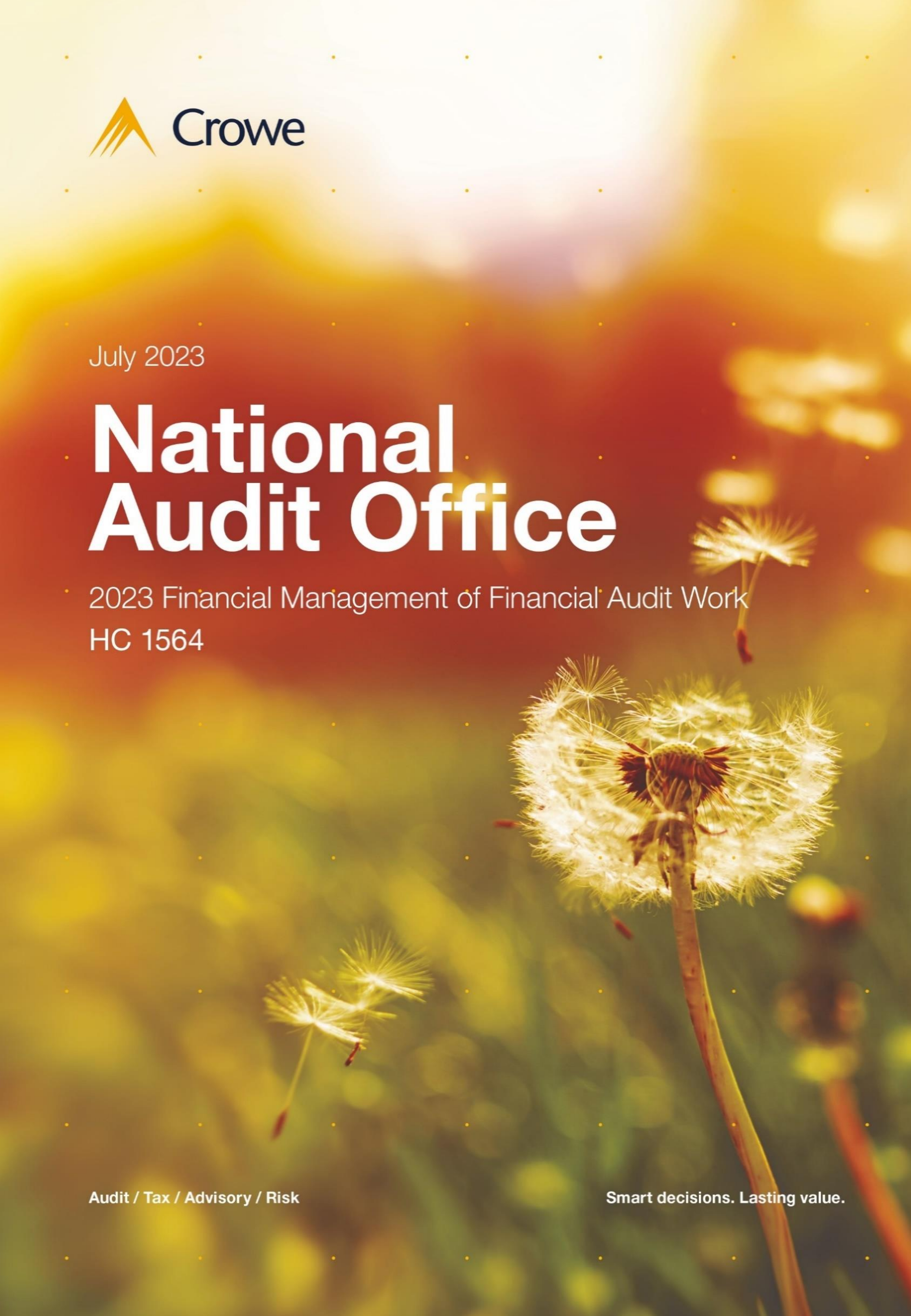

July 2023

National Audit Office

2023 Financial Management of Financial Audit Work

HC 1564

Audit / Tax / Advisory / Risk

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National Audit Office

2023 Value for Money – Financial Management of Financial Audit Work

Ordered by the House of Commons to be printed on 5th July 2023

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

Value for Money Study: Financial Management of Financial Audit Work

HC 1564

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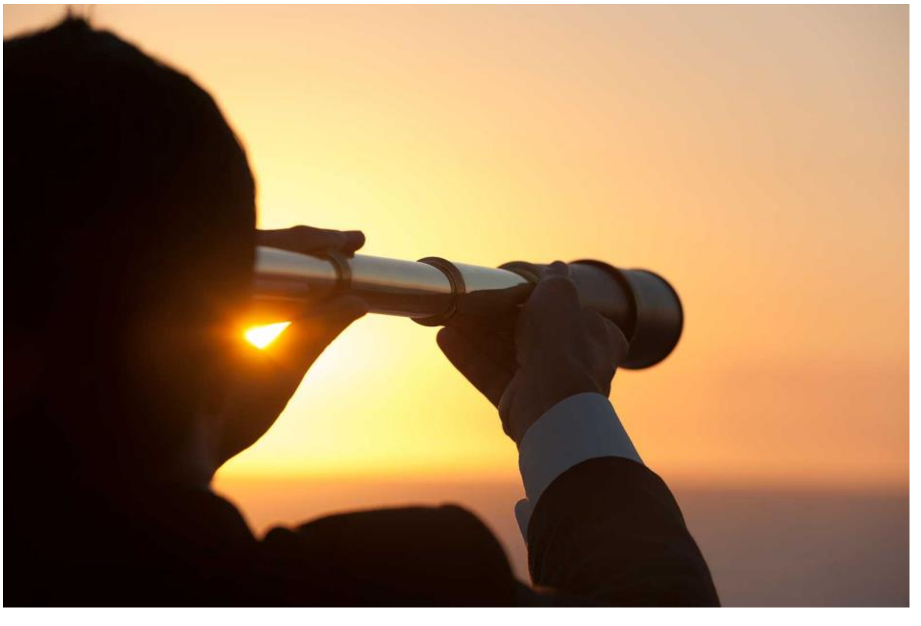
Contents



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

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Background

1. The National Audit Office (NAO) support Parliament in scrutinising the government's performance, providing high quality, objective evidence and analysis. The NAO's current strategy (2020-25) focuses on providing effective support to Parliament whilst providing insight to those responsible for public services.

2. As part of its own external scrutiny, the Board of the NAO commissions its external auditors, Crowe U.K. LLP (hereafter referred to as "Crowe"), to undertake an annual Value for Money (VFM) study to assess the extent to which the organisation is achieving VFM in its use of resources. This year's review focused on the Financial Management of Financial Audit Work.

3. In accordance with the 2020-2025 NAO Strategy, the NAO's three key strategic priorities are:
   i. improving its support for effective accountability and scrutiny
   ii. providing more accessible independent insight
   iii. increasing its impact on outcomes and value for money.

4. Three key enablers have been identified to achieve the NAO's strategy:
   - attract, retain and develop high quality people
   - make more effective use of technology, data and knowledge
   - aim to be an exemplar organisation.

5. The overall objective of the review was to provide assurance that the mechanisms in place to support the overall annual funding requirement relating to financial audit, alongside those in place to support financial estimates for individual assignments, are effective and in line with VFM principles.

6. The most significant area of operational spend for the NAO is in its provision of financial audit work. There is a need therefore to ensure that the approach to planning and development of estimates in the NAO's financial audit work not only represent value for money, but ultimately that budgets are sufficient to enable the delivery of high-quality audit work that complies with relevant standards.

7. There have been a number of global factors which have impacted the delivery of financial audit work. These include the significant pandemic impact and macro-economic factors, including the war in Ukraine, which impacts on the cost of service delivery for government. This affects not only departmental activities but internal delivery profiles of financial audits. The NAO has been undertaking the Audit Transformation Programme (ATP) to update its auditing methodology, working practices and use of technology, to address changing audit standards and requirements. In addition, inflationary pressures, across NAO salary scales, external costs, framework contracts and the sourcing of specialist expertise have all added further challenges to financial management of the financial audit work.

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8. In the development of planning and estimates for the delivery of financial audit work the NAO must respond to these external factors, alongside any machinery of government changes[1]. These impact the development of both plans and estimates for financial audit work, however these factors may not be known at the time of operational planning. The operational planning process supports the development of the overall estimate for the NAO, as submitted to TPAC for approval in March of each year.

9. Our review summarises the effectiveness of the systems and approaches that support the development of the financial audit estimates and the alignment to VFM principles.

Approach

10. The overarching approach to our review has been informed by the following questions:

i. Does the Business as Usual (BaU) investment and ongoing expenditure committed to the provision of financial audit engagements provide value for money?

ii. Do the systems in place support the economic use of financial audit resources?

i. Does the current approach to financial audit management drive the appropriate behaviours across the NAO to ensure the delivery of an efficient financial audit?

i. Is the current approach to financial planning sufficiently flexible to ensure that where more complex work is required that the NAO can respond appropriately, without sacrificing audit quality and / or delivery?

1 As set out in the Machinery of Government Guidance (Cabinet Office, October 2015) the guidance highlights that a Prime Minister "…is responsible for the overall organisation of the executive and the allocation of functions between ministers…". A Machinery of Government Change (MoG) is reflective of any proposed changes that impact "…the allocation and the responsibilities for the discharge of ministerial functions…".

