National Audit Office

Audit Insights:

lessons and findings from the National Audit Office's financial audits in 2024-25

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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 2024, the NAO's work led to a positive financial impact through reduced costs, improved service delivery, or other benefits to citizens, of £5.3 billion. This represents around £53 for every pound of our net expenditure.

Audit insights: lessons and findings from the National Audit Office's financial audits in 2024-25

Report by the Comptroller and Auditor General

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Gareth Davies
Comptroller and Auditor General
National Audit Office

16 January 2026

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Value for money reports

Our value for money reports examine government expenditure in order to form a judgement on whether value for money has been achieved. We also make recommendations to public bodies on how to improve public services.

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Foreword

Improving financial management and reporting in government is at the heart of the National Audit Office’s (NAO’s) strategy and our financial audit work is central to this. Each year my teams audit the accounts of approximately 400 central government organisations and £1.1 trillion of taxpayer money.

For the first time, I am bringing together a report highlighting the valuable insights that can be drawn from our audits of central government accounts. Timely and accurate accounts are a key responsibility of Accounting Officers and an indicator of the quality of an organisation’s financial management. The report shows the progress that the government has made in recovering the delays to the publication of accounts caused by the pandemic. Despite improvements by many organisations, there is more to do to secure timely and robust reporting. This report identifies common challenges being addressed by departments and public bodies, including the cost and delivery of compensation schemes, implementing successful information technology change, and managing and valuing assets.

Success requires a clear focus by the government on improving the fundamentals of financial management and reporting, alongside deploying skills and capabilities appropriately. I have committed the NAO to playing our part in supporting this improvement. The prize is timely and accurate accountability to taxpayers and better value from available resources.

Gareth Davies, Comptroller and Auditor General

Key facts

The government's financial reporting

£1.1tn	£2.7tn	£5tn	64%
spent by government each year	value of assets reported through Whole of Government Accounts in 2023-24	value of liabilities reported through Whole of Government Accounts in 2023-24	proportion of annual reports and accounts (ARAs) published before Parliamentary recess in 2024-25

The value of independent audit

c.400	government ARAs that the National Audit Office provides an independent audit opinion on each year
£21.2 billion	adjustments made to valuation of assets and liabilities in 2024-25 during our audits
£11.3 billion	adjustments made to records of income and expenditure in 2024-25 during our audits
17	qualified audit opinions issued in 2024-25
138	recommendations made to management of 17 major departments from our 2024-25 financial audit work

Introduction

1 This report, for the first time, brings together thematic insights from our recent financial audits and wider assurance work. It explains key accounting terms in the context of government finances, and highlights opportunities to strengthen financial management and reporting in government which can help improve productivity and resilience in public service delivery. This report supports our strategic ambitions for:

- more productive and resilient public services, and
- better financial management and reporting in government.

2 This report:

- provides background and context to the National Audit Office's annual cycle of financial audits, how we work with audited bodies, and how we report the results to Parliament (Part One);
- outlines the importance of good annual reports, focussing on two areas where there are opportunities to improve financial management and reporting in government (Part Two); and
- sets out insights from our financial audits in three areas that present particular challenges to financial management and the production of timely, high-quality accounts (Part Three).

Part One

Our financial audit work

Annual reports and accounts

1.1 The government spends around £1.1 trillion a year and holds assets of £2.7 trillion and liabilities of £5 trillion.[1] Government bodies report this expenditure, along with the values of their assets and liabilities, in their annual report and accounts (ARAs). ARAs set out what each body achieved during the year, how it managed its operations, and how it used public money. They are therefore one of the most important documents that Parliament and the public rely on to hold the government to account.

Roles and responsibilities

1.2 Accounting Officers of individual organisations, HM Treasury (HMT) and the National Audit Office (NAO) all have different roles and responsibilities across the annual report and accounts process.

- HMT sets the standards to which central government organisations publish annual reports and accounts in its Financial Reporting Manual (FReM). A body may be required to comply with the FReM through legislation, specific HMT or Departmental direction, or it could adopt the FReM voluntarily. HMT also appoints the permanent secretary of each central government department to be its Accounting Officer.
- Accounting Officers of individual organisations are responsible for maintaining proper accounting records and producing ARAs in line with the appropriate framework, and confirming they are fair, balanced and understandable.
- The NAO audits and reports on the financial accounts of all government departments and other public bodies.

1 HM Treasury, *Whole of Government Accounts 2023-24,* July 2025.

1.3 The Government Finance Function (GFF) is a community of over 9,000 finance professionals. It does not have a formal specified role within the ARA process but aims to strengthen decision making by providing its community with expert advice and guidance. The head of the GFF is the senior officer accountable for cross-government financial management, setting the standards for finance and for ensuring that the Civil Service has the requisite professional skills and capability to deliver within the Finance Function and other relevant professions.

Our audits

1.4 The Comptroller and Auditor General (C&AG), as the head of the NAO, provides an independent audit opinion on the ARAs of around 400 public bodies. Most of these organisations are required to produce their ARAs in accordance with the FReM. Our audits are designed to provide Parliament with assurance that the financial records of central government are materially correct. They provide two types of assurance:

- True and fair opinion: Assurance that financial statements are free from material misstatement (errors that would reasonably influence decision making by users of the financial statements).
- Regularity opinion: Assurance that money has been used as Parliament intended.

1.5 We audit a wide range of public sector bodies, including:

- all government departments, for example Department for Transport, Ministry of Justice and HMT;
- executive agencies, for example Rural Payments Agency, UK Health Security Agency and Met Office;
- non-departmental public bodies, for example Infected Blood Compensation Authority, Homes England and the Health and Safety Executive;
- major public corporations, such as the BBC;
- companies, audited under statute or by agreement, for example College of Policing, British Business Bank, LocatED Property Limited; and
- some charities, for example British Library, National History Museum and the Royal Airforce Museum.

1.6 Our work supports accountability and transparency on how the government has spent taxpayers' money. We also make recommendations to government bodies to help them manage their finances more effectively.

The timeliness of the government's financial reporting

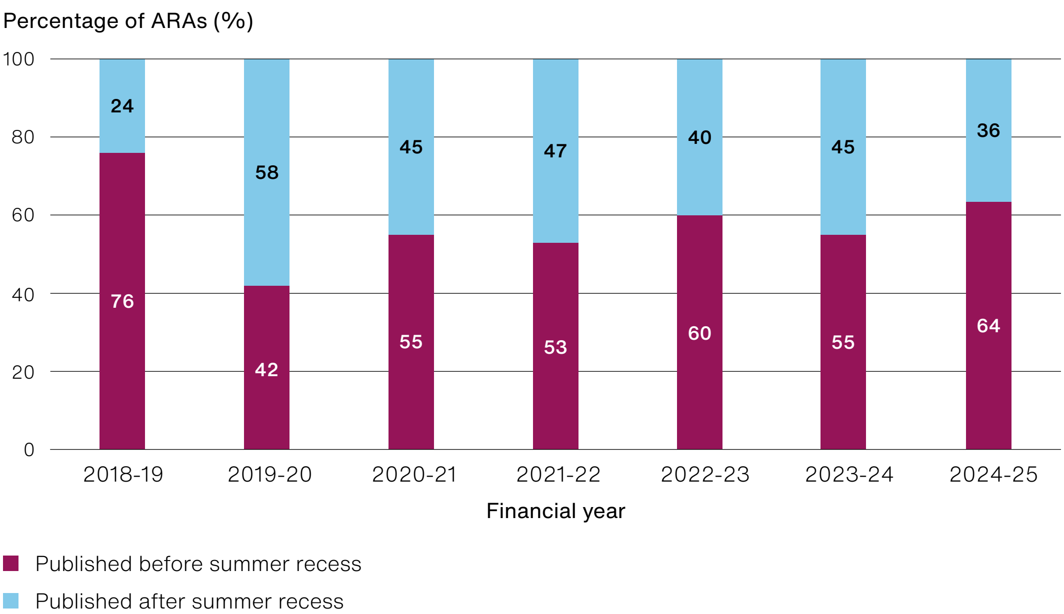
1.7 Timely reporting plays an important role in accountability. Delays in the publication of ARAs undermine transparency and scrutiny. ARAs can only be laid when Parliament is in session and HMT asks central government bodies to aim to publish their ARAs by the summer Parliamentary recess (typically late July). It is for individual bodies to ensure they have appropriate plans and resources in place to achieve this. We agree project plans with bodies that enable us to prioritise our resources to support timely delivery of ARAs.

