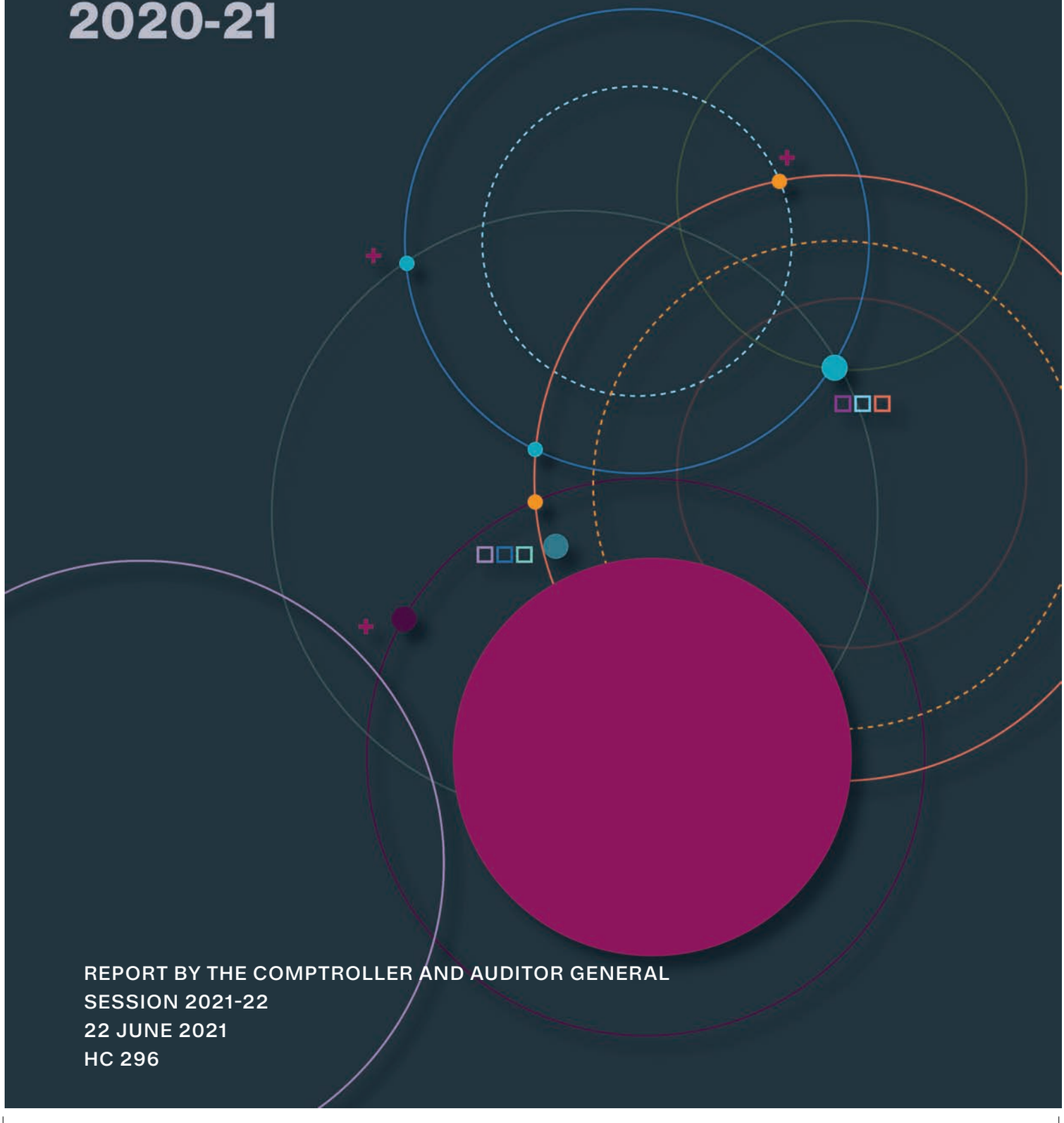
National Audit Office

ANNUAL REPORT AND ACCOUNTS

2020-21



REPORT BY THE COMPTROLLER AND AUDITOR GENERAL
SESSION 2021-22
22 JUNE 2021
HC 296

We are the UK's independent public spending watchdog.

We support Parliament in holding government to account and we help improve public services through our high-quality audits.

The National Audit Office (NAO) scrutinises public spending for Parliament and is independent of government and the civil service. We help Parliament hold government to account and we use our insights to help people who manage and govern public bodies improve public services.

