



National Audit Office

2025 Value for Money Governance Review

January 2026



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Ordered by the House of Commons to be printed on 28 April 2026

This report is presented to the House of Commons pursuant to Paragraph 26(3) of Schedule 2 to the Budget Responsibility and National Audit Act 2011.

HC 1862

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This report is prepared solely for the use of the Board and senior management of the National Audit Office and presented to the Public Accounts Commission (TPAC). We accept no responsibility for any reliance that any additional third parties may place upon the report. Where this report refers to matters of law, it should not be taken as expressing any formal opinion whatsoever.

Executive Summary

Context - Governance at the NAO

1. We have briefly summarised the development of governance at the NAO as a framing for this review.
2. The Budget Responsibility and National Audit Act 2011 ('BRANA') formally established the NAO as a legal entity with a statutory Board.

The Board was designed to:

- Provide strategic oversight and ensure effective governance.
 - Support and advise the C&AG while maintaining independence.
 - Promote high standards in management and accountability.
3. The Board is supported by the Audit and Risk Assurance Committee (ARAC) and the Remuneration and Nominations Committee. There is also an Audit Quality Board (AQB) which is not a formal Committee of the Board but reports and provides assurance to the Board on Audit Quality Matters.
 4. The Board has appointed two independent external members to sit on ARAC and AQB to broaden the expertise and experience of these two Committees.
 5. All committees have a defined remit and purpose, with governance arrangements set out in the Annual Transparency Report and the Annual Report and Accounts.
 6. The Board is responsible for agreeing and jointly presenting the strategy and budget for the NAO with the Comptroller and Auditor General (C&AG).
 7. The NAO Board is accountable to Parliament through the Public Accounts Commission (TPAC). TPAC is responsible for setting the NAO's budget, scrutinising performance, appointing the non-executive Board members (with the exception of the Chair) and appointing the external auditor of the NAO. TPAC normally holds 2-3 public sessions in Parliament per year to hold the NAO to account.

Role of the Comptroller and Auditor General ('C&AG')

8. The C&AG is an Officer of the House of Commons with statutory responsibilities and powers to audit the financial statements and examine the use of resources by central government entities and a range of other public bodies.
9. The C&AG's independence is protected in statute, as is the appointment of the NAO as the external auditor for the majority of the entities audited (including for value-for-money (VFM) work).

10. This means that the audited entity cannot replace the NAO as its auditor in response to negative audit opinions or conclusions. The NAO is funded directly by Parliament for the majority most of its audit work, rather than being dependent on fees from the entities audited.

Summary of Key Findings

11. **There were a number of clear positives highlighted throughout our review regarding governance at the NAO. These were consistent throughout the governance survey and structured interviews across the Non-Executive Directors (NEDs), Executive Team and Independent Members. These positive practices were independently evidenced by us throughout the phases of the review, including review of papers and decisions, observation of a Committee cycle and critically, through consideration of the impacts of effective governance across the organisation.**
12. In providing a framework for our review, the report structure and detailed findings have been aligned to the key themes of the Audit Firm Governance Code.
13. The successful governance of an organisation is critical – in establishing the right tone from the top, embedding cultural behaviours, learning lessons and a focus on the strategy and recognising diverse and conflicting views.
14. When reading this report it should be highlighted that the results of the Governance Review are atypical of our cross-sector experience of completing comparable assessments, in that the NAO is consistently performing above our observed benchmarks across a range of organisations.
15. We evidenced shared purpose, alignment to values, high quality debate and engagement and a real desire to keep improving. We observed constructive and insightful contributions from all participants in meetings, utilising external perspectives and leveraging specific NED skill sets.
16. This level of engagement, across all NEDs and the work of the Executive, should be recognised as supporting the NAO in its continued drive to be an exemplar organisation. This consistency of contribution of all NEDs and Executives (in our experience in other organisations the main challenge and input may be driven by a small number of Board and Executive members) is a critical factor in the effectiveness of governance.
17. **We have provided our observations of good practice throughout our report, with examples including:**
- ✓ **There is a clear and positive tone set by the Chair and C&AG.**
 - ✓ **During the Committee cycle we observed effective decision making and papers which were proportionate to the decisions required.**
 - ✓ **Meetings were effective, balancing forward looking debate with challenge and contributions focussed on solutions.**
 - ✓ **Debate was considered, undertaken in line with the NAO values and built on the experience of the meeting attendees.**
 - ✓ **Diverse and strong range of skillsets were evident from our assessment.**

- ✓ **Staff were praised for high quality papers and clearly valued.**

Conclusions

18. Overall, we consider governance at the NAO to be effective and in many respects to be high performing compared to other organisations for whom we have carried out such reviews.
19. There were various examples of observed best practice, both in terms of the quality of papers and committee structures, feedback from those engaged in governance and our observations of the governance cycle. The NAO adheres to the principles of the Audit Firm Governance Code and the Governance Code for Central Government Departments.
20. Evidence of the impact of governance include:
 - ✓ Co-creation of the new NAO Strategy
 - ✓ Continued enhancement of Audit Quality
 - ✓ Developments in the Performance Framework to measure the impact of the new strategy

Summary of Findings

21. Given the review was undertaken from a Value for Money perspective, in providing assurance to TPAC regarding the economy, effectiveness and efficiency in resource use we set out a number of questions in the planning of the assignment. Our findings regarding these questions are summarised below.