1.8 The COVID-19 pandemic had a detrimental impact on the timing of audited accounts provided to Parliament. In 2018-19, around 76% of bodies published their audited accounts before the summer recess (**Figure 1**). This reduced to around 42% in 2019-20. There has been gradual improvement since 2019-20, with nearly two-thirds of central government ARAs publishing before the most recent summer recess in 2024-25.

Figure 1

Percentage of annual reports and accounts (ARAs) published before summer Parliamentary recess, 2018-19 to 2024-25

The timeliness of reporting has improved since the onset of COVID-19, with nearly two-thirds of ARAs published before summer Parliamentary recess in 2024-25, compared with two fifths in 2019-20



Note

1 Parliamentary summer recess typically starts in late July.

Source: National Audit Office transparency reports and internal operational data

1.9 There are many reasons why an audit of a government body may not conclude before the summer Parliamentary recess. In recent years, delays have been caused by machinery of government changes, cyber-attacks, local audit backlogs and issues identified by audits that could not be resolved quickly. Returning to pre-pandemic publication timetables has also been challenging because of increasing financial reporting and auditing requirements.

1.10 We are working with audited bodies, the GFF and HMT to achieve the NAO's 2025-26 targets of:

- All major government departments – other than those facing exceptional circumstances – publishing ARAs before the summer recess.
- 70% of all audited bodies publishing ARAs before the summer recess.
- All audited bodies publishing ARAs before 31 October 2026.

These plans prioritise our finite resources to ensure assurance to Parliament is as timely as possible.

1.11 Reporting before summer recess frees up finance teams to focus on other important activities in the autumn. Successful acceleration of timetables in recent years has been built on strong project management by both finance teams and auditors, as well as the provision of high-quality draft accounts and supporting evidence. This highlights the value of senior management prioritising the timely publication of ARAs.

The accuracy of the government's financial reporting

1.12 Audits frequently identify errors in draft financial statements that require adjustment before the ARAs are published. These errors can arise for various reasons, such as misunderstanding financial reporting standards, internal control weaknesses, or human error.

1.13 During the course of our 2024-25 financial audits of the 17 major government departments, £21.2 billion of adjustments were made by departments to the valuation of assets and liabilities, and £11.3 billion of adjustments were made to records of income and expenditure. We will continue to report on the value of adjustments in future publications of this report.

1.14 Poor quality draft accounts and audit evidence can delay the publication of ARAs as they require additional time to resolve. Sometimes, the government finds it challenging to achieve both timely assurance and accurate reporting, for example where a lack of audit evidence and the subsequent requirement for adjustments results in delays to completing annual accounts. Delayed audit timetables and the need to rectify emerging issues can limit the productivity of finance teams and divert resources away from other strategically important activities.

Qualified opinions

1.15 The C&AG qualifies his audit opinion when material issues are identified in accounts that a body cannot correct. He then sets out the reason for the qualification in his audit report to Parliament.

1.16 Audits provide reasonable rather than absolute assurance and the concept of materiality is applied to evaluating errors. This approach recognises that financial statements are rarely completely correct and instead provides assurance they are free from material misstatement or irregularity, i.e. a matter that would reasonably influence decisions made by users of the financial statements.

1.17 The C&AG gave qualified audit opinions on 14 2024-25 ARAs out of the audits completed before 31 December 2025. **Figure 2** sets out the reasons for these opinions.[2]

Figure 2
Qualified audit opinions in 2024-25

Material levels of fraud and/or error were among the most common reasons for qualifications in 2024-25

Type of qualified opinion	Reason for qualified opinion	Impact	Number of qualifications in central government
True and fair	Key provider of assurance had not completed work	Lack of assurance over the accuracy of pension fund balances	1
	Unable to obtain sufficient audit evidence	Lack of assurance on the accuracy and completeness of figures presented for audit	6
Regularity	Material levels of fraud and/or error	The government paid monies to individuals or organisations that were not eligible	6
	Failure to secure HM Treasury or Cabinet Office approval for expenditure	Money was spent outside of purposes approved by Parliament	2
	Expenditure exceeded approved spending limits	More money was spent than was approved by Parliament	2

Notes

1 True and fair opinion: assurance that financial statements are free from material misstatement (errors that would reasonably influence decision making by users of the financial statements).

2 Regularity opinion: assurance that money has been used as Parliament intended.

Source: National Audit Office review of published annual reports and accounts (up until 31 December 2025)

2 Three organisations had opinions qualified for both true and fair, and regularity.

How our audits support improvements for our audited bodies

1.18 As well as providing Parliament with assurance over financial statements, the insights we gather from our audits enable us to make recommendations to bodies that support them to improve their financial management and reporting.

1.19 We reviewed recommendations made to the 17 major government departments arising from our 2024-25 accounts audits (**Figure 3**). As of 31 December 2025, we had made 138 improvement recommendations, of which 27 were deemed high priority, 81 medium priority, and 30 low priority.

Figure 3

Notable themes from National Audit Office management recommendations to the 17 government departments in 2024-25

Our financial audits identified commonly recurring issues in three key areas

Theme	Key points
Data and reporting quality	Weaknesses in getting the basics of financial data and reporting right.
	Focus on core principles of fit for purpose processes and controls and retaining sufficient information to ensure data are recorded correctly first-time, to reduce inconsistency and error.
Information Technology (IT) controls	Weaknesses in IT controls for financial systems increase the risk of undetected fraud, unauthorised changes, and operational inefficiencies.
	Focus on opportunities from automation, and strong IT controls to enhance data quality and reduce inefficient manual processes.
	See Part Three for more detailed findings and recommendations related to IT change.
Asset management	Weaknesses in understanding asset records and how assets are valued.
	Focus on improving asset records, and processes and controls, to have a clearer view of the condition and value of assets and plan with more certainty.
	See Part Three for more detailed insights and recommendations related to asset management.

Notes

1 The 17 major government departments are Cabinet Office, Department for Business & Trade, Department for Culture, Media & Sport, Department for Education, Department for Energy Security & Net Zero, Department for Environment, Food & Rural Affairs, Department for Science, Innovation & Technology, Department for Transport, Department for Work & Pensions, Department of Health & Social Care, Foreign, Commonwealth & Development Office, HM Revenue & Customs, HM Treasury, Home Office, Ministry of Defence, Ministry of Housing, Communities & Local Government, and Ministry of Justice.

Source: National Audit Office review of management letters to audited bodies (up until 31 December 2025)

1.20 Our audits frequently lead to financial savings or other impacts for audited bodies, through for example improving controls, increasing oversight of processes, or identifying payment errors. **Figure 4** below summarises financial impacts in 2024 that resulted either wholly or in part from our financial audit work.[3]

1.21 **Case study 1** on page 14 gives further detail of how recommendations from both our value for money and financial audit work helped HM Revenue & Customs develop innovative solutions to reduce levels of fraud and error, resulting in a significant financial impact for the department.