The Comptroller and Auditor General (C&AG), Gareth Davies, is an Officer of the House of Commons and leads the NAO. We audit the financial accounts of departments and other public bodies. We also examine and report on the value for money of how public money has been spent.

In 2020, the NAO's work led to a positive financial impact through reduced costs, improved service delivery, or other benefits to citizens, of £926 million.

National Audit Office

Annual Report and Accounts 2020-21

Report by the Comptroller and Auditor General

Ordered by the House of Commons
to be printed on 21 June 2021

This report is presented to the House of Commons pursuant to Paragraph 25(8) of Schedule 2 and Paragraph 9(3) of Schedule 3 to the Budget Responsibility and National Audit Act 2011

Gareth Davies
Comptroller and Auditor General
National Audit Office

11 June 2021

HC 296 | £10.00

Our staff working from home during the COVID-19 outbreak



Emma



Sebastian



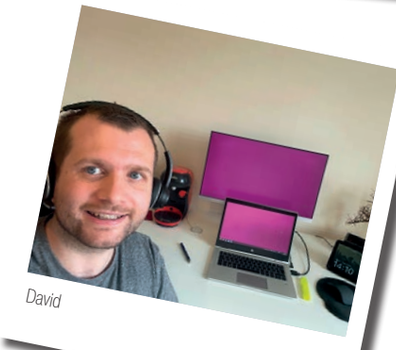
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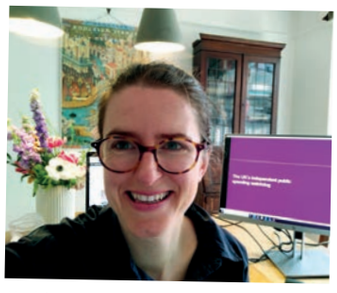
Wendy



Anne



David



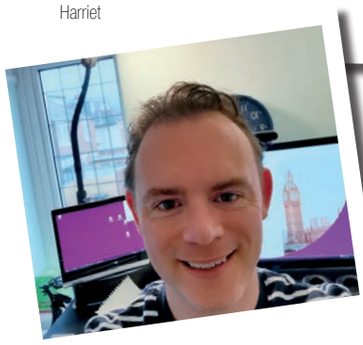
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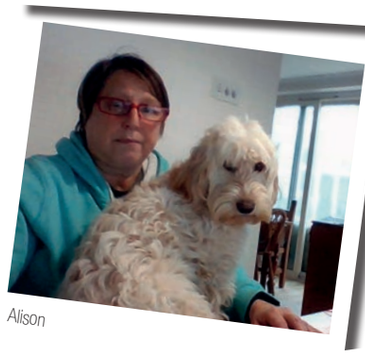
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Martin



