal reviews. This year's results can be found at paragraphs 4.6 to 4.8.
- **External reviews:** These reviews are completed by external organisations who assess how well reports manage strategic risks to deliver relevant and impactful work in a clear and accessible way. In 2022-23, we commissioned external reviews on 20 reports. This year's results can be found at paragraphs 4.13 to 4.16 and Appendix Two.

## Changes to our quality management system introduced in 2022-23

**2.36** Throughout 2022-23, we have made several changes to our quality management system to ensure it fully reflects our standards that define the quality culture we want. These changes are intended to enhance our understanding of the strategic and technical risks posed to our work and to enable us to develop a more mature risk management approach. The changes include:

- **refreshed guidance for study teams that is more closely aligned to our standards to make it easier for study teams to understand their role in maintaining a quality culture.** The changes focus on making sure the guidance sets out what people need to do to meet our standards. As a result, the guidance now provides clear advice and ways of working, for example on how to present data, and tools to aid activities such as putting together the evidence base;
- **the introduction of quality and risk plans to ensure our work considers and mitigates the same risks that affect every piece of VfM and wider assurance work we do.** Every audit must now consider and document how it is managing 12 risks focused on: how we plan our work; meeting our legal, professional and ethical obligations; collecting and presenting evidence; achieving impact; and learning and improvement. More detail on the 12 risks can be found at Appendix One. The quality and risk plan is created at the start of an audit with the study team responsible for continually reviewing and updating it; and
- **revising the internal review process so that it is aligned to our refreshed standards and visibly pursues quality over compliance checks.** This approach allows reviewers to focus more on assessing the quality of work completed and the extent to which teams have identified and managed risks. This approach moves away from the perception that internal reviews are primarily focused on process compliance. The scoring framework has also been updated to help reviewers better understand the expectations for when it is appropriate to use each score. More detail on internal reviews can be found in paragraphs 4.3 to 4.5.

**2.37** These changes were developed and implemented throughout 2022, with some study teams following our new quality management approach from July 2022. As a result, some study teams completed their work using the previous guidance, while those starting later in the year were able to adopt the new guidance. Internal reviews in 2022-23 have accommodated this situation, with reports assessed against the guidance standards in place at the time the work was completed.

# Part Three

## The quality of our financial audit work

### Our quality improvement framework

**3.1** We are committed to all our financial audit work meeting our quality standards. We have rigorous internal and external quality inspection regimes in place. These select a sample of audit files taken from our population of audits certified each year. The purpose of each review is to make sure that we have complied with the National Audit Office's (NAO's) *Financial Audit Manual* and International Standards on Auditing (UK).

**3.2** Each audit is rated, having considered the quality of evidence presented on the audit file, with one of four grades: good; only requiring limited improvement; improvement required; or significant improvement required. Those audits that fall within the first two grades are judged to meet our quality standards.

**3.3** Under our system of quality management (see Part Two), where deficiencies in our work are identified through these reviews, we seek to learn and take action on individual audits as quickly as possible so that they do not arise again. We also assess these issues from an organisation-wide perspective and consider whether they change our risk assessment or suggest a need to improve the controls we have in place. We also consider where we need to enhance our wider processes and procedures. We capture these actions in our annual Single Financial Audit Quality Plan, which we then monitor so that actions are implemented.

**3.4** This Part sets out the outcomes from the most recent inspections of our financial audits, the areas for improvement identified, and what we are doing to address them. We also reflect on the progress we have made in taking forward findings from previous years.

### Internal inspection programme

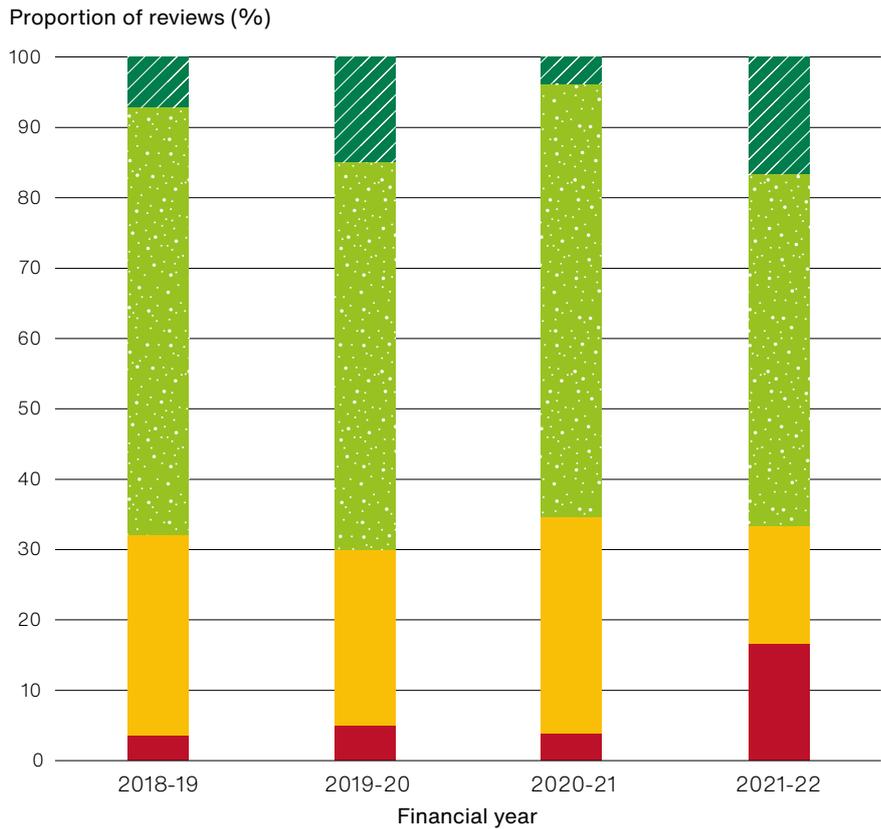
**3.5** The NAO's Compliance and Quality Unit (CQU) manages an annual internal quality assurance programme by reviewing a sample of completed audits each year. These reviews are undertaken by experienced audit managers, overseen by a group of financial audit directors.

**3.6** During 2022-23, we reviewed 24 of our 2021-22 audits (compared with 26 of our 2020-21 audits in 2021-22).<sup>7</sup> Of these, some 67% (65% in 2021-22) were judged to be good or required only limited improvements. However, four audits reviewed required improvement and a further four highlighted areas where significant improvement was required.<sup>8</sup> **Figure 8** on page 32 shows the results from our internal quality reviews over the past four years.

<sup>7</sup> Our '2021-22' audits are audits of accounts covering the period 1 April 2021 to 31 March 2022. We completed these audits in 2022-23 and conducted internal reviews of these audits later in 2022-23 and in 2023-24.

<sup>8</sup> Audits judged to be good, or where only limited improvements are required, meet our quality standards.

**Figure 8**  
National Audit Office (NAO) results from internal quality reviews from 2018-19 to 2021-22



Above the quality threshold				
Green - good	2	3	1	4
Amber/green - limited improvements required	17	11	16	12
Below the quality threshold				
Amber - improvements required	8	5	8	4
Red - significant improvements required	1	1	1	4
<b>Total</b>	<b>28</b>	<b>20</b>	<b>26</b>	<b>24</b>

**Notes**

- 1 Audits judged to be good, or where only limited improvements are required, meet our quality standards.
- 2 The financial years shown in this figure refer to the time period covered by the accounts we audited. The internal quality reviews took place after this period, for example, we conducted the internal quality reviews of the '2021-22' audits during the financial years 2022-23 and 2023-24.

Source: National Audit Office results from internal quality reviews

## External inspection programme

**3.7** The Audit Quality Review team (AQR) of the Financial Reporting Council (FRC) reviewed a sample of nine 2021-22 audits (five audited under the Companies Act and four from the rest of our portfolio of audits). Its work is, at the time of publishing this report, ongoing with two of its reviews to be concluded.

**3.8** Of the seven reviews concluded to date, three were judged to be good or requiring only limited improvements.<sup>9</sup> However, two of the audits reviewed required improvement and two required significant improvements. **Figure 9** on page 34 shows how the results of the 2021-22 audits compare to those of previous review cycles.

## Learning from reviews and addressing findings

### Overview

**3.9** While our inspection programmes have shown that we can, and do, deliver high quality audit work, they have also identified shortcomings which we are working to address. We have concluded that these recent findings do not point to a fundamental flaw in our audit methodology. However, they do point to the need for us to do more to ensure all audit teams apply our methodology properly and consistently across our portfolio of individual audits.

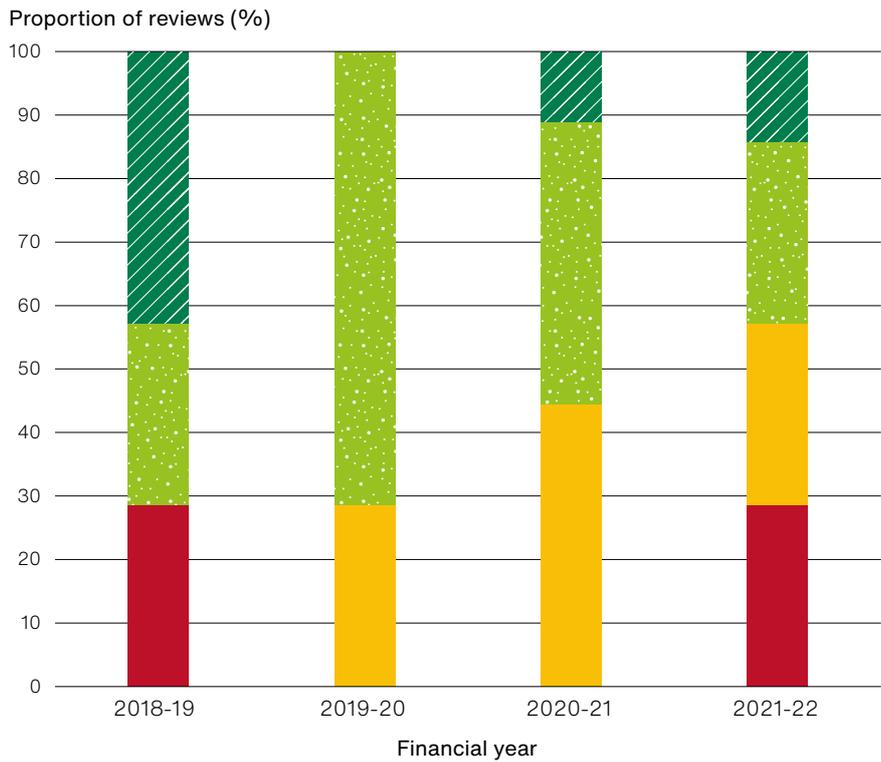
**3.10** The immediate actions we have taken in response to the AQR's key findings include:

- A mistake in the wording of an auditor's report. We have supplemented the guidance that we provide to teams on audit certificates with an additional mandatory checklist to prevent this issue from recurring. While there was an error in the report, which should not have occurred, we believe it had no impact on the decisions of the users of the accounts.
- Insufficient testing of a cash-flow statement, which meant that we did not identify a material error in the statement. We have issued additional guidance to teams to clarify the work that needs to be performed on the cash-flow statement, particularly for those entities where the statement is more complex.
- Failure to document on a timely and clear basis our decisions and processes where an engagement director's time on the audit has been extended beyond five years. These extensions were put in place to protect the quality of these audits and there is no evidence of a negative impact on the quality of the audits. We have acted to ensure that any such extensions and associated safeguards in future are documented in a timely and clear way. We have also updated the wording of our audit certificates to remove the reference to the enhanced Ethical Standard requirements for listed company audits.
- Insufficient challenge of management's assumptions or judgements in complex valuations. The engagement teams have subsequently challenged the assumptions flagged by the AQR as they completed their audits of the 2022-23 accounts and have not identified any errors as a result. Notwithstanding this, we issued further guidance to teams on the importance of challenging assumptions and judgements, how to do this effectively and the need to ensure that this is comprehensively evidenced on the audit file.

<sup>9</sup> Audits judged to be good, or where only limited improvements are required, meet our quality standards.

**Figure 9**

National Audit Office (NAO) results from external quality reviews from 2018-19 to 2021-22



Above the quality threshold				
Green - good	3	0	1	1
Amber/green - limited improvements required	2	5	4	2
Below the quality threshold				
Amber - improvements required	0	2	4	2
Red - significant improvements required	2	0	0	2
<b>Total</b>	<b>7</b>	<b>7</b>	<b>9</b>	<b>7</b>

**Notes**

- 1 The 2021-22 performance reflects the conclusions on the 7 completed reviews. There are two audits still to be concluded which are not reflected in the table above for 2021-22.
- 2 Audits judged to be good or where only limited improvements are required are judged to meet our quality standards.
- 3 The number of audits reviewed increased from seven in 2019-20 to nine in subsequent years.
- 4 The financial years shown in this figure refer to the time period covered by the accounts we audited. The external quality reviews took place after this period, for example, the external quality reviews of the '2021-22' audits took place during the financial years 2022-23 and 2023-24.

Source: National Audit Office results from external quality reviews

**3.11** Our internal review programme looks at a larger sample of audits than the external inspection reviews. On those audits reviewed which are undertaken by NAO teams, these reviews have highlighted findings in similar areas to those identified by the AQR, some where significant improvements were needed. These reviews also identified some areas of good practice.

**3.12** Our internal programme also includes a sample of the audits that we contract out to our partner audit firms. These reviews identified specific examples where the NAO engagement director needed to do more to evidence their direction and supervision of the firm’s work on the NAO audit file. We have issued updated guidance to our teams on what should be documented on our files. We are also updating our methodology to ensure that it meets the requirements of the revised ISA (UK) 220 which will apply to our 2023-24 audits (paragraph 2.6).

**3.13** We are pleased that this year’s reviews show progress in a number of the areas that we have been focusing on in our Single Financial Audit Quality Plan. The AQR’s sample included two audits that it had looked at in a previous year. It found that we had addressed the findings from the earlier reviews well. Reviews also show that we have made progress in areas where the AQR has previously identified thematic issues. For instance, there were examples of good practice in our use of auditor’s experts and challenge of management. The reviews also identified fewer issues than in previous years in our work on harder-to-value financial instruments (see paragraph 3.27).

**3.14** In addition to the immediate actions set out above, we are carrying out comprehensive root cause analysis to identify the underlying causes of both the good practice and the issues identified by the review programmes (see paragraph 3.18 to 3.21). We will use this to shape our 2023 Single Quality Plan, which will be in place for our 2023-24 audits.

**3.15** Our 2023-24 audits will be the first to be carried out using our new audit software, which we are introducing as part of our Audit Transformation Programme (see paragraph 3.28-3.31). The new software, known as “Apex”, uses a guided workflow approach, which will help teams to ensure that they are applying our methodology in full and documenting their work appropriately.

**3.16** We recognise that software and guidance on their own are not sufficient to achieve consistently high-quality. Having the right culture is just as important. The launch of our new software will be accompanied by a programme of immersive training which is designed to support the cultural factors that lead to high audit quality.

**3.17** For more details of the progress we have already made following last year’s inspection programme, see Appendix Two.

## Learning from our feedback

**3.18** Following the conclusion of each of our quality inspections, we undertake a programme of root cause analysis to explore the reasons behind the deficiencies raised, including cultural and office-wide challenges. The case study overleaf presents an example of our learning from an audit that passed an external inspection this year.

## Case study

### Root cause analysis from a good-quality audit

We performed root cause analysis on an audit that the FRC's audit quality reviewers (AQR) assessed as being of good quality. The AQR review noted there was good practice in two specific areas:

- the team's assessment of management's methodology for calculating a material estimate. As a result of this, and the team's challenge of management, a material prior period adjustment was recorded; and
- using the work of an auditor's expert, which provided significant assurance over management's revised methodology for calculating the estimate.

In discussions with the team, we identified the main causes of good practice included:

- senior members of the audit team being involved from an early stage, reflecting that this was the first year the NAO undertook this audit;
- the audit team having a strong grasp of the audit and accounting issues;
- support from NAO's senior management on difficult issues;
- close working with an auditor's expert;
- willingness to challenge and adopting a sceptical approach;
- consulting on difficult issues; and
- having a 'review mindset' with an appreciation of common challenges raised in quality reviews.

The team also held a teach-in session with colleagues to discuss how they had approached certain aspects of the audit.

**3.19** We also use our root cause analysis programme to identify the drivers of good practice. This year, we found seven common themes:

- Resourcing and having the right mix of skills and expertise at the right time on the audit.
- Scepticism and challenge of management or their experts and fully evidencing this on the audit file.
- Careful project management and planning ahead so as to facilitate effective review of the audit file.
- Skills in specialist areas such as pensions, financial services and auditing models.
- Effective guidance, tools and templates, which helps guide and prompt teams on the required work.
- Consultation on difficult issues.
- Obtaining good-quality evidence from the audited body.

**3.20** In 2022-23, we conducted root cause analysis on 10 individual audits from the 2020-21 audit cycle, which had been assessed as having areas for improvement. In most cases, there was no single factor that led to a quality failing but our analysis identified areas where we needed to take further action to ensure the consistency of quality. These actions included ensuring teams have sufficient time to stand back and reflect on the sufficiency of evidence, ensuring the team has sufficient skills, capacity and training, especially in more complex areas such as the audit of pension assets and financial instruments. Our analysis also identified ways to clarify and consolidate some of our guidance, tools and templates.

