



National Audit Office



31 JULY 2024

# Transparency Report 2023-24

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 2023, the NAO's work led to a positive financial impact through reduced costs, improved service delivery, or other benefits to citizens, of £1.59 billion.

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This is a re-published version of the report due to the correction of minor typographical and formatting errors. Factual content remains the same as in the original report.


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# 2023-24 highlights of the year



## Quality



**100%**

of externally reviewed  
value-for-money  
reports met our  
quality standards



**43%**

of externally reviewed  
financial audits met our  
quality standards



## Impact

**98%**



of senior officials from the bodies we  
audit say that the NAO is independent,  
and 89% say we are authoritative



**90%**

of finance directors  
and accounting  
officers from the  
bodies we audit say  
that the NAO makes  
fair and balanced  
judgements, and  
89% rated the quality  
of their most recent  
financial audit as good



**94%**

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







### Delivery



**416**  
audit certifications  
published



**64**  
value-for-money,  
investigation, and  
lessons learned  
reports published



**56**  
Committee of  
Public Accounts  
sessions supported,  
usually twice a week  
when Parliament is  
in session



**13**  
departmental  
overviews published to  
assist Parliamentary  
select committees in  
their work



# Summary

## Leadership messages

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



**High-quality audit work is the bedrock of the National Audit Office (NAO). 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. That's why audit quality is the top priority for me, the NAO Board and Executive Team, and the whole organisation.**

In 2023-24 our investigations, lessons learned and value-for-money reports continued to deliver significant audit impact across a wide range of public spending. We also continued to deliver on our strategic commitment to extract the wider lessons from our work and make them accessible to Parliament and public service practitioners. It is encouraging to see the continuing high levels of confidence in the relevance and quality of the NAO's work expressed by parliamentarians in our latest survey. We achieved the highest standards of quality in the external reviews of our investigations, lessons learned and value-for-money reports. We also identified some areas where we need to improve our internal quality controls and risk management. During 2024-25 we will work on strengthening our quality culture, sharing best practice and investing in our learning and development.

We are fully focused on meeting and keeping pace with rising regulatory expectations for financial audit. We reached a significant milestone of our Audit Transformation Programme in late 2023, with the rollout of our new financial audit software platform, Apex, on time and on budget. We will be focusing on realising the full benefits of this investment in the coming years, including reliable compliance with auditing standards, greater use of data analytics, and new insights for management and audit committees.

The need for our continued investment in the quality of our financial audit work was highlighted by the results of our internal and external quality reviews. While we were encouraged that the Financial Reporting Council's (FRC's) inspections of our 2022-23 audits recognised some improvements arising from our investments in quality, the results are still unsatisfactory overall and we are working hard to address the underlying causes of the issues found.

The results demonstrate that we can and do deliver quality audits, which indicates to us that there are no fundamental problems with our audit methodology nor with the reliability of government accounts. However, these findings also tell us that we need to do more so that we meet our standards on a consistent basis across all our audits. In response, we are continuing to work on realising fully the benefits of our new methodology and audit platform, as well as enhancing our system of quality management. In January 2024, we strengthened the management arrangements for our financial audit service line and, in April 2024, we launched our Quality First Plan, our new quality improvement plan, which brings together all our audit improvement activity into a single plan.

I am confident that we have the right initiatives in place to ensure we improve our audit quality and deliver high quality audits consistently.

**“During 2024-25 we will work on strengthening our quality culture, sharing best practice and investing in our learning and development.”**





## Kate Mathers



Executive Director  
of Financial Audit

**Financial audit is a demanding, highly skilled profession. We navigate a landscape shaped by complex accounting and auditing standards,**

**increasing regulatory expectations for audit quality and the rising expectations of stakeholders. As NAO auditors, our stakeholders rely on us providing high-quality, timely assurance that taxpayers' money has been accounted for properly and used as intended – and to point it out if it hasn't. That's why audit quality is our number one priority.**

We are making significant investments in our audit methodology and technology through our Audit Transformation Programme. We now have a modern, fit-for-purpose methodology, delivered through our new audit management platform, Apex, which we rolled out in autumn 2023. Apex helps support quality and efficiency through guided workflows, automation and standardisation. All our audit teams are using it for the first time – combined with our new audit methodology, which we implemented last year – for our audits of government's 2023-24 accounts, which will be inspected during 2024-25.

The results of our recent internal and external quality inspections for the audits of 2022-23 accounts were disappointing and underline the need for our continued investment in and focus on quality. We are pleased that the Financial Reporting Council (FRC) found improvements in some areas and examples of high-quality work; however, the FRC also identified areas where we need to make improvements. We recognise there is more for us to do to strengthen our system of quality management so that we deliver high-quality work consistently, every time.

### Figure 1

How we plan to improve the quality of our audits: the key pillars of our Quality First Plan

<b>Resources</b>	<b>Improving capacity, capability and resilience</b> – more resources, improved planning and management, better recruitment processes, a new contracting out model
<b>Learning &amp; culture</b>	<b>Nurturing a quality-first culture and improving capability</b> – more and better L&D, refreshed approach to engagement and communications, a greater understanding of the culture and a focus on behaviours
<b>Methodology &amp; support</b>	<b>Supporting staff with best practice methodology policies and practice</b> – a new support model with quality directors and business partners; clearer audit responses and requirements; improved sampling approach; more investment in centres of expertise; and an enhanced quality support framework for high-risk audits
<b>Technology</b>	<b>Taking all opportunities to use technology to improve audit</b> – delivering enhancements to Apex, a new engagement portal, adopting new AI technologies; and improved sampling, journals and other applications
<b>Assurance</b>	<b>Robust monitoring and assurance</b> – an accelerated cold review model; audit quality indicators and dashboards; improved root cause analysis; and better disseminations of lessons learnt
<b>Our context</b>	<b>Influencing our external auditing environment and stakeholders</b> – including the FRC and government on the role of public audit

Source: National Audit Office



## “Our Quality First Plan is a comprehensive, whole-system roadmap for our change programme, designed to embed quality into our organisational DNA.”

Our Quality First Plan, which we launched and began implementing in April 2024, is the next step, building on our Audit Transformation Programme and previous quality plans. We’ve shaped our plan through comprehensive diagnostic analyses: external and internal quality reviews, root cause analysis reviews, and colleague feedback. We’ve also looked externally, to learn from others in the profession. With these insights, we developed six key pillars (**Figure 1** on page 8) which are the core elements of our Plan. Using these, we’ve designed more targeted interventions to accelerate the benefits of our transformation programme, and to introduce fresh measures to strengthen areas of our system of quality management requiring improvement.

Our Quality First Plan is a comprehensive, whole-system roadmap for our change programme, designed to embed quality into our organisational DNA, ensuring every aspect of our audit is designed to deliver high-quality. Through our plan, our aim is to make achieving high-quality consistently in all our audit work as straightforward as possible for our teams.

Our plan has a wider scope than our previous single quality plans. We’re placing much greater emphasis on people, fostering engagement and nurturing a ‘Quality First’ culture. And, for the first time, we’re including actions related to external factors – including audited bodies, standard setters and our regulator.

Our plan brings a gear change in Learning and Development; a new quality support model for our teams; more people and other actions to bolster resilience, manage workloads better and optimise project and operational delivery; and an enhanced and accelerated internal quality assurance programme. We’re also continuing to invest in Apex and other new technology, IT audit and analytics, and we’re exploring AI opportunities.

### Rebecca Sheeran



Executive Director responsible for value-for-money service line

Over the past year, we have continued to deliver a broad range of high-quality

and impactful work helping Parliament to hold government to account. We published 64 value-for-money and wider assurance reports, two more than last year.

We know that our work continues to be seen as authoritative: MPs tell us they value our impartiality and independence, and senior officials tell us that our recommendations help their organisations to improve.

This year’s rigorous independent external and internal reviews of our work give us the confidence to know we are delivering high-quality work, which is essential to maintaining our professional reputation. For the first time in over five years, external reviewers identified we are meeting the highest standards across our investigations, lessons learned and value-for-money reports.

However, there is always room for further improvement. It was disappointing that our internal reviews identified instances where we have not consistently applied our quality controls. Our reviews and root cause analysis give us no concerns about the robustness of report findings and conclusions, or the design of our system of quality management. They do highlight that there is more to do to fully embed a consistent culture of quality and risk management.

In the year ahead, we will focus on empowering a quality culture through sharing best practice, making it easier to do the right thing at the right time and further investing in our learning and development programme.

“MPs tell us they value our impartiality and independence, and senior officials tell us that our recommendations help their organisations to improve.”



# Part One

## Overview

### Our Transparency Report

**1.1** Being transparent in what we do is key to maintaining the trust of those to whom we report and of the bodies we audit. This annual Transparency Report sets out the actions we have taken to embed a culture that allows us to deliver audit work that meets our quality standards consistently and effectively.

**1.2** We publish this Transparency Report, following the relevant regulations, alongside other corporate reports, including our diversity pay gap report, annual report and accounts, and our strategy progress update.<sup>1</sup>

**1.3** In this year's Transparency Report, covering activity during 2023-24, we set out:

- our governance and accountability arrangements, which promote and support the quality of our audit work (Part Two);
- our system of quality management, with specific assessments for our financial audit and value-for-money service lines (Part Three);
- the outcomes from our financial audit inspection programmes, lessons learnt from these, and the actions we are taking to further support the quality of our audit work (Part Four);
- the outcomes from our value-for-money audit inspection programmes, lessons learnt from these, and the actions we are taking to further support the quality of our work (Part Five); and
- how we attract, develop and retain our people and support them to deliver audit work that meets our quality standards (Part Six).



### The Comptroller and Auditor General (C&AG) and the National Audit Office (NAO)

**1.4** The NAO is the UK's independent public spending watchdog (**Figure 2**). We support Parliament in holding government to account and we help improve public services through our audits of government departments and their public bodies.

**1.5** The C&AG, Gareth Davies, leads the NAO. He is an officer of the House of Commons with statutory authority to:

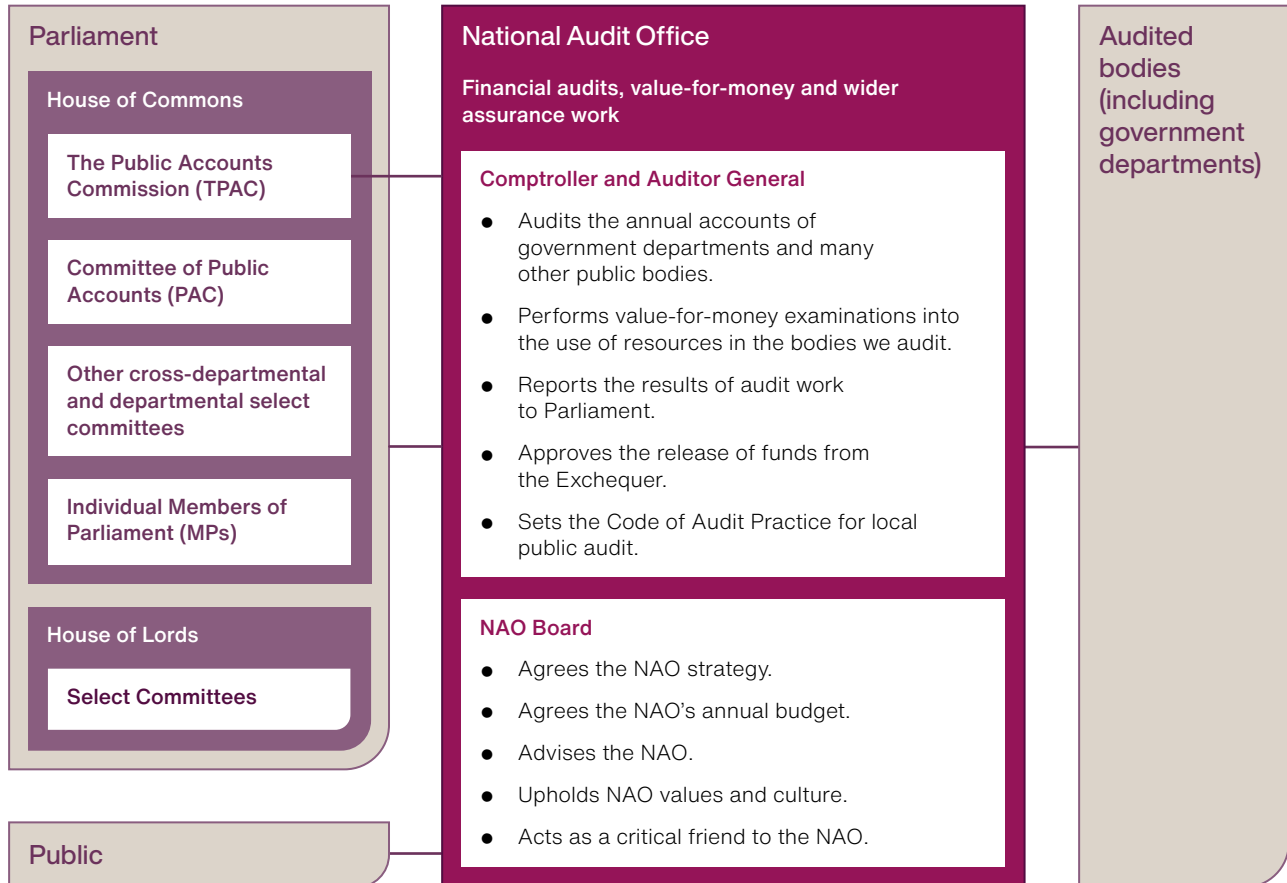
- audit and report on the financial accounts of all government departments and many other public bodies; and
- examine and report on the value for money of how public money has been spent.

<sup>1</sup> The National Audit Office complies with disclosures required by Article 13 of Regulation (EU) 537/2014 to produce an annual transparency report. This now 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. Appendix Five shows how we have adhered to the principles within the code.

## Figure 2

### How the National Audit Office (NAO) worked in 2023-24

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







Source: National Audit Office analysis of organisational structure documents

## The NAO's values and our strategy

1.6 **Figure 3** shows our purpose, values and the six priorities and enablers that make up our current strategy.

### Figure 3

National Audit Office (NAO) strategy, 2020 to 2025

<h2>Our purpose</h2>	<p>We are the UK's independent public spending watchdog.</p> <p>We support Parliament in holding government to account and we help improve public services through our high-quality audits.</p>			
<h2>Our values</h2>	<div><p><b>We are inclusive</b></p></div>	<div><p><b>We are curious and seek to learn</b></p></div>	<div><p><b>We act with courage and integrity</b></p></div>	<div><p><b>We strive for excellence</b></p></div>
<h2>Our strategic priorities</h2>	<p><b>Improving our support for effective accountability and scrutiny.</b></p>	<p><b>Increasing our impact on outcomes and value for money.</b></p>	<p><b>Providing more accessible independent insight.</b></p>	
<h2>Our strategic enablers</h2>	<p><b>We will attract, retain and develop high-quality people.</b></p>	<p><b>We will make more effective use of technology, data and knowledge.</b></p>	<p><b>We aim to be an exemplar organisation.</b></p>	

#### Notes

- 1 Our strategic enablers support all our strategic priorities.
- 2 Our detailed strategy is available at: [www.nao.org.uk/about-us/our-strategy](https://www.nao.org.uk/about-us/our-strategy)

Source: National Audit Office analysis of strategy documents

## Our work in 2023-24

**1.7** Our financial audit work is critical in assuring that 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 416 (2022-23:406) published financial statements each year, including those of government departments, executive agencies, arm's-length bodies, government-owned companies and charities.

**1.8** The C&AG provided unqualified opinions on most of the 2022-23 financial statements audited during 2023-24. He issued a qualified audit opinion on 13 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). The C&AG also issued a disclaimed opinion on the 2022-23 financial statements of the UK Health Security Agency.<sup>2</sup>

**1.9** During 2023-24, we published 64 reports, two more than last year, including investigations and lessons learned reports. The recommendations in our reports help government improve value for money. Between 1 April 2019 and 31 March 2023, we made 1,069 recommendations, 1,017 (95%) of which have been accepted or partially accepted by government. In total, 632 (59%) have been implemented and 332 (31%) are work in progress.<sup>3</sup>

## Feedback from those we audit

**1.10** We seek feedback through an annual programme of interviews and an independent survey (see Appendix Three) to help us judge how those we audit see the quality of our work and to continuously improve how we work. We received 169 responses to our survey (a response rate of 37%) and interviewed officials from 35 audited bodies between August and December 2023

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

- 89% rated the quality of their most recent financial audit as good (82% in 2022);
- 90% agreed the NAO team made fair and balanced judgements (87% in 2022); and
- 72% agreed that the audit recommendations we made were realistic (76% in 2022).

**1.12** Most respondents described the overall relationship with the NAO as good (93%), but there was a drop in the proportion of those who agreed NAO teams proactively managed progress of our financial audit work against a critical path. We have taken on board the feedback from the survey and other sources.

**1.13** Our value-for-money (VFM) work is positively received by those senior officials who responded to our survey:

- 84% agreed our VFM reports are clearly written (97% in 2022);
- 74% agreed that the NAO team understood the strategic priorities and wider context their organisation operates in (87% in 2022);
- 95% agreed the way the NAO does its work is independent, fair and balanced (81% in 2022); and
- 81% agreed that the recommendations in the VFM reports led to, or are likely to lead to, improvements in their organisation (75% in 2022).

**1.14** Further detail on our client feedback for 2023 is included in Appendix Three.

<sup>2</sup> An overview of our financial audits is available at: [www.nao.org.uk/our-work/financial-audits-overview](http://www.nao.org.uk/our-work/financial-audits-overview)

<sup>3</sup> The remaining recommendations – not classified as accepted or partially accepted – (5%) are either rejected or still under consideration by departments, or we have no information on their acceptance yet. Regarding the remaining recommendations – those not classified as implemented or as work in progress – (10%), either they are no longer relevant, or we have no information on their implementation, or no work has started yet on their implementation.

## Survey of Members of Parliament (MPs)

**1.15** Our annual survey of MPs, which was conducted before the recent general election, showed that we had a strong reputation in the previous Parliament and that MPs value the expertise and support that we provided. A clear majority of MPs (69%) continued to have a favourable opinion about the NAO (2022-23: 69%) and 61% would speak highly of us (2022-23: 55%). The survey showed a fall in the proportion of MPs who say that they know at least a fair amount about the NAO, but at 68% remains a good result (2022-23: 78%). We expect to see some variation year to year, and the proportion of MPs having at least a little knowledge of our role has remained stable.