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Conclusion on Value for Money

11. **We consider that the investment**[2] **and ongoing expenditure committed to the provision of financial audit engagements represents value for money for the organisation.** Our assessment relates to the overall systems and processes in place that support the development of financial audit estimates at the NAO.

12. The NAO has never exceeded its approved budget. The support and improvements in relation to the operational planning process led by the Financial Audit Operations (‘FAOps’) team facilitate the effective delivery of robust financial audit estimates that are subject to challenge by Executive Directors and the Comptroller and Auditor General (‘C&AG’). Notwithstanding the challenges in the development of estimates, as highlighted in this report, the approach is effective in supporting the Finance team led financial model for the delivery of the overall NAO Estimate.

13. Management information supports staff in the on-going management of their financial audit assignments. Information is shared on a weekly and monthly basis, with information accessible by teams in real time. Reporting and information available supports decision making both at a group and central level.

[2] Investment relates to the on-going ‘Business as Usual’ expenditure relating to the Financial Audit Service Line. Our review does not conclude on the wider Audit Transformation Programme (‘ATP’) which is to be considered as part of a wider VFM study in future years.

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Recommendations

14. The recommendations raised relate to actions and issues identified as part of this review. A number are known to management and are part of the ongoing development work across both Finance and Financial Audit Operations.

Recommendation One: Utilisation of temporary staff

There is an anticipated and planned reliance on temporary staff to support the NAO in the delivery of financial audits during peak periods.

Alongside regular monitoring of temporary staff usage already in place, it is recommended that the usage of temporary staff is periodically reviewed to confirm that the approach provides value for money for the NAO. This should consider factors such as cost to recruit, cost to onboard and potential changes to framework partner resource models to address shortfalls in resourcing.

Recommendation Two: Framework Partners

The utilisation of Framework Partners in the delivery of financial audits, incurs a level of additional cost for the NAO in relation to the necessary audit / quality review that facilitates the C&AG to discharge his responsibilities in presenting the audit opinion. These additional costs, internal NAO staff costs, are representative of a combination of the time to ensure quality of the work performed and wider client management responsibilities. These are not passed onto the client.

We note that the NAO is considering procurement options following the conclusion of existing contractual arrangements in 2026. We recommend this evaluation should be a review of the costs and benefits of a broad range of delivery models, and explicitly capture the full cost of operational delivery including tracking the level of additional input required by the NAO on these engagements, which can be benchmarked and used in framework partner engagement, performance management and subsequent negotiation.

Recommendation Three: Accountability and performance management

The alignment between financial management of financial audit assignments and overall individual performance reviews should be reviewed. At present this is implicit rather than explicit in the performance management process.

The NAO should ensure that financial and project management of financial audit assignments is clearly embedded within individual performance reviews for project managers. This review should evidence that overall performance evaluation effectively captures the expected behaviours associated with the financial management of financial audit work, in the context of delivery against each aspect of the balanced scorecard domains set out in section 2.1.1, and that where there is scope to improve delegated financial management, this is effectively addressed, and support is provided to individuals.

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Recommendation Four: Training and guidance material

There is need for the NAO to assess the level of guidance and training available to audit staff in respect of financial management, particularly for new managers. This will contribute to setting responsibilities and accountabilities at the right level across the NAO to empower staff to support effective financial management and to prioritise actions in line with their respective Group and portfolio objectives. Guidance and training should seek to demonstrate the importance of compliance activity on overall effective financial management and decision making.

Recommendation Five: Cost Recovery

There is no element of contingency built into the operational planning process for Parliamentary fee audits when preparing the estimate for TPAC approval. Additional costs can be incurred for Parliamentary fee audits in excess of those budgeted at operational planning as a result of factors external to the NAO, such as machinery of government changes or additional specialist resources required which were not known at planning.

These costs are managed by the NAO through the re-prioritisation of other work, which has an impact upon the NAO's outputs and activities for the year.

We recommend that the NAO explore options for the recovery of additional costs incurred for parliamentary funded audits when these costs are the result of external circumstances which would not be known at the point of planning and operational estimates being presented to TPAC. These costs which are needed to carry out the audit to the required standards could arise at any point during the audit cycle.

Options could include the consideration of contingency through the parliamentary supply estimate or direct recovery from the department's own budget by charging a cash fee for unplanned overruns.

When evidencing the basis for additional costs, this should include the reasons for the additional fees, the mechanism for recovery and the supporting evidence for any audit cost increase.

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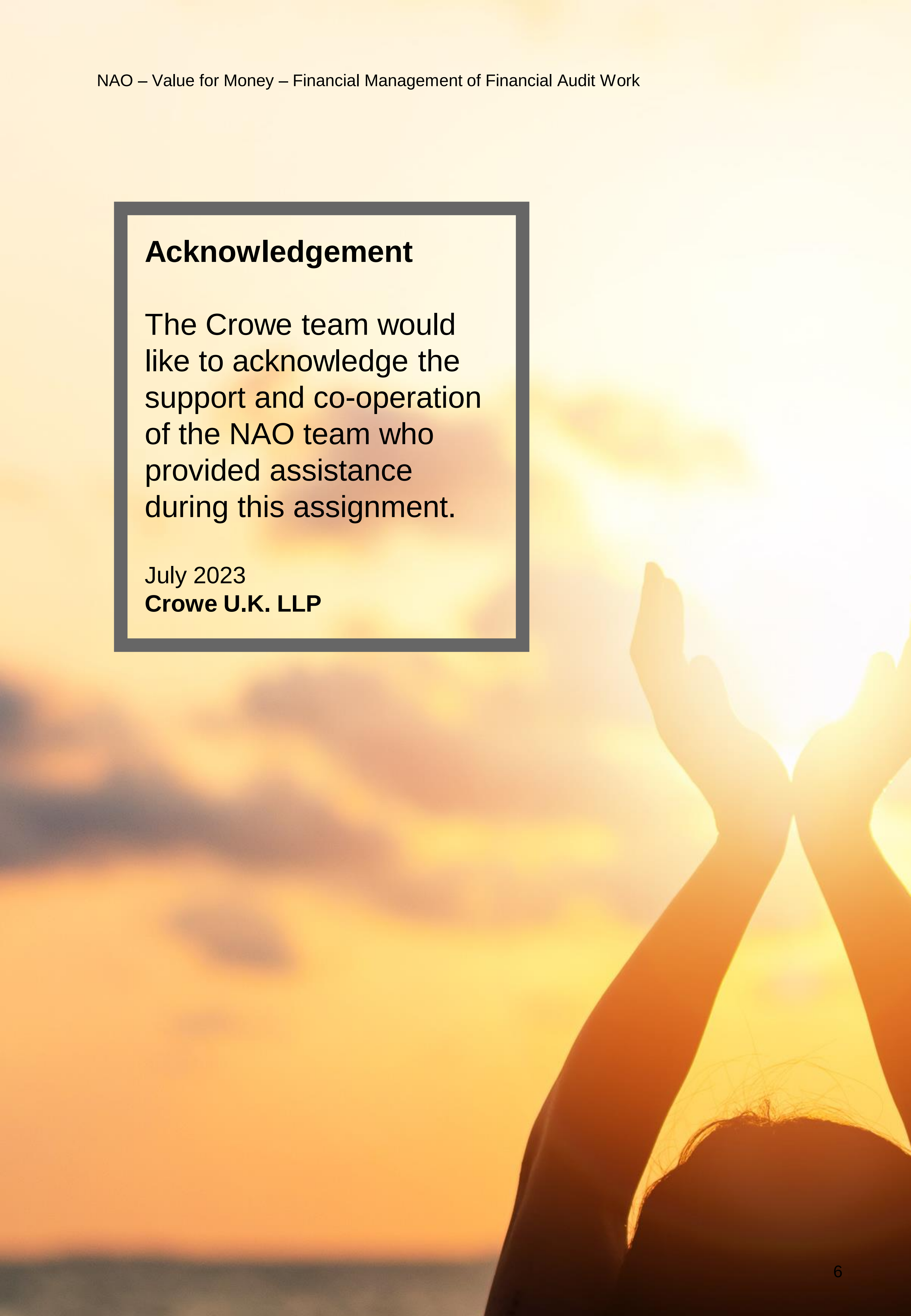

Acknowledgement

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

July 2023
Crowe U.K. LLP

Detailed findings

1. Financial audit programme delivery

1.1 Operational Planning

Introduction

1.1.1. The NAO delivers circa 400[3] financial audits. This represents the most significant element of the NAO's operations followed by value-for-money, wider assurance work, international work and wider support provided to Parliament.

1.1.2. The NAO delivers the majority of financial audits in-house, with approximately one fifth[4] delivered by framework partner audit firms, who are appointed through a competitive tender process. The audit year 2022-2023 represents the second year of the latest set of framework contracts (refer to 1.4 Framework Partners).

1.1.3. The estimate process to both the Public Accounts Committee (PAC) and the Public Accounts Commission (TPAC), culminates in the approval of the NAO Estimate in March of each year for the subsequent financial year. The development of the Estimate is led by the Finance team at the NAO. The Estimate requires the contribution of the Financial Audit Service Line in its delivery of the operational planning process.

1.1.4. There is no element of contingency built into the operational planning process for Parliamentary fee audits when preparing the estimate for TPAC approval. Additional costs can be incurred for parliamentary fee audits in excess of those budgeted at operational planning as a result of factors external to the NAO, such as machinery of government changes or additional specialist resources required which were not known at planning (further explored in section 1.2).

