



NAO

National Audit Office

**Working together
to achieve high
quality, timely and
efficient audits:**

Our audit contract with you

Contents

Over recent years there have been significant changes to accounting and auditing standards, as well as regulatory expectations around audit quality. We've prepared this guide to explain what's changed and the impact this has had on our audit approach.

Your NAO audit team will use the guide to complement existing meeting agendas. The guide covers:

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To help you, we have produced:

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We look forward to closely engaging with you on how we can work together to achieve high quality audit work.



Developments in audit quality and financial reporting requirements

Over the last ten years there have been fundamental developments in auditing and financial reporting standards and the expectations of users of financial statements and regulators. These changes have increased the requirements for those who prepare financial statements and their auditors.

From a financial reporting perspective, IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases* are examples of new standards that have resulted in greater judgement when preparing accounts. From an auditing perspective, examples include ISA 315 *Identifying and Assessing the Risks of Material Misstatement* which has enhanced the nature and consistency of audit risk assessments.

Regulatory expectations around audit quality have also evolved. The FRC review a sample of our audits and procedures annually. The findings from these reviews, along with the FRC's findings across the audit profession, provide us with feedback as to where we need to enhance the quality of our audit work. It also provides valuable insights on the issues facing the wider auditing profession and gives us the opportunity to benchmark our performance against the major audit firms.



The nature of the information you provide to auditors will need to demonstrate in more detail the basis on which judgements are made.

Our audit teams may ask more challenging questions and request additional evidence to support your judgements.

These developments require more robust evidence to support judgements made by management and increased challenge by auditors to demonstrate professional scepticism.

An overview of auditing and financial reporting standard changes can be found in Appendices 1 & 2.

What does this mean for you?

- 1 Engage early with us on changes to auditing and accounting standards and organisational developments that have a financial reporting impact.
- 2 Support us in focussing on financial reporting issues with the greatest areas of risk and judgement at an earlier stage.
- 3 Check that all key accounting judgements have supporting evidence that has been reviewed by management and, where appropriate, have been updated to reflect developments from the previous year.
- 4 Discuss with us the nature of audit evidence that is needed, and when and how this will be provided to us by management.
- 5 Ensure your timetable builds in time for quality control procedures by management and us.

What makes good audit evidence?

We are required to consider whether sufficient and appropriate audit evidence has been obtained to support the audit opinion, and whether there is corroborating or contradictory evidence available. Whilst audit evidence can take many forms, there are three consistent features that we consider in assessing audit evidence:

Sufficiency

Is there enough evidence to allow us to make an accurate judgement?

Where the risk of material misstatement in the financial statements is greater, then the quantity of audit evidence required is likely to be greater.

What does this mean for you?

- ✔ Do you have an understanding of the audit risk assessment and areas where the risk of material misstatement in the financial statement is greater, and where the requirement for audit evidence will be greater?
- ✔ Have you reviewed the evidence supporting key judgements and confirmed this is up-to-date (including for any developments during the financial year and post-balance sheet period)?

A complete list of the audit assertions can be found in Appendix 3.

Relevance

Is the evidence relevant to the audit work being undertaken?

Audit evidence must be relevant to the assertion being tested by us. So, for example, audit evidence relating to the existence of inventory or stock would not support the valuation.

What does this mean for you?

- ✔ Where audit evidence is generated internally, has this:
 - Been prepared by somebody with sufficient understanding of the issue? (including, where appropriate, consulting with management's expert).
 - Been subject to quality control review?
- ✔ Where audit evidence is obtained from independent sources, has this independence been confirmed?

Reliability

Can the evidence be trusted and relied upon to form an opinion?

Reliability is increased where it is obtained from independent sources outside of the organisation.

Where audit evidence is generated internally, effective controls over preparation and maintenance increases the reliability (for example, review of key judgements or involvement of management's experts).

What does this mean for you?

