



National Audit Office

**National Highways**

# **Audit planning report on the 2023-24 financial statements audit**

Report to those charged with governance  
March 2024

## This report presents details of our proposed approach for the audit of the 2023-24 financial statements

We plan our audit of the financial statements to respond to the risks of material misstatement and material irregularity. This report sets out how we have built our assessment of risk, what we base materiality on, those risks we expect to be significant and how we will respond to those risks. We also set out in this report details of the team carrying out the audit, the expected timing of the audit and our fees.

### Actions for the Audit and Risk Assurance Committee

We would like to invite the Audit Committee members to discuss:

- Whether our assessment of the risks of material misstatement to the financial statements is complete (including any matters those charged with governance consider warrant particular attention during the audit, and any areas where they request additional procedures to be undertaken);
- Whether management's response to these risks are adequate;
- Our proposed audit plan to address these risks;
- Whether the financial statements could be materially misstated due to fraud, and communicate any areas of concern to management and the audit team;

We would also like to invite the committee to consider our fraud risk assessment on page 11.

**Sarah Che**  
**Engagement Director**

We would like to take this opportunity to enquire of those charged with governance about the following areas:

- Other matters those charged with governance consider may influence the audit of the financial statements
- The entity's objectives and strategies, and the related business risks that may result in material misstatements
- Possibility, knowledge of and process for identifying and responding to the risks of fraud
- Oversight of the effectiveness of internal control
- Whether any non-compliance with any laws or regulations (including regularity) have been reported to those charged with governance (e.g. from staff, service organisations or other sources)
- Policies, procedures and systems for recording non-compliance with laws, regulations and internal policies.
- Whether members have knowledge of any actual, suspected or alleged fraud affecting the entity.

We have prepared this report for National Highway's sole use, although you may also share it with the Department for Transport. You must not disclose it to any other third party, quote or refer to it, without our written consent and we assume no responsibility to any other person.

<b>Overview</b>	<b>4</b>	<b>Appendices</b>	
<b>Audit risks breakdown</b>	<b>5</b>	<b>Appendix 1: The NAO audit team</b>	<b>19</b>
<b>Building our assessment of risk</b>	<b>6</b>	<b>Appendix 2: Scope and responsibilities</b>	<b>20</b>
<b>Our response to the significant risks</b>	<b>7</b>	<b>Appendix 3: Future accounting standards</b>	<b>22</b>
<b>Our initial assessment of the risk of fraud (ISA 240)</b>	<b>11</b>	<b>Appendix 4: Non-investment assets</b>	<b>23</b>
<b>Other matters</b>	<b>12</b>	<b>Appendix 5: Task force on climate change related financial disclosures</b>	<b>24</b>
<b>Materiality</b>	<b>13</b>	<b>Appendix 6: Changes to quality management standards</b>	<b>25</b>
<b>Timing of the audit</b>	<b>14</b>	<b>Appendix 7: Changes to auditing standards</b>	<b>26</b>
<b>Our audit fee</b>	<b>15</b>	<b>Appendix 8: Fraud matters</b>	<b>27</b>
<b>Our audit approach</b>	<b>16</b>	<b>Appendix 9: Guidance for Governance</b>	<b>28</b>
		<b>Appendix 10: Good Practice in Annual Reporting</b>	<b>29</b>
		<b>Appendix 11: How your Audit Committee can support timely Annual Report and Accounts publication</b>	<b>31</b>
		<b>Appendix 12: Audit and Risk Assurance Committee Effectiveness Tool</b>	<b>32</b>

## Audit Risks (pages 7 to 11)

We plan our audit of the financial statements to respond to the risks of material misstatement to transactions and balances and irregular transactions.

We have identified the following risks of material misstatement:



We have broken the risks down into a more granular level of detail on the following page.

Page 12 also sets out other matters relevant to the audit, related to Accruals. We do not consider this area to constitute a significant risk.

## Materiality (page 13)

- When setting materiality, we consider both qualitative and quantitative aspects that would reasonably influence the decisions of users of the financial statements.
- Materiality is calculated as a percentage of a chosen materiality base. Our main materiality is £1.5bn and is based on infrastructure assets (£156bn in 2022-23), as they are the predominant driver of the balance sheet and of significant interest to those networks' users. This will apply to all Strategic Road Network related assets.
- Due to additional interest in taxpayer funded expenditure, we apply an additional threshold to all transactions and balances related to in year taxpayer expenditure (including capital additions). This results in a materiality of £69m
- The percentage applied to calculate additional materiality has been maintained at 1.5% and for the overall materiality this has been maintained at 1%.



## Audit team, fee and timetable

- Sarah Che will be responsible for the overall audit. The engagement team is presented on page 19.
- Our audit fee for this year is £355,000. The fee has increased by 2% compared with the prior year, which is driven by inflationary increase partially offset by the lower risk associated with the Technology assets QQR when compared with revaluation of other elements of the Strategic Road Network. Further detail is provided on page 15.
- We are planning to complete the audit in advance of the summer 2024 Parliamentary recess.

### Accounting for the SRN

**Our significant risk relating to the SRN can be broken down to a more granular level, and covers the following risks:**

- Disclosures and the SRN balance are incomplete.
- Entries within the SRN database do not exist in real life.
- Impairment of assets has not been considered on a sufficiently frequent basis.
- Depreciation methodology has not been calculated or applied appropriately - including errors in the calculation or incorrect Useful Economic Lives (UEs).
- Disclosures - revaluation and depreciation estimation uncertainty disclosures are not sufficient or accurate.
- Revaluation – the assumptions, data and method used in the revaluation are not appropriate. There are errors in the revaluation calculation.
- Indexation - assets have not been indexed appropriately. The method of indexation used is not appropriate

### Recognition and valuation of land and property provisions

**Our significant risk relating to the recognition and valuation of lands provisions can be broken down to a more granular level, and covers the following risks:**

- The method used for calculating the land estimate/provision is not appropriate.
- The assumptions used in the calculation of the land estimate are not appropriate.
- The estimation uncertainty and other provision related disclosures are not sufficient or accurate.

### Presumed risk of management override of controls

**Our presumed significant risk relating to management override of controls can be broken down to a more granular level, and covers the following risks:**

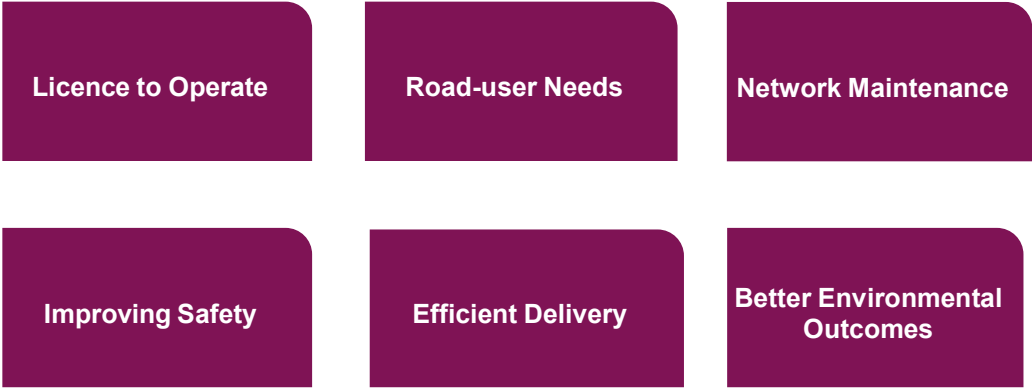
- Estimates - management bias impacts judgements and decisions made in arriving at both significant and non significant estimates.
- Management overrides controls to manipulate the financial statements using manual journals.
- Management enters into significant or unusual transactions to engage in fraudulent reporting or to conceal misappropriation of assets or irregular transactions.