Figure 4

Financial impacts in 2024 that resulted either wholly or partly from financial audit work

Our financial audits contributed to more than £375 million in financial impacts for audited bodies in 2024

Audited body	Description of action	Impact value (£mn)	Nature of impact
Department for Work & Pensions	Tackling overpayments in benefits expenditure	154.0	Recurring, year 2 of 6
	Rectification of State Pension underpayments	19.3	Recurring, year 1 of 5
Department for Education	Improved controls around grant award system	142.7	One-off
HM Revenue & Customs	Additional tax yield from redirecting compliance activity. For further detail, please refer to Case study 1.	59.4	Recurring, year 2 of 5
	Total	**375.4**	

Notes

1 The National Audit Office's 2024-25 annual report and accounts reported a total financial impact of £5,273 million for the 2024 calendar year, which represented around £53 for every pound of our net expenditure.

2 A recurring impact refers to benefits that accrue over multiple years.

Source: National Audit Office Annual Report and Accounts 2024-25

3 The National Audit Office's 2024-25 annual report and accounts reported a total financial impact of £5,273 million for the 2024 calendar year, which represented around £53 for every pound of our net expenditure.

Case Study 1
HM Revenue & Customs (HMRC) Research & Development (R&D) tax relief error and fraud reduction

HMRC strengthens controls to lower error and fraud in R&D tax reliefs.

Our 2020 report *The management of tax expenditures* noted the actual value claimed under R&D tax reliefs differed significantly from what had been forecast.

What did our audit find?

We investigated this further in our financial audit work and found a significant risk of fraud. As part of the 2019-20 audit, we asked HMRC to determine likely levels of error and fraud. This work found that estimated error and fraud within Corporation Tax R&D reliefs was worth £311 million or 3.6% of related expenditure in 2019-20.

The Comptroller and Auditor General qualified HMRC's accounts on this basis and made a series of recommendations in our Management Letter to HMRC in January 2021.

What was the impact?

HMRC accepted our recommendations and took various actions, including:

(1) a robust assessment of the risks that led to fraudulent or erroneous claims;

(2) improving the risk assessment process for claims made by taxpayers; and

(3) introducing controls to address the risks identified, including developing a mandatory random enquiry programme (MREP) to better estimate levels of error and fraud.

The MREP introduced methodological improvements that showed error and fraud within claims from small and medium sized enterprises was higher than previously estimated. HMRC estimated it was 16.7% (£1.13 billion) in 2020-21 and 17.6% (£1.34 billion) in 2021-22. In its 2024-25 annual report and accounts, HMRC estimated that error and fraud in 2022-23 was 9.9% (£759 million), a 7.7 percentage point reduction on the previous year, reflecting recent legislative and operational changes. We consider the current MREP approach represents good practice in measuring error and fraud.

The improvements resulted in a significant reduction in error and fraud, contributing to financial impacts including an impact in 2023 which we valued at £37 million, and an impact in 2024 which we valued at £59.4 million (see Part One, Figure 4). Our ongoing work with HMRC on R&D tax reliefs was also an important factor in the National Audit Office's HMRC team winning the Public Finance Award for 'Excellence in Public Sector Audit'.

Lessons for the government

Engaging proactively with audit recommendations can drive tangible business improvements and realise financial savings.

Source: National Audit Office review of published annual accounts

Part Two

Government financial reporting

2.1 This part of the report outlines the importance of good annual reporting and focusses on two aspects of annual reports which our audit work indicates may provide opportunities for improvements in financial management and reporting in government:

- Losses and special payments, a reporting requirement unique to the government which may, in some cases, highlight areas where financial management could be improved.
- Task Force on Climate-Related Financial Disclosures, a new reporting requirement for the government aimed at enhancing transparency and accountability on climate-related issues.

Effective annual reporting

2.2 Good annual reports promote accountability and transparency by clearly communicating achievements, challenges, and the stewardship of public funds. They are opportunities for public sector bodies to engage with key stakeholders, outline how they have achieved their objectives, explain how they have used public money and the outcomes achieved as a result. The National Audit Office's (NAO's) guide *Good practice in annual reporting* draws on real-world examples from public sector organisations that we consider are currently leading the way in reporting.[4]

2.3 Our recent report on accountability in small government bodies noted increasing reporting requirements and that the median length of annual reports for 11 small bodies we sampled was approximately 30% higher in 2023-24 than in 2018-19. Longer annual report and accounts (ARAs) take more time to prepare and risk being less useful because important information becomes harder to identify.[5]

4 National Audit Office, *Good practice in annual reporting,* February 2025.
5 Comptroller and Auditor General, *Accountability in small government bodies*, Session 2024-25, HC 948, National Audit Office, June 2025.

2.4 HM Treasury's (HMT's) *Government Financial Reporting Manual* sets out the requirements for the ARAs of government bodies. These are based on International Financial Reporting Standards, similar to those used by listed companies, and adapted for the public sector context. However, financial reporting in government is notable for some unique requirements, typically to provide enhanced transparency. For example, Parliamentary accountability disclosures include a Statement of Outturn against Parliamentary Supply which shows whether a department has stayed within the spending limits approved by Parliament.

Losses and special payments

What are losses and special payments?

2.5 Each year, government bodies receive money from Parliament to spend towards their objectives. Expenditure from which the body did not receive the expected value is written off as a loss. Similarly, bodies may make non-standard transactions outside of their allowed activities, which are categorised as special payments.

2.6 Not all losses and special payments represent poor value for money. In some circumstances, they may be in the public interest. However, they can also indicate where a government body has not exercised proper control over its spending.

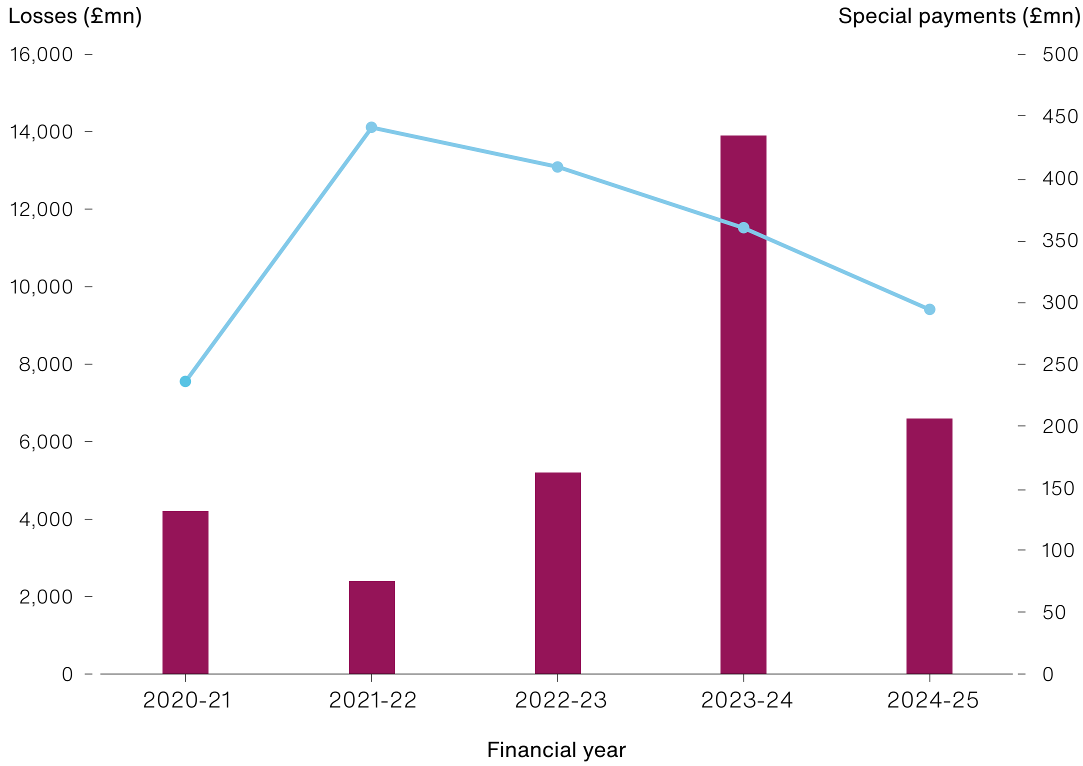
2.7 HMT requires central government bodies to report specific categories of losses through their ARAs. This includes disclosing total losses and/or special payments and separately noting individual losses and special payments exceeding £300,000. Categories of losses include cash and stores losses, fruitless payments, constructive losses and write-offs.