**3.21** We also apply root cause analysis to identify organisation-wide barriers to delivering good-quality audits. We do this by undertaking thematic reviews of issues identified in our root cause analysis of individual audits, especially in areas that affect particular sectors of our audit portfolio. In 2022-23, we conducted thematic reviews on quality challenges with contracted-out audits, our cold review process, our engagement quality review process, and auditing financial services entities and transactions (see case study below).

**3.22** Finally, where significant quality deficiencies have been identified on a specific audit, we intervene in the following year's audit to ensure that the team has taken forward the actions it agreed. These interventions could take the form of a quality review undertaken while the audit is ongoing or after it has concluded, a peer review undertaken by an independent director, or more focused technical reviews. They serve to strengthen our audit approach and compliance with auditing standards.

## Case study

### Thematic root cause analysis of issues affecting contracted-out audits

In 2022-23, our internal quality monitoring identified a need to improve the evidence of our oversight and direction of those audits we contract out to our framework partners. We held a root cause analysis session with several NAO engagement managers and directors who are responsible for such audits. The needs we identified are:

- clearer guidance on what is expected from NAO teams and how our oversight and direction should be evidenced on the audit file;
- more readily available training in this area; and
- greater clarity on what is expected and when from the framework partner.

Our analysis also highlighted the importance of providing clear feedback to the framework partner, and of sharing knowledge between teams with contracted-out audits.

## Remediation and our Single Financial Audit Quality Plan

**3.23** As we explain at paragraph 3.3, under our system of quality management, we gather the emerging findings from our programme of internal and external reviews, consider their effect on our risk assessment and identify the actions we will take to mitigate any new risks. We do this during the year as issues are identified.

**3.24** Every year, we bring our new actions together, taking stock against the progress we have made in delivering our previous actions, and set out the steps we are taking to respond to these challenges in our annual Single Financial Audit Quality Plan (the Plan). Our third annual Plan, launched in January 2023, highlighted the progress we made during 2022 and sets out the actions we are taking in 2023 to support auditors to deliver good-quality audit work during the 2022-23 cycle of audits and beyond.

**3.25** We have also organised our actions in our Plan under International Standard on Quality Management (UK) 1 (ISQM1) risk components, dividing the plan into four sections, each matching an ISQM1 component where we had identified priority actions to improve audit quality. The Plan also covers our work to monitor and remediate quality deficiencies which, in turn, will highlight further areas for improvement (**Figure 10** on page 39).

**3.26** We continue to implement the actions set out in our current Plan. Our progress so far is set out at Appendix Three. Among the areas for ongoing improvement, there are two specific interventions that address many of the deficiencies our inspection programmes have identified:

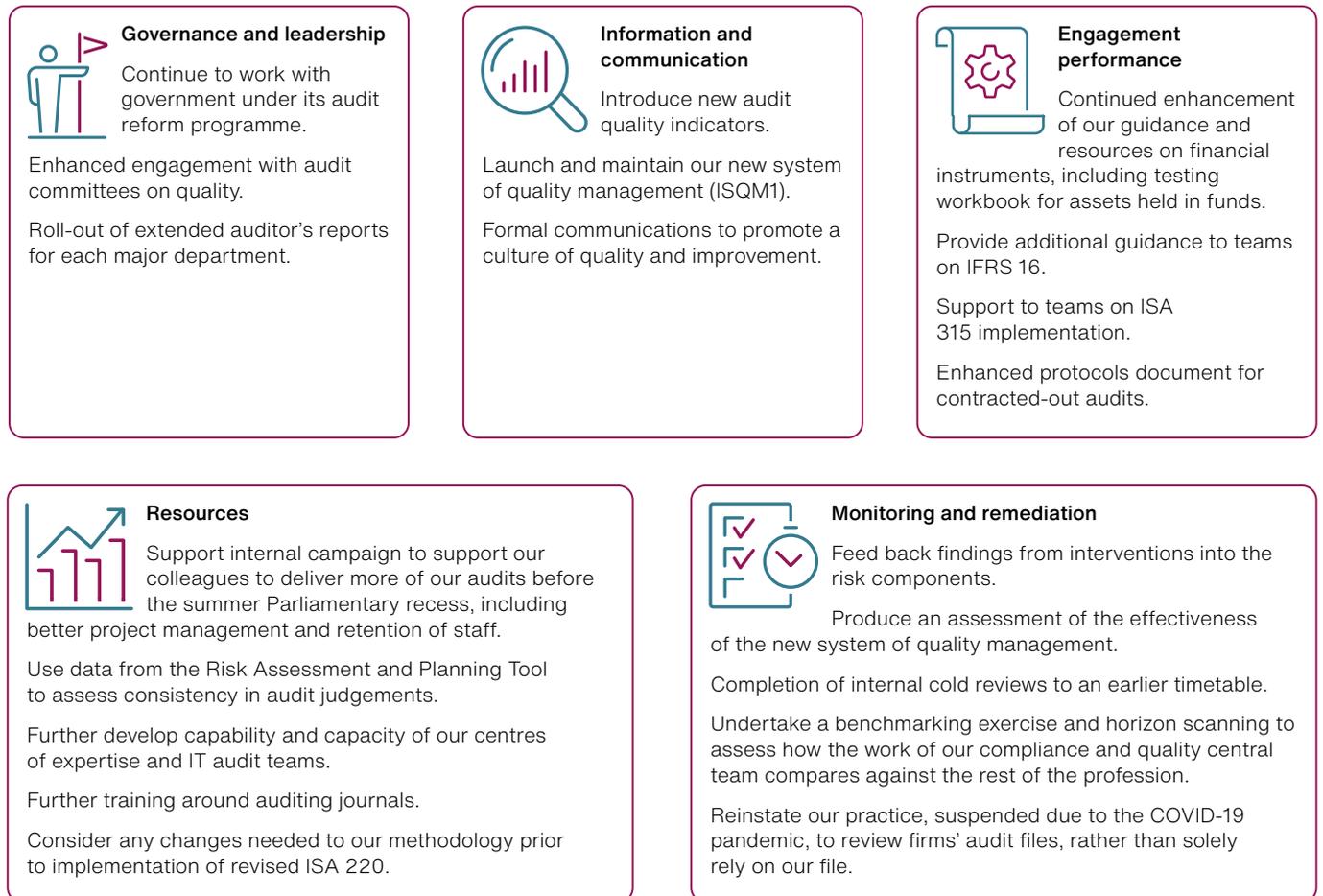
- the progress we are making in building our expertise, and applying this to support our audit of complex financial instruments and financial service bodies; and
- transforming our audit approach so we deliver world-class public audit for the digital age.

## Auditing financial services

**3.27** The case study on page 40 highlights the actions we have taken to address significant quality deficiencies raised previously by the FRC and describes the improvements we have made in response to its observations on our audits of complex financial instruments. Our implementation of our new 'Risk Assessment Planning Tool' from our 2022-23 audit cycle also enabled us to obtain greater firm-wide insights into the financial instrument risks in our audit portfolios (see case study on page 42).

**Figure 10**

The National Audit Office’s (NAO’s) Single Financial Audit Quality Plan sets out the actions we are taking to address our quality risks



Source: National Audit Office

## Case study

### Developing expertise in financial instruments audit

In October 2020, we established a financial instruments centre of expertise, with a mission to improve the quality and consistency of our audit work in this area. This was in response to the increasing prevalence and complexity of financial instruments in our audited bodies and to address Audit Quality Review observations. Since then, the team have been developing their understanding of external best practice.

In 2022-23, the centre of expertise ran a programme of external peer reviews to explore how our approach may differ from industry's. This has led to us commissioning more external expertise via a dedicated financial instruments framework with partner firms. Members of our centre of expertise also received intensive subject matter training from counterparts in our partner firms, through this framework. This training was useful in confirming our understanding of the requirements and best practice in some areas and developing our understanding in other areas.

To share its learning, the centre of expertise issued a note to engagement teams in May 2022, providing advice on some matters that could be easily overlooked within existing tools and templates. It has emphasised the importance of sufficiently challenging the appropriateness of management's chosen approaches and methods in its advice to engagement teams on specific issues. This advice has led to the NAO commissioning more external expertise in places. The centre has also ensured that the risk associated with inappropriate selection of approaches and methods is systematically identified through our new Risk Assessment and Planning Tool and that the requirement to stand back and appropriately assess management's methods is better emphasised in our 2022-23 work programmes.

## Audit Transformation

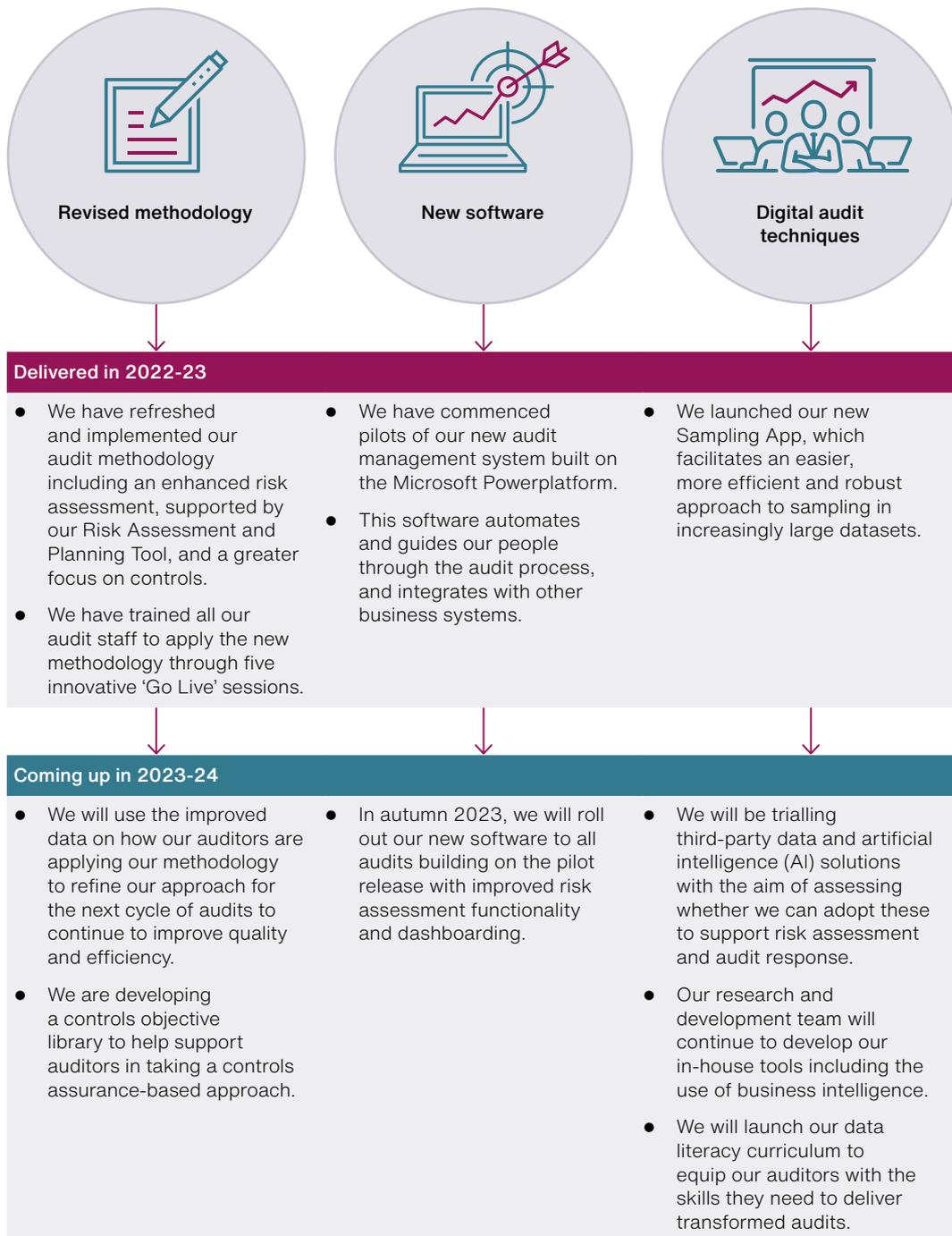
**3.28** Our previous financial audit quality plans and transparency reports have highlighted that a central element of our improvement plan is to implement our Audit Transformation Programme. This programme will improve the quality and efficiency of our audits and will bring greater insights to the organisations we audit through a refreshed methodology and modern technology.

**3.29** In September 2022, we launched the first phase of the Programme, supporting our 2022-23 cycle of audits (see **Figure 11** on page 41). This first phase implemented the requirements of our new risk assessment methodology, driven by changes to auditing standards. In the autumn of 2022, we trained all our financial auditors in this new methodology (see paragraph 5.10) and, to support them in applying it, we rolled out a new, bespoke Risk Assessment and Planning Tool, which we developed in-house (see case study on page 42).

**Figure 11**

The National Audit Office (NAO) Audit Transformation Programme (ATP)

We are making a once in a generation investment in our audit methodology and the technology we will use to deliver this. During 2022-23, we successfully delivered the first phase of the programme with our revised methodology rolled out across our audits



Source: National Audit Office analysis of Audit Transformation Programme documentation

## Case study

### Upgrading our methodology and software to deliver higher-quality audits

One of the main changes in our financial audit practice in 2022-23 was to implement our refreshed audit methodology, including a greater focus on business processes and an updated approach to risk assessment.

To support auditors in the application of our new methodology, and in delivering consistently high-quality audits, we are introducing new audit software. The first phase for 2022-23 audits was the roll-out of the Risk Assessment and Planning Tool (RAPT). The RAPT provides a guided workflow through the risk assessment process.

The benefits of the RAPT include:

- improved quality by taking the auditor through a step-by-step process to assess risk, supported by a content library of possible risks; and
- greater insight through improved data on risk assessment and planning across our audits, which also allows better monitoring, management oversight and operational planning.

We ran an extensive training programme to integrate the new methodology and software into our working practices for our 2022-23 audits.

**3.30** In the second phase of the programme, we will implement our new bespoke audit software: our future Audit Management System. It will better support auditors to deliver their audits through, for example, guided workflows, integration with other NAO systems, better project management tooling and automation. It has been rolled out in autumn 2023 for our 2023-24 audits, with further enhancements in 2024. We have also piloted our software on a small sample of our 2022-23 audits.

**3.31** Our data and analytics work relies on our data platform, which collates, stores and enables our teams to process data through analytical tools. To add to our portfolio of tools, we recently launched a new Sampling App which facilitates an easier, more efficient and robust approach to sampling increasingly large datasets.

# Part Four

## The quality of our value-for-money and wider assurance work

**4.1** Independent reviews of our work are an essential part of our system of quality management. In 2022-23, we enhanced our approach by revising our internal review process for value-for-money (VfM) and wider assurance work so that it is aligned to our refreshed standards and visibly pursues quality over compliance checks, and by increasing the number of external reviews we commission.

**4.2** This part sets out the outcomes from the most recent internal and external inspections of our VfM reports and wider assurance work, the areas for improvement identified, and what we are doing to address them.

### Quality assurance arrangements: internal monitoring

**4.3** Internal and external reviews are conducted in different ways and provide us with different perspectives on our work. Internal reviews promote awareness of our standards and expected ways of working, identify if our work is meeting these standards, highlight best practice in what we do and how we do it, identify whether our quality management system is working effectively, and provide transparency on the quality of our work and where we can improve.

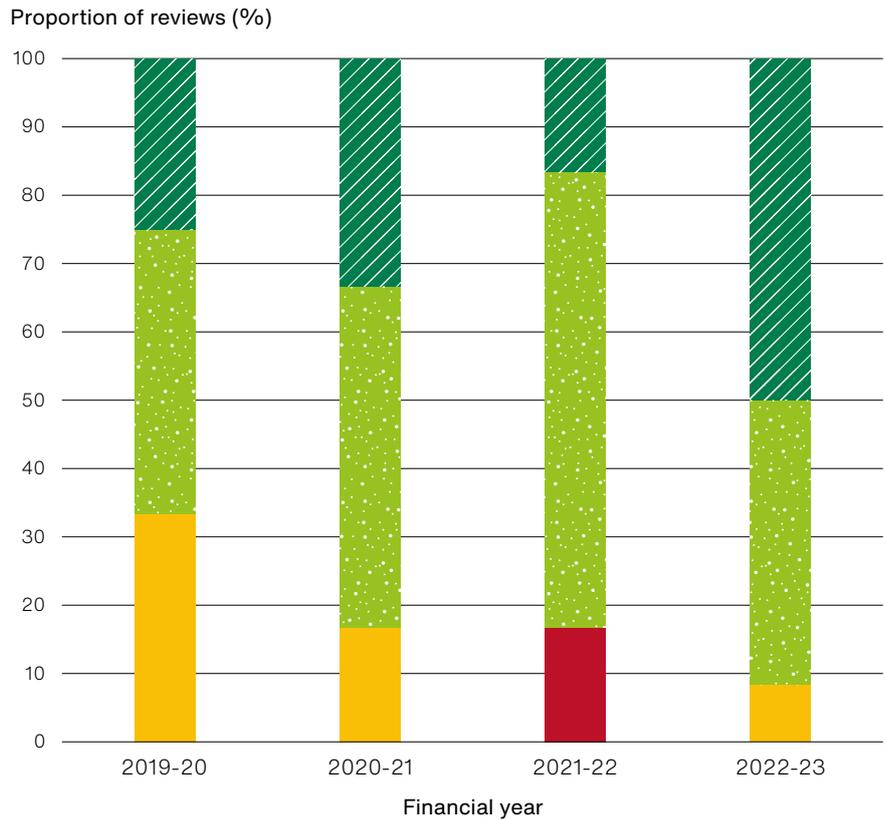
**4.4** Internal reviews are split into two sections:

- **Were quality standards followed?** Reviewers are asked to assess whether the study team has a record of their quality and risk plan and of having followed the mandatory steps outlined in our guidance.
- **What was the quality of the work done?** Reviewers are asked to assess the quality of the work done by the study team to promote quality and manage risks.