Key Question	Observation
<p>Is the NAO’s governance effective and in accordance with best practice?</p>	<ul style="list-style-type: none"> • We have considered the Audit Firm Governance Code as it applies to the NAO, with compliance to key Principles and provisions set out within the Code. • Our work has also considered the Governance Code for Central Government Departments, (2017) in so far as the principles apply to the NAO, with compliance evidenced throughout. • The conclusion of the work is that the NAO’s governance arrangements are operating effectively. • Through interviews, review of evidence provided and observations of the governance cycle there are a number of areas which align with best practice. • This includes the engagement during the governance cycle, adherence to the NAO values and effective challenge.
<p>Does the governance model in place work effectively and efficiently in supporting the strategy of the NAO, both now and in the next strategic cycle?</p>	<ul style="list-style-type: none"> • Governance is effective and efficient – there is evidence of positive engagement during strategy development. • In addition, there has been challenge and support in respect of impact and performance measurement development as an emerging area of focus within the new strategy. • Our observation of the governance cycle evidenced high quality and informed discussions, with positive collaboration between the Executive Team (ET) and the Non-Executive Directors (NEDs). The NEDs have a wide ranging and relevant skill set which supports discharging their responsibilities, including strategy, audit, finance, technology, and audited bodies.
<p>Does the investment in the Governance at the NAO represent value for money in its use of resources?</p>	<ul style="list-style-type: none"> • The quality of outputs and support for the operation of governance is extremely high for the relative resources engaged. • The Governance team fulfil their remit effectively, evidenced through the scheduling of Committees to align decision making (from Committees through to Board, meeting output production and clear actions being taken).

Key Question	Observation
<p>Does the governance model support the effective delivery of the Quality First Plan and delivery of internal and external quality standards across financial audit and value for money work?</p>	<ul style="list-style-type: none"> • There is a clear commitment to the quality agenda as evidenced throughout the governance cycle, with the AQB having a defined role in tracking progress against the Quality First Plan. This included the delivery of quality standards throughout both financial audit and value for money. • The Transparency Report (2024/25) details a range of Quality Metrics as evidence of the effectiveness, including: <ul style="list-style-type: none"> ○ 100% of externally reviewed financial audits meeting the NAO’s quality standards ○ 71% of internally reviewed financial audits met the NAO’s quality standards ○ 95% of externally reviewed value-for-money reports meeting the NAO’s quality standards ○ 83% of internally reviewed value-for-money reports meeting the NAO’s quality standards ○ 87% of Members of Parliament consider the NAO as effective at supporting Parliament in holding government to account and scrutinising public services
<p>Does the governance model provide assurance to TPAC that the NAO is discharging its responsibilities?</p>	<ul style="list-style-type: none"> • From the work undertaken, the governance arrangements provide assurance to TPAC as to the effective operation of the NAO in discharging its responsibilities. • The NEDs undertake their role and remit effectively with collaborative engagement from the ET and C&AG.
<p>Does the Committee structure support the NAO in effective discharging of its governance responsibilities?</p>	<ul style="list-style-type: none"> • The Committee structure is effective and operating efficiently, with clear responsibilities and cycles of work. This supports the fulfilment of governance responsibilities. Activities are aligned to avoid duplication and there is an effective use of resources. • In our view the Committee structure is proportionate to the work of the NAO. There are forward looking aspects under consideration, particularly regarding digital and technology. • Examples include the work to support the development of the new strategy and the development of risk management through the Committee cycle. • There are also a range of statutory requirements, including the Annual Report and Accounts which are effectively and efficiently delivered.
<p>Is decision making effective and efficient?</p>	<ul style="list-style-type: none"> • Decision making appears effective and efficient – papers for Board and Committees are well structured to inform the right level of debate and engagement.

Key Question	Observation
	<ul style="list-style-type: none"> • We observed that the decision making was in line with the delegated responsibilities of the Committees and decisions made within the approved frameworks. • As an example, the Principal Risk Framework and approach was subject to review at ARAC prior to presentation and final approval at Board.

Conclusions

22. Overall, we consider governance at the NAO to be effective and in many respects to be high performing compared to other organisations for whom we have carried out such reviews.

23. Key supporting evidence included:

- ✓ Structured survey and interviews with considerations of best practice from other comparable structures.
- ✓ Review and observation of the committee cycle, including Board and Committee meetings
- ✓ Consideration of the effectiveness of the governance process in fulfilling its defined remit
- ✓ Assessment against the relevant requirements of the Audit Firm Governance Code

Observation Categorisation

24. We have categorised our findings throughout the following sections into the following:

- A. Board Development** – area is recognised by the NAO and forms part of the ongoing development work in respect of Board arrangements
- B. NED and Board Induction** – areas to include within the induction process for the new NEDs.

25. Given the above, we have not raised a set of formal recommendations but have requested commentary regarding the status and any further planned actions in respect of the observations raised.

26. The observations and actions to take forward were known to the organisation and developed collaboratively during the review

Board Development

27. The following themes have been raised as part of the ongoing development of the Board:

- Development of metrics to track impact delivered under the new strategy.
- Addressing the wider digital agenda within the strategy, with the assessment of how these skills are developed and/or onboarded.
- Building in time for open discussions for the NEDs within the Board cycle.
- Management of the succession planning process for the Chair and NED.

