



National Audit Office

NATIONAL AUDIT OFFICE

ANNUAL REPORT AND ACCOUNTS 2015-16



The National Audit Office scrutinises public spending for Parliament and is independent of government. The Comptroller and Auditor General (C&AG), Sir Amyas Morse KCB, is an Officer of the House of Commons and leads the NAO. The C&AG certifies the accounts of all government departments and many other public sector bodies. He has statutory authority to examine and report to Parliament on whether departments and the bodies they fund have used their resources efficiently, effectively, and with economy. Our studies evaluate the value for money of public spending, nationally and locally. Our recommendations and reports on good practice help government improve public services, and our work led to audited savings of £1.21 billion in 2015.



National Audit Office

NATIONAL AUDIT OFFICE ANNUAL REPORT AND ACCOUNTS 2015-16

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PERFORMANCE REPORT

OVERVIEW

CHAIRMAN'S REPORT

There has never been a time when the NAO was needed more. In a rapidly changing, uncertain environment Parliament needs to be assured that the changes are well managed and that they achieve their intended outcomes. They also need to know that accountability is both defined and protected. The NAO performs these essential tasks and is a unique asset to our Parliamentary democracy. But if we, at the NAO, are to maintain the high quality of our work, our reputation and our value for money, we too need to adapt. We have to practise what we preach and I am pleased to have seen much evidence of that this year. We have become involved earlier in the life of key government projects; we have worked better across departmental boundaries and we have tried to identify strategic issues relevant across government. Inside the office, we have sought to become ever more efficient, making further difficult reductions in the cost of our corporate services. We have involved all staff in how best to reshape our business processes and redesigned our performance management system to address the wide-ranging concerns of staff. I am sure that we will need to adapt further but we could not now absorb additional work without additional resources.

We do have, of course, a long and proud history, which dates back to the Exchequer and Audit Departments Act 1866, which means that we are this year celebrating the 150th year of the Comptroller and Auditor General's role. Much has changed from the time when the C&AG would authorise the issue of money to departments, but the Act still guides our responsibilities and our rights and will continue to do so as we embark on new work in the future. I strongly believe the NAO has an unchanging, important contribution to make to transparency and promoting good governance. I was therefore delighted to see us given responsibility for value-for-money work at the Bank of England.

For us, our relationship with Parliament is central to all we do and I was pleased, therefore, to welcome members of the Treasury Public Accounts Commission (TPAC) to the NAO London office at the beginning of the year. This was a first-hand experience where the Chair of TPAC could witness, outside a committee room, the way the office is run. It gave TPAC and our board a chance to discuss the changing nature of audit and accountability and to meet informally. TPAC gained an insight into the thoughts of the trainees and were impressed at how the office is managed.

This has been a very successful year for the NAO and the future looks equally exciting, full of challenges and opportunities. We, more than any organisation, cannot afford to be complacent. We need always to improve and focus even more on the impact we have. We should always remember that our priority is not just to carry out audits and produce value-for-money reports. Our priority is to improve the way in which public money is spent.



Lord Richard

Chairman
National Audit Office

FOREWORD



Sir Amyas
Morse

Comptroller and
Auditor General
National Audit Office

I am pleased to say that the past year has been one of ongoing success for the NAO, but not without its challenges. We have taken on more work and responsibility, while audits were delivered with fewer resources to tighter timescales without compromising the high standard we have always held ourselves to. Further austerity has put pressure on government's management capabilities, which in turn has placed an increasing burden on the NAO. Against this background, we have delivered a strong programme of work to support Parliament and achieved the highest level to date of financial savings for the tax payer, of £1.21 billion, equivalent to £19 saved for every pound spent, all while reducing our costs and achieving further efficiencies. We could not have done this without the talent and commitment shown by our people.

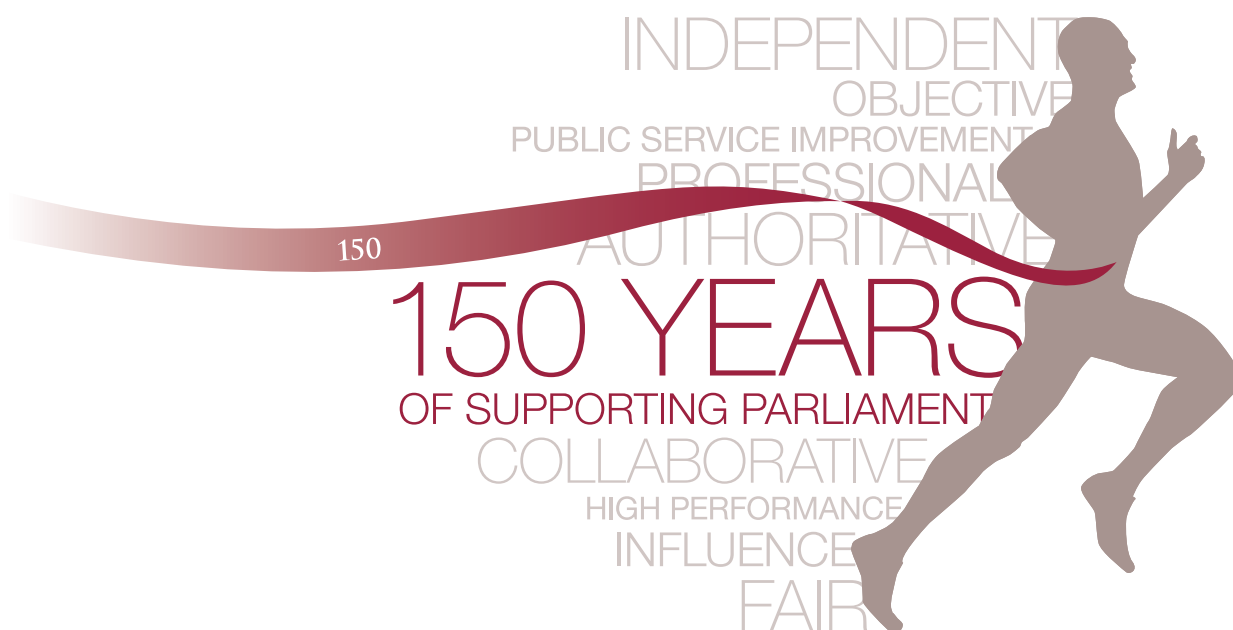
The past year has seen the emergence of significant challenges for government: technology-driven transformation is fundamentally altering the way public services are delivered, while local devolution and greater use of third party delivery means traditional lines of accountability may become blurred. With such significant change comes the potential risk that services may not meet public need and value for money may not be achieved. Our task is to use the skills and insight we have, coupled with the powerful influence of Parliament, to hold government to account and provide guidance to help departments achieve their objectives.

Our cross-government perspective places us in a powerful position to understand the systemic issues that prevent government achieving its strategy. Through collaborative working with public bodies we can provide expertise and promote good practice, such that successes are shared while costly mistakes are avoided. This is reflected in our 2015-16 reports such as *Use of consultants and temporary staff*, which examined staffing models across government. At the same time, we are making more of our enhanced role, resulting from the Local Audit and Accountability Act 2014, by looking at service delivery from the perspective of the policy maker and the public, giving us an end-to-end view of how government decisions impact the end user. For example, our report *Local welfare provision* looked at reductions in spending on discretionary local welfare support by central and local government, and the impact this has on communities and individuals.

The challenges over this Parliamentary term are significant, and if we are to do more with less, then we must work in a way that makes full use of all the skills the NAO has to offer. We are in the process of implementing new business systems to automate more processes and make planning and resourcing easier for our people, also giving them first-hand experience of technology-enabled change. Improved systems are being coupled with better ways of working; in 2015-16 we made good progress towards embedding a culture of integrated working, where knowledge is shared across the organisation and expertise is targeted where needed. Although we are a highly skilled organisation, we encourage our people to further develop skills that are relevant to our work, such as in areas of commercial, digital and project delivery. I am committed to making sure the NAO is a place where people can meet their full potential and enhance their careers.

The 150th anniversary of the Exchequer and Audit Departments Act on 28 June 2016 provides an excellent opportunity for us to proudly reflect on our history of supporting accountability and safeguarding public expenditure. However, our focus is chiefly on the future of the NAO, to continue to raise our game to be authoritative, insightful and to use our expertise to maximise our impact. Therefore, this Annual Report reflects our performance in the context of our overall strategy, as the work we do now lays the foundations for our future.

150 YEARS OF SUPPORTING PARLIAMENT



The publication of this Annual Report and Accounts marks the 150th anniversary of the inception of the NAO, in spirit if not in name, by the passing of the Exchequer and Audit Departments Act 1866. The Act marked a pivotal moment in achieving financial accountability of government, which until then had been lacking sufficient and consistent scrutiny, hampering Parliament's oversight of public expenditure.

To address the need for greater accountability the Act established the position of the Comptroller and Auditor General and the Exchequer and Audit Department, entrusted with the responsibility for auditing the financial accounts produced by each government department. Though our methods have changed, supporting Parliament in holding the government to account still sits at the heart of what the NAO does today.

The government has changed a great deal since 1866, while the NAO has grown and evolved into a modern audit institution. However, the need for government accountability remains as important now as it ever has been, as complex transformational projects change the way government provides public services, and ongoing devolution, both local and national, must have clear lines of responsibility. So, while we may reflect on our history with a sense of achievement and pride, it is our future we should celebrate, as we look to meet the challenges of tomorrow to ensure we become an even greater force for accountability and improvement in government.

2015-16: OUR YEAR IN HIGHLIGHTS



£1.21bn

in savings for the taxpayer in 2015. The highest level of savings achieved to date. That's £19 saved for every £1 we spent



97%

pass rate for the advanced stage accountancy exams compared to 84% nationally



368

accounts certified including all government departments. Representing over £1.6 trillion in expenditure and £1.7 trillion assets



65

reports published tackling the issues most important to the government and the taxpayer



47

Committee of Public Accounts evidence sessions supported to hold government to account



82%

of the Committee of Public Accounts' recommendations accepted by government



\$12bn

expenditure audited in certifying the accounts of the UN Secretariat, six peacekeeping missions and six major UN funds and programmes including the High Commissioner for Refugees



351

local authorities covered in the first independent and comprehensive analysis on the effect of reducing central government funding by 25%



950

local government and health bodies, and nearly 10,000 smaller authorities, whose auditors are subject to our Code of Audit Practice and guidance

ABOUT THE NATIONAL AUDIT OFFICE

“To put it bluntly, our Parliament is a better Parliament for the existence of the NAO. And this country is a better governed country for each and every one of you.”

Stephen Philips QC MP, Committee of Public Accounts,
March 2016

The National Audit Office (NAO) supports Parliament to hold the government to account for the way public money is spent and to drive improvements in the way public services are delivered.

KEY FACTS

£1.6 trillionexpenditure of
government bodies
audited

Our primary role is to scrutinise public spending for Parliament. We do this by fulfilling our statutory roles in financial audit and value-for-money reporting across central government and local bodies.

We audit the financial statements of all central government departments, agencies and other public bodies and report the results to Parliament. Our value-for-money reports conclude on the effectiveness, efficiency and economy of government spending.

We are independent of government. The head of the NAO is the Comptroller and Auditor General (C&AG), who is an officer of the House of Commons and a Crown appointee.

OUR VALUES

OUR VALUES UNDERPIN EVERYTHING WE DO



INDEPENDENT

We are independent and objective, and observe the highest professional and personal standards.



AUTHORITATIVE

We deliver work of the highest quality, drawing comprehensively on robust evidence and practice.



COLLABORATIVE

We work collaboratively with colleagues, and with stakeholders, to achieve our goals.



FAIR

Our work, and the way that we treat people, is fair and just.

Our strategy

Our overall strategic objective is to support Parliament in holding government to account and driving improvement in public services. We target our work to ensure that we achieve our strategic objective as effectively and efficiently as possible. This means optimising our use of the resources we have and making sure our culture and working environment are organised in the best way possible to support the work we do. We must also ensure that we engage effectively with our many stakeholders and maintain ourselves as a recognised organisation of expertise, such that government respects us as a force for improvement and acknowledges the benefits we contribute, and Parliament looks to us as a key source of insight.

We have three fundamental 'enablers'; performing well in these means that it is more likely that we will deliver our strategy successfully.

KEY FACTS

we exceeded our target of £645m to achieve validated savings to government of

£1.21bn

Our strategic objective and enablers



KEY FACTS

368

accounts certified

Our enablers

Developing and applying knowledge

- We draw out the insights gained from exercising our statutory audit responsibilities that are most likely to help drive positive change across the public sector. We carefully plan our work so that it meets the needs of Parliament and addresses the strategically important issues facing government. A key element of this is for us to work in an integrated way, to bring together all the skills and expertise of the NAO on our principal areas of work.

Increasing our influence

- The impact we have is dependent on how well we communicate the messages from our audits and our reputation for high quality work, therefore we aim to improve the awareness and opinion of the NAO held by all our stakeholders, including MPs and the bodies we audit. By ensuring the benefits of our work are fully understood and recognised, government is more likely to implement our recommendations and look to us as a source of guidance.

Delivering high performance

- We use our funds cost-effectively and make sure we get the best from our people. We practise what we preach by delivering more with less, without compromising quality. At the heart of our organisation are our people and we work to create a culture of support and respect that is career enhancing and allows people to deliver their best.

Challenges in 2015-16

We must be continuously responsive to those issues that are most likely to have the greatest impact on value for money. 2015-16 was a period of extensive change, with public bodies facing a number of ongoing challenges as they strive to deliver services with less resources, increasingly requiring them to transform the way they operate. We took action in 2015-16 to ensure that we are well placed to respond to these challenges:

Supporting accountability and supporting improvement

- Looking at major project and transformation programmes early in their implementation. We do not question policy, but early examination enables risks to be highlighted and good practice adopted to help avoid poor value for money and costly mistakes.
- Greater use of comparative analysis in our work to promote learning and sharing of knowledge.
- Focusing on systemic issues of significant importance to both central and local government, such as financial sustainability and digital transformation.
- Delivering greater value from our local government responsibilities, by assessing how well central and local government work together to ensure integrated public services.
- Drawing out issues in our work which directly influence the quality of public services.
- Using our insights to help inform debate on key issues affecting the public sector such as accountability and localism.

Improving the way we work

- Establishing a leaner, more efficient NAO through better ways of working supported by the right technology. With ongoing austerity, we must practise what we preach to deliver more with less.
- Bringing together the full range of expertise we have in the NAO to work in a more integrated way to provide a wider range of reports and other products targeted at the issues most important to Parliament and government.

KEY FACTS

796

full-time equivalent
permanent employees

Diversity and inclusion

Our commitment to making the NAO a more diverse and inclusive organisation is an integral part of who we are and reflects our core values of being fair, independent, collaborative and authoritative. To ensure we remain a high-performing organisation, we recruit, retain and develop people with a diverse mix of skills and experience, creating an inclusive working environment where the richness of ideas, backgrounds and perspectives are appreciated and harnessed to create real value. The NAO is a founder member of Access Accountancy, which aims to support and encourage those from disadvantaged backgrounds to join the accounting profession.

Our Diversity and Inclusion Strategy¹ focuses on recruiting, developing and promoting diverse talent at all levels to senior leadership; demonstrating inclusive behaviours; and promoting diversity in our work and that of all public bodies.

Our targets in 2015-16 were:

- providing eight work experience placements each year through Access Accountancy;
- establishing a valued and flexible working culture; and
- improvement in our staff survey responses to questions related to inclusivity.

¹ www.nao.org.uk/about-us/wp-content/uploads/sites/12/2013/02/NAO-Diversity-and-Inclusion-Strategy-2015-2018.pdf

OUR PERFORMANCE SNAPSHOT

Our outputs



65 reports published covering a diverse range of public expenditure issues including major procurement programmes (eg the UK's military equipment plan), equality of healthcare and addressing tax fraud

78
Freedom of Information requests responded to

630

pieces of correspondence from MPs and the public, each of which is carefully considered for further investigation

84%
of resources deployed on front-line activity

368
accounts certified including all 17 government departments with their executive agencies and non-departmental public bodies, companies (eg Network Rail and Green Investment Bank), and international bodies (eg UN)

47

Committee of Public Accounts' evidence sessions supported

22

Short Guides covering the work of government departments published at the beginning of the new Parliament

9

studies on local service deliveries published

43

investigations completed including our high-profile work on the charity Keeping Kids Company

Over **480**
external active engagements and influencing activities such as speaking at conferences and contributing to publications

Our impacts

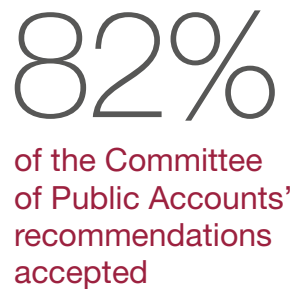
Our work leads to beneficial change. We have included 14 case studies in this report (see pages 34 to 39) which serve as examples to illustrate the positive influence our work has.

The NAO aims to save £10 for every £1 we spend; for 2015 our final audited savings totalled £1.21bn, greatly exceeding our target of £645 million savings, equating to £19 saved for every £1 spent.

Since 2010-11, we have reduced the cost of our work by 20% (inflation-adjusted) even while increasing our role in local service delivery. This is a 26% reduction if we exclude our recent local government responsibilities.

In 2015-16, we supported 47 evidence sessions of the Committee of Public Accounts. 82% of the recommendations arising from these sessions were accepted by Government.

We monitor and discuss with departments the implementation of all our recommendations; 93% of recommendations that have been discussed have or are being implemented.



Reputation of the NAO

The quality and expertise of the NAO is widely recognised. The summary of our client feedback research in 2015 includes scores from interviews with 80 respondents, across 28 audited bodies. The diagram (right) summarises the aggregate score of all questions against four areas – all questions were based on a scale of one to five with five being the most favourable.



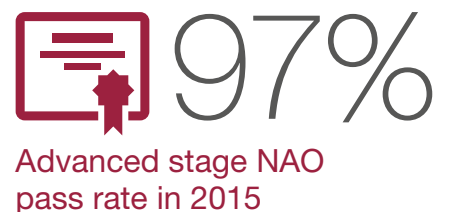
We continue to raise our profile with Parliamentarians. Following the 2015 General Election, we have focused on building up our reputation and familiarity with this Parliament..

Survey of 97 MPs, summer 2015, details on page 41.



Our staff satisfaction is improving. In 2015, we saw a modest improvement in staff perceptions in some areas compared to 2014, although we are clear that further progress is required.

NAO 2015 annual staff survey, details on page 47.



The NAO is career enhancing. Our graduate pass rates for the Association of Chartered Accountants examinations are consistently above the national average.

KEY FACTS

630

pieces of correspondence responded to compared with 481 in 2010-11

The work we do

We produce a wide range of reports, documents and other outputs, which are the principal means by which we meet our statutory responsibilities and achieve our strategy. In monitoring our success, we look at the outcomes and impact of our work.

The major areas of our work and their associated cost are shown on page 23; the trend since 2010 and our future planned spend is given on page 29. We carefully plan our work programme and balance of effort to produce the outputs needed to support Parliament.

Financial audit: we audit a diverse range of institutions, including all government departments, and certified 368 accounts in 2015-16. We also carry out wider assurance work, including checking grant claims, reviewing IT systems and certifying claimed savings by departments. As well as providing accountability, our financial audit work contributes to our efforts to drive improvement in public services.

Value for money: we provide Parliament with reports on specific areas of government expenditure, which consider whether value for money has been achieved. We define good value for money as the optimal use of resources to achieve the intended outcomes. Our role is not to question government policy objectives, but to provide independent and rigorous analysis to Parliament on the way in which public money has been spent to achieve those policy objectives. We cover a wide range of significant topics including local services and local government. The recommendations from our work result in financial savings and positive changes in government to improve services and ensure value for money for the taxpayer.

Local government responsibilities: the Local Audit and Accountability Act 2014 gives the C&AG and the NAO further responsibilities relating to local government. This includes preparing and consulting on the Code of Audit Practice, which sets out what local auditors are required to do to fulfil their statutory responsibilities, and the power to examine the efficiency and effectiveness of central government expenditure from policy decision to service provision. We provide evaluation, commentary and advice of a general nature to local bodies.

Investigations and insight: we conduct investigations to establish the facts when concerns are raised, or in response to intelligence from our wider work. Our investigations are responsive, focused and based on the facts. They offer a rapid assessment of service quality, failure and financial management where other types of examination might not be suitable. MPs and the public can raise issues that they would like us to address. Our aim is to build on our work in 2015-16 and deliver more investigations in future, to provide targeted and timely findings.

Correspondence: the C&AG is a prescribed person for public interest disclosures and may be contacted by whistle-blowers across the public sector. More widely, in 2015-16 the NAO received 630 pieces of correspondence on a very wide range of issues from MPs and members of the public and 78 Freedom of Information requests. These pieces of correspondence ranged from simple queries or requests for advice to correspondence that prompted detailed research and investigation. Correspondence alerts us to the concerns of MPs and the public and is, therefore, a very valuable source of information which helps to identify current and emerging issues of interest to the NAO. We use this information to develop our insight and inform our work programmes.

In addition to these 630 pieces of correspondence we directly encourage people to contact us via our 'work in progress announcements' on our website. These enable people to get in contact directly with our study teams to share their experiences and knowledge about the specific studies.

Support for Parliament: our value-for-money studies are laid in Parliament. The Committee of Public Accounts take evidence from senior officials of the organisations under scrutiny on the basis of our reports. We support other select committees' annual reviews of government departments and on specific issues where we have expertise.

Following the General Election we produced a series of 'short guide' overviews, one for each of the 17 Select Committees covering government departments and 5 to support cross-cutting Select Committees. We also produced a number of 'cross-cutting' guides for MPs on strategic issues facing government, such as regulation and contract management. We also assisted a significant number of Parliamentary Committees by providing information and analysis to support inquiries, and through short- and longer-term secondments.

KEY FACTS

65

reports published

International work: as part of its contribution to UK government efforts to strengthen good governance, the NAO: is the appointed external auditor of international institutions, notably the United Nations; actively shares good audit practices globally; and helps build the capacity of developing audit institutions and parliamentary financial oversight committees.

The Comptroller function: the C&AG exercises his statutory duty to ensure that all revenues and other public money payable into the Consolidated Fund (the government's general bank account at the Bank of England) are duly paid over, and that all issues are authorised by statute.