2.8 In 2024-25, the 17 departmental groups reported more than 2.7 million losses totalling £6.6 billion and special payments totalling £293.5 million (**Figure 5**). Total losses had increased significantly in 2023-24 but then similarly declined the following year, while special payments have fallen each year since 2021-22. The significant increase in losses for 2023-24 was primarily due to the cancellation of Phase 2 of High Speed 2 in the Department for Transport (DfT) (£2,171 million) and write-offs of COVID-19 related equipment in the Department of Health & Social Care (DHSC).

Figure 5

Total losses and special payments over time for the major government departments, 2020-21 to 2024-25

Total losses have fallen from a peak in 2023-24 while special payments have fallen each year since 2021-22



	2020-21	2021-22	2022-23	2023-24	2024-25
Losses	4,204	2,399	5,196	13,901	6,589
Special payments	236	441	409	360	294

Notes

1 The 17 major government departments in 2024-25 were Cabinet Office, Department for Business & Trade, Department for Culture, Media & Sport, Department for Education, Department for Energy Security & Net Zero, Department for Environment, Food & Rural Affairs, Department for Science, Innovation & Technology, Department for Transport, Department for Work & Pensions, Department of Health & Social Care, Foreign, Commonwealth & Development Office, HM Revenue & Customs, HM Treasury, Home Office, Ministry of Defence, Ministry of Housing, Communities & Local Government, and Ministry of Justice.

2 The Department for Business & Trade, Department for Energy Security & Net Zero and Department for Science, Innovation & Technology were formed in February 2023, and this figure includes predecessor bodies prior to this date where applicable.

3 Losses are expenditure by the government that does not deliver intended outcomes. Special payments are non-standard transactions by the government that are outside of allowed activities.

Source: National Audit Office review of published annual reports and accounts

Causes of the largest losses and special payments

2.9 We reviewed the 2024-25 ARAs of the 17 government departments. Our analysis identified the following leading causes of reported losses:

- Losses related to cancellations and retired assets: The Ministry of Defence reported £1.6 billion of losses relating to the cancellation of projects and retiring assets from use; DfT reported £472 million losses relating to eight cancelled road schemes; and the Home Office reported £290 million relating to cancellation of the Migration and Economic Development Partnership agreement with the Government of Rwanda.
- Losses related to write offs and debts no longer being pursued: HM Revenue & Customs reported £378 million remissions and write-offs relating to uncollectable tax credits and child benefit debt, the Department for Work & Pensions reported £366 million written off non-recoverable benefit and tax-credit overpayments, DHSC reported £572 million of abandoned claims against personal protective equipment (PPE) suppliers and £1,249 million related to two expired COVID-19 antiviral medicines, and the Department for Business & Trade reported £452 million of expected unrecoverable redundancy service payments.
- Fraud: Government departments reported £28 million related to COVID-19 loan guarantee scheme fraud settlement claims, £25.5 million related to fraud by a single legal aid provider, and £11.6 million across benefit expenditure and other sources of fraud.

2.10 Special payments are made for a wide range of reasons including adverse legal costs, compensation, and ex-gratia payments in respect of personal injury and damage to property. A significant increase in special payments during 2021-22 was primarily due to £143 million of benefit payments to European Economic Area nationals which continued beyond the EU exit grace period to allow late applications to the EU Settlement Scheme, and a £60 million extra contractual payment to a supplier of COVID-19 tests.

Sustainability reporting and Task Force on Climate-related Financial Disclosures

Sustainability reporting in annual reports

2.11 Sustainability reporting is an area of growing importance in annual reporting for all sectors of the economy. Central government is implementing new annual reporting requirements, aligned with the Task Force on Climate-related Financial Disclosures (TCFD), to provide transparency and accountability on climate-related issues. The disclosures set out the main climate-related risks to service resilience and long-term value for money, and how they are being mitigated.

2.12 TCFD-aligned reporting is being introduced in a phased approach over three years, with more detailed and complex disclosure required, where material, as implementation progresses (**Figure 6** on pages 20 and 21).

Implementation progress

2.13 Our analysis of 2024-25 ARAs found the disclosures of our audited bodies to be of variable quality, which is to be expected during the early years of implementation. Our audits recommended the following areas for departments to focus on in future years:

- Increasing transparency around whether climate is a principal risk, how compliant departments are with the TCFD recommendations, and what work they still have to do.
- Focussing on material issues in disclosures.
- Making sure disclosures are consistent with other parts of the ARA.
- Connecting metrics and targets back to identified risks.
- Avoiding boilerplate language copied from the guidance.

Figure 6

HM Treasury's phased implementation of Task Force on Climate-related Financial Disclosure (TCFD)-aligned reporting into central government annual reports, 2023-24 to 2025-26

The four thematic areas of TCFD-aligned disclosures are being implemented into central government annual reporting over a three-year timeframe

	1 Governance	2 Strategy	3 Risk management	4 Metrics and targets
Phase 1 2023-24	a) Describe the board's oversight of climate-related risks and opportunities b) Describe management's role in assessing and managing climate-related risks and opportunities			b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas emissions and the related risks
Phase 2 2024-25			a) Describe the organisation's process for identifying and assessing climate-related risks b) Describe the organisation's processes for managing climate-related risks c) Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management	a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management processes c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets
Phase 3 2025-26		a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term b) Describe the impact of climate-related risks and opportunities on the organisation's business, strategy and financial planning c) Describe the resilience of the organisation's strategy, taking into consideration different warming scenarios		

Recommended disclosures in Phase 1 · Recommended disclosures in Phase 2 · Recommended disclosures in Phase 3

Figure 6 *continued*

HM Treasury's phased implementation of Task Force on Climate-related Financial Disclosure (TCFD)-aligned reporting into central government annual reports, 2023-24 to 2025-26

Notes

1 Central government bodies fall within the mandatory scope of TCFD-aligned reporting if they are a ministerial or non-ministerial department, or another central government body with more than £500 million operating income and funding received (including grant-in-aid) or more than 500 full-time equivalent employees.

2 All bodies mandated to include TCFD-aligned disclosure must report on governance, risk management, and Scope 1 and 2 greenhouse gas emissions. Disclosures on strategy, other metrics and targets, and Scope 3 greenhouse gas emissions are required only if climate change is a principal risk or otherwise material. TCFD reporting is on a comply-or-explain basis, so all elements are subject to justified non-reporting.

3 Scope 1 greenhouse gas emissions are direct emissions from sources owned or controlled by the organisation itself; Scope 2 greenhouse gas emissions are from consumption of purchased electricity, heat or steam; Scope 3 greenhouse gas emissions are all other indirect emissions.