Jonny



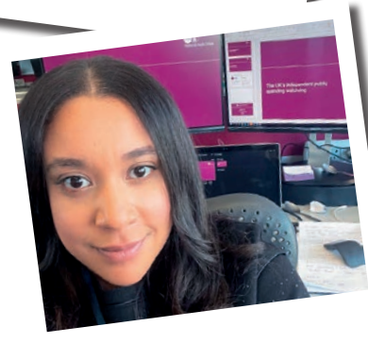
Alison



Lewis



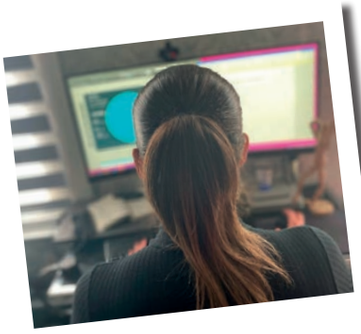
David



Naomi



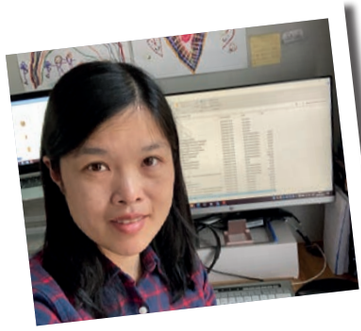
Vicky



Sonia



Daniela



Ivy



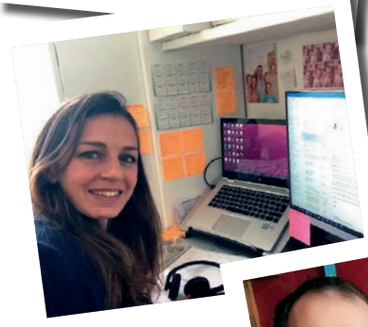
Hannah



Tom



Anna



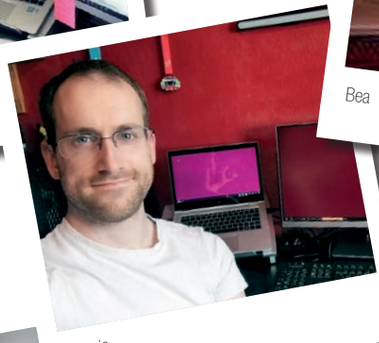
Flavia



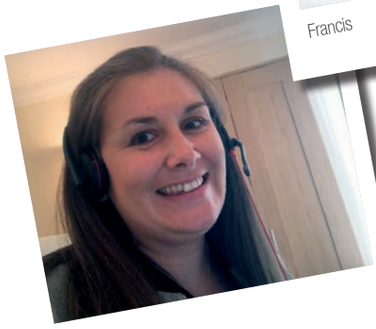
Bea



Benjamin



Francis



Charlotte



Lauren



Charlotte



Julie



Mfon



Claire

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This report can be found on the National Audit Office website at www.nao.org.uk

If you need a version of this report in an alternative format for accessibility reasons, or any of the figures in a different format, contact the NAO at enquiries@nao.org.uk

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11989-001 06/21 NAO

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HIGHLIGHTS

A year at the National Audit Office

17 Mar 2020

We asked our people to work from home.



APR

Apr 2020

We repurposed our work programme to allow us to report on COVID-19 while still maintaining focus on important long-term areas.

24 Apr 2020

We published our lessons learned report on Restoration and Renewal, drawing on our knowledge on challenges faced by major projects.

MAY

21 May 2020

Publication of our first COVID-19 overview report.

JUN

1 Jun 2020

We launched our new five-year strategy.

24 Jun 2020

We published our *Guide on Financial Reporting and Management during COVID-19* to help audit and risk committees examine the impact of COVID-19 on their organisations.

26 Jun 2020

The C&AG certified the first 2019-20 departmental account – Department for Work & Pensions.

JUL

21 Jul 2020

The Comptroller & Auditor General (C&AG) certified the *Whole of Government Accounts 2018-19*, the consolidation of public sector bodies' accounts.

22 Jul 2020

The C&AG certified 170 financial statements before the summer recess.

SEP

4 Sep 2020

We published our lessons learned report on EU Exit, drawing together insights from 28 previous reports.

8 Sep 2020

We published the first version of our COVID-19 cost tracker, which provides estimates of the lifetime costs of pandemic response measures and how much has been spent so far.



OCT

5 Oct 2020

We launched an office-wide consultation for our new diversity & inclusion strategy.

13 Oct 2020

We published our first Departmental Overview for 2020. During the year we published a total of 10.

NOV

11 Nov 2020

We published ***Achieving net zero***, which applied experience auditing cross-government challenges to highlight risks government needs to manage.

23 Nov 2020

We signed the Race at Work Charter.

DEC

Dec 2020

In 2020 we generated £13 of positive financial impact for each £1 we spent.

16 Dec 2020

We published our diversity pay gap report (including both gender and ethnicity).

JAN

1 Jan 2021

Gaenor Bagley and Sir Martin Donnelly began their terms as non-executive members of the NAO Board.

10 Jan 2021

Dame Fiona Reynolds began her first term as Chair of the NAO Board.

26 Jan 2021

The C&AG certified the final 2019-20 departmental financial statements – the Department of Health & Social Care.

FEB

10 Feb 2021

We published our report on protecting and supporting the vulnerable during lockdown. In 2020-21 we published 61 value-for-money (VFM) and wider assurance reports.

10 Feb 2021

We launched our project to develop how we will work together in the future.

MAR

Mar 2021

In 2020-21 we supported 63 Committee of Public Accounts evidence sessions, 19 select committee sessions and supported eight select committees with secondees.

29 Mar 2021

We published internally our Diversity Dashboard to help us take a data-led approach to improving diversity and inclusion.



PERFORMANCE REPORT

This section is an overview of the National Audit Office (NAO), setting out our purpose and structure and analysing our performance against our strategic objectives.

This section uses icons to identify case studies and wider impact studies.