- ✔ Have you discussed with your NAO team what the nature of their testing relates to, so you can identify and provide relevant audit evidence?
- ✔ Have you reviewed evidence prior to submission to us to confirm this supports the nature of audit testing and is relevant to the assertion being tested?

Supporting timely annual reporting

High-quality audit also means timely publication of the audited annual report and accounts.

HM Treasury has an expectation that departments, non-departmental public bodies, agencies and trading funds should publish their financial statements by 30 June each year, and no later than the Parliamentary Summer Recess. For organisations which form part of a departmental group, group financial reporting and audit procedures need to be completed to support the audit of departmental resource accounts.

Timely reporting supports Parliamentary scrutiny of public spending and gives

the public assurance over the way in which public money is being used.

In 2023, 60% of the organisations audited by the NAO published their audited financial statements before the Parliamentary Summer Recess.

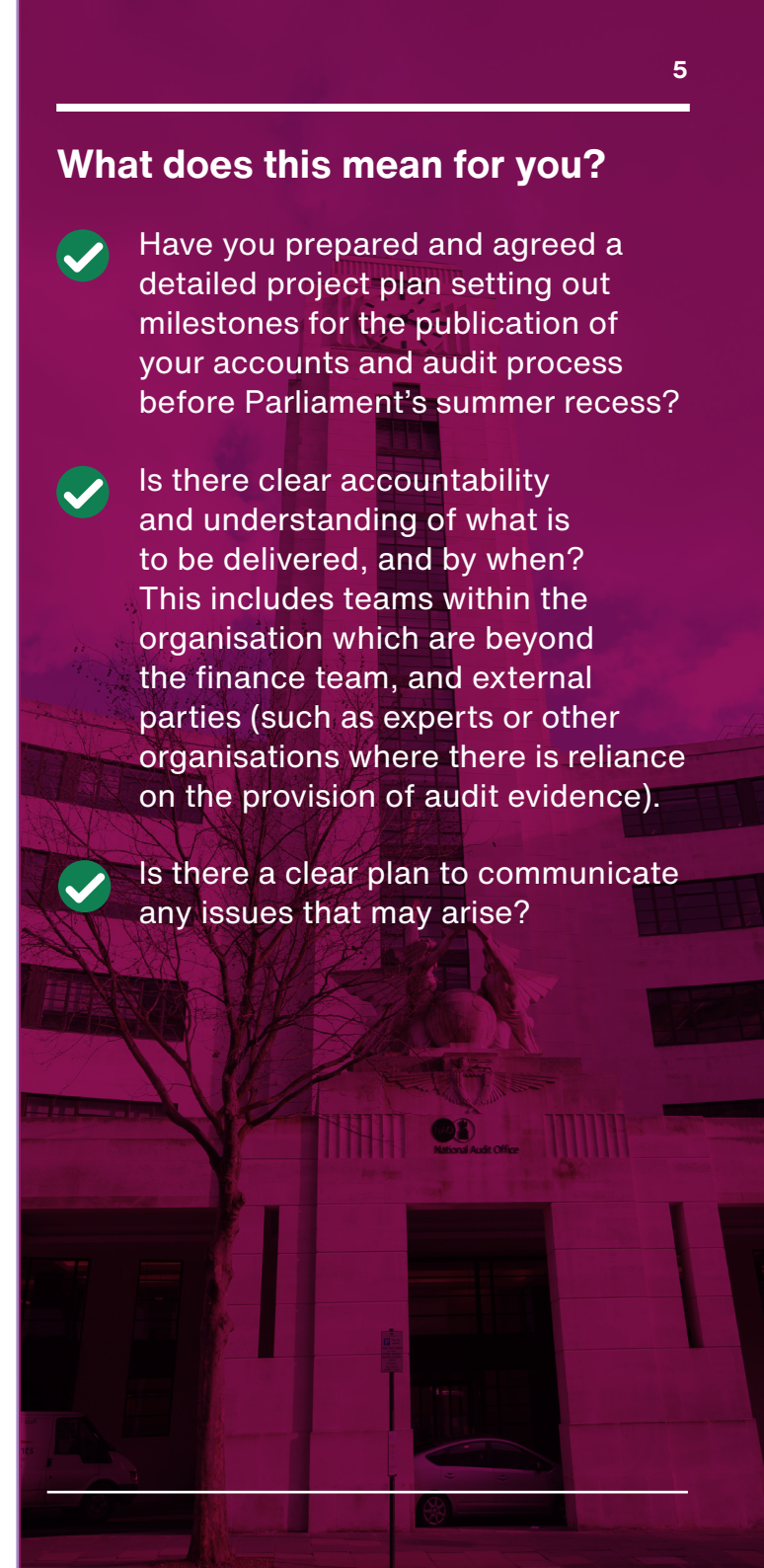
This was an increase of 53% from 2022, but is below the 70-80% typically achieved in years before the pandemic.