How we work

Our clusters

Since 2013-14, we have organised our audit teams into six clusters, grouping together departments facing similar strategic issues to focus on the areas where we can have the greatest impact. This arrangement also allows clusters to work more collaboratively and efficiently, and encourages flexibility in responding to emerging issues and allocating resources between clusters.

Working in this way also facilitates comparative analysis and cross-departmental insight and encourages collaborative working within the NAO as teams share their expertise and knowledge. Each cluster has its own set of objectives, which contribute to the overall strategic objective of the NAO. Our clusters and their strategic objectives are shown on page 24.

The range of our work

Audit and assurance £49.6m

Financial audit opinion/report on accounts
 Reports on regularity
 Analysis of financial statements
 Controls/process assurance
 Long-form reports
 Certification of accounts
 Management letters

Value for money £16.9m

Value-for-money assessment
 Reports on local government
 Comparative assessment
 Landscape reviews
 Presentations
 Early stage reports

Investigation and insight £10.3m

Investigations
 Good practice
 Expert advice
 Data validation
 Correspondence cases

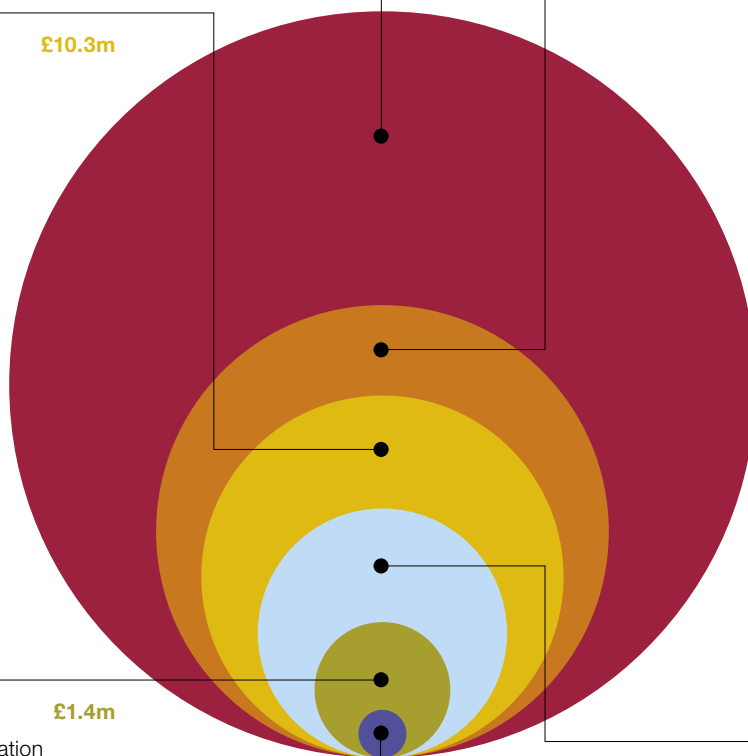
International relations £1.4m

International technical cooperation
 International relations

Support for Parliament £4.9m

Published reports for select committees
 Overviews of departments
 Briefings for select committees

Comptroller function £0.2m



Our clusters and their objectives



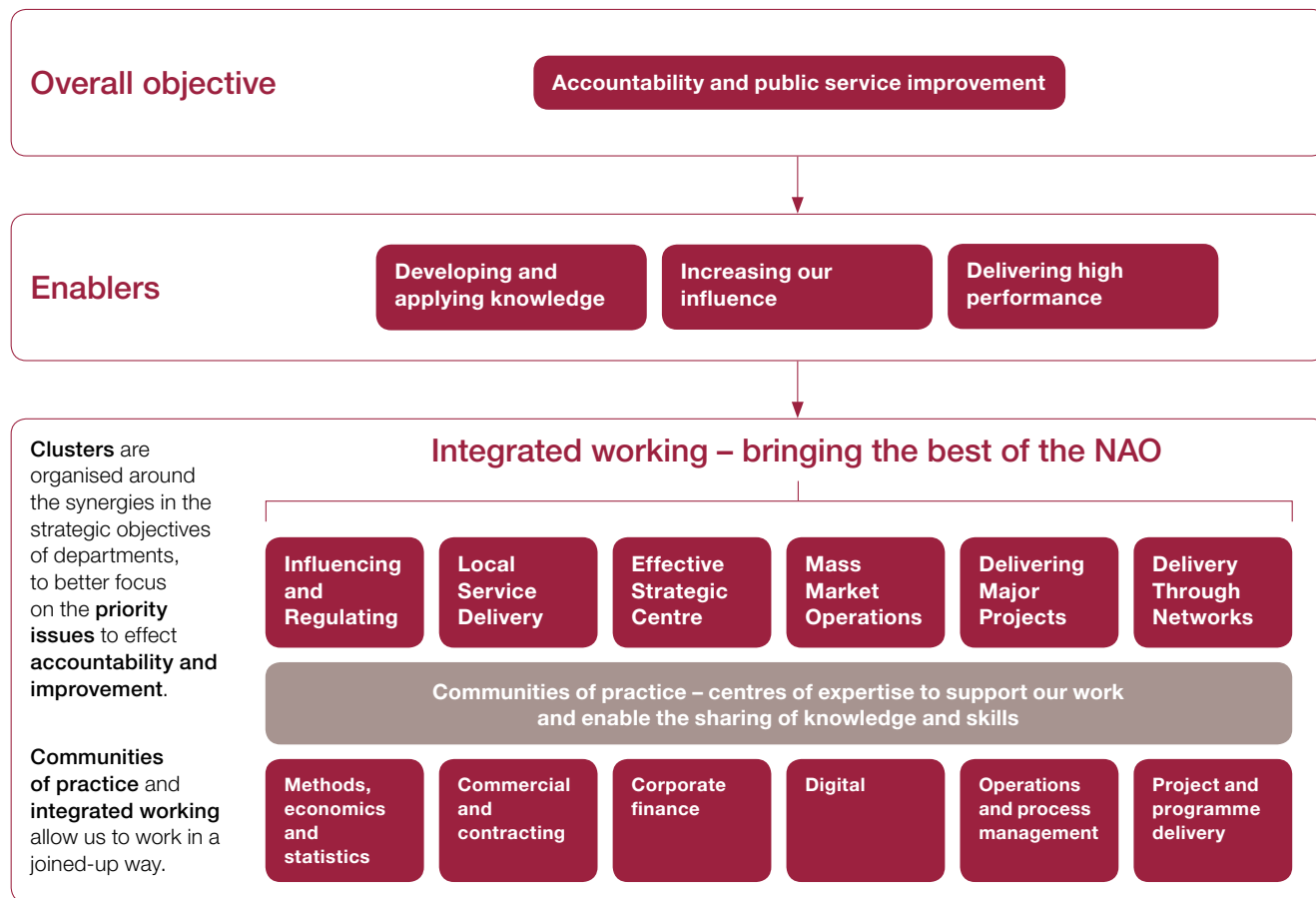
Cluster	Departments	Objective
Delivering Major Programmes	Department of Energy & Climate Change; Ministry of Defence; Department of Transport;	Improving the effective delivery of major programmes and projects
Local Service Delivery and User Experience	Department for Communities and Local Government; Department of Health	Maintaining effective local services under financial constraint
Influencing and Regulating	Department for Business, Innovation & Skills; Department for Environment, Food & Rural Affairs; Department for International Development; Foreign & Commonwealth Office	Strengthening influence and regulation to make markets work effectively
Delivery through Networks	Department for Culture, Media & Sport; Department for Education; Home Office; Ministry of Justice	Improving outcomes from a diverse range of providers, with effective oversight and intervention
Effective Strategic Centre	Cabinet Office; HM Treasury; Parliament	Securing an effective centre of government that facilitates the best use of public money
Mass Market Operations	Department for Work & Pensions; HM Revenue & Customs; International	Improving the accuracy and effectiveness of high-volume services to the public

Communities of practice

We have five communities of practice. These are groups of people with specialist skills and capabilities relevant to all clusters and, through providing cross-organisational support, they ensure expertise is targeted where needed in a consistent way. The communities of practice also promote knowledge sharing and allow NAO people to develop their skills in areas that interest and benefit them.

The way in which clusters and communities of practice work with and support each other, and support the delivery of our overall strategic objective, is shown below.

How the clusters and communities of practice support our strategic objective



KEY FACTS

47

Committee of Public
Accounts evidence
sessions supported

22

short guides to
support Parliament

Our governance

Parliament sets our budget, scrutinises our performance and appoints our external auditors. It does this through a House of Commons committee called the Public Accounts Commission. We work to practise what we preach by upholding high standards of governance in our operations and decision-making. Our governance arrangements are established under the Budget Responsibility and National Audit Act 2011 and reflect our unique statutory position and Parliament's wish that our governance should independently control and oversee our operations, while preserving the C&AG's independence in giving audit judgements.

The board supports and advises the C&AG in meeting his statutory responsibilities, and oversees how we manage and use resources. Our board has a majority of non-executive members including the Chair. The Public Accounts Commission appoints the non-executive members. However, the Chair is appointed by the Queen upon the recommendation of the Prime Minister and the Chair of the Committee of Public Accounts. This ensures that the non-executive members are independent of our management and have the confidence of the government and the opposition in Parliament. The C&AG has sole preserve of exercising audit judgements and reaching audit opinions. Our Governance Statement can be found on page 61.

Strategic and operational risk to our strategy

The NAO's six areas of strategic and operational risk were reviewed and reported on monthly during 2015-16 and included as a standing item on the Board meeting agenda. These risks could affect our strategic objectives and so are carefully monitored and actively managed to ensure that our strategy remains achievable.

The list below is a summary only. A full report on our internal controls and risk management, and the actions we are taking to mitigate these risks, is given in our Governance Statement on page 61.

NAO reputation: The risk that the NAO is seen to not practise what it preaches in relation to its own operation or the behaviour of its staff. The NAO's reputation could also be threatened should stakeholders not regard the NAO's work as independent or authoritative.

Further devolution: As national and local devolution gathers pace, we need to understand the consequences for accountability and audit arrangements and their impact on the work of the NAO.

Change management: The risk that significant change projects go badly wrong or fail, with negative impacts on the NAO's business.

Quality: Poor quality work could undermine the NAO's reputation for accuracy, fairness and insight, and its ability to have a positive impact on the delivery of public services.

Resilience: The risk that resource/capacity constraints cause the NAO not to deliver its planned work programme.

Information security: The risk that the NAO loses or discloses sensitive information and the resulting impact on individuals or organisations affected.

PERFORMANCE ANALYSIS

We measure our performance against our strategic objectives, which are set out in *NAO Strategy 2015-16 to 2017-18*.² Our performance framework aligns our areas of focus to outcomes, the successful delivery of which we monitor through clearly defined metrics. This provides a clear link between the work of the NAO and the way in which we focus our efforts on our strategy.

The performance framework is published annually as part of the NAO Strategy, and is approved by the Public Accounts Commission, who use it to hold the NAO to account. The framework is shown below.

Our performance framework

Objective	What we are seeking to measure	Key success measures
Developing and applying our knowledge	Cost-effective delivery of our programme of work, leading to positive change	<p>Delivery of our financial audit, value for money and wider work programme for Parliament.</p> <p>Case studies demonstrating positive external impact from our work where this is not financially quantifiable.</p> <p>Financial impacts of at least 10 times our operating costs.</p>
Increasing our influence	Stakeholder awareness and response to our work	<p>Response to NAO and Committee of Public Accounts recommendations, in terms of percentage accepted and implemented.</p> <p>Survey of Parliamentarians – covering familiarity, favourability and advocacy of the NAO.</p> <p>Survey of senior stakeholders in departments who have direct contact with us on the quality of our work, and our influence.</p> <p>Survey of senior officers in local bodies in different sectors.</p>
Delivering high performance	Cost-effective use of funds and organisational performance	<p>Overall cost reduction.</p> <p>Ratio of expenditure on front-line and corporate services functions.</p> <p>Staff survey combined measure of staff engagement.</p>

² www.nao.org.uk/wp-content/uploads/2014/12/NAO_Strategy_2015-16_to_2017-18.pdf

DEVELOPING AND APPLYING OUR KNOWLEDGE

Cost-effective delivery of our programme of work, leading to positive change

In 2015-16, we delivered a programme of work for Parliament covering financial audits, value-for-money studies, and our other work. We also supported a full programme of evidence sessions for the Committee of Public Accounts. The cost of our work programme is given on the page opposite, as well as historic comparators and our planned spend to 2019-20.



Our financial audit: We certified 368 accounts in 2015-16 including 16 of the 17 major government departments (with the accounts for the Department for Education certified in 2016-17) plus eight pension scheme resource accounts. We also carried out wider assurance work, including checking grant claims, reviewing IT systems and certifying savings claimed by departments.

We have improved the efficiency of our financial audits over the last five years. This is in the context of challenging external factors beyond our control such as the need for more consolidation and tighter delivery timetables, which have increased the scope and complexity of our audit work. Although a year-on-year comparison is not straightforward due to changes in the bodies we audit, analysis of our top 30 financial audits indicates changes in our methodology are reducing costs and making our audits more efficient. As part of our future strategy, we will continue to seek to be as efficient as possible.

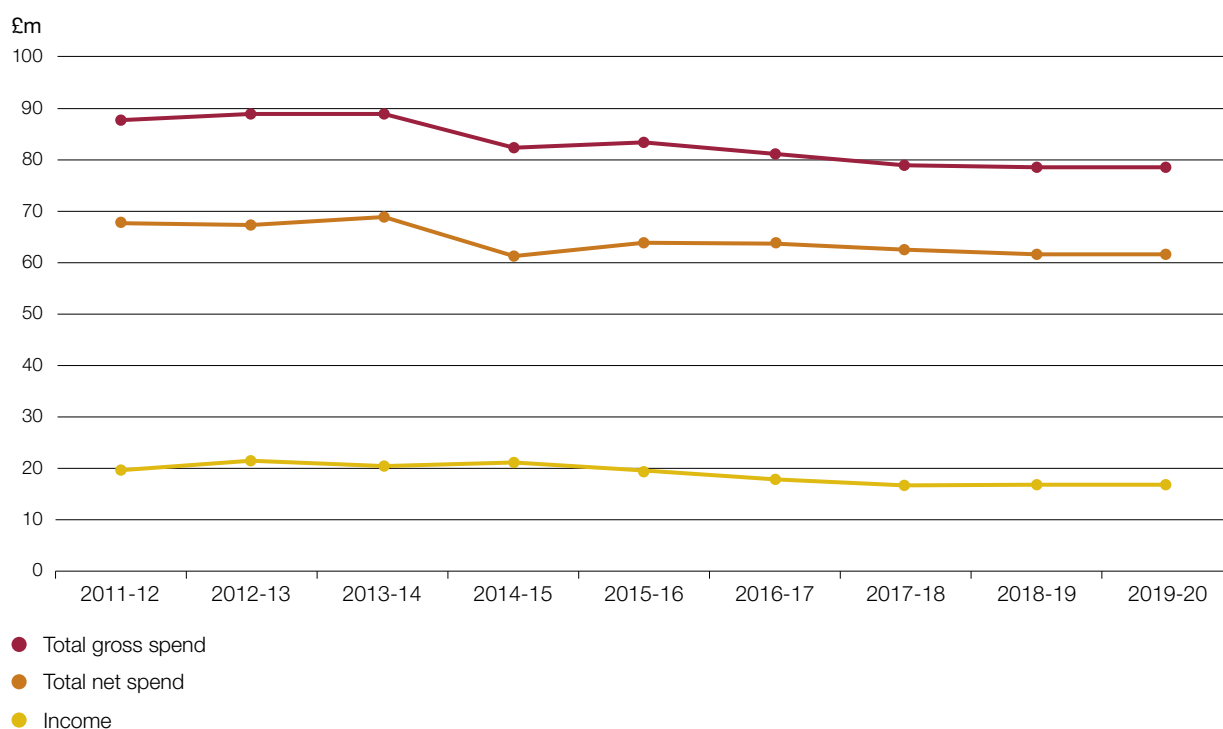
We recover around one third of our audit costs through fees charged to clients. From 2016-17, international income will reduce significantly as our term on the UN Board of Auditors ends and our work winds down (see page 46).

Looking to the future, our clients are increasingly adopting digital solutions to generate efficiency savings. We see this through shared service centres, outsourcing of IT services and the provision of front-line services through a digital medium. To address the continuing digitisation of government, we:

- are investing in our IT audit practice to ensure our people are digitally skilled;
- have appointed a new Director of Information Assurance, who commenced in January 2016;
- have revisited our methodology to ensure that risks relating to technology are fully identified, assessed and appropriately responded to; and
- are extending pilots on data analytics, to identify opportunities for further investment and development of our mainstream audit approach.

Actual and planned resources from 2011-12 to 2019-20

This figure shows the NAO's actual expenditures and income (including spend on its six operating segments) from 2011-12 to 2015-16 and its plans for 2016-17 to 2019-20. These figures exclude non-voted expenditure items which are paid directly by Parliament and are outside of the control of the NAO.



	2011-12 Actual £m	2012-13 Actual £m	2013-14 Actual £m	2014-15 Actual £m	2015-16 Actual £m	2016-17 Plan £m	2017-18 Plan £m	2018-19 Plan £m	2019-20 Plan £m
Audit and Assurance	51.2	49.3	46.8	49.2	49.6	46.2	45.1	44.9	44.9
Value for money	19.6	17.4	17.5	16.6	16.9	17.3	17.0	16.7	16.7
Investigation and insight	7.7	15.0	13.0	9.5	10.3	11.3	10.9	10.7	10.7
Support for Parliament	9.0	7.1	5.0	5.3	4.9	5.4	5.4	5.4	5.4
International relations	–	–	2.1	1.8	1.4	1.0	0.5	0.4	0.4
Comptroller function	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Restructuring the NAO	–	–	4.2	–	–	–	–	–	–
Total gross spend	87.7	89.0	88.8	82.7	83.2	81.4	79.1	78.3	78.3
Income	(19.9)	(21.5)	(20.3)	(21.4)	(19.3)	(18.0)	(16.8)	(16.8)	(16.8)
Total net spend	67.8	67.5	68.5	61.3	64.0	63.4	62.3	61.5	61.5
Capital expenditure	1.2	1.1	1.5	1.2	1.1	1.5	1.0	1.0	1.0

Note

1 Some of the columns may not add up due to rounding.



Value for money: In 2015-16, we completed 50 value-for-money studies, 39 of which support the Committee of Public Accounts' evidence sessions. We have produced a varied range of outputs in terms of scope in response to the Committee's requirements. We produced 14 studies that draw on comparisons across the public sector, to ensure that we use our unique perspective to make sure lessons from previous experiences are widely learned. We have continued to produce work on areas of parliamentary priority, such as tax avoidance and the efficacy of tax reliefs.

Since the Local Audit and Accountability Act 2014 gave the C&AG responsibility for the preparation and maintenance of the Code of Audit Practice and supporting guidance for auditors of local public bodies, we have published the first code in April 2015, which applies for 2015-16 audits and beyond. We have also served as a source of advice to local bodies on an ad hoc basis.

Although the work we do on local government has been an integral part of our business since 2014-15, we have used these relatively new powers to add value by providing an end-to-end system-wide view of the implementation of national policy through to local delivery. Examples of this include our 2015-16 reports *Care Act first-phase reforms*,³ *Financial sustainability of fire and rescue services*⁴ and *Local welfare provision*.⁵ We ensure that we undertake value-for-money reports focused on local issues each year.



Investigations: In 2015-16, we undertook 43 investigations, publishing 16 of these; six Committee of Public Accounts' evidence sessions were supported by our investigations work. Our investigations work allows us to respond to indications of fraud, malpractice or systemic weakness. During 2015-16, we were able to use our investigations to scrutinise the use of taxpayers' funds on several high-profile issues, including our work on the issue of grants to the then high-profile charity Keeping Kids Company, and our work on financial support for students at alternative higher education providers.



Correspondence: During 2015-16, we provided 166 responses to correspondence from MPs, 464 to correspondence from the public, and we responded to 78 enquiries under the Freedom of Information Act. We respond to all correspondence; it is an important means for MPs and the public to highlight matters for the NAO's attention that they wish to see addressed. Correspondence can give rise to in-depth investigations and may be used to inform our work programme should it bring systemic issues to our attention that warrant further work, such as a value-for-money study or full investigation.

3 Comptroller and Auditor General, Department of Health, *Care Act first-phase reforms*, Session 2015-16, HC 82, National Audit Office, June 2015.

4 Comptroller and Auditor General, Department for Communities and Local Government, *Financial sustainability of fire and rescue services*, Session 2015-16, HC 491, National Audit Office, November 2015.

5 Comptroller and Auditor General, Local Government, *Local Welfare Provision*, National Audit Office, January 2016.

Support for Parliament: Our reports contribute to the scrutiny of government by parliamentary select committees, particularly the Committee of Public Accounts. In 2015-16, we supported 47 evidence sessions of the Committee of Public Accounts, and 17 departmental select committees through our short guides, which provided an accessible outline of each department for the relevant select committee. We also worked with select committees to provide a range of written outputs, both formal and informal. We seconded 11 NAO people to work in Parliament, including to the Treasury Committee, the Public Administration and Constitutional Affairs Committee, the Environmental Audit Committee, the Defence Committee, the International Development Committee, the Health Committee, the Work and Pensions Committee and the Commons Science and Technology Committee.



We provided ad hoc briefings to members of both Houses, including briefings to the Education Committee, the Business Committee, Innovation and Skills Committee and the Lords Economic Affairs Committee on the planned high-speed rail infrastructure project, High Speed 2. In 2016-17, we expect to continue making secondees available to departmental select committees.

Environmental Audit Committee

Since the General Election, we have produced a briefing for the Committee on the environmental and sustainability metrics used by government, and have agreed to audit the 2015 Spending Review for environmental impact. In November 2015, the C&AG spoke at a conference held by the Committee as part of its inquiry into the government's approach to sustainable development. The NAO also has a member of staff on secondment to the Committee.

Health Committee

At the Committee's request, we are supporting its inquiry on the impact of the Comprehensive Spending Review on health and social care. We have provided an experienced NAO member of staff on part-time secondment for the duration of the inquiry, and presented the findings of our December 2015 report on sustainability and financial performance of acute hospital trusts. We have hosted a Committee specialist on short-term placement, allowing them to gain insight into our value-for-money and financial audit work.



International: As one of the world's leading audit institutions, the NAO seeks to play its part in promoting strong governance, openness and transparency as crucial elements in helping states to function well and provide for their citizens.