Acknowledgement

The Crowe team would like to acknowledge the support and co-operation of the NAO team who provided assistance during this assignment.

Crowe U.K. LLP

January 2026

Section 1: Leadership

- 1.1.1. **Interviews across NEDs (Non-Executive Directors comprising the Board) and the Executive Team (ET) highlighted a number of aspects of good practice in respect of leadership. Relationships between the Board and C&AG and the wider ET are recognised as having developed positively since the external 2022 Governance Review, with clear understanding of the Board remit and role and acceptance of constructive challenge from NEDS.**
- 1.1.2. **During meetings across Board members and the Executive Team, there were consistent reflections upon the evolution of governance at the NAO and the strength of relationships between the C&AG, Chair, ET and Board.**
- 1.1.3. **The work of the Chair in establishing effective working relationships with the C&AG and embedding the right behaviours at Board level was consistently cited. Examples were provided of effective challenge and support, and a strong consensus is that the Board is strategically rather than operationally focussed.**
- 1.1.4. **Equally, there was a consensus and evidence that the Audit Quality Board (AQB) has been effective in driving positive change across the organisation which addressed the challenges being raised by the Financial Reporting Council regarding audit quality.**

Role of ET and NEDs

- 1.1.5. There was a consistent view across both Executives and NEDs in the role played by the Board and ET in strategy formulation with the overwhelming majority “strongly agreeing” to this within the governance survey and in follow up interviews.
- 1.1.6. When looking at survey results compared to other organisations, the results and views regarding leadership are consistently positive. This was further explored, challenged and tested during interviews and through review of Committee papers and decisions. A number of Board members have commented that in their spatial experience this is (or is one of) the most effective boards they have been a member of. Whilst a qualitative measure, this has been supported by our observation of and review of Committee meetings, their papers and actions.

Executive Formulation

- 1.1.7. Both NEDs and the ET consider that there is a good and complementary set of skills, experience and diversity across both groups.
- 1.1.8. There is a recognition and active consideration of skills development in the areas of AI and digital.

Summary reflections from the governance survey are that there is:

- **Effective challenge from the Board throughout the governance cycle.**
- **Positive working relationships between the ET, Board and Independent Members.**

- A diverse, experienced and skilled Executive team demonstrating diversity of thought and specialist skills.
- Good awareness of relevant governance codes.
- Positive contributions from the Audit Quality Board with respect to Audit Quality.

Our Observations:

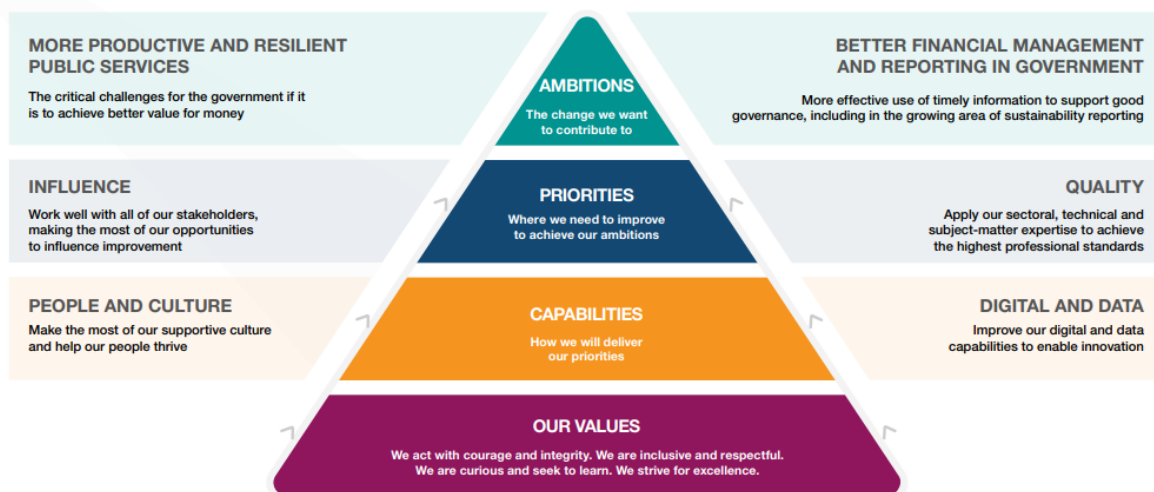
- ✓ There is a clear and positive tone set by the Chair and C&AG.
- ✓ Meetings were effective, balancing forward looking debate with proportionate challenge to issues raised.
- ✓ Diverse and strong range of skillsets evident from our assessment and discussions.

A1 - Strategic Impact Measurement and KPIs

- 1.1.9. During interviews and during our review, an area of consistent focus has been to reflect on how the impact of the NAO could be assessed within the new strategy. Within this, and recognising that there is an inherent balance between the focus upon delivery and the resources to monitoring impact, there was still a view that this could be further developed.
- 1.1.10. A proposed approach to the External Reporting and Impact of the NAO has been presented to the Board for consideration during the review period. This covers the strategic ambitions of the NAO, with metrics defined for categories, measures and proposed targets for 2025/26. A number of these metrics are new for the NAO and as such will require ongoing review to assess their effectiveness in assessing impact. In respect of the strategic ambitions, the Board papers included a proof of concept to be developed and a working draft of an Impact Report. Our view is that this represents good practice in the development of new activities to assess the impact of the strategy, with an ongoing action to track the effectiveness of the new Performance Framework (as detailed in the NAO Strategy):

NAO STRATEGY 2025-2030 | TRUST • VALUE • IMPACT

From 2025 to 2030, we will increase our impact on the productivity and resilience of public services and the quality of financial management and reporting in government.