Source: National Audit Office analysis of HM Treasury documentation

2.14 Some departments have made good progress with TCFD disclosures, as illustrated in **Case study 2** overleaf.

2.15 Our recent insights report into the implementation of TCFD-aligned reporting in central government found that it will take several more years for these disclosures to mature. The public bodies who have made most progress with their disclosures have invested time and resource into developing skills and improving disclosures. To support improvements in disclosure quality, HMT included TCFD-aligned disclosures in its good practice guides on central government sustainability reporting published in 2023-24 and 2024-25.[6]

6 Comptroller and Auditor General, *Implementation of climate-related reporting in central government annual reports*, Session 2024-2026, HC 1383, November 2025.

Case Study 2
Ministry of Justice's (MoJ's) Task Force on Climate-related Financial Disclosure (TCFD)-aligned disclosures

HM Treasury is rolling out a three-year phased approach, for central government organisations with material climate-related risks, to make their TCFD-aligned disclosures, with full disclosures required in 2025-26. MoJ produced full TCFD-aligned disclosures covering all three phases in 2023-24. It is the only ministerial department to adopt TCFD ahead of mandatory phased reporting and led a cross-government group of TCFD-preparers to facilitate peer learning.

What did our audit find?

MoJ's most recent TCFD-aligned disclosures in its 2024-25 annual report and accounts (ARA) demonstrated good practice for others in central government to learn from. For example:

- Making an easy-to-understand disclosure that MoJ considers climate to be a principal risk theme, which is consistent with the risk disclosures in its Performance Report.
- Keeping governance and risk management narrative disclosures concise and focussed on information most material to users of the ARA.
- Disclosing a range of climate-related risks and opportunities relevant to MoJ's objectives, over short, medium and long-term time horizons.
- Being transparent about the steps that MoJ is planning to improve its assessment and disclosure of climate-related risk in 2025-26 and beyond. This includes work to quantify exposure to physical risks like flooding.

What was the impact?

By undertaking detailed analysis to improve understanding of how resilient its operations and objectives are to climate change and presenting this to the users of its accounts, MoJ's disclosures provide specific and useful information to senior decision-makers in central government. The department's disclosures also support Parliamentary scrutiny on whether the mitigating actions it is taking in response to climate change risks are sufficient.

Lessons for the government

Reporting gives readers a better and more transparent understanding of risk and impact when it is integrated across different organisational functions and clearly aligned with strategic objectives.

Source: National Audit Office analysis of published annual accounts

Part Three

Audit insights

3.1 This part of the report sets out our audit insights in three areas that present particular challenges to the production of timely, high-quality accounts, as well as to wider financial management. It covers:

- government compensation schemes;
- digital transformation and information technology (IT) change; and
- asset management.

Government compensation schemes

3.2 A government compensation scheme is an official mechanism established to provide financial or non-financial redress to individuals who have suffered harm, loss, or injustice. The compensation generally reflects the government's acknowledgement, or a determination by Parliament or the courts, that people have suffered a wrong or harm and a public body is responsible for providing redress. Such schemes are usually set up following policy decisions by ministers, recommendations by inquiries, legal directives, or Parliamentary acts.

3.3 Compensation schemes vary in structure and the forms of redress they offer. Some provide personalised awards tailored to individual circumstances, requiring expert assessment and evidence-gathering. Others use a tariff system assigning fixed sums to defined harms, while some opt for one-off or group payments as a gesture of acknowledgement rather than specific compensation. Beyond financial payments, schemes may also include non-financial elements – such as official apologies or the restoration of status, medals, or documentation – intended to offer meaningful recognition and redress for those affected.

Cost

3.4 We reviewed the largest ongoing compensation schemes currently administered by the government where information is reported publicly, for example through annual reports or published data (**Figure 7**).[7] The six schemes we identified have paid over £29 billion in compensation since 2005 (in nominal terms and not adjusted for inflation), with clinical negligence accounting for over three-quarters (78%, £22.9 billion) of this amount.[8]

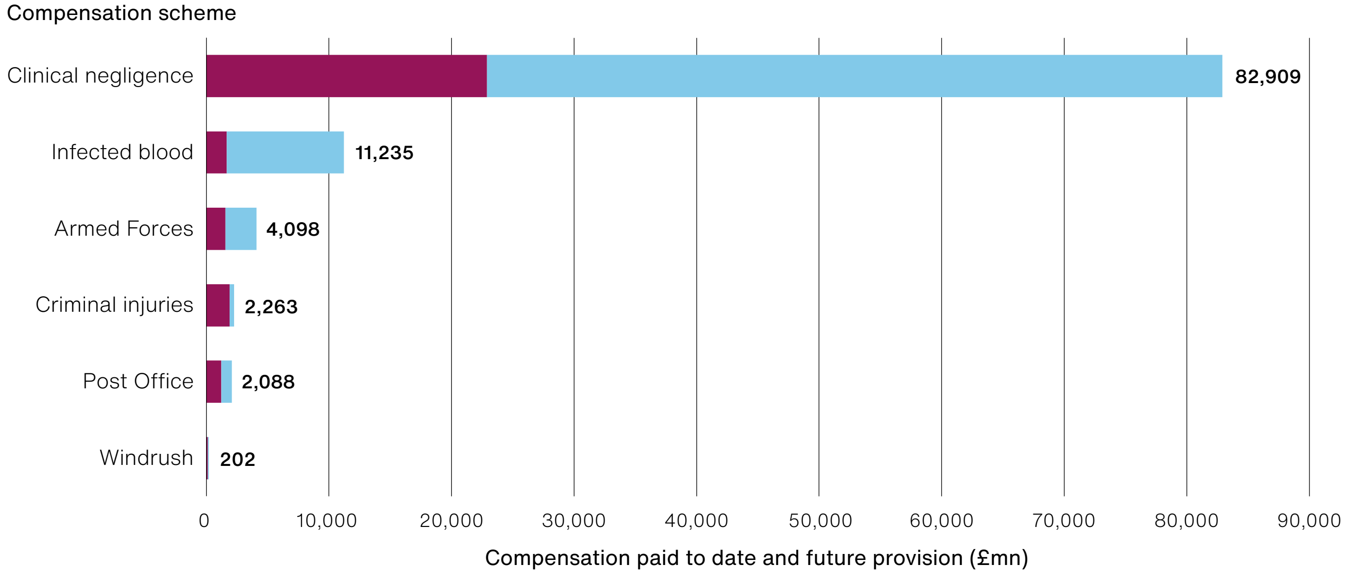
3.5 Over £4.9 billion was paid across all schemes in 2024-25, a 98% increase on £2.5 billion paid in the previous year. The largest changes between 2023-24 and 2024-25 were payments related to the Infected Blood Compensation Scheme, which began in 2024-25 and accounted for £1,653 million of the increase; payments from Post Office schemes which increased by £634 million; and payments for clinical negligence compensation which increased by £170 million.[9]

3.6 Future anticipated compensation payments related to these schemes are recorded as provisions in the annual accounts of the government bodies that administer them. In 2024-25, the combined value of these provisions was £73.4 billion, with clinical negligence accounting for 82% (£60 billion) of this figure, and the Infected Blood Compensation Scheme accounting for 13% (£9.6 billion). The total provision has risen by £11.8 billion from £61.6 billion in 2023-24, largely driven by the provisions for the Infected Blood Compensation Scheme (£9.6 billion) and clinical negligence (which increased £1.8 billion). We estimate the total lifetime financial impact of these six schemes to the government – in terms of combined compensation paid to date and future provisions – at £102.8 billion as of October 2025.