Our ambition is to help the bodies we audit to publish high-quality accounts to timetables that existed before the pandemic.



What does this mean for you?

- ✓ Have you prepared and agreed a detailed project plan setting out milestones for the publication of your accounts and audit process before Parliament's summer recess?
- ✓ Is there clear accountability and understanding of what is to be delivered, and by when? This includes teams within the organisation which are beyond the finance team, and external parties (such as experts or other organisations where there is reliance on the provision of audit evidence).
- ✓ Is there a clear plan to communicate any issues that may arise?



How we are supporting high-quality audit work

We are investing in our audit methodology, use of technology and our capacity. Alongside this, we consider transparency around audit quality as important to ensure that all parties play their part in delivering the ‘audit contract’.

Audit methodology and technology

Our Audit Transformation Programme is designed to improve the quality and efficiency of our audits and will bring greater insights to the organisations we audit through a refreshed methodology and modern technology.

We expect these changes will lead to improved quality

- by taking the auditor through a step-by-step process to assess risk, supported by a library of possible risks; and
- offering greater insight to management and Audit Committees through our audit work on the effectiveness of controls and opportunities for enhancement.

Capacity

We are investing to increase our financial audit headcount, due to an increasing number of audits falling under our remit and changing quality standards, which increase the volume of audit work.

Our 2024-25 Strategy and Estimate sets out our proposals to increase headcount by c.6% compared to 2023-24, with a 3% increase in the prior year due to the implementation of ISA 315¹.

To support the delivery of high-quality audit work in the most efficient way possible, all of our financial auditors undertook training in project management and delivery in autumn 2023.

We expect these changes will lead to improved quality

- by ensuring we have sufficient numbers of trained auditors to support the delivery of high-quality audit work.

Transparency

Our annual Transparency Report² sets out:

- how our audit practice is organised and how our quality assurance processes work
- the audit work we do
- how we safeguard our independence
- what we are doing to meet our people objectives; and
- our governance and accountability arrangements

Alongside our Transparency Report, the Public Accounts Commission holds an annual hearing on the quality of our financial audit work.


We expect increased transparency will lead to

- improved audit quality through facilitating discussions with the organisations we audit, Parliament and HM Treasury in its role leading the Government Finance Function. We see this as an important part of ‘the audit contract’, where the NAO, management and audit committees all have an important role to play in supporting high-quality audit work.

Notes

¹ [nao-strategy-update-and-estimate-2024-25.pdf](#)

² [Transparency 2022-23 \(nao.org.uk\)](#)

A close-up photograph of a person's hand holding a black pen, poised to write on a document. The hand is positioned over a laptop keyboard. The background is softly blurred, showing a window with natural light. A large, semi-transparent purple circle is overlaid on the right side of the image, containing text. A thin purple line also circles the hand and pen area.

How can you support high-quality audit work?

We have set out a checklist of the key actions that management and Audit Committees can take to support high-quality audit work.