They are:

 Case studies (GREEN BOX)

 Our people's experience (BLUE BOX)

 Wider impact studies (PURPLE BOX)



Credit: David Levinson

Dame Fiona Reynolds

Chair's statement

Joining an organisation without actually meeting anyone is a new experience for me, although many thousands of us have done just that this year. But I've had a very warm welcome from everyone at the NAO, and I'm finding being its new Chair enormously motivating and stimulating.

What drives me is doing the right thing for the planet and people and improving the way public services are delivered is central to this. I've long admired the work of the NAO, and seeing at first hand the robust, evidence-based independence that drives us is inspiring. Well founded and implemented public policy will determine our long-term future, and the NAO is an essential part of that process, ensuring we have aligned public policy ambitions and better services.

Arriving as Chair in January 2021, I found an organisation in a strong place, with incredibly motivated and committed staff, rich in expertise. I've been impressed by the range of top-quality skills across the organisation – whether in auditing and accounting, analysis and strategy, finance, IT or HR – and by the integrity and rigour shown by everyone, underpinned by a profound commitment to independence. I've also been impressed by the way everyone has adapted so willingly and effectively to working in completely new ways because of COVID-19.

This has been a year of change for the non-executive members of the NAO Board. My warm thanks go to Lord Bichard, outgoing Chair, for his excellent leadership of the Board during the last six years; and to Ray Shostak and Rob Sykes for their insightful contribution especially in strategy development, corporate assurance and governance. Their wisdom, guidance and challenge helped us enormously.

I am grateful to the Public Accounts Commission for appointing as new non-executive members Gaenor Bagley and Sir Martin Donnelly, and for re-appointing Dame Clare Tickell, who continues as a member along with Janet Eilbeck. The new Board has strong combined skills and experience in the core areas to the NAO's purpose. Our focus is on delivering our strategy and providing the right mix of support and challenge to the staff.

Last year demonstrated our strong track record on delivery, as this Annual Report shows. I commend it to you. We also have an ambitious agenda for the future, in which investment in audit quality, drawing joined-up messages from our work and engaging in the country's strategic challenges all figure highly. Among these I expect our work on carbon net-zero and the government's wider environmental programme to figure prominently. In the past environmental concerns were sometimes considered an optional extra – this is the case no longer, and we expect to be fully engaged in them.

Finally, I am grateful to Gareth Davies for his clear and insightful leadership of the NAO. I look forward to working closely with him and his team to fulfil our crucial mission as the UK's independent public spending watchdog.



NEXT PAGE:
C&AG statement



Gareth Davies

We were able to make the transition to remote working smoothly and continue to deliver our audits and investigations throughout the series of lockdowns. We rapidly adjusted our work programme to accommodate 17 published reviews of different elements of the government's spending on its pandemic response by the end of March 2021.

Comptroller & Auditor General's statement

The COVID-19 pandemic has tested the National Audit Office as it has tested government and organisations in all other sectors. I am hugely proud of my colleagues and what they have achieved in 2020-21 in extraordinary circumstances. We were able to make the transition to remote working smoothly and continue to deliver our audits and investigations throughout the series of lockdowns.

We rapidly adjusted our work programme to accommodate 17 published reviews of different elements of the government's spending on its pandemic response by the end of March 2021. These included high-profile reports on government procurement in the pandemic, the supply of personal protection equipment (PPE) to the NHS and social care, the creation of the Test and Trace operation and many others. To support transparency and accountability, we launched a COVID-19 cost tracker, which we update regularly to show the spending commitments and cost to date of all government pandemic spending. We have focused on providing accurate and independent analysis in support of timely and robust Parliamentary and public scrutiny and identifying learning for immediate and longer-term application.

Although the audits of the 2019-20 accounts of some government departments and arm's-length bodies were delayed by the demands on them of the pandemic response, the audit risks created by the crisis and the impact on both finance and audit teams of remote working, we remained focused on delivering high-quality audits. Unsurprisingly, our audit opinions for 2019-20 included an unusually high number of emphasis of matter paragraphs, drawing attention to the impact of the pandemic on year-end asset valuations and the going concern status of trading organisations.

The start of the pandemic coincided with the launch of our new strategy for 2020 to 2025.