**1.16** We continue to be seen as an important and trusted source of support for Parliament. Of those MPs who knew at least a little about the NAO, 94% said that we are effective in supporting Parliament to hold government to account and scrutinise public services. We are pleased that over three-fifths of MPs judge that we are performing above average on all the measures of our reputation, compared to other organisations. Of those who know at least a little about the NAO, the overwhelming majority of MPs rate us above average for being authoritative (92%), acting with honesty and integrity (89%), acting impartially and independently (86%), for the quality of our products and services (85%) and for influencing beneficial change (77%). Nearly two-thirds of MPs now say that our communication with them is above average compared to other organisations (2022-23: 49%).

**1.17** We will continue to share the insights from our work and support to parliamentarians as we work with the new Parliament established in July 2024.<sup>4</sup>

We are pleased that most MPs rate us above average for acting impartially and independently (86%)



<sup>4</sup> National Audit Office, *Annual Report and Accounts 2023-24*, page 28.



# Part Two

## Governance and accountability

**2.1** This part explains the National Audit Office's (NAO's) governance and accountability arrangements including:

- the responsibilities of the Comptroller and Auditor General (C&AG) and the NAO Board; and
- how governance activities have been discharged during the year.

### The Comptroller and Auditor General

**2.2** 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 has ultimate responsibility and accountability for the NAO's system of quality management. He and the staff of the NAO are not civil servants and do not report to a minister.

**2.3** The C&AG certifies the financial statements of all government departments and many public sector bodies and examines and reports 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 from those we audit, by using his rights of access to documents and staff.

**2.4** The C&AG also has statutory responsibilities as Comptroller General to approve the release of funds requested by HM Treasury to 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

**2.5** 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; and
- drawing on non-executive expertise.

### Holding us to account

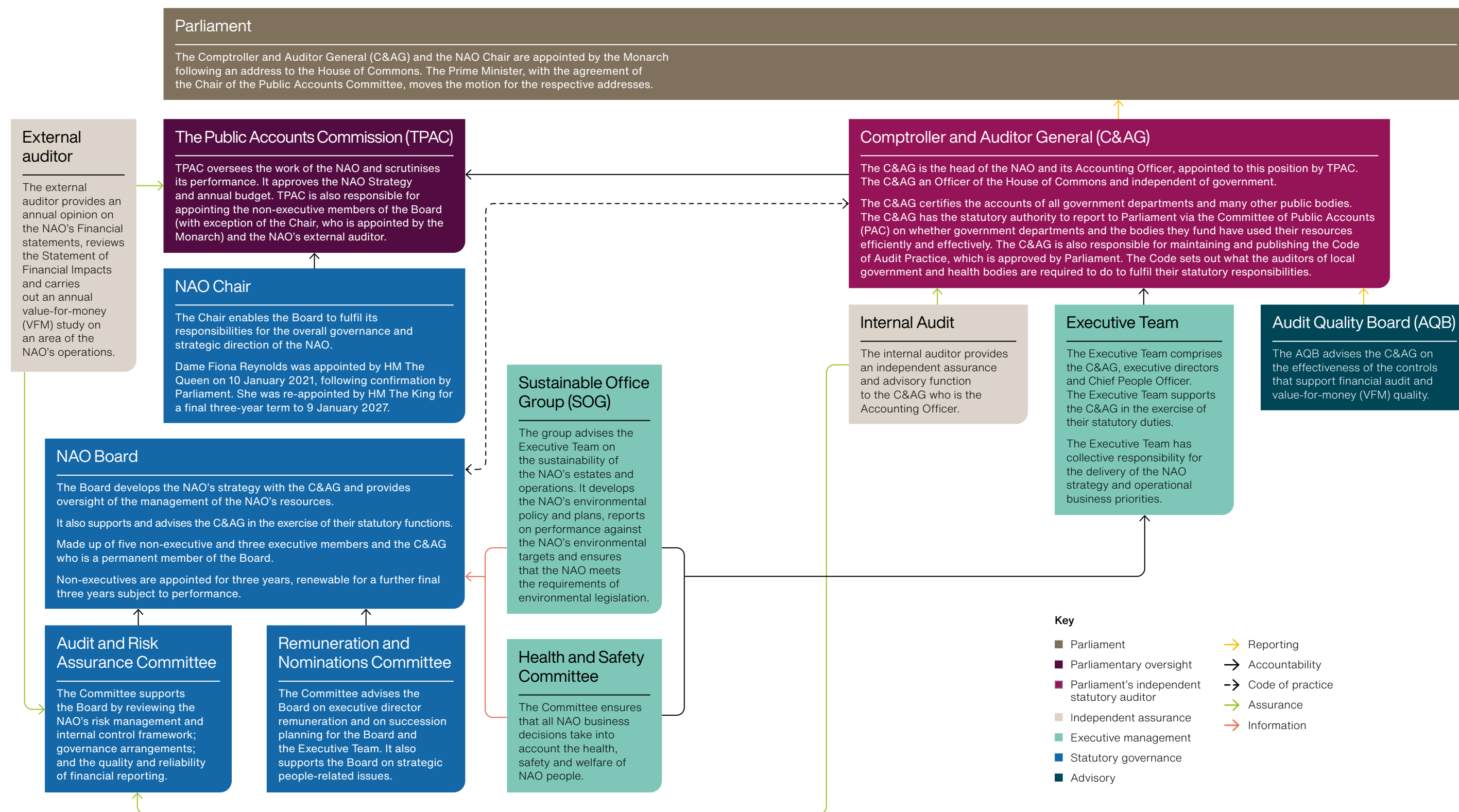
**2.6** The NAO is accountable to Parliament through the Public Accounts Commission (TPAC) which oversees our work. TPAC is a parliamentary committee of Members of Parliament and usually conducts three public sessions in Parliament per year to hold us to account. One of these sessions provides TPAC with an annual opportunity to question the C&AG and other NAO witnesses on the quality of our financial audit work.<sup>5</sup> TPAC held two additional sessions during 2023-24, first, to re-appoint Gaenor Bagley and Sir Martin Donnelly to the Board for final three-year terms from 1 January 2024, and appoint Hetan Shah as a non-executive member from 25 January 2024; and second, to review and approve our Supplementary Estimate for additional funding.

### The NAO's Governance Framework

**2.7** **Figure 4** on pages 16 and 17 depicts the division of responsibility between the different parties involved in our governance framework.

<sup>5</sup> This session, covering the outcomes from our 2023 activities, could not be arranged before the general election was called in May 2024.

**Figure 4**  
The National Audit Office (NAO) governance framework



### 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, and also advises the Board on audit quality.

Source: National Audit Office analysis of governance documentation

## The NAO Board

**2.8** The Board shapes the strategic thinking of the NAO. It also advises the C&AG in meeting his statutory responsibilities and oversees how we use our resources. It is supported by two sub-committees to which it has delegated specific responsibilities, the Audit and Risk Assurance Committee (ARAC) and the Remuneration and Nominations Committee (RemCo). A further forum, the Audit Quality Board (AQB) advises the C&AG and the Board on the effectiveness of audit quality controls. The NAO Board's operations are aligned with the code of good practice for corporate governance in central government departments, except for specific departures arising from the NAO's compliance with the Budget Responsibility and National Audit Act, 2011.

**2.9** Our Senior Independent Director, Sir Martin Donnelly, holds meetings with the C&AG and other members of the Board to appraise the Chair's performance. The feedback on Dame Fiona's performance as Chair has been consistently positive, recognising her effective and inclusive leadership of the Board. Board agendas and minutes are published on our external website.

**2.10** The Board held seven meetings during the year, including a strategy day. **Figure 5** summarises how we have discharged our responsibilities.

### Figure 5

#### The Board's focus in 2023-24

The Board's focus in 2023-24	
<b>Strategy</b>	<ul style="list-style-type: none"> <li>Reviewed and discussed the outcomes of the different phases of the strategic review to inform the development of the 2025-2030 strategy.</li> </ul>
<b>Quality</b>	<ul style="list-style-type: none"> <li>Challenged, supported and advised the Executive Team on the actions arising from the disappointing results of the 2021-22 inspection report by the Financial Reporting Council.</li> <li>Endorsed the direction of travel of the Quality First Plan, which is the NAO's strategic response to review findings.</li> </ul>
<b>People</b>	<ul style="list-style-type: none"> <li>Approved the diversity pay gap report, noting the good progress made in improving female representation at senior levels. However, more progress is required to close the ethnic minority pay gap.</li> </ul>
<b>Finance</b>	<ul style="list-style-type: none"> <li>Approved the 2023-24 Supplementary Estimate covering machinery of government changes, additional work on financial audit certification and costs relating to the implementation of the pay review for audit staff.</li> <li>Approved the 2024-25 Strategy update and Estimate covering additional staff to build skills in critical business areas, an increase in our graduate intake to build our future capacity, and plans to refurbish the NAO's London office to improve collaborative workspace.</li> </ul>
<b>Sustainability</b>	<ul style="list-style-type: none"> <li>Reviewed the excellent annual net zero report and commented that many of the deficiencies highlighted in meeting Scope 3 emissions remain outside the NAO's control despite our determination to lead by example.</li> </ul>
<b>Performance and risk/ major projects</b>	<ul style="list-style-type: none"> <li>Reviewed progress against our performance framework and carried out deep dives on key performance indicators rated Amber.</li> <li>Reviewed risks informed by ARAC's oversight in this area.</li> <li>Reviewed progress on key ATP milestones.</li> </ul>
<b>Governance</b>	<ul style="list-style-type: none"> <li>Reviewed our terms of reference to reflect changes over time in Board practice. We increased the threshold for Board approvals to reflect the impact of inflation over time.</li> </ul>

Source: National Audit Office

## The NAO Board's committees

**2.11** 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 is an advisory committee to the C&AG and considers the effectiveness of the controls we have in place that support audit quality.

## Audit and Risk Assurance Committee

**2.12** 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 **Figure 6** highlights how it discharged its responsibilities during 2023-24.

### Figure 6

The Audit and Risk Assurance Committee's (ARAC's) focus in 2023-24

#### ARAC's focus in 2023-24

<b>Financial reporting</b>	<ul style="list-style-type: none"> <li>Approved the accounting policies for 2023-24.</li> </ul>
<b>External audit</b>	<ul style="list-style-type: none"> <li>Recommended the re-appointment of Crowe as the National Audit Office's (NAO's) external auditor for a contract of three years with the possibility of two one-year extensions.</li> <li>Discussed the conclusion, findings and management's response to the recommendations for improvement arising from the external VFM review of the NAO's Audit Transformation Programme.</li> <li>Reviewed the performance of the external auditor and concluded there were no issues to bring to the Board's attention.</li> </ul>
<b>Internal audit</b>	<ul style="list-style-type: none"> <li>Discussed the conclusions from internal audit's 2023-24 operational plan and endorsed management's response to the actions for improvement arising from the three reports which received limited assurance opinions.</li> <li>Approved the 2024-25 internal audit operational plan.</li> </ul>
<b>Risk management and internal control</b>	<ul style="list-style-type: none"> <li>Received the risk highlights note at each of our meetings and discussed management's assessment of the appropriateness of current, target and critical threshold risk ratings.</li> <li>Carried out seven deep dives on risks close to their critical thresholds to review and advise on actions to bring these risks closer to target.</li> <li>Carried out a deep dive on the control and assurance framework for the NAO's finance applications.</li> <li>Recommended to the Board the approval of revised contract and approval thresholds.</li> </ul>
<b>Fraud and internal whistleblowing</b>	<ul style="list-style-type: none"> <li>Reviewed the NAO's counter-fraud plan and concluded that the plan provides a robust framework for detecting, responding to and registering fraud.</li> <li>Noted there were no internal whistleblowing concerns raised during the year.</li> </ul>
<b>ARAC governance</b>	<ul style="list-style-type: none"> <li>Completed phase 2 of the Committee's effectiveness review and completed the implementation of actions for improvement from phase 1.</li> </ul>

Source: National Audit Office

## Remuneration and Nominations Committee

**2.13** The Remuneration and Nominations Committee (RemCo) advises the Board on executive director remuneration and on succession planning for the Board and the Executive Team, and supports the Board on strategic people-related issues. RemCo is chaired by Sir Martin Donnelly and held two meetings during the year.

## Audit Quality Board

**2.14** The Audit Quality Board (aqb) challenges the effectiveness of the NAO's controls supporting the quality of our financial audit and VFM work. It takes a

keen interest in the factors influencing the quality of our audit work. Although it is formally constituted as an advisory committee to the C&AG, its membership is designed to provide an effective link to support further scrutiny by the NAO's Audit and Risk Assurance Committee and our Board. During 2023-24, the aqb was chaired by Janet Eilbeck, who worked alongside Gaenor Bagley and the C&AG (see overview below).<sup>6</sup>

**2.15** The aqb's programme of work in 2023-24 considered the risks to audit quality and the effectiveness of the NAO's response (see overview on page 21).

## Overview

### Janet Eilbeck (independent non-executive Chair): overview of the work of the Audit Quality Board

I am pleased to present my report of the aqb's activities during 2023-24. I chair the aqb, working with Gaenor Bagley and the C&AG. The aqb is supported in its work through the attendance of appropriate NAO colleagues, including the executive directors and directors responsible for our financial audit and value-for-money (VFM) service lines.

During 2023-24, the aqb met five times and continues to support the C&AG as we identify and address the audit quality challenges facing the NAO. The table below summarises how we have discharged our responsibilities. A key priority during the year has been to ensure our system of quality management is embedded, to oversee the emerging issues from external and internal inspections of our financial audit work, and the effectiveness of our plans to address concerns raised. In the year ahead, we will continue to support the C&AG in his implementation of improvements and will continue to monitor delivery of the benefits from our Audit Transformation Programme. There are no issues to report on the aqb's performance during the year.

The aqb has made a positive contribution to improving the NAO's quality risk analysis during 2023-24. The NAO's financial audit quality assessments (relating to our 2021-22 financial audits), which were concluded during the year, have not been as positive as we and the NAO would have liked to see. The recently launched Financial Audit 'Quality First' Plan promises a step change in audit quality, enabled by new technical and methodological processes, new audit software ensuring greater consistency in the way auditors document their work, and refreshed training with a stronger emphasis on culture and engagement. Our VFM work continues to provide a positive and effective platform to support Parliament's scrutiny of government programmes which generates impacts for the taxpayer.

Source: Janet Eilbeck, independent non-executive Chair of the Audit Quality Board

<sup>6</sup> In July 2024 the C&AG agreed that Gaenor Bagley, who chairs the NAO's Audit and Risk Assurance Committee, would also become the chair of the aqb, with Janet Eilbeck remaining as an independent member. This reflects the important relationship between the aqb and the Audit and Risk Assurance Committee in the management of our corporate risks relating to audit quality.



## Overview

### Audit Quality Board's (AQB's) focus in 2023-24

#### AQB's focus in 2023-24

<b>Value-for-money (VFM) quality</b>	<ul style="list-style-type: none"> <li>Contributed to the development of revised VFM standards and internal quality assurance procedures.</li> <li>Reviewed the conclusions from the internal and external cold review programmes of a sample of our VFM reports.</li> </ul>
<b>Our financial audit system of quality management</b>	<ul style="list-style-type: none"> <li>Reviewed and challenged our framework underpinning our system of quality management.</li> <li>Tested the framework by reviewing components of the system, for example, on performance engagement.</li> </ul>
<b>Financial audit quality</b>	<ul style="list-style-type: none"> <li>Monitored the outcomes from the internal and external inspection programmes and the themes arising from these reviews, including key reports from the Financial Reporting Council and the Public Accounts Commission's oversight of the quality of our work.</li> <li>Reviewed possible root causes behind our quality outcomes.</li> </ul>
<b>Financial audit quality plans</b>	<ul style="list-style-type: none"> <li>Reviewed progress against the single financial audit quality plan for 2023.</li> <li>Reviewed and challenged ambitions for the Quality First Plan for 2024.</li> <li>Discussed our learning and development strategy and future training plans.</li> <li>Emphasised the importance of our culture in further embedding a quality and sceptical mindset as staff progress their audit work.</li> </ul>
<b>Implementing our Audit Transformation Programme (ATP)</b>	<ul style="list-style-type: none"> <li>Reviewed risks and the effectiveness of management's actions as we implemented the ATP phases.</li> <li>Reviewed the National Audit Office's (NAO's) plans for related training programmes.</li> <li>Challenged our progress in realising the expected benefits to be seen in the quality of our audit work.</li> </ul>
<b>Assessing and reporting on the quality of our work</b>	<ul style="list-style-type: none"> <li>We met with NAO financial and VFM service line auditors to discuss and gauge for ourselves the effectiveness of quality interventions.</li> <li>We attended training for our VFM auditors and have discussed with the NAO's Chief People Officer our wider learning and development plans for our people and raising the importance of a quality culture throughout the NAO.</li> <li>Met the AQB's secretariat and other senior staff frequently to discuss our agenda and emerging themes.</li> <li>We oversaw the structure, content and messages within our annual Transparency Report, which was published in November 2023.</li> <li>We saw the evolution of a programme of audit quality indicators.</li> </ul>

Source: National Audit Office

## Executive Team

**2.16** In 2023-24, the Executive Team, comprised the six executive directors and, from June 2023, the Chief People Officer. Executive directors and the Chief People Officer each have functional responsibility for an area of work that is crucial to the delivery of our strategy. Each executive director was also accountable for one of six individual business groups that make up the NAO.

### 2.17 The Executive Team met:

- monthly, to provide strategic and operational leadership and to determine the goals for the NAO; and
- more frequently, to make operational decisions, and to keep up to date with developments in individual groups and functional areas.

**2.18** The Executive Team received regular financial and performance information as well as internal and external feedback to help assess our progress in implementing our Strategy, our change programme and organisational development plan. It used this information to examine the progress of our financial audits and agreed additions and revisions to our programme of VFM work, aligning operational and resource plans with our priorities for these services.