We are the external auditor of several international organisations and provide technical and managerial advice to a wide range of supreme audit institutions and public accounts committees. This includes contributing to the development of international standards in public sector audit and accountancy.

The C&AG continued his membership of the United Nations (UN) Board of Auditors as part of his term of six years, which ended in June 2016. The Board of Auditors' goal is to audit the accounts of the United Nations organisation and its funds and programmes, as well as providing reports covering managerial and value-for-money issues. It reports its findings and recommendations to the UN General Assembly through the Advisory Committee on Administrative and Budgetary Questions.

We audit many UN entities, including the UN Secretariat, the UN High Commissioner for Refugees and six UN Peacekeeping operations around the world. We also report on progress made implementing UN reforms and business transformation projects.

We work with the International Organisation of Supreme Audit Institutions and the European Organisation of Supreme Audit Institutions to promote high standards of public audit worldwide. We help shape the future of audit institutions around the world and provide technical and managerial advice to a range of supreme audit institutions and legislatures.

The NAO takes its responsibility to share best practices seriously. Some of the key publications we contributed to this year included:

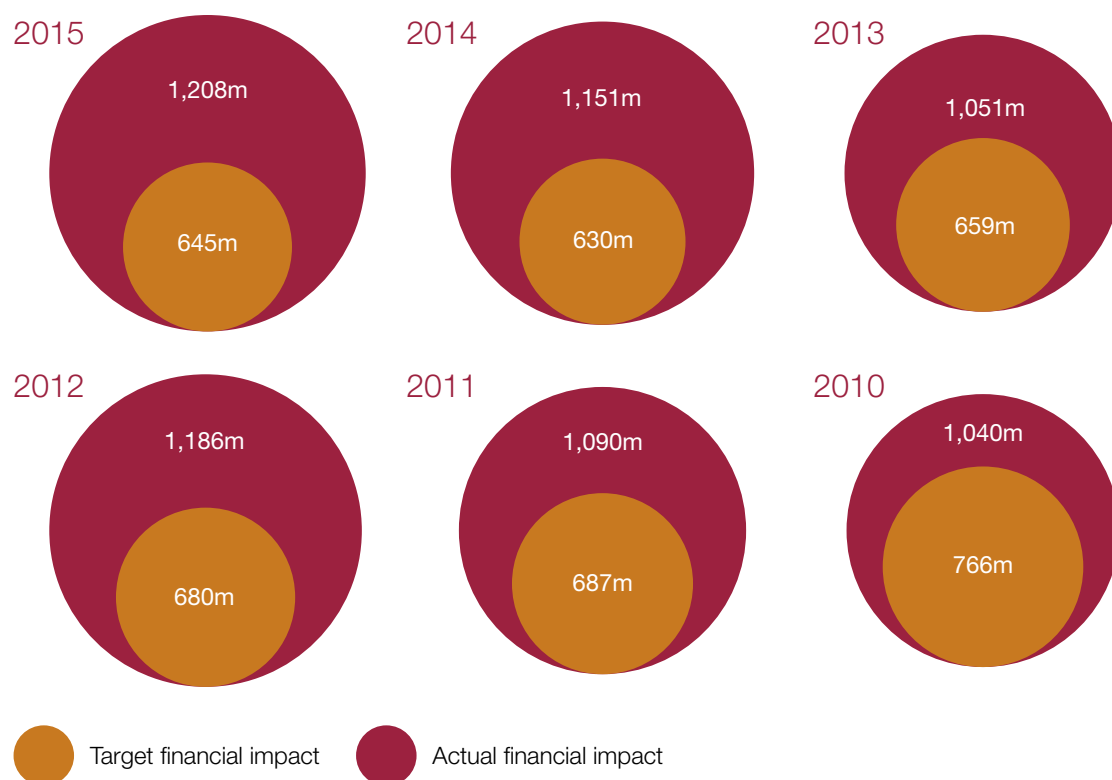
- *Making SAIs Count* – guidance for the Department for International Development's staff on how to support audit offices in developing countries.
- *Managing Information Communications Technology* – guidance for Supreme Audit Institutions wanting to establish modern IT services.
- *Making SAI independence a reality* – a guide for Commonwealth audit institutions on how to achieve greater independence.

Our financial impact

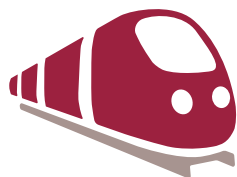
Our work saves the public money. We assess our financial impact, identifying savings achieved as a direct result of our work. The NAO's target for 2015 was £645m (10 times the forecast net outturn of £64.5m for 2015-16). The actual audited savings achieved for the calendar year 2015 totalled £1,208 million.

This is significantly in excess of the target (1.9 times the required level) and represents a saving of £19 for every pound spent, and is the highest level of financial impact achieved to date (see below). Since 2010, the NAO's total cumulative financial impact is £6,726 million with a yearly average of £1,121 million representing a £17 saving for every pound spent.

Our financial impacts since 2010



The orange circles show the financial target, being 10 times our forecast net expenditure for the year, and the red circles show the actual financial impact achieved. Since 2010, we have significantly exceeded our target in every year.



Rail infrastructure

The Department agrees it still has more to do to make sure other transformational projects, such as High Speed 2, Crossrail and other major rail infrastructure projects are set up to make full use of the economic opportunities they create.

This level of impact has been achieved even though the NAO's net costs are being reduced. Overall, the level of impact remains consistently above target and has increased each year for the last two years. A complete list of the impacts over £5 million is given on pages 122 and 123.

Case studies of improvements in the public sector

Not all beneficial changes from our work can be quantified in financial terms. To understand the wider benefits of our work we use case studies to capture some of the improvements we bring about. We include here examples of the benefits our work brought about in 2015. We agreed the case studies included here with the bodies to which they relate.

Measuring the benefits of major rail infrastructure projects

Our 2012 report *The completion and sale of High Speed 1* recommended that the Department for Transport evaluate whether costs and benefits were delivered to expectations, particularly regarding regeneration benefits.

Impact: In 2015, the Department published its first evaluation, supplemented by additional work from specialist academics. The Department agrees it still has more to do to make sure other transformational projects, such as High Speed 2, Crossrail and other major rail infrastructure projects are set up to make full use of the economic opportunities they create. In response, it has publicly committed to improving its planning, delivery and monitoring of these opportunities.

Promoting better evaluation of government projects

One of the essentials of effective decision-making is after-the-event evaluation of policies, projects and programmes. Our report *Evaluation in Government* looked at how such evaluation was carried out in government departments and outlined both good and poor practice in terms of quality.

Impact: Based on our report, the Department for Business, Innovation & Skills (the Department) published their response and an Evaluation Strategy, which addressed all our recommendations and set out their continued commitment to improvement. Recently we have seen BIS use the highest standard of evidence to evaluate what works and why; a significant improvement compared with their previous approach.

Improved management of accommodation for asylum seekers

In response to correspondence, we investigated the operation of the Home Office's contracts for the provision of accommodation for asylum seekers (known as COMPASS). The Home Office agreed with our recommendations that it should improve contract delivery by working more closely with the private sector providers to help them improve performance in a number of areas. Changes made since the report include new joint accommodation inspections, training on activity monitoring, improved policies and processes for delivering maintenance services, investing in existing stock and replacing properties below quality standards.

Impact: The Minister for Immigration recently confirmed that, in using our recommendations, standards have improved, and service credits incurred by suppliers are now much lower (£158,000 compared to £5.6 million three years ago).

Early certification of the 2014-15 Ministry of Justice Resource Accounts

We certified the *Ministry of Justice Resource Accounts 2014-15* alongside its three largest agencies two weeks earlier than the previous year and two weeks earlier than any other department.

Impact: the financial information on the Ministry's activities was available sooner and shows what is possible to the rest of government. By supporting the Ministry and working collaboratively to streamline our approaches and bring more work forward, the earlier delivery meant that both the Ministry and NAO could free resources to focus on other priorities. We have worked in partnership with the Ministry's arm's-length bodies to move their audits to avoid audit work peaking at the same time. Overall, due to our streamlined approach and the Department's significant improvements in its financial accounts closure process, we have reduced audit costs for the Ministry and its biggest agencies by over 30% since 2010.



Accommodation for asylum seekers

Changes made since the report include new joint accommodation inspections, training on activity monitoring, improved policies and processes for delivering maintenance services, investing in existing stock and replacing properties below quality standards.



Care leavers

The NAO report has helped to inform the policy programme overseen by the Department for Education, which includes refreshing the cross-government care leaver strategy and launching a new What Works Centre to share emerging evidence of effective practice.

Helping to inform the care leavers' policy programme

The Department for Education has responded positively to our *Care Leavers' transition to adulthood* report, recognising that more needs to be done, including through local agencies, to drive improved outcomes for the 10,000 children who leave care every year.

Impact: the NAO report has helped to inform the policy programme overseen by the Department for Education, which includes refreshing the cross-government care leaver strategy and launching a new What Works Centre to share emerging evidence of effective practice. In addition, the Department has recently committed to a £200 million programme of innovation and intervention, with support for care leavers a particular focus. The Department is also collecting data on more care leavers, something the Minister for Children recognised as being partly because of our report, when giving evidence to the Education Select Committee.

Improving grant management in government

Our work on grants shines a light on an area that government had previously given less attention to than any other policy funding mechanism, despite grant funding being higher in value. Our July 2014 landscape report on government grant services, developed through close engagement with the Cabinet Office, highlighted that grant funding made up 41 per cent (£292 billion) of total government expenditure. Our October 2015 investigation into government funding of Keeping Kids Company identified that the charity received at least £46 million of public spending despite officials raising concerns about the charity's cash flow and financial sustainability.

Impact: This work supported two high-profile parliamentary inquiries. Working closely with the Cabinet Office's Grants Efficiency Programme, in November 2015 we launched a good-practice toolkit on competitive and demand-led grants aimed at supporting grants administrators and Senior Responsible Officers. Because of our work, the Cabinet Office and the Department for Education are carrying out fundamental reviews of how non-competitive grants are managed, with the intention of improving grant management across government.

Strengthening government's commercial capability

Through several reports in 2014 and 2015, we have said that there is a crisis of confidence in government contracting and that government will not get value for money from its contracts until it improves. We have encouraged government to improve both its commercial capability and transparency of how its contractors deliver public services.

Impact: Since 2014, government has put a number of improvement actions in place and our ongoing programme of work and continued engagement with government has helped to maintain pace and momentum. As part of this effort, the Cabinet Office has initiated a cross-government commercial capability programme. This includes reviews of departments' current capability with recommendations for improvement, a requirement for all departments to set out how they will transform their commercial and contract management capabilities, and a focus on recruiting skilled senior commercial staff. The Cabinet Office has also published a range of guidance for departments to follow, including transparency principles and commercial standards. There is now a general acceptance from government and contractors that greater transparency is vital in building the public's trust and confidence in contracted-out public services.



Disabled Students' Allowances

BIS took account of the issues we highlighted in its reform of the arrangements for awarding DSA in the light of technological and other changes.

Better oversight of Disabled Students' Allowances

Our investigation in 2015 into the award of Disabled Students' Allowances (DSA) helped promote reform in a sensitive area. Our report identified the need for better oversight of the DSA system.

Impact: The Department for Business, Innovation & Skills has now introduced more rigorous controls. More broadly, the Department took account of the issues we highlighted in its reform of the arrangements for awarding DSA in the light of technological and other changes. Following a review in 2015, the government announced that, under new arrangements, limited public funding would be better targeted at the disabled students most in need, with universities taking an increasing role in supporting all disabled students, and has introduced stronger controls on the awards process.



Health funding

Following our report, NHS England used the additional funding it received in the 2014 Autumn Statement to accelerate the action it had started to take, through its allocations for 2014-15 and 2015-16, to move local areas closer to their estimated fair share of funding.

Supporting Parliament's scrutiny of Official Development Assistance

We reported on the Department for International Development's management of the Official Development Assistance (ODA) target to spend 0.7% of the UK's gross national income on overseas aid. The report considered the challenges faced by the Department in managing this target in 2013, and how the target had led to changes in the Department's activities and spending.

Impact: Our report aided parliamentary scrutiny of the bill that put the ODA target into law and was referred to extensively during House of Lords' debates, demonstrating Parliament's confidence in our work. Our work also underpinned our formal evidence to the International Development Committee on the Department's allocation of resources, helping us to inform the new Committee's understanding of aid expenditure.

Improving the fairness of health funding

In September 2014, we highlighted how health funding had historically not been fairly allocated to meet the needs of local areas. Each year NHS England allocates funding to local commissioners who commission healthcare on behalf of their local populations; it uses 'funding formulae' to apportion the total funds available. Our report found that in 2014-15 nearly 40 per cent of clinical commissioning groups received funding which was more than 5% above or below their estimated fair share. For example, Hounslow received 12% less, missing out on £129 of funding per person.

Impact: Following our report, NHS England used the additional funding it received in the 2014 Autumn Statement to accelerate the action it had started to take, through its allocations for 2014-15 and 2015-16, to move local areas closer to their estimated fair share of funding. Its allocations for 2016-17 ensure that no clinical commissioning group will be more than 5% below its funding target. It also improved how it reflected health inequalities in allocating funding to local areas.

Supporting the implementation of the Care Act

Our 2015 report into the Care Act 2014 found that local authorities needed more time to implement the reforms required. We recommended the Department of Health should delay the second phase of the reforms, estimated to cost up to £1.5 billion per year.

Impact: The Department listened and delayed implementation from 2016 to 2020, and has committed to use the additional time to ensure local authorities are ready. Pressing ahead in the face of rising demand for care and financial pressures on local authorities would have risked the sustainability of core services and created extra burden on individuals, their families and carers.

Promoting better oversight of local authority funding

Following our 2014 report into the financial sustainability of local authorities, the Department for Communities and Local Government improved how it oversees and manages local authority financing.

Impact: The Department has changed the definition of its main measure of local authority revenue income, which now excludes ring-fenced funding streams or those not fully under local authorities' control. It now monitors local authorities' financial health more systematically using a standard set of indicators. It also improved its Spending Review submission by collecting information from all departments with statutory responsibilities delivered by local authorities, and by modelling how policy options may affect different local authorities.

Working with the Department for Work & Pensions to reduce fraud and error

We worked with the Department for Work & Pensions to assess their approach to reducing fraud and error, using an analytical framework based on market-leading practices in the private sector. This highlighted: the importance of understanding the causes of fraud and error; designing controls and interventions that focus on the main risk areas; exploiting data; and establishing clearer governance arrangements.

Impact: The Department has since developed fraud and error strategies using these principles. It is: designing interventions around a deeper understanding of the risks; prioritising largest areas of loss; increasing efforts to prevent fraud and error from happening in the first place; and exploiting new data sources, including HMRC's real-time information on people's earnings.

Helping Ukraine to set up an audit institution

During 2015, we provided expert advice on establishing the Accounting Chamber of Ukraine (ACU) as a modern Supreme Audit Institution (SAI), including proposing amendments to the draft law that ensured the ACU has the appropriate roles, powers and independence. We shared knowledge with MPs, senior officials in the Ministry of Finance and the Administration of the President, and Civil Society organisations. We also gave evidence to the Budget Committee of the Ukraine Parliament on the importance of an independent ACU.

Impact: The new law, passed in summer 2015, included most of our proposed amendments. We continue to support the Accounting Chamber as it puts into practice its new roles and powers.



Fraud and error

We worked with the Department for Work & Pensions to assess their approach to reducing fraud and error, using an analytical framework based on market-leading practices in the private sector.

INCREASING OUR INFLUENCE

Response to recommendations arising from our work

Treasury Minutes show which of the Committee of Public Accounts' recommendations have been accepted by departments. For those reports the government responded to in 2015-16, the government accepted 187 (82%) of the 228 recommendations made by the Committee. The equivalent figures for 2014-15 show the Government accepted 348 out of 400 (87%) recommendations and in 2013-14, 240 of 280 (86%) recommendations were accepted.

Since April 2014, we have been tracking the acceptance of all NAO recommendations as part of our strategy to improve the way we measure our impact. Although these have substantial overlap with Committee of Public Accounts' recommendations; tracking all recommendations provides a broader measure of the impact we have.

From 1 April 2014 to 31 December 2015 we made 385 recommendations through our published reports, of which: 308 were accepted, 18 rejected and 59 were still in discussion with the departments. This equates to 94% of our recommendations either being implemented or in the process of being implemented for the period (from the recommendations where discussions had concluded).

Reputation of the NAO

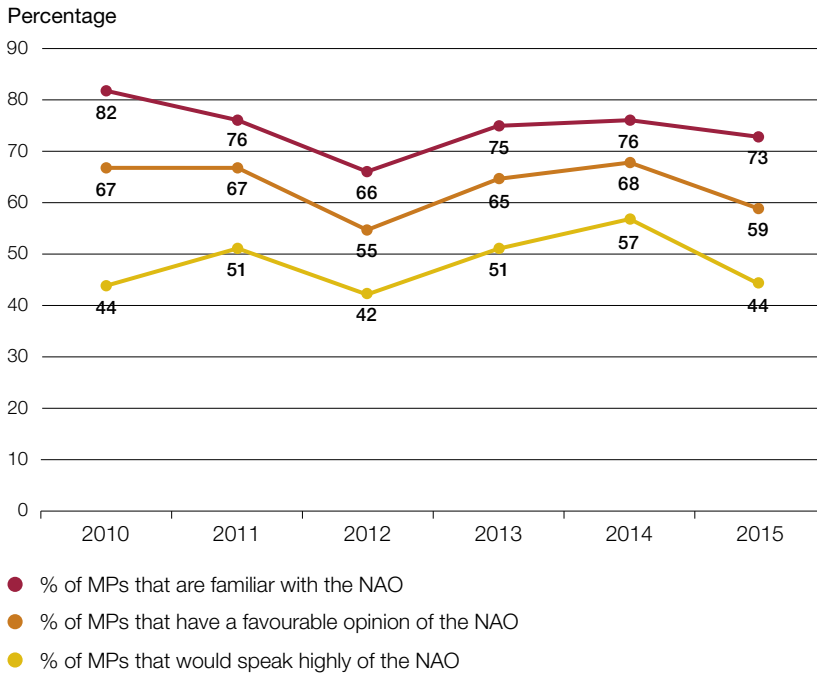
Members of Parliament

Since 2010, we have taken part in a study of the views of MPs to assure ourselves that our work continues to meet their needs and to identify areas for improvement. In 2015, we saw a negative movement in perceptions compared to 2014 (see page opposite). The new Parliament has a lower percentage of MPs saying they know at least a fair amount about the NAO and holding a favourable opinion towards us. This was to be expected as there were 178 MPs elected in 2015 for the first time who may not have been aware of the NAO.

The percentage of MPs who say they would speak highly of the NAO remains roughly the same. MPs who are aware of the NAO believe that we are above average for our core values of acting with authority, impartiality and independence, and with honesty and integrity. Although this marks a drop in perceptions from 2014, we received the third highest score of participating organisations.

Members of Parliament's perceptions of the NAO since 2010

Each year the NAO commissions a survey of MPs' opinions of the NAO. This graph summarises the percentage of MPs that gave a favourable response in the surveys conducted since 2010.



Source: Ipsos MORI. Base: All MPs (97), Conservative MPs (39), Labour MPs (41), Scottish National Party (13), Other (4), Summer 2015

Around one in four MPs' offices, including those of Cabinet and Shadow Cabinet Ministers, now request to receive copies of our reports. Since April 2012, we have monitored all references that Parliamentarians make to the NAO and Committee of Public Accounts in Parliament. The NAO received an average of four references in Parliament per sitting day in 2015-16, compared with six per day in 2014-15.

Our ideal position is, by 2017, to be a more clearly acknowledged source of authoritative information and advice within Parliament to help hold government to account more effectively. The focus of our wider engagement has been with select committees, individual MPs, and staff both within the NAO and at Westminster.

KEY FACTS

83%

of audited bodies agree
the NAO's work is of
high quality

Audited bodies

We annually commission independent qualitative interviews with senior civil servants and Chairs of audit committees. Year-on-year, there have been significant improvements and no significant decreases in 2015 compared to 2014 (see below).

Overall, the bodies we audit remain very satisfied with the NAO, as 98% of respondents agreed that their overall relationship with the NAO was good. Respondents have a very high regard for our financial audit work with 83% agreeing it is of high quality, and 98% saying that they would actively seek NAO feedback on accounting and financial control issues (up from 78% and 86% respectively in 2014).

However, the 2015 survey also highlights areas for improvement. Of those respondents directly involved in value-for-money studies, only 48% agreed value-for-money work is focused on driving improvements (where 17% disagreed) and only 28% felt that it is of high quality (where 13% disagreed). Although respondents' awareness of our good practice guidance and investigation work was significantly higher in 2015 compared with 2014, they would like the NAO to be more proactive in sharing relevant resources with them. We also conduct a survey of our audited bodies at the working level after each report is published (whereas the qualitative interviews focus on senior management). In 2015-16, 85% of these respondents thought the technical quality of our work was good, and 89% that the report was relevant to their work.

Survey scores of audited bodies

The survey was focused on seeking the views of senior stakeholders from public sector organisations that are audited by the NAO. The values represent the average scores for the survey questions, grouped by eight themes. All questions were based on 1–5 scale with 5 being the most positive response.

Categories	2015	2014
Overall relationship	4.3	4.4
Financial audit work	4.2	4.1
Value for money	3.2	3.3
NAO's wider work	4.0	3.4
Independence and fairness	4.3	4.0
Communication	3.9	3.9
Expertise and support	4.0	3.7
Helping clients improve	3.7	3.4

Senior managers in the public sector

In 2015, we commissioned a survey of senior managers in the public sector in central government, local government, education, the health sector and the police, with the aim of understanding their perceptions of the NAO. We were particularly interested in the level of awareness of the NAO and our work in the local government sector. The key findings were:

- Across all sectors, those familiar with the NAO appeared to understand our role as ensuring that government money is well used.
- A total of 94% of senior local government managers had some awareness of the NAO – a strong result given we are new to this sector.
- Only 6% of senior local government managers felt they knew the NAO very well, and only 40% felt they knew the NAO a fair amount. In comparison, 30% of central government leaders felt they knew the NAO very well.
- Our email newsletter (launched summer 2014) and alerts (NAOdirect) are achieving good reach in the local government sector, with 76% of respondents saying they had received one or both from the NAO.