A2: Digital Agenda and Skills

- 1.1.11. Looking forward, there is a potential challenge to address the wider digital agenda within the strategy, with the assessment of how these skills are developed and/or onboarded. This is an area the NAO is aware of and is actively being considered by the ET.

Governance Formulation

- 1.1.12. There is a high level of confidence amongst respondents on the collective capabilities and diversity of the Board and ET, with all respondents positively scoring the mix of skills regarding strategy delivery and discharging their responsibilities.

Audit Firm Governance Code

- 1.1.13. This area had more varied responses between ET and NEDs. The role of the Audit Quality Board, including addressing the requirements of ISQM were cited as a positive enhancement in terms of governance structures.
- 1.1.14. Whilst not included as a formal action, it was indicated by a minority of survey respondents that there should be an opportunity for the Board to reflect on the key elements of the Audit Firm Governance Code at a future meeting and periodically thereafter whilst avoiding duplication with the Audit Quality Board. Appendix 2 to this report includes a summary of key principles observed.

Section 1: Leadership - Board and Management Responses

Action Area	Board and Management response and actions
<p>A1: Strategic Impact Measurement and KPIs</p>	<ul style="list-style-type: none"> • We have developed a new performance framework to measure our success in delivering our 2025–2030 strategy, drawing on a range of methods to present a comprehensive account of our progress and the difference we make. • We will set out our performance against this new framework in our 2026-27 Annual Report. The KPIs in the performance framework will be supplemented, for the first time, by narrative reporting which assesses the government’s progress towards our strategic ambitions of better financial management and more productive and resilient public services, and describes the ways in which our work is making a difference to these outcomes. We will continue to develop this form of reporting in the coming years. • We will also consider whether further improvements to our performance framework are possible midway through the current strategy period.
<p>A2: Digital Agenda and Skills</p>	<ul style="list-style-type: none"> • Our 2025-30 strategy commits us to investing in digital skills and technology that will allow us to deliver greater impact and improve our own productivity. The Board will exercise oversight of our digital plan and strategic change programmes. • The Board will also consider whether we would benefit from additional digital skills as part of the upcoming non-executive (NED) campaign to replace two NEDs whose terms of office come to an end in December 2026

Section 2. People, Values and Behaviour

- 2.1.1. **The independence of the C&AG as established through BRANA means that some decisions are in the sole gift of the C&AG which requires the NEDs to have specific skillsets and ways of working.**
- 2.1.2. **The current Chair has been particularly effective in developing the right environment for constructive challenge in this context.**
- 2.1.3. **There was overwhelmingly positive agreement to the statements included in the Crowe survey and in interviews for people, values and behaviour.**

Diversity of views

- 2.1.4. Both NEDs and EDs are in agreement that the ET, Board and sub committees feel comfortable in the ability to present different views and engage in discussion on key issues.
- 2.1.5. The relationship between management and the Board needs to be marked with frankness and candour. This requires a culture of openness and transparency, recognising that, in addition to support, scrutiny and constructive challenge is a must when needed. It has been recognised that there has been considerable work and development in this area, with positive evidence observed throughout the Committee observation cycle.

Effective Relationships

- 2.1.6. There is unanimous endorsement of the quality of relationships at leadership level supporting the view that the ET and NEDs engage with the right degree of openness, trust and mutual respect.

Embedded NAO values

- 2.1.7. Both ET and NEDs have consistently displayed a positive sentiment in the role of the C&AG and Executive in modelling and embedding the values of the NAO. During our interviews, observations of the Committees and review of papers this has also been observed and evidenced.

Board Composition

- 2.1.8. The Executive and Board view board composition and skills as being a real strength. Examples include a balance of strategy, technology, financial audit and understanding of the public sector.
- 2.1.9. A key challenge discussed within the Operations and Resilience section relates to succession and how the skills are retained given that the number of NEDs is relatively lean.

C&AG Role

- 2.1.10. The C&AG is directly accountable to Parliament in delivering their statutory responsibilities.

- 2.1.11. One theme referenced related to the specific role and nature of the role of the C&AG when compared to a “traditional” Chief Executive role in a corporate or professional services firm. This requires a specific skill set and approach from both the C&AG and Board members.
- 2.1.12. This is set out within the Budget Responsibility and National Audit Act 2011 (‘BRANA’). Our work also recognises the criticality of the independence of the C&AG in discharging their responsibilities under BRANA.

Relations between Board, ET and Committees

- 2.1.13. The survey responses were unanimous in the perspective that the key governance relationships were effective. This included consideration of frankness, candour, trust and mutual respect. We observed this in operation throughout the meetings attended along with a recognition of diverse views (which also aligned to the survey responses).
- 2.1.14. In each Board and Committee meeting the respective Chair ensured all attendees were engaged and had the opportunity to provide perspectives and challenge. Where differing views were presented, there was sufficient time to listen, engage and discuss.
- 2.1.15. Survey respondents were aligned in strongly agreeing that both the C&AG and Executive model and demonstrate the values of the organisation. This was evidenced as part of our observation of the governance cycle where for example, the Board discussion on horizon scanning was challenging, involved all attendees and perspectives, with a focus on learning and excellence.
- 2.1.16. The NAO is in the process of introducing a 360-feedback approach which involves the C&AG and Executive team. We would consider this approach good governance practice in terms of seeking development and applying any ongoing lessons.