We are well placed to develop an understanding of the risks to National Highways drawing on your own assessment, the historic assessment of risk and the broader context



### National Highways’ assessment of risk

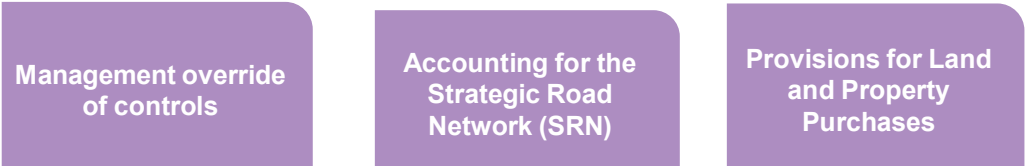
National Highways’ strategic risk register sets out a number of risks. We have engaged with management to understand the background to these risks, movement in impact and likelihood and have considered how these inform our assessment of audit risks.



### Our audit Risk Assessment



The 2022-23 audit highlighted a number of areas of audit risk and focus, we have built on this historical assessment to consider whether these remain risks for the year. We have made inquiries of management (and other appropriate individuals within the entity), performed analytical procedures, and carried out observations and inspections to inform our assessment of risk.



### Wider Factors



We have drawn upon our wider assurance work and our understanding of the broader environment in which National Highways operates to inform our risk assessment.





### Presumed risk of management override of controls

#### Why we have identified this as a risk

Management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by using its position to override controls that otherwise appear to be operating effectively.

This is a presumed risk for all audited bodies under International Standards on Auditing (ISA 240).

This significant risk is in line with previous years. Further detail on our assessment of the risk of fraud within National Highways is set out on page 11.

#### Work we plan to undertake in response

##### Controls:

Review of controls relevant to the audit including those over:

- Manual accounting journals;
- Segregation of duties;
- Year-end controls such as preparation of financial statements which includes review by senior management and the Audit and Risk Assurance Committee.
- Monthly management accounts;
- Changes in accounting policies, in particular those around significant estimates.

##### Substantive:

We will:

- Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.
- Using data analytic tools, we will risk appraise and visualise the impact of manual journals on the financial to identify higher risk journal transactions for detailed audit examination.
- We will examine significant or unusual transactions and review errors collectively for patterns in adjustments.
- Apply professional scepticism to the audit of key estimates and judgements and perform a retrospective review of significant estimates used in the prior year.
- Consider the need to test other adjustments throughout the period.

\*The auditor shall identify and assess the risks of material misstatement at:

(a) the financial statement level;  
(a) the assertion level for classes of transactions, account balances, and disclosures  
to provide a basis for designing and performing further audit procedures.

### Accounting for the Strategic Road Network (1/2)

#### Why we have identified this as a risk

The Strategic Road Network (SRN) and related Assets Under Construction (AUC) balances are significant balances within the financial statements, with a value of £156bn at 31st March 2023. In accordance with the Government's Financial Reporting Manual (FReM), the value of the SRN is derived using the Depreciated Replacement Cost, which uses the best available information to establish an estimate of replacing the asset with a modern equivalent, less deductions for physical deterioration and relevant obsolescence and optimisation. NH perform revaluation of the SRN on a continuous rolling basis, with each asset type undergoing full revaluation 5-yearly.

There is significant judgement involved in determining the valuation, in particular:

- A number of accounting assumptions implicit in determining the gross valuation (such as the use of the greenfield assumption).
- Selection of the appropriate indices to apply to reflect changes in costing rates between 5-yearly assessments.
- The appropriate application of asset information to calculate the condition-based depreciation estimate (e.g. pavement surveys, engineering info on structures).

The valuation of the SRN is a judgemental, complex and highly material estimate for 2023-24, which is subject to significant assumptions, using complex base data and methodologies. Therefore, as in previous years, we have recognised a significant risk.

This year technology assets are undergoing a full revaluation. While this introduces additional management judgement into the revaluation, we do not consider that it meets the criteria to recognise a significant risk. This is because:

- Technology assets are relatively low-value at £1.55bn against materiality of £1.5bn,
- Individual asset valuations are less judgmental as recent, verifiable cost data is available.

We will still perform detailed testing over the technology revaluation, including reviewing the appropriateness of NH's methodology and the data feeding into the valuation (e.g. unit costs, asset quantities).

Capital additions (including renewals) are also outside of the scope of this risk and are subject to our standard audit testing.

Our planned response to the significant risk is set out on the following slide.



### Accounting for the SRN (2/2)

#### Work we plan to undertake in response

##### Controls

We will evaluate the design and implementation of controls operated by NH and Atkins in respect of the assets, NH's overall governance processes over the SRN valuation and reflecting conditions data in the valuation of the SRN.

##### Substantive

In accordance with ISA 540, evaluate the revaluation models for all asset types with the extent of work proportionate to the risk for each asset category, and an emphasis on the overall reasonableness of assumptions and methodology, and the accuracy of source data. This includes:

- Obtaining assurance over the completeness of changes to asset quantities, using audited data on projects completed in year, substantive testing of dimensional variances and/or independent calculations including refreshing the detailed model previously produced by the NAO's modelling team of the network length;
- Confirming the reasonableness of the indices applied to inflate costs to current measures and ensuring these have been correctly applied;
- Reviewing the reasonableness of the conditions data applied for depreciation of roads and structures, including the methodology used, and the reliability and recency of data, as well as searching for any specific impairment indicators; and
- Commissioning advice from a structural engineering expert in respect of Highways' transformation of physical data into a depreciation % estimate for roads and structures.

### Recognition and valuation of Land and Property Provisions

#### Why we have identified this as a risk

Land and property is acquired as part of improving the road network. National Highways recognises a provision in its accounts relating to these acquisitions, which at 31<sup>st</sup> March 2023 was valued at £406m. This provision is derived using complex underlying valuations which are inherently judgemental, and therefore the risk of material misstatement is high.

In valuing the provision, NH relies on estimates provided by the Valuation Office Agency (VOA) that often lack a robust evidence base. In 2022-23, we made recommendations relating to the consistency of assumptions, that NH work with VOA to secure better quality evidence for estimates provided, and to increase the level of secondary checks to decrease errors within samples. Our expert valuer was able to conclude that the estimates were materially correct.

NH recognises provisions based on the stage that a scheme is at. This includes Blight being recognised at Preferred Route Announcement stage, Compulsory Purchase being recognised when a Development Consent Order (DCO)/CPO is granted, and Part 1 at the start of construction. Given the increase in challenges to DCO approvals within the 6-week challenge period after a DCO is granted (in particular for the A303 which resulted in the DCO being overturned), during 2022-23 NH reassessed the recognition point for Compulsory Purchase provisions. We were content with management's assessment but will continue to review the success rate of challenges to DCO approvals to ensure that recognition before the 6-week challenge period remains appropriate.

#### Work we plan to undertake in response

##### Controls:

We will:

- Assess the design and implementation of controls for recognising provisions for land and property purchases in the financial statements.

##### Substantive:

We will:

- Substantively test a sample of provisions to gain assurance over the balances within the financial statements. Testing will involve tracing the values in the provisions system to either a valuation report or other third-party confirmation outlining the basis of the valuation, re-performing manual calculations, and selecting a sub sample of payments and aggregations against the chosen provisions;
- Review and challenge NH's application of the IAS 37 recognition criteria; and
- Engage an expert valuer to assist with our work on provisions. They will review a subset of land and property valuations that underly the provisions within our sample, specifically reviewing the assumptions made and methodology used in the VOA's assessment of the most likely value.

We shall communicate, unless prohibited by law or regulation, with those charged with governance any other matters related to fraud that are, in our auditor's judgment, relevant to their responsibilities. Under ISA (UK) 240, it is our responsibility as auditors to report to those charged with governance:

- Any risks of material misstatement identified due to fraud
- Any matters we think are relevant to those charged with governance regarding management's process for identifying and responding to the risks of fraud at National Highways

Below, we have summarised our initial assessment of the risk of fraud relevant to National Highways, and how this may impact on the financial statements.

### Risk of material misstatement due to fraud

National Highways operates 2% (by length) of the UK's road network and has a significant impact on the UK market for network services. However, all transactions are undertaken with established, large-scale providers, and it is highly unlikely that any transactions would not be conducted at arms-length.