**4.5** Reports are subsequently given a rating from a four-point scale, ranging from 'good/best practice' to 'significant areas for improvement' (see Appendix One for more detail). The assigned ratings are then moderated to ensure a consistent application of the review process.

**4.6** Of the 12 VfM and wider assurance reports reviewed, representing around 20% of our published work, 11 were rated as meeting our standards – either as good/best practice or good with limited improvements (**Figure 12** on page 44). One report was rated as having areas for improvement. No reports were rated as having significant areas for improvement. The results show that more reports are scoring in the highest category, 'good/best practice', than in previous years, with six reports achieving this rating in 2022-23 compared with just two in 2021-22. The number of reports judged as having areas for improvement has also fallen steadily from four in 2019-20 to one in 2022-23. Similarly, the number of reports with significant areas for improvement, none in 2022-23, has dropped from two reports in this category in 2021-22.

**Figure 12**  
National Audit Office (NAO) results from value-for-money internal quality reviews between 2019-20 and 2022-23



Above the quality threshold				
Green – good/best practice	3	4	2	6
Amber/green – good with limited improvements needed	5	6	8	5
Below the quality threshold				
Amber – areas for improvement	4	2	0	1
Red – significant areas for improvement	0	0	2	0
<b>Total</b>	<b>12</b>	<b>12</b>	<b>12</b>	<b>12</b>

**Note**

1 The financial years shown in this figure refer to the year in which the value-for-money reports in the sample were published.

Source: National Audit Office results from internal quality reviews

**4.7** The reviewers praised teams for the way they used internal experts through regular consultation, embedding specialists on study teams or providing additional quality assurance checks. Reviewers highlighted how this approach led to more insightful judgements and recommendations. The reviews also identified good practice in how teams handled and stored sensitive material. Reviewers also identified good-practice examples of how teams identified, managed, and mitigated quality risks. They highlighted that in most cases, there was best practice in the clarity and accessibility of the audit file.

**4.8** In the report that was judged to have areas for improvement, reviewers identified weaknesses in the accessibility and clarity of the audit file, for example, some links to supporting evidence sources did not work. We are working to address these issues and update the evidence base accordingly. Reviewers concluded that these weaknesses did not impact on the Comptroller and Auditor General's (C&AG's) judgements or conclusions.

### Quality assurance arrangements: external monitoring

**4.9** External reviews provide us with a valuable perspective on our published reports. The reviewers consider the integrity of the evidence and conclusions as they are presented, without having access to the underlying evidence base. They also assess the clarity of messaging and the quality of methodologies, graphics and statistics. In 2022-23, some 20 reports, about 30% of our published work, was reviewed in this way. This represented the highest number of reports reviewed in a single year. The external reviews in 2022-23 were conducted by two organisations:

- RAND Europe, a not-for-profit policy research organisation with more than 30 years' experience of delivering research on major areas of government policy.
- Risk Solutions, a management consultancy with more than 20 years' experience supporting areas of the public sector with research, decision-making capabilities and evaluation.

**4.10** RAND Europe and Risk Solutions were appointed on a two-year contract that came to an end in March 2023. In April 2023, following a competitive procurement, we awarded a new contract to RAND Europe, Risk Solutions and Grant Thornton to conduct external reviews on our behalf for three years starting in 2023-24.

**4.11** External reviews are split into two sections:

- **What is presented in the report:** Reviewers are asked to comment on the report including any good practice they have identified or areas where the scope and objectives of the work could have been improved.
- **Wider comments that will help the National Audit Office (NAO) to collectively learn and make improvements to its work:** Reviewers are asked to provide comments or recommendations that are wider than the specific report being reviewed. For example, reviewers could highlight systemic issues across government or make general comments on the NAO's approach or style.

**4.12** Under each section reviewers are asked to provide comments on 12 areas: scope and rationale, context, key messages, meeting the purpose of the work, synthesis of the information, recommendations, structure and presentation, relevance of content, quantitative analysis, qualitative analysis, graphics and methods. Reports are subsequently given a rating from a five-point scale ranging from 'exemplary – good-practice example' to 'very poor – inherent risk to the NAO' (see Appendix Two for the full scale).

**4.13** In 2022-23, 19 of the 20 reviewed reports were rated as 'sound performance and the expected standard for an organisation such as the NAO' or 'above average/strong performance'. Of this total, seven reports received the higher score of 'above average/strong performance'. No reports were rated as 'exemplary – good practice example'. One report was rated as 'below average performance'. No reports received the lowest rating of 'very poor performance – inherent risk to the NAO' (**Figure 13** on page 47). This is the first time since 2018-19 that any of our reports have been rated as 'below average performance'. In this case, reviewers assessed the report 'as below average performance' because they concluded that the way in which the scope and purpose of the report was presented could have been improved.

**4.14** Overall, reviewers concluded that our reports were structured and written well, asked timely and important questions, and adopted a logical and coherent narrative that incorporated analysis and synthesis of information effectively. Reviewers commented on the clear presentation of qualitative and quantitative data with methodologies being clearly described. As with previous years, context-setting was seen as a strength and done with clarity and succinctness, with graphics forming a useful accompaniment to the main body of reports and helping to simplify complex concepts.

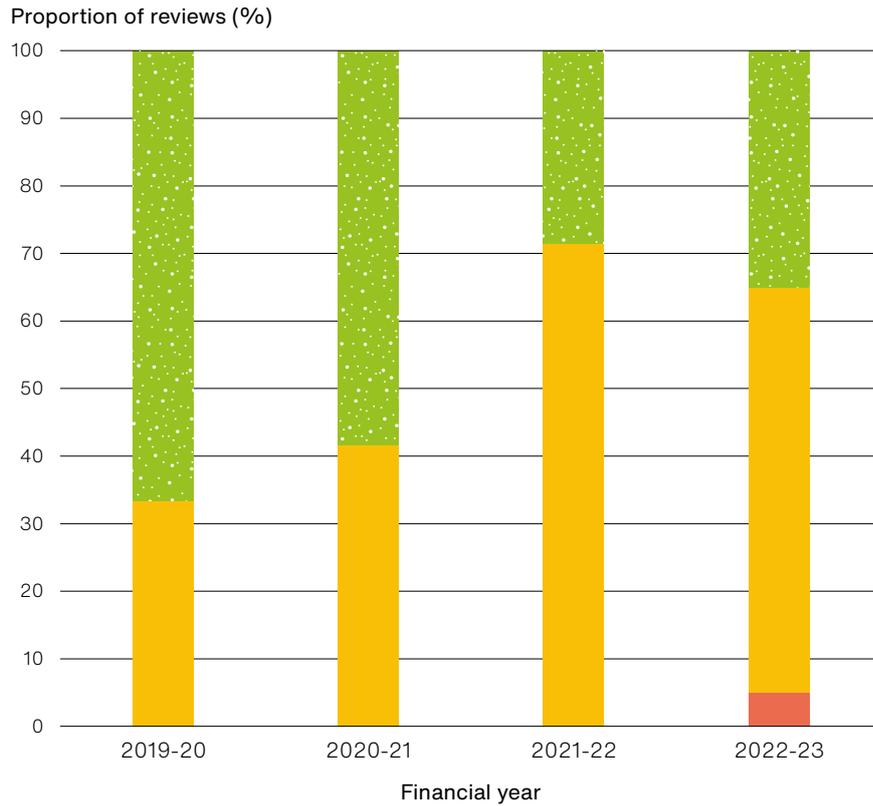
**4.15** Reviewers identified areas for improvement in some of our reports, including:

- the use and value of 'Key facts' as they sometimes lacked a coherent link to the report summary;
- being clearer about why a report was undertaken at a particular time as this was at times unclear;
- asking us to consider whether reports always meet their stated purpose if, as was sometimes the case, the VfM conclusions and general conclusions are phrased ambiguously; and
- challenging us to consider whether all of our recommendations would deliver impact for audited bodies as some were judged to not address value for money sufficiently, not be clearly directed, and/or not actionable, or in some cases did not explicitly link to the report findings.

**4.16** We are using the areas of good practice and improvements identified in the 2022-23 internal and external reviews to inform our learning and development curriculum and guidance for those delivering VfM and wider assurance work. We are also reflecting on the feedback at an organisational level to consider what else we need to do to strengthen our system of quality management. We will share the insights and learning points from the reviews with those conducting VfM and wider assurance work to encourage reflections and discussions about what we can do differently in future.

**Figure 13**

National Audit Office (NAO) results from value-for-money external quality reviews between 2019-20 and 2022-23



Above the quality threshold				
Green – exemplary – good practice example	0	0	0	0
Amber/green – above average/strong performance	8	7	4	7
Amber – sound performance and the expected standard for an organisation such as the NAO	4	5	10	12
Below the quality threshold				
Amber/red – below average performance	0	0	0	1
Red – very poor performance – inherent risk to the NAO	0	0	0	0
<b>Total</b>	<b>12</b>	<b>12</b>	<b>14</b>	<b>20</b>

**Note**

1 The financial years shown in this figure refer to the year in which the value-for-money reports in the sample were published.

Source: National Audit Office results from external quality reviews

## VfM and wider quality assurance plans

**4.17** We have continued to make progress with the commitments set out in our Organisational Development Plan to improve the quality and efficiency of our approach to producing VfM and wider assurance work. We always want our work to have greater impact and to make a bigger difference to the outcomes and value for money government achieves.

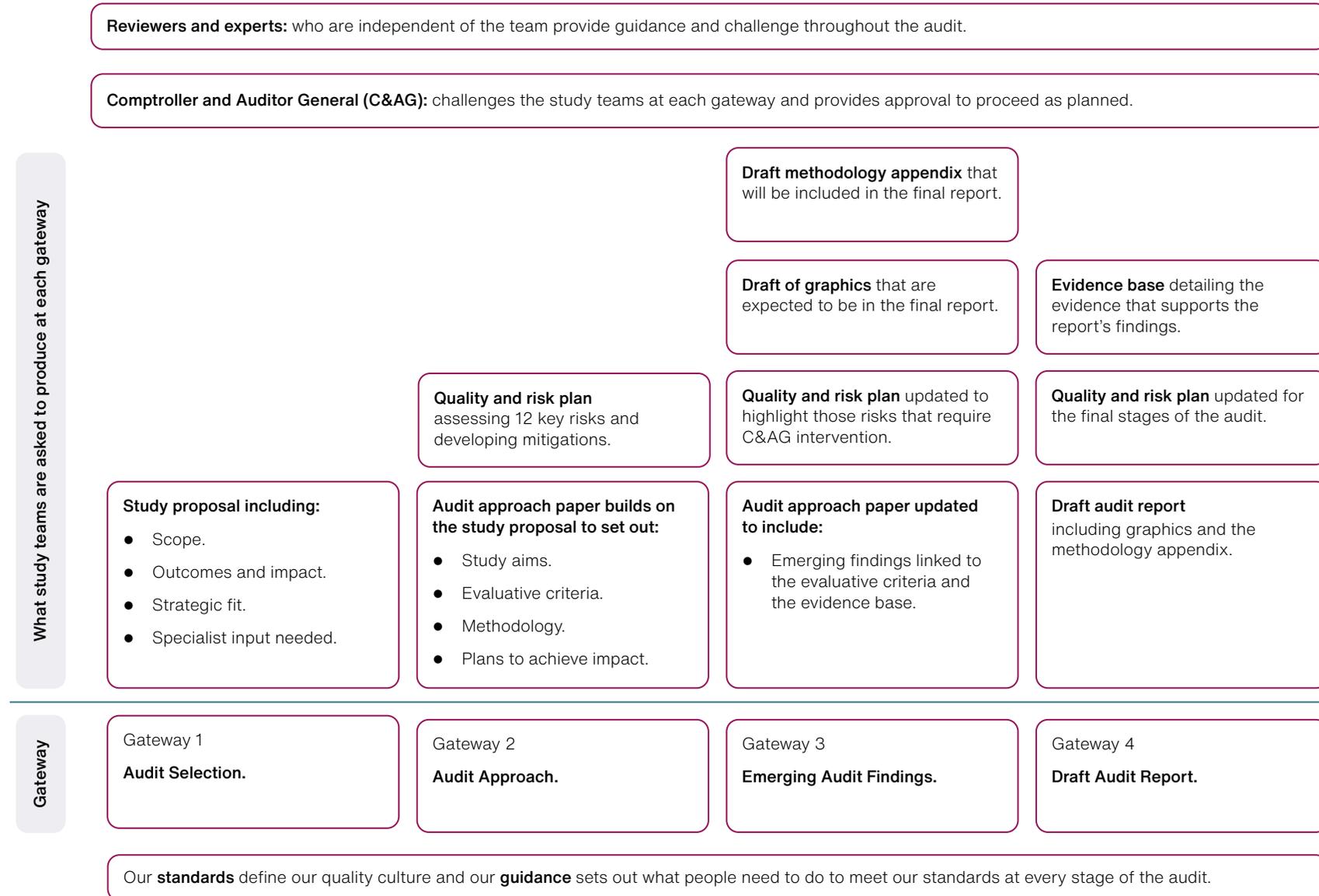
**4.18** In 2023-24 we intend to make further changes that will further strengthen our quality culture and help those delivering VfM and wider assurance work to be even clearer on what they need to do to meet our standards. We take decisions on which changes to prioritise based on the results of our independent reviews and the feedback we receive from surveys of audited bodies (see paragraphs 1.18 to 1.20 and 4.16). An important element of these changes is a programme of work to streamline the VfM and wider assurance process to create:

- a clearer articulation of the purpose of each audit stage;
- more focus on the use of study questions and evaluative criteria throughout the audit;
- outputs at key points in the audit that build iteratively thereby reducing nugatory work or duplication of effort; and
- increased focus on managing risks to quality.

**4.19** In 2022-23, we have been working to test our approach to streamlining including the introduction of standardised templates to help study teams articulate their purpose, scope, evaluative criteria and expected impact at key stages of the audit. We are continuing to work on this iteratively, responding to feedback from study teams assisting with our pilot testing. We intend to roll out the streamlining programme to all those undertaking VfM and wider assurance work during 2023-24 (see **Figure 14** on page 49).

**Figure 14**

The streamlining programme enables study teams to continually build their work throughout the stages of the audit



# Part Five

## People

**5.1** Our ongoing ability to meet our objectives depends on having people with the skills and capabilities we need. We have therefore continued to focus on attracting, retaining and developing high-quality people. In line with our strategic priority to take forward our commitment to people development, we have considered our overall proposition as an employer to maintain our competitiveness and rolled out a range of initiatives to support personal growth, including offering career coaching, and providing dedicated learning support for specific teams.

**5.2** Our ability to carry out consistently high-quality audits also depends on our organisational culture. This part highlights the actions we are taking to develop our people and enhance their skills, so they are best placed to embody and experience our values of excellence, inclusivity and respect, courage, integrity, and curiosity (paragraph 1.5).

### Investing in our talent pipeline

**5.3** Current economic conditions mean that we need to invest in maintaining our competitiveness as an attractive employer. To match business need with people, we now have ongoing recruitment campaigns so that we can react quickly to address resource pressures when needed. On average, in 2022-23, we had 909 full-time equivalent permanent staff, against a planned headcount of 940. We addressed this shortfall by using temporary staff. Taking permanent staff, temporary staff and staff on inward secondment together, staffing numbers for the year were the equivalent of 934 full-time employees.

**5.4** Our ambition is to be an exemplar organisation, including for diversity and inclusion (D&I), one that others look to learn from. While we face challenges in retaining ethnic minority colleagues once they progress to our post-qualification grades, we continue to strengthen the diversity of our pipeline by attracting talent to our training programmes from a diverse range of universities, and through our Internship and Work Experience programmes focused on ethnic minorities and those from less advantaged backgrounds. We set out priorities and progress in becoming an exemplar organisation in our Diversity and Inclusion annual report.<sup>10</sup>

10 National Audit Office, [Diversity and Inclusion annual report 2022-23](#), June 2023.

**5.5** We recruit talent through our successful graduate and school leaver programmes, with 53 people recruited to our graduate scheme and eight to our school leaver scheme in 2022 (see case study). Instead of one or two rounds of graduate recruitment, we now have a rolling programme so that we can develop our pipeline of experience as quickly as possible. We are a training provider for the Institute of Chartered Accountants in England and Wales professional training scheme. In 2022-23, 82% passed the Professional Stage examinations for the Association of Chartered Accountants (ACA) qualification at the first attempt, compared with a national average of 81%, and 94% passed the Advanced Stage examinations at the first attempt, compared with a national average of 87%.

## Case study

### Graduate recruitment

During 2022-23, we experienced an extremely challenging year for graduate recruitment. This was due to a highly competitive recruitment market; and a trend for graduates choosing not to immediately enter full time employment.

Before launching our 2023 recruitment campaign in September 2022, we took stock of our brand and marketing to ensure we were in a strong position to attract and recruit candidates. We recognised the concerns raised by graduates that opportunities to develop their skills through internships and work experience, had been impacted by the COVID-19 pandemic and lockdowns. To address this, we highlighted that our training programme enables trainees to develop a wide range of employment skills along with their technical training and completion of the ACA.