Summary reflections from the governance survey included:

- **High quality discussions at Board level.**
- **Increased openness to challenge on the part of the ET with a real focus in this area from the Chair and C&AG including when difficult issues have been raised.**
- **Psychological safety principles are in place.**
- **Effective Board for frankness and candour.**
- **Alignment of values.**
- **Succession being a critical risk to address.**

Our Observations

- ✓ **Constructive debate on a range of matters at Board level.**
- ✓ **ARAC meetings balanced the agenda to allow additional time to consider AI as a critical risk.**

- ✓ **Staff were praised for high quality papers and clearly valued.**
- ✓ **Values were demonstrated during the committee meetings.**

Actions

A3 – Board Open Discussion

- 2.1.17. When comparing the operations of the Board to cross sector practice, one difference was that the NAO Board have limited structured time as NEDs for open discussion. There are post Board sessions with the C&AG but no NED only sessions planned.
- 2.1.18. This may be in the form of pre/post Board sessions or a separate meeting building on the informal approaches which have been introduced.
- 2.1.19. Some boards include a period of reflection, led by the Chair, post detailed agenda items, to consider the nature of the discussion itself, how this had been completed and any learnings which could be incorporated into agendas.

B1 - Chair Engagement

- 2.1.20. There was a positive observation that the Chair is very visible to the organisation, including visiting the NAO on a weekly basis. Whilst this is included within the remit for the Chair this should be considered when setting expectations regarding engagement during succession.

Section 2: People, Values and Behaviour - Board and Management Responses

Action Area	Board and Management response and actions
<p>A3: Board Open Discussion</p>	<ul style="list-style-type: none"> • The practice for the past two years has been for the NEDs to meet informally, in person, ahead of the annual Board meeting in Newcastle. This has worked well both in terms of timing and logistics. • The Chair will consult with the NEDs to gauge the appetite for increasing the frequency and timing of these informal meetings. • A standing item at each Board meeting is the opportunity to reflect / provide feedback on the meeting as a whole. Feedback from NEDs and Executives on the quality of discussions, including the quality of papers and time allowed for discussion, is subsequently actioned. In addition, the Chair seeks reflections on any other matter that could improve future meetings of the Board. • The Chair will continue this good practice.
<p>B1: Chair Engagement</p>	<ul style="list-style-type: none"> • The time commitment for the Chair post is expected to be up to a day a week. The current Chair, Dame Fiona Reynolds, has dedicated a day a week to attend the NAO London office in person to carry out her internal and external engagements. Annually the Board holds a meeting in our Newcastle office which includes a networking opportunity with staff and a Q&A session with the Board led by Dame Fiona. • The positive feedback on Dame Fiona's engagement with the office sets a helpful benchmark for her successor.

Section 3. Decision Making

- 3.1.1. **There is a consistent view that decision making is effective and efficient, enabled through well-structured meeting agendas and papers which allow for good thoughtful discussion.**

Board Documentation

- 3.1.2. The majority of respondents were of the view that the Board papers provided were of the right depth and presented with sufficient time for review. Both survey comments and interviews indicate that this has been an area of improvement at the NAO. The practice of certain standing items being subject to more detailed review outside the Committee meeting via correspondence has been identified as a positive development which allows the meetings to focus on key decision points.

Transparency of Decision Making

- 3.1.3. Across survey responses and interviews, transparency of decision making is a positive aspect of the governance structure within the NAO. There was clear acknowledgement that not all decisions, due to their nature, can be collective although diverse views are sought to enable good sound decision making.

Delegation Framework

- 3.1.4. Across the ET there is unanimous agreement that the delegation framework is clear and well understood. There was a diversity of understanding of the Delegation Framework in place by the NEDs.

Actions

A4 Paper Conciseness

- 3.1.5. A recurrent issue in any governance review is around the depth and focus of meeting papers on critical issues which inform and enable the right level of discussion. Whilst our overall observation is that the Board and Committee packs are of the right balance, there are some papers where we would recommend a review to consider whether more details could be appended or circulated more widely.

B2 – Delegation Communication

- 3.1.6. For completeness, we recommend that the delegation framework is incorporated into future NED's induction training and confirmed with the existing NEDs.

A5 – Decision Making processes

- 3.1.7. In terms of decision making for approvals and assessment and Board, it has been highlighted that an area to consider is how to further differentiate between recurrent spend for non-complex, routine extensions/ matters and new areas of activity. This is an area highlighted by the Chief Operations Officer for future consideration.

A6 – Unstructured Discussion

3.1.8. Board agendas are well structured and managed but NEDs indicated there are limited opportunities for broader and more open item discussions. There was a question as to whether the current Board agendas were sufficient to allow for these discussions or whether time for NED engagement (rather than additional meetings) should be factored into the schedule, as well as scheduled NED only sessions (currently there is meeting at the end of Board meetings).

3.1.9. An area of emerging practice, which may be of benefit to the NAO, is that as well as end of meeting reflection time (which was in place at the NAO) there are specific break points for reflection following substantive agenda items which allows for a soft reset prior to the next item.