The Strategic Road Network (SRN) valuation is based on subjective accounting judgements, given that there is no active market for such assets. There is a low risk of fraudulent activity in relation to this as no individual or party is liable to gain from incorrectly valuing the SRN.

There may be a risk around period-end accruals which may be manipulated to ensure actuals align with budgets. We will assess the internal controls around the journals process and take assurance over this risk through our substantive testing.

We therefore conclude that the risk of material misstatement due to fraud is low. We also rebut the presumed risk of fraud within revenue recognition due to the relative size of National Highways' income (£70m in 2022-23), the lack of complexity in those income streams and the lack of incentive to manipulate revenue.

The presumed risk regarding management override of controls remains as management are in a unique position to manipulate accounting records and override key controls. Although we assess this risk as low, we will address this risk through the significant risk 'presumed risk of management override'.

### Matters regarding management processes for identifying and responding to the risks of fraud

Through our audit work to date, including work on significant risks in the prior year, we have not identified any significant concerns about the nature, extent or frequency of management's assessment of fraud risk.

We have not identified any significant failings by management regarding their monitoring or addressing deficiencies in internal controls or communication with us as auditors. NH uses IT controls to create segregation of duties and have appropriate access controls, and Internal Audit perform a series of reviews annually to ensure that adequate segregation of duties exist. Although we do not consider NH's controls to be sufficient for the purposes of obtaining controls assurance, we do not consider there to be significant deficiencies which would leave NH particularly vulnerable to fraud.

### Fraud risk factors relevant to National Highways

Whilst performance related pay is driven by KPIs, these primarily focus on safety and performance on the road network, rather than financial performance. As a result, the incentives for management to commit fraud are reduced.

However, given the wider economic environment and the impact of inflation on capital budgets, there is a risk that the Department for Transport (DfT) may be close to its approved control totals.

There is an increased risk that management at National Highways could come under pressure to commit fraud in relation to significant inflationary pressure on control totals at the Department level.

We also note that National Highways are exposed to some risk of fraud committed within the supply chain, but we do not consider this to be a significant risk.

The following are other matters which we wish to bring to the attention of those charged with governance in relation to the audit of the financial statements.

If during the audit these matters have a significant effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team, we may include these in our extended auditor report as key audit matters, as defined by ISA (UK) 701.

Title	Area Affected	Response
<b>Accruals</b>	Accruals, non-capital expenditure, capital expenditure, i.e. SRN & AUC additions	<p>Testing in recent years has identified a high number of sample errors (although their aggregate value was not material), and we encountered difficulties in obtaining sufficient/appropriate evidence for these accruals.</p> <p>The workshops we provided in recent years were successful in helping to improve the accuracy of larger accruals. The cover sheet supplied for use with each sample has also improved the focus on appropriate evidence, however, some issues remain and the quality of evidence can be inconsistent.</p> <p>We intend to review a small number of accruals at interim to ensure we can give specific feedback to the business on the quality of evidence prior to the year-end audit.</p> <p>As in 2022-23, we will stratify our sample population in order to focus our sample on higher value accruals where the risk of material misstatement is greater.</p>



Basis for overall materiality calculation	£156bn	2022-23 total property, plant and equipment balance
Overall account materiality (1%)	£1.5bn	applies in respect of SRN related PPE asset balances (excluding capital additions)
Basis for additional materiality calculation	£4.6bn	2022-23 adjusted gross expenditure
Additional materiality (1.5%)	£69m	applies in respect of all other assets, liabilities, revenue and expenditure, reflecting taxpayer perspective.
Error reporting threshold	£300k	We report to you all misstatements, whether adjusted or unadjusted, above £300k in respect of items audited under both materiality levels.

We have set our overall account materiality, currently £1.5bn, as approximately 1% of the prior year value of the infrastructure assets, reflecting the significant interest among SRN users in the extent and condition of the network.

We set a lower additional materiality in relation to all financial statement elements driven by taxpayer spending, recognising the interest from Parliament and the public in National Highways' total expenditure of public funds. In practice, as a result:

- overall materiality applies to the SRN valuation, the associated non-cash entries (e.g. depreciation), and non-cash elements of closely SRN related PPE held for operational purposes; and
- our additional threshold applies to all other transactions and balances, including SRN/AUC capital additions. This has been calculated at 1.5% of adjusted forecast gross expenditure, giving £69m.

We have retained overall materiality at 1% based on (prudently) the SRN and AUC net book values reflecting user interest in the network.

These levels remain comparable to those used in the prior year.

A matter is material if its omission or misstatement would reasonably influence the decisions of users of the financial statements. The assessment of what is material is a matter of the auditor's professional judgement and includes consideration of both the amount and the nature of the misstatement.

The concept of materiality recognises that absolute accuracy in financial statements is rarely possible. An audit is therefore designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement or irregularity. We apply this concept in planning and performing our audit, and in evaluating the effect of identified misstatements on our audit and of uncorrected misstatements, if any, on the financial statements and in forming the audit opinion. This includes the statistical evaluation of errors found in samples which are individually below the materiality threshold but, when extrapolated, suggest material error in an overall population. As the audit progresses our assessment of both quantitative and qualitative materiality may change.

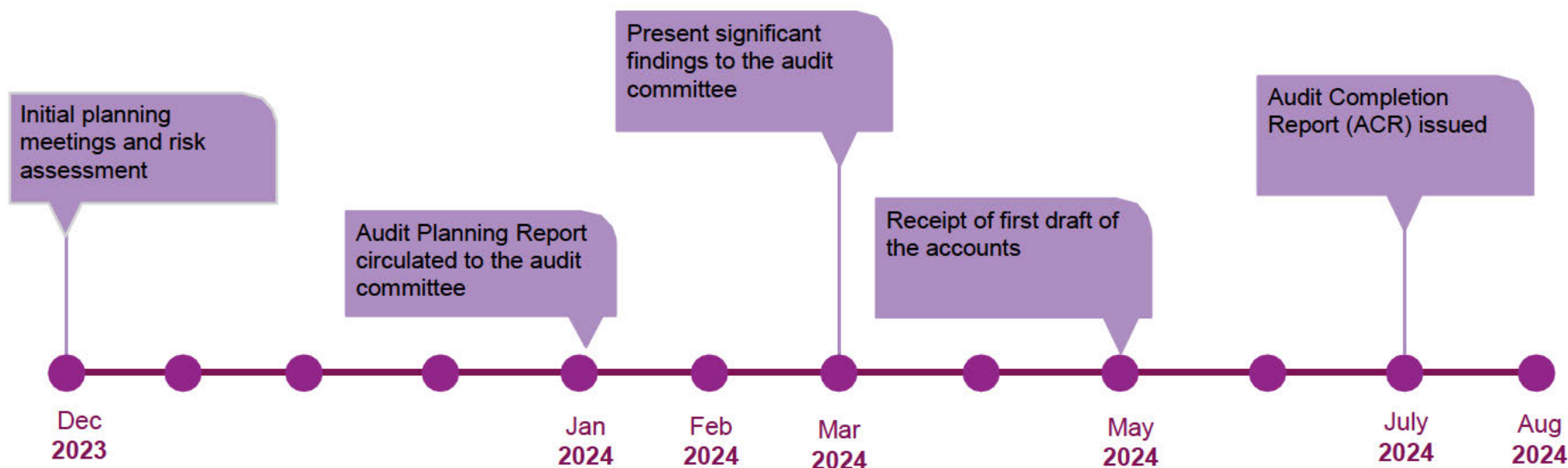
We also consider materiality qualitatively. In areas where users are particularly sensitive to inaccuracy or omission, we may treat misstatements as material even below the principal threshold(s).

These areas include:

- the remuneration report;
- disclosures about losses and special payments;
- our audit fee; and
- irregular income and expenditure.

# Timing of the audit

The timetable comprises an interim visit commencing 29<sup>th</sup> January 2024 for 5 weeks and a final visit commencing 6<sup>th</sup> May 2024 with certification planned for July 2024



### Planning

In consultation with Management, Audit Committee, Internal Audit and other Key stakeholders, review National Highways' operations, assess risk for our audit and evaluate the control framework.

Determine audit strategy.