We focused our efforts on attending as many graduate fairs and school-level events as possible. We also hosted a webinar with college students, their teachers, and parents to share more information about the apprenticeship programme as an alternative to university. We also wanted to encourage applications from a diverse student audience, so we did more to promote the National Audit Office (NAO) through social media. This allowed us to select university departments and societies that would focus on increasing awareness among female, ethnically diverse, and socially mobile students.

We are really pleased to have reached our target numbers and welcomed our new graduate and apprentice trainees in September.

**5.6** To ensure we keep pace with industry developments, we recruit experienced audit professionals and other specialists, including economists, statisticians, learning and development, and digital experts. We also bring in analysts to support value-for-money (VfM) work and wider experts as we develop the breadth and impact of our insight teams. Despite an increasingly difficult recruitment market, we continue to secure additional external resources to build our cadre of experienced financial auditors as well as to bring in others who have specific skills we need, such as IT audit.

## Supporting the development of our people

**5.7** As part of our system of quality management, we need to ensure our auditors have and maintain the skills their profession requires. Our learning and development team helps to develop, deliver and support learning experiences across our organisation. Our areas of focus for learning and development are:

- **establishing a continuous learning culture**, including recognising and rewarding line managers for people development (see case study on page 58) and sharing lessons learned (see paragraphs 3.18 to 3.22);
- **meeting the needs of our clients and people**, such as by supporting our people's soft skills development (see paragraph 5.11); and
- **innovation in learning design and delivery**. As we have returned to working in our offices, we have reintroduced in-person learning events to complement our online offer. We make use of technology to ensure accessibility and create opportunities for blended learning. For example, in 2022 we launched a new e-learning platform, enabling people to work through training materials in any order, at any pace, to fit their learning around work.

## Developing technical skills for financial auditors

**5.8** To support our colleagues to deliver high-quality audit work, we provide a wide range of technical training, comprehensive guidance, and access to specialist teams and experts. Our people have access to financial audit training resources on a wide range of topics relevant to our work, including:

- the auditing of group financial statements;
- the auditing of journals;
- the auditing of defined benefit pension liabilities; and
- the auditing of property valuations.

**5.9** Colleagues in specialist roles have access to further opportunities to develop their expertise. In particular, our centres of expertise, which support our audit approach in key areas of risk, enable individuals to benchmark our approaches against best professional practice and build their own expert knowledge and insight (see Part Three for a case study on developing financial instruments expertise).

**5.10** In 2022-23, we implemented ISA 315, which deals with risk assessment procedures when planning and undertaking an audit. To support people through this major change to our methodology, during the autumn of 2022, we delivered a multi-day team-based learning event. As part of this, colleagues planned a case study audit in a safe environment, using our new analytical tools and guidance. In June 2023, this innovative event was recognised by the British Training Awards 2023, winning its Public Sector Initiative of the Year award.

**5.11** To support this technical learning, we held three in-person workshops on complementary skills including coaching skills and managing reactions to change, which were attended by 138 people. This offer was designed to equip our people with the 'softer' skills required to embrace the changes to our audit methodology and maximise its impact.

**5.12** We have also used our grade group meetings to amplify our messages about audit quality and current financial audit developments. For example, our masterclass programme for directors covered topics such as findings from our root cause analysis programmes, roles and responsibilities for audit quality, our quality plan, the importance of the work of an engagement quality reviewer, and learning from our quality inspection programmes. Our annual senior leadership conference also considered, among other things, the culture of audit quality within the NAO.

## Developing technical skills for VfM and wider assurance staff

**5.13** Staff working on VfM studies and wider assurance reports have audit expertise, as qualified accountants, training in accounting or with equivalent audit experience, or are 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 NAO through our specialist insight teams such as our Analysis, Commercial and People and Operational Management hubs (see case study on page 54).

**5.14** We develop a programme of events each year to support our efforts to continue to improve our VfM and wider assurance practice. All VfM and wider assurance staff attend an annual quality update where we bring together and reflect on the latest developments in our audit practice. We also provide forums to support those carrying out VfM work to share experiences and good practice with their peers to foster a culture of collaboration and knowledge sharing. For example, monthly showcases, which focus on peer-to-peer learning, allow study teams to look at particular issues such as risk management or audited body engagement in more detail and hear from those who had particular successes in the chosen topic.

**5.15** This year, starting in June 2023, we are introducing a new learning and development offer for VfM and wider assurance staff, covering how we: design audits and communicate for impact; use evidence and analysis; and manage our work for quality and impact. We expect new staff members to complete the main modules in their first two to three years of working with us. For more experienced staff, there will be opportunities to continue to develop and update their skills as their portfolio of work requires it.

## Case study

### Supporting analytical skill development to improve the quality of our work

Our Analysis Hub supports high-quality and innovative analysis to create unique insights and enhance scrutiny of public spending. It:

- advises teams on their choice of methods through bespoke methods scoping sessions;
- offers learning and development opportunities;
- acts as a pool of expertise by advising on analysis, commissioning analysis, and supporting quality assurance; and
- increases our efficiency by replicating, automating and standardising administrative tasks and analysis.

The hub has been busy delivering learning and development opportunities, including seminars on topics ranging from theory of change and logic models to methods for extracting insights from text such as consultation responses. The hub has run core quantitative and qualitative methods training for auditors, as well as advanced analysis training for colleagues wishing to develop specialist expertise. It has also run analysis masterclasses for directors and senior audit managers to improve awareness of data-driven methods for VfM and wider assurance work.

The hub also issues guidance to other teams on how to audit analysis. In 2022-23, working with our experts in major projects, it compiled a joint guide to help VfM study teams audit business cases, with suggested audit questions and examples from our past reports for those looking at business cases across different stages of a programme.

**5.16** The learning and development offer will support our ongoing work to deliver a quality culture where our people know what is required of them to meet the standards set for VfM and wider assurance work. The programme directly responds to the findings from independent reviews and surveys. It will offer learning and development opportunities in six critical skill areas that underpin all of our VfM and wider assurance work:

- scoping and planning;
- drafting and communicating;
- quantitative and qualitative methods;
- synthesising evidence and forming judgements;
- project management; and
- engaging and managing audited bodies and other stakeholders.

**5.17** The learning and development offer will evolve over time in response to what the NAO needs. We also provide learning opportunities through our annual quality update, that provides space for our people working on VfM and wider assurance projects to get together and reflect on the findings of our independent reviews and discuss how we respond to the results.

## Matching our people to audit engagements

**5.18** We match people's knowledge and experience to their audit work and strive to ensure our assignment process is unbiased and all staff have fair access to opportunities. Performance coaches are responsible for assignments. In cases where an engagement team has a resource gap, or an individual needs a new assignment, decisions are escalated to the relevant NAO business group. These groups sit under a single executive director, with audit portfolios comprising several government departments.

**5.19** We use framework partners to undertake approximately one-quarter of our audits. Under our Financial Audit and Assurance Contract, we currently contract out audits to five different firms. The current arrangements have been in place since the 2021-22 audit cycle following a full re-procurement exercise. Having access to framework partners supports the delivery of financial audits in our peak period.

**5.20** Through this contract, teams can also access support from external specialists to audit complex and harder-to-value areas via our centres of expertise (see paragraph 3.27). We have appointed framework partners for specialist audit services, covering pensions, property, digital and financial instruments. There are also a small number of audits which need input from specialists in other areas, such as tax or media, which we procure as needed.

**5.21** As highlighted in paragraph 5.3, we also employ temporary staff to address some of our staffing shortfalls during our peak audit period. We decide when to use such staff based on data on resourcing pressures and the costs and budget available. Together with our Financial Audit Operations Team, the NAO's business groups are responsible for the final allocations of individuals based on need.

## Overview of our people

**5.22** We want our people to be proud of being part of our diverse, inclusive and healthy workplace. We also want to 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. Our values reflect the culture and behaviours we need to meet the ambition of our strategy (see paragraph 1.5).

**5.23** We regularly survey colleagues at the NAO to capture their views in a range of areas, including on engagement, drivers of engagement, and our values:

- From each survey, we gather feedback on a range of areas, including accomplishment, management support and recognition. The survey responses provide quantitative and qualitative information which we use to inform our policies and operational responses.
- We ask NAO-specific questions which capture how well we are doing on our values, diversity and inclusion, wellbeing, managing change, and access to information and our strategy.
- We calculate an overall engagement score based on responses about staff recommending the NAO as a good place to work, their loyalty to the organisation, and their level of satisfaction in working here.

**5.24** **Figure 15** on page 57 highlights a summary of the outcomes from the surveys we ran during 2022-23 (see also Appendix Eight). Our results indicate that we have a culture of good management support. A high proportion of our people at the NAO perceive their managers as being caring, valuing their opinions, and providing enough feedback. However, in line with other organisations, we faced a range of difficult economic conditions this year impacting on people's engagement, including high inflation and increased staff turnover. Our workload was also high as we focused on bringing the timeliness of completing more of our financial audit work before Parliament's summer recess. As a result, our engagement scores were lower than in 2021-22.

**5.25** During the year, we continued our focus on three areas for specific attention: workload, pay, and growth and career development. The actions we took included agreeing an increased resource budget, more focused recruitment activity, and concluding an organisation-wide pay review. As part of our new Pay and Reward Framework, which is designed to increase retention and reduce turnover, in September 2023, we introduced a new Audit Manager grade, providing greater opportunities for career development and progression for financial audit staff.

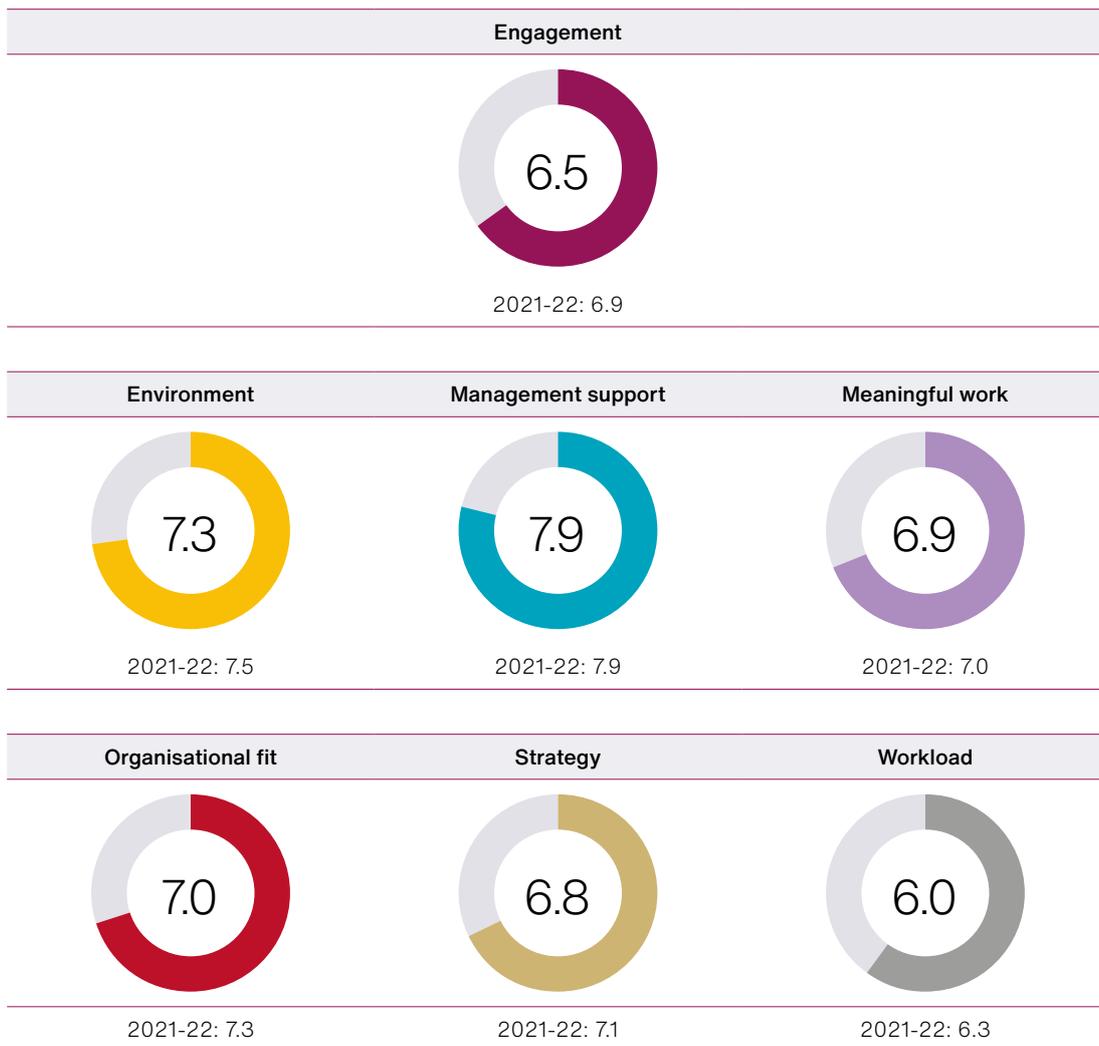
**5.26** Our Employee Value Proposition, which we are reviewing in 2023-24, encompasses other aspects of our offer to employees that enable us to recruit and retain high-quality staff. This goes beyond material benefits to consider how we work, the opportunities to develop and grow, and the wide variety of work we offer as a result of our unique organisational role. Our 2023-24 programme is focussed on our offer to trainees so that we meet both their and the NAO's needs and our work includes a new, bespoke trainee induction programme. We are also enhancing our continuous professional development for all our staff, new pay frameworks for our audit and corporate colleagues, and enhanced support for our neurodiverse staff.

**5.27** We have also developed a range of initiatives to support personal growth, including the development of our managers, career coaching, and dedicated learning support for specific teams (see case study).

**Figure 15**

Highlights of our people survey results 2022-23

Average driver results out of 10



**Notes**

- 1 We have a bank of 57 questions including on engagement, our values and strategy, as well as opportunity to provide open feedback. The results are summarised under 15 drivers. These drivers measure how satisfied employees are with the culture, leadership and responsibilities that make up their experience at work.
- 2 Initially, we ran the people survey monthly. From July 2022 we moved to a quarterly survey. The scores presented are based on an aggregated average score (range from 0 to 10) from the 12 months to March 2023.

Source: National Audit Office analysis of people survey

## Case study

### Support for performance coaches

The dedicated performance coach role is designed to give the people in this role more time to focus on the effective development of staff they coach, leading to more effective people management.

Being a performance coach is a rewarding part of working at the NAO. The role encourages those paired up to develop a meaningful coaching relationship, with a focus on supporting people and their career development. Coaches are given time to develop and maintain these relationships and to work towards an individual's annual objectives, as well as helping them to develop their career over a sustained period.

The role has evolved in recent years, gaining a renewed focus on supporting people to understand how they work best, what their strengths are, and how these strengths can be best used in achieving the NAO's objectives. The support provided to performance coaches has expanded in 2022-23 to include:

- monthly performance coach meetings;
- training on coaching, available on our e-learning platform; and
- regular training from Human Resources (HR) and ongoing assistance through the HR business partner.

# Part Six

## Governance and accountability

**6.1** 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

**6.2** The NAO is led by the C&AG, Gareth Davies, who is an officer of the House of Commons. The C&AG is appointed for a single non-renewable term of 10 years. He and the staff of the NAO are not civil servants and we do not report to a minister. He is the individual assigned ultimate responsibility and accountability for the NAO's system of quality management.

**6.3** The C&AG certifies the financial accounts of all government departments and many public sector bodies. He 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. He uses his powers to:

- decide which value-for-money (VfM) examinations to carry out;
- decide how to report results to Parliament; and
- get information and explanations, by using his rights of access to documents and staff.

**6.4** The C&AG also has statutory responsibilities as Comptroller. He is required to approve the release of funds to HM Treasury and other public bodies, once he has satisfied himself that requests for payment are in line with relevant authorities given by Parliament. He is supported in these duties by our Exchequer Section.

### The legal framework underpinning our governance arrangements

**6.5** The [Budget Responsibility and National Audit Act 2011](#) established the NAO as a legal entity with a statutory Board to support the C&AG's statutory functions. Four principles underpin our governance:

- Respect and maintenance of the C&AG's independence.
- Focus on the NAO's strategy and its delivery.
- Support to and challenge of the Executive Team.
- Drawing on non-executive expertise.

## Who holds us to account?

**6.6** The NAO is accountable to Parliament through the Public Accounts Commission (TPAC). TPAC held five public sessions in Parliament in 2022-23 on the work of the NAO. TPAC is responsible for:

- examining the NAO's budget and laying it before Parliament;
- examining our Annual Report and Accounts and laying it before Parliament;
- scrutinising the NAO's performance;
- appointing the non-executive Board members (with the exception of the chair); and
- appointing the external auditor of the NAO and considering reports from them.

**6.7** On 6 December 2022, TPAC held its second annual public evidence session to challenge us on the quality of our financial audit work (see case study). Ahead of this, TPAC met in private to consider advice from their appointed adviser and from the Financial Reporting Council's (FRC's) Audit Quality Review Team.

## Case study

### Being held to account on audit quality

On 6 December 2022, TPAC took evidence from the C&AG, our two executive directors responsible for our financial audit work, and the chair of our Audit Quality Board.

Commissioners challenged the NAO on the progress we were making in taking forward the findings raised from our internal and external inspection programmes and the effectiveness of the actions we have in place to address them.