Checklist on how management can support high-quality audits

1 Planning

- Have you held** a planning session with us, including discussion on:
 - Developments in financial reporting requirements and audit quality expectations?
 - An agreed timetable including milestones for the provision of audit evidence?
 - Our audit risk assessment, the nature of audit evidence that is needed, and when and how this will be provided by management to us?
 - The findings from the prior year's debrief session to incorporate learnings into the current year?
- Have you agreed** how progress will be monitored during the audit process and routes for escalation to resolve issues?
- Have any new and emerging** accounting judgements been identified and plans in place to address at an early stage?
- Where reliance is to be taken** from third parties (external experts and information providers, Group components such as arms-length bodies, agencies and others) has there been engagement and agreed timetables for provision in place?

2 Interim and final audit

- Before providing** audit evidence to the NAO, have you confirmed this is:
 - Sufficient
 - Reliable
 - Relevant
- Are there regular meetings**, both internally and with the NAO, to confirm that accounts production and audit timetables are progressing as planned and, if necessary, action taken to resolve any issues that arise?
- Have you built in sufficient time** for internal review of draft Annual Reports & Accounts and key judgements by senior management, the Audit Committee and, where applicable, Ministerial approval?
- Have you built in sufficient time** for NAO quality review procedures to allow the audit file to be finalised before the audit opinion is issued?

3 Post audit

- Have you held a debrief session** with relevant stakeholders to identify what worked well and areas where enhancements can be made? Key areas to consider include:
 - **The number of versions of draft** Annual Reports and Accounts and volume and nature of adjustments made; and
 - **Missed project plan milestones** and any areas that have led to audit overruns and the root cause of these issues.



Checklist on how Audit Committees can support high-quality audits

1 Planning

- Have you reviewed** a project plan in advance of the year end?
 - **Has it had appropriate** oversight and accountability at a senior level?
 - **Has it been agreed** with all relevant stakeholders including the NAO?
 - **Is the project plan sufficiently** granular and with clear milestones for delivery built in?
 - **Where the project plan aims** for earlier Annual Report and Accounts publication than in prior years, are these plans realistic and achievable?
- Has management identified** new and emerging key accounting judgements and has plans in place to address these at an early stage?
- How does management's assessment** of key accounting judgements align with the NAO's audit risk assessment? Are there any gaps and, if so, how are management and the NAO working to address these?
- Where the organisation** is adopting new accounting standards or other disclosures (eg, Taskforce on Climate-Related Financial Disclosures), has the Audit Committee been provided with a project plan for implementation?