KEY FACTS

98%

of audited bodies say they would actively seek NAO feedback on accounting and financial control issues

A total of 94% of senior local government managers had some awareness of the NAO – a strong result given we are new to this sector.

DELIVERING HIGH PERFORMANCE

Working efficiently

Since 2010-11, we have reduced the cost of our work by 20% in real terms (inflation adjusted), even while carrying out greater value-for-money and other assurance work in the local government sector and taking on specific functions from the Audit Commission relating to the Code of Audit Practice. Excluding these new responsibilities, our baseline spend has fallen by around 26 per cent in real terms over this period. This includes in-year for 2015-16 savings of around 1 per cent in our net resource requirement against our approved budget of £64.5 million.

Working efficiently

Resources	2015-16	2015-16	Saving	
	Estimate £m	Outturn £m	£m	%
Audit and other assurance services	84.8	83.2	1.6	2
Income	(20.3)	(19.3)	(1.0)	5
Net resource requirement	64.5	63.9	0.6	1
Capital expenditure	2.0	1.1	0.9	45
Net cash requirement	64.8	63.1	1.7	3

Note

1 These figures exclude non-voted expenditure items, such as the C&AG and Chairman's salary which are paid directly by Parliament and are outside of the control of the NAO.

Audit and Assurance work

The costs of the NAO's audit and assurance work, which includes its financial audits, value-for-money studies, investigations, overseas work and direct support for Parliament, was less than budgeted by £1.6 million (2%).

One of the main causes of the variance was the cost of our people. Against a planned complement of 825 people for the year, we employed an average of 810. Our ability to hold onto our staff post-qualification reduced, as market conditions for skilled accountants continued to be strong and our staff found packages that are more competitive in the private sector. We prioritised our statutory financial audit work, while being more selective and efficient in our discretionary investigations and value-for-money studies. Our travel costs were also lower than budgeted. Continued improvement in the use of IT to facilitate communications and a tight travel policy is delivering efficiencies in this area. These savings in both our resourcing and our travel are sustainable and we have consolidated these efficiencies in our future budgets.

Income

Our income was less than budgeted by £1.0 million (5%). We earned less from our financial audit work, as we firmed up on our detailed plans for our new 2016-17 audit of Network Rail, and set audit fees accordingly. We also had a smaller outwards secondment programme, for which we recover the costs of our staff, as we have used people to meet internal shortfalls instead.

Capital expenditure

Our capital spend was less than budgeted by £0.9 million (45%). Our budget for the year included resources to install a new enterprise resource planning system to replace multiple legacy systems. However, we deferred this project until 2016-17 as we carried out our due diligence and decided an alternative IT solution better met our needs, and revised our implementation timetable accordingly. Therefore, we did not draw down the money we did not need.

We have now entered into a contract with a supplier to provide us access to use cloud-based modules covering accounting, human resources and project management, which are highly configurable and can be adapted to suit the NAO's processes. Under this contract, we buy a service and have no legal title to the software we are using and no title to any of the servers on which this information is stored. We pay an annual licence fee, and we will expense these costs as the service is used. This is a break from tradition, whereby IT hardware, software and systems were a capital expense. Consequently, we have reduced our future capital budgets.

Resources for 2016-17

Parliament has approved net resources of £63.4 million for 2016-17, a £1.1m (2%) decrease in our budget for 2015-16.

Future reductions will not be easy. Our plan for the years ahead needs to account for the following:

- We are losing the majority of our international work. Our income will drop by £3.5 million over the next few years as our position on the UN Board of Auditors and other assignments end.
- We need to retain flexibility around pay and our ability to retain skills. Our people are professionally qualified and highly marketable.

We are confident we can achieve our proposed savings, but we will protect our investment in our front-line teams to make sure we do not compromise on the quality and range of work we do for Parliament. Our efficiency programme focuses on our back office, which we plan to reduce significantly in size, with our new IT solution bringing better systems and planning tools to simplify processes and replace people.

We will also consolidate the savings we have achieved this year in our future planning. We adjusted our complement of people to 785 in 2016-17 and travel budgets across the organisation will be lower as we continue to challenge staff to make better use of technology for meetings.

Our plans for 2016-17, and subsequent years, do not include any provision for extra responsibilities. Should Parliament ask us to take on substantial new work, then we will need to ask for additional resources to do it.

Getting the best from our people

We recognise that our people are our most valuable and important asset. We want to attract and retain high-quality staff, and create an empowering work environment with interesting development opportunities, so they can achieve their potential.

Attracting and retaining high-quality people

Our key talent pipeline remains our graduate and school-leaver programmes, with 68 people recruited to our graduate scheme and eight to our school-leaver scheme in 2015. In addition, we recruited 19 analysts and five senior analysts directly into our business.

Our graduate pass rates are consistently above the national average. Last year, 94% of our trainees passed the professional stage examinations at the first attempt (compared to 85% nationally) and 97% passed the Advanced Stage examinations at the first attempt (compared to 84% nationally).






In response to increased levels of resignations following the strong recovery in the financial services markets in 2014, we introduced a series of measures to promote retention. These included a more competitive pay award from April 2015, the introduction of recognition payments for audit principals and senior analysts, and greater focus on selling longer-term career opportunities with the NAO to our newly qualified cadre. These actions have contributed to an improvement in our retention for 2015-16, with resignations now settling to more sustainable levels. However, with continued optimism among London-based employers about employment prospects in 2016 and beyond, we may face continued competition for accountancy skills in the wider market. This, coupled with continued pay austerity across the wider public sector, means we will need to continue to focus on promoting retention, particularly at newly qualified levels.

Supporting our people

We conduct an annual survey of our people and benchmark the results against public and private sector norms. In 2015, 71% of staff completed the annual People Survey, a slight decrease from the 2014 figure of 74%.

NAO People Survey results for the last two years

Each year the NAO conducts a People Survey to understand staff opinions on a range of work-related issues. This table presents a top-level summary against the categories used. The percentages show the level of positive responses. Red indicates the score fell in 2015, green that the score improved, and grey that there was no change.

Categories	2015 people survey results (%)	2014 people survey results (%)
Satisfaction with work	 69	69
Sense of job security	 68	62
Culture of inclusion and fair treatment	 64	59
Understand organisational objectives	 57	52
Employee engagement	 57	53
Learning and development	 57	56
Resources and workload are managed well	 52	49
Pay and benefits are fair	 48	39
Communication and collaboration	 46	46
Confidence in leadership	 46	47
Confidence that change and transformation are managed well	 30	36

Our 2015 survey shows continued improvement in a number of areas, with our people having particularly positive views on: having interesting and challenging work, feeling secure in their jobs, inclusion and fair treatment and supportive line management. The only significant decrease is in staff perception of whether change and transformation is managed well.

Highlights



85%

of people are interested in their work



90%

of people have a clear understanding of the NAO's purpose



82%

of people feel their manager is open to their ideas

We recognise that we have further improvements to make in how we live our values, ensuring workloads are manageable and distributed, and the way we manage change. On bullying and harassment our survey scores are comparable to civil service benchmarks, but the NAO has a zero tolerance towards this and has undertaken a number of initiatives to date to ensure we practise respect and dignity at work.

There was a significant improvement in our overall employee engagement score, which includes how motivated and inspired people feel in their job, and whether they are proud of and would recommend working at the NAO, rising to 57% from 48% in 2013.

We are delivering a series of actions to promote continued improvement in our People Survey results. For example, we have developed a new performance management scheme through office-wide consultation, to ensure staff are motivated and supported. We are also improving the way we deliver change programmes, including setting up a dedicated change committee and holding interactive sessions for our people to contribute their views. Clusters, who are best placed to take forward actions at local level, are also developing approaches to enhance engagement and provide our people with a consistently positive career experience.

Diversity

For 2015-16, our Diversity and Inclusion action plan had a number of objectives, including focusing on improving the representation of Black African-Caribbean graduates and recruiting from a wider socio-economic pool through the Access Accountancy initiative. In 2015-16, we hosted eight interns from the Access Accountancy scheme who have been working with our line clusters. Of our new graduate hires, 49% attended non-selective or non fee-paying schools compared to 30% in the wider accountancy sector and 89% of the wider population. In 2015-16 8.7% of joiners to our graduate scheme were Black African-Caribbean graduates compared to 2.9% in the previous year.

We are committed to increasing the percentage of women and ethnic minorities in senior positions. We have recently redesigned our talent management programmes for those showing the highest potential to move into senior roles and, as part of the redesign, we sought to increase the diversity of participants on the programmes. There has been an increase in challenge during selection and a conscious reflection on diversity in the shortlist. Of the 15 people selected for our new Emerging Leaders programme, two-thirds were women and 50% of Black, Asian, and minority ethnic applicants were accepted onto the programme.

Against our other metrics, we have worked to establish a flexible working culture with 48% of our people having a regular flexible working arrangement and 73% working flexibly on an informal, ad hoc basis at least once a month, as at the end of 2015-16. We are also demonstrating year-on-year improvement in People Survey responses to questions related to inclusivity, with 90% of people attending an inclusion workshop during 2015-16 and, following these workshops, 79% of attendees stated that they had a highly or very clear understanding of what behaviours support an inclusive culture.

KEY FACTS

Diversity

45%

of our people are women



OUR ENVIRONMENTAL IMPACT

Our direct impact

As an office-based organisation, our main direct environmental impacts arise from the greenhouse gas emissions associated with business travel and energy use, and the water use, paper consumption and waste generated in our buildings. We have achieved all but two of our environmental targets; related data is on pages 53 to 55. Owing to the increase of building users from subletting, our performance regarding waste generated is behind target. We assess the environmental impact of our activities and use an environmental management system to provide a framework for setting and reviewing environmental targets to support continuous improvement.

Our London headquarters building, representing the majority of our estate, holds a Building Research Establishment Environmental Assessment Method (BREEAM) 'Excellent' rating and an Energy Performance Certificate (EPC) rating of C for providing a number of energy-saving initiatives. The latter includes a passive chilled beam system for office cooling, high-efficiency gas-fired condensing boilers, extensive metering and an intelligent lighting control system.

Recent work on the sustainability of our operations has included:

- A waste campaign aimed at making recycling easier, engaging staff to consider the waste they generate and a number of initiatives to reduce waste generation in the first place.
- A full energy survey to assess areas for improving our efficiency and reducing CO₂ emissions (CO₂e).
- Continued ISO 14001:2004 certification for our environmental management system.

Holding government to account on its environmental performance

Our most important potential environmental impact arises from the role we play in holding government to account on performance against its environmental objectives. The main way we do this is through our support to the Environmental Audit Committee, a parliamentary Select Committee, which has a crosscutting remit on sustainable development and environmental protection. We can also play this role through the Committee of Public Accounts, when they consider government's performance against environmental objectives.

As with all areas of our work, we seek to drive significant improvements in the bodies we audit. We can secure most impact from our work for the Environmental Audit Committee by making the most of the links to our insight on wider strategic issues for government. Our briefing on Environmental and Sustainability Metrics⁶ for the Environmental Audit Committee set out good practice principles for any performance management framework, and used these to review the metrics government uses to assess and report on sustainable development and environmental protection. In presenting at the Environmental Audit Committee's conference on sustainable development in October 2015, the C&AG drew on his experience across a range of assurance work to share his perspective on key concerns for government's approach to environmental and sustainability issues.

Over this Parliament, our ambition is to influence government to improve ownership and accountability for strategic environmental risks and challenges. We want to strengthen our already positive relationship with the Environmental Audit Committee so that we are a more clearly acknowledged source of authoritative advice and information to hold government to account effectively. Our next briefing for the Committee covers sustainability in the 2015 Spending Review.

6 www.nao.org.uk/report/environmental-and-sustainability-metrics-briefing/

Improving our environmental sustainability

The NAO manages its business in an environmentally responsible manner with a continued focus on sustainability. This involves careful control over the use of resources and consumables, and minimisation of waste.

Impact

In 2015-16, we:

- Reduced paper consumption by 40% since 2009-10.
- Reduced water usage by 9% since 2010-11.
- Reduced our use of electricity by 6.3% since 2010-11.
- Reduced the number of domestic flights by 29% since 2009-10.

These reductions have helped us find savings in the annual cost of office supplies and equipment, which has fallen from £3.4 million to £3.2 million per year since 2009-10.

It should be noted that the CO₂e figures for greenhouse gas for scopes 1 and 2 have been re-baselined as requested by HM Treasury. If these changes had not occurred, we would have hit our 20% reduction target.

Biodiversity

Our London headquarters had a landscaped area installed in 2010 to improve the biodiversity on site. The area has been planted with native species, which require minimal irrigation and attract a wide range of wildlife. A Biodiversity Action Plan is used to proactively manage the area and ensure it is well maintained.

Sustainable procurement

We seek to reduce waste in all its forms through our procurement practices. This includes assessing our contractors' environmental credentials, ensuring goods supplied come from sustainable sources and that unnecessary packaging is kept to a minimum.

We use Crown Commercial Service frameworks where a suitable framework exists for the procurement of goods and services.

Further information about our environmental and sustainability policy, including roles and responsibilities and the NAO's full *Sustainability Report for 2015-16* (which includes all relevant sections as specified by HM Treasury's *Sustainability Reporting in the Public Sector*), is on our website.⁷

⁷ www.nao.org.uk/about-us/our-work/governance-of-the-nao/environmental-system-policy-and-statement/

Sustainability data

Plant and equipment

Target	Progress
20% reduction to CO ₂ e by 2015-16 (vs 2010-11)	10% achieved

Business travel

Target	Progress
20% reduction to domestic flights by 2015-16 (vs 2009-10)	29% achieved

Waste generation and paper consumption

Target	Progress
25% reduction of generated waste by 2015-16 per FTE (vs 2011-12)	16% achieved
20% reduction of paper by 2015-16 (vs 2009-10)	40% achieved

Water usage per FTE

Target	Progress
Ratio of 4m ³ to 6m ³ per FTE by 2015-16	5.5m ³ achieved

We seek to reduce waste in all its forms through our procurement practices. This includes assessing our contractors' environmental credentials, ensuring goods supplied come from sustainable sources and that unnecessary packaging is kept to a minimum.

Greenhouse gas emissions

		2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Non-financial indicators (CO ₂ e in tonnes)	Total gross emissions for scopes 1 and 2	1,686	1,516	1,408	1,357	1,585	1,513
	Total net emissions for scope 1 (emissions from plant)	0.4	0.4	0.4	0.4	0.4	1.1
	Total net emissions for scope 2 (from purchased energy)	1,686	1,516	1,408	1,357	1,584	1,512
	Gross emissions scope 3 – business travel	726	663	589	597	496	422
Related energy consumption (kWh)	Electricity: non-renewable	3,011,414	2,924,112	2,679,575	2,629,114	2,779,913	186,642
	Electricity: renewable	314,160	305,748	273,545	273,886	289,732	2,928,051
	Gas	388,832	297,899	314,210	346,976	348,004	393,733
Financial indicators (£000)	Expenditure on energy	387	418	407	555	524	589
	Expenditure on electricity	362	403	371	465	473	525
	Expenditure on gas ¹	25	15	36	90	51	64
	Expenditure on official business travel (excluding accommodation costs and subsistence)	930	797	781	897	748	690

Note

1 This does not include Newcastle office gas expenditure, as it is included in the service charge.

Data collection methodologies

These data are not weather-adjusted.

Our carbon footprint has been restated for all years in order to account for material changes to the conversion factors provided by the Department for Environment, Food & Rural Affairs for company reporting purposes.

London office data – scopes 1 and 2

Calculated using first-hand data retrieved from the Office's building management system.

The data do not include the scope 2 emissions produced by NAO tenants.

Tenants' electricity consumption is calculated based upon their metered supply.

Gas is metered at its point of entry into the building and so the tenants' consumption is estimated based on the floor space they occupy.

Newcastle office data – scope 2

The NAO's landlord in Newcastle can only provide data for scope 2 emissions.

As in London, electricity is metered on to the office floor but gas is calculated as a percentage of occupied space.

As these data are provided by a third party, the NAO audits accuracy by requesting copies of utility bills.

Scope 3

Scope 3 emissions from the NAO's business travel are calculated by the NAO's travel management company and a report is provided on a quarterly basis.

Waste

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Non-financial indicators (tonnes)						
Total waste	Not available	127.4	126.8	123.0	134.1	150.4
<hr/>						
Hazardous waste total		1.0	1.0	1.0	1.0	1.0
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Non-hazardous waste	Landfill	0	0	0	0	0
	Reused/recycled	109.4	120.8	115.1	129.1	147.9
	Incinerated/energy reused	17.0	5.0	6.9	4.0	1.5
<hr/>						
Financial indicators (£000)						
Total disposal cost	39.0	39.8	30.9	32.1	37.0	43.9
<hr/>						
Hazardous waste – total disposal cost	Not available	0.5	0.5	1.0	1.0	1.2
<hr/>						
Non-hazardous waste – total disposal cost	Landfill	0	0	0	0	0
	Reused/recycled	21.2	16.5	31.1	36	42.7
	Incinerated/energy reused	18.1	13.9	0	0	0

Data collection methodologies

London office waste data

The waste data above include waste generated by NAO tenants.

Waste disposal is outsourced to Mitie Waste and Environmental. Monthly reports detailing the weight of generated waste and a breakdown of waste by type are provided.

Newcastle office waste data

The landlord provides a general waste disposal service as part of the lease's service contract and does not provide data on general waste.

Disposal of all recycled waste is outsourced to Mitie Waste and Environmental. Monthly reports detailing the weight of generated waste and a breakdown by type are provided.

Water

		2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Finite resource consumption – water							
Non-financial indicators (m ³)							
Water consumption	Supplied	7,038	7,172	5,520	6,794	6,093	6,405
	Abstracted	0	0	0	0	0	0
Financial indicators (£000)							
Water supply costs ¹		17.6	15.4	16.7	16.9	15.8	16.5

Note

1 This does not include Newcastle office water expenditure as it is included in the service charge.

Data collection methodologies**London office water data**

Water consumption is calculated using data retrieved from the Office's building management system.

However, there are no separate meters for sub-let space, so water consumption includes tenant consumption and the calculation of the target ratio is based upon the number of building users (both NAO and tenant full-time equivalent).

Newcastle office water data

As in London, water is metered into the building but not on to the office floor. For this office, consumption is calculated as a percentage of occupied space.

As these data are provided by a third party, the NAO audits accuracy by requesting copies of utility bills.

Sir Amyas C E Morse KCB
Comptroller and Auditor General

21 June 2016

ACCOUNTABILITY REPORT

CORPORATE GOVERNANCE REPORT

Directors' report

The directors of the NAO comprise the senior managers and the non-executive board members, whose details are set out in the Governance Statement.

Register of interests

Senior managers and board members have to complete a declaration of interests. No significant company directorships or other interests were held which may have conflicted with their management responsibilities and no member of the board or senior manager had any other related party interests.

Pension liabilities

Most past and present employees of the NAO are covered by the provisions of the Principal Civil Service Pension Scheme, which is a defined benefit scheme.

Employees may opt to join a personal stakeholder pension scheme instead, providing the scheme meets the minimum criteria set by government.

Further information on pension liabilities is set out in the Remuneration Report, and notes 1.6 and 3 of the financial statements.

Auditor of the NAO

Crowe Clark Whitehill LLP was appointed as external auditor by the Public Accounts Commission. They carry out a value-for-money study of the NAO each year, provide assurance over the Statement of NAO's Financial Impact and advise on various matters as required. Full details of remuneration for both audit and non-audit work are disclosed on pages 78 to 89 of the Remuneration and staff report.

Disclosure of information to the auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the external auditors are unaware; and each director has taken all the steps required to make themselves aware of any relevant audit information, and to establish that the external auditors are aware of that information.

Other disclosures

Some disclosures required within the directors' report have been included elsewhere in the Annual Report. Personal data-related incidents are reported in the Governance Statement on page 76. Disclosures on employment and training and on how the NAO engages with all of its people are in the section titled 'Delivering high performance' beginning on page 44 of the Performance Report, and additional information is included in the Remuneration Report on page 78. There are no important events affecting the NAO which have occurred since the reporting date, and future developments affecting its business are disclosed in the Performance Report in the section entitled 'Working efficiently' beginning on page 44.

Sir Amyas C E Morse KCB
Comptroller and Auditor General

21 June 2016

STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

Under the Budget Responsibility and National Audit Act 2011, the NAO is required to prepare for each financial year resource accounts detailing the resources acquired, held, or disposed of during the year and the use of resources by the NAO during the year. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the NAO, and of its net resource outturn, resources applied to objectives, income and expenditure, changes in taxpayers' equity and cash flows for the financial year.

In preparing these resource accounts, the Accounting Officer has adopted the *Government Financial Reporting Manual* issued by HM Treasury, and in particular has:

- observed the relevant accounting and disclosure requirements, and applied suitable accounting policies on a consistent basis;
- made judgements and estimates on a reasonable basis;
- stated whether applicable accounting standards, as set out in the *Government Financial Reporting Manual*, have been followed and disclosed, and have explained any material departures in the accounts; and
- prepared the accounts on a going concern basis.

The Accounting Officer confirms that this annual report and accounts as a whole is fair, balanced and understandable. The Accounting Officer takes personal responsibility for the annual report and accounts and the judgements required for determining that it is fair, balanced and understandable.

The Public Accounts Commission has appointed the C&AG as Accounting Officer for the NAO. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the NAO's assets, are set out in the Accounting Officer's Memorandum issued by the Public Accounts Commission.

GOVERNANCE STATEMENT

As Accounting Officer, and working together with the National Audit Office Board, I have responsibility for maintaining effective governance and a sound system of internal control that supports the achievement of the NAO's policies, aims and objectives, while safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me by the Public Accounts Commission.

Budget Responsibility and National Audit Act 2011

The Budget Responsibility and National Audit Act 2011 (The Act) established the National Audit Office as a body corporate on 1 April 2012. Schedule 2, 24 (1) of The Act requires the NAO to prepare resource accounts. Details of The Act can be found at: www.legislation.gov.uk/ukpga/2011/4/pdfs/ukpga_20110004_en.pdf

NAO BOARD AND LEADERSHIP TEAM



We were very saddened this year by the death of Naaz Coker, who had served on the NAO Board since July 2012. Naaz was exceptionally talented, as reflected in her many achievements, which included Asian Woman of the Year in 2000 and 2003. In her time

on our Board, Naaz contributed much to the organisation and in particular provided valuable advice and advocacy to help the NAO drive forward its approach to diversity and inclusion. She was also the NAO's Senior Independent Director. Naaz is greatly missed by all those with whom she worked at the NAO.