### Interim fieldwork

Test expenditure and begin SRN and provisions work.

### Final fieldwork

Test expenditure and income and significant balances and disclosures

### Completion

**June 2024-** ACR: present our findings and recommendations.

**July 2024-** Seek management representations.

C&AG issues opinion. Management Letter: provide final recommendations on control matters identified.

### Debrief

**August 2024-** Meeting to discuss lessons learned and improvements for the following year.



The NAO audit fee quote is based on the anticipated cost of delivering our audit work. The level of audit work is dependent upon a number of factors, including the nature and extent of significant risks of material misstatement within the financial statements and ensuring quality audit procedures are undertaken to meet the requirements of International Standards on Auditing (ISAs).

Drivers behind changes in audit fees over the last few years include:

- **The Financial Reporting Council (FRC) has increased its expectations around the quality of audit work in light of a number of high-profile corporate failings.** This has resulted in the level of audit work increasing, particularly into the application of judgement and scepticism in relation to complex accounting estimates, revenue recognition, going concern, and the audit of groups.
- **Financial reporting changes.** In the past few years, new accounting standards IFRS 9: *Financial Instruments*, IFRS 15: *Revenue*, and IFRS 16: *Leases*, have resulted in significantly more complex financial reporting requirements.
- **Auditing standard changes.** Recent and upcoming changes to auditing standards have increased the complexity and volume of audit work required to carry out audits in line with these standards, partly as a response to questions over the sufficiency of audit in light of corporate failings. In 2022-23, new auditing standards (ISA 240 and ISA 315) relating to risk assessment come into effect which will substantially change the approach auditors take to risk assessment and the resultant audit procedures.
- **Investment in technology.** We are investing in our technology to enhance auditing techniques, such as data analytics and testing of controls, to improve both the quality of the audit we provide and the insight we can offer into common financial reporting and management challenges.
- **Increase in underlying costs.** The underlying costs of the NAO have increased since last year. Therefore, in line with the scheme of fees agreed with Parliament, we have adjusted the costs of our audit through our hourly rates to ensure these costs are correctly recovered through audit fees.

### Fees

The fee for the audit is £355,000. The increase of 2% on 2022-23 is driven by inflationary increase, partially offset by the lower risk associated with the Technology assets QQR when compared with revaluation of other elements of the Strategic Road Network. #

The principle agreed with Parliament is that our fee is set to recover the full costs of the audit, rather than make a profit from or subsidise an audit. The NAO determines its fees with reference to standard hourly rates for our staff, which are reviewed annually, and updated when costs change.

Completion of our audit in line with the timetable and fee is dependent upon National Highways:

- delivering a complete Annual Report and Accounts of sufficient quality, subject to appropriate internal review, on the date agreed;
- delivering good quality supporting evidence and explanations within the agreed timetable;
- and making staff available during the audit.

If significant issues arise and we are required to perform additional work this may result in a change in our fee. We will discuss this with you before carrying out additional work.

The NAO is committed to delivering high-quality audit work and to meeting the expectations of our audited bodies, Parliament, the public, and other stakeholders. As a result of this commitment and the drivers outlined above, we have set our audit fee quote accordingly.

## Other Matters

### **Audit scope and strategy**

This audit plan covers the work we plan to perform to express an opinion on whether the financial statements are free from material misstatement and are prepared, in all material respects, in accordance with the applicable financial reporting framework.

The plan is also designed to ensure the audit is performed in an effective and efficient manner. The NAO financial audit team will work alongside the NAO VFM team to identify any areas of potential focus for upcoming studies. Our audit approach is a risk based approach, ensuring that audit work is focussed on significant risks of material misstatement and irregularity. Additionally by working with auditor's experts, the NAO financial audit team will contribute external sense checking of the reliability of the financial statements.

Our audit approach is a risk based approach, ensuring that audit work is focused on significant risks of material misstatement and irregularity.

In areas where users are particularly sensitive to inaccuracy or omission, a lower level of materiality is applied, e.g. for the audit of senior management remuneration disclosures and related party transactions.

When undertaking our risk assessment we take into account several factors including:

- Inquiries of management
- Analytical procedures
- Observation and inspection of control systems and operations
- Examining business plans and strategies

Our risk assessment will be continually updated throughout the audit.

---

### **Independence**

We are independent of National Highways in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard. We have fulfilled our ethical responsibilities in accordance with these requirements and have developed important safeguards and procedures in order to ensure our independence and objectivity.

Information on NAO quality standards and independence can be found on the NAO website: <https://www.nao.org.uk/about-us/our-work/governance-of-the-nao/transparency/>.

We will reconfirm our independence and objectivity to the Audit Committee following the completion of the audit.

---

### Other Matters

#### Management of personal data

During the course of our audit we have access to personal data to support our audit testing.

We have established processes to hold this data securely within encrypted files and to destroy it where relevant at the conclusion of our audit. We confirm that we have discharged those responsibilities communicated to you in the NAO's Statement on Management of Personal Data at the NAO.

The statement on the Management of Personal Data is available on the NAO website:

<http://www.nao.org.uk/freedom-of-information/publication-scheme/how-we-make-decisions/our-policies-and-procedures/policies-and-procedures-for-conducting-our-business/>

#### Using the work of internal audit

We liaise closely with internal audit through the audit process and seek to take assurance from their work where their objectives cover areas of joint interest.

#### Communication with the NAO

Organisations we audit tell us they find it helpful to know about our new publications, cross-government insight and good practice.

Our [website](#) holds a wealth of information from latest publications which can be searched, to pages sharing our insights on important [cross-cutting issues](#). We also publish blogs and send email notifications to subscribers about our work on particular sectors or topics. If you would like to receive these alerts, please sign up at: <http://bit.ly/NAOoptin>. You will always have the option to amend your preferences or unsubscribe from these emails at any time.

#### NAO's Transparency Report

The NAO's annually published [Transparency Report](#) documents how we support Parliament in holding government to account through our statutory public audits.

The report includes details of our quality plan and the whole system approach we are taking to ensure consistently high-quality audit work including our adoption of the *International Standard on Quality Management (UK) 1 – Quality Management for firms that perform audits or reviews of financial statements, or other assurance or related services engagements*.

**Audit quality is core to the NAO's purpose.** It supports effective accountability, better financial reporting and stronger financial management. We want our audit insights to be valued, and to be a leading voice in public sector financial reporting and financial management.

For our work to have the impact and influence required, and for Parliament and the wider public to have confidence in the quality of our work, we must uphold high standards of ethics and integrity and work within a framework of values that preserve audit independence.

The quality of our financial audit work is a key corporate priority and features within our corporate risk register.

On our audit of financial statements, **we measure the quality of our financial audits through an annual programme of internal and external inspections.** These inspections review a sample of our audits. Our target is that all our financial audits meet our quality standards.

**These standards are that, should an audit be inspected by an independent reviewer, the reviewer finds that the audit requires no more than limited improvement is required.** Each audit is graded from 1 to 4 where 1 is good or best practice and 2 is limited improvements required – ratings meeting our quality standard; with a grade of 3 where improvements are required and 4 where significant improvements are required – ratings below our quality standard.

We are implementing our **Audit Transformation Programme (ATP)**. This responds to the rapid developments in auditing standards and profession-wide practice following audit failures in the private sector in recent years. Our **updated audit methodology**, which we first applied to our 2022-23 audits, complies with the revised international auditing standard 315 (identifying and assessing the risks of material misstatement).

We have also introduced **extended auditor reports** for all government departments (in addition to those reports we already publish as part of our Companies Act audit portfolio where required) from 2022-23, providing significantly more information about our audit approach for the users of those accounts.

From 2023-24, we will implement our **new technology platform** to replace our previous audit software. The new platform, which we call "Apex", is designed to guide audit teams to deliver high-quality audits and make optimum use of data analytics and other new audit tools as they become available.