1.1.5. These costs are generally absorbed by the NAO or recovered through the re-prioritisation of other work, which has an indirect impact upon the NAO's activities. This also increases the risk of staff managing an unsustainable extended work portfolio, rather than factoring in wider training and development opportunities. Where significant, a supplementary estimate can be submitted.

Financial audit operations

1.1.6. The operational planning process for financial audit delivery is led by the Financial Audit Operations ('FAOps') team and involves all groups[5] undertaking a bottom-up exercise across all auditable entities. The outputs of the operational planning process enable the FAOps team to identify required complements of staff, expected peaks and troughs of demand for resources during the year, estimates of projected utilisation of specialist expertise and travel costs. This process supports the generation of the NAO Estimate.

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[3] FA Operations Review and Challenge Pack identify 411 Financial Audit certifications.
[4] FA Operations Review and Challenge Pack identified 23% of audits delivered by Framework Partners.
[5] The NAO has five operational groups in addition to the corporate group which delivers the NAO's strategic and operational functions. The five operational groups are: Central, Infrastructure, International, Society and Local, each led by an Executive Director.

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1.1.7. The operational planning process is undertaken during the period October – December. This considers the following three phases:

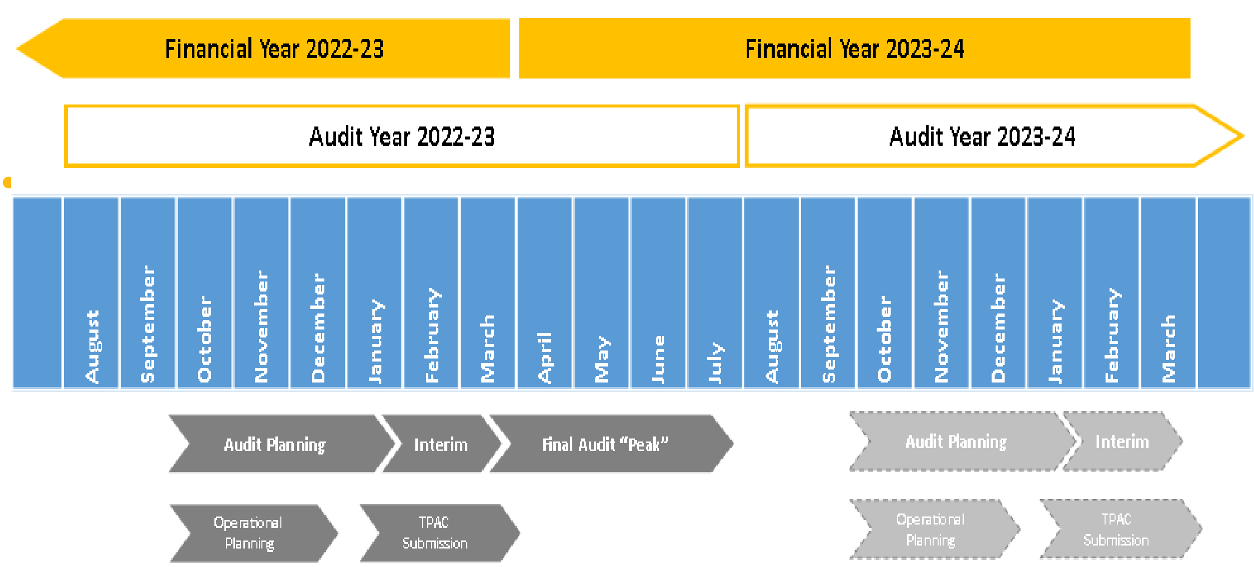
- **Phase One:** This first phase is undertaken by the Project Director and Project Manager reviewing fees and budgets within the system.
- **Phase Two:** Group Executive Directors review all audit fees and budgets for their groups, supported by the Group Resource Director. Budgets are then approved by the group Executive Director.
- **Phase Three:** The Comptroller and Auditor General (‘C&AG’), supported by the Executive Director for the Financial Audit Service Line and FAOPs, reviews all audit fees and budgets with each group Executive Director. This step is supported by the Group Resource Director.

1.1.8. The operational planning process is The signed off by the Executive Team in January alongside subsequent Board review and approval, ahead of finalisation of the Estimate to TPAC. The operational planning process utilises benchmarks across clients, split by risk profile and size of the auditable entity. This acts as a guide to ensure consistency across entities and supports challenge conversations as part of phase two and phase three detailed above.

Detail of the operational planning process

1.1.9. The operational planning process establishes audit fees and budgets for two audit years, a requirement of the annual funding arrangements in place. For example, for the development of the Estimate for the NAO financial year 2023-2024, operational planning requires teams to update information relating to the audit years of 2022-2023 and the potential costs for 2023-2024. Audit fees and budgets must be split between NAO financial years to support the generation of the NAO Estimate. Chart 1.1.9 below illustrates the operational planning cycle and demonstrates the split of financial years.

Chart 1.1.9: Operational Planning Process



1.1.10. As per table 1.1.10. as part of operational planning NAO staff are required to submit the following elements that contribute to the overall budget for audit assignments.

Table 1.1.10: Elements of an operational planning budget

Element	Description
Audit fee	This relates to either 'cash fee[6]' or 'Parliamentary fee[7]'.
Internal cost budget	Internal staff costs, including temporary staff[8].
External cost budget	The cost of the audit firms in delivering the audit and / or specialist expertise.
Expense budget	Travel and subsistence costs.

1.1.11. The type of audit fee (cash or Parliamentary) varies depending upon the organisation being audited and the nature of the work being performed. Under the Budget Responsibility and National Audit Act 2011 (BRANA), the NAO may charge cash fees to audited bodies for statutory audit work where there has been agreement by a Minister of the Crown. This applies to non-departmental public bodies, trading funds and other organisations which operate at arms-length to government departments. Where the work is a NAO-approved service (for example, assurance work which is not a statutory audit) then BRANA requires a cash fee to be charged to the audited body. All other audit work is funded by Parliament and reflected in the notional expenditure of an audited body.

1.1.12. The generation of estimates for audit assignments is based on information known at the time by audit teams and key assumptions relating to those audits. Whilst operational planning may capture audit planning being undertaken for pre-recess audits in November, interim audits will not have been undertaken and similarly both planning and interim audits will not have been undertaken for post-recess audits. Interim audits are undertaken during the period January – March and are significant in any audit planning process as further risk areas may be identified that were not known at the planning stages. If further risks are identified or new audit areas that had not previously been disclosed by the client, audit budgets will subsequently require updating.

1.1.13. In the period prior to the pandemic, audit cycles were largely consistent year on year, bringing a level of predictability to the business cycle and audit planning process. The impact of the pandemic, whilst not only affecting the operational delivery of audits, has had a considerable impact upon the complexity of the financial audit work and the volume of work required.

1.1.14. An example of this is the additional work relating to loan recoverability, valuation of assets and the related fraud and error risk associated with the Recovery Loan Scheme. This work would not have been anticipated during the operational planning process. More recently, this has included government initiatives responding to the cost of living support and the associated audit risks.

[6] In line with the fee scheme approved by the Commission the NAO can charge a 'cash fee' for government bodies and companies operating at arm's length from departments. Fees are expected to fully recover the cost of the audit.
[7] Parliamentary fees are those in built into the estimate model for the NAO. No cash fees apply to these auditable entities.
[8] Temporary resources are included within audit budgets at the NAO equivalent resource cost.

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1.1.15. There is therefore an inherent challenge in the operational planning process for the NAO. The existence of the annual funding cycle gives rise to a level of uncertainly in the development of audit estimates, given that audit planning will not have been undertaken. **In our view, the approach undertaken by the NAO is an effective mechanism to support the development of an overall estimate for financial audit work.** Our review has assessed a sample of completed audits for the audit year 2021-2022 to evidence that the operational planning process and on-going financial management is aligned to VFM principles.

1.2 Approach to fee estimates

1.2.1. The NAO charges audit fees directly to the audited body for around 240 of the 400 accounts which it audits[9] (around 30% of the total audit work by value[10]). The remaining 160 audits and all associated audit support activities are funded directly by Parliament (around 70% of total audit work by value[11]).

1.2.2. The NAO charges audit fees directly for those government owned bodies and companies which are required to operate as far as possible in a commercial manner and consequently, it has been deemed appropriate that they should be charged a normal commercial audit fee. The NAO charge audit fees directly to those bodies where appointment is by agreement rather than by legislation (for example the audit of international bodies) and the agreement allows for a fee to be charged. These audit fees are accounted for as income in the financial statements.

1.2.3. The NAO is prohibited from charging audit fees directly for the audits of central Government Departments unless the Minister agrees. Consequently, the practice has been that costs of these audits are met from the NAO's annual Parliamentary funding and are accounted for as a grant recognised in reserves rather than income. The NAO provides Departments with notional fee information for disclosure in their financial statements – a disclosure requirement under audit standards.

1.2.4. Where the NAO charges audit fees directly to the audit body, the NAO does so in accordance with the fee scheme approved by the Commission (most recently in its evidence session in March 2019). Fees are set with the aim of recovering the full cost of the audit.