Key to committee membership

- NAO board
- Audit Committee
- Remuneration and Nominations Committee
- Leadership team
- Operational Capability Committee
- Audit Practice and Quality Committee
- Change Management and Assurance Committee



1 Lord (Michael) Bichard KCB

Chairman of the NAO Board

Lord Bichard has served at very senior levels in local government as Chief Executive at both Brent and Gloucestershire. He then moved into central government working as Chief Executive of the Benefits Agency and then as Permanent Secretary at the Department for Education and Employment. Since his retirement from the Civil Service in 2001, he has held a variety of posts including Vice Chancellor of the University of the Arts London, Chair of the Legal Services Commission, Chair of the Design Council and was the founder Director of the Institute for Government. In 2004 he chaired an inquiry into the Soham murders. He is currently Chair of the Social Care Institute for Excellence and Deputy Chair of Shakespeare's Globe. He received a knighthood in 1999 and became a cross-bench member of the House of Lords in 2010. He is now a Deputy Speaker of the House.

2 Sir Amyas Morse KCB

Comptroller and Auditor General and NAO Board member

Sir Amyas Morse was appointed C&AG on 1 June 2009, and is a member of the Institute of Chartered Accountants of Scotland. Amyas was Global Managing Partner (Operations) at PricewaterhouseCoopers before he joined the Ministry of Defence in 2006 as Commercial Director. He has served as a member of the Major Projects Review Group and the Public Sector Board of the Chartered Institute of Purchasing and Supply, and on a National Health Service Project Board.

3 Michael Whitehouse OBE

Chief Operating Officer and NAO Board member

Michael Whitehouse was appointed Chief Operating Officer in July 2009. Michael is a qualified accountant with extensive experience of value-for-money work across government and internationally. Michael has responsibility for the strategy, capability and operational performance of the NAO, and leads the NAO's work on cross-government issues. Michael is Chair of the Operational Capability Committee and the Change Management and Assurance Committee.

4 Sue Higgins

Executive Leader and Executive Board member

Sue Higgins joined the NAO in January 2014 as an Executive Leader. She is responsible for the NAO's work on local government, health and education. Sue joined the NAO from the Department for Communities and Local Government where she was Director General, Finance & Corporate Services. Prior to this, Sue held the same role in the Department for Education having moved from the local government sector in 2009. She is a qualified accountant. Sue served as an executive member of the NAO Board for 2015-16. Sue has made a significant contribution to the NAO through her work on transitioning Audit Commission people and functions and building our profile with local bodies. Sue also led the design of our new approach to performance assessment and development. Sue will be leaving the NAO at the end of June 2016 to take up the role of Auditor General of the Cayman Islands.

5 Dr Sally Howes OBE

Executive Leader and Executive Board member

Sally Howes joined the NAO in April 2010 as a Director and was appointed as an Executive Leader in April 2013. For over six years, Sally has used her experience of policy, strategy, software and systems development to guide the introduction of new approaches to learning, development and knowledge management and championed our communities of practice. Sally served as an executive member of the NAO Board for 2015-16 and has made an important contribution in ensuring that the NAO is recognised as a thought leader in the digital challenges which government faces. Sally has decided to leave the NAO in the summer to return to the technology sector.

6 Joanne Shaw

Non-executive member of the NAO Board and Chair of the Audit Committee

Joanne Shaw is an experienced non-executive director and board chair with a background in private, public and third sector organisations. She is a qualified accountant with expertise in strategic development and change management. More recently, she served as non-executive Chair of NHS Direct, and is currently on the board of the British Board of Film Classification and two healthcare organisations, Nuffield Health and Datapharm Communications Limited. She is the chair of our Audit Committee, a post she has held since joining the board in January 2015.



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7 Ray Shostak CBE

Non-executive member of the NAO Board and Chair of the Remuneration and Nominations Committee

Ray Shostak is an international adviser in education, government performance and public service reform. He has held a number of positions in local and central government including Head of the Prime Minister's Delivery Unit and was a member of the Board of HM Treasury from 2007 to 2011. Ray is currently Chair of Trustees of the Consortium of Voluntary Adoption Agencies, a Trustee of the Early Intervention Foundation and is an Honorary Norham Fellow at Oxford University. He has been chair of the Remuneration and Nominations Committee since January 2015.



8 Robert Sykes

Non-executive member of the NAO Board (from January 2015)

Robert Sykes has significant experience of working in local government, and served as Chief Executive of Worcestershire County Council for 10 years. He also has non-executive experience in the private and public sectors, most recently serving on the Boards of Core Assets and as non-executive member of the Board of the Crown Prosecution Service until 2012. In 2012, the Secretary of State for Communities and Local Government appointed him as Lead Commissioner at Doncaster MBC. He stepped down in the summer of 2014 when the intervention successfully ended.

Rob Sykes serves as the Senior Independent Director to the NAO.

9 Martin Sinclair

Executive Leader (to September 2015)

Martin Sinclair left the NAO in September 2015 having been an Executive Leader (Assistant Auditor General) since 1999. He was responsible for the audit of a broad portfolio of clients, including many major government departments. He is a member of the Council of the Chartered Institute of Public Finance and Accountancy (CIPFA) and is Chair of CIPFA's Remuneration Committee. Martin was Chair of the Audit Practice and Quality Committee.

10 Gabrielle Cohen

Executive Leader and Executive Board member (to April 2015)

Gabrielle Cohen left the NAO in April 2015 having been an Executive Leader (Assistant Auditor General) from 2005 to 2015. She trained as an accountant with the NAO and was appointed to the Board in July 2009. During 2014-15, Gabrielle was responsible for leading our stakeholder relations, governance, corporate policy and relations with Parliament.

11 Stephen Smith

Executive Leader (from August 2015)

Stephen Smith joined the National Audit Office in August 2015, as an Executive Leader. Prior to that, he had over 20 years experience as a Partner with KPMG where he led a number of initiatives for the firm nationally and internationally. His experience ranges across a broad spectrum, including audit, mergers and acquisitions, and business advice, as well as a secondment to HM Treasury Accounting Group. Stephen is jointly responsible for leadership of the financial audit workstream, a portfolio of public sector bodies and more generally the NAO's Corporate Finance related work.

12 John Thorpe

Executive Leader and NAO Board member

John Thorpe joined the NAO in 1983 as a trainee, becoming a Lead Director, and joining the Leadership Team in January 2014. He has experience directing a mixed portfolio of work, providing leadership to the financial audit work-stream, and achieving significant progress in key areas – such as the review of the HMRC's compliance and enforcement programme, and tax credits fraud and error. John stepped down from the Board at the end of March 2015, as part of a rotation of executive members. John is Chair of the Audit Practice and Quality Committee following Martin Sinclair's departure.



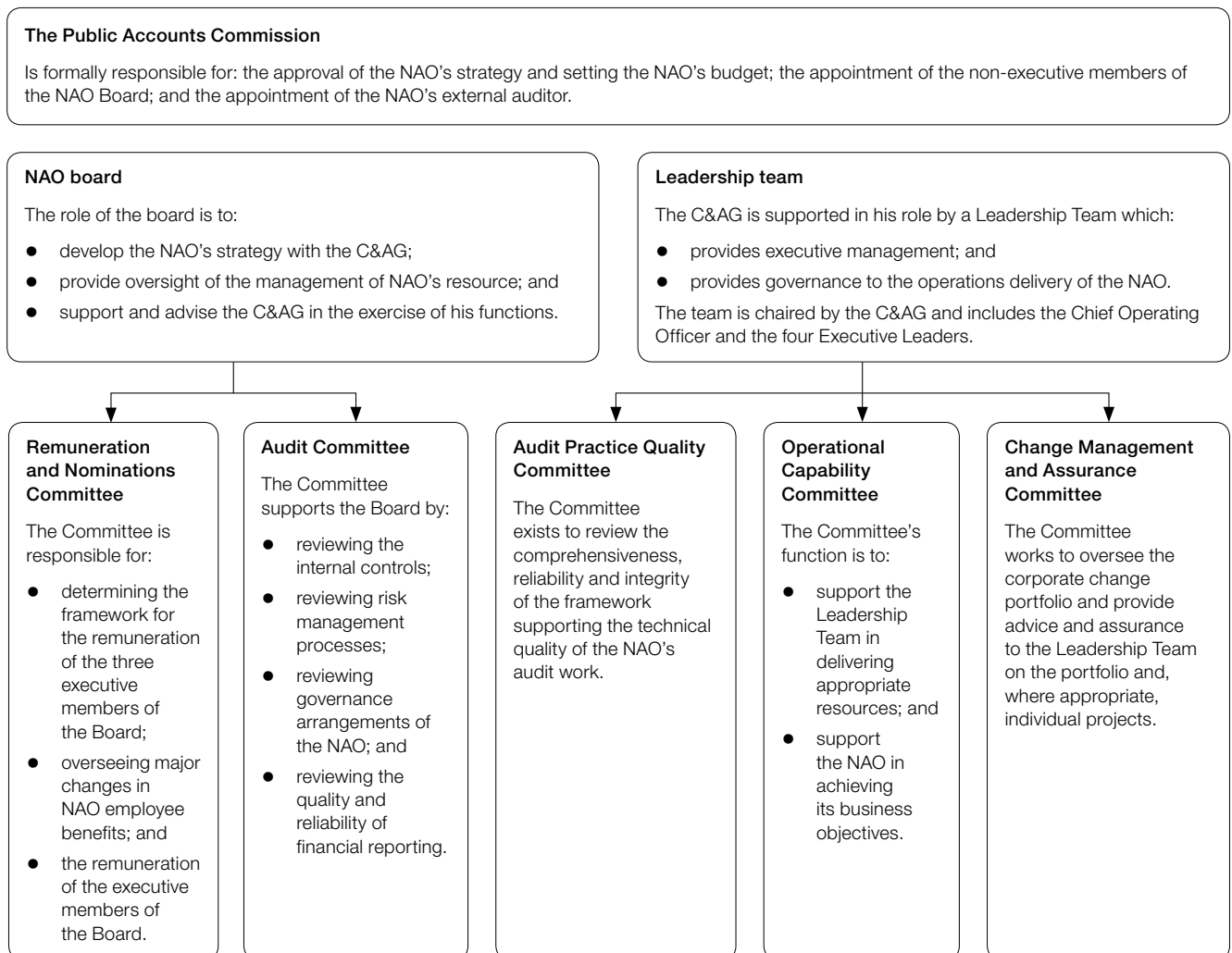
Structure of governance

The NAO's governance structures have been developed and implemented in accordance with the requirements of the Budget Responsibility and National Audit Act 2011, which sets out Parliament's wishes regarding the governance of the NAO. These structures reflect the need to demonstrate that we practise what we preach through the exercise of proportionate and independent oversight and controls of our own operations, while preserving my independence with respect to audit judgement.

In 2015-16, the Board additionally agreed to strengthen the NAO's governance further by seeking to appoint an independent financial expert as a member of the NAO Audit Committee. Following a competitive process, Martin Smith was appointed to the Audit Committee with effect from 1 November 2015. Details of this appointment, and the role of the Audit Committee can be found on page 70.

The Board is served by two committees as shown below.

National Audit Office governance structure



The Public Accounts Commission

The NAO is accountable to Parliament via the Public Accounts Commission. The role of the Public Accounts Commission is defined by both the National Audit Act 1983 and the Budget Responsibility and National Audit Act 2011. In addition to appointing the non-executive members of the Board, the Commission's principal duties are to examine the NAO estimate and lay it before the House of Commons, to consider the NAO's strategy and to appoint the external auditor of the NAO.

The Commission met twice during 2015-16. The first time, in December 2015, was to consider the NAO's forward strategy for the next three years and in March 2016, it met to approve our resource estimate for the 2015-16 financial year.

The NAO Board

The role of the NAO Board is to provide effective support and challenge in improving the NAO's operations, providing additional rigour and discipline in decision-making and bringing insight from the wider experience of the non-executive members to inform the strategic thinking of the NAO. It has specific responsibilities, jointly with me as C&AG, for the NAO strategy and resource estimate, and for the appointment of executive members of the Board.

The Board and I prepare a strategy for the NAO, an estimate of the NAO's resources for each financial year, and an annual report on the NAO's activities. The Board has a role to recommend the external auditor for appointment by the Public Accounts Commission.

The NAO Board has nine members, of which a majority (five) are non-executive, as defined in the Act. Since the passing of Naaz Coker in 2015, there have been eight members of the Board with four non-executives; we are in the process of seeking an additional non-executive Board member, however no appointment had been made at the time of the publication of this report. In accordance with the Act, I am a permanent member of the Board. The executive members are appointed for a renewable period of 12 months by the non-executive members, upon my recommendation. The non-executive members are appointed by the Public Accounts Commission, with the exception of the Chair, who is appointed by the Queen under letters patent, upon the recommendation of both the Prime Minister and the Chair of the Public Accounts Committee. This ensures that the non-executive members are independent of the NAO's management, and that the Chair has the confidence of both the government and opposition in Parliament.

There is a clear division of responsibility between the Chairman of the Board and my role as C&AG; the Chairman is responsible for the leadership and effective working of the Board and I am responsible for implementing the strategy, making audit judgements, deciding a programme of value-for-money examinations and reporting the results of this work to Parliament.

The NAO undertakes periodic, voluntary reviews of its governance against the Code of Good Practice for Governance for Central Government (the Code), published by HM Treasury in July 2011. Through its work during the year and informed by its review and approval of this Governance Statement, the Board is satisfied that the NAO is compliant with the requirements of the Code where they are relevant to the NAO and its statutory position. Where the NAO's statutory requirements and the Code differ, the NAO will always seek to comply with statute, which reflects the wishes of Parliament. For example, Schedule 2 of the Budget Responsibility and National Audit Act 2011 sets out the membership requirements of the NAO Board which differ from those set out in the Code for government departments.

The Board held seven formal meetings during 2015-16 to discharge its responsibilities. In addition, it held two strategy discussions as well as a workshop to consider the NAO's approach to the management and development of its people. The NAO also hosted an event for members of the Public Accounts Commission where members had the opportunity to meet all of the Board members for a discussion outside the House of Commons.

The NAO Board performance

Consistent with its role, the Board focused its work around its core areas of responsibility:

- Discharge of formal responsibilities for the NAO's governance.
- Oversight of the management and use of the NAO's resources – through scrutiny and approval of the NAO's resource estimate, consideration of the NAO's work programme and monitoring of progress during the year.
- Providing support and advice – the Board addressed a range of specific issues in 2015-16, with a particular focus on the NAO's Business Improvement Programme and our approach to the management and development of NAO people.

To help the Board fulfil its duties it is supported by two committees:

- The Audit Committee provides oversight of the NAO's internal controls, risk management processes and governance arrangements, as well as the quality and reliability of our financial reporting. It is responsible for considering the external auditor's annual value-for-money report on the NAO.
- The Remuneration and Nominations Committee determines the framework for the remuneration of the three executive members of the board (this does not include the remuneration of the C&AG, which is determined by the Prime Minister and Chair of the Committee of Public Accounts). The Committee oversees any major changes in NAO employee benefits, and advises the Chair and me on issues of succession planning for the Leadership Team and Board.

During 2015-16, the NAO Board sought to strengthen further the financial capability of the Audit Committee and in November appointed Martin Smith to the Audit Committee to serve as an independent external member. Martin Smith was the Chief Executive of the London Borough of Ealing until April 2016, and is Consultative Committee of Accountancy Bodies (CCAB) qualified with recent relevant financial experience.

The NAO Board undertakes a review of its performance each year. During 2015-16, due to the recent changes in the composition of the Board, the Chair elected to undertake this review internally, based on conversations with Board members, and informed by an internal audit report on the recent induction of the three new non-executive members. This review concluded that it was too early in the tenures of the new members, both executive and non-executive, to identify any formal areas for action, and members agreed to revisit this issue once the non-executive members had served for a full year. The review did identify an early opportunity to better support non-executive members in engaging with the business outside of the formal Board programme.

The Board held, in a less formal setting, two strategy days in the year. The first focused on the external environment and in particular the potential implications for the NAO of the outcome of the 2015 General Election. The second focused on central government priorities, the changes in Parliament, and identifying the risks and implications for the NAO following the General Election.

The non-executive members and Chair have continued their engagement with NAO people throughout the year. The Chair has established a programme of routine surgery sessions, encouraging members of staff to raise issues of relevance or concern to them, and individual non-executive members have engaged with NAO teams on issues such as our international work, and to understand the value-for-money audit process. During 2015-16, the Board as a whole continued its practice of holding a meeting in the NAO's Newcastle office, and took the opportunity to meet with a number of Newcastle-based colleagues. The non-executive members also held an open question and answer session with the office as a whole at an NAO event in July.

The NAO maintains a register of interests to ensure any potential or actual conflicts of interest are identified and addressed in advance of Board discussions. Where conflicts exist, they are recorded in the Board minutes, along with any appropriate action taken to address them. The Board formally noted the register of interests in January 2016, ensuring full visibility of all Board and Leadership Team members' external interests. During 2015-16, no issues relating to conflicts of interest arose that impacted on the ability of the Board to conduct its work effectively.

Attendance at Board and Committee meetings in 2015-16

Members	NAO Board (7 in year)	Audit Committee (4 in year)	Remuneration and Nominations Committee (3 in year)
Michael Bichard (Chair)	7	-1	-1
Amyas Morse (C&AG)	7	-1	3
Naaz Coker (to September 2015)	0 ³	1	-1
Sue Higgins	4	-1	-1
Sally Howes	6	-1	-1
Joanne Shaw (from January 2015)	6	4	-1
Ray Shostak	6	-1	3
Robert Sykes (from January 2015)	7	4	3
Michael Whitehouse	7	4 ²	-1
Martin Smith (from November 2015)	-1	2	-1

Notes

- 1 Not a member of the Committee.
- 2 Not a member of the Committee, but attended meetings at the invitation of the Committee chair.
- 3 Due to illness Naaz took a leave of absence at the start of 2015-16.

The Audit Committee

The Committee met four times in 2015-16. During the year the Committee sought assurance on the Business Improvement Programme business case and subsequent procurement process from the Director of Internal Audit and Assurance. The Business Improvement Programme will replace legacy financial, human resources and resourcing systems with an integrated, easy to use solution that will support effective planning and facilitate more efficient, flexible working and collaborative behaviours. The Committee also discussed developments to the NAO's risk management process and, in March 2016, carried out a 'deep dive' on information security covering how the Office detects and prevents current and emerging threats to NAO's information assets from crystallising. Joanne Shaw was invited to join the network of the chairs of central government Audit Committees in September and attended her first meeting of the network in March.

Each year, the NAO's external auditor undertakes an annual value-for-money review of a specific aspect of the NAO's business. In 2015-16, this review addressed the NAO's Human Resources function. The review concluded that while the NAO's Human Resources team was larger than that typically found in similar sized professional firms, the relatively wide scope of the team's activities needed to be recognised when making such a comparison. The review made six recommendations, all of which have been accepted and are being implemented by the NAO's executive management, and have informed a recent review of the NAO's corporate services to identify further efficiency and cost savings within our cost base.

The report was submitted to the Public Accounts Commission in December 2015 and can be found on the Commission's website www.parliament.uk/documents/public-accounts-commission/NAO-VFM-Report-HR-Processes.pdf

The Remuneration and Nominations Committee

The Remuneration and Nominations Committee held three meetings, which focused on the remuneration of the executive members of the Board (not including the remuneration of the C&AG, which is outside their remit), the objectives for the Leadership Team in 2015-16 and a review of the NAO's own performance management and appraisal systems. The Committee also advised me on my appraisal of individual executive leaders.

Leadership Team

I am supported by an executive Leadership Team, which meets monthly and provides executive management and governance of the operations and delivery of the NAO. The Leadership Team holds the clusters to account for the achievement of agreed objectives and the management of the NAO's financial resources and people. It supports me by overseeing the agreed programme of audit work.

Throughout 2015-16, the Leadership Team was supported by two committees. The Operational Capability Committee is responsible for providing appropriate financial and human resources, systems and infrastructure for the NAO to achieve its objectives, and for overseeing the sustainability of its operations. The Audit Practice and Quality Committee (APQ) ensures that audit and evaluative approaches are fit for purpose and comply with good practice, and scrutinises the design and implementation of quality assurance arrangements. During the year, APQ oversaw a review of the NAO's standards for its value-for-money audit work. In 2016-17, we plan to build on this with a review of governance arrangements relating to the quality of the NAO's audit work, to help ensure appropriate guidance and control within a proportionate overall approach. Each year, we publish information on the results of quality assurance work in our Transparency Report, which can be found online here: www.nao.org.uk/about-us/wp-content/uploads/sites/12/2013/02/NAO_Transparency_Report_2015.pdf

During 2015-16, we created the Change Management Assurance Committee, in response to a previous report from our Director of Internal Audit and Assurance regarding the management and governance of change, in particular digital change. This committee, which met for the first time in February 2016, replaced the Information Technology Enabled Change Committee, to provide a single point of oversight for all change projects within the organisation. We have also appointed a Director for Engagement and Change, who advises the Leadership Team on priorities and will oversee progress for all change projects against agreed budgets and milestones.

Risk management and control

Our internal controls accord with HM Treasury guidance and professional best practice, and have been in place for the whole of 2015-16. We assess how the achievement of our policies, aims and objectives might be affected by the risks we face. We design a system of internal controls, which mitigates those risks. The system is not designed to eliminate all risk but to strike an appropriate, proportionate balance between control, cost and risk-taking. Our tolerance for individual risks is informed by their potential impact on the NAO's ability to fulfil its function as independent auditor.

We manage risks in a structured manner. During 2015-16, six areas of strategic and operational risk were reviewed and reported on monthly, and included as a standing item on the Board meeting agenda. Each risk is owned by a member of the Leadership Team. During the financial year the Board and Leadership Team have discussed specific areas of risk, such as devolution and resilience, to ensure there is an appropriate framework of controls and mitigating actions to manage identified and potential exposures.

During 2015-16, the NAO has operated a 'three lines of defence' model of risk management:

- Line 1: Business Operations – Integrated Programme Office, Clusters and Planning Groups – the arrangements which exist within these areas that can be used to derive assurance on how objectives are being met and resources and risks managed.
- Line 2: Corporate Oversight – Leadership Team and Board (and their committees).
- Line 3: Providers of assurance, internal and external – our internal and external auditors who provide independent and objective assurance over the organisation's framework of governance, risk management and control.