We are already seeing **positive impact from these investments**, but we know we have more to do to realise fully the benefits. This is underlined by some **disappointing results from our inspection programmes of a sample of our 2021-22 financial audits, including our audit of National Highways which was rated a 4.** We consider that the underlying findings across the sample of inspections do not indicate fundamental problems with our audit quality or the reliability of government accounts. They tell us that we are making good progress against our ambitions to ensure that all our audit work is judged to be of a high standard, and to do this consistently, whilst recognising that the regulatory quality bar continues to rise.

These inspections point to areas where our quality improvement initiatives have already had a positive impact, such as the audit of harder-to-value assets and our use of auditor's experts. Across our audits, we need to do more to:

- Challenge and consistently evidence on our audit file our thorough assessment of the assumptions and judgements applied by management in complex estimates and valuations;
- Critically audit the cash flow statement prepared by audited entities and its reconciling items;
- Evidence fully our assessment of the use of journals where there is a risk of management override of control;
- Enhance our processes which support the accuracy of our audit reports; and
- Evidence the safeguards we put in place where we extend an engagement director's time on an audit beyond five years.

Our focus in the coming year is on delivering the quality benefits of our Audit Transformation Programme, continuing to support an open culture building on our values, and implementing the actions identified by our root cause analysis.

**Our annual [Transparency Report](#) sets out these issues in more detail.** Our latest version, covering 2022-23, outlines how we support Parliament in holding government to account through our statutory public audits. It explains how we embed quality through our values. It details the actions we are taking through our Single Financial Audit Quality Plan and the whole system approach we are adopting to ensure consistently high-quality audit work.

**Your Engagement Director would be delighted to discuss these issues further with you and how they might apply on your particular audit.**

Rebecca Sheeran  
**Executive Leader**

Sarah Che  
**Engagement Director**

T: [redacted]  
E: [redacted]

[redacted]  
**Engagement Manager**

T: [redacted]  
E: [redacted]

[redacted]  
**Engagement Lead**

T: [redacted]  
E: [redacted]

In line with ISAs (UK) we are required to agree the respective responsibilities of the C&AG/NAO and the Accounting Officer/audited entity, making clear that the audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

These responsibilities are set out in the Letter of Engagement of 22 November 2021 and are summarised here.

Area	Accounting Officer/management responsibilities	Our responsibilities as auditor
<b>Scope of the audit</b>	<ul style="list-style-type: none"> <li>• Prepare financial statements in accordance with the Companies Act 2006 and that give a true and fair view.</li> <li>• Process all relevant general ledger transactions and make these, and the trial balance, available for audit.</li> <li>• Support any amendments made to the trial balance after the close of books (discussing with us).</li> <li>• Agree adjustments required as a result of our audit.</li> <li>• Provide access to documentation supporting the figures and disclosures within the financial statements.</li> <li>• Subject the draft account to appropriate management review prior to presentation for audit</li> </ul>	<ul style="list-style-type: none"> <li>• Conduct our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)).</li> <li>• Report if the financial statements do not, in any material respect, give a true and fair view.</li> <li>• Review the information published with the financial statements (e.g. annual report) to confirm it is consistent with the accounts and information obtained during the course of our audit.</li> </ul>
<b>Fraud</b>	<ul style="list-style-type: none"> <li>• Primary responsibility for the prevention and detection of fraud.</li> <li>• Establish a sound system of internal control designed to manage the risks facing the organisation; including the risk of fraud.</li> </ul>	<ul style="list-style-type: none"> <li>• Obtain reasonable assurance that the financial statements (as a whole) are free from material misstatement, whether caused by fraud or error.</li> <li>• Make inquiries of those charged with governance in respect of your oversight responsibility.</li> <li>• Discuss fraud risks associated with the entity with those charged with governance.</li> </ul>



Area	Accounting Officer/management responsibilities	Our responsibilities as auditor
<b>Regularity</b>	<ul style="list-style-type: none"> <li>Ensure the regularity of financial transactions.</li> <li>Obtain assurance that transactions are in accordance with appropriate authorities, including the organisation's statutory framework and other requirements of Parliament and HM Treasury.</li> </ul>	<ul style="list-style-type: none"> <li>Conduct our audit of regularity in accordance with Practice Note 10, 'Audit of financial statements and regularity of public sector bodies in the United Kingdom (revised 2022)', issued by the Financial Reporting Council.</li> <li>Confirm the assurances obtained by the National Highways that transactions are in accordance with authorities.</li> <li>Have regard to the concept of propriety, i.e. Parliament's intentions as to how public business should be conducted.</li> </ul>
<b>Propriety</b>	<ul style="list-style-type: none"> <li>Ensure the propriety of financial transactions</li> <li>Ensure that patterns of resource consumption should meet high expectations of public conduct, and robust governance and respect Parliament's intentions, conventions and control procedures, including any laid down by the Public Accounts Committee.</li> </ul>	<ul style="list-style-type: none"> <li>Propriety is not readily susceptible to objective verification and, as such, is not expressly covered in the opinion on financial statements. When issues of propriety come to light in the course of the audit of financial statements, the auditor considers whether and, if so, how they may be reported.</li> </ul>
<b>Governance statement</b>	<ul style="list-style-type: none"> <li>Review the approach to the organisation's governance reporting.</li> <li>Assemble the governance statement from assurances about the organisation's performance and risk profile, its responses to risks and its success in tackling them.</li> <li>Board members, with the support of the Audit Committee, evaluate the quality of internal control and governance, and advise on any significant omissions from the statement.</li> </ul>	<ul style="list-style-type: none"> <li>Confirm whether the governance statement is consistent with our knowledge of the organisation, including its internal control.</li> <li>Consider whether the statement has been prepared in accordance with HM Treasury guidance, including Managing Public Money.</li> </ul>
<b>Accounting estimates and related parties</b>	<ul style="list-style-type: none"> <li>Identify when an accounting estimate, e.g. provisions, should be made.</li> <li>Appropriately value and account for estimates using the best available information and without bias.</li> <li>Identify related parties.</li> <li>Appropriately account for and disclose related party transactions.</li> </ul>	<ul style="list-style-type: none"> <li>Consider the risk of material misstatement in respect of accounting estimates made by management.</li> <li>Perform audit procedures to identify, assess and respond to the material risks of not accounting for or disclosing related party relationships appropriately.</li> <li>Significant risks are set out on pages 7-11.</li> </ul>

Accounting standard	Detail	Future direction for National Highways
<p><b>IFRS 17: Insurance Contracts</b></p> <p>IFRS 17 implementation will now be effective from 1 January 2023. The previous IASB implementation date was 1 January 2022.</p> <p>Implementation in 2023-24 requires full restatement of the 2022-23 comparative balances.</p>	<p>IFRS 17: Insurance Contracts replaces IFRS 4 of the same name. The new standard will apply more standardised and rigorous requirements on accounting for insurance contracts. The new standard sets clearer expectations on the recognition, classification and measurement of assets and liabilities in relation to insurance contracts.</p> <p>The scope of the standard covers insurance contracts issued and re-insurance contracts issued or held. An insurance contract is defined as:</p> <p><i>“A contract under which one party (the issuer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.”</i></p>	<p>This is the year of implementation of IFRS 17. Entities should consider if they have identified a complete population of all insurance and potential insurance arrangements. NH include indemnities in some construction contracts which may fall under the requirements of IFRS 17, if so consider what systems and reporting may be required to manage the change in accounting policy.</p> <p>Implementation requires full restatement of the prior year balances (2022-23) as well as the presentation of the 2023-24 figures under IFRS 17.</p> <p>Entities should have assessed if the implementation of IFRS 17 is material to their financial statements. Where material the following activities should have already have been undertaken:</p> <ul style="list-style-type: none"> <li>• Development of accounting policies and consideration of options adopted.</li> <li>• Implementation of any new systems and processes required to support the reporting against IFRS 17.</li> <li>• Preparation of restated 2022-23 figures under IFRS 17.</li> <li>• Agreed the timetable for the audit of the restated 2022-23 figures and the auditor’s review of the accounting policies.</li> </ul>

## Appendix 4: Changes to the valuation for FReM non-investment assets

In 2022-23 HM Treasury conducted a review on the valuation approach in place for all non-investment assets. HM Treasury expect to make changes to the valuation basis for non-investment assets in 2025-26. The current asset classes under the FReM are set out below alongside the current and proposed valuation approaches.