**2.19** During 2023-24, the Executive Team oversaw the finalisation of new pay frameworks for NAO colleagues; developed and implemented our structural and operational response to challenging feedback on our financial audit quality; endorsed the case for gradually bringing more of our financial audit work in-house in response to market developments; considered our approach to developments in AI and sustainability reporting; received updates on our digital and information security plans; and commissioned and monitored progress on our strategic review before we launch our new five-year strategy in April 2025.

## Risk management

**2.20** 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 NAO's Audit and Risk Assurance Committee (ARAC) receives the risk register and discusses emerging and key risks at each meeting; and the NAO's Board receives a summary of the risks at each meeting, and receives the Internal Audit Annual Report from the NAO's Director of Internal Audit and Assurance (DIAA).

**2.21** As Accounting Officer, the C&AG is responsible for reviewing the effectiveness of the system of risk management and internal control. This review is informed by the work of the DIAA, the executive directors within the NAO responsible for developing and maintaining the internal control framework, and comments made by external auditors in their management letter and other reports.

**2.22** The DIAA's annual report for 2023-24 concludes that the NAO has "adequate and effective governance, risk and control arrangements". The DIAA arrived at this opinion by:

- delivering an annual operational plan for 2023-24, approved by the Executive Team and ARAC, set against an Audit Needs Assessment to prioritise activity over a three-year planning period, and an internal audit strategy and annual operational plan;
- consistently applying a risk-based methodology, conforming with the Public Sector Internal Audit Standards;
- delivering individual assurance assignments 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.

**2.23** Financial audit and VFM quality risks are two of our principal strategic risks. The way we manage these, and assess the quality of our work, reflects their different approaches. In Part 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 2023-24.<sup>7</sup>

<sup>7</sup> National Audit Office, [Annual Report and Accounts 2023-24](#), 28 June 2024.

# Part Three

## Our system of quality management

**3.1** The quality of all our work is fundamental to our credibility in supporting Parliament in holding government to account. It is essential to our performing this role effectively, maintaining Parliament's trust in us, and preserving our professional reputation.

**3.2** This part describes our system of quality management, and how it works in practice. It outlines firstly those aspects of our system that apply to all of us within the National Audit Office (NAO) and then discusses specific responses for our financial audit and value-for-money work.

**3.3** Our system of quality management aims to ensure that our work achieves this ambition. 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.

**3.4** We have applied new auditing quality management standards that aim to enhance the robustness of our system of quality management, customised to the nature and circumstances of the NAO and the audit work we perform. During 2022, we worked towards implementing the new International Standard on Quality Management (UK) 1 (ISQM1) by 15 December 2022. In doing so, we introduced a new financial audit system of quality management, taking the opportunity to reassess, refresh and update our existing policies and procedures. While our VFM work does not fall within the scope of ISQM1, we have chosen to apply its principles and approach to our VFM work, where relevant. We have done this to support quality across each of our service lines and ensure alignment within our wider system of quality management. Our work since then, and during 2023-24, has been focused on fully embedding and strengthening our system of quality management.



## Our quality culture

**3.5** Within the NAO, embedding audit quality relies on having a culture in place that values excellence, inclusivity and respect, courage, integrity, and curiosity (Figure 3). Our quality standards are linked to these values and are reinforced through the ways in which we work together (Figures 7 and 8).

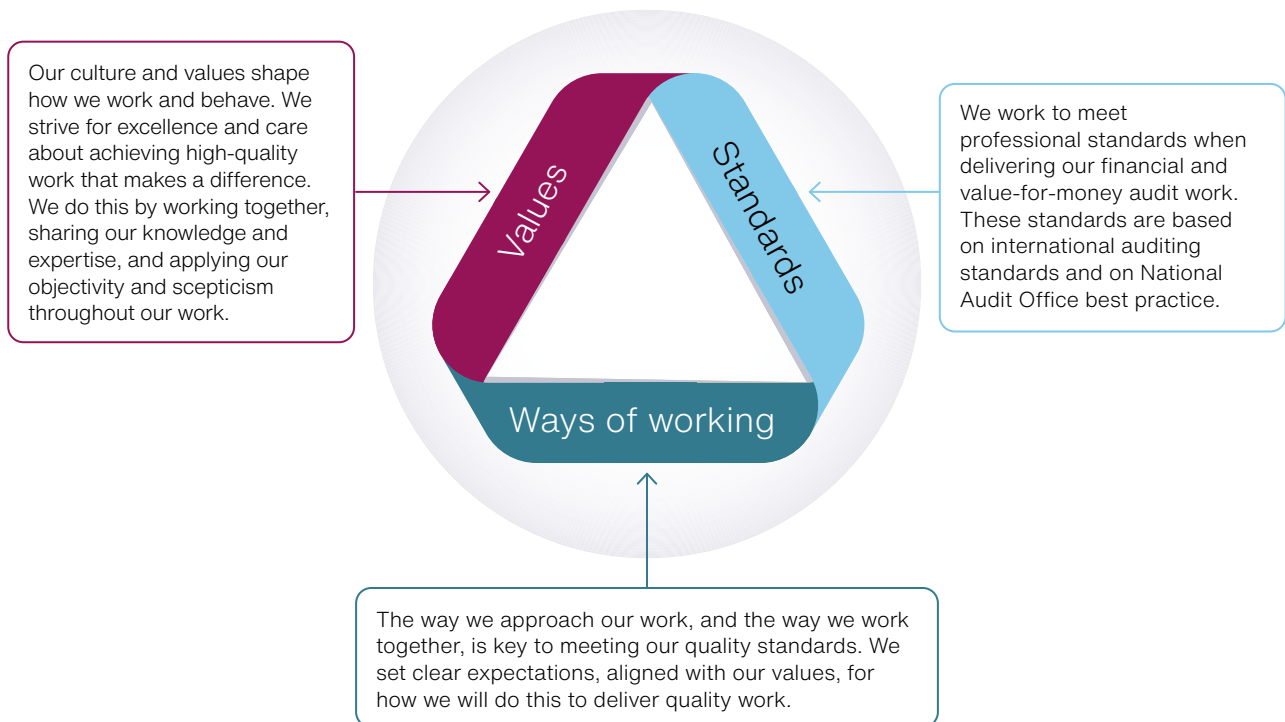
**3.6** We act on findings from our annual independent internal and external quality inspection programmes, which highlight areas of good practice as well as where we need to improve further. We put plans in place to learn from and address the feedback we receive as promptly as possible.

## Our standards

**3.7** Our auditors working on both financial audit and VFM work must meet the highest standards.

**Figure 7**

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



Source: National Audit Office

## Figure 8

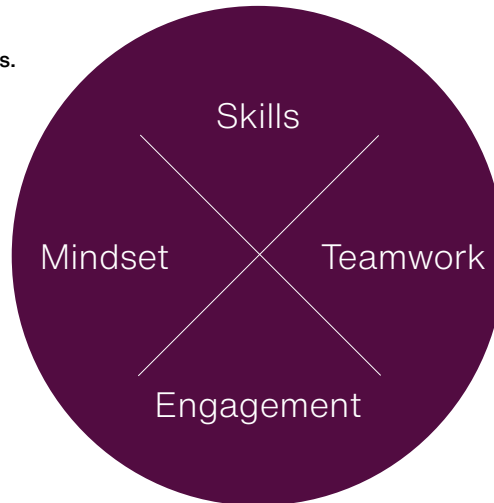
### Our ways of working

'Quality First' culture: the way we approach our work, and the way we work together matter: we're setting clear expectations, aligned to our values, for how we will do this to deliver quality work and outcomes

#### The way we approach our work matters.

We will need to:

- appreciate our purpose;
- apply an audit mindset;
- understand our responsibilities and be accountable;
- challenge ourselves and others;
- robustly conduct and document work; and
- develop and maintain our skills and knowledge



#### The way we work together matters.

We will need to:

- play our part in our team;
- support and coach others;
- collaborate and consult;
- create trust;
- build team resilience; and
- engage effectively with audited bodies.

Source: National Audit Office

**3.8** The standards applied to our VFM work are consistent with international performance audit standards and are designed to meet the expectations of the UK Parliament (Appendix One).

**3.9** Our financial auditors are required to meet International Standards on Auditing (ISAs) (UK). The Comptroller and Auditor General (C&AG) must undertake certain discretionary financial audits under these ISAs. 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.

**3.10** During 2023-24, we considered new and revised auditing standards and the associated implications for our financial audit work:

- ISA (UK) 220 – Quality Management for an Audit of Financial Statements is being implemented from our 2023-24 audits. Directors and their teams are required to understand the system of quality management. They need to consider the quality risks and responses that are applicable to their audits, as well as information from the NAO's monitoring and remediation process. There are also increased expectations around professional scepticism and evidence of the direction, supervision and review of engagements. We are implementing the requirements of this standard with our framework partners on those audits which we currently contract out.

- ISQM (UK) 2 – Engagement Quality Reviews is being implemented from our 2023-24 audits. This standard has presented us with an opportunity to refresh how we allocate engagement quality reviewers to particular engagements, as well as update expectations for the role.
- 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

**3.11** The C&AG's independence is protected in statute. Our appointment as the external auditor of most of the entities we audit is also set out in statute (including for VFM work). This means that the audited entity cannot replace us as an auditor in response to negative audit opinions or conclusions. 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.

**3.12** Our ethical values and professional standards are at the heart of the way we conduct our business. We apply the highest standards of corporate and personal conduct across all our work.



**3.13** We are required to apply the Financial Reporting Council's (FRC's) Revised Ethical Standard 2019, which encompasses all our people and applies to all our audit work. We are compliant with this Standard, which sets out overarching principles of integrity, objectivity and independence across all our work. It includes specific circumstances that might arise in audit and other public interest assurance engagements that could undermine this basis for user trust and confidence. We are required to establish that we have identified and addressed relevant conditions and circumstances.

**3.14** The C&AG is the designated ethics partner. He has overall responsibility for ethical matters. He is supported by the NAO's ethics team, which 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 a body audited by the NAO, or staff members with family or close associates working for NAO-audited bodies.

**3.15** We have embedded detailed procedures for identifying potential threats to independence and establishing appropriate safeguards into our audit methodology, as illustrated in the following examples:

- To prevent over-familiarity with the audited entity, we regularly rotate staff in line with the requirements of professional standards.
- Each member of staff must complete an annual Code of Conduct return, which confirms that they are aware of their ethical and professional obligations.
- Each member of staff must also sign a declaration of independence on each audit, in advance of involvement in any audit or other public assurance engagement, which highlights where potential or actual conflicts of interest might exist.

**3.16** Once safeguards are in place, we check compliance and require individuals and teams to report promptly where circumstances change.

**3.17** In January 2024, the FRC published its revised Ethical Standard, effective from 15 December 2024. This new standard simplifies the existing standard and provides additional clarity in certain areas. We are working to implement this for our 2024-25 cycle of audits and to our NAO-wide procedures from 15 December 2024. The key changes for us are in a reduction to restrictions on secondments to entities that we audit and new protocols for reporting breaches to the FRC.

**3.18** We are often asked to work on engagements beyond our formal statutory appointment framework. Such work can include auditing 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 re-accept existing audited entities and engagements. New engagements must also be approved by the C&AG.

## Our quality management and assurance model

**3.19** At the heart of our system of quality management is a 'three lines of defence' model. This is designed to ensure that our financial and VFM audit work complies with our professional standards and to help mitigate against strategic and technical quality risks.

**3.20** Our 'three lines of defence' are as follows:

- **First line of defence:** Our teams are responsible for delivering audit work that meets our professional 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; also, that individual team members comply with our policies and procedures and take advantage of the learning and development opportunities available to them. Senior management is also involved in reviewing our financial audits and VFM work (see Appendix Three).

- **Second line of defence:** Our central teams put in place NAO-wide arrangements to secure the quality of our work including: managing our system of quality management in responding to risks as they emerge; updating regularly our manual and methodology; delivering professional guidance and training; providing technical advice and support as requested by audit teams; establishing interventions where particular audit assignments involves specific technical or reputational risks; managing resourcing and recruitment; and managing contracts with our framework partners. This response also includes the establishment of our hubs of central and technical expertise, which provide specific advice to audit teams which meet sector-wide professional standards.
- **Third line of defence:** We have an independent monitoring and assurance function in place that tests the effectiveness of our risk mitigations and controls as applied under the first two lines of defence. This work includes managing our formal independent internal and external quality inspection programmes, collating findings from these to inform future guidance and audit policy, and implementing an assurance plan that evaluates the effectiveness of our system of quality management based on our monitoring activities.

**3.21** Throughout the application of each of these stages, wherever we identify deficiencies, we act so that any risks to audit quality are addressed promptly and effectively. To assist us in doing this, we have an assurance programme in place which monitors and evaluates the effectiveness of our system of quality management and, to support this, we need reliable and timely information to assess risks to audit quality. This is gained through two key NAO-wide activities:

- our use of audit quality indicators; and
- results from inspection programmes of our work.

## Audit quality indicators (AQIs)

**3.22** AQIs allow us to challenge the effectiveness of mitigations we have put in place to manage any potential risks to the delivery and quality of our work, and support timely interventions where needed.

**3.23** Our AQIs provide us with a wide range of information tailored for use by our external stakeholders through our public reporting (Appendix Three), our Executive Team, the NAO's business groups, and our directors.

**3.24** During 2023-24, we augmented our AQIs. While we continue to produce our more traditional indicators covering the quality of our audit work, and feedback from our people, audited bodies, and Parliament, we have also developed the Executive Team's monthly scorecard to reference a wider range of AQIs.

**3.25** We have, from our 2023-24 cycle of financial audits, also taken advantage of the functionality given to us by our new financial audit software, Apex, to produce 'in-flight' metrics to help identify risks to audit delivery and quality (See case study below).

## Case study

### Using our new financial audit software, Apex, to identify and manage delivery risks

The introduction of our new Apex financial audit software from our 2023-24 audits has provided opportunities to create additional AQIs for audits while they are 'in flight'. These AQIs, tracking the lifecycle of an audit, give us live information as an audit progresses. They give our central financial audit management team, group executive directors, and group engagement directors information that provides an in-depth understanding of progress so as to help identify where teams may need support to manage a risk to quality. These AQIs are published weekly, providing our financial auditors with real-time progress information.

Source: National Audit Office

## Our independent inspection programmes

**3.26** Independent reviews of our work are an important part of our quality approach. Each year, a sample of financial audits and VFM reports are reviewed to assess how well they meet our standards and to identify good practice and improvements for our quality management system.

**3.27** Independent reviews are done in two ways:

- **Internal reviews:** These are completed and moderated by NAO staff who are independent of the audit team whose work is being reviewed. For our financial audit work, reviews assess whether evidence held on a specific audit file met the requirements of auditing standards. For our VFM work, reviews consider how the audit team managed strategic and technical risks and the overall quality of the final report.
- **External reviews:** These are completed by external organisations. In the case of financial audit, these are undertaken by the Financial Reporting Council's Audit Quality Review team, which assesses whether audits met auditing standards. For our VFM work, three different external organisations assess how well our reports manage strategic risks to deliver relevant and impactful work in a clear and accessible way.

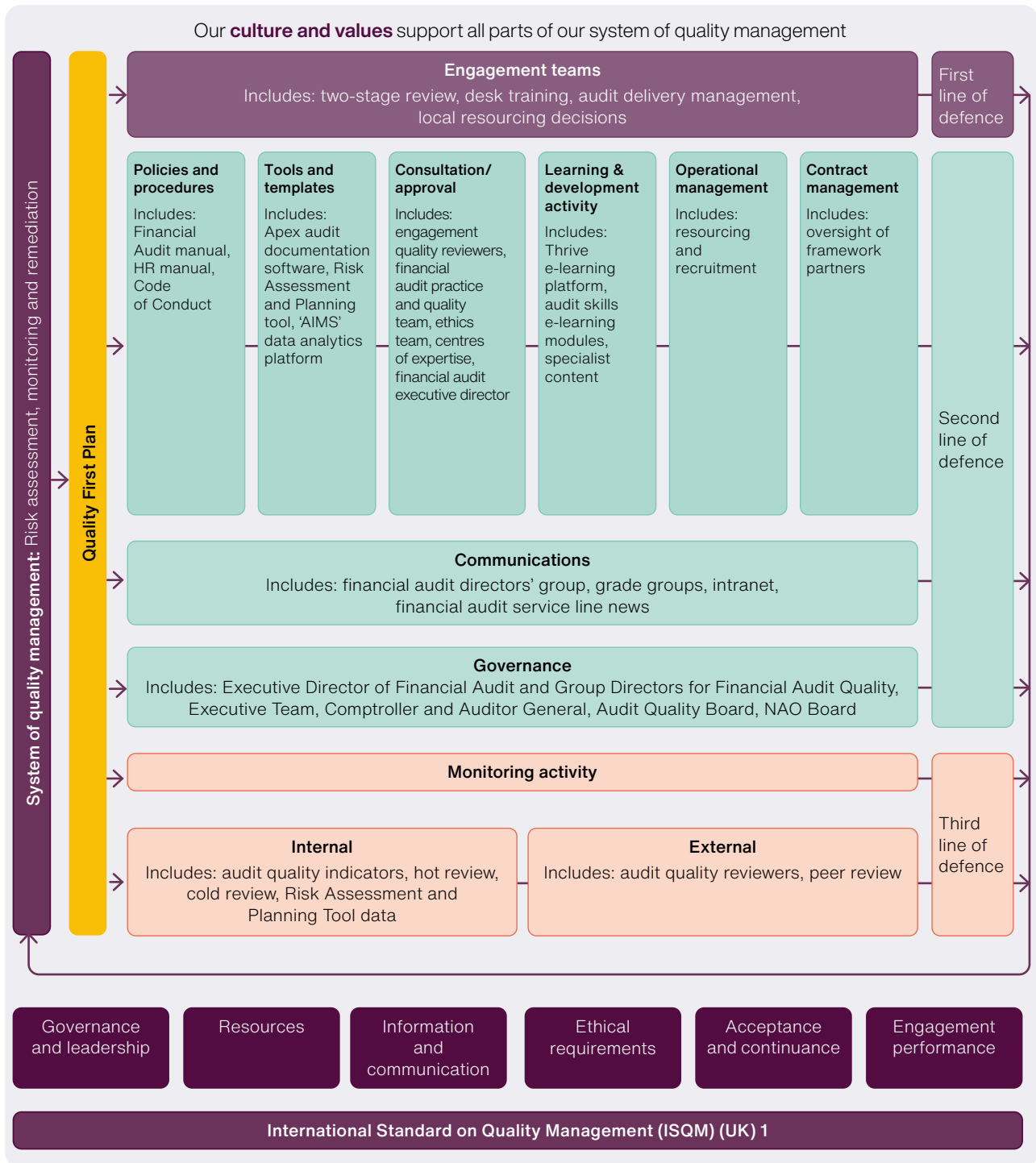
Parts Four and Five of this report highlight the key findings from our inspection programmes.