Risk area	NAO Tolerance	Key actions and issues in year
<p>NAO reputation</p> <p>The risk that the NAO is seen to not practise what it preaches in relation to its own operation or the behaviour of its staff. The NAO's impact could also be threatened should stakeholders not regard the NAO's work as independent or authoritative.</p>	Low	<p>We have obtained Parliament's approval for our strategy and budget and have positioned the NAO to operate in 2016-17 on a tighter budget consistent with the resource challenges faced by our client bodies. We have focused our forward work programme planning on priority outputs most likely to be of interest to Parliament. This has helped counter optimism bias within the programme and will assist the management of staff workloads.</p> <p>The NAO has an integrated approach to stakeholder management, with strategies in place for managing our relationships with Parliament, Whitehall and Local Government. This approach has helped ensure we take an informed, well-managed approach to significant events – for example, the creation of new parliamentary committees following the General Election.</p>
<p>Further devolution</p> <p>As national and local devolution gathers pace, we need to understand the consequences for accountability and audit arrangements and their impact on the work of the NAO.</p>	Modest	<p>The NAO has engaged with key stakeholders in the UK Parliament, Scottish Parliament and other UK audit institutions, to gain insight into the developing policy landscape. We will continue such engagement in the year ahead to ensure we keep abreast of emerging policy, so that we can plan effectively for any resultant impacts on the NAO.</p>
<p>Change management</p> <p>The risk that significant change projects go badly wrong or fail, with negative impacts on the NAO's business.</p>	Modest	<p>The NAO recognises opportunities that change projects can bring within a properly managed process. During the year we have taken steps to further strengthen controls in this area, appointing a Director of Change and Engagement and creating a Change Management Assurance Committee to oversee corporate change and provide advice and assurance to the Leadership Team on the corporate change portfolio and, where appropriate, individual projects.</p>
<p>Quality</p> <p>Poor quality work could undermine the NAO's reputation for accuracy, fairness and insight, and its ability to have a positive impact on the delivery of public services.</p>	Low	<p>External feedback indicates that the NAO's reputation for high-quality work is strong and we strive continuously to ensure that it remains so. We have introduced financial and value-for-money audit development plans during the year with a focus on technical quality, our people and influence. This has seen the adoption of various new measures – for example, risk assessment meetings between the Leadership, Practice Quality and audit teams to promote early active management of significant engagement risks across key clients. We have also used our value-for-money guidance portal to promote consistent and efficient working through the publication of re-usable, tested audit frameworks. In 2016-17, we will continue to embed the development and assess their impact on the business.</p>
<p>Resilience</p> <p>The risk that resource/capacity constraints cause the NAO not to deliver its planned work programme.</p>	Modest	<p>The market for NAO staff has remained competitive during the year, reinforcing the need for us to manage our position on a continuing basis. We have been proactive in communicating and engaging with our people about the full 'NAO offer' as they join us and move through their careers – for example, through holding internal careers fairs. We have been successful in recruiting specialist staff with particular skill sets where we have identified a specific need. However, in a period of resource constraint and external demand for NAO staff, these positive measures do not nullify the need to monitor this issue very closely.</p>
<p>Information security</p> <p>The risk that the NAO loses or discloses sensitive information and the resulting impact on individuals or organisations affected.</p>	Low	<p>Safeguarding the information we handle is a priority. We operate an Information Security Management System (ISMS), which an external assessment has confirmed is fully aligned with ISO27001 (International Standard for Information Security Management). During 2015-16, we maintained our Public Service Network (PSN) accreditation and attained the Cyber Essentials accreditation.</p>

As a supplier of audit services employing a large number of qualified accountants, NAO's staff are bound by the ethical requirements of their professional bodies. The NAO conforms to International Standards on Auditing. In particular, the International Standard on Quality Control 1 is applied to all our financial statement audit engagements.

The NAO uses both internal and independent external reviews to provide assurance on the quality of its audit products. The reviews judge the quality of the NAO's work by considering:

- Technical quality: developments and diversification in our work pose challenges for technical quality and it is important that we stay ahead. Our internal and external reviews concluded that the NAO maintained the technical quality of its work and feedback shows that audited bodies value the skills and professionalism of our teams. We continuously focus on maintaining and enhancing the quality of our work and we are taking action to address those areas identified by the reviews where we can improve further. This includes adopting an enhanced approach to risk assessment and technical consultation for our financial audit engagements, and implementing new Learning and Development interventions, for example to support our IT audit work.
- Strategic quality: our clients rated highly the NAO's understanding of the issues and key risks faced by the bodies we audit. Our external reviews found there is further scope to improve how we draw out systemic issues in our value-for-money work.
- Impact: the evidence demonstrates that audited bodies increasingly consider that our financial audit work contributes to improvements in the efficiency and effectiveness of their business.

To build on these findings and further improve our work we have introduced financial and value-for-money audit development plans during the year with a focus on technical quality, our people and influence.

The Audit Quality Review Team of the Financial Reporting Council undertakes an annual external review of the NAO's financial audit; in 2015-16, this review covered six audits. The Audit Quality Review Team's findings indicate that audit quality has been maintained over the period. The Audit Quality Review Team highlighted areas for further improvement and we are taking action against the appropriate recommendations.

Our value-for-money work is independently reviewed by Oxford University Consulting, Risk Solutions and RAND Europe. The reviews completed during the year examined 16 reports. The reviews considered the scope of the study, structure and presentation, graphs and statistics, appropriateness and use of methods, synthesis of value-for-money conclusions, recommendations, systemic issues and overall perception.

Overall, the reviewers assessed reports as well-structured and presented, with high ratings for how teams set the scope, objectives and evaluative criteria, and brought analysis and conclusions together. Reviewers noted some cases where they felt recommendations could have been clearer, stronger or better supported by evidence; and where the study scope and rationale could have been more clearly set out.

Statement of information risk

Together with the employees of the NAO, I have privileged and wide-ranging access to data and information to support the discharge of the audit function and ensure that my reports to Parliament are factual, accurate and complete. The NAO has a duty to respect this privileged access and to ensure that the personal and other sensitive information entrusted to it is safeguarded properly.

The NAO continues to focus attention not only on preserving the security of information held by us today but also that we horizon scan to ensure that we can do so in the future. While assurance can never be absolute, I have arrived at my conclusion by taking into account the following factors, which have been reported to me.

During 2015-16 we embarked upon and completed a project to align our approach to the international standard for Information Security Management (ISO27001). In March 2016 an external assessor concluded that:

“The National Audit Office has shown a high degree of professional awareness with the requirements for the ISO27001 Standard. The drive and commitment shown by the NAO’s senior management and staff across the organisation is a credit to their forward thinking philosophy. I have no reservation in stating that in my professional opinion the NAO’s policies, procedures and operational methodologies are fully aligned to the requirements of the ISO27001 Standard.”

Framework of measures

The NAO has designed a framework of measures, the Information Security Management System (ISMS), to reduce the risk of security incidents occurring and/or to provide early warning that an incident has occurred or is likely to occur. These measures include:

- Physical security measures which align with the current threat level of ‘Heightened’.
- Information technology measures, including those to protect against cyber threats.
- Information security measures, including a network of Information Asset Owners.
- Personnel security measures.
- Annual mandatory training and assessment of staff to ensure they are kept up to date on current and new security policies and procedures.
- Focus by senior management on security risks.
- Horizon scanning through regular assessments of current and emerging threats.

Compliance with policies and procedures

- We take account of the requirements of the Cabinet Office's Security Policy Framework and benchmark our approach against it.
- We are undertaking deep-dives into different areas of the business to assess the adequacy of our current measures and monitor the implementation of action plans.
- Our ISMS has been tested by external assessors.
- Ensuring that our strategic partners who handle data on our behalf provide assurance that they have complied with the data security requirements in our contracts.
- Designed and populated a three lines of defence model, which has been shared with the Audit Committee.

Personal data-related incidents

There were no protected personal data-related incidents reportable to the Information Commissioner's Office in 2015-16. Neither were there centrally recorded protected personal data-related incidents not formally reported to the Information Commissioner's Office in 2015-16. Unlike government departments, the NAO is not required to report significant incidents relating to personal data to the Cabinet Office. If it were required to do so, there would be no incidents to report.

Looking ahead

As the Leadership Team and Board continue to focus on maintaining and improving the NAO's performance, it is essential that we position ourselves to understand and respond to the major areas of change in our external environment and the opportunities and challenges they bring. Reflecting this, we have designed our 2016-17 work programme to provide a renewed focus on issues of strategic priority most likely to be of interest to parliament. We need to plan intelligently to address the impact of major change on the NAO and its work – for example, the changes to accountability and audit arrangements arising from devolution. Stakeholder engagement will be key to understanding government policy and its implications for the NAO's resources, skill base and work programme. Internally, we will continue to champion efficient and transparent working practices throughout the business, supported by the introduction of modern business systems through our Business Improvement Programme.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of Internal Control. My review is informed by the work of the Director of Internal Audit and Assurance, the Executive Leaders within the NAO who have responsibility for the development and maintenance of the internal control framework, comments made by the external auditors in their management letter and other reports.

The Director of Internal Audit and Assurance (DIAA) has presented to me his Internal Audit Annual Report, which concludes “*The NAO has adequate and effective governance, risk and control arrangements.*” He has arrived at this opinion through:

- conducting a detailed risk-based Internal Audit Needs Assessment from which he has prioritised activity over a three-year planning horizon to design an Internal Audit Strategy;
- designing and populating a three lines of defence model to provide a ‘birds eye’ view of the assurance framework received by both my Leadership Team and the Audit Committee;
- designing and applying a risk-based methodology which is consistent with the requirements of the Public Sector Internal Audit Standards;
- delivery of 24 individual assurance reports and eight advisory reports during the year and where appropriate agreed an action plan with system owners to secure improvements; and
- monitoring the implementation of his recommendations throughout the year and assessed the progress as good.

The DIAA has assured me that the resources and safeguards made available to him have been sufficient to complete his operational plan on time and maintain his independence.

The Board keeps its internal control arrangements under review in response to internal and external developments. The Board is independently advised by the Audit Committee, which met four times during the financial year and received positive assurance on the NAO’s systems of corporate governance, risk management and internal control.

Significant internal control weaknesses

I am able to report that there were no significant weaknesses in the NAO’s system of internal controls in 2015-16 that affected the achievement of the NAO’s key policies, aims and objectives.

Sir Amyas C E Morse KCB
Comptroller and Auditor General

21 June 2016

REMUNERATION AND STAFF REPORT

Remuneration policy for senior management

Comptroller & Auditor General and NAO Chairman

The remuneration of the Comptroller & Auditor General and of the NAO Chair is determined jointly by the Prime Minister and the chair of the Committee of Public Accounts. In accordance with the provisions of Part 2, 13 (5) of the Budget Responsibility and National Audit Act 2011, their remuneration is charged on, and paid out of, the Consolidated Fund.

Non-executive Board members

The Public Accounts Commission approves the remuneration of the non-executive Board members. The remuneration paid to non-executive Board members is non-pensionable.

Executive leadership team

The NAO Remuneration and Nominations Committee determines and agrees the remuneration of its executive leaders. Executive leaders can serve on the Board; they are appointed by the non-executive members, for a renewable period of 12 months, upon the recommendation of the C&AG. During 2015-16 Michael Whitehouse, Sue Higgins and Sally Howes were members of the Board.

The following table provides details of the remuneration and pensions of the NAO Board and executive leadership team. The information on pages 79 to 80 has been subject to audit.

Single total figure of remuneration

Non-executive board members	Salary		Benefits in kind (to nearest £100)		Pension benefits (to nearest £1,000) ¹		Total remuneration	
	£000						£000	
Name	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15
Professor Sir Andrew Likierman (Chair) (up to 9 January 2015)	–	35–40 (full-year equivalent: 50–55)	–	–	–	–	–	35–40
Lord Michael Bichard (from 10 January 2015)	40–45	5–10 (full-year equivalent: 40–45)	–	–	–	–	40–45	5–10
Naaz Coker (up to 29 September 2015)	10–15 (full-year equivalent: 20–25)	20–25	–	100	–	–	5–10 (full-year equivalent: 20–25)	20–25
Gillian Guy (up to 31 December 2014)	–	15–20 (full-year equivalent: 20–25)	–	–	–	–	–	15–20
Paula Hay-Plumb (up to 30 November 2014)	–	10–15 (full-year equivalent: 20–25)	–	400	–	–	–	10–15
Dame Mary Keegan (up to 31 December 2014)	–	15–20 (full-year equivalent: 20–25)	–	400	–	–	–	15–20
Joanne Shaw (from 1 January 2015)	20–25	5–10 (full-year equivalent: 20–25)	100	–	–	–	20–25	5–10
Ray Shostak (from 1 January 2015)	20–25	5–10 (full-year equivalent: 20–25)	700	400	–	–	20–25	5–10
Robert Sykes (from 1 January 2015)	20–25	5–10 (full-year equivalent: 20–25)	1,300	1,100	–	–	20–25	5–10

Note

1 The value of pension benefits accrued during the year is calculated as the real increase in pension multiplied by 20, plus the real increase in any lump sum, less contributions made by the individual. The real increase excludes increases due to inflation or any increase or decrease due to a transfer of pension rights.

Single total figure of remuneration *continued*

Executive leadership team	Salary		Benefits in kind (to nearest £100)		Pension benefits (to nearest £1,000) ¹		Total remuneration	
	£000						£000	
Name	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15
Amyas Morse, Comptroller and Auditor General	215–220	215–220	–	–	–	–	215–220	215–220
Michael Whitehouse, Chief Operating Officer	170–175	165–170	400	300	83,000	46,000	255–260	215–220
Gabrielle Cohen (up to 26 April 2015)	5–10 (full-time equivalent: 150–155)	125–130 (full-time equivalent: 145–150)	–	200	4,000	34,000	10–15	160–165
Sue Higgins	155–160	150–155 (full-year equivalent: 155–160)	300	300	97,000	88,000	255–260	240–245
Sally Howes	160–165	160–165	300	300	63,000	60,000	225–230	220–225
Martin Sinclair (up to 31 August 2015)	60–65 (full-year equivalent: 150–155)	145–150	–	300	40,000	67,000	100–105	215–220
John Thorpe	145–150	140–145	300	300	76,000	203,000 ²	220–225	345–350
Stephen Smith (from 1 August 2015) ³	100–105 (full-year equivalent: 160–165)	–	300	–	–	–	100–105	–

Notes

- 1 The value of pension benefits accrued during the year is calculated as the real increase in pension multiplied by 20, plus the real increase in any lump sum, less contributions made by the individual. The real increase excludes increases due to inflation or any increase or decrease due to a transfer of pension rights.
- 2 John Thorpe's pension benefits in 2014-15 include the change in his pension entitlement due to joining the Leadership Team in January 2014.
- 3 Stephen Smith does not participate in the NAO pension scheme.

Salary

'Salary' includes gross salary and any other allowance to the extent that it is subject to UK taxation.

Benefits in kind

The monetary value of benefits in kind covers any expenditure incurred by the NAO and treated by HM Revenue & Customs as a taxable emolument. As part of the remuneration package, the NAO provides all its employees with additional death in service benefit equivalent to one year's salary. The cost to the NAO of providing the death in service benefit to members of the Leadership Team, and the associated income tax and National Insurance liability, which was met by the NAO, is shown within the benefits column in the table on page 80. The benefits in kind disclosed for non-executive members of the board on page 79 relate to travel to the NAO for Board and other committee meetings, and include the associated Income Tax and National Insurance liability, which was met by the NAO. The NAO has an agreement with HMRC to meet income tax and National Insurance on these benefits on behalf of non-executive Board members.

Pension Arrangements

Comptroller and Auditor General

The pension arrangements for the C&AG are covered by the Superannuation Act 1972 and are analogous to those of a member of the Principal Civil Service Pension Scheme, which is unfunded. The Act provides for defined pension benefits to be met from the Consolidated Fund and no liability rests with the NAO. On taking up his appointment as C&AG on 1 June 2009, Sir Amyas Morse waived his defined pension benefit entitlement.

Executive leadership team

Executive leaders are covered by the provisions of the Principal Civil Service Pension Scheme. Details of the scheme can be found at: www.civilservicepensionscheme.org.uk

The pension entitlements of the most senior managers of the NAO were as follows:

Name	Accrued pension at pension age as at 31 March 2016 and related lump sum £000	Real increase in pension and related lump sum at pension age £000	CETV at 31 March 2016 ¹ £000	CETV at 31 March 2015 £000	Real increase in CETV ² £000	Employer contribution to partnership pension account £000
Michael Whitehouse	75–80 plus lump sum of 235–240	2.5–5 plus lump sum of 10–15	1,800	1,600	81	–
Sue Higgins	95–100	5–7.5	1,225	1,071	47	–
Sally Howes	20–25	2.5–5	320	246	32	–
John Thorpe	65–70 plus lump sum of 100–105	2.5–5 plus lump sum of 0–5	1,378	1,213	71	–
Stephen Smith (from 1 August 2015) ³	–	–	–	–	–	–

Notes

- 1 The factors used to calculate the CETV were reviewed by the scheme actuary in 2015, so the tables of factors used to calculate the CETV in 2015 are not the same as those used to calculate the CETV in 2016.
- 2 For negative increases taking account of inflation, the CETV funded by the employer has decreased in real terms.
- 3 Stephen Smith does not participate in the NAO pension scheme.

Cash equivalent transfer values

A cash equivalent transfer value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued because of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement, which the member has transferred to the civil service pension arrangements. They include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with the Occupational Pension Scheme (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

The real increase in the value of the CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Compensation for loss of office

No compensation for loss of office was agreed with for any executive leader in 2015-16 (2014-15: Compensation in the range of £260,000–£265,000 was agreed for each of the two executive leaders).

Staff numbers and related costs

Average number of persons employed

	2015-16	2014-15	2013-14
Full-time equivalent permanent staff	796	779	822
Inward secondees	5	3	3
Temporary staff	9	9	10
Total	810	791	835

Staff costs comprise

	2015-16 £000	2014-15 £000
Permanent staff ¹	56,020	54,914
Temporary staff	1,036	937
Total	57,056	55,851

Note

1 Permanent staff costs include inward secondees.

Off-payroll engagements

There were no off-payroll engagements in 2015-16 (2014-15: nil).

Expenditure on consultancy

The NAO spent £0.8 million on consultancy in 2015-16 (2014-15: £0.8 million) to obtain objective advice relating to strategy, structure, management or operations. Use of consultancy is closely aligned to IT and project management expertise to help the NAO transform how it does business and to put in place new systems and processes which result in sustainable operating cost reductions. The NAO also uses specialist legal advice on specific matters of policy or commerce where it is not economic to maintain this expertise in-house.

NAO staff remuneration policy

In accordance with the provisions of the Budget Responsibility and National Audit Act 2011, the NAO is responsible for employing staff and must have regard to the desirability of keeping the terms broadly in line with those applicable in the Civil Service.

NAO staff normally hold appointments which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Levels of remuneration are set at an applicable level to recruit, retain and motivate suitably able, qualified and high-calibre people within the budget available to the NAO.

Salary multiples

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the median remuneration of the organisation's workforce. The C&AG was the highest paid individual in the NAO in 2015-16. His salary was in the range of £215,000 to £220,000 (2014-15: £215,000 to £220,000). This was 4.5 times (2014-15: 4.8 times) the median NAO staff salary paid, which was £48,008 (2014-15: £45,236). The C&AG's salary is paid by the Consolidated Fund and is reported on page 78.

In 2015-16, remuneration ranged from £14,800, for a part-time working arrangement, to £215,000–£220,000 (2014-15: £14,400 to £215,000–£220,000).

The decrease in the remuneration ratio by 0.3 is due to the annual pay award for NAO staff, combined with the effect of pay being targeted on specific grades to address retention in key areas, being higher than the pay increase for the C&AG.

NAO staff pension arrangements

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015 a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or alpha, which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date all newly appointed civil servants and the majority of those already in service joined alpha. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections: three providing benefits on a final salary basis (classic, premium or classic plus) with a normal pension age of 60; and one providing benefits on a whole career basis (nuvos) with a normal pension age of 65.

These statutory arrangements are unfunded, with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus, nuvos and alpha are increased annually in line with Pensions Increase legislation. Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and 5 months from their normal pension age on 1 April 2012 will switch into alpha sometime between 1 June 2015 and 1 February 2022. All members who switch to alpha have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha, the figure quoted is the combined value of their benefits in the two schemes.) Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are salary-related and range between 3% and 8.05% of pensionable earnings for members of classic (and members of alpha who were members of classic immediately before joining alpha) and between 4.6% and 8.05% for members of premium, classic plus, nuvos and all other members of alpha. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos a member builds up a pension based on their pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. Benefits in alpha build up in a similar way to nuvos, except that the accrual rate is 2.32%. In all cases, members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% up to 30 September 2015 and 8% and 14.75% from 1 October 2015 (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary up to 30 September 2015 and 0.5% of pensionable salary from 1 October 2015, to cover the cost of centrally provided risk benefit cover (death in service and ill-health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus, 65 for members of nuvos, and the higher of 65 or State Pension Age for members of alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages.)

Further details about the Civil Service pension arrangements can be found at the website www.civilservicepensionscheme.org.uk

Reporting of Civil Service and other compensation schemes – exit packages

The NAO offers compensation when staff agree to leave the organisation in circumstances where the departure provides an opportunity to refresh our skills base and contributes to a sustained reduction in the NAO's costs. Details of the packages offered during the year and the previous year are shown in the table below.

Redundancy and other departure costs were accounted for within the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. All departures agreed after June 2015 have been limited to the Cabinet Office's cap of £95,000. Exit costs are accounted for in full in the year that the departure has been agreed. Where the NAO has agreed early retirements, the additional costs are met by the NAO and not by the Civil Service Pension Scheme. All departure costs are included in staff costs.

Exit packages in 2015-16

Comparative figures (in brackets).