Asset Category under the FReM	Current Measurement	Proposed measurements
Networked assets	Depreciated replacement cost	<p>These three asset categories will be merged into a new category 'operational assets'. Operational assets are proposed to be measured at Existing Use Value, the methodology for calculating this value will often be Depreciated Replacement Cost.</p> <p>The proposed new guidance is designed to ensure full revaluations are not required more frequently than quinquennially. The frequency and type of valuations should follow one of the three following options:</p> <ul style="list-style-type: none"> <li>• A quinquennial revaluation supplemented by annual indexation in intervening years.</li> <li>• A rolling programme of revaluations over a 5-year cycle, with indexation applied to assets not revalued in a given financial year.</li> <li>• For non-property assets, revaluation by indexation only.</li> </ul> <p>HMT have proposed Depreciated Replacement Cost valuations should be altered going forward to be valued based on current locations and not based on alternative locations.</p>
Specialised assets	Depreciated replacement cost	
Non-specialised assets	Market value in existing use	
Heritage assets	Current value in line with other IAS 16 assets, but where not practicable to value, non-operational heritage assets reported at historical cost	Current value in line with other IAS 16 assets, but where not practicable to value, non-operational heritage assets reported at historical cost
Surplus assets	Fair value	Fair Value
Intangible assets	Market value in existing use or historical cost for low value assets or assets with short useful lives	Historical (deemed) cost

The proposals are subject to further consultation in winter 2023/24, including judgements on how any transition will occur. Therefore, the proposals set out above are not final and may be subject to further feedback and change.

## Appendix 5: Task Force on Climate related Financial Disclosure

HM Treasury have confirmed central government will be aligning to the [TCFD recommended disclosures](#) as set out by the Financial Stability Board. These are being implemented as a framework to understand and disclose climate-related financial information in the public sector.

HM Treasury have developed [application guidance](#) to support the phase 1 implementation in central government. This implementation of TCFD-aligned disclosure will be from 2023-24 phased over a 3 year period. The requirements of each phase are set out below and are required for:

- Ministerial and non ministerial departments
- Arms length bodies meeting any of the following criteria: more than 500 employees, total operating income exceeding £500m or where they have been directed to by sponsor department

	Phase 1 - Governance Focus	Phase 2 – Risk Management and Metrics and Targets	Phase 3 – Strategy
<b>Target Period</b>	2023-24	2024-25	2025-26
<b>Focus</b>	High-level overview	Qualitative disclosures and quantitative disclosure with less technical requirements	Quantitative disclosures with more technical requirements. TCFD-aligned disclosure is fully implemented
<b>Requirements</b>	Reporting entities shall provide a TCFD Compliance Statement and the recommended disclosures for: <ul style="list-style-type: none"> <li>• Governance</li> <li>• Metrics and Targets (b), only where available from existing reporting processes.</li> </ul> <p>Comply or explain basis</p>	Reporting entities shall provide a TCFD Compliance Statement and the recommended disclosures for: <ul style="list-style-type: none"> <li>• Governance</li> <li>• Risk Management</li> <li>• Metrics and Targets</li> </ul> <p>Comply or explain basis</p>	Reporting entities shall provide a TCFD Compliance Statement and the recommended disclosures for: <ul style="list-style-type: none"> <li>• Governance</li> <li>• Risk Management</li> <li>• Metrics and Targets, considering wider reporting.</li> <li>• Strategy</li> </ul> <p>Comply or explain basis</p>
<b>Interaction with Greening Government Commitments</b>	Continue to apply GGC21-25 for emissions for Metrics and targets., in line with SRG	Continue to apply GGC21-25 emissions for Metrics and Targets, in line with SRG	Consider new GGC period for 25-30 (GGC21-25 runs until 31 March 2025 with the next commitment period for GGC25-30 starting on 1 April 2025)

For 2023-24 the Governance disclosures should include a description of the board's oversight of climate-related issues and a description of management's role in assessing and managing climate-related issues. In respect of Metrics & Targets, where available as part of an entity's existing reporting processes, the TCFD Metrics and Targets recommended disclosure (adapted): (b) Scope 1, Scope 2, and, Scope 3 - business travel only greenhouse gas (GHG) emissions. This aligns with existing requirements in the Sustainability Reporting Guidance (SRG)

The disclosure requirements for 2024-26 require a greater level of data and consideration. HM Treasury have designed a lead time on these for a reason to allow time to preparation. We recommend putting a plan in place to be able to meet these requirements.



## Appendix 6: Changes to quality management standards Financial **Audit** Planning

In line with the audit profession as a whole, the NAO has adopted a suite of new quality management standards which have been issued by our regulator, the Financial Reporting Council. International Standard on Quality Management (ISQM) (UK) 2 and a revised version of International Standard on Auditing (ISA) (UK) 220 take effect from the 2023-24 audit cycle.

### ISQM (UK) 2

#### *Engagement quality reviews*

This standard sets out the process for appointing engagement quality reviewers, the eligibility criteria for appointment and the process of performing, documenting and concluding engagement quality reviews.

An engagement quality review is an evaluation of the significant judgments made by the engagement team and the conclusions reached thereon, which is carried out during the audit by an independent Director.

Engagement quality reviews are performed on certain audits where required by standards or as a discretionary quality response.

### ISA (UK) 220 (Revised July 2021)

#### *Quality management for an audit of financial statements*

This standard:

- embeds the concept of quality management at the engagement level;
- contains requirements relating to professional scepticism; and
- strengthens the role of the Engagement Director and their responsibilities for direction, supervision and review of the audit.

### What do the new quality management arrangements mean for audited entities?

Under the revised ISA (UK) 220, engagement teams are now required to consider explicitly what actions are required to be taken as part of the audit engagement in response to quality risks that are identified by the NAO's system of quality management and findings from the NAO's ongoing programme of quality monitoring. This may result in changes to audit procedures which have been carried out in previous years, reflecting the responses the engagement team considers necessary to address the quality risks.

The aim is that these changes will enable you to have greater confidence in the quality of our audit.

### Feedback on the quality of audit work

Where relevant, our quality responses are informed by feedback received from audited entities. As set out in the terms of our engagement with you, it is our desire to provide you at all times with a high quality service to meet your needs.

If at any time you would like to discuss with us how our service to you could be improved or if you are dissatisfied with any aspect of our services, please raise the matter immediately with the Engagement Director. If, for any reason, you would prefer to discuss these matters with someone outside the engagement team, please contact the NAO's Director, Financial Audit Practice and Quality [REDACTED]. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you.

This change is relevant to National Highways as a component of the Department for Transport group audit.

**ISA (UK) 600  
(Revised September  
2022): Special  
Considerations –  
Audits of Group  
Financial Statements  
(Including the Work of  
Component Auditors)**

Effective for audits of group financial statements for periods beginning on or after 15 December 2023 (the 2024-25 audit cycle)

**ISA 600** is the critical standard which drives the auditor's approach to auditing the group financial statements, with a particular focus on the following areas:

- Risk Assessment
- Quality management in an audit of group financial statements
- Understanding the group and its environment, the applicable reporting framework and the Group's System of Internal Control
- Using the work of component auditors

ISA 600 is the key source of guidance for auditors in performing a group audit and fulfilling the requirements of other ISAs (UK) in the context of an audit of group financial statements

The aims of the revised standard is to:

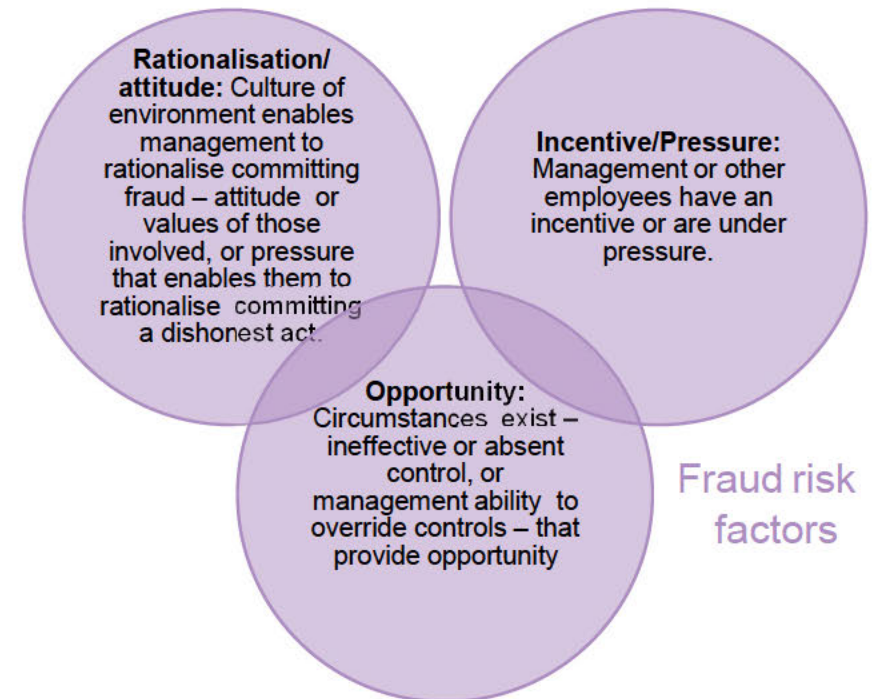
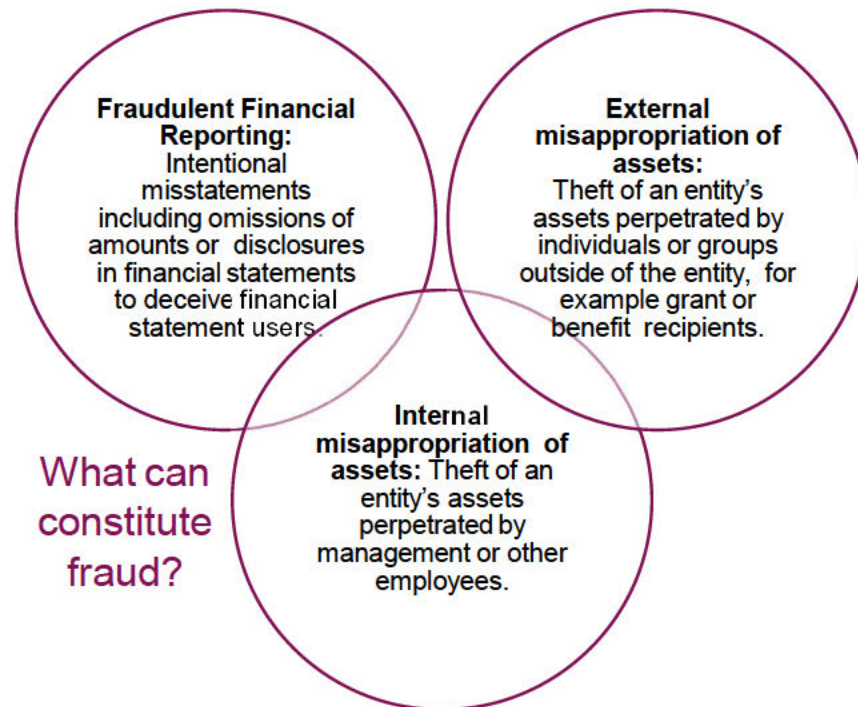
- Clarifying the scope and applicability of ISA 600
- Embedded the principles of the revised quality management standards into the delivery of the audit of group financial statements
- Focusing the group engagement team's attention on the identification and assessment of risk of at the group financial statement level and emphasising the importance of designing and performing appropriate procedures to respond to those risks.
- Increased requirements for robust communications between the group engagement team, the group engagement partner and component auditors.

The key impacts are:

- A revised top-down approach to group risk assessment, which may mean assurance being required of a different profile of components.
- Greater involvement from the group engagement team in component auditors, taking a quality management perspective on the work of the component auditor.
- A clearer workflow employed by the auditor when performing a group audit.



ISA (UK) 240 'The auditor's responsibility to consider fraud in an audit of financial statements' requires us, as your auditors, to make inquiries and obtain an understanding of the oversight exercised by those charged with governance.



### ISA inquiries

Our inquiries relate to your oversight responsibility for

- Management's assessment of the risk that the financial statements may be materially misstated owing to fraud, including the nature, extent and frequency of such assessments;
- Management's process for identifying and responding to the risks of fraud, including any specific risks of fraud that management has identified or that has been brought to its attention;
- Management's communication to the [Audit Committee] (and others charged with governance) on its processes for identifying and responding to the risks of fraud; and
- Management's communication, if any, to its employees on its views about business practices and ethical behavior.

**We are also required to ask whether you have any knowledge of any actual, suspected or alleged fraud and discuss with you the risks of fraud in the entity.**

### Audit approach

We have planned our audit of the financial statements so that we have a reasonable expectation of identifying material misstatements and irregularity (including those resulting from fraud). Our audit, however, should not be relied upon to identify all misstatements or irregularities. The primary responsibility for preventing and detecting fraud rests with management.

We will incorporate an element of unpredictability as part of our approach to address fraud risk. This could include, for example, completing procedures at locations which have not previously been subject to audit or adjusting the timing of some procedures.

We will report to the Audit Committee where we have identified fraud, obtained any information that indicates a fraud may exist or where we consider there to be any other matters related to fraud that should be discussed with those charged with governance.



### Support to Audit Committees

We have developed a range of guidance and tools to help public sector Audit Committees achieve good corporate governance. This includes specific guidance on financial reporting and management during Covid-19

[Insights - National Audit Office \(NAO\)](#)

<https://www.nao.org.uk/report/guidance-for-audit-and-risk-committees-on-financial-reporting-and-management-during-covid-19/>

### Climate Risk: A good practice guide for Audit and Risk Assurance Committees

Audit Committees play a key role in scrutinising and advising the Board and Accounting Officer on risks arising from climate change. This guide will help ARACs recognise how climate change risks could manifest themselves and support them in challenging senior management on their approach to managing climate change risks

[Climate change risk: A good practice guide for Audit and Risk Assurance Committees - National Audit Office \(NAO\) Report](#)

### Corporate Governance Code for central government departments

The document was released in April 2017 and lays out the model for departmental boards, chaired by Secretaries of State and involving ministers, civil servants and non-executive board members. The principles outlined in the code will also prove useful for other parts of central government and they are encouraged to apply arrangements suitably adapted for their organisation.

<https://www.gov.uk/government/publications/corporate-governance-code-for-central-government-departments-2017>

## Guidance for governance

### Sustainability reporting

This guidance is to assist with the completion of sustainability reports in the public sector. It sets out the minimum requirements, some best practice guidance and the underlying principles to be adopted in preparing the information.

[2023-24 Sustainability Reporting Guidance.docx \(publishing.service.gov.uk\)](#)

### Disclosure Guides

Our disclosure guides for audited entities help audited bodies prepare an account in the appropriate form and that has complied with all relevant disclosure requirements.

[Disclosure guide for entities who prepare financial statements in accordance with the Government Financial Reporting Manual \(FReM\) - National Audit Office \(NAO\) insight](#)

The Audit Committee plays a key role in scrutinising the Annual Report and Accounts on behalf of their Board and Accounting Officer, ensuring the quality of disclosures, its understandability for users, and that the body's performance is presented in a fair and balanced way.

To support the [Audit Committee] in this role, we have published our [Good Practice in Annual Reporting](#) guide.

The Guide, which we update annually, provides specific examples of best practice we identified during our review of a sample of annual reports. The good practice principles are grouped under the following headings: supporting accountability, transparency, accessibility and understandability (see next slide for further details). These principles should be evident across the common sections of an annual report (below).



### Could you be a winner?

If you consider you meet these best practice principles and would like to nominate your organisation for the Building Public Trust Awards for your most recent Annual Report and Accounts, please speak to your NAO Team or contact us at [Building.Public.Trust@nao.org.uk](mailto:Building.Public.Trust@nao.org.uk).