7 This review was undertaken in October 2025, and we do not consider it to be exhaustive.
8 The Financial Services Compensation Scheme has paid £28.1 billion in compensation since 2001 and recognised a £50 million provision for future payments in its 2024-25 annual accounts. The scheme is operationally independent but works within rules set out by the Financial Conduct Authority, the Prudential Regulation Authority, and HM Treasury. It is accountable to Parliament, however it is funded through levies on regulated firms in the financial services sector and is not a cost to the government, and so not considered in this section of the report.
9 The Infected Blood Compensation Scheme is administered by the Infected Blood Compensation Authority (IBCA), a body created by Cabinet Office in 2024 to pay compensation relating to contaminated blood, blood products, or tissue. Prior to IBCA's creation, the Department of Health & Social Care was responsible for the English Infected Blood Support Scheme, which was administered by NHS Business Services Authority.

Figure 7
Costs for the largest ongoing compensation schemes currently administered by the government, as of October 2025

The schemes have an estimated total lifetime cost of £102.8 billion



	Windrush	Post Office	Criminal injuries	Armed Forces	Infected blood	Clinical negligence	Total
Compensation paid to date (£mn)	120	1,229	1,897	1,567	1,653	22,914	**29,380**
Provision 2024-25 (£mn)	82	859	366	2,531	9,582	59,995	**73,415**
Total	**202**	**2,088**	**2,263**	**4,098**	**11,235**	**82,909**	**102,795**

Notes

1 We reviewed the largest ongoing compensation schemes currently administered by government where information is reported publicly, for example through annual reports or published data. This review was undertaken in October 2025, and we do not consider it to be exhaustive.

2 Clinical negligence refers to seven indemnity schemes, administered by NHS Resolution (NHSR) since 1995, for compensation claims related to general practice and secondary care in England. NHSR began administering schemes related to general practice in 2019.

3 Infected blood refers to the Infected Blood Compensation Scheme administered by the Infected Blood Compensation Authority (IBCA), a body created by Cabinet Office in 2024 to pay compensation relating to contaminated blood, blood products, or tissue. Prior to IBCA's creation, the Department of Health & Social Care was responsible for the English Infected Blood Support Scheme, which was administered by NHS Business Services Authority.

4 Armed Forces refers to the Armed Forces Compensation Scheme introduced in 2005 to provide compensation in cases where service was the main cause of injury, illness or death. It is managed by the Defence Business Services business unit within the Ministry of Defence.

5 Criminal injuries refers to the Criminal Injuries Compensation Scheme administered by the Criminal Injuries Compensation Authority, an executive agency sponsored by the Ministry of Justice. The current iteration of the scheme has been in place since 2012 and makes payments to people injured through violent crime in England, Scotland or Wales.

6 Post Office refers to four schemes paying compensation in relation to previous versions of the Horizon IT system, with the first of these beginning in 2020. The Department for Business & Trade, as the sole shareholder of Post Office Limited, has committed to supporting payments for claims under these schemes if they have an adverse impact on Post Office's public service delivery.

7 Windrush refers to the Windrush Compensation Scheme launched by Home Office in 2019, providing redress for people who moved to the UK from the Caribbean between the 1940s and 1970s and who subsequently suffered financial losses because they could not demonstrate their lawful status.

8 Compensation paid to date is the total of nominal values paid out through the schemes and has not been adjusted for inflation.

Source: National Audit Office analysis of annual reports and published information

National Audit Office audits of compensation schemes

3.7 Our audit work on compensation schemes includes checking that payments have gone to eligible recipients and that valuations of provisions reflect best estimates based on information such as previous scheme trends and claimant behaviour to date.

3.8 Valuing provisions can be challenging because it involves making judgements and assumptions. Rooting these judgements and assumptions in appropriate supporting data provides the government with a better long-term forecast of its commitments, enabling better decision making. **Case study 3** and **Case study 4** on pages 27 and 28 give more detail on two compensation schemes in 2024-25 where the government did not have sufficient information to provide reliable estimates of future costs.

Case Study 3

Infected Blood Compensation Scheme

Due to insufficient evidence, the Comptroller and Auditor General qualified his audit opinions on the Infected Blood Compensation Authority (IBCA) and the Cabinet Office group in 2024-25, reporting to Parliament that he could not provide assurance over estimates of compensation scheme liabilities.

What did our audit find?

We reviewed IBCA's provision estimate for future compensation payments and could not find reliable evidence to support key assumptions for £6,987 million of the £9,582 million provision.

IBCA was established by Cabinet Office in May 2024. IBCA reported in its 2024-25 annual report and accounts (ARA) that its priority in its first year was making payments to infected individuals already registered to an existing infected blood compensation scheme. IBCA had the most data available on these individuals and we obtained sufficient evidence to support its valuation of a £2,595 million provision for this group, and £60 million in compensation payments made during 2024-25.

IBCA had not opened its claim service for three other cohorts in the scheme as of 31 March 2025 and due to the scheme's infancy, there are minimal historical data on these groups. Estimating claimant numbers for these three groups with sufficiently robust evidence to meet accounting standards was therefore a challenge and represented the most significant judgements and uncertainties in valuing related provisions. IBCA considers that further evidence will not be available until claims have been processed for more individuals across cohorts during 2026 and future years, having opened three further cohorts in 2025. IBCA has begun to explore routes to develop further evidence for its 2025-26 ARA.

In our report on IBCA's 2024-25 ARA, we noted that it was reasonable that IBCA had prepared its provision with estimated amounts of eligible individuals, due primarily to the Compensation Scheme being in its early stages and IBCA prioritising making compensation payments to a community that had suffered for so many decades, over refining its estimate.

What was the impact?

Due to the scheme's infancy, IBCA did not have reliable evidence for nearly three quarters of its £9,582 million provision for compensation payments related to the Infected Blood Compensation Scheme.

Lessons for the government

When creating a new body or scheme, the government should ensure that it builds in sufficient capacity within enabling corporate functions, including financial reporting, that are key to supporting operational delivery.

Source: National Audit Office review of published annual accounts

Case Study 4
Horizon Shortfall Scheme

We could not obtain assurance over the Department for Business & Trade's (DBT's) estimate of future compensation payments relating to the Horizon Shortfall Scheme in 2024-25. In 2023-24, we similarly could not obtain assurance over DBT's estimate of the provision for this scheme because it was based on limited data and small changes to underlying assumptions could have resulted in material changes to its value.

What did our audit find?

DBT based its 2024-25 £743 million provision for the Horizon Shortfall Scheme on estimates of potential claims and their value provided by Post Office Limited. However, our audit found this estimate had not been informed by a more detailed analysis of results from a mail out to previous postmasters, and it was possible the provision could have been materially different had this analysis been undertaken. DBT considered that such analysis may have taken focus away from providing redress for those affected.

What was the impact?

For a second consecutive year, DBT did not have a reliable estimate for the likely cost of the Horizon Shortfall Scheme. DBT subsequently acted on our recommendations to work more closely with Post Office Limited to enhance visibility of the Horizon Shortfall Scheme and its associated costs, enabling more informed planning and decision making.

Lessons for the government

To enable robust financial management and decision making, the government should ensure estimates of future costs are based on the most current and best available evidence it can obtain.