The commissioners prompted a discussion of the culture we have in place for incentivising teams to deliver good quality audits. We highlighted that our culture is central to our quality improvement plan. We have worked to build a more open culture where teams are encouraged to share findings from their reviews and have more open discussion about the findings of their reviews and to learn from mistakes.

The commissioners also challenged us on our response to the FRC's findings around our level of expertise in complex areas such as pensions and property valuations, and the audit of financial instruments and financial service organisations. We set out that we take the FRC's findings seriously and have put in place a range of actions to address these findings, including our annual quality plan, the development of our centres of expertise and our approach to building up our expertise internally together with support from our framework partners to supplement our knowledge in the more complex, harder-to-value areas of our audit work.

We also set out that we faced several challenges during the year such as the need to audit the growth in spending by some departments as a result of the COVID-19 pandemic and as they responded to the wider economic position. We also continued to address the rising quality bar and implement measures to continue to improve the quality of our audits. Our Audit Transformation Programme is central to our longer-term improvement, playing an essential role in supporting auditors to deliver consistently high-quality audit work.

**6.8** The Audit Quality Board (AQB), an advisory committee to the C&AG, challenges the effectiveness of the NAO's controls to support audit quality in our financial audit, VfM examinations and wider assurance work. It is chaired by Janet Eilbeck, who works alongside Gaenor Bagley and the C&AG. It takes a keen interest in a range of factors influencing the quality of our work, while also providing an effective link to support further scrutiny by the NAO's audit committee and Board. In 2022-23, its programme of work considered the risks to audit quality and the effectiveness of the NAO's response (see the chair's overview and conclusions below).

## Overview by Janet Eilbeck

### Independent external member

#### Value added by the AQB and the AQB chair's annual conclusion

The AQB, an advisory committee to the C&AG, challenges the effectiveness of our controls to support audit quality in our financial audit, VfM and wider assurance work. I chair the AQB and work alongside Gaenor Bagley and the C&AG. The AQB is supported in its work through the attendance of appropriate NAO colleagues, particularly the executive directors responsible for financial audit and VfM service lines, and financial audit quality.

The following is the chair's annual assessment.

In 2022-23, we met four times and continue to support the C&AG as we take forward the quality challenges facing the NAO. As well as our programme of work considering the risks to audit quality and the effectiveness of our response, we also:

- challenged the description of our system of quality management and progress in the development of our detailed assessment of financial audit quality risks;
- promoted the importance of an effective basket of audit quality indicators (AQIs) and its use as part of our system of quality management;
- discussed progress with the Audit Transformation Programme, the implementation of its first phase during 2022, and the effectiveness of our training and development programme;
- attended a financial audit director masterclass on performance engagement in light of findings from our root cause analysis work; and
- reviewed the effectiveness of our VfM quality assessments.

The NAO continues to deliver a high-quality programme of outputs across the wide-ranging and complex landscape of government activity. I am pleased that the AQB has made a positive contribution to improving the NAO's quality risk analysis as it takes forward its important work.



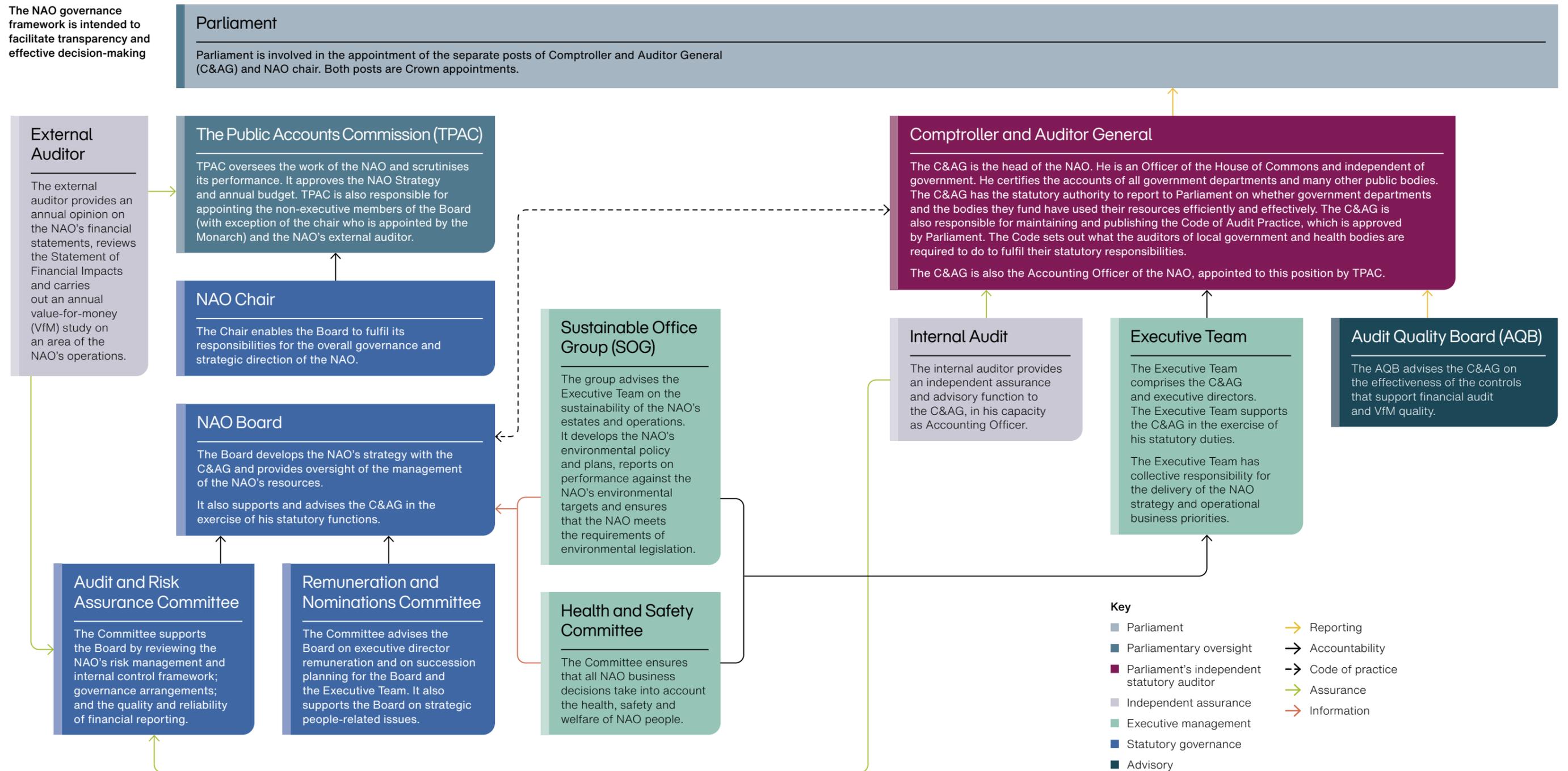
Janet Eilbeck

## Division of responsibility

**6.9 Figure 16** on pages 62 and 63 depicts the division of responsibility between the different entities involved in our governance framework.

**Figure 16**  
The National Audit Office (NAO) governance framework

The NAO governance framework is intended to facilitate transparency and effective decision-making



**Note**  
1 Graphic also shows the two Board committees and two sub-committees that support the Executive Team. The Audit Quality Board is advisory to the C&AG.

Source: National Audit Office analysis of governance documentation

## The Board

**6.10** The Board provides constructive challenge and support to the C&AG and the Executive Team and oversees how the NAO manages and uses resources. It shapes our strategic thinking and sets the tone from the top. It has nine members: five non-executive members, including the chair, and three executive members. The C&AG is a permanent member of the Board. Its terms of reference are available on our website.<sup>11</sup> Biographies of Board members are also published on our website, and in the NAO's *Annual Report and Accounts 2022-23*. Our Annual Report also includes a full overview of the activities of the Board during the reporting year, including the work of the two sub-Committee of the Board. The Chair of the Board, Dame Fiona Reynolds, was appointed by Her Majesty the Queen on 10 January 2021, following confirmation by Parliament. The four other non-executive members were appointed by TPAC. The C&AG is a permanent member of the Board. The appointment of the other executive members of the Board is approved by the non-executives on the recommendation of the C&AG. In 2022-23, three NAO executive directors were members of the Board: Daniel Lambauer, Kate Mathers and Max Tse.

### Board meetings

**6.11** The Board met nine times during 2022-23, including a whole-day strategy session. During the year, the Board considered key strategic matters, for example on how the NAO achieves impact and preparing for the next Parliament. It also sought assurance from management on progress on key operational matters such as on the quality of our audit work, the Audit Transformation Programme, our engagement with Parliament, and feedback from MPs and audited entities. In addition, the Board took the following decisions:

- approved a 4% pay award for 2023-24. It also approved a 1% interim award to all staff below manager grade from October 2022 in response to the increases in the cost of living;
- approved a new pay framework and grading structure for audit staff to support the NAO's ability to operate effectively in a highly competitive environment and offer our people career and pay progression opportunities which compare positively with those of our competitors;
- approved the business case for creating a new Financial Instruments Framework to make it easier for teams to commission external expertise to support our continued improvement of our work in this area;
- agreed that the next year's annual external VfM review should investigate the financial management of the NAO's financial audit work; and
- updated the internal whistleblowing policy to reflect lessons learned from the application of the policy in 2022.

### Board committees

**6.12** The Board is supported by the Audit and Risk Assurance Committee and the Remuneration and Nominations Committee, to which it has delegated specific responsibilities. The AQB (described above) is an advisory committee to the C&AG and considers the effectiveness of the controls we have in place that support audit quality.

11 National Audit Office, [Terms of reference for the Board](#), March 2018.

### Audit and Risk Assurance Committee

**6.13** The Audit and Risk Assurance Committee (ARAC) provides independent assurance to the Board that its financial and non-financial controls, and risk management procedures, are operating effectively. ARAC is also responsible for advising the Board, and TPAC, on the appointment and remuneration of the NAO's external auditor. It is chaired by Gaenor Bagley.

The ARAC met four times during the year and discharged its responsibilities as follows:

- Monitored the implementation of recommendations from internal and external audit and considered 19 reviews from internal audit.
- Discussed emerging risks at each meeting, covering audit quality, the delivery of financial audits, new ways of working, people engagement, sickness absence, wellbeing and mental health, management of contracted-out audits and the NAO's financial impacts target.
- Reviewed the NAO's management of climate change risk based on our own guidance and initiated the first phase of its internal performance review based on the NAO's: *Audit and Risk Assurance Committee effectiveness tool*.<sup>12,13</sup>
- Commissioned the five-yearly external quality assessment of the NAO's internal audit function and was pleased to receive assurance that the function received the highest rating available under the grading definitions of the Public Sector Internal Audit Standards.

### Remuneration and Nominations Committee

**6.14** Chaired by Dame Clare Tickell, the Remuneration and Nominations Committee looks at the pay and performance of the executive directors, topics related to human resources, and talent and succession planning. It met three times in 2022-23. Its priority this year has been to advise, challenge and support management in the development of a new pay framework for audit staff.

## Executive Team

**6.15** The NAO's Executive Team is responsible for supporting the C&AG in running the NAO. During 2022-23, the team comprised the C&AG and six executive directors.<sup>14</sup> Each executive director has a functional area of responsibility that is essential for the successful delivery of our five-year strategy. The executive directors are accountable for the performance of that area of our work across the NAO. Each executive director also leads, and is accountable for, the performance of one of the NAO's six groups.

**6.16** The Executive Team met monthly throughout 2022-23 to provide strategic and operational leadership and set goals. The team also met weekly, to receive updates from different areas of the organisation and make operational decisions, and daily, to keep each other up to date with developments in their areas of responsibility.

12 National Audit Office, [Good practice guide – Climate change risk: a good practice guide for Audit and Risk Assurance Committees](#), August 2021.

13 National Audit Office, [Audit and Risk Assurance Committee effectiveness tool](#), May 2022.

14 We appointed a seventh executive director in June 2023.

## Risk management

**6.17** Our risk management framework is aligned to HM Treasury’s Orange Book best-practice principles. Our approach helps us to identify, assess, respond to, report and monitor the NAO’s risks. We capture our organisation-wide risks in a live corporate risk register document. The Executive Team receives monthly risk reporting to inform its consideration and assessment of risks; the ARAC receives the risk register and discusses emerging and key risks at each meeting; and the Board receives a summary of the risks at each meeting and discusses emerging and key risks twice a year.

**6.18** Financial audit and VfM quality risks are two of our principal strategic risks. In Parts Two and Three, we explain how we manage these risks through our new system of quality management. We also describe our overall approach to risk management and our principal risks in more detail in our Annual Report and Accounts for 2022-23.

# Appendix One

## Value-for-money standards and quality approach

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.

The quality and risk plan helps us to manage organisational and quality risks at each stage of our work. Teams actively manage and mitigate these risks and seek further guidance from the Comptroller and Auditor General (C&AG) at key approval stages as and when required. These risks are designed to ensure we are delivering high-quality work to our VfM standards (**Figure 17**). We provide further details of our approach in Part Two of this report.

**Figure 17**  
National Audit Office value-for-money quality approach during 2022-23

**Our organisational approach to quality is structured around 12 risks that affect every piece of work we do**

Stage of our work	Risks to be managed
Planning our outputs	Selection and timing of our work Scoping our work Capacity and skills
Meeting legal, professional and ethical obligations	Objectivity, independence and ethics Handling data
Collecting and presenting evidence	Accuracy and reliability of findings Documenting our audit trail Clarity and accessibility
Achieving impact	Working with audited bodies Adding value and securing impact
Learning and improving	Learning and knowledge sharing Reflecting external perspectives and practices

Source: National Audit Office

We consider adherence to our standards and quality approach as part of our internal quality reviews. The reviews consider how the study team managed strategic and technical risks and the overall quality of the final report. Reports are rated using a four-point scale (Figure 18).

**Figure 18**  
Internal reviews are rated on a four point scale

Overall rating	Definition
Good/best practice	<p><b>BOTH</b> All mandatory steps were followed to the expected standard, or appropriate agreement to take a different approach was documented in the quality and risk plan.<sup>1</sup></p> <p><b>AND</b> Work has been completed to a high quality, in an appropriate format, and review findings give a high degree of confidence that the team has met standards across all the areas reviewed, with areas of best practice.</p>
Good with limited improvements needed	<p><b>BOTH</b> All mandatory steps were broadly followed to the expected standard, or appropriate agreement to take a different approach was documented in the quality and risk plan.</p> <p><b>AND</b> Work has been completed to a satisfactory quality. Review findings give confidence that the team met standards across all the areas reviewed, even if there are minor oversights or reviewers could suggest improvements. Shortcomings do not put the National Audit Office (NAO) at any significant risk.</p>
Areas for improvement	<p>The team did not follow some mandatory steps, and the quality and risk plan did not explain where the team departed from guidance. However, reviewers and the moderation panel judge that the risk to the NAO, as a result, is low.</p> <p><b>AND/OR</b> Review findings do not give full confidence in the quality of the team's adherence to standards. Shortcomings introduced low-level risks to quality.</p>
Significant areas for improvement	<p>The team departed from the mandatory steps without agreement to the extent it introduced a significant degree of risk into the work.</p> <p><b>AND/OR</b> Review findings do not give confidence in the quality of the team's adherence to standards across multiple areas. Shortcomings introduced significant risks to quality.</p>

**Note**

1 The quality and risk plan summarises in one place a team's activity to manage risks to, and the quality of, a value-for-money or wider assurance project. It prompts teams at the start of a project to take mandatory steps (such as receiving challenge from the Comptroller and Auditor General at audit gateways), conduct a risk assessment, and make a quality assurance plan. It then records compliance with the mandatory steps and the quality assurance plan, and tracks evolving risks and mitigations.

Source: National Audit Office

# Appendix Two

## External quality control framework

### Financial audit

Each year, the Financial Reporting Council (FRC) is required under statute to review our Companies Act audit work and related National Audit Office (NAO)-wide procedures. Given this, the NAO invites the FRC's Audit Quality Review team (AQR) to review, under an annual agreement between the Comptroller and Auditor General (C&AG) and the AQR, the rest of our financial audit portfolio. This means that the FRC reviews a sample of nine of our audits: five of which we undertake under the Companies Act and four from the rest of our audit portfolio.

This means that the full population of our financial audit work, with the exception of those we contract-out to our audit partners, fall within the AQR's remit. This differs from the approach the AQR take with the main audit firms where it focuses on the most significant audits undertaken by these firms.

These reviews provide the NAO with feedback as to where we need to improve the quality of our audit work and strengthen our 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.

During 2022-23, the FRC completed its reviews of a sample of nine of our 2020-21 audits. We have published the FRC's inspection which sets out a summary of the AQR's findings.<sup>15</sup> This highlighted that we need to do more to improve in several areas:

- Take further steps to ensure consistency in the quality of more complex financial services audits.** In October 2020, we established a financial instruments centre of expertise to support audit teams in the audit of complex financial instruments. Its aim is to ensure consistency in the quality of our audit of complex financial instruments. The centre developed a comprehensive action plan, much of which is now implemented. In particular, the centre has issued new guidance and has improved access to external expertise to support the development of its own work and provide access to this expertise to wider audit teams where needed. It also updated our work programmes and supporting guidance on the calculation of Expected Credit Losses so that teams are clear what is expected of them. The centre has also ensured that the risk associated with the inappropriate selection of approaches and methods is systematically identified through our new Risk Assessment and Planning Tool and that the requirement to stand back and appropriately assess management's methods is better emphasised in our 2022-23 work programmes.