1.2.5. Audit fee income across the last three financial years, is summarised in the table 1.2.5 below.

Table 1.2.5: Audit fee income[12]

Financial year	Audit Fee Income (£'000)	% movement
2019-2020	£20,214	-
2020-2021	£21,858	8.13%
2021-2022	£22,996	5.21%

[9] Certification milestone report for the audits relating to the financial audit year end 2022-2023.
[10] NAO strategy: Progress update and estimate memorandum for 2023-24 (please see figure 14). Please note values included in the disclosure at 1.2.1 do not reconcile through to the Annual Report & Accounts on the basis that the milestone report considers the lifetime income for the specific audit year, of which income will be recognised across different financial periods. .
[11] Ibid.
[12] Audit fee income included within the National Audit Office Annual Report and Accounts, per Note 6 for the periods: 2021-22, 2020-21 and 2019-20.

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1.2.6. As at January 2023, audit fee income for the year 2022-2023 is forecast at £25,377k, an increase on the prior year of 10.35%. The increase is due to a number of factors. Most significantly work from the prior financial year, 2021-2022, being delayed to 2022-2023 alongside fee increases to clients.

1.2.7. Audit fees are agreed with the relevant entity at the planning stage and included within audit planning reports. Audit fees charged are representative of the level of expected work required to comply with International Standards on Auditing ('UK') ('ISAs UK'), to meet the necessary quality expectations (International Standard on Quality Management ('ISQM1') and the necessary resources / skills mix required for each audit.

1.2.8. A key challenge for the overall financial management of the NAO is the timing of expected income across financial audits and the associated costs. The NAO must operate within the overall budget envelope set by Parliament. As such, this requires both the operational planning process and on-going financial management of financial audits is to be closely monitored by teams.

1.2.9. The operational planning process requires teams to split income and costs across financial years, however this is all undertaken prior to formal planning and detailed audit field work being undertaken. As such there is always the possibility that there will be changes in the scope and profile of the audits to be conducted based on information received subsequent to the operational planning process.

1.2.10. Our review was not able to identify the magnitude of changes in allocation across financial years between operational planning and actual performance across all financial audits the NAO undertakes. We understand however, that this is an area that has been addressed by the FAOps Team in the current financial year. The greater transparency provided as a result of the change in system reporting will provide greater insights for audit teams as to the allocation of costs between financial years (see 2.1.12 for the new reporting tool introduced at the time of our audit). **The transparency in this area will provide valuable insight for the NAO across each audit to identify those audits of greatest variance to provide further context and support in the operational planning process.**

1.2.11. It is recognised amongst those consulted as part of the review that full cost recovery for cash fees is an area that is continually monitored. Where there are audit overruns (i.e., extra time and resources are required to deliver the audit) and the costs can be directly attributable to the auditable entity, (for example, due to the identification of a new risk area not disclosed at planning or information not being provided during the audit), supplementary fee increases will be negotiated with the client to recover these costs.

1.2.12. In the current year ISA (UK) 315 (Revised July 2020)[13] was adopted representing a significant change in the identification of risks of material misstatement, and how the NAO respond to these risks. The NAO, for the current year, did not pass on the one-off costs associated with the implementation of ISA315. This contributed to a short-term deficit position as these costs were not passed onto clients. It is important to note however, that where additional work was incurred that directly related to the client, outside of the categorised costs, these costs were invoiced.

1.2.13. Whilst the NAO is able to negotiate additional fees for its fee-paying clients, the same is not possible for those where parliamentary fees apply. The following case study (1.2.13) demonstrates an instance where additional external fees were incurred in the undertaking of an audit of a parliamentary funded audit. This resulted in the NAO having to identify funds from elsewhere in its budgets to supplement the additional costs that had not been known at the time of operational planning.

[13] The International Standard on Auditing (UK) 315 (Revised July 2020) entitled Identifying and Assessing the Risks of Material Misstatement, came into effect for periods starting in December 2021, and later (i.e. years ending 31 December 2022). The changes to the standard are fairly fundamental, and are intended to change the way that audit firms approach the identification of risks of material misstatement, and by extension, how they respond to these risks.

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1.2.13. | Case Study One: Financial instruments

Operational planning process challenges

The operational planning process for a government department anticipated a total budget of £325,100, for 2021-22, predominantly driven by internal costs of delivery. No external costs were anticipated during planning because there was no indication that they would be necessary at that time. The parliamentary fee was set at £325,100 on the basis of full cost recovery. Subsequent to the operational planning process, further work was required on an options pricing model to the value of £100,000 (exclusive of VAT), on the basis that the auditable entity had not engaged external experts in the development of the options pricing model. In line with the ISA UK, the auditor is required to prepare an auditor estimate to identify if there is material inaccuracy in management's valuation. The work required was delivered by a specialist team from one of the framework partners. These costs were not recoverable from the client on the basis that this is a parliamentary fee and as such the NAO was required to approve internal funds to be reallocated to cover these costs. The additional costs were escalated to approval of the Executive Team, for which approval was duly granted.

This illustrates the challenges for which the NAO must respond to during the year which are not known at the operational planning stages. The audit was scheduled to be signed off in July 2022 however was not subsequently certified until December 2023, demonstrating the impact on the delivery of the financial audit.

Total costs incurred for audit year 2021-2022 totalled £426,002, a difference of £96,000 to original anticipated cost and Parliamentary funding. This was funded by the NAO. The management accounts highlighted that this represented circa 10% of the external costs of the applicable group for all parliamentary audits undertaken by the group, which as unplanned.

Subsequent changes to Audit Fee

Through our work undertaken for the review, whilst such costs could not be reflected in the fee for the auditable entity, the NAO has agreed with the Audit Committee at the client that the fee for the 2022-2023 audit is set at £500,000 to reflect the additional costs for the 2021-2022 year and estimated costs for 2022-2023.

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1.2.14. There are instances where significant departmental changes can impact upon the work undertaken by the NAO. These can occur at any time and challenges arise if these are not known at the time of the NAO's submission of its Estimate. An illustrative example is provided in the below Case Study (1.2.14).

1.2.14. | Case Study Two: Machinery of Government change

In February 2023 the Prime Minister announced a series of changes within Government relating to the Department or Business, Energy and Industrial Strategy (BEIS). The announcement made a number of changes to the current departmental structures, including the creation of a new Department for Energy Security and Net Zero (DESNZ) and changes to both the Department for Digital, Science, Innovation and Technology (DSIT) and the Department for Business and Trade (DBT).

This not only impacts the NAO in its operational delivery of the financial audits, including the addition of new audits, associated consolidations and demerger risks, but also internally in how work is allocated across its groups.

The announcement in February 2023, was post operational planning and the development of the Estimate required for the 2023-2024 financial year. The NAO has responded to these changes by undertaking preliminary assessments as to the likely impact on their financial audit budgets and whether further funding is required. These initial evaluations are based on current estimates and experience in working with such bodies, however any such estimates will require further detailed engagement with the departments as to their likely impact.

The NAO expects significant additional costs as a result of the new audit work relating to the Machinery of Government change. These costs include NAO staff costs and external specialist support costs to support financial audit delivery and value for money work.

The case study seeks to demonstrate the challenges for the NAO in responding to events that are beyond their control and the subsequent impact on their wider financial management.

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1.2.15. The case studies above reflect significant changes to budgets subsequent to operational planning. Additional examples of subsequent changes to budget from financial audits sampled during the review include:

- Specialist insight sought from framework partners on specific sector issues which led to costs in excess of those included at operational planning (external costs).
- Additional risks identified and increases in auditable balances after operational planning. Examples include additional work on a defined benefit pension scheme (in response to Audit Quality Review[14] findings) and a covid related programmes (internal costs).
- An overall decrease in both internal and external cost budgets due to client related delays in the delivery of the prior year financial information. This meant that there was no information available for the following audit year at operational planning. year. On the provision of financial information costs budgets were revised downward (external and internal costs).
- Framework partner costs finalised subsequent to operational planning resulting in teams updating financial audit budgets (external costs and internal costs).
- Movements in travel costs, including increases (relating to post covid travel restrictions being lifted) and decreases (reflective of client preferences) (expense budgets).

1.2.16. The above illustrate the challenges experienced by the NAO as they respond to new risks and structural changes across auditable entities that are identified / announced subsequent to the operational planning process. Whilst further fees (to recover costs) can be negotiated on cash fee audits, the same is not possible for Parliamentary fees. Mechanisms available to the NAO include absorbing additional costs, reprioritising other work or through submission of a supplementary fee estimate[15] to Parliament. The latter in recent years has related to the following:

- Funding relating to the Newcastle lease (capital budget, resource budget and net cash requirement) October 2022[16]
- Funding relating to the additional resources and cash required to undertake new audit and assurance work requested by Parliament for the remainder of the year 2016-2017 November 2016[17]

1.2.17. The supplementary estimate is the main mechanism available to the NAO to request additional resources from Parliament to deliver its work. However, historically this has not been utilised for the more operational aspects of the delivery of financial audit work. The supplementary estimate is only available until December in a financial year (given the approvals required) while financial audits may still be in progress where there are complex issues to be resolved. Therefore, it will not cover all unplanned events that could affect an audit.

1.2.18. Inherent in the process by which departmental audits are funded through the supplementary estimate is the challenge that auditable entities are not held accountable for the efficient delivery of their audit.