3.1.10. Notwithstanding the above, at the November Board meeting there was a dedicated session on Horizon Scanning which was forward looking and allowed sufficient agenda time for a wide ranging and high-quality discussion. There is an annual Board Awayday, but we have also observed organisations holding more frequent workshop sessions to consider specific topics in greater detail.

3.1.11. **Summary reflections from the governance survey included:**

- **Agendas are managed to allow time for effective decision making.**
- **Decision making is neutral and in line with the best interests of the NAO.**
- **Delegation framework is clear and operates well but needs to be communicated to NEDs during induction.**
- **Need to allow the Board to reflect on issues rather than always being in decision mode.**

Our Observations

- ✓ **During the Committee cycle we observed effective decision making and papers which were proportionate to the decisions required.**
- ✓ **Debate was considered, undertaken in line with the NAO values and built on the experience of the meeting attendees.**

Section 3: Decision Making - Board and Management Responses

Action Area	Board and Management response and actions
A4 – Paper Conciseness	<ul style="list-style-type: none"> The conciseness of Board papers is an area of continuous improvement.
B2 – Delegation Communication	<ul style="list-style-type: none"> The delegation framework between the C&AG and the Board is set out in the “<i>Code of Practice between the C&AG and the Board</i>” with greater detail provided in the respective terms of reference of the Board and the Board’s two sub-Committee. We will ensure that the delegation framework is explained in the NED induction process with refresher training provided thereafter, on an ad hoc basis, as necessary.
A5 – Decision making processes	<ul style="list-style-type: none"> We will further ensure that documentation circulated for approval is proportionate to the nature of the decision being taken, with more succinct business cases for routine approvals, such as contractual renewals, and fuller papers for new projects or more complex decisions.
A6 – Unstructured Discussion	<ul style="list-style-type: none"> From June 2025 each Board agenda includes a ‘horizon scanning’ item with no topic set in advance to allow for unstructured forward-looking discussions. As observed by the external review feedback from this has been very positive. We will continue this practice. The Board holds a day long strategy meeting every year and there is flexibility to hold additional strategy sessions / workshops on specific topics if required. As responded in A3, the Chair will consult with the NEDs regarding the appetite for increasing the frequency and timing of informal NED only meetings.

Section 4: Operations and Resilience

4.1.1. The current Board skillsets comprise a good balance of strategy, financial audit, technology and public sector. This experience is considered by the NEDs and the ET and confirmed by us as being high performing and effectively supporting the needs of the organisation.

Operations

4.1.2. Across both ET and NEDs there is consistent agreement, that the NAO Board and subcommittees remits are formally recorded and duplication of activities of roles is well managed. This was confirmed through our interviews, attendance at meetings and review of meeting cycles. For example, as a matter of good practice papers have a clear purpose for being presented, including where an item is required for detailed review before being presented to Board. At the Board we also noted that in such instances the review role is not duplicated when this has been considered by the subcommittee.

Non-Executive Director Engagement

4.1.3. NED engagement and support provided to C&AG and ET is well regarded and well received. There is evidence of a relationship built on mutual trust and good value provided at various touchpoints. Specific examples cited related to the support provided during Audit Transformation, Technology change and Strategy development.

NAO Operating Environment

4.1.4. An area of strength of the Board and Executive identified is their good understanding of risks of the operating environment. Risks are regularly reviewed during risk management discussions with ongoing progress being made to update risk management processes. We have observed in ARAC meetings specific consideration of risk appetite and the wider risk environment, alongside specific deep dive risks such as cyber.

Operational resilience

4.1.5. At ET level there is a consensus on operational resilience and the plans in place. This has been evidenced in practice through timeliness and workshops to test the systems and plans developed. The NEDs were less clear (albeit not negative) in their survey responses, but all were aware of the need to effectively manage succession which was explored in interviews.

Actions

B3 - Succession Planning

4.1.6. The NAO has a high performing Board which paradoxically means that replacing the two members and the Chair reaching the end of their term is made more complex by the need to find quality effective replacements.

- 4.1.7. This is a known issue, carefully considered at Rem Comm which factored in the balance of fresh perspectives with whether a more staggered succession was more desirable.
- 4.1.8. In terms of future skills within succession there were a number of areas raised as being critical, including technology and AI, maintaining the strategy expertise alongside financial audit and the business and public sector environments.
- 4.1.9. In terms of the latter, there is the potential to explore options for Co-Opting the current ARAC Chair as an independent member to support the effective transition process and maintain audit and financial expertise alongside knowledge.
- 4.1.10. The observations of this review should be used to inform the induction programme for new NEDs as should the continued focus on maintaining diversity of thought, experience and perspectives in a Board that is currently operating effectively.

Summary reflections from the governance survey included:

- **High quality discussions at Board level with understanding of the NAO**
- **Recognised risk of succession with three NEDs coming to an end of their term. Planning has started early supported by the Secretariat functions.**
- **Resilience plans are in place, including completion of workshops to test the systems and people in place.**

Our Observations:

- ✓ **The process for Chair recruitment had commenced at the point of our draft report.**
- ✓ **The NEDs have an extensive and well-rounded skill set which is being considered in future recruitment. This includes strategy, financial audit, technology, governance and bodies which the NAO audits.**

Section 4: Operational Resilience - Board and Management Responses

Action Area	Board and Management response and actions
<p>B3 – Succession Planning</p>	<ul style="list-style-type: none"> • As the external review observes that the smooth and successful change in composition of the Board is a key priority in 2026 which has been planned for carefully over the last 18 months. This has involved early engagement with key external stakeholders, in particular the Chair of the Committee of Public Accounts who leads on the recruitment of the NAO Chair on behalf of Parliament. • When the next Chair has been nominated by Parliament, which is expected in spring 2026, this will pave the way for next Chair to lead on the recruitment of two new NEDs and complete the Parliamentary approval process by autumn 2026. • The current Chair will ensure that the next Chair is informed by a detailed Board skills analysis, including the findings from this external review, to enable them to determine the person and skills specification for the two new NEDS. • It will be for the next Chair, advised by the Board, to explore the options of co-opting independent external members to provide effective transition and continuity on the Board’s sub-Committees including the Audit Quality Board.