Exit package cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
	2015-16 (2014-15)	2015-16 (2014-15)	2015-16 (2014-15)
<£10,000	- (-)	1 (-)	1 (-)
£10,001-£25,000	- (1)	2 (1)	2 (2)
£25,001-£50,000	- (-)	1 (2)	1 (2)
£50,001-£100,000	- (-)	8 (2)	8 (2)
£100,001-£150,000	- (-)	1 (2)	1 (2)
£150,001-£200,000	- (-)	1 (1)	1 (1)
£200,001-£250,000	- (-)	- (-)	- (-)
>£250,000	- (-)	- (3)	- (3)
Total number of exit packages by type	- (1)	14 (11)	14 (12)
Total cost (£000)			1,089 (1,469)

Diversity policy

The NAO's Diversity and Inclusion Strategy states that our ultimate aim is to have a workforce that reflects the diversity of the wider population that we serve. One pillar of that strategy focuses on our talent pipeline. The NAO is a member of the Two Ticks Disability Scheme that is awarded by Job Centre Plus. As users of the disability symbol, we guarantee to interview all disabled applicants who meet the minimum criteria of the advertised vacancy grade.

In such cases the NAO is under a duty to make reasonable adjustments to help overcome disadvantage resulting from disability and to facilitate recruitment and selection by, for example, making adjustments to the arrangements for interviews and selection tests.

The NAO aims to support people who become disabled during their employment to remain in work and to achieve their potential. To that end we will seek specialist advice on adjustments that would enable the person concerned to continue in their current post via our Occupational Health Advisors or other specialist organisations such as The Royal National Institute of Blind People. We then agree a package of reasonable adjustments for the person in discussion with their line manager and review these reasonable adjustments on a regular basis as the person's needs or their role change.

To ensure that all employees have access to learning and development opportunities, reasonable adjustments packages will include any specific requirements to allow the employee to access suitable learning and development opportunities. When promotion opportunities arise, employees with a disability are encouraged to apply and to discuss any adjustments they would require to the selection arrangements to remove any disadvantage resulting from their disability.

Diversity (gender) as at 31 March 2016

Comparative figures (in brackets). Based on number of NAO people in post as opposed to full-time equivalents.

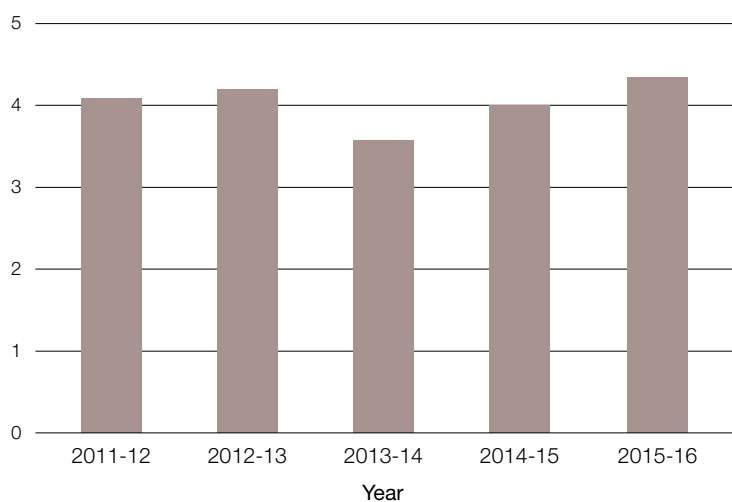
	Male	Female
Directors and above	74% (69%)	26% (31%)
Below director	54% (55%)	46% (45%)
All staff	55% (56%)	45% (44%)

Sickness absence

We are committed to the physical and mental health of our people and we have a comprehensive sickness management policy. We review our occupational health policies regularly to make sure sickness absence rates remain low compared with both public and private sector benchmarks, and have achieved levels below the target of five days per person for the last five years.

Sickness absence (average days) 2011-12 to 2015-16

Average working days lost (days)



Sir Amyas C E Morse KCB
Comptroller and Auditor General

21 June 2016

PARLIAMMENTARY ACCOUNTABILITY AND AUDIT REPORT

Statement of Parliamentary Supply (SoPS)

The information on pages 91 to 94 has been subject to audit.

Summary of resource and capital outturn 2015-16

		2015-16 Estimate			2015-16 Outturn			2015-16 Voted outturn compared with Estimate: saving or (excess)	2014-15 Outturn
	SoPS note	Voted £000	Non-voted £000	Total £000	Voted £000	Non-voted £000	Total £000	£000	Net Total £000
Resource	1.1	64,500	300	64,800	63,909	289	64,198	591	61,604
Capital	1.2	2,000	–	2,000	1,144	–	1,144	856	1,237
Total budget		66,500	300	66,800	65,053	289	65,342	1,447	62,841
Non-budget		–	–	–	–	–	–	–	–
Total resources		66,500	300	66,800	65,053	289	65,342	1,447	62,841

Net cash requirement 2015-16

	SoPS note	2015-16 Estimate	2015-16 Outturn	2015-16 Net total outturn compared with Estimate: saving or (excess)	2014-15 Outturn
		£000	£000	£000	£000
Total net cash requirement	2	64,750	63,103	1,647	60,547

Administration costs 2015-16

	2015-16 Estimate	2015-16 Outturn	2015-16 Net total outturn compared with Estimate: saving or (excess)	2014-15 Voted Outturn
	£000	£000	£000	£000
Total administration costs	64,500	63,909	591	61,307

Figures in the areas outlined are voted totals or other totals subject to parliamentary control.

All of the NAO's resources are deemed equivalent to resource DEL or capital DEL (Departmental Expenditure Limit).

Explanations of variances between Estimate and outturn are provided in the Performance report on pages 44 to 45.

The notes on pages 92 to 93 form part of these accounts.

Notes to the Statement of Parliamentary Supply

SoPS1 Net outturn

SoPS1.1 Analysis of net resource outturn

		Gross	Income	2015-16 Outturn Net	Net	2015-16 Estimate Net total compared with Estimate: saving or (excess) £000	2014-15 Outturn Net total
		£000	£000	£000	£000	£000	£000
Section	Voted						
A	Provision of audit and other assurance services	83,221	(19,312)	63,909	64,500	591	61,307
	Total voted	83,221	(19,312)	63,909	64,500	591	61,307
	Non-voted						
B	Chair and the Comptroller and Auditor General costs	289	–	289	300	11	297
	Resource outturn	83,510	(19,312)	64,198	64,800	602	61,604

Explanations of variances between Estimate and outturn are provided in the Performance report on pages 44 to 45.

SoPS1.2 Analysis of net capital outturn

		Gross	Income	2015-16 Outturn Net	Net	2015-16 Estimate Net total compared with Estimate: saving or (excess) £000	2014-15 Outturn Net total
		£000	£000	£000	£000	£000	£000
Section	Voted						
A	Provision of audit and other assurance services	1,144	–	1,144	2,000	856	1,237
	Capital outturn	1,144	–	1,144	2,000	856	1,237

SoPS2 Reconciliation of net resource outturn to net cash requirement

	Note	Estimate	Outturn	Net total outturn compared with Estimate: saving or (excess)
		£000	£000	£000
Resource outturn	SoPS 1.1	64,800	64,198	602
Capital outturn	SoPS 1.2	2,000	1,144	856
Accruals to cash adjustments:				
<i>Adjustments to remove non-cash items:</i>				
Depreciation		(2,951)	(2,742)	(209)
Change in provisions		(11)	(34)	23
Loss on disposal of assets		–	–	–
Impairment of non-current assets		–	–	–
<i>Adjustments to reflect movements in working balances:</i>				
Increase/(decrease) in receivables		(635)	(2,061)	1,426
Increase/(decrease) in payables		946	2,363	(1,417)
Use of provisions		901	524	377
Removal of non-voted budget items:				
Consolidated Fund Standing Services		(300)	(289)	(11)
Net cash requirement		64,750	63,103	1,647

Parliamentary Accountability Disclosures

Special payments

Description	2015-16 £000	2014-15 £000
Total number of special payments	–	11
Total value of special payments (£000)	–	434

Notes

- 1 The 2014-15 special payment was a non-contractual payment to staff who transferred to the National Audit Office from the Audit Commission to maintain the Code of Audit Practice in line with the NAO's new responsibilities under the Local Audit and Accountability Act 2014, and included both compensation for a change to the terms and conditions of employment and amounts due to HMRC.
- 2 There were no losses or special payments which require disclosure because of their size or nature in 2015-16.

Fees and Charges

The NAO charges fees for its audit work and other services where it is permitted to do so under legislation. Fees will be set on an estimation of the time required to carry out the work plus other costs directly attributable to the assignment. Standard hourly rates for staff are used to estimate the costs and include provision to cover a share of office overheads. The NAO's objective is to break even on its audit and assurance work, although there will be short-term surpluses or deficits arising in situations where, for example, we take on new work such as the audit of Network Rail and incur up-front costs to understand the client and design an efficient, sustainable audit approach.

Secondments are usually arranged on a full cost recovery basis. However, the NAO may at times subsidise the cost of this secondment should it be in its strategic interests to do so.

2015-16	Income £000	Expenditure £000	Surplus / (deficit) £000
Audit and Assurance work	16,911	17,274	(363)
Secondment Income	613	988	(375)
Rental Income	1,788	1,029	759
Total	19,312	19,291	21
2014-15	Income £000	Expenditure £000	Surplus / (deficit) £000
Audit and Assurance work	18,739	18,630	109
Secondment Income	958	1,296	(338)
Rental Income	1,670	1,054	616
Total	21,367	20,980	387

Independent auditor's certificate and report to the House of Commons

We certify that we have audited the financial statements of the National Audit Office (NAO) for the year ended 31 March 2016 under the Budget Responsibility and National Audit Act 2011. The financial statements comprise the NAO's Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity, and the related notes. These financial statements have been prepared under the accounting policies set out within them. We have also audited the Statement of Parliamentary Supply and the related notes, and the information in the Remuneration and Staff Report and the Parliamentary Accountability Disclosures within the Accountability Report that is described in those reports and disclosures as having been audited.

The financial reporting framework that has been applied in their preparation is applicable law and the 2015-16 *Government Financial Reporting Manual (FReM)* which applies international financial reporting standards as adopted by the European Union (IFRSs).

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, certify and report on the financial statements in accordance with the Budget Responsibility and National Audit Act 2011. We conducted our audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the NAO's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accounting Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our certificate.

We are required to obtain evidence sufficient to give reasonable assurance that the Statement of Parliamentary Supply properly presents the outturn against voted parliamentary control totals and that those totals have not been exceeded. For the NAO, the voted parliamentary control totals are all equivalent to Departmental Expenditure Limits (Resource and Capital) and Net Cash Requirement. We are also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

In our opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted parliamentary control totals for the year ended 31 March 2016 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the NAO's affairs as at 31 March 2016 and of the NAO's net operating costs for the year then ended; and
- the financial statements have been properly prepared in accordance with the Budget Responsibility and National Audit Act 2011.

Opinion on other matters

In our opinion:

- the part of the Remuneration and Staff Report and the Parliamentary Accountability Disclosures to be audited has been properly prepared in accordance with guidance issued by HM Treasury; and
- the information given in the Performance Report and the unaudited part of the Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We have nothing to report in respect of the following matters, which we report to you, if, in our opinion:

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Remuneration and Staff Report and the Parliamentary Accountability Disclosures to be audited are not in agreement with the accounting records and returns; or
- we have not received all of the information and explanations we require for our audit; or
- the Governance Statement does not reflect compliance guidance issued by HM Treasury.

Report

We have no observations to make on these financial statements.

Crowe Clark Whitehill LLP **Statutory Auditors**

St Brides House
10 Salisbury Square
London
EC4Y 8EH

21 June 2016

FINANCIAL STATEMENTS

Statement of comprehensive net expenditure for the year ended 31 March 2016

	Note	2015-16 £000	2014-15 £000
Income from sale of goods and services	7	(19,312)	(21,367)
Total operating income		(19,312)	(21,367)
Staff costs	3	57,056	55,851
Purchase of goods and services	4	23,526	24,197
Depreciation and provision charges	5	2,776	2,796
Tax expense	6	152	127
Total operating expenditure		83,510	82,971
Net operating expenditure for the year		64,198	61,604
Other comprehensive net expenditure			
Items that will not be reclassified to net operating costs:			
Net gain on revaluation of property, plant and equipment	8	(4,070)	(8,875)
Total comprehensive net expenditure for the year		60,128	52,729

The notes on pages 103 to 120 form part of these accounts.

Statement of financial position as at 31 March 2016

	Note	2015-16 £000	2014-15 £000
Non-current assets			
Property, plant and equipment	8	88,773	86,268
Intangible assets	9	848	881
Receivables falling due after one year	10	172	203
Total non-current assets		89,793	87,352
Current assets			
Trade and other receivables	10	5,774	7,804
Cash and cash equivalents	11	78	81
Total current assets		5,852	7,885
Total assets		95,645	95,237
Current liabilities			
Trade and other payables	12	(6,804)	(9,120)
Provisions	13	(338)	(496)
Total current liabilities		(7,142)	(9,616)
Total assets less current liabilities		88,503	85,621
Non-current liabilities			
Payables falling due after one year	12	(72)	(122)
Provisions	13	(501)	(833)
Total non-current liabilities		(573)	(955)
Total assets less liabilities		87,930	84,666
Taxpayers' equity and other reserves			
General fund		30,438	29,912
Revaluation reserve		57,492	54,754
Total equity		87,930	84,666

Sir Amyas C E Morse KCB
Comptroller and Auditor General

21 June 2016

The notes on pages 103 to 120 form part of these accounts.

Statement of cash flows for the year ended 31 March 2016

	Note	2015-16 £000	2014-15 £000
Cash flows from operating activities:			
Net operating expenditure for the year		(64,198)	(61,604)
Adjustments for non-cash transactions	5	2,776	2,796
(Increase)/decrease in trade and other receivables	10	2,061	(1,505)
Decrease in trade and other payables	12	(2,363)	1,406
Use of provisions	13	(524)	(700)
Net cash outflow from operating activities		(62,248)	(59,607)
Cash flows from investing activities:			
Purchase of property, plant and equipment	8	(984)	(1,212)
Purchase of intangible assets	9	(160)	(25)
Net cash outflow from investing activities		(1,144)	(1,237)
Cash flows from financing activities:			
From the Consolidated Fund (Supply) – current year		63,100	60,550
Consolidated Fund Standing Services	4	289	297
Net financing		63,389	60,847
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund	11	(3)	3
Cash and cash equivalents at the beginning of the year	11	81	78
Cash and cash equivalents at the end of the year	11	78	81

The notes on pages 103 to 120 form part of these accounts.

Statement of changes in taxpayers' equity for the year ended 31 March 2016

	Note	General fund £000	Revaluation reserve £000	Total reserves £000
Changes in taxpayers' equity				
Balance at 31 March 2014		29,468	47,083	76,551
Net parliamentary funding		60,550	–	60,550
Net parliamentary funding – deemed	11	78	–	78
Supply payable adjustment	11	(81)	–	(81)
Consolidated Fund Standing Services	4	297	–	297
Comprehensive net expenditure for the year		(61,604)	8,875	(52,729)
Realised element of revaluation reserve		1,204	(1,204)	–
Balance at 31 March 2015		29,912	54,754	84,666
Net parliamentary funding – drawn down		63,100	–	63,100
Net parliamentary funding – deemed	11	81	–	81
Supply payable adjustment	11	(78)	–	(78)
Consolidated Fund Standing Services	4	289	–	289
Comprehensive net expenditure for the year		(64,198)	4,070	(60,128)
Realised element of revaluation reserve		1,332	(1,332)	–
Balance at 31 March 2016		30,438	57,492	87,930

The Revaluation Reserve records the gain or loss on the revaluation of assets. The General Fund accounts for all other changes in financial resources.

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies, key accounting estimates and judgements

1.1 Statement of accounting policies

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted and interpreted by the 2015-16 *Government Financial Reporting Manual* (FReM) issued by HM Treasury.

The accounting policies adopted by the NAO are described below. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the NAO for the purpose of giving a true and fair view has been selected. They have been applied consistently in dealing with items that are considered material to the financial statements.

1.2 Basis of preparation

These financial statements have been prepared under the historical cost convention modified to account for the revaluation of property, plant and equipment. Figures are presented in pounds sterling, which is the functional currency of the NAO, and are rounded to the nearest £1,000. Transactions in foreign currencies are translated into sterling at the exchange rate at the dates of the transaction. Any assets and liabilities in a foreign currency are translated into sterling at the exchange rate at this date. Translation differences are recognised in the Statement of Comprehensive Net Expenditure.

1.3 Impending application of newly issued accounting standards not yet effective

The NAO discloses wherever it has not yet applied a new accounting standard, and provides any information relevant to assessing the possible impact that the initial application of the new standard would have on the financial statements. There are a number of standards which are not yet effective. These include IFRS 9 'Financial Instruments' (effective 2018) which reduces the accounting options available for types of financial instruments, IFRS 15 'Revenue from Contracts with Customers' (effective 2018) which provides more guidance on recognition of revenue and IFRS 16 'Leases' (effective 2019) which requires all significant leases to be recognised as a financing lease and included in the Statement of Financial Position. These standards are not yet adopted by the FReM. Management will make an assessment of the impact of these standards once it becomes clear how they will be adapted in the public sector.

1.4 Financing

The NAO covers some of its expenditure by charging fees for certain financial audit assignments and other services. These fees are recorded as income in the Statement of Comprehensive Net Expenditure and disclosed in Note 7.

All remaining expenditure is financed from amounts approved by Parliament through the annual Appropriation Act and is credited directly to the General fund and recorded in the Statement of Changes in Taxpayers Equity.

Accounting policies for expenditure

1.5 Staff costs

In accordance with IAS 19 Employee Benefits, all short-term staff costs payable at the year end, which will be paid within one year from the date of reporting, are recognised in the Statement of Comprehensive Net Expenditure. These include short-term employee benefits such as professional subscriptions and accrued leave entitlements.

1.6 Pensions

Most past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) and or Alpha (a new pension scheme introduced on 1 April 2015), which are defined benefit schemes open to participating public sector bodies in which the benefit the employee receives during retirement is dependent on factors such as age, length of service and salary. The scheme is administered by MYCSP on behalf of the Cabinet Office. The NAO pays contributions into the PCSPS at an agreed rate, and the costs of these contributions are recognised when they fall due. As one of many participating organisations, the NAO is not able to identify its share of any liability for making future pension payments to members and accordingly the NAO accounts for this as if it were a defined contribution scheme.

Employees may opt to join a personal stakeholder pension scheme instead, providing the scheme meets the minimum criteria set by government. These are defined contribution schemes where the NAO pays established annual contribution rates into a separate fund. The amount of pension benefit that a member receives in retirement is dependent on the performance of the fund. The NAO recognises the cost of these contributions in the Statement of Comprehensive Net Expenditure when they fall due. There is no further payment obligation for the NAO once the contributions have been paid.

1.7 Early departure costs

Where the NAO ends the employment of a staff member, and makes a compensation payment within the rules of the Civil Service Compensation Scheme (CSCS), the cost of that payment is recognised in full in the year the compensation offer has been accepted by the individual.

The CSCS rules were amended from October 2010. Prior to this point, where the individual was eligible to take early retirement the NAO agreed to meet the costs of the individual drawing down their pension early. These costs were provided for in full when the early departure was approved. This resulted in a provision being recognised for the estimated cash payments due between the date of departure and the individual reaching scheme retirement age, adjusted by HM Treasury's discount rate applicable at the year end. At 31 March 2016, this was 1.37% (2014-15: 1.3%). The provision is reported in Note 13. Staff leaving the NAO after October 2010 are only eligible to receive a single lump sum payment on departure. As the value and timing of compensation payments are known, any amounts unpaid at the reporting date are reported within accruals in Note 12.

1.8 Leases

Payments in relation to operating leases are charged to the Statement of Comprehensive Net Expenditure on a straight-line basis. The NAO does not have any finance lease liabilities.

1.9 Value Added Tax on purchases

The NAO partially recovers the VAT it pays on its expenditure by using a methodology agreed with HMRC and consequently it is difficult to attribute VAT recoverable to specific items of expenditure. Therefore, all expenditure disclosed in Note 4 includes any VAT paid. VAT recoverable is shown separately.

1.10 Corporation tax

The NAO is liable for corporation tax on its rental income from 1 April 2012 following its establishment as a body corporate under the Budget Responsibility and National Audit Act 2011. The tax expense is recognised in the Statement of Comprehensive Net Expenditure.

Accounting policies for income

1.11 Audit fees, International Technical Cooperation and Secondment Income

The NAO charges fees for financial audits and other services where it is permitted to do so under legislation. It principally comprises fees charged on UK and international audits, costs recovered on the NAO's outward secondment programme to support Parliament and other government bodies, and fees charged for some of the NAO's international relations and overseas capacity building work. Income is recognised as it is earned, determined with reference to when the service is provided, less a provision for any unrecoverable amounts.

1.12 United Nations Board of Auditors income

In 2010 the NAO was appointed to the United Nations Board of Auditors for a period of six years. Fees for this work are fixed bi-annually in United States dollars and are shared in an agreed ratio between the three board members (currently Tanzania, India and the United Kingdom).

Due to the funding arrangements with the United Nations, payment is received in advance in equal quarterly instalments. These are reported as payments on account until earned.

1.13 Rental income

The NAO has entered into agreements to sublet part of its London headquarters building. Rental income is recognised within other operating income on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income over the non-cancellable term of the lease. A separate service charge is levied on an annual basis to recover costs borne by the NAO.

1.14 Value Added Tax on sales

Where output tax is chargeable, income is stated net of VAT.

Accounting policies for assets and liabilities

1.15 Property, plant and equipment and intangible assets

Expenditure of £5,000 or more on property, plant and equipment or intangible assets is capitalised where it is expected to bring benefit over future years. On initial recognition, assets are measured at cost and include all costs directly attributable to bringing them into working condition.

All non-current assets are reviewed annually for impairment and are carried at fair value. Property, plant and equipment is depreciated, and intangible assets amortised, at rates calculated to write them down to the estimated residual value on a straight-line basis over their useful lives.

Property, plant and equipment

Land, buildings, plants and machinery are stated at their current value in existing use on an annual professional valuation as at the end of the financial year. All non-property operational assets are deemed to be short-life or low-value assets and are therefore valued on the basis of depreciated historic cost as a proxy for fair value, because these are relatively short-life assets whose values do not fluctuate significantly over the period they are in use.

Asset lives are in the following ranges:

Land	Non-depreciable
Buildings	50 years
Plant and machinery	10–25 years
Computers and other equipment	3–10 years
Furniture, fixtures and fittings	5–10 years

Intangible assets

Intangible assets are licences for the use of software or costs of developing software. Intangible assets are amortised on a straight-line basis over the shorter of the term of the licence where applicable or the useful economic life.