Source: National Audit Office review of published annual accounts

National Audit Office wider work on compensation schemes

3.9 Our 2025 report on the costs of clinical negligence noted that the government's £60 billion provision for clinical negligence claims has quadrupled since 2006-07, increasing by £45.6 billion in real terms.[10] Despite claim numbers plateauing in many areas since 2016-17, the cost of claims have continued to increase, particularly for very-high-value cases (£1 million or more). NHS Resolution administers clinical negligence schemes in England and had worked hard over the previous 10 years to reduce the financial and emotional cost of claims by resolving them faster and without litigation wherever possible. However, the report noted legal costs for low-value claims (£25,000 or less) greatly exceed the levels of damages awarded, and that little is known about the extent to which the government may be paying twice by providing health or social care services for claimants who have already received compensation.

3.10 We also reported on compensation schemes in our 2024 lesson learned report on government compensation schemes.[11] This report found a lack of centralisation when the government sets up new schemes, resulting in slow and relatively ad-hoc approaches. It noted setting up and administering compensation schemes is a complex task, particularly for officials lacking experience, and that this had led to mistakes and inefficiencies in scheme designs and delays in paying claimants. We recommended that Cabinet Office set up a centre of expertise within the government to provide guidance on setting up compensation schemes, and that it review alternative arrangements to allow schemes to begin and operate in a more timely, efficient and effective manner.

3.11 Our follow up to the 2024 lessons learned report is scheduled for publication in Spring 2026. This will be a factual review of the operation of four government compensation schemes set up between 2019 and 2024: Windrush Compensation Scheme; Infected Blood Compensation Scheme; LGBT Financial Recognition Scheme; and Horizon-related compensation schemes. For each scheme, the report will set out processes for determining and assessing eligible claims, paying out to claimants, and performance measured according to existing indicators and other data related to claim progress.

Digital transformation and IT change

3.12 IT and digital infrastructure are integral to all government organisations. IT change typically focusses on modernising and optimising the existing IT infrastructure. Digital transformation is more fundamentally rethinking operating models and processes from first principles.

10 Comptroller and Auditor General, *Costs of clinical negligence*, Session 2024–2026, HC 1335, National Audit Office, October 2025.
11 Comptroller and Auditor General, *Lessons learned: Government compensation schemes*, Session 2024-25, HC 121, National Audit Office, July 2024.

3.13 In January 2025, the government set out its long-term vision for digital public services, describing priorities that aim to enable a fundamental shift in how it uses new technology. In setting this vision, the government recognises that progress to modern digital services has not been fast or systemic enough over the preceding 15 years.

3.14 Significant amounts of funding have been earmarked by the government to support its digital vision. The 2025 Spending Review set out several plans aimed at a step change in digital and artificial intelligence (AI) investment across public services. These include:

- up to £10 billion investment in NHS technology by 2028-29 to begin turning the NHS App into the NHS's digital front door and deliver a single patient record system;
- an additional £1.2 billion for the Department for Science, Innovation & Technology across the spending review period to drive cross-cutting digital priorities;
- a further £500 million invested in HM Revenue & Customs (HMRC) during the Spending Review to become a digital first tax authority by 2030, with an aim to increase digital customer interactions from 76% currently to 90%; and
- over £300 million invested by the Department for Environment, Food & Rural Affairs between 2026-27 and 2028-29 to address historic IT challenges, transform the Environment Agency's systems, and enable AI to reduce regulation cost, improve disease management, and streamline grant delivery.

3.15 Our 2023 report, *Digital transformation in government*: *addressing the barriers to efficiency*, highlighted digital transformation can be instrumental to achieving efficiencies, with huge potential gains if all government services were modernised.[12] Getting digital development right can not only improve services for citizens but also lead to tangible savings for the public purse. HMRC asserts that by simply moving to a digital by default approach for outbound communications and improving collection and storage of customers' digital contact details, it will save £50 million a year from 2028-29 onwards through reducing paper use.

3.16 Alongside its large-scale digital transformation ambitions, the government must also continually make changes to existing IT systems and infrastructure to mitigate ongoing risks and deliver business as usual. Recent high profile cyber-attacks at the British Library and Legal Aid Agency demonstrate the real impact and consequences of not keeping pace with required changes.

12 Comptroller and Auditor General, *Digital transformation in government: addressing the barriers to efficiency*, Session 2022-23, HC 1171, National Audit Office, March 2023.

National Audit Office work on IT change and digital transformation

3.17 Where digital and IT change programmes are undertaken by our audited bodies, we seek to understand the impact of these changes on financial statements and whether they directly or indirectly affect how the statements are produced. Our financial audits can evaluate an organisation's general IT controls, including governance around transformation and change programmes. All expenditure on digital transformation and IT change, including any assets generated, is considered as part of our financial audits.

3.18 In 2024-25, across our audit portfolio, we recognised audit risks associated with major IT change, including digital transformation projects, on 20 audits. Examples of such changes where risks to the financial statements were identified include:

- introducing new accounting or business systems that produce financial statements;
- major upgrades to existing accounting or business solutions, such as significant version updates, or the addition of a new functionality impacting financial reporting; and
- data migrations, for example to a new server or cloud, or between cloud providers.

3.19 Our audits have found business as usual IT changes are generally well managed, but major IT change and digital transformation are naturally more challenging. Our financial audit findings indicate the following critical success factors:

- **Governance and capability:** Appropriate change governance processes and controls need to be in place and development teams must have sufficient capability.
- **Testing and 'go live' decisions:** Testing must be comprehensively planned through consultation with impacted stakeholders and go live decisions must be based on evidence that all risks have been mitigated or accepted.
- **Post-implementation reviews:** Actions to learn lessons and confirm outcomes must be carried out in a timely fashion.

3.20 Our audits during 2024-25 indicate that many government bodies manage the implementation risks of IT and digital change appropriately. However, changes that are not managed well can lead to serious ongoing impacts for the running of an organisation (**Case study 5** overleaf).

Case Study 5
College of Policing (the College) accounting system replacement

The College transferred to a new accounting system in 2023-24 but did not undertake sufficient checks to confirm all transactions from the previous system had been accurately and completely migrated to the new one.

What did our audit find?

We reviewed the College's transfer to its new accounting system and identified significant deficiencies in three key areas :

- Reporting defects remained unresolved during the testing and go live phases.
- Some high and medium priority data conversion and migration issues were not addressed prior to go-live.
- Lack of visibility and oversight over third party and privileged users' access in the new system.

We could not obtain sufficient audit evidence over the migration of data to the new system and could not conclude whether there had been material errors within the data transferred. The Comptroller & Auditor General was unable to give an opinion on the College's 2023-24 annual report and accounts, which was not published until July 2025, 15 months after the year-end.

What was the impact?

The need to resolve the deficiencies in the data migration to the new system meant several business as usual activities were delayed or did not take place. This undermined the College's financial management and control environment until these activities were reinstated.

During 2024-25, the College, with support from the Home Office, worked to implement our recommendations to rectify the data migration issues. The College has made progress in responding to these challenges.

Lessons for the government

The government must ensure appropriate controls and governance are in place when attempting IT change. A failure to do so may result in additional time and resources to rectify issues which could have been prevented or avoided, or systems that are not fit for purpose. See paragraph 3.19 for what good looks like.

Source: National Audit Office review of published annual accounts

3.21 The National Audit Office's digital experts have published reports to support leaders implementing digital transformation and IT change. Our recently published good practice guide, *Digital transformation in government: A guide for senior leaders and audit and risk committees*, identified the following barriers to successful large scale digital change programmes:

- Constraints of the existing environment, such as established systems that are costly to maintain or difficult to update, and funding models that do not align with the unique needs of digital programmes.
- Under-estimating the scope of early work, such as having unrealistic ambitions that are not informed by an understanding of the realities and complexities involved.
- Lack of skills and leadership, due to insufficient experience and understanding of digital issues to make informed decisions.[13]

Asset management

3.22 Asset management is a vital part of public financial management. Effective management of government assets contributes to the efficient delivery of public services, the long-term sustainability of public finances, and better value for money.