<sup>15</sup> Financial Reporting Council, [National Audit Office: 2021/22 Audit Quality Inspection, November 2022](#).

- **Improve our audit procedures over the valuation of harder-to-value assets and investments.**  
In early 2023, our financial instruments centre of expertise introduced a new guided workflow tool for audits of investments in funds. This supports audit teams by ensuring risk assessments and planning in these areas are performed consistently. It also contributed to our revised approach on setting the basis of materiality in our audits of pensions so that relevant audit teams adopt a consistent approach.
- **Improve the evaluation and challenge of management over key judgements and estimates, including the use of experts.** As part of our implementation of ISA (UK) 540 (Revised December 2018), *Auditing Accounting Estimates and Related Disclosures*, we revised our standard audit work programmes for estimates, providing supporting guidance and mandatory training, which included specific elements on exercising professional scepticism when auditing estimates. For our 2022-23 audits, we have reviewed work programmes and guidance to ensure they are sufficiently clear on the requirements in the areas for improvement noted by the AQR, including evidencing challenge of management judgements and auditor's experts. Our training programme, for all trainees, also now includes an introduction to auditing estimates. We continue to remind colleagues, through our bulletins and grade meetings, of the importance of evidencing sound audit scepticism and challenge of management where key judgements are involved.
- **Strengthen the framework of group auditor oversight of component auditor work.** During 2022, we highlighted the AQR's findings to our teams through emerging finding bulletins. As part of our Audit Transformation Programme, and from our 2022-23 cycle of audits, we have revisited our approach to group audits, and related tools and templates, to support the teams responsible for the audit of group entities. In December 2022, we also launched new in-depth training on the NAO approach to group audit.
- **Improve the consideration and testing over journal entries to respond to the risk of fraud and management override of controls.** In this area, the AQR identified issues where it assessed only limited improvements were required. This reflected the impact of actions we have previously taken, such as promoting emerging findings from previous inspection reviews. These actions have included providing mandatory in-depth training to all audit colleagues on identifying a journals population. This training set out clearer expectations for the documentation and explanations required for testing and went through the steps we expect teams to follow to derive the complete population of journals from the entire general ledger obtained from audited entities. In 2023, we have continued to reinforce the learning from the training through guidance and desk-training, including a new journals checklist, and a session from colleagues on implementing best practice.

These findings will continue to inform our Single Financial Audit Quality Plan (the Plan) and interventions to support our future audit work. Appendix Three summarises our Plan, and actions taken so far.

We will also publish the FRC’s report to the C&AG following the completion of its reviews of our 2021-22 audits once the AQR has concluded its work. We will apply lessons from this work as we revise our Plan for 2024.

### Value-for-money (VfM) reports and investigations

For more than two decades, we have used external specialists to review our VfM and wider assurance reports. In 2022-23, a sample of 20 reports were reviewed by independent experts from RAND Europe and Risk Solutions.

Our external reviewers provide a written review assessing how each report performs against the criteria, leading to an overall assessment. Reports are given a rating from a five-point scale ranging from ‘exemplary – good-practice example’ to ‘very poor – inherent risk to the NAO’ (Figure 19). This year, we have again requested a summary of the main points from across the reports reviewed, focusing on areas of particularly high-quality and areas for improvement. Key findings are set out in Figure 20 on pages 72 and 73.

#### Figure 19

External reviews are rated on a five point scale

- 5 Exemplary – good practice example
- 4 Above average/strong performance
- 3 A sound performance and the expected standard for an organisation such as the National Audit Office (NAO)
- 2 Below average performance
- 1 Very poor performance – inherent risk to the NAO

**Note**

- 1 We are currently making changes to the scale used in external reviews to align it better with internal reviews. These changes will be in place for external reviews conducted in 2023-24.

Source: National Audit Office

**Figure 20**

Findings from external reviews on National Audit Office (NAO) value-for-money (VfM) reports, investigations and knowledge products

Review criteria	Review comments
Scope and purpose	<p>The scope and purpose are generally well explained with clear descriptions of what is to be included in the scope of the report.</p> <p>However, at times, it is unclear why a report is being undertaken at a particular time. Some reports did not always meet their stated purpose, if, as was sometimes the case, the VfM and general conclusions were phrased ambiguously.</p>
Context of work	<p>The presentation of context is viewed as a strength of most reports, as this was usually done with clarity and succinctness. In highly complex policy areas with overlapping programmes and initiatives, this is explained well, with graphics that showed historical timelines and lines of communication and responsibility using flow charts.</p> <p>While this was an area of strength, reviewers felt that more could be done, on occasion, to draw on wider lessons from other government programmes.</p>
Key messages	<p>Reviewers concluded that many NAO reports effectively conveyed their key messages through Summary sections. This was best demonstrated where summaries were clearly written, relatively short, and included a few well-chosen graphics. Specifically, reviewers liked examples of one-page report summaries.</p> <p>Reviewers found inconsistencies in the use and value of 'Key facts' as they sometimes lacked a coherent link to the report summary and, in some reports, lacked detail and clarity.</p>
Meeting the purpose of the work, and synthesis of information	<p>Most reports have a clearly stated purpose which was addressed to at least a sufficient extent in many reports. The evidence that was synthesised was sufficiently extensive and adequately described in many of the reports reviewed.</p> <p>Reviewers commented that evaluative criteria are not always clearly stated.</p>
Recommendations	<p>The recommendations made in many of the reports flow logically from the findings and are clearly articulated.</p> <p>However, sometimes the language used obscured their role as clear calls to action, some did not address VfM sufficiently, and others appeared less actionable. Reviewers noted the practicality of recommendations is sometimes an issue, and there is rarely any reference to previous NAO recommendations that have not been addressed.</p>
Structure and presentation	<p>Reviewers found that reports were generally structured and presented well, well-written and consistent with how the NAO writes its reports. Cross-references from the summary to the main report text are done well, and references to past NAO studies in the same area were usually included.</p> <p>While the structure of reports was generally a strength, there were very occasional lapses into repetitiveness.</p>
Relevance of content	<p>Our reviewers praised the relevance of content within all NAO reports reviewed.</p>
Quantitative analysis	<p>Reviewers commented that quantitative analysis was used adequately in many of the reports reviewed and is an area of strength with a range of well-presented graphics used.</p> <p>Reviewers often felt that quantitative analysis could have been employed to a greater degree, particularly for the purposes of reaching a VfM conclusion.</p>

**Figure 20** *continued*

Key findings from external reviews on National Audit Office (NAO) value-for-money (VfM) reports, investigations and knowledge products

Review criteria	Review comments
Qualitative analysis	<p>Reviewers felt that qualitative data methods and findings were presented clearly in all reports reviewed.</p> <p>In some cases, clear attribution to the underlying evidence base that informed the qualitative analysis was inconsistent.</p>
Graphics	<p>Report graphics were considered to be a useful accompaniment to the written text, helping to simplify complex concepts.</p> <p>Reviewers concluded that there were examples where the use of graphics could have been improved to ensure those chosen best conveyed the information.</p>
Methods	<p>The methods used to address the questions posed in reports were often presented clearly, with the methodology being well described.</p>

Source: National Audit Office summary of findings from RAND Europe and Risk Solutions

# Appendix Three

## Our Single Financial Audit Quality Plan 2023

Each year, we bring our actions together and set out the steps we are taking to respond to our challenges in our annual Single Financial Audit Quality Plan (the Plan). Our third annual Plan, launched in January 2023, highlighted the progress we made during 2022 and sets out the actions for the coming year to support auditors to deliver good quality audit work during the 2022-23 cycle of audits and beyond. **Figure 21** on pages 75 to 77 shows actions for 2023 and our progress against these.

**Figure 21**

The National Audit Office’s (NAO’s) Single Financial Audit Quality Plan 2023 (extract)

ISQM component	Key actions	Progress against the plan
<b>Governance and leadership</b>	We will continue to work with Government and with the Committee of Public Accounts to take forward the principles we have agreed to effect Parliament’s oversight over the NAO’s financial audit quality.	In progress. We currently await the UK government’s next response and timetable for the draft legislation.
	From our 2022-23 audits of each major government department, we will provide an extended auditor’s report to create greater transparency.	We now, as part of our 2022-23 audits of major government departments, include published extended auditor’s reports.
	We will enhance the content of our Transparency Report by applying newfound best practice from major audit firms and any new regulator requirements.	We have included audit quality indicators (AQIs) and our implementation of the International Standard on Quality Management (UK) 1 (ISQM1) in Part Two and Appendix Eight of this report.
	We will engage more directly with those audited bodies where our audits are quality-reviewed by the Financial Reporting Council (FRC).	From autumn 2023, we will begin to discuss the quality of our audit work with all audit committees.
<b>Information and communication</b>	We will launch and maintain our new system of quality management. We will use detailed risk registers to strengthen our system of quality management.	We have now introduced our new system (see Part Two of this report).
	We will also establish a Financial Audit Management Board, to provide greater focus on the progress we are making on financial audit, quality risks, and mitigations.	The Financial Audit Management Board meets every two weeks (see paragraph 2.25).
	We will introduce AQIs in a phased basis, to support effective risk management and provide early indications at an engagement level of potential quality issues.	We have completed the first phase of this project (see paragraphs 2.14 to 2.16 and Appendix Eight).
	We will deliver our 2022-23 root cause analysis (RCA) programme to an earlier timetable. We will work so that we are better able to track findings to recommendations and actions and cover more thematic issues, as well as issues on specific audits.	We have completed our 2022-23 RCA programme which focused on learning from our 2021-22 financial audit quality findings (see paragraphs 3.18 to 3.22). Our 2023-24 programme is currently underway.
<b>Resourcing</b>	We will continue in our plans to restore our audits to pre-COVID-19 pandemic timetables. To support this, we will improve project management across our financial audit service line.	We have worked to improve our project management and deliver more financial audits before the summer Parliamentary recess (see paragraphs 1.10 and 1.11).
	We will identify and share good practice and lessons learnt, so that all audit teams are able to develop and improve.	We have identified areas of good practice and will incorporate these into our further learning and development offer for autumn 2023.
	We will use material already prepared by some of our audit teams, setting out the quality of evidence we expect to see from audited bodies, this to compile a standard presentation to support audit teams as they discuss our evidence bar with audited bodies.	In progress. We will bring this together to support our 2023-24 cycle of audits.

Figure 21 *continued*

The National Audit Office’s (NAO’s) Single Financial Audit Quality Plan 2023 (extract)

ISQM component	Key actions	Progress against the plan
Learning and development	We will relaunch our principles for the way we work. We will raise awareness of opportunities to network, learn and collaborate while working in the NAO’s offices.	We have implemented our ways of working post-COVID-19 pandemic and have periodic attendance information we are using to start discussions with individuals.
	As part of our Audit Transformation Programme (ATP), we will launch and deliver a training programme on the changes in our risk assessment methodology and the development of the Risk Assessment Planning Tool (RAPT). There will be additional training on groups risk assessment using the RAPT, regularity, and updates to income testing.	We have delivered this training. See paragraphs 5.8 to 5.11.
Audit methodology and firmwide procedures	International Financial Reporting Standard 16 (IFRS 16) is being implemented across central government from 1 April 2022. We will learn from the experience of early adopters, identify priority areas and themes, and provide further support to colleagues as needed.	New leases content was released, including guidance, RAPT content and new leases work programmes. Staff have access to IFRS 16 online training and to a new Quick Guide. We also have ad-hoc support from our framework partners to respond to IFRS 16 matters.
	Our centres of expertise will update their plans and will continue to provide guidance and support to audit teams.	Each centre has updated its plan and has discussed these with our executive directors.
	To address quality issues still arising in journals testing, we will provide additional online training videos on how to better extract data from the general ledger.	We have released e-learning on journals testing, which highlights Audit Quality Review (AQR) quality findings around journals testing and how these should be considered (see case study on page 21).
	We will launch the next phase of the ATP from autumn 2023, which will introduce new audit software. We are piloting this on a small sample of live 2022-23 audits from autumn 2022 to help identify improvements.	The next phase of our ATP went live in September 2023 (see paragraph 3.28 to 3.31). We are incorporating feedback and lessons learnt from the pilots into the project.
	We will provide further support to engagement quality reviewers and will revise our approach to allocating reviewers to audits. We will also hold a director masterclass on engagement quality reviews (EQRs).	We have used a revised approach for EQR allocations, including response to AQR actions, which have now been confirmed. We have held a director masterclass to discuss our revised approach.
Engagement performance	All colleagues are required to complete their mandatory training, and to make use of other learning and development material and professional development opportunities as agreed in personal development plans. Audit teams should consult with colleagues in areas of judgement, complexity and uncertainty.	We have reminded colleagues of available guidance and training. We have communicated findings from reviews through emerging findings bulletins and grade group meetings throughout the year.
	On contracted-out audits, engagement directors are required to follow the updated protocols document; to ensure they fulfil their role in setting the direction of the audit; and that their supervision and review is evidenced sufficiently on the NAO’s audit file.	We have set out a revised protocols document setting out expectations for NAO audit teams as they progress contracted-out audits.
	All colleagues are to contribute to opportunities arising from our RCA programme so that we can gain further insights from discussions around audit quality and find ways of addressing potential barriers.	All teams have engaged constructively with each session. Further information on RCA is included in paragraphs 3.18 to 3.22 of this report.

**Figure 21** *continued*

The National Audit Office's (NAO's) Single Financial Audit Quality Plan 2023 (extract)

ISQM component	Key actions	Progress against the plan
<b>Monitoring and remediation</b>	We will improve our system of quality management by monitoring the application of our firmwide processes and the effectiveness of any subsequent remediation. The Compliance and Quality Unit (CQU) will produce a plan for the work it will do during 2023 on its assessment of the effectiveness of the System. As part of this, CQU will draw an independent annual conclusion.	The CQU provides regular feedback to the Financial Audit Management Board on any findings and issues from its work and these findings feed into the fortnightly discussions on the component risk registers. From autumn 2023, we will consolidate our review of the effectiveness of our risk management process across a sample of risks. We will use these conclusions to inform our 2024 quality plan. Further information on this is in Part Two of this report.
	We will complete our 2021-22 financial audit cold reviews earlier than last year and escalate issues should plans go off track.	Details of our internal cold review progress and outcomes for both our financial audit work and our value-for-money and wider assurance work are included in Parts Three and Four of this report. Our financial audit cold reviews were completed earlier than in the previous year. We are also planning an autumn start to the 2022-23 programme of reviews.
	We will undertake a benchmarking and horizon scanning exercise to assess how our CQU compares against the rest of the audit profession. This will include discussions with our framework partners and reviews of their transparency reports and FRC annual inspection reports.	We have done some benchmarking as part of scoping our 2022-23 transparency report. We continue to hold regular discussions with our framework partners.
	On contracted-out audits, we will consider the issues arising from our framework partners' own inspection programmes. On cold reviews, we will reinstate our practice, suspended due to the COVID-19 pandemic, to review the contractor's audit file, rather than solely rely on the NAO file.	We will be taking forward the issues arising from our framework partners' own inspection programme as part of our work on the implementation of <i>ISA (UK) 220 – Quality Management for an Audit of Financial Statements</i> . Where we have sampled contracted-out audits as part of our 2022-23 internal cold reviews, we have reviewed contractors' files.

Source: National Audit Office

# Appendix Four

## Review of effectiveness

As Accounting Officer, the Comptroller and Auditor General (C&AG) has responsibility for reviewing the effectiveness of the system of internal control. This review is informed by the work of the National Audit Office's (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.

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 2022-23, approved by the Executive Team and Audit and Risk Assurance Committee (ARAC), 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, conforming with the Public Sector Internal Audit Standards. This was confirmed following an External Quality Assessment, which also benchmarked the service as excellent;
- delivering 19 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 as reasonable.

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.

The Board keeps its internal control arrangements under review in response to internal and external developments. The Board receives an update from the chair of the ARAC after each meeting and also receives the Internal Audit Annual Report from the DIAA, which stated: "I conclude that the NAO has adequate and effective governance, risk and control arrangements."

### Internal control weaknesses

There were no significant weaknesses in our system of internal controls in 2022-23 that affected the achievement of our key policies, aims and objectives.

# Appendix Five

## Financial information

Our full financial information is contained in our *Annual Report and Accounts 2022-23*, which can be found on our website. **Figure 22** on page 80 sets out our expenditure and income under six operating segments. As would be expected from the nature of our work, the largest segment of expenditure relates to financial audit and assurance work, which represents 63% of the National Audit Office's gross expenditure. The remainder relates to other assurance work. The Comptroller and Auditor General's comptroller function is reported as a separate segment.