## Our system of quality management for financial audit

**3.28** Our system of quality management for financial audit allows us to take a structured approach to our risk assessment, monitoring, evaluation and remediation processes and procedures. It is designed to support our people to conclude audits which meet best professional standards in the quality of evidence behind our audit opinions and reports to Parliament. **Figure 9** illustrates the system and the interplay between its elements.

**Figure 9**

The National Audit Office's (NAO's) financial audit system of quality management



Source: National Audit Office



**3.29** Our ‘three lines of defence’ model (paragraph 3.20) is designed with the aim of building quality into all stages of a financial audit so that the work is of the highest technical quality. All audit work undergoes a two-stage review by senior members of the engagement team. Those 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 where audit teams consult on significant audit judgements, such as those that might lead to a qualified audit opinion, and to identify cross-cutting audit issues. These panels comprise our Executive Director of Financial Audit, our Deputy Head of Financial Audit (who chairs the panels), our Director of Financial Audit Practice and Quality, and the Engagement Director.

**3.30** At the planning stage of an audit, each NAO engagement director attends a portfolio review meeting, led by our Executive Director of Financial Audit and our Deputy Head of Financial Audit, 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 others 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 Financial Audit Practice and Quality team.

**3.31** We are also required to assess our progress against the quality risks associated with each component set out under ISQM1, and design and implement responses which will mitigate these risks to an acceptable level. The six components are as follows:







- **Governance and leadership:** Our arrangements to support our culture of audit quality. Our governance also underpins the statutory independence of the C&AG.
- **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.

- **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.
- **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.
- **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.

**3.32** Our audit quality risk assessments for each of these areas are documented in a risk register. The most significant risks from these registers are set out in **Figure 10**. These assessments, in turn, feed into the NAO’s corporate risk register.

**Figure 10**

The National Audit Office's (NAO's) financial audit quality risks, June 2024

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/red 	<p>We have made significant progress in recruitment and retention for the 2023-24 audit cycle. The current key risk assessment reflects that we need to do more to:</p> <ul style="list-style-type: none"> <li>support the continued development of skills and expertise, especially in the more complex audit areas;</li> <li>continue to build capacity and resilience within teams to manage workloads, including through enhanced productivity and efficiency; and</li> <li>bring forward our internal inspection programme to allow timely identification and remediation of deficiencies.</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.	Red 	<p>While the Financial Reporting Council's (FRC's) Audit Quality Review team has noted encouraging signs of improvement in areas of our work, the grades and findings from our latest internal and external audit inspections emphasise the need for our continued investment to ensure we deliver high-quality work consistently across all our work.</p> <p>Key interventions include the following.</p> <ul style="list-style-type: none"> <li>Our Audit Transformation Programme, through which we have already introduced a new risk-focused methodology and audit software (known as Apex) with a guided workflow to assist our teams in ensuring audit quality and its consistent application across all our audit work. Our teams used our new methodology and system together for the first time for 2023-24 audits.</li> <li>Our 'Quality First' Plan, which we issued and began implementing in April 2024. Our Plan builds on our Audit Transformation Programme, and brings a much greater focus on: people; fostering a 'quality culture and mindset'; and learning and development. We provide further details in paragraphs 4.25 to 4.29.</li> </ul>
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 	<p>This risk status reflects our independent status, and tone at the top, which is reflected in our culture and values.</p> <p>In January 2024, we strengthened our financial audit leadership arrangements to support sustained improvements to the quality of our financial audit work.</p>
Information and communication	The exchange of information within the NAO and with external parties such as audited bodies and regulators.	Amber/red 	<p>We have suitable information and communication systems in place to support the delivery of our audit engagements. The current status reflects the following.</p> <ul style="list-style-type: none"> <li>We are continuing to improve the communication of issues to the service line and support to address them.</li> <li>Our Audit Quality Indicator programme to support the operation of our system of quality management, is not yet fully mature. This includes using 'in-flight' metrics generated from our Apex system, which are not yet fully embedded into our business-as-usual processes.</li> </ul>
Engagement acceptance	Our judgements about whether it is appropriate to accept or continue a client relationship or specific engagement.	Green 	<p>This reflects the statutory nature of most of our engagements, limited new engagement requests, and our mature policies and procedures for considering engagement acceptance. The current risk status also reflects the strength of our judgements about whether it is appropriate to accept or continue our relationship with an audited body, or on a specific engagement.</p>
Ethical requirements	Our compliance with relevant ethical requirements, including those related to independence.	Green 	<p>This risk status 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. The risk assessment takes into account the recent strengthening of our processes in light of an FRC finding last year on issues around long association of engagement directors on audits.</p>

Source: National Audit Office

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

**3.34** Our financial audit management team considers the risk registers fortnightly and challenges the progress we are making in mitigating the risk, the risk rating, and actions in hand.<sup>8</sup>

**3.35** We are also required to formally evaluate, annually, the effectiveness of our system of quality management. Our first assessment, for 2023, drew from:

- the outcomes of our formal monitoring and inspection programmes, including our internal and external file reviews and root cause analysis, which were undertaken and concluded during 2023; and
- our ISQM1 assessments for each of our risk components undertaken during 2023, which identified risks to audit quality as issues arose and considered the effectiveness of associated mitigations, informed by our inspection and monitoring programmes.

**3.36** The NAO's Director for Audit Risk and Compliance provided the C&AG with a report summarising his activities during 2023. Following discussion and challenge, the C&AG endorsed the conclusion as his own assessment of the effectiveness of our system of quality management (see case study). This assessment also recognised that we still have much to do, noting that 2023 was the first year of implementing this new quality standard and in the way in which the system is evaluated.

<sup>8</sup> Our financial audit management team consists of the Executive Director of Financial Audit and our Deputy Head of Financial Audit, and our Directors for Financial Audit Quality, Operations, Transformation and Change, and Audit Risk and Compliance.

## Case study

### The annual assessment of the effectiveness of the National Audit Office's (NAO's) financial audit system of quality management 2023

Our monitoring work has identified areas where severe (grade driving) findings were identified, and we applied our judgement on whether these were pervasive. There are actions in place to remedy these deficiencies and we will test their effectiveness as we take forward our programmes of activity.

More needs to be done so that colleagues are clear on what is expected of them as they evidence their evaluation of the risk of management override as they audit journals, and our judgement on whether this was pervasive is marginal. Additionally, on auditing harder-to-value assets and financial service transactions, and to more effectively evidence the depth of our scepticism as we audit management's (historic) assumptions feeding into estimates, we have severe deficiencies which we also judged not to be pervasive. We should continue to challenge ourselves about adopting a sceptical mindset and the importance of timely and effective review.

We therefore concluded that we have identified some severe deficiencies where the effect of these have yet to be fully corrected. We have judged that these deficiencies are not pervasive across our audit portfolio. We have also concluded that we have designed and implemented an effective system of quality management and associated risk components that provides a sound assessment of risks as they arise and of their management.

We therefore consider that, at this point in time, except for matters relating to the deficiencies highlighted above that have a severe but not pervasive effect on the design, implementation and operation of the system of quality management, the system of quality management provides the NAO with reasonable assurance that the objectives of the system of quality management are being achieved.

#### Note

- <sup>1</sup> This conclusion was based on an initial assessment by the NAO's Director, Audit Risk and Compliance undertaken in December 2023 and considered and approved by the C&AG in January 2024.

Source: National Audit Office

**3.37** In July 2024, we received feedback from the FRC on our implementation of ISQM1 as part of its wider review of how audit firms have implemented this new quality management standard. The FRC concluded that, based on the available evidence, we did not meet a key requirement of ISQM1 since there was no evidence that the system was fully implemented by 15 December 2022 and our evaluation of the system of quality management was not completed and approved by 15 December 2023.

**3.38** We recognise that we need to strengthen elements of our system of quality management, and that we should have done more to evidence our implementation and evaluation of it more effectively. ISQM1 represents a significant change in quality management arrangements, and we carried out significant work to implement it. We formally completed our evaluation of the effectiveness of our system of quality management in January 2024, after the mid-December 2023 deadline required under ISQM1. We are confident, however, that the core elements of our system of quality management, designed to address what we assessed as the key risks to audit quality, were in place as required by the standard. We will do more to document our assessment of quality risks and the design and effectiveness of mitigating processes and controls, including for those risks which we have assessed at the lower end of the risk spectrum. We are considering the detailed findings underpinning the FRC's conclusion and are putting in place actions to address these during 2024.

## Our system of quality management for our value-for-money work

**3.39** Our system of quality management is designed to support our people to produce high-quality value-for-money (VFM) work and is critical to achieving our strategic objectives and delivering accurate, accessible and independent reports to Parliament.

**3.40** Our organisational values and VFM quality standards underpin our approach to quality (**Figure 11**). Our standards flow directly from our organisational values and are based on NAO best practice and international standards (Appendix One).

**3.41** Our 'three lines of defence' model (paragraph 3.20) ensures 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 work to Parliament and wider audiences.

**3.42** Against this context, our system of quality management is designed to address risks to strategic and technical quality (**Figure 12** overleaf).

### Figure 11

#### National Audit Office value-for-money quality standards

##### We are:

###### Independent

We meet international standards for quality, behaviour and ethics.

###### Professional

We meet our legal and professional obligations.

###### Open

We value different perspectives and invite feedback and challenge.

###### Efficient

We scope our work to meet the objectives for the audit.

##### Our work is seen as:

###### Relevant

We focus our work on the right issues at the right time to make the greatest difference.

###### Accurate

We use robust evidence and show clearly how we have reached our judgements.

###### Accessible

Our work is clear, inclusive and engaging.

###### Focused on outcomes

We can show our work leads to positive changes in public services.

Source: National Audit Office

**Figure 12**

Addressing risks to strategic and technical quality in our value-for-money (VFM) work

Key risks	Actions to mitigate risks
<b>Strategic quality</b>	
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.	<b>How we select our work</b> <p>Twice a year, the Comptroller and Auditor General (C&amp;AG) sets our future programme of work to ensure that it focuses on the most significant VFM risks to government. In reaching his judgement, the C&amp;AG considers suggestions from Parliament, alongside internal assessments of VFM risks to government. The future programme of work is enhanced by our ability to do responsive pieces of work as issues arise throughout the year that the C&amp;AG decides we should report on.</p>
	<b>How we get impact from our recommendations</b> <p>We make recommendations in our reports that are focused on the actions that are likely to lead to sustained, significant improvements in outcomes 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.<sup>1</sup></p>
<b>Technical quality</b>	
All our work should meet our quality standards, which are aligned to our organisational values. We have a risk-based quality management system to help us do this (Appendix One).	<b>A requirement for peer review</b> <p>Each study team is required to develop a proportionate, risk-based quality plan at the start of a project. This enables the audit team to receive advice from, and be challenged by, sectoral and technical specialists within the National Audit Office on important aspects of the audit including the approach being adopted, quality of the evidence base, formation of audit judgements, and risk management.</p>
	<b>A quality assurance review of innovative or complex methodologies</b> <p>These reviews are done by specialists from our analysis hub to check results are accurate and the methodologies used are relevant and robust.</p>
	<b>A requirement for a robust evidence base</b> <p>Audit teams must have a document that links all statements and data in our work to source evidence in the audit file.</p>

**Note**

1 The recommendations tracker is available here: [www.nao.org.uk/recommendations-tracker](https://www.nao.org.uk/recommendations-tracker)

Source: National Audit Office



# Part Four

## The quality of our financial audit work

### 4.1 This part:

- sets out the outcomes from the most recent inspections of a sample of our financial audits;
- identifies the key areas for improvement and how we plan to address them; and
- reflects on the progress we have made in taking forward findings from previous years.

**4.2** 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 check whether we have complied with the National Audit Office's (NAO's) Financial Audit Manual and International Standards on Auditing (UK).

**4.3** Each audit is graded, 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. Appendix Three gives more information about our quality ratings for financial audit work.

**4.4** 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 assess these issues from an organisation-wide perspective and review whether they change our 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 quality plans, which we then monitor so that actions are implemented.

### Internal inspection programme

**4.5** The NAO's Financial Audit Risk and Compliance team manages an independent annual internal quality assurance programme by reviewing a sample of completed audits each year. These reviews are undertaken by independent audit managers and senior audit managers and are overseen by a group of financial audit directors.

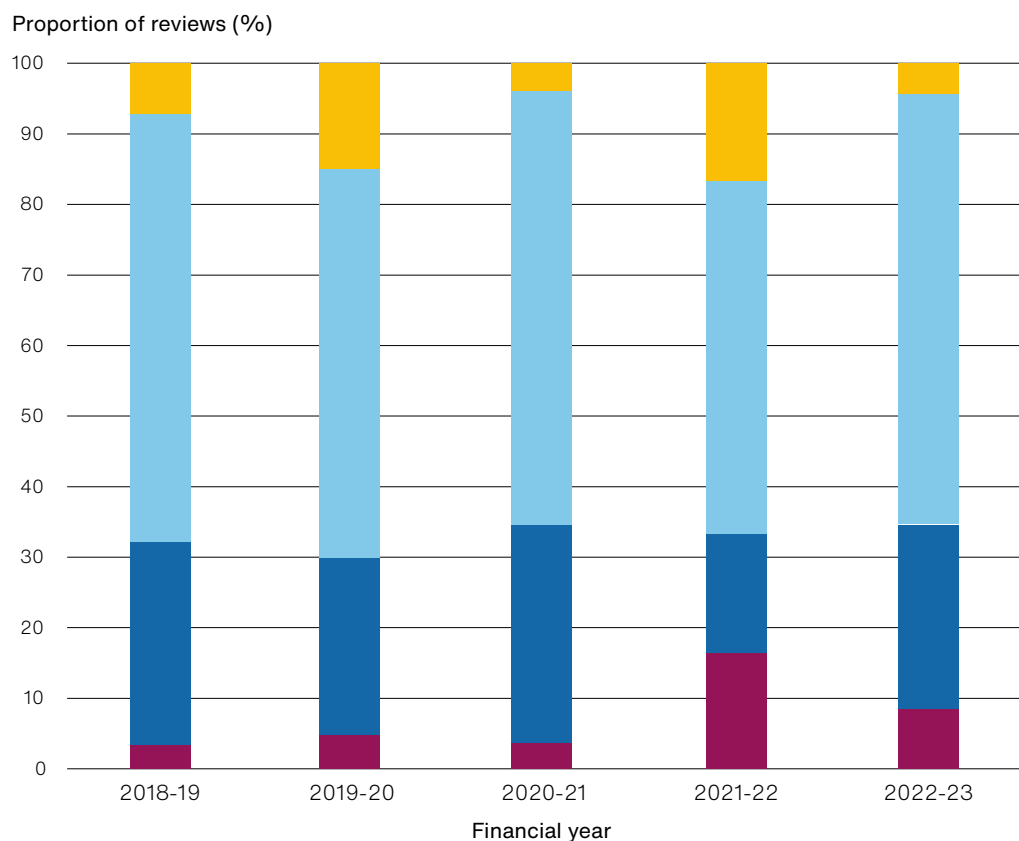


**4.6** During 2023-24, we reviewed 23 of our 2022-23 audits (compared with 24 of our 2021-22 audits in 2022-23). Of these, some 65% (67% in 2022-23) were judged to be good or required only limited improvements.

However, six audits reviewed required improvement, and a further two highlighted areas where significant improvement was required. **Figure 13** summarises the results from our internal quality reviews from 2018-19 to 2022-23.

**Figure 13**

National Audit Office (NAO) results from internal quality reviews, 2018-19 to 2022-23



#### Above the quality threshold

Good	2	3	1	4	1
Limited improvements required	17	11	16	12	14

#### Below the quality threshold

Improvements required	8	5	8	4	6
Significant improvements required	1	1	1	4	2
<b>Total</b>	<b>28</b>	<b>20</b>	<b>26</b>	<b>24</b>	<b>23</b>

Source: National Audit Office results from internal quality reviews

**4.7** Our internal reviews highlighted that we needed to do more to improve:

- the evidence that we have done sufficient work in exercising our scepticism, through standback assessments to also guide a reviewer through the evidence on the audit file;
- our evaluation and challenge of management over key judgements and estimates, including historic judgements made in prior years' audits that remain extant;
- our consideration and testing of journals to respond to the risk of fraud and management override of controls;
- evidence on the group audit file of the auditor's assessment of the work of the component auditor, even where component auditors are NAO auditors;
- our audit of the accounting of the configuration costs associated with cloud computing arrangements; and
- to ensure appropriate consultation with our centres of expertise in our more complex areas to challenge management's experts and to support an appropriate audit response.

## External inspection programme

**4.8** The Audit Quality Review team of the Financial Reporting Council (FRC) reviewed a sample of seven 2022-23 audits (five audited under the Companies Act and two from the rest of our portfolio of audits), compared to nine in the previous year. Of these, some 43% (prior year: 33% of our 2021-22 audits sampled) were judged to be good or requiring only limited improvements, though two of our audits required improvement and a further two audits required significant improvements.

**4.9** Figure 14 overleaf shows the results from our external quality reviews from 2018-19 to 2022-23. Further detail on the external financial audit inspection programme is at Appendix Two.