[14] Inspections undertaken of NAO financial audits undertaken by the Audit Quality Review team ('AQR') of the Financial Reporting Council ('the FRC').
[15] Supplementary estimates, supplement the Main Estimate and are utilised to request additional resources, capital and / or cash where this is required.
[16] National Audit Office Supplementary Estimate 2022-23 (October 2022)
[17] National Audit Office Supplementary Estimate 2016-17 (November 2016)

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1.2.19. Parliamentary fees impact on a department's resource limit approved by Parliament via the Parliamentary Estimate process. However, as Parliamentary fees are non-cash in nature there is a risk that these do not attract the same incentives for departments to drive efficiency in the accounts and auditing process in the same way as a cash audit fee might. To drive greater accountability and drive efficiency by the departments or audited entities, alternative options should be explored to support recovery of additional costs.

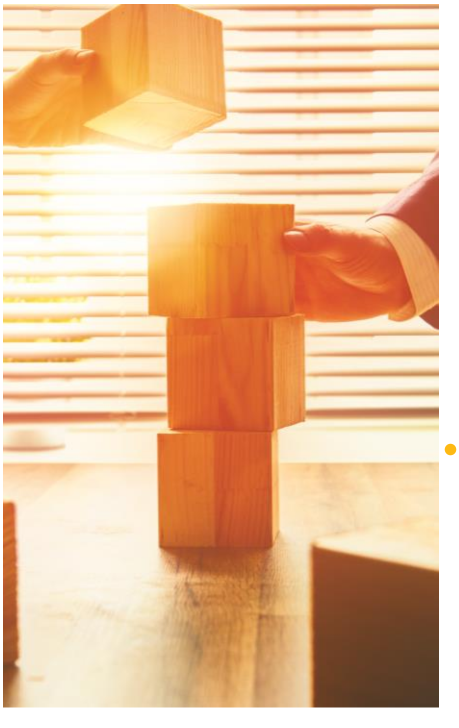
1.2.20. **We recommend that the NAO explore options for the recovery of additional costs incurred for parliamentary funded audits when these costs are the result of external circumstances which could not be known at the point of planning and operational estimates being presented to TPAC. These costs which are needed to carry out the audit to the required standards could arise at any point during the audit cycle.**

1.2.21. **Options could include the consideration of contingency through the parliamentary supply estimate or direct recovery from the department's own budget by charging a cash fee for unplanned overruns.**

1.2.22. **When evidencing the basis for additional costs, this should include the reasons for the additional fees, the mechanism for recovery and the supporting evidence for any audit cost increase.**

1.3 Framework Partners

1.3.1. The NAO engage private sector firms, 'Framework Partners,' to undertake approximately one fifth of financial audit work, referred to as 'contracting out.' Of the total audit fee income[18] contracted out audit fees equate to 20% of total audit fee income for the NAO. The framework partner agreements were renegotiated two years ago, with the audit year 2021-2022 being the first audits to be delivered under this new agreement. Total spend for 2021-2022 audits was £6.7m; including overruns this increased to £6.9m. Estimates for the forthcoming audit year 2022-2023 equate to £8.0m. These costs are prior to both VAT and the allocation of NAO overhead. This cost is exclusive of costs associated with the sourcing of specialist expertise from the framework partners. This increase reflects inflationary cost pressures and extended scopes, not limited to ISA (UK) 315 (Revised July 2020)[19] requirements.



[18] Details as per the FA Operations Review & Challenge Pack (reflective of Financial Force as at 23/01/2023).
[19] The International Standard on Auditing (UK) 315 (Revised July 2020) entitled Identifying and Assessing the Risks of Material Misstatement, came into effect for periods starting in December 2021, and later (i.e. years ending 31 December 2022). The changes to the standard are fairly fundamental, and are intended to change the way that audit firms approach the identification of risks of material misstatement, and by extension, how they respond to these risks.

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1.3.2. The framework partners were selected following a competitive procurement process. The initial agreement term is for a three-year period with the option to extend for two further one-year periods. It is expected that the contracted-out auditable entities will remain the same for the duration of the agreement, notwithstanding any changes to the client portfolio. The NAO does not involve the framework partners in the provision of resources to supplement NAO staffed audits, i.e. work is not undertaken on a co-sourcing basis. Audit firms are either engaged with the delivery of the audit or provide specialist expertise where this is required (for which a specialist framework is in place).

1.3.3. Expenditure, and the on-going relationship with the framework partners, is an area subject to on-going review by the NAO. Delivery and performance of the audit firms is embedded within the contract which has a number of KPIs, including delivery to timescales and quality of service. If any performance issues are identified, this would lead to a rectification plan. On a formal basis, performance is reviewed quarterly, supplemented with on-going engagement between audit teams, FAOps and the audit firms.

1.3.4. An annual feedback session is undertaken of all partner firms at the end of the audit cycle, this includes both NAO and audit firm staff. Following the latest annual cycle, the NAO enhanced the 'Protocols' document which responded to feedback from the previous audit cycle and aligned to ISA (UK) 220[20]. The document is supported by an annex that sets out the granular expectations of what the NAO would expect to see when reviewing audit firm files. The NAO delivers training to partner firms and NAO staff about expectations and requirements for delivering a contracted-out audit.

1.3.5. For framework partner audits, an electronic audit file is maintained on the relevant framework partner's audit software. This is held external to the NAO. The whole audit file is not replicated within the NAO audit software but a file, maintaining sufficient audit evidence to support an audit opinion, is held on the NAO audit system.

1.3.6. There are a number of mechanisms in place that monitor the on-going quality of the audit firms. This includes a 'hot review' that is undertaken of the NAO audit file prior to an audit opinion. For framework partners, audit documentation is maintained on the partner's own system, with key audit records transferred to the NAO audit file.

1.3.7. 'Cold reviews,' those that are undertaken after the audit has been completed and an audit opinion issued, are also undertaken of the NAO audit file to identify any issues and act as the key assurance mechanism that the audit firms are performing to the NAO's quality expectations. As detailed in the 'Single Financial Audit Quality Plan' cold reviews are reverting to the pre-pandemic approach that extends the review to the audit firm's file, not only the NAO file.

1.3.8. There are a number of recognised benefits in the engagement of audit firms for the NAO which support value for money in the financial audit process. These include:

- specialist expertise when required
- support during the financial audit operational peak
- opportunities to benchmark NAO approaches to that of large firms, not limited to financial audit approaches but wider people related matters e.g. training.

1.3.9. The approach to the selection of the framework partners is on the basis of matching the audit firm's expertise to the nature of the work required across the allocated auditable entities.

[20] International Standard on Auditing (UK) 2020 (Revised July 2021) Quality management for an audit of financial statements introduce new requirements for firms to proactively identify and respond to risks to quality.

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1.3.10. However, the utilisation of a framework partner incurs a level of additional costs by the NAO that is not recoverable through the audit fee to auditable entities. The NAO feel that a client should not be disadvantaged on the basis of a decision by the NAO to contract out their audit. These costs relate to the audit work and quality review undertaken by NAO staff to facilitate the C&AG in discharging their responsibilities in certifying the audit opinion.

1.3.11. In relation to the operational planning conducted for the 2022-2023 audit cycle, internal costs, relating to contracted out audits, represented 8.6%, compared to 9.7% for the 2021-2022 audit cycle. ISA (UK) 220[21] revisions are likely to increase the work required by NAO staff**. It is therefore of importance that the NAO continue to monitor the costs and benefits of the contracting out model to ensure that the operational arrangements and fees agreed represent continued value for money for the NAO. This should include monitoring the level of resources required for quality review and client relationship management as part of the contracted audit process.**

1.4 External temporary resources

1.4.1. The NAO resourcing model assumes a level of utilisation of temporary resources in the delivery of financial audits during the audit peak and to address any shortfalls in anticipated headcount. The table below summarises staff costs across the NAO for the last three financial years.

Table 1.4.1: Permanent and temporary staff costs

Financial year	Permanent staff cost (£'000)	Temporary staff cost (£'000)	Total staff cost (£'000)	% of cost representing temporary resource
2019-2020	£61,687	£2,724	£64,411	4.23%
2020-2021	£66,721	£2,600	£69,321	3.75%
2021-2022	£69,554	£3,893	£73,447	5.30%

1.4.2. The 2021-22 increase in temporary resource costs reflects the variance between planned and actual headcount, (940 and 911 respectively).

1.4.3. Our previous VFM study in respect of the NAO ('National Audit Office - 2022 Human Resources') highlighted the challenges in both recruitment and retention across grades at the NAO which is representative of the wider audit profession. The on-going impacts in this area will cause challenges for on-going headcount and increases in temporary resource utilisation.

1.4.4. Whilst Table 1.4.1 presents the costs of temporary resources across the NAO, the table on the next page (Table 1.4.4) indicates these costs specifically applicable to the financial audit service line.

[21] International Standard on Auditing (UK) 2020 (Revised July 2021) Quality management for an audit of financial statements introduce new requirements for firms to proactively identify and respond to risks to quality.

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Table 1.4.4: Temporary staff cost in the Financial Audit Service Line

Financial year	Temporary staff cost (£'000)	Increase (%)
2012-2019	£1,097	-
2019-2020	£1,729	57.62%
2020-2021	£2,142	23.92%
2021-2022	£2,855	33.28%

For the 11 months to February 2023, temporary resource expenditure was £2,544k. The table above illustrates the increasing costs relating to the utilisation of temporary staff in the delivery of financial audit work. This is representative of the on-going challenges in financial audit work in the response to the pandemic and on-going recruitment challenges within the audit sector.