2 Interim and final audit

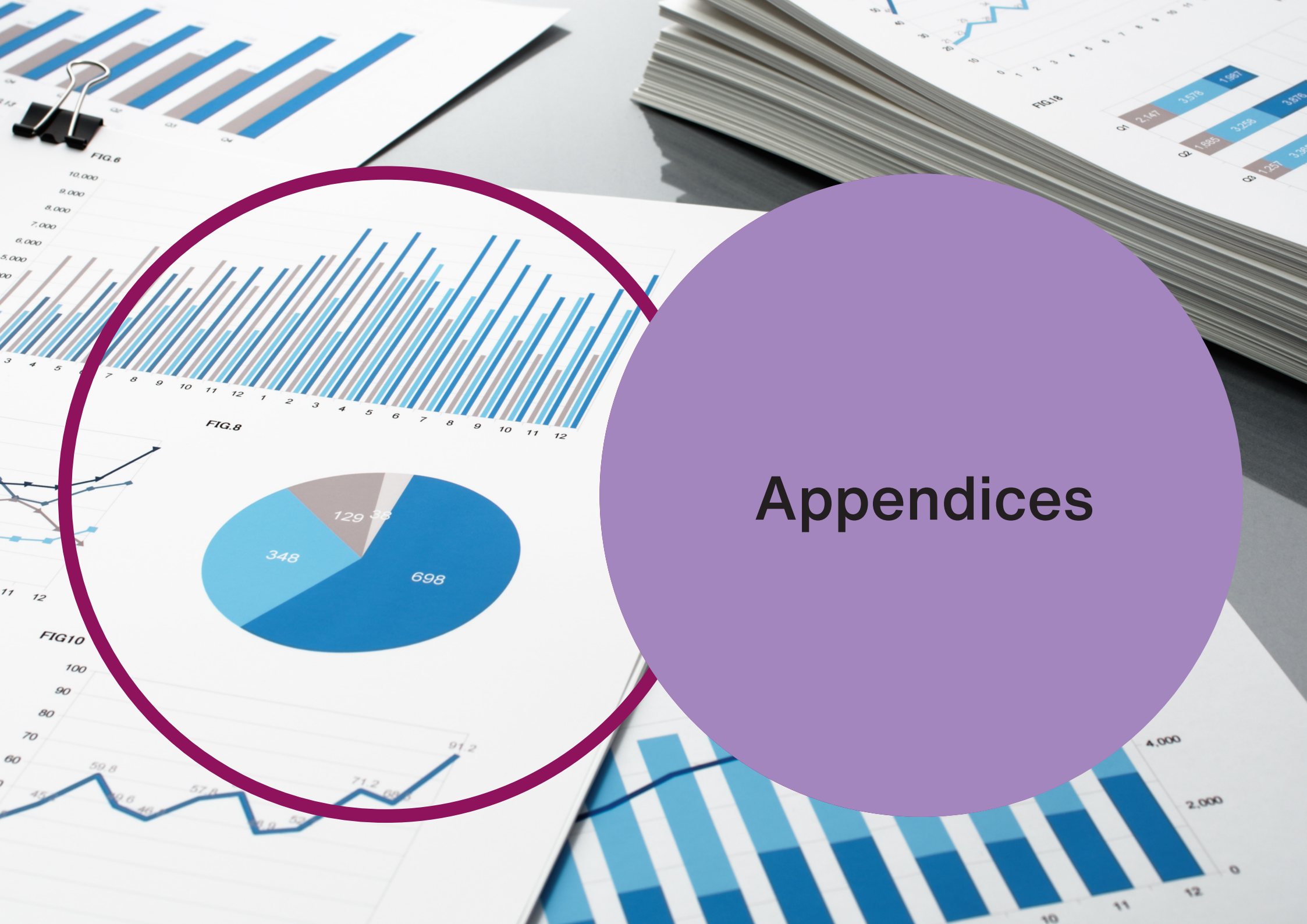
- Does the Audit Committee** have clear visibility of the key accounting judgements?
 - **Where these judgements** are historic, has management reviewed and considered whether these judgements remain appropriate before the year-end or whether any update is needed?
 - **Has the audit committee challenged** the assumptions that underlie management's judgements and estimates? Have these been impacted by recent events and economic conditions?
- Has management prepared** a skeleton Annual Report and Accounts, incorporating any changes in disclosure requirements and best practice
 - Has the skeleton Annual Report and Accounts been reviewed by management, NAO and the Audit Committee in advance of the year-end?
- If the audit is experiencing delays** in obtaining good quality evidence, does management and the Audit Committee have an understanding of why this is happening, and how can it be resolved?

3 Post audit

- Have you held a debrief** session with relevant stakeholders to identify what worked well and areas where improvements can be made? Key areas to consider include:
 - **The number of versions of draft** Annual Reports and Accounts and the volume and nature of adjustments made; and
 - **Missed project plan milestones** and any areas that have led to audit overruns and the root cause of these issues.
- Are you aware of** management letter points / recommendations raised us?
 - Does the Audit Committee encourage action to be taken on management letter points, especially those that relate directly to the audit process?