**Figure 22**  
National Audit Office (NAO) operating segments

2022-23									
	Audit and assurance	Value-for-money and wider assurance work	Knowledge	Support to Parliament	International relations	Comptroller function	Voted	Non-voted	Total
	(£000)	(£000)	(£000)	(£000)	(£000)	(£000)	(£000)	(£000)	(£000)
Gross expenditure	78,349	18,288	6,369	5,492	1,089	145	<b>109,732</b>	296	<b>110,028</b>
Contract income	(24,292)	-	-	-	(216)	-	<b>(24,508)</b>	-	<b>(24,508)</b>
Other income	(1,563)	(365)	(127)	(110)	(22)	(3)	<b>(2,190)</b>	-	<b>(2,190)</b>
<b>Net expenditure</b>	<b>52,494</b>	<b>17,923</b>	<b>6,242</b>	<b>5,382</b>	<b>851</b>	<b>142</b>	<b>83,034</b>	<b>296</b>	<b>83,330</b>

2021-22									
	Audit and assurance	Value-for-money and wider assurance work	Knowledge	Support to Parliament	International relations	Comptroller function	Voted	Non-voted	Total
	(£000)	(£000)	(£000)	(£000)	(£000)	(£000)	(£000)	(£000)	(£000)
Gross expenditure	71,850	17,805	7,603	5,526	699	171	<b>103,654</b>	293	<b>103,947</b>
Contract income	(22,996)	-	-	-	(271)	-	<b>(23,267)</b>	-	<b>(23,267)</b>
Other income	(1,506)	(373)	(159)	(116)	(15)	(4)	<b>(2,173)</b>	-	<b>(2,173)</b>
<b>Net expenditure</b>	<b>47,348</b>	<b>17,432</b>	<b>7,444</b>	<b>5,410</b>	<b>413</b>	<b>167</b>	<b>78,214</b>	<b>293</b>	<b>78,507</b>

#### Notes

- 1 Voted expenditure and income is allocated to the NAO by a Parliamentary vote each year through the Supply and Appropriation Act. The NAO reports the use of this expenditure and income under its main operating segments about which further information can be found in our Annual Report and Accounts 2022-23, in the Performance Report on page 81.
- 2 Non-voted expenditure comprises the Comptroller and Auditor General's (C&AG'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.
- 3 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.
- 4 The chief operating decision body of the NAO is considered to be the Executive Team and details of its membership can be found in our Annual Report and Accounts 2022-23 on pages 94 to 97. Due to the integrated nature of the NAO's activities, it is not possible to distinguish meaningfully between assets and liabilities attributable to the different operating segments and therefore the Executive Team does not receive information on assets and liabilities by operating segment. For this reason, in line with IFRS 8 (Operating Segments), no such analysis is presented here.

Source: National Audit Office

# Appendix Six

## Transparency report disclosure requirements

**Figure 23** on pages 82 to 84 sets out National Audit Office compliance with disclosures required by Article 13 of Regulation (EU) 537/2014 to produce an annual transparency report.<sup>16</sup>

<sup>16</sup> 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 23**

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 NAO 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 National Audit Office (NAO) and is an officer of the House of Commons, as established by statute. He and the staff of the NAO (909 full-time equivalent permanent staff) are independent of government. They are not civil servants and do not report to a minister.
<p>Where the statutory auditor is a member of a network:</p> <ol style="list-style-type: none"> <li>1 a description of the network and the legal and structural arrangements in the network;</li> <li>2 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 European Economic Area (EEA) State or in Gibraltar;</li> <li>3 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;</li> <li>4 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> </ol>	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 a firm.	The NAO's governance structure is shown in Part Six.
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.	Part Two sets out a description of the NAO's system of quality management. We set out our plans to report on the effectiveness of our new system of quality management in paragraph 2.26.
An indication of when the last quality assurance review referred to in Article 26 of Regulation (EU) 537/2014 was carried out.	Such reviews are carried out annually. See Parts Three and Four and Appendix Two for details of the latest review.
A list of public interest entities for which the statutory auditor carried out statutory audits during the preceding financial year.	<p>In 2022-23, the NAO audited four 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; and</li> <li>4 HM Treasury UK Sovereign SUKUK PLC.</li> </ol>
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.

**Figure 23** *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 NAO complies with Regulation (EU) 537/2014
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 Five 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.	For details of remuneration, see our Annual Report and Accounts.
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, subject to some approved exceptions although for no longer than seven years. Also, we 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 audits the NAO undertakes are funded by Parliament. In these cases, the organisations we audit must reflect the notional cost of our audit work as operating costs within their financial statements, although no cash payment is made to us.</p> <p>The NAO also reports on the collection of revenues raised on behalf of government by the BBC, the Driver &amp; Vehicle Licensing Agency and HM Revenue &amp; Customs, including on the administration of Scottish and Welsh income tax. The cost of this work is also financed through our Parliamentary funding.</p> <p>The NAO charges cash fees for certain other financial audit assignments. This relates to the work we undertake under the Companies Act 2006 (referred to as our role as 'statutory auditor'), other statutory requirements (audits we undertake under other statute), and agreement audits. We also receive other income, largely from tenants occupying our main building. Our cash fees for these audit assignments and other services are recorded as income in the NAO's Statement of Comprehensive Net Expenditure and disclosed on pages 137 to 138 of the NAO's Annual Report and Accounts which is available on our external website.</p> <p>The following sets out the cash fees we have accounted for during 2022-23.</p>
1 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;	£0.05 million
2 revenues from the statutory audit of accounts of other entities;	£21.8 million

**Figure 23** *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 NAO complies with Regulation (EU) 537/2014
<p>1 revenues from permitted non-audit services to entities that are audited by the statutory auditor; and</p>	<p>£3.2 million. Of this:</p> <p>£1.1 million relates to other assurance engagements, including EU Agricultural Funds (£0.9 million) and the audit of interim financial statements and special purpose accounts of a small number of companies;</p> <p>£0.7 million relates to rent and service charge income from three bodies that we audit which rent office space in our London Headquarters building from the NAO; and</p> <p>£1.4 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.</p> <p>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 2022-23, the NAO received £145,200 from the Foreign, Commonwealth &amp; Development Office (2021-22: £125,581).</p>
<p>2 revenues from non-audit services to other entities</p>	<p>£1.7 million, of which £1.5 million relates to rent, from non-audited entities, service charges and miscellaneous income.</p>

Source: National Audit Office

# Appendix Seven

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

The National Audit Office (NAO) is not required to comply with the Audit Firm Governance Code as compliance is required for those firms that audit 20 or more listed companies and the NAO does not audit listed companies. 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 24** on pages 86 to 92 how we comply with its provisions.

Throughout the code, reference to 'a firm' means a firm that audits listed companies in the UK.

**Figure 24**

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

A Leadership	Provision of the code	How the NAO complies with the code
	A.1: Owner accountability principle – The management of a firm should be accountable to the firm’s owners and no individual should have unfettered powers of decision.	This principle does not directly apply to the NAO. The Comptroller and Auditor General (C&AG) has statutory powers given by Parliament.
	A.1.1: The firm should establish board or other governance structures, with matters specifically reserved for their decision, to oversee the activities of the management team.	All other provisions are covered by Part Six and relevant sections of our Annual Report and Accounts 2022-23, available on our external website. <sup>1</sup>
	A.1.2: The firm should state in its transparency report how its governance structures and management team operate, their duties and the types of decisions they take.	This is covered in Part Six of the Transparency Report and in the NAO’s Annual Report and Accounts 2022-23.
	A.1.3: The firm should state in its transparency report the names and job titles of all members of the firm’s governance structures and its management team, how they are elected or appointed and their terms, length of service, meeting attendance in the year and relevant biographical details.	Covered in the NAO’s Annual Report and Accounts 2022-23, Governance Statement. Meeting attendance record is noted on page 112.
	A.1.4: The firm’s governance structures and management team and their members should be subject to formal, rigorous and ongoing performance evaluation and, at regular intervals, members should be subject to re-election or re-selection.	The C&AG is appointed for a fixed, non-renewable term of 10 years. The C&AG is a permanent member of the Board. The non-executive members of the Board are appointed for a three-year term, renewable for one further three-year term. Executive members of the Board are appointed each year by the non-executive members, renewable annually. The chair of the Board evaluates the performance of the non-executive members of the Board. The C&AG evaluates the performance of the Executive Team. The performance of the chair is evaluated by the senior independent director.
	A.2: Management principle – A firm should have effective management which has responsibility and clear authority for running the firm.	The Budget Responsibility and National Audit Act 2011 (Part 2, Schedules 2 and 3) makes provision for a Comptroller & Auditor General, and National Audit Office. We comply fully with requirements. The roles of the Executive Team and the NAO Board are described in the NAO’s <i>Annual Report and Accounts 2022-23</i> , and in this Transparency Report. The Board’s terms of reference are also published on our website.
	A.2.1: The management team should have terms of reference that include clear authority over the whole firm, including its non-audit businesses and these should be disclosed on the firm’s website.	See A:2. Our governance framework is outlined in the corporate governance section of the NAO’s <i>Annual Report and Accounts 2022-23</i> .

**Figure 24** *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>B</b> <b>Values</b>	B.1: Professionalism principle – A firm should perform quality work by exercising judgement and upholding values of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour in a way that properly takes the public interest into consideration.	These provisions are covered by our Code of Conduct and NAO corporate reporting, available on our website. Our values are set out in Part One of the Transparency Report.
	B.1.1: The firm's governance structures and management team should set an appropriate tone at the top through its policies and practices and by publicly committing themselves and the whole firm to quality work, the public interest and professional judgement and values.	All NAO people, including the non-executive members of the Board, complete a Code of Conduct return annually.
	B.1.2: The firm should have a Code of Conduct which it discloses on its website and requires everyone in the firm to apply.	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. <sup>2</sup>
	B.2: Governance principle – A firm should publicly commit itself to this Audit Firm Governance Code	We are not required to comply with the Audit Firm Governance Code. However, in the spirit of adhering to best practice, and to the extent that the Code is relevant to the NAO as a Supreme Audit Institution, we set out how we comply with the Audit Firm Governance Code in this Transparency Report.
	B.2.1: 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.3: Openness principle – A firm should maintain a culture of openness which encourages people to consult and share problems, knowledge and experience in order to achieve quality work in a way that properly takes the public interest into consideration.	This provision is addressed through our values set out in Part One of this Transparency Report.
<b>C</b> <b>Independent non-executives</b>	C.1: Involvement of independent non-executives principle – A firm should appoint independent non-executives who through their involvement collectively enhance shareholder confidence in the public interest aspects of the firm's decision-making, stakeholder dialogue and management of reputational risks including those in the firm's businesses that are not otherwise effectively addressed by regulation.	This provision does not apply to the NAO given the C&AG's statutory independence as set out in the Budget Responsibility and National Audit Act 2011. Part Six of this Transparency Report highlights our Board structure and our Annual Report and Accounts 2022-23 sets out the details of the NAO's Board members, including our independent non-executives and their significant and relevant experiences.
	C.1.1: Independent non-executives should: have the majority on a body that oversees public interest matters; and/or be members of other relevant governance structures within the firm. They should also meet as a separate group to discuss matters relating to their remit.	See C.1.

**Figure 24** *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</b> <b>Independent non-executives</b> <i>continued</i>	C.1.2: The firm should disclose on its website information about the appointment, retirement and resignation of independent non-executives, their duties and the arrangements by which they discharge those duties and the obligations of the firm to support them. The firm should also disclose on its website the terms of reference and composition of any governance structures whose membership includes independent non-executives.	See C.1.
	C.2: Characteristics of independent non-executives principle – The independent non-executives' duty of care is to the firm. They should command the respect of the firm's owners and collectively enhance shareholder confidence by virtue of their independence, number, stature, experience and expertise.	See C.1.
	C.2.1: The firm should state in its transparency report its criteria for assessing the impact of independent non-executives on the firm's independence as auditors and their independence from the firm and its owners.	Not applicable due to the C&AG's unique statutory position.
	C.3: Rights of independent non-executives principle – Independent non-executives of a firm should have rights consistent with their role, including a right of access to relevant information and people to the extent permitted by law or regulation, and a right to report a fundamental disagreement regarding the firm to its owners and, where ultimately this cannot be resolved and the independent non-executive resigns, to report this resignation publicly.	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.
	C.3.1: Each independent non-executive should have a contract for services setting out their rights and duties.	We comply fully with this provision.
	C.3.2: 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.
	C.3.3: The firm should provide each independent non-executive with sufficient resources to undertake their duties including having access to independent professional advice at the firm's expense where an independent non-executive judges such advice necessary to discharge their duties.	We provide sufficient resources to the independent non-executives to undertake their duties.

**Figure 24** *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</b> <b>Independent non-executives</b> <i>continued</i>	C.3.4: The firm should establish, and disclose on its website, procedures for dealing with any fundamental disagreement that cannot otherwise be resolved between the independent non-executives and members of the firm's management team and/or governance structures.	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, 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. This is in line with the Code of Practice dealing with the relationship between the NAO and the C&AG available on our website. <sup>3</sup>
<b>D</b> <b>Operations</b>	D.1: Compliance principle – A firm should comply with professional standards and applicable legal and regulatory requirements.	These provisions are covered in Part Two and Part Five of this report.
	D.1.1: The firm should establish policies and procedures for complying with applicable legal and regulatory requirements and international and national standards on auditing, quality control and ethics, including auditor independence.	The NAO's <i>Financial Audit Manual</i> sets out our audit methodology, which ensures compliance with legal and regulatory requirements, and relevant standards.
	D.1.2: The firm should establish policies and procedures for individuals signing group audit reports to comply with applicable standards on auditing dealing with group audits, including reliance on other auditors whether from the same network or otherwise.	Individuals supervising, managing or directing a financial audit usually hold a relevant 'audit licence'. One of the criteria for being granted a general audit licence is having undertaken appropriate continuing professional development in the previous year. This includes completion of the NAO's assurance update training, which covers group audit requirements to comply with applicable standards.
	D.1.3: The firm should state in its transparency report how it applies policies and procedures for managing potential and actual conflicts of interest.	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 the 'Safeguarding our independence' section in Part Two of the report.
	D.1.4: The firm should take action to address areas of concern identified by audit regulators in relation to the firm's audit work.	See Part Three, 'The quality of our financial audit work'.
	D.2: Risk management principle – A firm should maintain a sound system of internal control and risk management over the operations of the firm as a whole to safeguard the owners' investment and the firm's assets.	These provisions are covered in Part Six and Appendix Four.
	D.2.1: The firm should, at least annually, conduct a review of the effectiveness of the firm's system of internal control. The review should cover all material controls, including financial, operational and compliance controls and risk management systems.	See Appendix Four.

**Figure 24** *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 Operations</b> <i>continued</i>	See Appendix Four.
D.2.2: The firm should state in its transparency report that it has performed a review of the effectiveness of the system of internal control, summarise the process it has applied and confirm that necessary actions have been or are being taken to remedy any significant failings or weaknesses identified from that review. It should also disclose the process it has applied to deal with material internal control aspects of any significant problems disclosed in its financial statements or management commentary.	
D.2.3: 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.	The director of internal audit and assurance (DIAA), who advises the C&AG and the Board on the adequacy of the framework of internal controls, uses a 'three lines of defence' assurance model. The C&AG's review of effectiveness as set out in the Annual Report and Accounts 2022-23 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.
D.3: People management principle – A firm should apply policies and procedures for managing people across the whole firm that support its commitment to the professionalism, openness and risk management principles of this Audit Firm Governance Code.	These provisions are covered in Part Five, as well as the <i>Annual Report and Accounts 2022-23</i> .
D.3.1: The firm should disclose on its website how it supports its commitment to the professionalism, openness and risk management principles of this Audit Firm Governance Code through recruitment, development activities, objective setting, performance evaluation, remuneration, progression, and other forms of recognition, representation and involvement.	The NAO is not required to publicly commit to the Audit Firm Governance Code due to the NAO's unique statutory position. This Transparency Report contains relevant details and is published on our website.
D.3.2: Independent non-executives should be involved in reviewing people management policies and procedures.	Independent non-executives are involved in this review through the Remuneration and Nominations Committee and, where relevant, through the Board.
D.4: Whistleblowing principle – A firm should establish and apply confidential whistleblowing policies and procedures across the firm which enable people to report, without fear, concerns about the firm's commitment to quality work and professional judgement and values in a way that properly takes the public interest into consideration.	These provisions are covered in our Code of Conduct.
D.4.1: The firm should report to independent non-executives on issues raised under its whistleblowing policies and procedures and disclose those policies and procedures on its website.	We report on any issues raised under our whistleblowing policies as a permanent agenda item for the Audit Committee meetings. Our policy is published on our website.

**Figure 24** *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 Reporting</b>	E.1: Internal reporting principle – The management team of a firm should ensure that members of its governance structures, including owners and independent non-executives, are supplied with information in a timely manner and in a form and of a quality appropriate to enable them to discharge their duties.	Members of the governance structures have been supplied with information in a timely manner and in a form and of a quality appropriate to enable them to discharge their duties.
	E.2: Financial statements principle – A firm should publish audited financial statements prepared in accordance with a recognised financial reporting framework such as International Financial Reporting Standards or UK GAAP.	These provisions are covered by our Annual Report and Accounts 2022-23 published on our website.
	E.2.1: The firm should explain who is responsible for preparing the financial statements and the firm's auditors should make a statement about their reporting responsibilities.	See E.2.
	E.2.2: The firm should report that it is a going concern, with supporting assumptions or qualifications as necessary.	See E.2.
	E.3: Management commentary principle – The management of a firm should publish on an annual basis a balanced and understandable commentary on the firm's financial performance, position and prospects.	See E.2.
	E.3.1: The firm should include in its management commentary its principal risks and uncertainties, identifying those related to litigation, and report how they are managed in a manner consistent with the requirements of the applicable financial reporting framework.	See E.2.
	E.4: Governance reporting principle – A firm should publicly report how it has applied in practice each of the principles of the Audit Firm Governance Code excluding F.2 on shareholder dialogue and F.3 on informed voting and make a statement on its compliance with the Code's provisions or give a considered explanation for any non-compliance.	This Transparency Report provides the disclosures required by this section of the Code and is available on our website.
	E.4.1: The firm should publish on its website an annual transparency report containing the disclosures required by Code Provisions A.1.2, A.1.3, C.2.1, D.1.3, D.2.2 and D.2.3.	See E.4.
	E.5: Reporting quality principle – A firm should establish formal and transparent arrangements for monitoring the quality of external reporting and for maintaining an appropriate relationship with the firm's auditors.	See E.2.