Section 5: Committee Governance

- 5.1.1. As a part of our review, we have analysed the Terms of Reference and papers of the Board, NAO Remuneration and Nomination Committee (RemCo), Audit and Risk Assurance Committee (ARAC) and Audit Quality Board (AQB).

Committee Terms of Reference

- 5.1.2. RemCo and the ARAC are formally designated committees of the NAO Board. The AQB serves as an advisory committee. The common theme across all committees is the design centred around independence, expertise and accountability. From our review, all committees provide a comprehensive framework for NAO for oversight, assurance and continuous improvement.

Board meeting minutes

- 5.1.3. From our review of the NAO Board minutes, we evidenced strategic oversight. Areas of focus have included the Quality First Plan, Performance Framework and the System of Quality Management. During this period the Board has reflected upon the improvement in audit quality scores, stakeholder engagement and the commitment to wellbeing.
- 5.1.4. There have been challenges identified by the Board including performance measurement and associated risks. Minutes provide evidence of review of KPI delivery and the initial high performance ratings which raised a number of challenges.

AQB meeting minutes:

- 5.1.5. Review of AQB minutes and papers evidenced the remit of the Board being delivered. For the period reviewed (June 2024 to July 2025, with attendance at the September 2025 meeting) areas of activity have included the Quality First Plan, including monitoring of progress, ISQM1¹(International Standard on Quality Management) evaluation and Root Cause Analysis. Key areas of change have been the introduction of new leadership roles, strategic planning and investment in training and technology. The minutes of discussions evidenced the desire to move towards alignment with the Big 4 and industry best practice through benchmarking approaches.
- 5.1.6. From our observation, there is a clear approach and themes aligned to the committees' activity. This included improvements in financial audits, points of focus including the mitigations and controls identified from Root Cause Analysis. Furthermore, there has been progress in discussions towards implementing a balanced scorecard tool and Audit Quality Indicators.

¹ International Standard on Quality Management 1 (ISQM 1): Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements issued by the International Auditing and Assurance Standards Board (IAASB) and came into effect on 15 December 2022.

Governance Costs

5.1.7. In considering the investment in the governance process, we have an agreed approach with the NAO (as summarised on the right). Based on this methodology, which incorporates staff time for meeting preparation and attendance, governance costs are 0.35% of the NAO’s total costs.

5.1.8. Whilst benchmarks have an inherent level of challenge given the nature of the NAO as an organisation, this relative spend, for the quality observed throughout the governance process, demonstrates the efficiency in resource allocation. In seeking published comparators, the Charity Commission report, based on published accounts, that 4% of annual costs are attributable to governance. This also includes Internal and External Audit costs, which, when factoring these costs in, the NAO would remain considerably below the 4%.

5.1.9. There is also a question of hours spent in servicing governance and particularly that engaged by the C&AG, Executive and Directors. This is respectively circa 70 hours, 230 hours and 100 hours respectively on the annual governance cycle. This would again be considered of value and proportionate for the use of senior staff time.

5.1.10. Overall, we consider the resources utilised in respect of governance to be proportionate and represent value for money. Time inputs across the Executive, Directors, Governance team and risk owners are for defined purposes which are in accordance with good governance practice.

Costing Methodology

5.1.11. In terms of providing a financial value for the costs of governance referenced above, the following approach has been utilised:

Area	Cost Composition
Salaries / remuneration	<ul style="list-style-type: none"> • For five NEDs (including the Chair) • Three independent external members • Core Governance team
Attendance and prepping for Board, ARAC, RemCo and AQB meetings at fee rate, including preparation time	<ul style="list-style-type: none"> • C&AG • Executive Team members • Directors: Internal Audit (ARAC); Strategy (Board); Financial Audit Quality (AQB); Financial Audit Ops (monthly ET); Ethics and Compliance (AQB); HR (RemCo)
Travel & hotels	<ul style="list-style-type: none"> • For five NEDS • Annual Board meeting in Newcastle

Summary reflections from the governance survey included:

- **Governance is well structured and organised with clear alignment of agendas and timing from Committees through to the Board.**
- **There is recognition as to how this has developed over time.**
- **Papers are of high quality, with comments regarding ongoing challenges regarding length.**
- **Agendas are well managed by the Chair**

Our Observations

- ✓ **We observed that there is clear agenda management by the respective Chairs.**
- ✓ **Meetings allowed sufficient time for key agenda items with debate and contribution from all attendees.**
- ✓ **Papers are communicated securely, with the NEDs integrated into the NAO's technology infrastructure.**

Appendix One: Approach

The overall objective of the review is to provide assurance that the mechanisms in place in respect of governance are effective, in line with best practice and ensure value for money in the utilisation of resources. From an overarching perspective, assurance is provided as to the effectiveness and efficiency of the non-executive and executive governance of the organisation.