**4.10** The key findings from the external reviews of our 2022-23 audits highlighted that we need to do more to improve our:

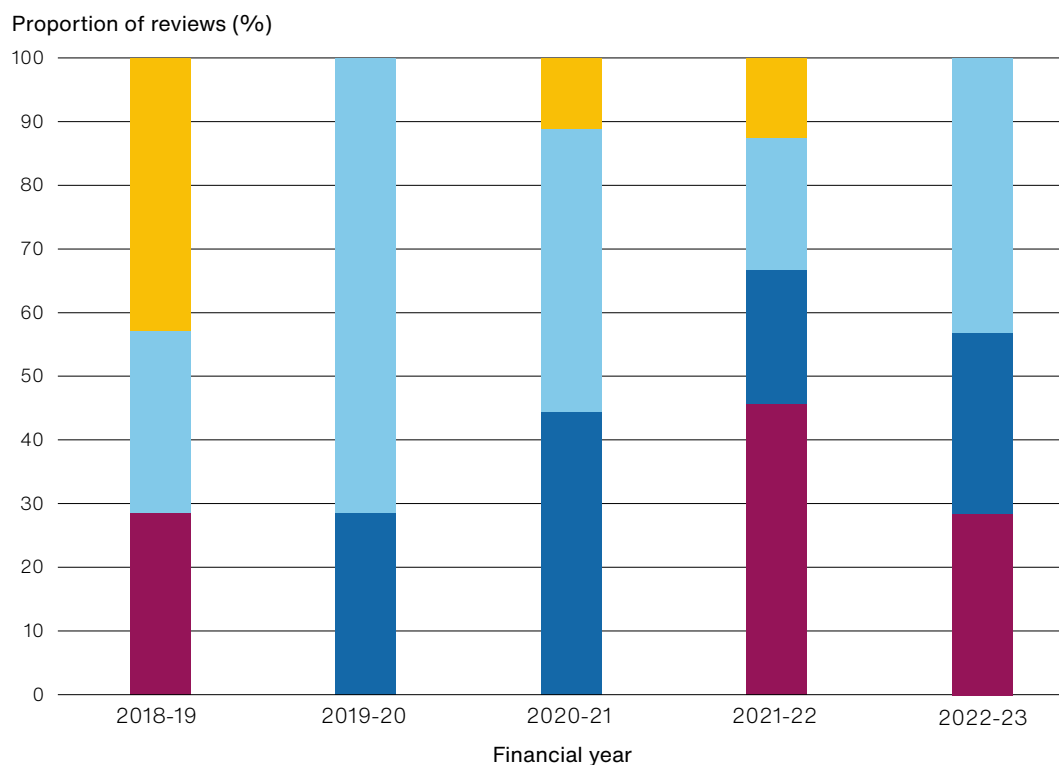
- procedures over risk assessment and scoping in relation to IT control deficiencies where data were used in the calculation of asset values;
- procedures over the reliability of data used in a complex asset valuation, noting that the FRC had also identified good practice in this area;
- evaluation and challenge of management over key judgements and estimates, noting that the FRC also identified good practice in this area;
- consideration and testing of journal entries to respond to the risk of fraud and management override of controls;
- audit procedures over accounting for joint venture investments; and
- consistency of the internal quality review process before audits are concluded.

**4.11** We saw improvement in areas where the FRC had raised issues with us previously, including in our audit of financial instruments (investment in funds) and defined benefit pensions schemes. This follows our implementation of new tools and guidance that audit teams were required to apply to those audits which had these characteristics.

**4.12** We were pleased to note that there were no concerns raised following the implementation of our new methodology in 2022-23, following the risk assessment auditing standard (ISA 315) introduced from our 2022-23 audits.

**Figure 14**

National Audit Office (NAO) results from external quality reviews, 2018-19 to 2022-23

**Above the quality threshold**

Good	3	0	1	1	0
Limited improvements required	2	5	4	2	3

**Below the quality threshold**

Improvements required	0	2	4	2	2
Significant improvements required	2	0	0	4	2
<b>Total</b>	<b>7</b>	<b>7</b>	<b>9</b>	<b>9</b>	<b>7</b>

**Note**

- 1 Our Transparency Report for 2022-23, published in November 2023, reported that seven of our nine 2021-22 audits had been reviewed, with a further two still to be concluded. Since then, these have been concluded by the Financial Reporting Council, each with a grade 4. The table above gives the final and complete position for the 2021-22 cycle of reviews.

Source: National Audit Office results from external quality reviews

## Key actions following our inspection programmes

**4.13** In our previous transparency report, published in November 2023, we highlighted that the conclusions from our inspections of our 2021-22 audits were disappointing as they did not reflect fully the measures we had put in place to ensure all our audits met our quality standards.<sup>9</sup> We concluded that these findings do not point to a fundamental flaw in our audit methodology and show that we can, and do, deliver high-quality audit work. However, they stressed the need for us to do more to ensure all audit teams apply our methodology properly and consistently across our portfolio of individual audits.

**4.14** We have drawn the same conclusion in light of the deficiencies arising from our 2022-23 inspection programmes.

**4.15** This section of the report sets out the steps we have taken, and are taking, to make a fundamental improvement in the quality of our financial audit work.

### Responding to the issues raised by our inspection programmes

**4.16** In September 2023, we implemented a further key stage of our Audit Transformation Programme. We launched our new audit management software, known as Apex, which teams will use from our 2023-24 audits to document their evidence to support our audit opinions (see case study).

**4.17** As part of launching Apex, we undertook an extensive exercise to review our detailed test steps and associated guidance to address inspection findings so that we built in a consistent and detailed set of responses, embedding our quality standards, for audit teams to follow.

## Case study

### National Audit Office's (NAO's) new audit software platform – Apex

In September 2023, we rolled out our new audit management software system, Apex. Our 2023-24 audits will use Apex to document our audit work supporting each audit opinion. This is a key milestone for our Audit Transformation Programme, which aims to deliver world-class public audit for the digital age.

Apex supports high-quality audit by guiding our auditors through the NAO methodology, making it easier to do the right thing, first time. Standardisation and automation will also help improve efficiency and the ability to leverage insight from our work. Apex also lays the foundations for the increased use of technology in our work. In the coming months, we will deliver further upgrades, including functionality that will improve how we collect and analyse data from the bodies we audit.

Apex allows us to have a more targeted and timely approach to quality interventions. It enables us to respond more effectively to findings from our external and internal inspections by allowing us to update promptly the content and wording of the test steps that teams have to follow. Apex also enables us to gain a deeper understanding of our audit risks, enabling us to target quality interventions more effectively to audits with specific risks or characteristics. For example, we have interrogated Apex to ensure the consistency across all our audits of teams' assessments of the risks of material misstatement in specific audit areas. We have also been able to target more effectively our audit approach on identified areas, such as in financial instruments and deferred tax.

Source: National Audit Office

9 National Audit Office, *Transparency Report 2022-23*, November 2023.



**4.18** Alongside this major initiative, we acted promptly to assess the findings from our recent inspection programmes, their significance and pervasiveness and take appropriate action to ensure they do not happen again. For example:

- In January 2024, we strengthened our financial audit leadership arrangements.
- In March 2024, we issued a detailed interactive bulletin to all our financial audit staff that set out the significant findings from our 2021-22 inspection programmes and emerging findings from the 2022-23 programmes (paragraphs 4.7 and 4.10). It set out the actions teams have to take in their 2023-24 audits.
- In April 2024, we issued a mandatory Quality Checklist for audit teams to apply to each of their audits. This built on our bulletin and outlined the key findings from our inspections, the actions teams are expected to take, and changes to our test steps and guidance on Apex for teams to follow. This checklist was updated in June to include additional areas, such as guidance on the audit of management's assessment of impairments, the audit of dividends, and group audit judgements around joint ventures. It also highlighted that we would seek external advice, by default, on significant tax judgements.
- In April 2024, and ahead of the completion of our 2023-24 audits, we launched three Spring Accelerator training events. The first event highlighted quality findings from our 2021-22 and 2022-23 inspection programmes and discussed the importance of applying a quality mindset to all our audit work and the need to evidence our scepticism of information received from audited bodies. The other two events explored more tactical interventions to improve the quality of our audits of journals and of cash flow statements.
- In May 2024, we issued a 'contract' for our teams to use their discussions with audited bodies and their audit committees to support high-quality audit work. This included checklists reinforcing the importance of receiving good-quality audit evidence from management as a key part of our audit engagement.
- We are reviewing our arrangements to support our suite of audits undertaken under the Companies Act, including establishing a new Companies Act Centre of Expertise.
- We are also reviewing the effectiveness of those quality interventions we apply as audits progress, such as peer reviews and technical panels, as some of the issues highlighted from some of our inspections were not identified as a result of their application. We are applying lessons learnt from this exercise.

**4.19** We continue to invest in and promote audit quality, through our centres of expertise. These provide guidance and advice to audit teams over our more complex areas of audit judgement in property, pensions, charities and financial instruments. Each centre is responsible for developing their knowledge and experience of their areas of interest and benchmark this against market best practice, drawing in external specialists and market data when needed.

**4.20** Building on the FRC's findings in previous years around deficiencies in our audits of financial instruments, as highlighted at paragraph 4.10, we continue to invest in our centre of expertise on financial instruments. For 2023-24, our centre:

- delivered refresher training for auditors, with a focus on previous quality findings;
- ensured teams auditing expected credit losses apply a consistent approach that meets quality standards;
- further developed our guidance to audit teams on investments in funds and promoted its correct use through additional training;
- improved support to teams auditing the fair value measurement of unlisted equity investments; and
- improved support to teams auditing relevant disclosures within financial statements, by making guidance on specific topics more readily available and accessible.

## Learning from our feedback

**4.21** We undertake root cause analysis (RCA) to explore the reasons behind deficiencies raised from our quality inspections, including cultural and office-wide challenges. In 2023-24, we conducted RCA on 14 individual audits that had been assessed as being below the required quality standard. We concluded that, in most cases, there was no single factor that led to a quality deficiency, but our analysis identified areas where we needed to take further action to ensure the consistency of quality. These included:

- the need to work within a culture of scepticism and demonstrate a quality mindset as we evidence the work done on audit files;
- audit teams knowing what 'good' looks like as they evidence their scepticism and challenge of management or their experts on their audit file;
- having the right people doing the right things at the right time on their audits;
- teams having the skills and training they need in specialist areas and being able to draw on the skills of others where necessary; and
- audited bodies understanding their part in delivering the quality of evidence supporting their financial statements.

**4.22** We also apply RCA to identify NAO-wide barriers to delivering good-quality audits. In 2023-24, we conducted thematic reviews of our engagement quality review process and compliance with the ethical standard in respect of long association on an audit.

**4.23** 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 (known as a 'hot' review), 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.

**4.24** We have reflected carefully on the outcomes from our inspection programmes. The next section sets out the additional work we have undertaken to achieve further, system-wide improvement so as to meet the challenge of an increasing quality bar. This is through our new 'Quality First' Plan.

## Our 'Quality First' Plan

**4.25** In April 2024, we published our 'Quality First' Financial Audit Plan for 2024-25. This Plan considered our inspection findings (paragraphs 4.7 and 4.10), RCA (paragraph 4.21 and case study), and feedback from our staff (paragraph 6.32) and the bodies we audit (paragraphs 1.12). With the resulting diagnosis, we developed six key pillars (**Figure 15** overleaf) on which our Plan is built and which, in turn, are supported by a wide range of detailed actions.

**4.26** Our actions include more targeted interventions to accelerate the benefits of our transformation programme, and introducing fresh measures to strengthen areas of our system of quality management requiring improvement.

## Case study

### Learning from a quality inspection

On a specific audit reviewed by the Financial Reporting Council, which was judged to have met our quality standards, we performed root cause analysis and identified good practice in two specific areas around the team's approach to its audit of:

- pension assets, including its approach to impairment; and
- the valuation of a significant asset, where the team prepared a detailed evaluation of management's judgements on its valuation methodology.

In discussions with the team, we identified that the main reasons behind this outcome included:

- a team culture of challenge and scepticism;
- frequent team discussions as issues were emerging;
- regular desk training and support from senior members of the team;
- early file review;
- effective challenge from an independent peer engagement quality reviewer;
- a strong understanding of the audited entity and their operations; and
- an effective relationship with management of the audited entity, who prepared good quality evidence.

We have assessed findings from this specific example, and from our wider root cause analysis programme, as part of our diagnoses of further actions to address within our 'Quality First' Plan.

Source: National Audit Office

**Figure 15**

How we plan to improve the quality of our audits: the key pillars of our Quality First Plan

<b>Resources</b>	<b>Improving capacity, capability and resilience</b> – more resources, improved planning and management, better recruitment processes, a new contracting out model
<b>Learning &amp; culture</b>	<b>Nurturing a quality-first culture and improving capability</b> – more and better L&D, refreshed approach to engagement and communications, a greater understanding of the culture and a focus on behaviours
<b>Methodology &amp; support</b>	<b>Supporting staff with best practice methodology policies and practice</b> – a new support model with quality directors and business partners; clearer audit responses and requirements; improved sampling approach; more investment in centres of expertise; and an enhanced quality support framework for high-risk audits
<b>Technology</b>	<b>Taking all opportunities to use technology to improve audit</b> – delivering enhancements to Apex, a new engagement portal, adopting new AI technologies; and improved sampling, journals and other applications
<b>Assurance</b>	<b>Robust monitoring and assurance</b> – an accelerated cold review model; audit quality indicators and dashboards; improved root cause analysis; and better disseminations of lessons learnt
<b>Our context</b>	<b>Influencing our external auditing environment and stakeholders</b> – including the FRC and government on the role of public audit

Source: National Audit Office

**4.27** The Plan highlighted that we can only be successful in meeting this aim where we have a strong ‘Quality First’ culture, mindset and environment in place, where quality is built into every stage of our work, the decisions we make, and the behaviours we exhibit internally and externally. It builds on our previous annual quality plans and on the investment we continue to make in our new methodology and audit software platform from our 2022-23 audits (paragraph 4.16).

**4.28** The Plan goes further in ensuring that our culture, team management, learning and development, and resourcing support high-quality audit work. It sets out significant improvements to our learning and development programme for auditors and an improvement of our approach to engagement and communication with the bodies we audit. It also introduces a new quality support model for our audit teams, strengthens project management and operational delivery, and sharpens our internal quality review and assurance processes.

**4.29** A further important aspect of our Plan is around influencing our external auditing environment and our stakeholders, including Parliament and the FRC. This includes working with the profession and standard setters to advocate for standards and regulation that properly reflect our public sector context.

# Part Five

## The quality of our value-for-money work

### 5.1 This part:

- sets out the results from the 2023 internal and external reviews of our value-for-money (VFM) work;
- presents the areas of good practice and where there were areas for improvement; and
- outlines how we are using insights from the reviews to help us continue to improve the quality of our work.

**5.2** Independent reviews of our published work are an important part of our quality approach. Each year, a sample of reports are reviewed to assess how well they meet our standards, to identify good practice, and areas where we might improve aspects of our system of quality management. In 2023, 32 VFM reports were reviewed in this way – 20 by external reviewers and 12 internally undertaken by staff independent from the audit team.<sup>10</sup> Appendix Three includes more information on the quality ratings for our VFM work.



### Quality assurance arrangements: external reviews

**5.3** External reviews provide us with a valuable perspective on our published reports. The reviewers consider the integrity of the evidence and conclusions presented in the report. They also assess the clarity of messaging and the quality of methodologies, graphics and statistics. In 2023, our reviewers assessed 20 reports, about 30% of our published work.

**5.4** We have three external organisations reviewing our work:

- Grant Thornton, a private sector professional services organisation that operates globally, providing consultation, advisory and audit and assurance services across government and the public sector;
- RAND Europe, a not-for-profit policy research organisation with more than 30 years' experience of delivering research on major areas of government policy; and
- Risk Solutions, a management consultancy with more than 20 years' experience supporting areas of the public sector with research, decision-making capabilities and evaluation.

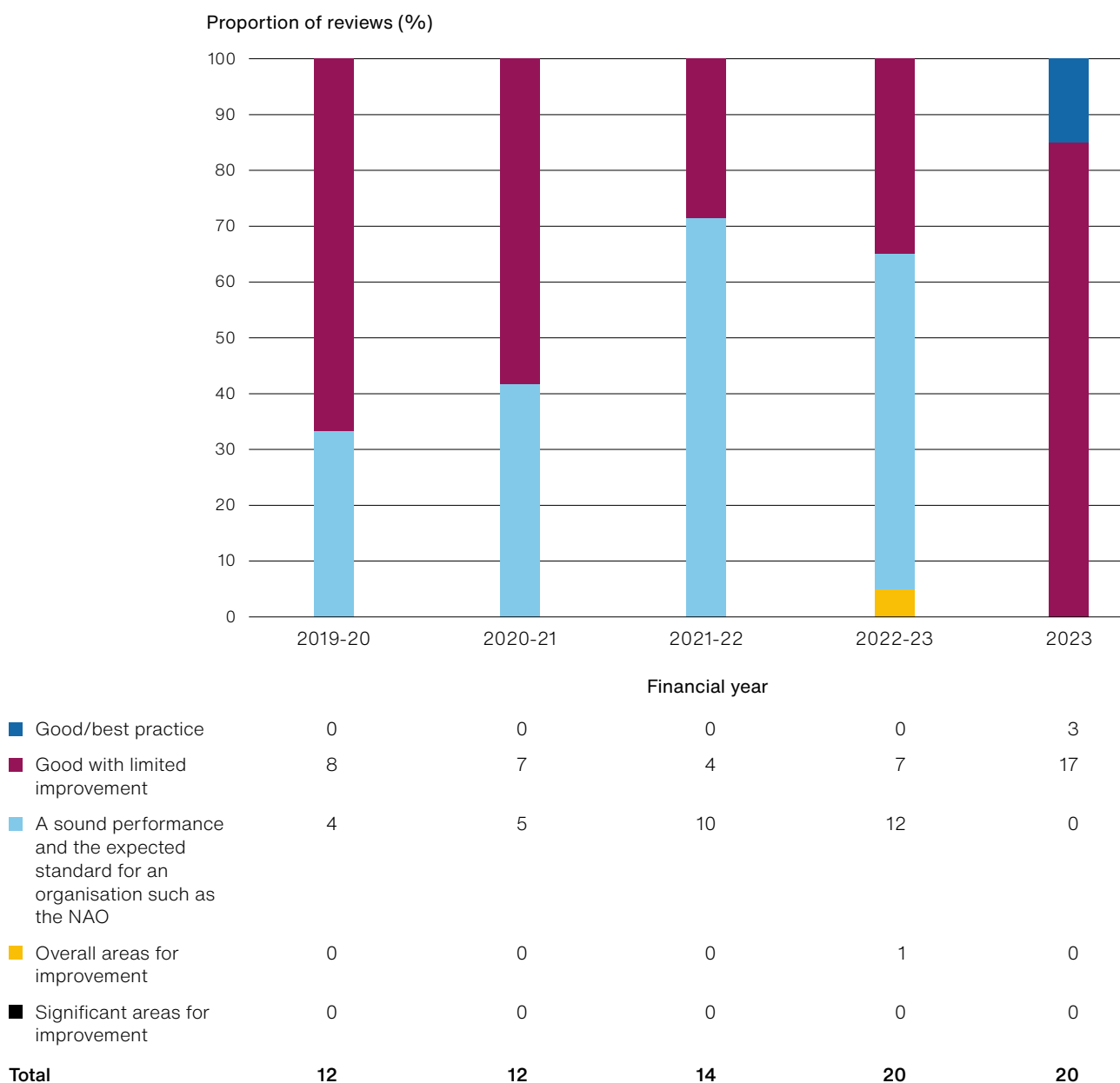
**5.5** External reviews provide us with assurance across 11 categories and assess each report with a rating from a four-point scale (Appendix Two). We moved to a four-point rating (formerly five) to align all our internal and external quality assurance rating scales. Reviewers also provide commentary on wider insights that allow us to improve our work. For example, reviewers could highlight systemic issues across government or make general comments on the National Audit Office's (NAO's) approach or style.