1.4.5. Year-end management accounts across the last two financial years and year to date have highlight the overspends in temporary staff budget.

Table 1.4.5: Temporary staff expenditure (Actuals vs Budget)

Financial year	Estimate (£'000)	Outturn (£'000)	Estimate to outturn variance (£'000)
2020-2021	£1,300	£2,599	+£1,299
2021-2022	£1,500	£3,849	+£2,394
2022-2023[22]	£1,500	£2,988	+£1,488

Because of the difficulties in recruitment and retention of permanent staff, the NAO has utilised more temporary staff which have been funded by underspends in the permanent staff salaries budget.

1.4.6. The decision when to utilise temporary resources is the responsibility of the FAOps team, within the budget approved by the NAO's Executive Team. The centralisation of such decision making avoids the potential for decision making to be made at a group level, that does not consider wider resource availability or indeed, wider financial audit prioritisation.

1.4.7. The identification of resourcing shortfalls is monitored on an on-going basis and more formally as part of the Financial Audit Weekly Operations Dashboard. The FAOps team assign temporary resources on the basis of an agreed prioritisation criteria. This schedule provides a clear basis to inform decision making across the organisation and highlights areas within the business cycle for completion of training.

[22] 2022-2023 – This relates to the 11-month period to February 2023.

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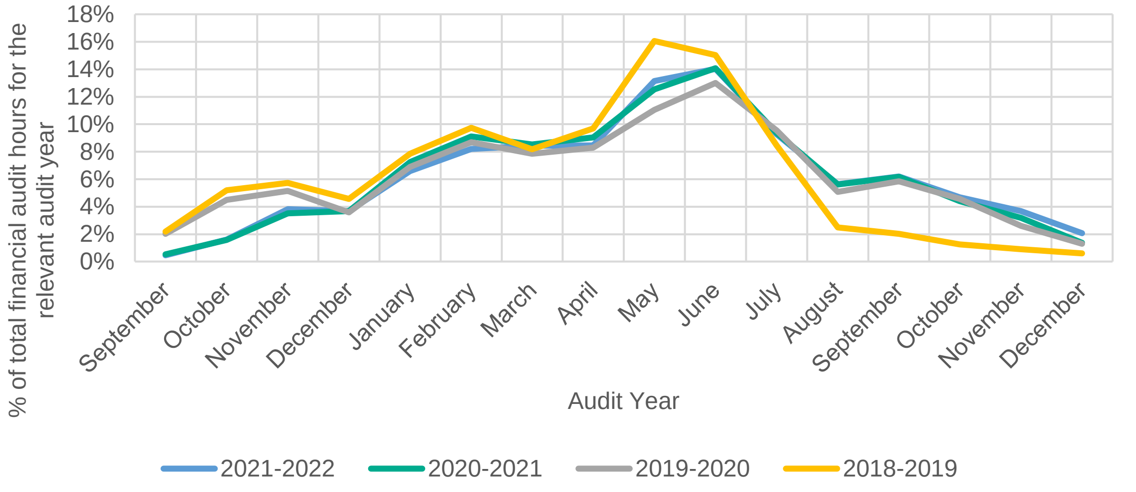
1.4.8. Analysis conducted on the basis of hours worked within financial audit are illustrated below.

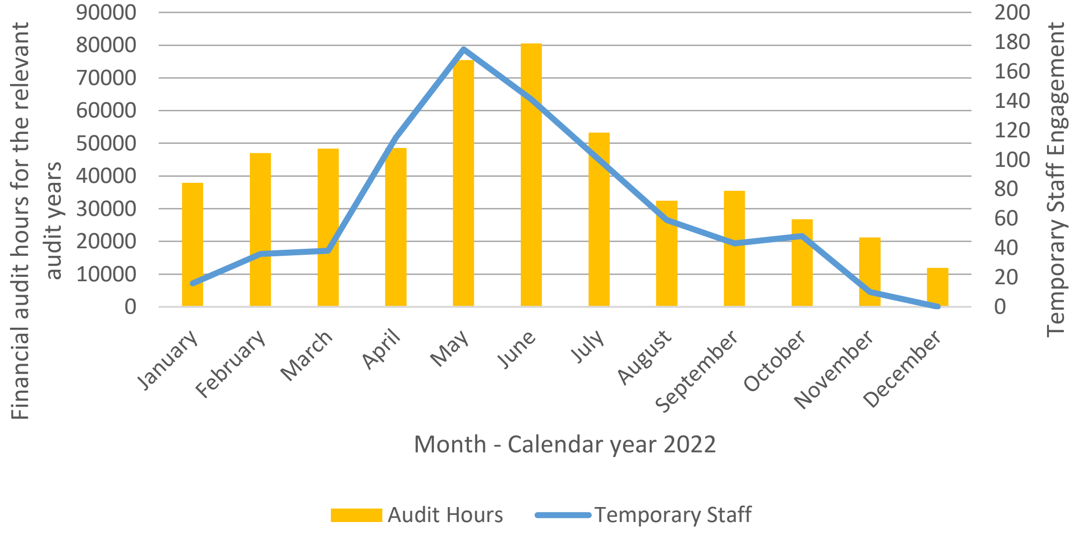
Chart 1.4.8: Analysis of time allocated to the delivery of financial audits



The above chart illustrates the proportion of hours charged to financial audit across each audit cycle. There is a clear peak in the period April – June, representative of the delivery of pre-recess audits. This period aligns with the engagement of temporary staff to support peak delivery, where periods outside the peak are manageable through existing resources.

1.4.9. Temporary staff engagement and the alignment to the audit peak is presented below.

Chart 1.4.9: Analysis of time allocated to the delivery of financial audits and the use of temporary resources.



1.4.10. The chart highlights the impact of the pandemic on financial audit delivery. Whilst the 2018-2019 and 2021-2022 audit years follow similar trends through to April, the peak for 2018-2019 was May whilst for 2021-2022 the peak was during June. Whilst for the 2018-2019 audit year, there was a steep fall between the hours recorded between June - August, an overall fall of 80%, the fall was less steep for 2021-2022. This is indicative of the challenges in delivery post-pandemic as timescales are extended and work conducted over a longer period to respond to client needs and on-going complexities of the nature of financial audit work required to be performed.

1.4.11. To respond to peaks, the financial audit programme is flexed where it is possible to maximise the utilisation of internal resources. Where re-scheduling of audits is undertaken this is subject to Executive Team approval.

1.4.12. There is an anticipated and planned reliance on temporary staff to support the NAO in the delivery of financial audits during peak periods. These increases are a combination of the higher levels of usage alongside temporary staff cost inflation, which is in excess of NAO wage inflation.

1.4.13. **In light of increasing costs within the market for temporary workers, and the comparatively expensive solution this represents, it is recommended that the usage of temporary staff is periodically reviewed to confirm that the approach provides value for money for the NAO. This should consider factors such as cost to recruit, cost to onboard and potential changes to framework partner resource models to address shortfalls in resourcing.**

1.5 Audit Transformation Programme (ATP)

1.5.1 The Audit Transformation Programme (ATP) represents a significant investment for the NAO and is the foundation for the actions included within the financial audit elements of the Organisational Development Plan (ODP) (see Section 2). The investment comprises three key interdependent projects: Audit Methodology Review, Audit Software Review and Audit of the Future.

1.5.2. Our '2021 VFM: Strategy Implementation Review' assessed that the investment in the programme was fit for purpose and was set up to support the NAO in continuing and further enhancing its offering to stakeholders. The programme includes the review of mechanisms to support on continued audit quality alongside the NAO's response to the International Standards of Auditing (ISA UK) 315.

1.5.3. Our current review has not sought to evidence the impacts and benefits of the programme, including the focus on audit efficiency. The NAO are currently in the process of utilising the new risk assessment methodology and the software solution will not be ready for utilisation until next year. Whilst this has not been assessed within the scope of the review, the focus upon audit quality and efficiency will support value for money in the utilisation of financial audit staff, with a particular focus on their effectiveness.

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2. Ongoing Management

2.1 Decision support and the provision of knowledge for decision making

Balanced scorecard

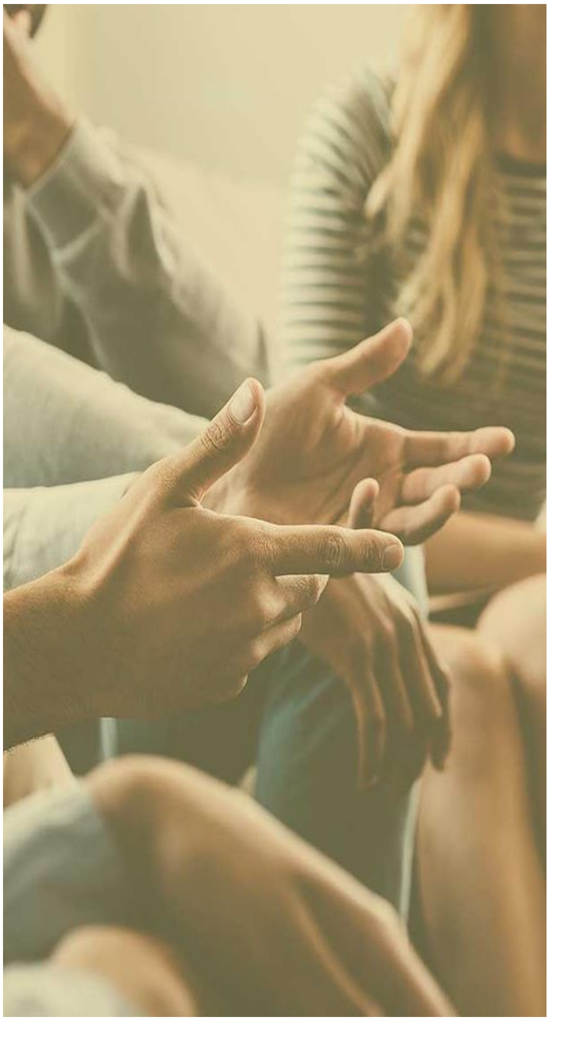
2.1.1. The year 2023-2024 represents the fourth year of the NAO's strategy implementation. Consistent with prior years, the Organisational Development Plan (ODP) sets out the individual changes that are required to be undertaken for the NAO to achieve its strategy. The ODP is split across separate themes, with a number of specific actions interlinked across themes. The ODP is aligned to one of the five balanced scorecard domains: Impact: Delivery: Quality; People, and Finance & Natural Resources. Each domain has specific metrics that are measured on an on-going basis as part of the NAO's performance framework. This is aligned to both the strategic priorities and enablers of the strategy.