Our Review

Our review has been in accordance with best practice and the Audit Firm Governance Code, which recommends periodic reviews of governance to be undertaken. In addition, the review has followed up on actions taken from the previous governance review, undertaken in 2022.

Approach

Our review has considered:

- ✓ Issuing a Governance survey across the Board, Committee membership, the Audit Quality Board and the Executive
- ✓ Structured interviews across Board members, Committee Chairs and the Executive
- ✓ Facilitated workshops/ discussion groups with cross sections of NAO staff (currently completed at ET level)
- ✓ Review of Committee terms of reference, including alignment between the Committees.
- ✓ Observation of Board and Committee meetings, including interaction, decision making and adherence to values (currently in progress)
- ✓ Review of Committee papers over a 12-month cycle, including follow through of key decisions and standing organisational governance.
- ✓ Benchmarking to good practice governance frameworks and cross sector guidance (including relevant elements of the Audit Firm Governance Code, UK Corporate Governance Code and Corporate Governance Code for Central Government Departments) (in progress)
- ✓ Staff surveys since the inception of the 2020 strategy, focussing on areas which assess areas applicable to governance and how this is discharged.
- ✓ Internal Audit reviews and wider assurance activity regarding governance and decision making.

Appendix Two: Governance Code Comparators

We have considered (where applicable) the Audit Firm Governance Code and the Governance Code for Central Government Departments.

This section summarises relevant areas which we observed to be in place. In forming our conclusions, we evidenced the application of the principles of both Codes.

Audit Firm Governance Code: Leadership

The following principles were evidenced as being in place during our review (where applicable and adapted to the specifics of the NAO):

- The Board and Committees are supplied with information in a timely manner and in a form and of a quality appropriate to enable them to discharge their duties.
- The Executive and Board have a clear understanding of their authority, accountabilities and responsibilities.
- The Board and Committees have clearly defined terms of reference in accordance with their remit.
- The Board and Committees undertake regular evaluations with an externally facilitated review.
- Details of the governance arrangements set out within the Annual Transparency Report and Annual Report and Accounts.

Audit Firm Governance Code: Operations and Resilience

The following principles were evidenced as being in place during our review (where applicable and adapted to the specifics of the NAO):

- The NAO promotes a commitment to consistent high-quality audits and firm resilience in the way it operates.
- The NAO has established policies and procedures to identify, assess and manage risk, embed the internal control framework.
- During 2025 the NAO has introduced a principal risk framework
- The Audit, Risk and Assurance Committee (ARAC) has a clear term of reference which includes appointment of the external auditors
- The NAO's Transparency Report is fair, balanced and understandable in its entirety.

Audit Firm Governance Code: Decision Making*

The following principles were evidenced as being in place during our review (where applicable and adapted to the specifics of the NAO):

- The NEDs maintain and demonstrate objectivity and an independent mindset.
- Collectively they enhance stakeholder confidence by virtue of their independence, number, stature, diverse skillsets, backgrounds, experience and expertise.

- The NEDs have a combination of relevant skills, knowledge and experience, including of audit and the work of the NAO.
- The NEDs all reported that they have access to all information required to fulfil their remit.
- One action relating to the NEDs (who have a different role to the INEs under the Code) was to create structured opportunities for NED only sessions to consider their role.

*For the purposes of this section we have applied the Independent Non-Executive (INE) section of the Code

Audit Firm Governance Code: People, Values and Behaviour

The following principles were evidenced as being in place during our review (where applicable and adapted to the specifics of the NAO):

- The NAO has clearly defined purpose and values and sets out measures to promote an appropriate culture, that supports the consistent performance of high-quality audit.
- There are policies and procedures for managing people across the organisation that support its commitment to the purpose and Principles of the Code, with a focus on quality.
- There is a defined Code of Conduct, with each member of staff required to complete an annual Code of Conduct return, which confirms that they are aware of their ethical and professional obligations.
- The Transparency Report and Annual Report and Accounts details Key NAO Audit Quality Measures.
- There is a defined Quality First Culture, clearly detailed within the Transparency Report which includes summaries of the systems for the promotion and embedding of the appropriate cultures.
- The NAO has established mechanisms for delivering meaningful engagement with its people, including arrangements for people to raise concerns in confidence and anonymously and to report, without fear, concerns about the firm's culture, commitment to quality work.

Audit Firm Governance Code: Operations and Resilience

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- The NAO's Transparency Report is fair, balanced and understandable in its entirety

Governance Code for Central Government Departments: Role of the Board.

- The Board and its subcommittees adhere to the principles regarding frequency of meetings and recommended areas of focus, including strategy, commercial focus, talent, focus on results and utilising management information to drive continued performance improvements.
- In accordance with **Board Composition**, there is active engagement in the establishment of the committee structure to discharge their responsibilities. There is a mix of skills which is subject to regular assessment and development

Governance Code for Central Government Departments: Board Effectiveness

- There is an effective governance function in place that supports the effective and efficient flow of information to the Board and Committees.
- There are structured processes in place regarding succession planning, Board and Committee assessment of performance the induction of new NEDs.



Whilst every care has been taken to ensure that the information provided in this report is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regard to the advice and information contained herein.

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