Where the NAO purchases IT services which are cloud based, we do not capitalise the costs to use these services because we have no legal title to the software or hardware on which this information is stored.

Asset lives are in the following ranges:

Software	4–10 years
Licences	2–10 years

1.16 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and current balances held at banks. Any amounts held in a foreign currency are translated into sterling at the exchange rate on the date of reporting.

1.17 Trade receivables

Trade receivables are amounts due from audited bodies in respect of the statutory audit where the NAO charges a fee for services provided. These are recognised at fair value less a provision for non-recovery if there is evidence it is less than probable that the NAO recover the full amount due.

1.18 Accrued income

Accrued income mainly relates to fee-paying audit assignments and is determined on the basis of percentage completion of contractual work, less any provision for unrecoverable amounts.

Accounting estimates and judgements

1.19 Accrued income

In calculating accrued income for audit services, the NAO makes judgements as to the stage of completion of jobs. This involves an estimate of the remaining time and costs which are associated to complete work in progress at the year end. These estimates are provided by individual assignment managers and this information is used to determine the value of accrued income to include in the financial statements.

1.20 Property valuation

Each year the NAO considers the valuation of its buildings, and whether there has been a change year on year. The NAO uses a professional valuer to help arrive at these estimates. The valuation is determined by applying a capitalisation yield to an estimate of the market rental value of the property per annum. The value is apportioned between land and components of the building using an apportionment ratio consistent with longer-term trends. More information on the basis of valuation is included in Note 8.

Sensitivity analysis:

The valuation is sensitive to changes in the underlying assumptions. The key sensitivities are as follows:

- A change in value of equivalent yield of 0.5% could lead to fluctuations between £5million to £6million in the value of the building.
- A change in value of market rental value by £1 per square foot could lead to fluctuations of up to £2.2million in the value of the building.

1.21 Provisions

Where the NAO has a legal or constructive obligation to meet certain costs the NAO will make a provision based on a management estimate of the value, probability and timing of future payments. The most significant provision is an early departure provision for people who took early retirement prior to October 2010.

The early departure provision represents the NAO's best estimate of future cash payments due under the appropriate scheme. There are a number of factors such as annual inflationary increases and the continuing eligibility of former staff members to receive a pension which can affect the payments. Further information on the NAO's provisions is included in Note 13.

2 National Audit Office operating segments

	2015-16								
	Financial audit £000	Value for money £000	Investigations and insight £000	Support to Parliament £000	International relations £000	Comptroller function £000	Voted £000	Non-voted £000	Total £000
Gross expenditure	49,490	16,932	10,303	4,925	1,367	204	83,221	289	83,510
Income from services provided	(16,330)	–	–	(613)	(581)	–	(17,524)	–	(17,524)
Rental income	(1,063)	(364)	(221)	(107)	(29)	(4)	(1,788)	–	(1,788)
Net expenditure	32,097	16,568	10,082	4,205	757	200	63,909	289	64,198
	2014-15								
	Financial audit £000	Value for money £000	Investigations and insight £000	Support to Parliament £000	International relations £000	Comptroller function £000	Voted £000	Non-voted £000	Total £000
Gross expenditure	49,219	16,643	9,520	5,342	1,750	200	82,674	297	82,971
Income from services provided	(18,061)	–	–	(958)	(678)	–	(19,697)	–	(19,697)
Rental income	(995)	(336)	(192)	(108)	(35)	(4)	(1,670)	–	(1,670)
Net expenditure	30,163	16,307	9,328	4,276	1,037	196	61,307	297	61,604

The NAO reports expenditure and income on its provision of Audit and Other Assurance Services under six operating segments, more information on these can be found in the Performance Report. Included in the financial audit operating segment is international audit work with a gross expenditure of £2.7 million and income of £2.8 million.

Non-Voted expenditure includes the C&AG's and Chairman's salaries and is paid directly from the Consolidated Fund, which is outside of the control of the NAO.

Income from services includes fees charged on UK and international audits, costs recovered on the NAO's outward secondment programme to support Parliament and other government bodies, and fees charged for some of the NAO's international relations and overseas capacity building work.

Rental income cannot be directly attributed to the NAO's operating segments and has been apportioned.

3 Staff costs

	2015-16			2014-15		
	Total £000	Permanent staff £000	Temporary staff £000	Total £000	Permanent staff £000	Temporary staff £000
Wages and salaries	44,066	43,030	1,036	43,576	42,639	937
Social security costs	3,902	3,902	–	3,876	3,876	–
Pension costs	9,088	9,088	–	8,399	8,399	–
Gross costs	57,056	56,020	1,036	55,851	54,914	937
Secondment income	(613)	(613)	–	(958)	(958)	–
Net costs	56,443	55,407	1,036	54,893	53,956	937

Note

1 Details on staff numbers and related costs can be found in the Remuneration Report on pages 78 to 89.

4 Purchase of goods and services

	£000	2015-16 £000	£000	2014-15 £000
Professional services	10,537		10,713	
Facilities management	4,874		5,034	
Travel, subsistence, hospitality	2,249		2,396	
Office supplies and equipment	3,180		2,938	
Recruitment and training	1,855		1,982	
Staff-related costs	795		850	
Overseas office costs for UN work	113		231	
External auditors – audit fee	53		52	
External auditors – other work	95		95	
External auditors – prior year ¹	(41)		–	
Other administration costs	136		138	
Operating lease rentals	169		169	
VAT recoverable ²	(778)		(698)	
Total voted costs		23,237		23,900
Comptroller & Auditor General salary	245		244	
Chairman salary	44		53	
Total non-voted costs		289		297
		23,526		24,197

Notes

- 1 The final fees figure of the prior year VFM was lower than anticipated.
- 2 The NAO partially recovers VAT on its expenditure on an agreed methodology with HMRC, therefore VAT recovered cannot be directly attributed to specific expenditure and has been disclosed separately.

5 Depreciation and provision charges

	£000	2015-16 £000	£000	2014-15 £000
Non-cash costs				
Changes to early departure provision	34		116	
Changes to other provisions	–		(5)	
Changes in provision	34		111	
Depreciation on property, plant and equipment	2,549		2,310	
Amortisation on intangible assets	193		272	
Loss on disposal	–		9	
Impairment of non-current assets	–		94	
		2,776		2,796

6 Tax expense

	2015-16 £000	2014-15 £000
Corporation tax payable	152	127
	152	127

Tax reconciliation

	2015-16 £000	2014-15 £000
Rent	1,788	1,670
Allowable expenses	(1,029)	(1,054)
Taxable surplus	759	616
Tax rate	20%	21%
Marginal relief	–	(2)

7 Income

	2015-16 £000	2014-15 £000
Audit fees – UK	13,519	14,751
United Nations Board of Auditors	2,651	3,166
Audit fees – international	160	144
International technical cooperation	581	678
Secondment income	613	958
Rental of office space	1,788	1,670
Total income	19,312	21,367

8 Property, plant and equipment

	2015-16					Total £000
	Land £000	Buildings £000	Plant and machinery £000	Computers and other equipment £000	Furniture fixtures and fittings £000	
Cost or valuation						
At 1 April 2015	36,050	31,730	15,020	4,910	3,291	91,001
Additions	–	–	307	518	159	984
Disposals	–	–	–	–	–	–
Reclassification	–	–	–	–	–	–
Revaluation	(300)	2,126	899	–	–	2,725
Impairment	–	–	–	–	–	–
At 31 March 2016	35,750	33,856	16,226	5,428	3,450	94,710
Depreciation						
At 1 April 2015	–	–	–	2,983	1,750	4,733
Charged in year	–	644	883	661	361	2,549
Disposals	–	–	–	–	–	–
Revaluation	–	(644)	(701)	–	–	(1,345)
Impairment	–	–	–	–	–	–
At 31 March 2016	–	–	182	3,644	2,111	5,937
Net book value						
At 31 March 2016	35,750	33,856	16,044	1,784	1,339	88,773
At 31 March 2015	36,050	31,730	15,020	1,927	1,541	86,268

The NAO is the leaseholder of its London property. This is a long lease (130 years until 2111) and is at a peppercorn rent. The NAO accounts for this lease as if it owns the property. There are no finance leases and the NAO owns all other property, plant and equipment.

The FReM requires measurement at current value in existing use. Montagu Evans (independent property consultants and surveyors and a member of RICS) valued the land and buildings and plant and machinery at £85,650,000 as at 31 March 2016 (31 March 2015: £82,800,000). This was on an existing use basis for parts occupied by the NAO and at open market value for the parts occupied by tenants. The net effect of the revaluation as at 31 March 2016 of £4,070,000 increase was accounted for through the revaluation reserve.

8 Property, plant and equipment *continued*

	2014-15					Total £000
	Land £000	Buildings £000	Plant and machinery £000	Computers and other equipment £000	Furniture fixtures and fittings £000	
Cost or valuation						
At 1 April 2014	–	62,040	16,750	3,944	3,312	86,046
Additions	–	–	–	1,212	–	1,212
Disposals	–	–	–	(246)	(21)	(267)
Reclassification ¹	31,800	(31,800)	–	–	–	–
Revaluation	4,250	1,490	(1,730)	–	–	4,010
Impairment	–	–	–	–	–	–
At 31 March 2015	36,050	31,730	15,020	4,910	3,291	91,001
Depreciation						
At 1 April 2014	–	–	3,465	2,688	1,402	7,555
Charged in year	–	609	791	541	369	2,310
Disposals	–	–	–	(246)	(21)	(267)
Revaluation	–	(609)	(4,256)	–	–	(4,865)
Impairment	–	–	–	–	–	–
At 31 March 2015	–	–	–	2,983	1,750	4,733
Net book value						
At 31 March 2015	36,050	31,730	15,020	1,927	1,541	86,268
At 31 March 2014	–	62,040	13,285	1,256	1,910	78,491

Note

- 1 The prior year valuation of the NAO's land, buildings and plant and machinery provided a more detailed componentisation of these assets and allowed the NAO to attribute a separate value to the land it owns around its London property.

9 Intangible assets

	2015-16
	Total
Cost	£000
At 1 April 2015	3,255
Additions	160
Disposals [†]	–
Impairment	–
At 31 March 2016	3,415
Amortisation	
At 1 April 2015	2,374
Charged in year	193
Disposals [†]	–
Impairment	–
At 31 March 2016	2,567
Net book value	
At 31 March 2016	848
At 31 March 2015	881

Intangible assets are comprised entirely of software. The NAO owns all intangible assets and has no finance leases.

9 Intangible assets *continued*

	2014-15
	Total
Cost	£000
At 1 April 2014	5,122
Additions	25
Disposals ¹	(1,816)
Impairment	(76)
At 31 March 2015	3,255
Amortisation	
At 1 April 2014	3,891
Charged in year	272
Disposals ¹	(1,807)
Impairment	18
At 31 March 2015	2,374
Net book value	
At 31 March 2015	881
At 31 March 2014	1,231

Note

- 1 During the year, the NAO reviewed its asset registers and removed items that were no longer in use or with very little residual value. This resulted in a reduction in net book value of software of £9,000.

10 Trade and other receivables

	2015-16 £000	2014-15 £000
Amounts falling due within one year:		
Trade receivables	688	2,756
Deposits and advances	327	360
Other receivables	354	179
Accrued income	2,990	3,133
Prepayments	1,415	1,376
	5,774	7,804
Amounts falling due after more than one year:		
Deposits and advances	72	137
Other receivables	100	66
	172	203
Total	5,946	8,007

Other receivables include lease incentives granted to tenants of our London office.

11 Cash and cash equivalents

	2015-16 £000	2014-15 £000
Balance at 1 April	81	78
Net change in cash and cash equivalent balances	(3)	3
Balance at 31 March	78	81
The following balances were held at:		
Government Banking Service	53	58
Commercial banks and cash in hand	25	23
Balance at 31 March	78	81

12 Trade and other payables

	2015-16 £000	2014-15 £000
Amounts falling due within one year:		
Amounts payable to HMRC	376	303
Trade payables	259	159
Other payables	57	481
Accruals	4,972	7,399
UN Board of Auditors payments received on account	526	29
Other payments received on account	536	668
	6,726	9,039
Amounts issued from the Consolidated Fund for supply but not spent at year end	78	81
	6,804	9,120
Amounts falling due after more than one year:		
Other payables	72	122
	72	122
Total	6,876	9,242

Other payables includes lease incentive on the lease for our Newcastle office.

13 Provisions for liabilities and charges

	£000	£000
Balance at 1 April 2015		1,329
Unwinding of discounts	24	
Change in discount rate	10	
Changes in provision during the year		34
Provisions utilised in the period		(524)
Balance at 31 March 2016		839

13 Provisions for liabilities and charges *continued*

Analysis of expected timing of discounted flows:

	Early departures £000	Other provisions £000	Total £000
Payable within 1 year	338	–	338
Payable within 2–5 years	377	124	501
Payable in more than 5 years	–	–	–
Balance at 31 March 2016	715	124	839

14 Commitments under leases

Aggregate minimum lease payments are as follows:

	2015-16 £000	2014-15 £000
Obligations under operating leases comprise:		
Land and buildings:		
Payable within 1 year	122	122
Payable within 2–5 years	174	297
Total	296	419
Other payables:		
Payable within 1 year	103	59
Payable within 2–5 years	281	118
Total	384	177

The NAO has property in London and Newcastle. Its offices in London are under a long lease (130 years expiring in 2111) at a peppercorn rent. Its offices in Newcastle are leased for a period of five years (due to expire in 2018).

15 Future income due under non-cancellable operating leases

	2015-16 £000	2014-15 £000
Land and buildings:		
Receivable within 1 year	1,338	1,019
Receivable within 2–5 years	2,867	859
Receivable in more than 5 years	371	–
Total	4,576	1,878

The lease information above relates to the subletting of surplus space in the London headquarters building. The NAO has six tenants. The balance above reflects the cash payments expected over the remaining non-cancellable term of each lease. A separate service charge is also levied (and is included in rental income in Note 7) to recover the cost of utilities and other facilities costs borne by the NAO. This charge is not included within the figures above as it varies annually.

16 Financial instruments

The NAO's resource requirements are met from Parliament through the Estimates process and from income. The NAO has no powers to borrow money or to invest surplus funds. The only financial instruments held by the NAO are those which arise from the NAO's day-to-day operational activities and include trade and other receivables (Note 10), cash and cash equivalents (Note 11) and trade and other payables (Note 12). The carrying value of the financial instruments approximates to their fair value and the NAO is exposed to limited credit, liquidity or market risk.

Liquidity risk

The NAO's net revenue resource requirements and capital expenditure are financed by resources voted annually by Parliament or through fees charged to bodies funded by Parliament. The NAO is therefore not exposed to material liquidity risks.

Credit risk

The NAO's clients are mainly government departments, executive agencies and other public bodies. The NAO is therefore not exposed to material credit risks.

Foreign currency risk

From time to time, the NAO has some exposure to foreign currency markets because fees for some international work are denominated in US Dollars or Euros. Before pricing or commissioning work, the NAO seeks to identify the potential exposure to exchange rate variations and to manage the risk accordingly. The NAO does not maintain significant assets or liabilities in foreign currency, except for minor operational cash balances to meet short-term costs of overseas assignments. There is no material foreign currency exposure risk as at 31 March 2016.

17 Related party transactions

The NAO is headed by the Comptroller and Auditor General and was established as a body corporate by the Budget Responsibility and National Audit Act 2011. The NAO is independent of government and is accountable to Parliament through the Public Accounts Commission.

The NAO had transactions with government departments and central government bodies for the provision of accommodation, training courses and the hosting of seminars. Some of these transactions have been with entities which are fee paying clients.

The NAO also had transactions with HM Revenue & Customs to meet statutory taxation requirements and with the Cabinet Office which operates the Principal Civil Service Pension Scheme.

Key related parties transactions are summarised in the table below:

Related party	Nature of relationship with the party	Rent and service charge earned	
		2015-16	2014-15
Professional Standards Authority for Health and Social Care (formerly Council for Healthcare and Regulatory Excellence)	Central government body audited by the NAO. Occupied part of the NAO's headquarters building since October 2010	£279,386	£266,903
Ordnance Survey	Central government body audited by the NAO. Occupied part of the NAO's headquarters building since January 2012	£289,336	£253,826
The Skills Show	Subsidiary of the Skills Funding Agency which is a central government body audited by the NAO. Occupied part of the NAO's headquarters building since December 2012	£279,000	£279,000

There are no outstanding balances with related parties at the year end.

18 Events after the reporting period

There have been no significant events after 31 March 2016 that require adjustment to, or disclosure in, the financial statements.

Statement of National Audit Office financial impacts for 2015

The statement of financial impacts represents our estimate of the financial benefits achieved in 2015 following implementation of the NAO's recommendations to government. Financial impacts arise where there is a direct link between the NAO's work and a quantifiable beneficial change in an audited body. Financial impacts must be either: cashable, reducing expenditure or increasing revenue; non-cashable, leading to improvements in public sector efficiency through improved quality or service delivery; or represent benefits to third parties.

The NAO records an impact only when the related benefit has been brought about, when it has data to substantiate the benefit, and when the audited body gives its agreement. Because of this high threshold, there is usually a time lag between making recommendations and the impact being recorded. In calculating the value of impacts, the NAO deducts any implementation costs incurred directly by the audited body or indirectly by other parties.

Not all impacts can be quantified precisely including those that relate to qualitative efficiency gains and wider economic benefits. In these instances, the NAO bases the financial impact on careful judgement and estimation. The NAO recommendations are not always separable from other influences. In these cases, it agrees a proportion of an overall financial impact with the audited body, based on an assessment of the likely level of influence of its work.

The statement of impacts has been prepared in accordance with internal guidance. Estimates are subject to internal quality assurance review by senior management and internal audit. The leadership team endorses all impacts. The NAO reports impacts on a calendar year basis. A summary of the principles it applies is below:

- **Causation** – There must be a causal link between work conducted by the NAO and the benefit.
- **Realisation** – Impacts must have been realised within, or before, the calendar year in which they are reported.
- **Valuation** – Reliable evidence or data support claims, or both, and implementation costs are acknowledged. There must be a robust methodology to value the impact.
- **Attribution** – The proportion of impact claimed should reflect the NAO's degree of contribution to the benefit realised.
- **Validation** – All impact claims need to be validated by the audited body concerned (at sufficiently senior level) and approved internally.

2015 NAO impacts valued at more than £5 million

Description	Impact identified ¹ (£m)	Nature of impact	Year of claim	Audited body with whom impact agreed
<p>The cost of public service pensions, and the impact of the 2007-08 changes to public service pensions</p> <p>Savings resulting from government and other bodies renegotiating public sector pension scheme terms</p>	322	One-off	1 of 1	Cross-government
<p>Managing the Defence Inventory</p> <p>Reduction in inventory where there are already sufficient levels of stock</p>	302	Recurring	4 of 5	Ministry of Defence
<p>Tax revenue from accelerated payments</p> <p>Additional tax revenue HMRC received through accelerated payments when addressing tax avoidance</p>	192	Recurring	1 of 5	HM Revenue & Customs
<p>Tackling tax credits error and fraud</p> <p>Reduced costs due to the reduction of tax fraud and error overpayments</p>	100	Recurring	1 of 3	HM Revenue & Customs
<p>Procuring new trains</p> <p>Using refinancing to reduce the costs of lease payments for trains</p>	94	One-off	1 of 1	Department for Transport
<p>Capital funding for new school places</p> <p>Improved funding allocation, by the Department, for school places</p>	68	Recurring	1 of 3	Department for Education
<p>The procurement of consumables by NHS acute and foundation trusts</p> <p>Savings achieved in procurement activity</p>	30	Recurring	2 of 3	Department of Health
<p>Progress in tackling tobacco smuggling</p> <p>More penalties enforced and the reduction in supply of UK tobacco products to high-risk markets</p>	22	Recurring	1 of 2	HM Revenue & Customs
<p>Insolvency Service</p> <p>Identification of unclaimed dividends which should be paid to the Consolidated Fund</p>	16	One-off	1 of 1	Department for Business, Innovation & Skills
<p>Police procurement</p> <p>Savings from police forces achieving better value for money when procuring non-IT equipment</p>	16	Recurring	3 of 3	Home Office

Note

1 The column may not add up due to rounding.

2015 NAO impacts valued at more than £5 million *continued*

Description	Impact identified ¹ (£m)	Nature of impact	Year of claim	Audited body with whom impact agreed
Managing high-value capital equipment in the NHS in England Savings from bulk buying when purchasing high-value capital equipment	15	Recurring	3 of 3	Department of Health
Removal of failed asylum seekers from the UK A reduction in the losses which the Home Office and UK Border Agency incurred as a result of cancelled flights to deport failed asylum seekers from the UK	13	Recurring	6 of 6	Home Office
Progress on the Sellafield site Improved value for money and reduced costs from the use of secondees	5	One-off	1 of 1	Department for Energy & Climate Change
Subtotal	1,200			
Impacts below £5 million	13			
Total financial impacts	1,213			

Note

1 The column may not add up due to rounding.

Independent statement to the Public Accounts Commission

The Accounting Officer, on behalf of the Public Accounts Commission, has asked us to carry out an independent review of the Statement of Financial Impacts for 2015.

Respective responsibility of the Accounting Officer and the Auditors

The Accounting Officer is responsible for the measurement, assessment and reporting of the financial impacts achieved by the National Audit Office and ensuring that the principles for claiming impacts are applied in arriving at the total impact. We examine whether the information reported is reliable and fairly presented based on these principles and methodologies.

Scope of the review

In undertaking our review assurance is taken from the work performed by the NAO's internal auditor.

Our work comprises a review of the impacts claimed and supporting evidence relevant to those claims and the disclosures included in the Statement.

It also includes an assessment of the significant judgements made and whether the agreed principles have been appropriately applied by the National Audit Office in the Statement's preparation.

Opinion

In our opinion:

- The underlying principles as outlined in the Statement of Financial Impacts have been applied appropriately in the preparation of the Statement.
- The impacts noted are reasonably stated based on the underlying methodologies and assumptions under which the calculation is made, and have been agreed by the clients of the National Audit Office to which the impacts relate.
- Any impacts claimed over a period of more than one year have been reassessed and confirmed by the National Audit Office that the impacts remain appropriate.

Crowe Clark Whitehill LLP Statutory Auditor

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21 June 2016

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