2.1.2. Organisational level balanced scorecards which consider the NAO as a whole are prepared by the Strategy and Reporting Team and are presented on a monthly basis and discussed by the Executive Team. From a financial management perspective, key elements monitored include:

- Forecast against budget
- Fee recovery monitoring
- Utilisation rate for audit staff

2.1.3. The balanced scorecard provides an update on the delivery cycle relating to financial audit, including pre and post recess delivery. This is supplemented by information on the headcount for the financial audit service line. **We have previously recommended the use of Balanced scorecards as an effective mechanism to monitor performance rather than considering single metrics which can drive unintended consequences. We consider this to be an effective approach to support financial management.**

2.1.4. The organisational level balanced scorecards are supplemented by group level scorecards. These are presented to both the Group Executive Director alongside directors in a functional role; i.e. Resource Director, People Development Director, Financial Audit and Value for Money Quality Directors. These scorecards, whilst presenting performance against the same domains as the corporate scorecard, provide a clearer indication as to the necessary actions for groups to address underlying project and financial management requirements. From engagement with staff and review of the scorecards the information presented facilitates a focus on required actions.



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Management accounts

2.1.5. Organisational level management accounts are produced on a monthly basis and presented to the Executive Team for discussion. These are supplemented with Monthly Group Financial and Resource Management reports. Each group's Finance Business Partner liaises and discusses the outputs on a monthly basis with the Executive Directors and relevant functional directors. Though on-going and ad-hoc support is provided throughout the month. Reports support groups in identifying monthly outturn alongside the progress on forecast spend. The relationship between the Finance Business Partners and the group is effective in ensuring regular support is provided to groups in relation to financial management.

Financial Audit Operations

2.1.6. The reporting discussed above is supplemented with information produced by the FAOps Team which supports teams with the ongoing financial and project management aspects (see below).

Chart 2.1.6: Information presented to groups by the FAOps Team

Source Document	Description
Weekly FA Operations Dashboard	This details the following: • Upcoming certifications over next week • Current progress against planning approval milestones • Upcoming certifications with Red or Amber Client Delivery Risk • Unfulfilled AP and Auditor Requests with staffing risk flagged over next four weeks
Financial Audit Information and Risk Monitoring	This report presents updates across the Financial Audit Service Line, including but not limited to information relating to quality and aspects of the ATP. The report consolidates information across all groups and auditable entities detailing delivery risks, missing timecard information, under allocation of audit staff and excess hours. Information represented is consistent with the metrics reported as part of the monthly balanced scorecard.

2.1.7. There is extensive information available to support teams, and ongoing support provided by the Finance Business Partners. However, there is a need to consider and enforce accountability of teams within the financial management process as reflected in the details below.

Behavioural changes

2.1.8. There is a significant level of senior involvement in the review and follow up of financial and project management information. This extends to the Executive Directors and the functional directors in each group. Finance Business Partners and the wider reporting team regularly engage with the groups to check that purchase orders are received and billing milestones are up to date as well as ensuring that budget profiles are representative of delivery realities. There is an opportunity cost to this level of senior involvement for example, their time could be spent focussed on other strategic work or client related activity.

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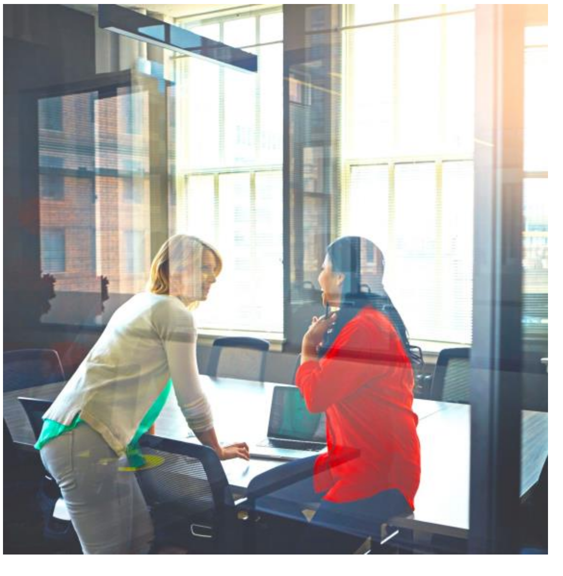
2.1.9. There is an expectation that the responsibility to update project information sits with the relevant audit managers and directors. However, interviews indicate that there is a perception that a combination of time pressures and views of requests from the centre result in project information not being maintained accurately and completely.

2.1.10. Many interviewees expressed the view that accountability is not yet fully delegated to lower levels of management. This lack of accountability has resulted, in anecdotal examples of Executive Director and director level staff being engaged in low level tasks, such as allocating junior members of staff or resolving minor resourcing issues.

2.1.11. A linked view expressed was that there is a training gap in financial management skills and requirements for those who are newly promoted to Audit Manager. In addition, culturally, aspects of financial management such as timely timesheet completion may not be viewed as critical by some individuals and as such undertaken on a timely basis. Weekly reporting by the FAOps team highlights non-completion and requests that completion is followed up within Groups. Traditionally in professional service firms, the desire to deliver a quality audit within the agreed timetable can mean that individuals are less focused on considering the more commercial aspects of delivering a service. For the NAO, this issue may be more marked because fees for some audits are not directly recovered from the auditee. Therefore, it is important that overruns (in the case of cash audits) are identified, assessed with the clients and billed, and that for parliamentary fee audits, progress against budget is properly tracked and variances understood and built into the future audit plans and budgets. We were provided examples of overruns being recovered for cash audits although it was recognised that this is an area currently of continued improvement across all Groups.

2.1.12. To support more transparent reporting on both group budgets and resources, a new tool has been developed within the CRM platform. This forms an element of a wider project at the NAO which includes group monthly budget analysis and reporting, data governance and managerial behaviours. The tool is aimed at providing directors with mechanisms to obtain a summary dashboard of all audits and their overall budget profile. Whilst there is existing reporting mechanisms available these are not seen to be as dynamic.

2.1.13. As part of the new approach (launched in May 2023) all directors will be required to sign off on individual budgets / forecasts as to their accuracy, alongside the provision of explanations on variances. The aim is to encourage greater oversight and accountability. A key benefit of the revised tool is increased visibility on the original budgets agreed as part of operational planning. The new approach will also provide oversight to Executive Directors on the movements on budgets post operational planning.



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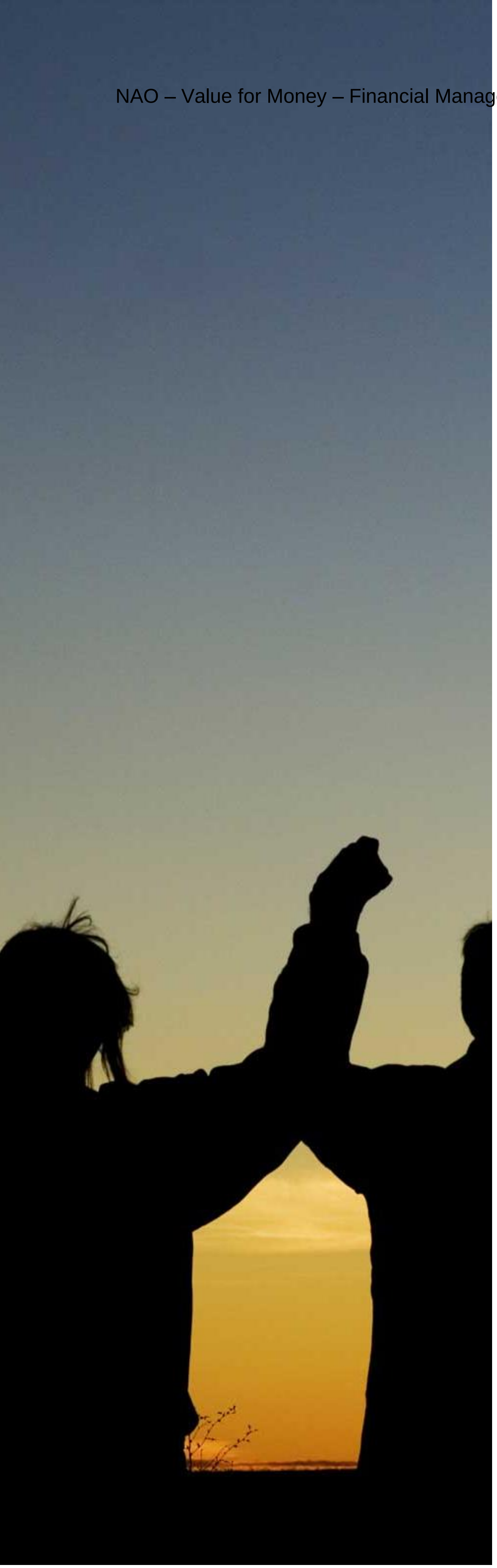

2.1.14. **There is need for the NAO to assess the level of guidance and training available to audit staff in respect of financial management, particularly for new managers. This will contribute to setting responsibilities and accountabilities at the right level across the NAO to empower staff to support effective financial management and to prioritise actions in line with their respective Group and portfolio objectives. Guidance and training should seek to demonstrate the importance of compliance activity on overall effective financial management and decision making.**

2.1.15. The alignment between financial management of financial audit assignments and overall individual performance reviews should be reviewed. At present this is implicit rather than explicit in the performance management process.