Appendices



Appendix One

The table below sets out a number of developments to auditing and financial reporting standards

Standard	Audit cycle effective from	What this means for our audit	What this means for you
ISA (UK) 315: Identifying and assessing the risks of material misstatement	From our 2022-23 audits	Changes to an audit risk assessment based on a deeper understanding of the audited body business, systems and processes.	<ul style="list-style-type: none"> Supporting the NAO in assessing the design and implementation of an increased number of systems and processes, particularly IT controls. An enhanced risk assessment which means the need to support key accounting judgements with sufficient, appropriate audit evidence. This may mean new areas of risk compared to previous years.
IFRS 16 (adapted by the FREM for public sector): Leases	From our 2022-23 audits	Introduces major changes to the accounting treatment of leases.	<ul style="list-style-type: none"> Increasing complexity in accounting for leases and associated enhanced requirements to support key accounting judgements with sufficient, appropriate audit evidence.
ISA (UK) 220: Quality management for an audit of financial statements	From our 2023-24 audits	Revises quality management at the audit engagement level, with additional requirements on the Audit Engagement Director.	<ul style="list-style-type: none"> Increased quality review requirements to be factored into audit timelines.
ISA (UK) 600: Audits of Group Financial Statements (including the work of component auditors)	From our 2024-25 audits	Strengthens responsibilities of Group financial auditors in areas such as professional scepticism, planning and performing the audit, communicating with component auditors, and documentation.	<ul style="list-style-type: none"> Where applicable, increased Group management involvement in accounting judgements and the audit process for components consolidated into the Group financial statements.
ISA (UK) 250: Consideration of Laws and Regulations in the context of an audit of financial statements (Subject to a consultation by the Financial Reporting Council)	From our 2025-26 audits	Expected to introduce a risk-based approach to identifying the laws and regulations which may have a material effect on the financial statements, and likely to increase those laws and regulations included as part of the audit.	<ul style="list-style-type: none"> The provision of additional sufficient, appropriate audit evidence to support audit procedures relating to additional laws and regulations considered to have a material effect on the financial statements.
IFRS 17: Insurance (Revisions to FREM requirements in respect of non-investment assets)	From our 2025-26 audits	Further planned changes to accounting standards which will require early preparatory engagement with audited bodies.	<ul style="list-style-type: none"> Where applicable, increasing complexity in accounting for insurance arrangements and associated enhanced requirements to support key accounting judgements with sufficient, appropriate audit evidence.

Notes

1 ISA = International Standards on Auditing (UK); ISQM = International Standard on Quality Management; IFRS = International Financial Reporting Standard; FREM = Government Financial Reporting Manual.