### Essential features of a good annual report



#### Supporting accountability

- telling the story of the organisation in a fair and balanced way;
- compliance with the relevant reporting requirements; and
- clear action points to take forward.



#### Transparency

- frank and honest analysis;
- consideration of the challenges an organisation is facing;
- appropriate use of data; and
- quantification of risks and performance measures.



#### Accessibility

- highlights key trends in the financial statements;
- concise summaries of key points; and
- consideration of how the organisation engages with key stakeholders and meets their needs.



#### Understandable

Use of:

- plain English to explain difficult concepts;
- infographics and diagrams to communicate important messages; and
- clearly integrated structure to help users navigate it effectively.

# Appendix 11: How your Audit Committee can support timely Annual Report and Accounts publication

The Covid-19 pandemic has impacted on the timely delivery of central government accounts, with 60% of Annual Reports and Accounts being published before the summer Parliamentary Recess in 2023 – which although an increase from 53% in 2022 is down from 80% before the pandemic in 2019. Audit Committees have a key role to play in supporting management in achieving timely Annual Report and Accounts publication. Below we set out some key areas Audit Committees may find it helpful to focus on.

### Learning from the prior year

- Has management held debrief sessions with relevant stakeholders, including the NAO, to identify what worked well in previous accounts production and audit process and areas where enhancements can be made?

### A clear project plan is in place with appropriate senior management ownership and accountability

- Has a project plan been developed and presented to the Audit Committee in advance of the year end, with appropriate oversight and accountability at a senior level, and has it been agreed with all relevant stakeholders including the NAO?

### Project plans are realistic, not inappropriately optimistic and have clear milestones which are monitored to prevent slippage

- Is the project plan sufficiently granular and with clear milestones for delivery built in and, where the project plan aims for earlier Annual Report and Accounts publication than in prior years, are these plans realistic and achievable?

### The Audit Committee has visibility of, and has reviewed, key judgements

- Does the Audit Committee have clear visibility of the key accounting judgements and, where these judgements are historic, has management reviewed and considered whether these judgements remain appropriate before the year-end or whether any update is needed?

### Plan to address key accounting judgements early – and take stock of progress before the year-end

- Has management identified new and emerging key accounting judgements and has plans in place to address these at an early stage?

### Skeleton Annual Report and Accounts are prepared to facilitate early review

- Has management prepared a skeleton Annual Report and Accounts, incorporating any changes in disclosure requirements and best practice, which has been reviewed by management, the NAO and the Audit Committee in advance of the year-end? In particular, has the Governance Statement (or equivalent) been updated to reflect the latest circumstances of the organisation?

### Latest reporting requirements are factored into project plans

- Where the organisation is adopting new accounting standards or other disclosures (eg, Taskforce on Climate-Related Financial Disclosures), has the Audit Committee been provided with a project plan for implementation?

### Where the delivery of Group accounts is dependent upon components (arms length bodies, agencies or others) the Group [Audit Committee] and management have sufficient oversight

- Have instructions been put in place with component finance teams to obtain the required information in line with the Group reporting timetable and does the Audit Committee have visibility of risks that sit at component level?

### Beyond the finance team, other parts of the organisation understand their role and are brought into the year-end process.

- Where contributions to the year-end accounts production process are from outside of the finance team (for example, sections of the annual report or external valuers) have arrangements been put in place before the year-end to ensure required information is available in line with the timetable?

### Ministerial approval is factored into the project plan

- Where Annual Reports and Accounts require ministerial approval, has early engagement taken place to schedule this in with the sponsor department?

### Additional guidance

- HM Treasury – Guidance on Annual Reports and Accounts (for organisations that apply the Government Financial Reporting Manual) - <https://www.gov.uk/government/collections/government-financial-reporting-manual-frem>
- NAO - Good Practice in Annual Reporting - <https://www.nao.org.uk/report/good-practice-in-annual-reports-february-2021/>
- NAO – Guidance for Audit & Risk Committees on Financial Reporting and Management during Covid-19 - <https://www.nao.org.uk/report/guidance-for-audit-and-risk-committees-on-financial-reporting-and-management-during-covid-19/>
- NAO - Climate Change Risk: a good practice guide for [Audit Committee]s - <https://www.nao.org.uk/report/climate-change-risk-a-good-practice-guide-for-audit-and-risk-assurance-committees/>



Our [effectiveness tool](#) is a comprehensive way for ARACs in central government to assess their effectiveness on a regular basis.

The tool should be used in a way that is proportionate to the risks and complexity of each organisation.



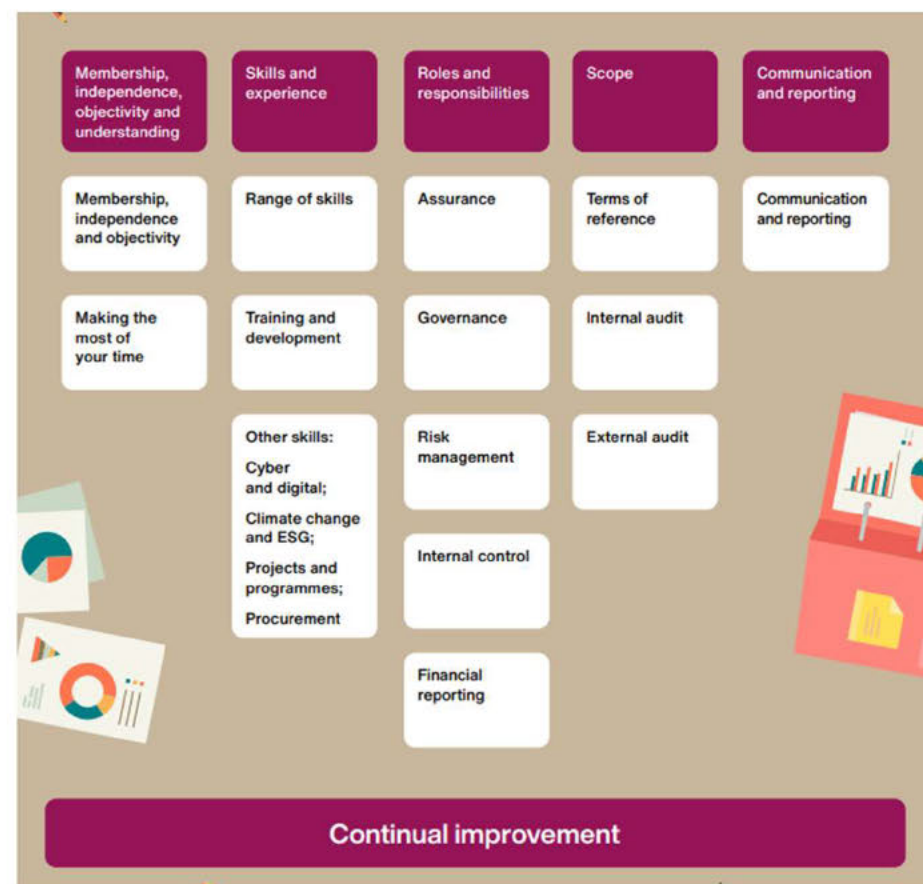
Our effectiveness tool outlines six areas for self-assessment:

- **membership, independence, objectivity and understanding**
- **skills and experience**
- **roles and responsibilities**
- **scope**
- **communication and reporting**
- **continual improvement**

There are two types of questions:

**Essentials** – these reflect the core expectations of ARACs in line with HM Treasury's *ARAC Handbook (2016)*. All organisations should answer these questions.

**Good practice** – these are drawn from wider guidance and allow ARACs to go beyond basic requirements and demonstrate best practice. If you have fewer resources and your organisation has a lower risk profile you may decide to address these areas on a cyclical basis.



### Outcome Analyser



To gain an overall view of ARAC effectiveness, it is important that the individual views of all members are considered as a whole. Therefore we have created an accompanying [outcome analyser](#) which allows you to:

- generate an overall view of ARAC effectiveness; and
- drill down and analyse specific areas of strength or improvement on a section, sub-section and individual question level.