**5.6** For the first time in over five years, our external reviewers awarded the 'good/best practice' rating, covering our three different product types: investigation, lessons learned and VFM report. The other 17 reports reviewed achieved a rating of 'good with limited improvements needed' (**Figure 16** overleaf).

<sup>10</sup> In 2023, our sample was selected from reports published between 1 April to 31 December. All future results for external cold reviews and other quality assessments will be on a calendar year basis.

**Figure 16**

National Audit Office (NAO) results from value-for-money external quality reviews, 2019-20 to 2023

**Notes**

- 1 We changed our review ratings for 2023 to focus the reviews more closely on our new VFM standards and to introduce a four-point rating scale, which is consistent with our updated internal cold review approach. This means the middle 3 out of 5 'pass' category no longer exists.
- 2 In 2023, our sample was selected from reports published between 1 April to 31 December. All future results for external cold reviews and other quality assessments will be on a calendar year basis. We made this change so we can present a fuller view of quality in this report and use the learning in the annual quality updates for VFM staff that follow in June.

Source: National Audit Office analysis of external quality review data



**5.7** Reviewers concluded that our highest scoring reports were well structured and provided a clear purpose. They commented on our reports having strong supporting graphics and giving informative messages. Reviewers praised the high standard of accessible writing. Reviewers identified areas for improvement in some of our reports, including (Appendix Two):

- opportunities to continue improving the feasibility, clarity and “actionability” of our recommendations;
- missed opportunities in our analysis; reviewers suggested we could in some cases consider including more detailed analysis and support stronger conclusions; and
- more consistently linking findings to earlier or related NAO audits.

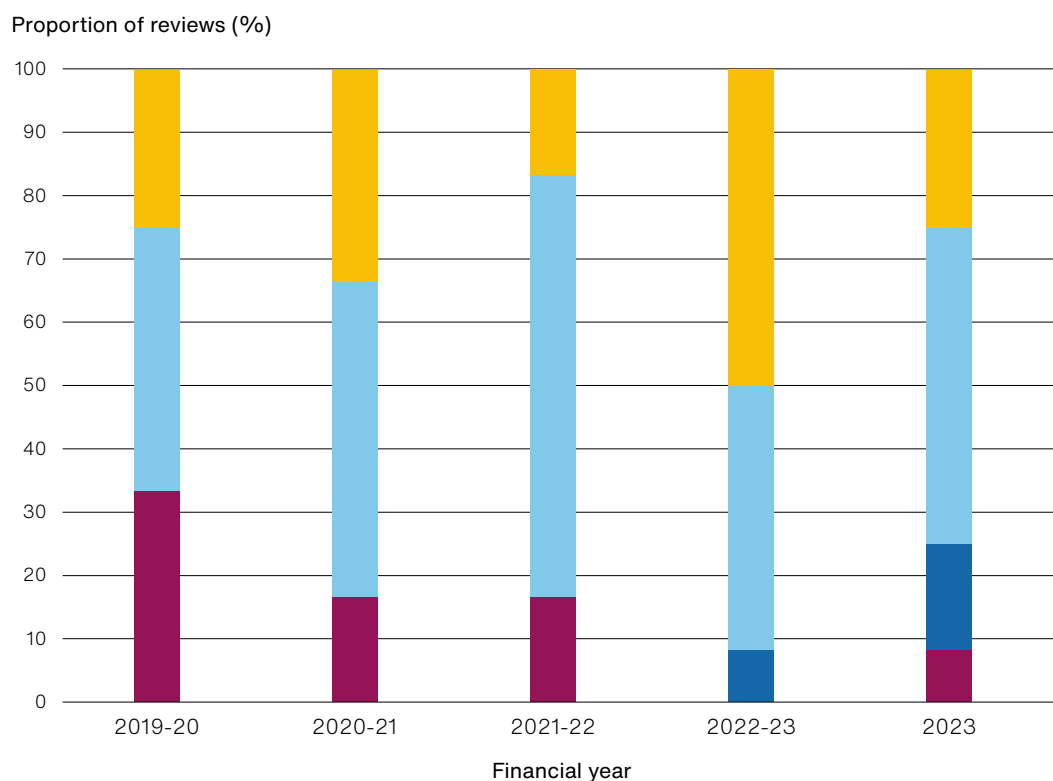
## Quality assurance arrangements: internal reviews

**5.8** Internal reviews promote awareness of our standards and expected ways of working. They identify if our work is meeting those standards, and highlight best practice in what we do and how we do it. Reviewers assess each report with a rating from a four-point scale (Appendix One). Of the 12 VFM and wider assurance reports reviewed in 2023, representing around 20% of our published work, nine met our standards, including three judged to be ‘good with best practice’. Two were rated as having areas for improvement and one, significant areas for improvement (**Figure 17** overleaf).



**Figure 17**

National Audit Office (NAO) results from value-for-money internal quality reviews between 2019-2020 and 2023



Good/best practice	3	4	2	6	3
Good with limited improvement	5	6	8	5	6
Areas for improvement	0	0	0	1	2
Significant areas for improvement	4	2	2	0	1
<b>Total</b>	<b>12</b>	<b>12</b>	<b>12</b>	<b>12</b>	<b>12</b>

**Notes**

- 1 This is the first year all VFM products followed the same risk-based quality guidance.
- 2 The financial years shown in this figure refer to the year in which the reports in the sample were published. For 2023, all reports published between 1 April and 31 December of that year have been included.

Source: National Audit Office analysis of internal quality review data

**5.9** Reviewers identified many areas of good practice. The reviews highlighted how effective it was for audit teams to have repeated statements of risks throughout the audit providing clear documentation on decisions made. Reviewers thought the use of independent challenge from internal and external experts gave unique insights and knowledge, strengthening the quality and messages in reports. The reviews highlighted examples of clear and thorough independent review of evidence bases, providing assurance that the report's conclusions have a robust evidence base.

**5.10** There is good compliance with mandatory steps and robust evidence bases. The reviews highlighted areas where we need to take action to reduce quality risks. These include the need for audit teams to better manage audit scope. Reviewers flagged the need for greater standardisation in how we document evidence, account for clearance changes, and record internal review of evidence as areas for further work.

**5.11** We take confidence from the reviews that most audit teams are following and adopting our risk-based approach to quality. However, we found there are a small number of areas that need strengthening to assure ourselves there is no wider risk to the integrity of our work.

**5.12** The reviews highlighted a clear need to improve the consistency of our approach to completing ethical declarations, one of the main ways we demonstrate our independence from those we audit. While further analysis has assured us there is no threat to our independence, we hold ourselves to a high standard for completing these activities. For example, one audit did not meet internal quality review standards due to the absence of an ethical declaration for the engagement director. We are now looking at a system control that will strengthen checks on ethical declarations, as outlined in paragraph 5.19.

**5.13** The reviews also showed the need for improved quality leadership, something we believe contributed to two reports not meeting our standards. The review of these reports identified difficulty navigating the evidence base without support from the audit team and highlighted the impact of late review of the evidence base by the director. This prompted a high number of late changes, introducing unnecessary risk and contributing to a correction in the report and press notice.

**5.14** We are now developing a programme of mandatory training to strengthen our quality practices and are taking the opportunity to more systematically embed the best practice identified across all our VFM work.

## VFM quality assurance improvement plans

**5.15** Our conclusions from our programme of reviews is that we have the right quality approach, as shown by the results we achieve when people follow our expected quality activities. However, we have more work to do in supporting greater consistency in applying our quality processes by promoting a quality-conscious culture and embracing opportunities to continuously improve.

### Improving quality culture and behaviours

**5.16** The results of our 2023 reviews show that, although only a small number of our audit teams did not complete all expected quality activities, we need to focus on improving quality culture and behaviours. We know this contributes directly to how we review and rate our work.

**5.17** The focus of our quality culture is to identify ways to improve our practice and provide our people with the tools and insights they need to do their jobs well. We are offering our people a range of courses and interventions to build the skills they need and provide tools and digital interventions to encourage a consistent approach to meeting our standards. All of this activity is underpinned by our efforts to continually improve our processes and quality culture.

**5.18** We set out how we are developing the skills of our people through supporting their learning and development in Part Six.

### Tools to support a consistent approach

**5.19** We continue to promote the value of audit teams working with internal and external experts to improve the quality of their work. We have created structures that empower teams to use more innovative approaches and methods that could support a greater effect on outcomes. We are supporting a consistent approach by:

- **Launching a new SharePoint-based audit guide** that takes people through the VFM audit process. It explains the purpose and value of each task and links to guidance, tools, and learning and development activity.
- **Streamlining templates.** These standardised templates help audit teams set out their intended purpose, scope and evaluative criteria as well as demonstrate the expected impact at key stages of the audit.
- **Improving controls of ethical declarations.** To support compliance on ethical declarations, we are creating a control that limits access to audit files if an ethical declaration is not completed. Audit teams will receive regular reports and reminders to evaluate access against completion.



## Improving our processes and quality culture

**5.20** The 2023 reviews show us there is a need to improve our quality culture and consistency of behaviours. By doing so, we increase opportunities to improve the quality of our VFM practice and empower our people to identify quality improvements and challenge how we do things. We are looking to improve our processes and quality culture by:

- **Further expanding internal review teams.**  
A continuation of activity in 2023, where we expanded internal review teams, offering all grades the opportunity to take part for the first time. We did this to show clearly that quality is everyone's responsibility. The experience has contributed to personal and professional development and increased experience and awareness of the end-to-end quality system.
- **Adopting good/best practice approaches.**  
We asked internal reviewers to agree what best practice the VFM service line should adopt. One of those chosen is best practice techniques for creating and reviewing the evidence base. Our practice and quality team ran a showcase event demonstrating the evidence base to 125 VFM staff. We will now support wider rollout in the coming months with a recording of the session, written guidance and a template.
- **The Modern Publishing Programme.** We have launched the Modern Publishing Programme to develop simpler ways to create, edit and typeset reports and to increase our impact by making our publications easier to access and use. We are in the discovery phase, setting out user requirements and potential technical solutions.
- **Post project reviews.** To establish a culture of reflection and improvement, we have launched a new programme of post project reviews. The first area of discussion in the sessions is how well teams are set up for success.



# Part Six

## People

**6.1** This part highlights the actions we are taking to attract, develop and retain our people so they are best placed to meet our professional standards while applying our values of excellence, inclusivity and respect, courage, integrity and curiosity.

**6.2** Our strategy is to maintain our competitiveness as a professional audit body in attracting talented and diverse people and supporting them to become even better at what they do, while ensuring that we have the skills and capabilities to continue to meet our objectives of delivering high-quality audit work. To help us, in June 2023, we welcomed our new Chief People Officer to give us a renewed focus in these areas.

### Attracting talent to join the National Audit Office

**6.3** Current economic conditions mean that we need to continue to invest in maintaining our competitiveness as an attractive employer within the wider audit and accountancy profession. To match business need with people, we now have ongoing recruitment campaigns, in addition to our annual graduate campaigns, so that we can address resource pressures when needed. We increased the number of full-time equivalent people we employ from an average of 934 in 2022-23 to 965 in 2023-24 (including temporary and seconded staff).

**6.4** Our ambition is to be an exemplar organisation. For example, our 2021-2025 Diversity and Inclusion Strategy sets clear and ambitious targets to increase diversity across the National Audit Office (NAO) and to promote an inclusive work environment. The strategy is supported by individual action plans for race, disability and social mobility. Progress against our targets is monitored by our Diversity and Inclusion Operational Committee and our Executive Team.

**6.5** We increased the proportion of women in more senior positions in 2023-24 to 45% (from 37% in 2022-23). We continued to recruit more ethnic minority trainees and have improved retention over the last 12 months but know that we have more to do to support their progression to senior management (see Appendix Three). Our Diversity and Inclusion Annual Report for 2023-24, published alongside this document, sets out the measures we have taken this year, including a pilot ethnic minority sponsorship programme.<sup>11</sup>

**6.6** We recruit talent through our successful graduate and school leaver programmes, with 69 people recruited to our graduate scheme and 12 to our school leaver scheme in 2023. Our graduate recruitment campaign runs annually, starting in autumn and concluding in December. We offer two entry paths: an early start from January to April so they can gain audit experience before starting the training scheme, or the following September once they have graduated.

**6.7** We are a training provider for the Institute of Chartered Accountants in England and Wales professional training scheme. In 2023-24, 88% passed the Professional Stage examinations for the Association of Chartered Accountants (ACA) qualification at the first attempt, compared with a national average of 83%, and 92% passed the Advanced Stage examinations at the first attempt, compared with a national average of 87% (see Appendix Three).

**6.8** To ensure we keep pace with industry developments, we recruit experienced audit professionals and other specialists, including economists, statisticians, and learning and development and digital experts. We also recruit analysts to support value-for-money work and wider experts as we develop the breadth and impact of our insight teams.

**6.9** Despite an increasingly difficult recruitment market, we continue to secure additional external resources to build our cadre of experienced financial auditors and others who have specific skills, such as in IT audit, and as we develop our centres of expertise.

### Developing our talent

**6.10** 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 for everyone within the NAO.

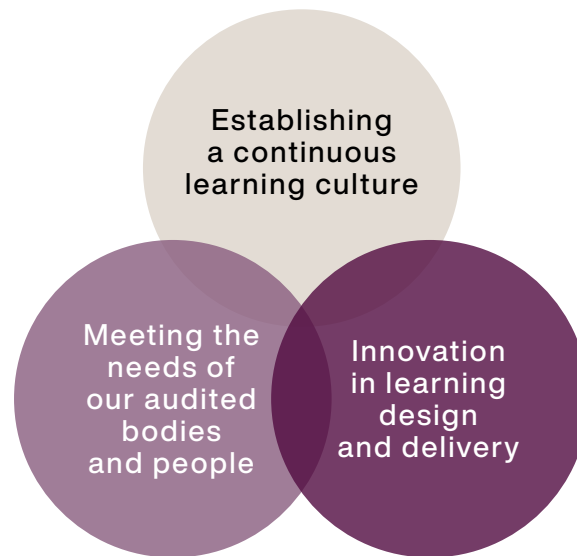
**6.11** Our strategy for learning and development is highlighted in **Figure 18** overleaf.

<sup>11</sup> National Audit Office, *Diversity and Inclusion Annual Report 2023-24*, 23 July 2024.



**Figure 18**

Our learning and development strategy



**Establishing a continuous learning culture**

means individuals take personal responsibility for their own learning and development, taking opportunities presented to them through the National Audit Office's training programmes, and rewarding line managers and performance coaches for their people development skills.

**Meeting the needs of our audited bodies and people,**

so that our people have the technical skills to manage client and people relationships, including effective project management, to enable us to deliver our work while meeting the required standards.

**Innovation in learning design and delivery.**

Using technology to ensure our people have access to, and can create opportunities for, blended learning. Our Thrive e-learning platform, introduced in 2022, enables our people to work through training materials in any order, at any pace, to fit their learning around their work commitments. We continue to invest in in-person learning events to add to the benefits of our people working in our offices and to complement our online offer.

Source: National Audit Office



## Developing our managerial and coaching skills for all our people

**6.12** Each member of staff has a dedicated performance coach who is responsible for developing that individual and for their performance management, including discussing assignments that best suit their development, as well as meeting business needs.

**6.13** We provide our performance coaches, and other staff with people management responsibilities, with a wide variety of training. This includes our People Management Skills programme, which combines self-directed learning and workshops to cover areas such as building effective teams, managing under-performance and sickness absence, and how to have difficult conversations. More recently, we have launched our Career Conversations workshops, which combine evidence-based thinking and emotional intelligence to enable performance coaches to have insightful conversations with their coachees.

## Developing technical skills for financial auditors

**6.14** 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.

**6.15** During 2023-24, our priority has been to support our financial auditors, using a mixture of learning channels, in three areas:

- **Launching our new Apex audit platform** across most of our 2023-24 audits (paragraph 4.17) and, with a series of e-learning modules, supporting colleagues as they apply this software for the first time to their audits.
- **Improving our delivery of audits** through team challenge events in autumn 2023 to allow audit teams to discuss the application of project and time-management techniques to their audits, encouraging more effective discussions with management of the bodies we audit, to prioritise the delivery of key work programmes, and in the escalation of problematic areas identified during the audit; and
- **Embedding changes to our audit methodology and financial reporting** through technical and other updates. For example:

- In March 2024, we set out emerging findings from our quality inspection programmes and followed this up in April 2024 with a series of three Spring Accelerator events, which focused our financial auditors on understanding these emerging findings and expectations of our audit teams and our tactical interventions to improve audit quality in the audit of journals and cash flow statements ahead of the 2023-24 final audit season (see paragraph 4.18).
- Technical updates for our 2023-24 audits, through e-learning modules in areas covering the new climate-related disclosures needed in financial statements, audit sampling, applying new auditing and accounting standards (such as ISA 220 on quality management and IFRS 17 on insurance contracts), the audit of financial instruments, building digital and controls assurance, and using data analytics.