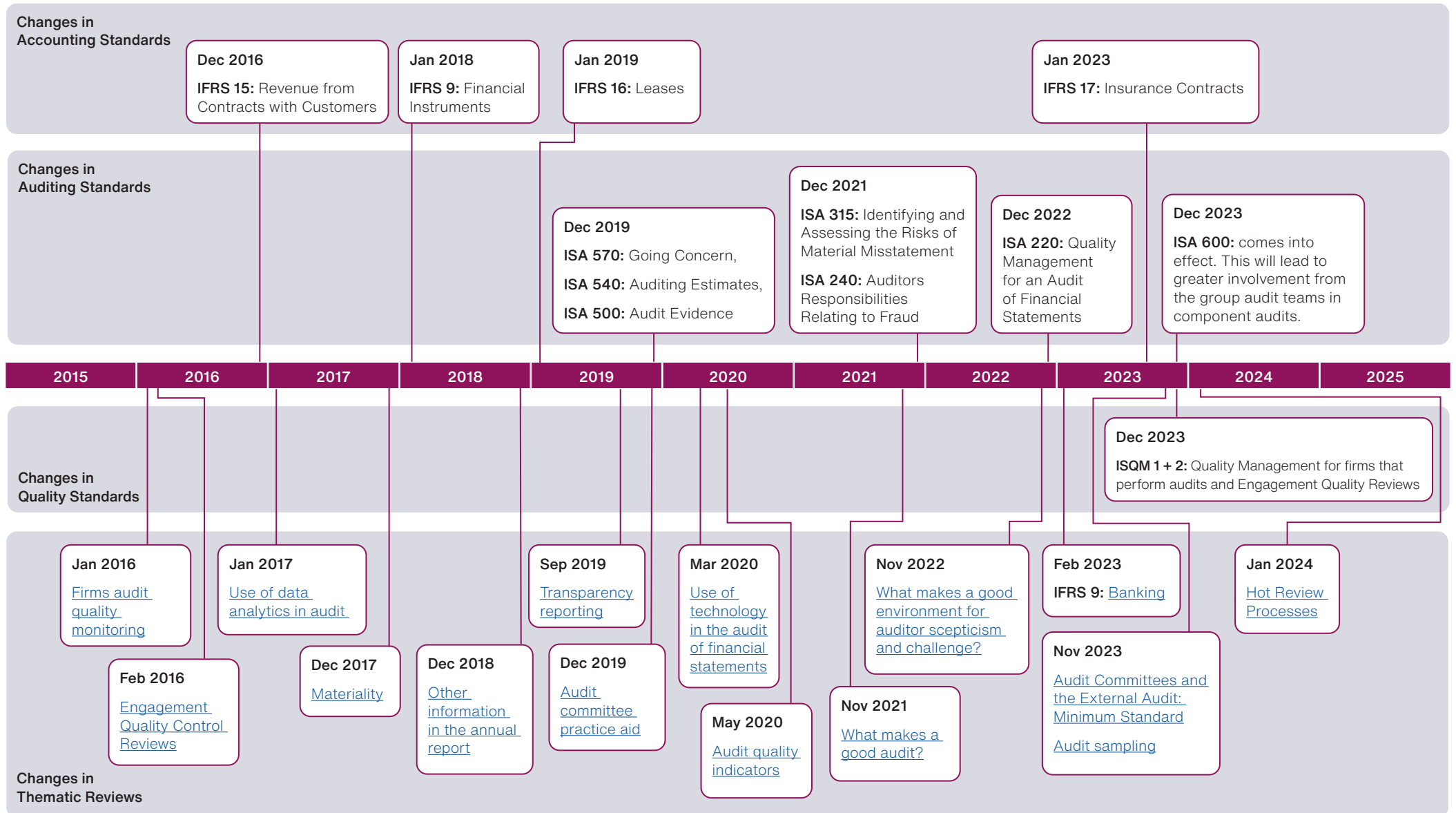
2 See ICAEW at: www.icaew.com/technical/audit-and-assurance/audit/quality-management-in-audit-firms/overview-of-standards

3 See the NAO's Transparency Report 2022-23 for more detail, available at: www.nao.org.uk/wp-content/uploads/2023/11/nao-transparency-report-2022-23.pdf

4 These regulatory developments build on earlier changes such as to International Financial Reporting Standard (IFRS) 9 (financial instruments), IFRS 15 (revenue) and ISA 540 (estimates).

Appendix Two

How auditing and financial reporting standards have evolved over the last decade



Appendix Three

Audit Assertions

Audit Assertions	Key Questions
Occurrence	Does the sampled amount relate to a real underlying transaction? How can we confirm from the evidence this took place?
Accuracy	Is the sampled transaction recorded at the correct value? Can we clearly see the amount per the sampled transaction on the invoice, or is a supporting calculation required? Has VAT been correctly treated?
Cut-off	Has the sampled transaction been recorded in the correct period? If required, has a prepayment/accrual/deferral been correctly posted at year end?
Classification	What does the transaction relate to? Does the account code and mapping to the financial statement line seem the most appropriate?
Regularity	Is the sampled transaction in line with the organisation's authority and the intention of Parliament?
Existence and Rights & Obligations	Is there a real asset somewhere or evidence of a present obligation giving rise to a liability? Can we confirm that the asset/liability "belongs" to the audited entity? i.e. is the cash in a bank account in their name
Valuation	Is the sampled balance correctly valued? Where can we see the final carrying value in the accounts in the evidence provided? Or in the case of an estimate, is the sampled balance reasonably/ appropriately valued? How has the balance been calculated?
Classification	What does the transaction relate to? Does the account code and mapping to the financial statement line seem the most appropriate?