3.23 The 2023-24 Whole of Government Accounts consolidates the accounts of over 10,000 public sector bodies from central and local government. It showed £2,651 billion of assets on the government's balance sheet. This includes:

- £1,539.1 billion of property, plant and equipment including infrastructure assets (such as the rail and road network), and land and buildings (such as office buildings, hospitals and schools); and
- £707.6 billion of financial assets, including loans and deposits, student loans, debt securities and equity investments.

3.24 In our 2024 insights report *Making public money work harder,* we outlined three lessons for government to improve asset management:[14]

- Understand the condition of the assets held, and the consequences of failure.
- Have an up-to-date plan for holding, maintaining and investing in assets that reflects each department's objectives.
- Plan ahead for the orderly replacement or decommissioning of assets.

13 Comptroller and Auditor General, *Digital transformation in government: a guide for senior leaders and audit and risk committees,* National Audit Office, February 2024.
14 Comptroller and Auditor General, *Making public money work harder*, HC 131, National Audit Office, July 2024.

National Audit Office audit of government assets

Property, plant and equipment

3.25 Property, plant and equipment typically refers to tangible or physical assets. All departments maintain these types of assets in some form (most typically office property), but this can vary significantly in terms of valuation and complexity.

3.26 Our audits regularly identify areas for improvement when it comes to departments' management of property, plant and equipment. In 2024-25 we raised 13 management recommendations on issues such as understanding differences between asset records and the financial statements, and use of inappropriate indices to value assets.

3.27 Our audit recommendations indicate that departments' financial management of their physical assets is often inefficient because of weaknesses in their systems and processes. If government departments can get to a position where their systems and processes accurately and reliably demonstrate the value of their assets, not only does it provide them with reliable information on which to base their decisions, but it frees up time and resource for activities which add more value.

3.28 The following **Case study 6** on the Environment Agency illustrates how our audit work on its tangible assets, and the recommendations we made, supported the organisation to strengthen asset management and improve operational performance over time.

Case Study 6
Environment Agency's (EA's) management of its operational assets

Between 2019-20 and 2023-24, the EA was unable to accurately account for its specialised operational assets leading to qualified opinions on its accounts. EA undertook a series of activities over several years to improve its asset management, which resulted in a clean audit opinion in 2024-25.

What did our audit find?

To support its mission to protect and improve the environment, the EA holds property, plant and equipment of £10.2 billion (as at 31 March 2025). Most of this is specialised operational assets (£9.1 billion) which includes flood defences. The Comptroller and Auditor General (C&AG) first qualified his audit opinion due to weaknesses over the accounting for operational assets in 2019-20. Following years of activity by EA to improve both financial modelling and the data supporting asset management, the C&AG issued an unqualified audit opinion in 2024-25 – the first clear opinion on the EA annual report and accounts since 2018-19.

What was the impact?

In response to our historic audit findings, EA:

- transformed its valuation approach, adopting the depreciated replacement cost basis using a model developed with input from relevant experts;
- linked its financial processes directly to a new asset management system which it adopted during this period to allow for a more transparent view of all assets; and
- improved the data supporting the condition and valuation of its assets.

As well as providing valuable information to the public, the unqualified accounts reflect the availability of better asset management data, which supports the EA in making more informed financial decisions.

Lessons for the government

Setting a tone from the top of the organisation, which promotes a culture where process, controls and record-keeping are valued, helps drive consistent progress towards better financial management.

Source: National Audit Office review of published annual accounts

Financial assets

3.29 The value of financial assets held on the government's balance sheet has increased from £516.2 billion in 2019-20 to £707.6 billion in 2023-24. The most significant aspects of this balance relate to money that is owed to the government from loans and deposits to businesses (£274.1 billion) and student loans (£169.1 billion). Equity investments make up an additional £53.3 billion.

3.30 A key challenge for government departments in managing financial assets is ensuring they have the necessary skills and capabilities to value assets accurately. Financial assets can be highly complex and often require a significant amount of judgement to determine the most appropriate classification and measurement approach.

3.31 There are several audit risks related to this complexity. In 2024-25, some of our most significant considerations were in assessing whether:

- the valuation of investments in funds or unlisted equity investments reflects market conditions;
- financial statement disclosures were compliant with the requirements of accounting standards – to allow readers to understand risks arising from financial assets and how the departments manage those risks;
- estimates for expected credit losses were based on reasonable assumptions; and
- financial instruments with complex or non-standard terms (including derivatives and financial guarantees) were recognised correctly.

3.32 Our audit of HM Treasury (HMT) highlights where we have noted greater risk and complexity in financial asset balances. HMT has a strategic objective to deliver economic growth and one of the measures it has taken to help deliver this is expanding the UK Infrastructure Bank into the National Wealth Fund (NWF). NWF is expected to make new investments through different means including direct lending, direct equity and fund investment, and during 2024-25 alone there were advances of £899 million in relation to new investments.

Appendix One

Our audit approach

Our scope

1 This report sets out insights and learnings drawn from our recent financial audits and wider assurance work.

- Part One provides background and context to the National Audit Office's (NAO's) annual cycle of financial audits, how we work with audited bodies, and how we report the results to Parliament.
- Part Two outlines the importance of good annual reports and focusses on two areas where there are opportunities to improve financial management and reporting in government.
- Part Three sets out insights from our financial audits in three areas that present particular challenges to financial management and the production of timely, high-quality accounts.

Our evidence base

2 We carried out work for this report between October and December 2025 and the substantive areas of our evidence base are described below.

Document review

3 We reviewed the NAO's extensive back catalogue of financial audits, value for money reports, investigations and good practice guides. We supplemented this with internal management information drawn from our financial audit systems and input from relevant NAO teams and subject matter experts to ensure our understanding was up to date and current.

4 We also reviewed the annual reports and accounts (ARAs) of government bodies, guidance issued by HM Treasury and Government Finance Function, and policy and strategy documents and funding statements issued by central government.

Qualitative analysis

5 We carried out qualitative thematic analysis of:

- improvement recommendations to the 17 major government departments resulting from our audit work;
- reasons for qualified audit opinions across audited bodies in 2024-25;
- progress by audited bodies with implementing Task Force on Climate-Related Financial Disclosures during 2024-25; and
- audit risks related to major IT change across audited bodies in 2024-25.

Quantitative analysis

6 We analysed data on:

- timeliness of government reporting (percentage of ARAs published before summer recess between 2018-19 and 2024-25); and
- accuracy of government reporting (adjustments made by the 17 major government departments in 2024-25)

Financial analysis

7 We carried out more detailed financial analysis of the following:

- Losses and special payments reported by main government departmental groups between 2020-21 and 2024-25. We reviewed these payments as they are a unique reporting requirement for the government and can indicate where a body has not exercised proper control over its spending. In addition to identifying the largest losses and special payments by quantum, we carried out thematic analysis of the most common causes.
- Cost of current government compensation schemes, as of October 2025. We reviewed compensation paid and future provisions for the largest ongoing compensation schemes currently administered by the government where information is reported publicly, for example through annual reports or published data. Due to lack of data, our analysis of compensation paid by Post Office schemes in 2023-24 only covers August 2023 to March 2024. Due to lack of annualised historical data more widely, compensation paid to date is the total of nominal values paid out through schemes and has not been adjusted for inflation.
- Assets held by the government on its balance sheet in 2023-24. We reviewed property, plant and equipment as it is continually the largest balance making up government assets. We also reviewed financial assets as it is an area of judgement and complexity where we have seen increases in underlying associated audit risks.

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