**Figure 24** *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 Reporting continued</b>	E.5.1: The firm should establish an Audit Committee and disclose on its website information on the Committee's membership and terms of reference which should deal clearly with its authority and duties, including its duties in relation to the appointment and independence of the firm's auditors. On an annual basis, the firm should publish a description of the work of the Committee in discharging its duties.	The Audit and Risk Assurance Committee's terms of reference, and its membership, are published on our website. <sup>4</sup> The Committee publishes a short description of how it has discharged its duties in the Annual Report and Accounts.
<b>F Dialogue</b>	F.1: Firm dialogue principle – A firm should have dialogue with listed company shareholders, as well as listed companies and their audit committees, about matters covered by this Audit Firm Governance Code to enhance mutual communication and understanding and ensure that it keeps in touch with shareholder opinion, issues and concerns.	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.
	F.1.1: The firm should disclose on its website its policies and procedures, including contact details, for dialogue about matters covered by this Audit Firm Governance Code with listed company shareholders and listed companies. These disclosures should cover the nature and extent of the involvement of independent non-executives in such dialogue.	Not applicable due to the NAO's unique statutory position.
	F.2: Shareholder dialogue principle – Shareholders should have dialogue with audit firms to enhance mutual communication and understanding.	See F.1.
	F.3: Informed voting principle – Shareholders should have dialogue with listed companies on the process of recommending the appointment and re-appointment of auditors and should make considered use of votes in relation to such recommendations.	See F.1.

- Notes**
- 1 Comptroller and Auditor General, *Annual Report and Accounts 2022-23*, HC 1515, National Audit Office, June 2023.
  - 2 National Audit Office, *Code of Conduct*, January 2023.
  - 3 National Audit Office, *Code of Practice dealing with the relationship between the National Audit Office and the Comptroller and Auditor General*, March 2022.
  - 4 National Audit Office, *Terms of reference for the Audit and Risk Assurance Committee*, March 2022.

Source: National Audit Office

# Appendix Eight

## Audit quality indicators

Figures 25 to 34 present our audit quality indicators (AQIs), which we have chosen and calculated with reference to the definitions issued by the Financial Reporting Council.<sup>17</sup> This is the first year we have formally brought together in one place indicators that help to tell us about the quality of our work. Publishing these now represents the first phase of a wider programme of work we currently have under way to develop a more comprehensive suite of indicators to help measure the quality of our work as it progresses so we can better intervene where we need to, as well as those already in place for completed work.

### Quality ratings

Our quality ratings for both value-for-money (VfM) and wider assurance work and financial audit, for the current year and prior year, are shown in **Figure 25** on page 94. We have provided our detailed commentary, and context, supporting these ratings in Parts Three and Four of this report.

<sup>17</sup> Financial Reporting Council, [Firm-level Audit Quality Indicators \(AQIs\) Definitions Note](#), March 2023.

**Figure 25**  
Quality ratings based on reviewing samples of our work

Description	Target (where applicable)	Current year	Prior year	Change between 2021-22 and 2022-23
		2022-23	2021-22	
<b>Financial audit<sup>1</sup></b>				
External quality reviews – percentage of quality reviews which are rated ‘limited improvements’ or ‘good’	100%	Work to be concluded (paragraphs 3.7 and 3.8)	56%	Not yet concluded
Number of external quality reviews in year	n/a	9	9	–
Internal quality reviews – percentage of quality reviews which are rated ‘limited improvements’ or ‘good’	100%	67%	65%	Increase of 2 percentage points
Number of internal quality reviews in year	n/a	24	26	Decrease of 2
<b>Value for money<sup>2</sup></b>				
External quality reviews – percentage of quality reviews with a rating of 3 (sound) or above (up to 5)	100%	95%	100%	Decline of 5 percentage points
Number of external quality reviews in year	n/a	20	14	Increase of 6
Internal quality reviews – percentage of quality reviews with a rating of good (with improvements) or good (best practice)	100%	92%	83%	Improvement of 9 percentage points
Number of internal quality reviews in year	n/a	12	12	No change

**Notes**

- 1 Current year is based on a sample of 2021-22 audits and prior year is based on 2020-21 audits.
- 2 Current year is based on a sample of 2022-23 publications and the prior year is on 2021-22 publications

Source: National Audit Office

## Feedback from those we audit

Feedback from our regular survey of government finance directors and accounting officers is shown below in **Figure 26** on page 95. While the results are still high, they show a decline in our financial audit feedback for the current year. We discuss some of the reasons for this in paragraphs 1.15 to 1.20 of this report.

**Figure 26**

Feedback from those we audit

Description	Current year	Prior year	Change between 2021-22 and 2022-23
	2022-23	2021-22	
<b>Survey results: financial audit</b>			
Percentage of finance directors and accounting officers in our audited bodies who rated the quality of their most recent financial audit as good	82%	91%	Decline of 9 percentage points
Percentage of finance directors and accounting officers who agreed that the audit recommendations we made were realistic	75%	80%	Decline of 5 percentage points
Percentage who agreed that our teams understood the wider context in which their organisation works and applied it appropriately to the financial audit	78%	88%	Decline of 10 percentage points
<b>Survey results: value-for-money and wider assurance work (out of 3, where 3 is 'strongly agree'):</b>			
The technical quality of the report was good	2.33	2.23	Improvement of 0.10
The report was relevant to the context in which you operate	2.38	2.23	Improvement of 0.15
The report contained meaningful analysis	2.22	2.25	Decline of 0.03

Source: National Audit Office

**Involvement of our audit directors in our audit work**

Our directors direct, supervise and review the quality of all our audit work in their roles as engagement directors and responsible individuals (for our Companies Act audit work). Their involvement in our in-house financial audits (excluding our contracted-out audit work), and our senior management-to-staff ratio indicators, are shown in **Figure 27** on page 96. This is the first time we have reported on these data.

Our data show that the level of senior involvement has increased slightly since 2021-22. The ratio of staff to senior management is higher for financial audit than for VfM. We have also considered our ratio of senior staff to junior staff and the extent of senior management involvement in financial audit and consider these indicators to be reasonable for both financial audit and VfM. We will, however, reconsider our expectations in 2023-24 as we implement *ISQM (UK) 2 – Engagement Quality Reviews* (see paragraph 2.6).

### Figure 27

#### Senior management involvement in in-house audits

Description	Current year	Prior year	Change between 2021-22 and 2022-23
	2022-23	2021-22	
Senior management hours spent on audit as a proportion of total staff hours spent on audit, for in-house financial audits <sup>1</sup>	4.8% (2021-22 audit cycle)	4.7% (2020-21 audit cycle)	Increase of 0.1 percentage points
<b>Ratio of staff to senior management<sup>2</sup></b>			
<b>Total</b>	<b>12:1</b>		
Financial audit	16:1		
Value-for-money and wider assurance	7:1		

**Notes**

- 1 Senior management includes all directors and executive directors involved in financial audit. For the purposes of this calculation, it also includes colleagues in the audit manager grade who are acting as the engagement director of a specific financial audit.
- 2 In this calculation, senior management comprises directors and executive directors only.
- 3 Prior year data for the ratio of staff to senior management are not available.

Source: National Audit Office

### Staff workload

Staff workload data for both the full year and for our financial audit peak period (May to July) are shown in **Figure 28** on page 97. This is the first year we have produced these indicators.

Alongside these data, staff workload is monitored on a monthly basis by our Financial Audit Operations team and by performance coaches, to ensure that individuals' wellbeing is considered, in particular during our busy period. The hours shown below are within our expectations for 2022-23 and we will continue to monitor these indicators during our 2023-24 audit cycle.

### People survey

The people survey results indicators are shown in **Figure 29** on page 98. The scores are measured on a scale of 0 to 10. Our results have seen a slight decline since 2021-22. We discussed our people survey and our responses to the scores in more detail in paragraphs 5.22 to 5.27 and Figure 15.

**Figure 28**  
Staff workload

Description	Current year	Prior year	Change between
	2022-23	2021-22	2021-22 and 2022-23
	(%)	(%)	(percentage points)
<b>Hours worked as a percentage of contracted hours across the full year</b>			
<b>Financial audit</b>			
Trainee	104.9	104.4	Increase 0.5
Audit Principal/Auditor	105.0	107.1	Decrease 2.1
Audit Manager	108.5	109.2	Decrease 0.7
Senior management	115.1	114.0	Increase 1.0
<b>Value-for-money and wider assurance</b>			
Analyst	101.6	105.6	Decrease 4.0
Audit Principal/Senior Analyst	102.9	103.9	Decrease 1.0
Audit Manager	103.1	105.5	Decrease 2.4
Senior management	115.1	107.0	Decrease 1.9
<b>Hours worked as a percentage of contracted hours during our busy period (May to July)</b>			
<b>Financial audit</b>			
Trainee	108.4	108.2	Increase 0.2
Audit Principal/Auditor	111.6	113.4	Decrease 1.8
Audit Manager	117.3	114.9	Increase 2.4
Senior management	126.0	121.0	Increase 5.0
<b>Value-for-money and wider assurance</b>			
Analyst	102.5	103.2	Decrease 0.7
Audit Principal/Senior Analyst	103.9	102.8	Increase 1.1
Audit Manager	103.1	103.6	Decrease 0.5
Senior management	105.8	105.3	Increase 0.5

**Notes**

- Numbers may not reconcile due to rounding.
- The 'Senior management' category includes directors and executive directors.

Source: National Audit Office

**Figure 29**  
People survey results

Description	Current year	Prior year	Change between 2021-22 and 2022-23
	2022-23	2021-22	
	Scale of 0 to 10	Scale of 0 to 10	
Engagement – likelihood of recommending the National Audit Office (NAO) as a place of work, staying at the NAO and job satisfaction	6.5	6.9	Decline of 0.4
Environment – the physical work environment contributing positively to people's ability to do their job	7.3	7.5	Decline of 0.2
Management support – whether managers are providing support needed, and care and communicate openly and honestly to our people	7.9	7.9	No change
Meaningful work – whether our people have the opportunity to use their strengths, find their work meaningful and see how it contributes to positive outcomes	6.9	7.0	Decline of 0.1
Organisational fit – values being a good fit, treating people from all backgrounds fairly, action against misconduct and to support mental wellbeing	7.0	7.3	Decline of 0.3
Strategy – whether people feel goals and strategies are taking the NAO in the right direction, there is communication of these goals and strategies, and being inspired by our purpose and mission	6.8	7.1	Decline of 0.3
Workload – whether people feel that the demands of their workload are manageable	6.0	6.3	Decline of 0.3
Whether employee health and wellbeing is a priority at the NAO <sup>3</sup>	6.4	n/a	n/a
Whether organisational transformation and change is managed well at the NAO <sup>3</sup>	6.1	n/a	n/a
Values – whether we act with courage and integrity <sup>4</sup>	7.2	7.4	Decline of 0.2
Values – whether we are curious and seek to learn <sup>4</sup>	7.2	7.2	No change
Values – whether we are inclusive and respectful <sup>4</sup>	7.1	7.3	Decline of 0.2
Values – whether we strive for excellence <sup>4</sup>	7.1	7.2	Decline of 0.1

#### Notes

- 1 The data presented above are annual average scores, measured on a scale of 0 to 10.
- 2 Our engagement target is 7.1 in 2021-22 and 7.4 in 2022-23.
- 3 These questions were introduced in March 2023, so the scores presented are March 2023 survey results rather than annual average results.
- 4 These questions were introduced in May 2021, so the scores presented for 2021-22 are averaged over May 2021 to March 2022 rather than the full year.

Source: National Audit Office

## Staff turnover

Our staff turnover rates for the current and prior years are shown below by grade in **Figure 30**. The current year has seen an increase in turnover in the grades below senior management (our directors and executive directors). We discuss this in more detail, along with our response, in paragraphs 5.25 and 5.26.

## The diversity of our staff

**Figure 31** on page 100 presents the diversity of our staff and shows that there has been an improvement in some of the categories over the last year. Further information on diversity is in paragraph 5.4 of this report, and also in our *Diversity and Inclusion annual report 2022-23*, where we discuss our priorities and progress in more detail.

**Figure 30**  
Staff turnover

Audit grade	Target	Current year	Prior year	Change between 2021-22 and 2022-23
		2022-23	2021-22	
	(%)	(%)	(%)	
Senior management	10	2	6	Decrease of 4 percentage points
Audit Manager	7	13	4	Increase of 9 percentage points
Audit Principal/Auditor	20	20	17	Increase of 3 percentage points
Senior Analyst	12	17	8	Increase of 9 percentage points
Analyst	16	15	21	Decrease of 6 percentage points
Trainee	7	15	11	Increase of 4 percentage points

**Notes**

- 1 The 'Senior management' category includes directors and executive directors. This target rate is for directors only.
- 2 Data reflect 12 months to end March 2023.

Source: National Audit Office analysis of Human Resources data

**Figure 31**  
Diversity of our staff

Description	Target (where applicable)	Current year	Prior year	Change between 2021-22 and 2022-23
		2022-23	2021-22	
	(%)	(%)	(%)	
<b>Percentage of colleagues, office-wide, who are:</b>				
Women	49	49	48	Improvement of 1 percentage point
Ethnic minority	29	25	23	Improvement of 2 percentage points
Individuals with a disability	13	15	15	No change
Individuals who attended a state school	n/a	86	86	No change
<b>Percentage of colleagues in senior management (directors and executive directors) who are:</b>				
Women	38	37	36	Improvement of 1%
Ethnic minority	15	9	10	Decline of 1%
Individuals with a disability	12	13	11	Improvement of 2%
Individuals who attended a state school	n/a	85	85	No change
<b>Percentage of colleagues in the manager grade who are:</b>				
Women	49	51	48	Improvement of 3 percentage points
Ethnic minority	21	16	16	No change
Individuals with a disability	12	10	10	No change
Individuals who attended a state school	n/a	80	80	No change

Source: National Audit Office

## Developing our people

Our continuing professional development (CPD) and training indicators are shown in **Figure 32**. These cover our mandatory training, compliance with mandatory training, and our average overall hours of training.

During 2022-23, there were 14 mandatory courses for financial audit staff to complete and 16 for VfM and wider assurance staff to complete. On average, these would have taken staff some 30.1 hours (financial audit) and 14.6 hours (VfM and wider assurance) to complete. Our compliance rate with these figures is 91%.

As well as our mandatory training, individuals undertake other training according to their specific needs. Taking all this training together, all staff are currently required to complete at least 120 hours CPD spread over a three-year period; of this, at least 20 hours per annum must be spent on formal activities (**Figure 33** on page 102). There has been an increase in the average amount of training per year for financial audit, largely due to our implementation of our Audit Transformation Programme. The average amount of VfM training completed per year has also increased for most grades.

**Figure 32**  
 Mandatory training

Description	Target (where applicable)	Current year
	(%)	2022
<b>Number of mandatory training courses</b>		
Financial audit	n/a	14 courses
Value-for-money and wider assurance	n/a	16 courses
<b>Approximate time needed to complete annual mandatory training requirement</b>		
Financial audit	n/a	30.1 hours
Value-for-money and wider assurance	n/a	14.6 hours
Mandatory training compliance rate	100	91%

**Note**

1 Prior year data are not available.

Source: National Audit Office

**Figure 33**

Average continuing professional development (CPD) hours per person

Description	Target (where applicable)	Current year	Prior year	Change between 2021 and 2022
		2022 (hours)	2021 (hours)	
<b>Financial audit</b>				
Trainee <sup>1</sup>	target applies to all grades	64.0	44.7	Increase of 19.3
Audit Principal/Auditor		36.2	28.9	Increase of 7.3
Audit Manager		45.8	39.6	Increase of 6.2
Director		53.1	45.7	Increase of 7.4
<b>Value-for-money and wider assurance</b>				
Analyst	target applies to all grades	29.8	27.0	Increase of 2.8
Audit Principal/ Senior Analyst		42.6	41.4	Increase of 1.2
Audit Manager		40.2	37.9	Increase of 2.3
Director		49.2	41.3	Increase of 7.9

**Notes**

- 1 Trainee time excludes college CPD.
- 2 These data are presented in calendar years for consistency with the timing of our annual performance development cycle.
- 3 Numbers may not reconcile due to rounding.

Source: National Audit Office

**Trainee examination success**

Our trainee examination success rates are shown in **Figure 34** on page 103. Our pass rates for both professional stage and advanced stage exams are above the national average for the current year. Our recruitment of graduates and school leavers is discussed in more detail in paragraph 5.5 of this report.

**Figure 34**

Trainee examination success rates

Description	Target (where applicable)	Current year	Prior year	Change between 2021-22 and 2022-23
		2022-23	2021-22	
		(%)	(%)	
Percentage of trainees passing their professional stage exam for the Association of Chartered Accountants (ACA) qualification	ICEAW average of 81% (2021-22: 82%) <sup>1</sup>	82	84	Decline of 2 percentage points
Percentage of trainees passing the advanced stage exams for the ACA qualification	ICEAW average of 87% (2021-22: 88%)	94	85	Improvement of 9 percentage points

**Note**

1 ICEAW is the Institute of Chartered Accountants in England and Wales.

Source: National Audit Office



National Audit Office