**6.16** We also use our networks of 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 plans, 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.

**6.17** 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 insights.

**6.18** We continue to invest in our technical training for auditors. For example, in Autumn 2024, we will launch our annual training programme, which will reflect on our quality culture and findings from our inspection programmes, together with sessions where we will focus on specific areas for teams to apply to their audits. We will follow this up with a Spring 2025 Accelerator Programme of activities.

## Developing technical skills for VFM staff

**6.19** Staff working on VFM reports have a variety of backgrounds. Some have audit expertise, as qualified accountants, while others have 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.

**6.20** Our review results enable us to focus on what our people need to develop their skills further. We undertake a range of activities where we bring together and reflect on the latest developments in our audit practice:

- **A new 'empowering a quality culture' annual event** launched in July 2024, where we outlined our quality priorities for the year ahead and engaged people in the range of opportunities they have to shape our VFM practice and develop their own skills. We used this event to communicate the most important learning opportunities to address the risks to audit quality we have identified. This event also provides space for our people to get together and reflect on the findings of our independent reviews and discuss how we respond to the results.
- The **VFM Learning & Development offer**. A programme of learning events will flow from our quality event. This supports our ongoing work to deliver a quality culture where our people know what is required of them to meet the standards set for VFM work. It responds directly to the findings from independent quality reviews and surveys by focusing on our skills around scoping and planning our work, drafting and communicating our findings, synthesis of evidence and forming judgements, quantitative and qualitative methods, project management, and managing audited bodies and other stakeholders.

- An **increased frequency of training opportunities**. We will repeat more frequently the training that addresses our quality priorities, with an expectation that all VFM people complete these courses. We will also curate concentrated blocks of training so people can complete suites of courses more quickly if it is relevant and timely for them to do so.
- A **new engagement pack**. The pack is designed to support better communication and engagement between audit teams and stakeholders. Consistency across our practice will bring clarity and set expectations for both parties.

**6.21** 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 challenges or successes in the chosen topic.

**6.22** We are continuing the phased introduction of the learning and development offer for VFM staff, which began in June 2023 and will complete later this year. 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 and in response to the findings of our quality review processes.

**6.23** Once we have completed the introduction of our new learning and development offer, we will regularly review it to ensure that it evolves over time in response to the NAO's needs.



## Retaining our talent

**6.24** We work hard to ensure that the NAO is a great place for all our staff to work. The current year has seen a decrease in staff turnover for most grades below senior management (see Appendix Three). We provide stimulating work in areas of public interest, state-of-the-art office spaces and IT, a competitive remuneration package, working with knowledgeable, talented and engaged colleagues, and opportunities for skills development and promotion.

**6.25** We continue to enhance our extensive formal learning and development programmes, as highlighted in paragraphs 6.10 to 6.18 to provide our people with up-to-date and relevant skills so they can meet their personal objectives and be able to do their work effectively, meeting the quality standards we expect of them.

**6.26** We also match people's knowledge and experience to new audit work to stretch them further. We strive to ensure our assignment process is unbiased and all staff have fair access to opportunities for further development.

**6.27** We have a formal Continuing Professional Development (CPD) policy in place, with which all our staff have to comply. In November 2023, the Institute of Chartered Accountants in England and Wales (ICAEW) updated its requirements and we revised our CPD policy and processes for training and development activity and monitoring in light of these. Appendix Three gives more information on mandatory training and the expected level of CPD.

**6.28** We act on the feedback our people give us, which helps to further improve their experiences and to better understand what would make our working environment even better. We seek this feedback through regular surveys of our people. During 2023-24, we facilitated three such surveys, which provided a rich source of data over time on our people's experience of working at the NAO, where we need to improve, and the effectiveness of initiatives we put in place during the year.

**6.29** Figure 19 summarises our people's satisfaction across a range of factors during 2023-24, compared with 2022-23. Of the 15 areas on which we sought feedback, eight showed improvement, and no areas scored lower than the previous year. More information about workload can be found in Figure 34, Appendix Three.

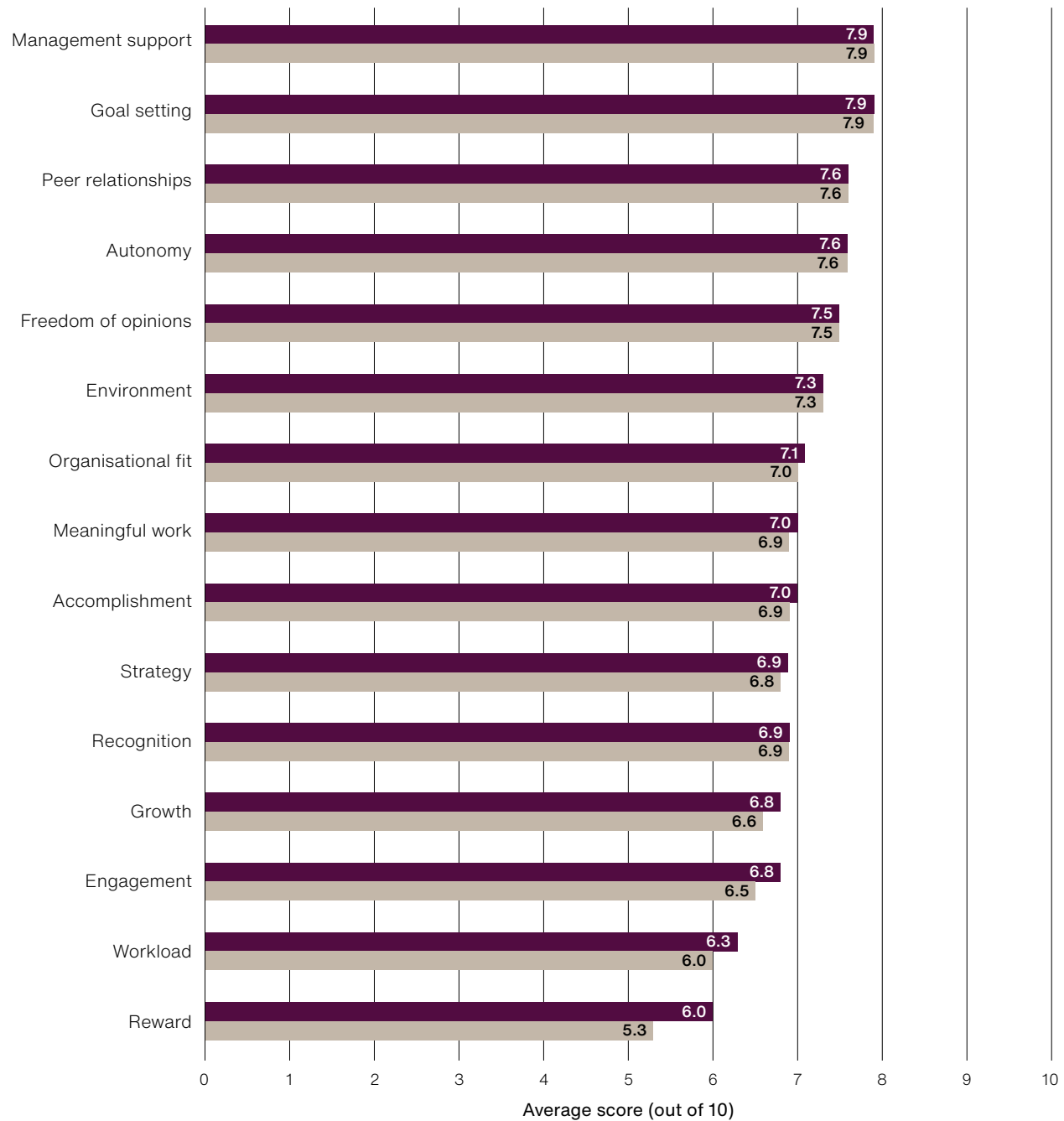


**Figure 19**

National Audit Office (NAO) people survey results, 2023-24 and 2022-23

**Our scores improved in Eight of 15 areas; no score went down this year**

Drivers of satisfaction with work


■ 2023-24    ■ 2022-23
**Notes**

- 1 We have a bank of 56 questions and give respondents the chance to provide other written feedback. The results are summarised under 15 drivers. Our survey measures levels of engagement, helps us to understand what motivates and supports our people, and helps us to measure the effectiveness of our interventions.
- 2 The 2023-24 scores presented are based on aggregated average scores (range from 0 to 10) from the 12 months to January 2024. The 2022-23 scores presented are based on aggregated average scores (range from 0 to 10) from the 12 months to March 2023.

Source: National Audit Office analysis of the Peakon people survey



**Figure 20**

The National Audit Office's (NAO's) first financial audit quality survey

Questions	Average Score
I am proud my work contributes to the NAO's purpose	7.8
I approach my work with an audit mindset, applying scepticism and challenge at all stages of the audit	8.5
My Director (or Executive Director where you are a Director) role models behaviours which support high-quality work and motivates me to do the same	8.2
My team continuously improves how we audit	7.6
My team supports and challenges each other to achieve high quality	7.8
Senior leaders prioritise quality	6.9
The NAO promotes a culture of trust where we can openly talk about challenges, issues and mistakes and set about addressing them	6.9

**Note**

1 Responses in April 2024 were provided on a scale of 1 to 10. We judge that a score of 7 is good.

Source: National Audit Office

**6.30** There are two areas where the scores did not meet our aspirations and where we acted during 2023-24 to address the feedback we received:

- **On rewards:** We saw a marked improvement in this score, between years, reflecting the changes we made during 2023-24 to our pay framework. This new framework ensured our rates of pay remained competitive during a climate of significant cost of living pressures. It also introduced a new audit grade into the financial audit service line, creating both an audit manager and senior audit manager grade, where previously we had an audit manager role. This new grading was implemented in September 2023 and we have since seen how this has improved people's progression and career development, while also helping us to retain and develop our talented people.
- **On workload:** Our people expressed their concerns about their workloads and related issues about their health and wellbeing. The survey score in this area reflected our ongoing efforts with audited bodies to get accounts certified earlier following the pandemic and the need for our audit work to consistently meet our quality standards. During 2023-24, we acted by increasing the full-time equivalent numbers of people we employ from an average of 934 in 2022-23 to 965 in 2023-24 (including temporary and seconded staff). More information about workload can be found in Appendix Three.

- In terms of further developments for 2024-25, we are currently drawing together the features that make the NAO a great place to work, including development opportunities, our culture, our support for staff health and wellbeing, and our physical work environment. We will use this exercise to promote within the NAO our value proposition, reinforcing the benefits of working within, and for, the NAO.

**6.31** Finally, our Financial Audit 'Quality First' Plan (paragraphs 4.25 to 4.29) places a greater emphasis on our people and culture. From April 2024, we have introduced a quarterly financial audit quality survey to help us better understand and build our culture based on our people's views on audit quality. The results from our first survey, which we will use as a baseline to measure our ongoing progress, are shown in **Figure 20**. Overall, the survey showed a strong commitment to quality and good feedback on individual and teams' approaches.

# Appendix One

## Value-for-money standards and quality approach

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

We ask all teams carrying out VFM work to complete and maintain a quality and risk plan to help us manage organisational and quality risks at each stage of our work. Audit 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 21**). We provide further details of our approach in Part Three of this report.

### Figure 21

National Audit Office value-for-money quality approach during 2023

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 22**).

## Figure 22

Internal reviews are rated on a four-point scale

Overall rating	Definition
Good/best practice	<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>  <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.
Good with limited improvements needed	<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.  <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.
Areas for improvement	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.  <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.
Significant areas for improvement	The team departed from the mandatory steps without agreement to the extent it introduced a significant degree of risk into the work.  <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.

### 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 full population of our financial audit work, with the exception of those we contract out to our framework partners, falls within the AQR's remit. This differs from the approach the AQR takes 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 2023-24, the AQR undertook reviews of a sample of seven of our 2022-23 audits, five of which we undertake under the Companies Act and two from the rest of our audit portfolio. Part Four of this report (paragraph 4.10) sets out the FRC's findings from its review of each of these audits, with each audit graded according to the level of improvements needed.

At the time of writing this report, the FRC's final report to the C&AG has yet to be finalised, and we will publish the FRC's inspection findings covering its review of our 2022-23 audits, and its review of aspects of our NAO-wide activities, on our external website when we have received this.

### Value-for-money (VFM) reports and wider assurance

For more than two decades, we have used external specialists to review our VFM and wider assurance reports. In 2023, a sample of 20 reports were reviewed by independent experts from Grant Thornton, 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 four-point scale ranging from 'good/best practice' to 'significant areas for improvement' (**Figure 23**). 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 24** on page 60.



## Figure 23

External reviews are rated on a four-point scale

Overall rating	Definition
Good/best practice	<p>The report has been completed to a high standard and delivers against its stated objective.</p> <p><b>AND</b> The report is relevant, accurate and accessible.</p> <p><b>AND</b> The reviewer found at least one area of good/best practice.</p> <p><b>AND</b> Only minor improvement(s) have been identified, which the reviewer has judged to not materially impact on the overall high standards achieved by the report.</p>
Good with limited improvements needed	<p>The report has been completed to a satisfactory standard and delivers against its stated objective.</p> <p><b>AND</b> The report is relevant, accurate and accessible.</p> <p><b>AND</b> Only minor improvement(s) have been identified, which the reviewer has judged to not materially impact on the satisfactory standard achieved by the report.</p>
Overall areas for improvement	<p>The report has not been completed to an acceptable standard and the reviewer is not fully confident that the stated objective has been met.</p> <p><b>OR</b> The relevance, accuracy, or accessibility of the some of the report is in doubt. This means the reviewer is not fully confident that the stated objective has been met.</p> <p><b>AND</b> Improvements have been identified which the reviewer has judged would make a material difference to the quality of the report and its ability to meet its objectives.</p>
Significant areas for improvement	<p>The report has been completed to a poor standard and the reviewer is confident that the stated objective has not been met.</p> <p><b>AND</b> The report has serious weaknesses in its efforts to demonstrate its relevance, accuracy, or accessibility.</p> <p><b>AND</b> Improvements have been identified which the reviewer has judged would make a material difference to the quality of the report and its ability to meet its objectives.</p> <p><b>OR</b> Errors have been identified that represent a significant risk to the Comptroller and Auditor General's judgements and conclusions.</p>

Source: National Audit Office



**Figure 24**

Findings from external reviews of National Audit Office (NAO) value-for-money work and wider assurance products

Review criteria	Review comments
Clarity of scope and purpose	<p>Reviewers found our reports to contain a clear description of the intended scope of work and found it useful when each part of the report reiterated the scope and purpose it was addressing.</p> <p>However, reviewers were unclear on the timing of the report. They also suggested we could be more consistent in explaining the choice of product (VFM report or investigation) to explore the topic in question.</p>
Context of work	<p>Reviewers felt our reports presented the specific context of reports, being both clear and concise in most cases. They were made clear through the descriptions of topics of focus and stakeholders involved, which allowed understanding of complex topics by both expert and non-expert readers.</p> <p>However, while the specific context was clear, the wider context was often less well covered. For example, some reviewers wanted more information on the wider operating environment and systemic challenges.</p>
Summary and key findings	<p>Most reports successfully delivered their key messages through the summary sections, producing fair and balanced summaries working well as standalone documents.</p> <p>Reviews highlighted that the Key Facts do not work well in isolation. At times, reviewers found it difficult to interpret figures in the Key Facts without reference to the wider context provided within the reports.</p>
Synthesis of information	<p>Reviewers noted that most of our reports did well referencing findings and linking statements to evidence. This highlighted the source of information to know where viewpoints came from and showed how evidence was used to draw together conclusions.</p> <p>However, reviewers would have liked to see more sufficient and explicit information on how key findings were established.</p>
Recommendations	<p>Reviewers reflected that most report recommendations flowed clearly to the report findings.</p> <p>However, reviewers felt recommendations were not as impactful as they could be suggesting they could be more specific and contain details on their feasibility and actionability.</p>
Structure and presentation of the report	<p>Reviewers commented that our reports had a clear sense of narrative and structure with useful signposting to guide the reader. The reports used accessible language (plain English) to suit a mixed audience, including non-expert readers.</p>
Meeting the report purpose	<p>Reviewers highlighted meeting the purpose and scope is a strength in NAO reports. However, on a few occasions, reviewers were unable to link the main content to the report scope of purpose.</p>
Quantitative analysis	<p>Reviewers felt reports were clear about the origin of quantitative data, the limitations of the data and how we analyse and triangulate data. This made it easier for the non-expert reader to understand the data and analysis methods used and where the findings described originated from.</p> <p>Reviewers highlighted there were opportunities to provide better explanation of the quantitative data and methods used and analysed. They recognised that we could extend our analysis and presentation of quantitative data.</p>
Qualitative analysis	<p>Reviewers noted we presented the qualitative data analysed clearly at a high-level. The qualitative methods in our reports were appropriate for the research questions and aligned to the report scope. This led to relevant and meaningful findings that addressed the intended scope.</p> <p>However, reviewers would have liked to see more detailed reporting on qualitative data.</p>
Graphics	<p>Reviewers found graphics were helpful and well designed, supporting and complementing written information and findings. This helped make the reports more engaging.</p> <p>Reviewers highlighted the difficulty in reading multi-page, detailed graphics. These graphics were difficult to read on electronic devices.</p>
Methods	<p>Reviewers highlighted how our methodology would benefit from better descriptions for the number of interviews and case studies, scope and purpose of the report, and inclusion of source materials drawn on alongside the analytical approach.</p> <p>Although reviewers found our methodology was clearer, they would have liked us to provide more granular detail and explore more innovative methods.</p>

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

# Appendix Three

## Audit quality indicators

### Quality ratings

Our quality ratings for both value-for-money work (VFM work) and financial audit work, for 2023 and the prior year, are shown in **Figure 25**. We have provided our detailed commentary, and context, supporting these ratings in Parts Four and Five of this report.