2.1.16. The NAO's performance management framework implicitly considers effective financial and project management within the balanced scorecard approach used by the NAO to assess performance. Greater clarity would help ensure consistent focus on financial and project management in the NAO’s delegated financial management arrangements and ensure timely support can be provided to individuals where needed.

2.1.17. The NAO should ensure that financial and project management of financial audit assignments is explicitly considered as part of performance discussions for individual project managers.

Appendix 1: Recommendation Schedule and Management Response

The following table summarises the recommendations raised as part of this review.

Recommendation	Agreed / partially / rejected	Management response	Implementation date
Utilisation of temporary staff Alongside regular monitoring of temporary staff usage already in place, it is recommended that the usage of temporary staff is periodically reviewed to confirm that the approach provides value for money for the NAO. This should consider factors such as cost to recruit, cost to onboard and potential changes to framework partner resource models to address shortfalls in resourcing.	Agreed	The NAO undertakes regular ongoing review of the utilisation of temporary staff. This is formally considered as part of our annual budget setting process determining our resourcing need and then throughout the year as part of monthly Executive Team consideration of the Balanced Scorecard. • Alongside this ongoing monitoring and review, we intend to: • Review existing arrangements at the end of our resourcing peak for financial audit to consider quality and cost. This will inform our ongoing engagement for the duration of existing contractual arrangements. • As existing contractual arrangements conclude in December 2023, we will shortly launch a new procurement process for temporary staff. We are assessing options for new contractual arrangements with the intention of implementing a flexible approach to support the NAO in achieving value for money from temporary staff.	December 2023

Appendix 1: Recommendation Schedule and Management Response

The following table summarises the recommendations raised as part of this review.

Recommendation	Agreed / partially / rejected	Management response	Implementation date
Framework Partners We recommend this evaluation should be a review of the costs and benefits of a broad range of delivery models, and explicitly capture the full cost of operational delivery including tracking the level of additional input required by the NAO on these engagements, which can be benchmarked and used in framework partner engagement, performance management and subsequent negotiation.	Agreed	Prior to this report, the NAO had already started considering its delivery model in the lead-up to existing contractual arrangements concluding in 2026. We consider there to be significant benefits to working with partner firms and, as we develop our proposals for re-procurement, we will consider how we can optimise these benefits and continue to achieve value for money. We continue to carefully monitor performance and cost of partner firm delivery and, following the conclusion of the 2022-23 audit cycle, we will hold detailed performance management discussions with partner firms. This will inform any actions needed for the 2023-24 audit cycle and re-affirm our expectations around performance.	Summer 2026 (when existing contractual arrangements conclude) October 2023 (detailed performance discussions)

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Appendix 1: Recommendation Schedule and Management Response

The following table summarises the recommendations raised as part of this review.

Recommendation	Agreed / partially / rejected	Management response	Implementation date
Accountability and performance management The NAO's performance management framework implicitly considers effective financial and project management within the balanced scorecard approach used by the NAO to assess performance. Greater clarity would help ensure consistent focus on financial and project management in the NAO's delegated financial management arrangements and ensure timely support can be provided to individuals where needed. The NAO should ensure that financial and project management of financial audit assignments is explicitly considered as part of performance discussions for individual project managers.	Agreed	We will incorporate into appraisal guidance a requirement for explicit consideration of financial and project management of financial audit.	March 2024 (to coincide with annual appraisal round)
Training and guidance material There is need for the NAO to assess the level of guidance and training available to audit staff in respect of financial management, particularly for new managers. This will contribute to setting responsibilities and accountabilities at the right level across the NAO to empower staff to support effective financial management and to prioritise actions in line with their respective Group and portfolio objectives. Guidance and training should seek to demonstrate the importance of compliance activity on overall effective financial management and decision making.	Agreed	We will assess existing guidance and training around financial management, including our Operational Planning guidance, to support audit staff in understanding responsibilities and accountabilities. This includes training for new audit managers.	December 2023

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Appendix 1: Recommendation Schedule and Management Response

The following table summarises the recommendations raised as part of this review.

Recommendation	Agreed / partially / rejected	Management response	Implementation date
Cost recovery We recommend that the NAO explore options for the recovery of additional costs incurred for parliamentary funded audits when these costs are the result of external circumstances which would not be known at the point of planning and operational estimates being presented to TPAC. These costs which are needed to carry out the audit to the required standards could arise at any point during the audit cycle. Options could include the consideration of contingency through the parliamentary supply estimate or direct recovery from the department's own budget by charging a cash fee for unplanned overruns. When evidencing the basis for additional costs, this should include the reasons for the additional fees, the mechanism for recovery and the supporting evidence for any audit cost increase.	Agreed	We will explore options around the recovery of additional costs for Parliamentary funded audits, including a contingency within the NAO's Supply Estimate for additional costs and a reporting mechanism so that Parliament has visibility when additional costs are incurred.	March 2024 (NAO Main Supply Estimate 2024-25)

Appendix 2: Our approach

The objective of the NAO	To ensure value for money is achieved through the operation and delivery of the financial audit operational planning process and that this process effectively supports the overall annual funding requirement.
How will this be achieved	Through the development and on-going review of the approach to operational planning processes at the NAO relating to the financial audit service line, that this ensures the delivery of an accurate and effective financial estimate for the organisation and minimises risk in overall financial management of the organisation.
Our review	The overall objective of the review was to provide assurance that the mechanisms in place to support the overall annual funding requirement relating to financial audit, alongside those in place to support financial estimates for individual assignments are effective and in line with VFM principles.
Our evaluative criteria	The review has sought to address the following key questions: Does the Business as Usual (BaU) investment and ongoing expenditure committed to the provision of financial audit engagements provide value for money? Do the systems in place support the economic use of financial audit resources? Does the current approach to financial audit management drive the appropriate behaviours across the NAO to ensure the delivery of an efficient financial audit? Is the current approach to financial planning sufficiently flexible to ensure that where more complex work is required that the NAO can respond appropriately, without sacrificing audit quality and / or delivery?

Our evidence	We assessed the Financial Management of the financial audit practice through the following mechanisms. Where applicable in the case of interviews, a sample of individuals was selected.
	• Interviews across the NAO, as detailed in Appendix 3
	• Review of supporting documentation on a range of topics, including, but not limited to the following:
	    • Balance Scorecard Reporting
	    • Financial Audit Operations Information / Reports
	    • Operational Planning Data

Our value for money conclusions	**We consider that the investment[23] and ongoing expenditure committed to the provision of financial audit engagements represents value for money for the organisation.** Our assessment relates to the overall systems and processes in place that support the development of financial audit estimates at the NAO.

[23] Investment relates to the on-going 'Business as Usual' expenditure relating to the Financial Audit Service Line. Our review does not conclude on the wider Audit Transformation Programme ('ATP') which is to be considered as part of a wider VFM study in future years.

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Appendix 3: Evidence Gathering

Approach

1. We reached our conclusion on value for money after analysing evidence we collated in the period February 2023 – April 2023.

2. We reviewed the NAO's approach to achieving value for money within the operation of its financial management of financial audit work and related areas in the utilisation of the following:
   a. We prepared interview question sets based on aforementioned information reviewed;
   b. We held interviews with the following, as part of on-going documentation review and queries.
      i. Members of the Executive Team (Five interviews held);
      ii. Resource Directors within the Financial Audit Service Line;
      iii. Financial Audit Development & Operations;
      iv. Audit Manager, Financial Audit Operations;
      v. Director Finance
      vi. Head of Finance and Procurement;
      vii. Head of Reporting;
      viii. Finance Business Partner;
      ix. Head of Strategy and Enterprise Portfolio Management;
      x. Digital Services Manager; and,
      xi. Director of Internal Audit.
   c. We held meetings with Financial Audit Directors and Managers as part of our sample selection across a range of financial audits undertaken during the period 2021 - 2022.

3. We obtained and reviewed supporting documentation, including but not limited to, Management Accounts, Corporate and Group Balanced Scorecard reports, Operational Plans, Financial Force data and various supporting internal documentation relating to the Financial Audit Operations Team.

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

Start the conversation

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