**Figure 25**

Quality ratings based on reviewing samples of our work

Description	Target (where applicable)	Current year	Prior year	Change between 2023-24 and 2022-23
		2023-24	2022-23	
Financial audit <sup>1</sup>				
External quality reviews – percentage of quality reviews which are rated 'limited improvements' or 'good'	100%	43%	33%	Increase of 10 percentage points
Number of external quality reviews in year	n/a	7	9	Decrease of 2
Internal quality reviews – percentage of quality reviews which are rated 'limited improvements' or 'good'	100%	65%	67%	Decrease of 2 percentage points
Number of internal quality reviews in year	n/a	23	24	Decrease of 1
Value-for-money <sup>2</sup>				
External quality reviews – percentage of quality reviews with a rating of 3 (sound) or above (up to 5)	100%	100%	95%	Improvement of 5 percentage points
Number of external quality reviews in year	n/a	20	20	No change
Internal quality reviews – percentage of quality reviews with a rating of good (with improvements) or good (best practice)	100%	75%	92%	Decrease of 17 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 2023-24 financial audits and prior year is based on 2022-23 audits.
- 2 Current year is based on a sample of VFM and wider assurance (VFM work) audits published between 1 April and 31 December 2023. Prior year is based on 2022-23 VFM work.
- 3 A report meets quality standards if it receives a review rating of either 'good/best practice' or 'good with limited improvements needed'.

Source: National Audit Office analysis of quality data

## Feedback from those we audit

Feedback from our regular survey of government finance directors and accounting officers is shown below in **Figure 26**. 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 1.10 to 1.13 of this report.

**Figure 26**

Feedback from those we audit

Description	Current year	Prior year	Change between 2023-24 and 2022-23
	2023-24	2022-23	
<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	89%	82%	Improvement of 7 percentage points
Percentage of finance directors and accounting officers who agreed that the audit recommendations we made were realistic	72%	76%	Decline of 4 percentage points
Percentage who agreed the National Audit Office (NAO) team made fair and balanced judgements (87% in 2022)	90%	87%	Improvement of 3 percentage points
<b>Survey results: value-for-money work</b>			
Percentage who felt the NAO VFM team understood the strategic priorities and wider context that their organisation operates in	74%	87%	Decline of 13 percentage points
Percentage of finance directors and accounting officers who agreed that VFM reports were of a good technical quality	81%	81%	No change
Percentage of finance directors and accounting officers who agreed that the recommendations in the VFM reports led to, or were likely to lead to, improvements in their organisation	81%	75%	Improvement of 6 percentage points

Source: National Audit Office

## Involvement of our senior management 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**. Our data show that the level of senior involvement has broadly stayed similar to the prior year.

**Figure 27**

Senior management involvement in in-house audits

Description	Current year	Prior year	Change between 2023-24 and 2022-23
	2023-24	2022-23	
Senior management hours spent on audit as a proportion of total staff hours spent on audit, for in-house financial audits <sup>1,4</sup>	5.3%	5.6%	Decrease of 0.3%
	(2022-23 audit cycle)	(2021-22 audit cycle)	
<b>Ratio of staff to senior management<sup>2</sup></b>			
<b>Total</b>	<b>12:1</b>	12:1	No change
Financial audit	15:1	16:1	Decrease of 1
Value-for-money	7:1	7:1	No change

### 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 Senior management comprises directors and executive directors only.
- 3 We have excluded senior management involvement in our contracted-out financial audits from the figures above.
- 4 We changed our method for calculating the senior staff hours spent on financial audits as a proportion of total staff hours spent on in-house audits. The prior-year figure has therefore changed from 4.8% to 5.6%.

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**.

Alongside this 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 show a small decrease in extra hours worked against contract for most grades. They are within our expectations for 2023-24 and we will continue to monitor these indicators during our 2024-25 audit cycle.

**Figure 28**

Staff workload

Description	Current year	Prior year	Change between 2023-24 and 2022-23
	2023-2024	2022-23	
	(%)	(%)	(percentage points)
<b>Hours worked as a percentage of contracted hours across the full year</b>			
<b>Financial audit</b>			
Trainee	101.9	104.9	Decrease of 3.0 percentage points
Senior Auditor/Senior Audit Associate	104.9	105.0	Decrease of 0.1 percentage points
Audit Manager	104.3	n/a	n/a
Senior Audit Manager	109.0	108.5	Increase of 0.5 percentage points
Senior management	109.0	115.1	Decrease of 6.1 percentage points
<b>Value-for-money and wider assurance</b>			
Analyst	101.2	101.6	Decrease of 0.4 percentage points
Senior Auditor/Senior Analyst	100.7	102.9	Decrease of 2.2 percentage points
Audit Manager	100.6	103.1	Decrease of 2.5 percentage points
Senior management	104.8	115.1	Decrease of 10.3 percentage points
<b>Hours worked as a percentage of contracted hours during our busy period, May to July (2023 and 2022)</b>			
<b>Financial audit</b>			
Trainee	101.5	108.4	Decrease of 6.9 percentage points
Senior Auditor/Senior Audit Associate	109.9	111.6	Decrease of 1.7 percentage points
Senior Audit Manager	117.8	117.3	Decrease of 0.5 percentage points
Senior management	124.8	126.0	Decrease of 1.2 percentage points



**Figure 28** *continued*  
Staff workload

Description	Current year	Prior year	Change between 2023-24 and 2022-23
	2023-2024	2022-23	
	(%)	(%)	(percentage points)
<b>Value-for-money and wider assurance</b>			
Analyst	100.0	102.5	Decrease of 2.5 percentage points
Senior Auditor/Senior Analyst	100.3	103.9	Decrease of 3.6 percentage points
Senior Audit Manager	100.0	103.1	Decrease of 3.1 percentage points
Senior management	102.8	105.8	Decrease of 3.0 percentage points

**Notes**

- 1 Numbers do not reconcile due to rounding.
- 2 The 'Senior management' category includes directors and executive directors.
- 3 A new manager grade was created in 2023-24 from September 2023. As such, there is no prior year comparative as this grade was not in place during the period of May to July 2023.

Source: National Audit Office

## National Audit Office people survey

The people survey results indicators are shown in **Figure 29**. The scores are measured on a scale of 0 to 10. Our results have seen a general increase compared to the previous year. We discuss our people survey and our responses to the scores in more detail in Part Six.

**Figure 29**

### NAO People Survey results

Description	Current year	Prior year	Change between 2023-24 and 2022-23
	2023-24	2022-23	
	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	6.8	6.5	Increase of 0.3
Environment – the physical work environment contributing positively to people's ability to do their job	7.3	7.3	No change
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	7	6.9	Increase of 0.1
Organisational fit – values being a good fit, treating people from all backgrounds fairly, action against misconduct and to support mental wellbeing	7.1	7	Increase of 0.1
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	6.9	6.8	Increase of 0.1
Workload – whether people feel that the demands of their workload are manageable	6.3	6	Increase of 0.3
Whether employee health and wellbeing is a priority at the NAO	6.5	6.4	Increase of 0.1
Whether organisational transformation and change is managed well at the NAO	5.9	6.1	Decrease of 0.2
Values – whether we act with courage and integrity	7.4	7.2	Increase of 0.2
Values – whether we are curious and seek to learn	7.3	7.2	Increase of 0.1
Values – whether we are inclusive and respectful	7.3	7.1	Increase of 0.2
Values – whether we strive for excellence	7.3	7.1	Increase of 0.2

#### Notes

- 1 The National Audit Office people survey is a questionnaire survey of our staff conducted quarterly using Workday Peakon Employee Voice.
- 2 We have a bank of 56 questions and give respondents the chance to provide other written feedback. The results are summarised under 15 drivers. Our survey measures levels of engagement, helps us to understand what motivates and supports our people, and helps us to measure the effectiveness of our interventions.
- 3 The 2023-24 scores presented are based on aggregated average scores (range from 0 to 10) from the 12 months to January 2024. The 2022-23 scores presented are based on aggregated average scores (range from 0 to 10) from the 12 months to March 2023.

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 a decrease in turnover for most of the grades below senior management (our directors and executive directors).

**Figure 30**  
Staff turnover

Audit grade	Target	Current year	Prior year	Change between 2023-24 and 2022-23
		2023-24	2022-23	
	(%)	(%)	(%)	
Senior management	10%	3%	2%	Increase of 1 percentage points
Senior Audit Manager	7%	10%	13%	Decrease of 3 percentage points
Senior Auditor/Senior Audit Associate	20%	18%	20%	Decrease of 2 percentage points
Senior Analyst	12%	0	17%	Decrease of 17 percentage points
Analyst	16%	0	15%	Decrease of 15 percentage points
Trainee	10%	19%	15%	Increase of 4 percentage points

### Notes

- 1 Rates rounded to the nearest whole percent. Turnover is where staff leave the National Audit Office (NAO). The Cabinet Office second category of departmental turnover (staff leaving the civil service or a particular civil service department), does not apply to the NAO as an independent organisation.
- 2 The 'senior management' category includes directors and executive directors. The target rate applies to directors only.
- 3 In September 2023, we introduced a new Senior Audit Manager grade. The Senior Audit Manager row includes both Senior Audit Manager and Audit Manager grades. The target rate for both is 7%.
- 4 Data are for the 12 months to 31 March 2024 and for the 12 months to 31 March 2023.

Source: National Audit Office analysis of Human Resources data

## The diversity of our staff

**Figure 31** 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 paragraphs 6.4 and 6.5 of this report, and also in our Diversity and Inclusion Annual Report 2023-24, where we discuss our priorities and progress in more detail.

**Figure 31**

Diversity of our staff

Description	Target (where applicable)	Current year	Prior year	Change between 2023-24 and 2022-23
		2023-24	2022-23	
	(%)	(%)	(%)	
<b>Percentage of colleagues, office-wide, who are:</b>				
Women	50%	49%	49%	No change
From an ethnic minority	32%	26%	25%	Improvement of 1%
Individuals with a disability	13%	15%	15%	No change
Of a less-advantaged background (parental occupation)	n/a	25%	n/a	n/a
<b>Percentage of colleagues in senior management (directors and executive directors) who are:</b>				
Women	42%	45%	37%	Improvement of 8%
From an ethnic minority	18%	11%	9%	Improvement of 2%
Individuals with a disability	13%	12%	13%	Decrease of 1%
Of a less-advantaged background (parental occupation)	n/a	19%	n/a	n/a
<b>Percentage of colleagues in the manager grade who are:</b>				
Women	50%	51%	51%	No change
From an ethnic minority	26%	14%	16%	Decrease of 2 %
Individuals with a disability	13%	13%	10%	Improvement of 3%
Of a less-advantaged background (parental occupation)	n/a	30%	n/a	n/a

### Notes

- 1 Data for March 2024 are as at 31 March 2024 (a snapshot in time).
- 2 Senior management = executive director/director; middle management = senior audit manager/Band 1; other grades = all other grades.
- 3 The percentage of people who are from less-advantaged social backgrounds uses a parental occupation measure. The occupation categories for those from less-advantaged backgrounds are routine, semi-routine manual and service occupations, long-term unemployed, and technical and craft occupations. This is the first year that we have measured social mobility using a parental occupation indicator so we do not have comparative data for 2022-23.
- 4 Analysis excludes 'prefer not to say', 'other' and non-disclosure, which for office-wide figures was 2% for ethnicity, 4% for disability and 30% for social mobility; and excludes 'non-binary', 'prefer not to say' and non-disclosure for 'women' calculations, which was 1%.

Source: National Audit Office analysis of Human Resources data

## Developing our people

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

During 2023-24, there were 21 mandatory and required courses for financial audit staff to complete and 9 for VFM and wider assurance staff to complete. On average, these would have taken staff some 31.0 hours (financial audit) and 8.9 hours (VFM and wider assurance) to complete. Our compliance rate with these figures is 90% for financial audit and 92% for VFM.

**Figure 32**  
Mandatory training

Description	Target (where applicable) (%)	Current year 2023	Prior year 2022
<b>Number of mandatory training courses</b>			
Financial audit (FA)	n/a	21 courses	14 courses
Value-for-money (VFM) and wider assurance	n/a	9 courses	16 courses
<b>Approximate time needed to complete annual mandatory training requirement</b>			
Financial audit	n/a	30.8 hours	30.1 hours
Value-for-money and wider assurance	n/a	8.9 hours	14.6 hours
Mandatory training compliance rate	100%	90% FA 92% VFM	91% combined FA/VFM

Source: National Audit Office



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, with a target of 40 hours each year. **(Figure 33)**. 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.

### Figure 33

Average continuing professional development (CPD) hours per person

Description	Current year	Prior year	Change between 2023 and 2022
	2023	2022	
	(hours)	(hours)	
<b>Financial audit</b>			
Senior Auditor/Senior Audit Associate	60.7	36.2	Increase of 24.5
Audit Manager	43.5	n/a	n/a
Senior Audit Manager	51.3	45.8	Increase of 5.5
Director	55.0	53.1	Increase of 1.7
<b>Value-for-money and wider assurance</b>			
Analyst	46.3	29.8	Increase of 16.5
Senior Auditor/Senior Analyst	50.8	42.6	Increase of 8.2
Senior Audit Manager	54.4	40.2	Increase of 14.2
Director	60.2	49.2	Increase of 11.0

#### Notes

- 1 Trainees are excluded from the above analysis as their CPD is gained through their Institute of Chartered Accountants in England and Wales training programme.
- 2 These data are presented in calendar years for consistency with the timing of our annual performance development cycle.
- 3 Numbers do not reconcile due to rounding.
- 4 The CPD for some Senior Audit and Senior Audit Associate includes CPD they undertook while they were trainees.
- 5 Our staff have a target of at least 120 hours of CPD spread over a three-year period, with a target of 40 hours per annum.

Source: National Audit Office

## Trainee examination success

Our trainee examination success rates are shown in **Figure 34**. 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 paragraphs 6.6 and 6.7 of this report.

### Figure 34

Trainee examination success rates

Description	Target (where applicable)	Current year	Prior year	Change between 2023-24 and 2022-23
		2023-24	2022-23	
		(%)	(%)	
Percentage of trainees passing their professional stage examination with the ICAEW <sup>1</sup>	ICEAW average of 83% (2021-22: 81%)	88%	82%	Increase of 6 percentage points
Percentage of trainees passing the advanced stage exams with the ICAEW	ICEAW average of 87% (2021-22: 87%)	92%	94%	Decrease of 2 percentage points

#### Note

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

Source: National Audit Office

# Appendix Four

## Financial information

Our full financial information is contained in our [\*Annual Report and Accounts 2023-24\*](#), which can be found on our website. **Figure 35** 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 64.5% 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 35**

## National Audit Office operating segments

2023-24									
	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	88,653	19,692	6,147	5,982	1,323	181	121,978	300	122,278
Contract income	(27,489)	–	–	–	(267)	–	(27,756)	–	(27,756)
Other income	(1,411)	(313)	(98)	(95)	(21)	(3)	(1,941)	–	(1,941)
<b>Net expenditure</b>	<b>59,753</b>	<b>19,379</b>	<b>6,049</b>	<b>5,887</b>	<b>1,035</b>	<b>178</b>	<b>92,281</b>	<b>300</b>	<b>92,581</b>

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	109,732	296	110,028
Contract income	(24,292)	–	–	–	(216)	–	(24,508)	–	(24,508)
Other income	(1,563)	(365)	(127)	(110)	(22)	(3)	(2,190)	–	(2,190)
<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>

**Notes**

- 1 Voted expenditure and income is allocated to the National Audit Office (NAO) by a Parliamentary vote each year through the Supply and Appropriation Act. The NAO reports the use of this expenditure and income under its main operating segments, about which further information can be found in the Performance report on page 54 in our Annual Report and Accounts 2023-24.
- 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 on pages 66 to 69 in our Annual Report and Accounts 2023-24. 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 Five

## Transparency Report disclosure requirements

**Figure 36** on pages 75 to 77 sets out National Audit Office compliance with disclosures required by Article 13 of Regulation (EU) 537/2014 to produce an annual transparency report.<sup>12</sup>

<sup>12</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 36**

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

Provision of Regulation (EU) 537/2014	How the National Audit Office complies with Regulation (EU) 537/2014
A description of the legal structure and ownership of the statutory auditor, if it is a firm.	The Comptroller and Auditor General (C&AG), Gareth Davies, leads the National Audit Office (NAO) and is an officer of the House of Commons, as established by statute. He and the staff of the NAO (965 full-time equivalent permanent staff including temporary and seconded staff) are independent of government. They are not civil servants and do not report to a minister.
Where the statutory auditor is a member of a network: (1) a description of the network and the legal and structural arrangements in the network; (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; (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; (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.	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 Two.
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 Three 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 Part Three.
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 Four and Five and Appendix One and 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.	In 2023-24, the NAO audited four public interest entities: 1 Network Rail Infrastructure Finance PLC; 2 CTRL Section 1 Finance PLC; 3 LCR Finance PLC; and 4 HM Treasury UK Sovereign SUKUK PLC.

**Figure 36** *continued*

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

Provision of Regulation (EU) 537/2014	How the National Audit Office complies with Regulation (EU) 537/2014
A statement concerning the statutory auditor's independence practices which also confirms that an internal review of independence compliance has been conducted.	See Part Three for details of our independence procedures. Consideration of our independence practices is completed throughout the year.
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 Six 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.	Engagement 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 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 page 102 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 2023-24:</p>

**Figure 36** *continued*

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

Provision of Regulation (EU) 537/2014	How the National Audit Office complies with Regulation (EU) 537/2014
(i) 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;	£0.11 million
(ii) revenues from the statutory audit of accounts of other entities;	£25.02 million
(iii) revenues from permitted non-audit services to entities that are audited by the statutory auditor; and	<p>£2.53 million. Of this:</p> <p>£1.28 million relates to other assurance engagements, including EU Agricultural Funds (£0.83 million) and the audit of interim financial statements and special purpose accounts of a small number of companies;</p> <p>£0.08 million relates to rent and service charge income from one audit body which rented office space in the NAO's London headquarters building and whose lease ended in the 2023-24 financial year; and</p> <p>£1.17 million relates to fees raised on behalf of, and passed on to, Audit Scotland, Wales Audit Office, and Northern Ireland Audit Office in connection with EU Agricultural Funds work. Although our role in certifying agricultural funds from the European Union is coming to an end.</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 2023-24, the NAO received £228,394 from the Foreign, Commonwealth &amp; Development Office and its contractors and subsidiaries (2022-23: £145,200).</p>
(iv) revenues from non-audit services to other entities.	£2.15 million, of which £1.88 million relates to rent, from non-audited entities, service charges and miscellaneous income.

Source: National Audit Office













National Audit Office