As this annual report shows, we have been able to make substantial progress on our new strategic priorities despite the impact of COVID-19 on our people and work programmes. Firstly, we are on track with our multi-year programme to overhaul our financial audit methodology and audit software platform and are implementing a quality plan to ensure consistent high standards in our audit work. Secondly, we have sharpened our focus on the drivers of long-term value for money in public spending, for example with assessments of the government-wide approach to delivering a net-zero carbon economy and wider environmental goals, while maintaining our coverage of the major defence, digital and civil engineering programmes and the financial sustainability of key public services. Thirdly, we are making better use of the NAO's accumulated knowledge through our new series of lessons learned reports and active engagement with professional networks across government.

Our strategy has also required us to develop the organisation in several important areas. In 2020-21, we put in place a new organisational structure to focus us on our strategic priorities, provide clearer lines of accountability and make efficient use of our resources.

We have overhauled our people management approach, replacing our previous line management arrangements with a new system of performance coaches, trained and targeted on supporting the professional and personal development of all our people. We are tackling the barriers to the development, progression and retention of talented people from all backgrounds and have already seen meaningful progress on the representation of women and ethnic minority colleagues at senior levels, with more to do. Engaging with our people through the strategy review also resulted in a new set of values for the NAO, which I believe capture well the characteristics of an effective public audit organisation: striving for excellence; demonstrating courage and integrity; curious and seeking to learn; and inclusive and respectful.

I am immensely grateful for the extraordinary efforts of all my colleagues in maintaining the service expected by Parliament and the public while improving the organisation in an exceptionally demanding year. I am equally grateful for the strong support and wise counsel of our Board throughout the year. In January we said farewell to Lord Michael Bichard at the end of his six-year term as Chair with thanks for his clear leadership and huge contribution to the NAO's development. Ray Shostak and Rob Sykes also reached the end of their terms having also made invaluable contributions on many fronts. It has been a pleasure to welcome Dame Fiona Reynolds as our new Chair and Sir Martin Donnelly and Gaenor Bagley as new non-executive members and I look forward to working with the Board to ensure that the NAO rises to the challenges ahead.

The coming year will continue to test us as we audit the 2020-21 government accounts containing a full year of pandemic spending. Our work programme will continue to help Parliament scrutinise the pandemic response with a focus on learning from the past year to ensure that the UK is better positioned for future emergencies. The government's progress in tackling the backlog of demand in many public services will also require audit attention.

The NAO will continue to provide Parliament and the public with independent and evidence-based audit work in the interests of transparent, efficient and effective public spending.

→
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About the NAO

About the National Audit Office

Our purpose

The NAO is the UK's independent public spending watchdog.

We support Parliament in holding government to account and help improve public services through our high-quality audits.

The Comptroller and Auditor General

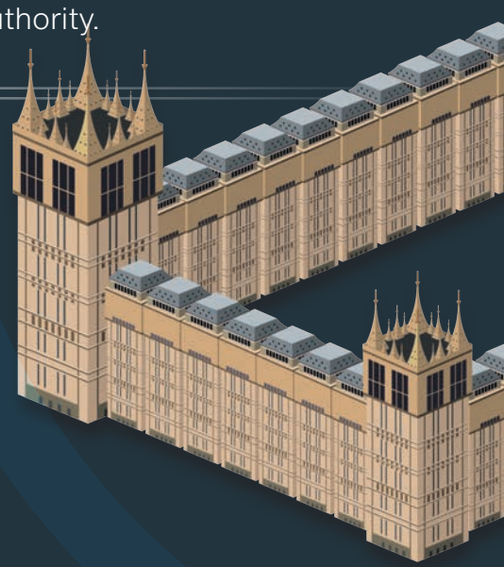
The Comptroller and Auditor General (C&AG), Gareth Davies, is the head of the NAO. The C&AG is an Officer of the House of Commons and independent of government.

The C&AG certifies the accounts of all government departments and many other public sector bodies. They have statutory authority to examine and report to Parliament on whether departments and the bodies they fund have used their resources efficiently, effectively and with economy. They have extensive statutory rights of access to information held by a wide range of public sector organisations to support this.

The NAO's Exchequer Section supports the C&AG in fulfilling their statutory Comptroller responsibilities. These responsibilities require the C&AG to approve the release of funds to HM Treasury and other public bodies, checking that each conforms to Parliament's authority.

Our relationship with Parliament

We support Parliament's scrutiny of government. We primarily do this by supporting the work of the Committee of Public Accounts through our scrutiny of the implementation of government policy. We also support individual members of Parliament and other select committees with formal and informal briefings, reports and our programme of secondments.

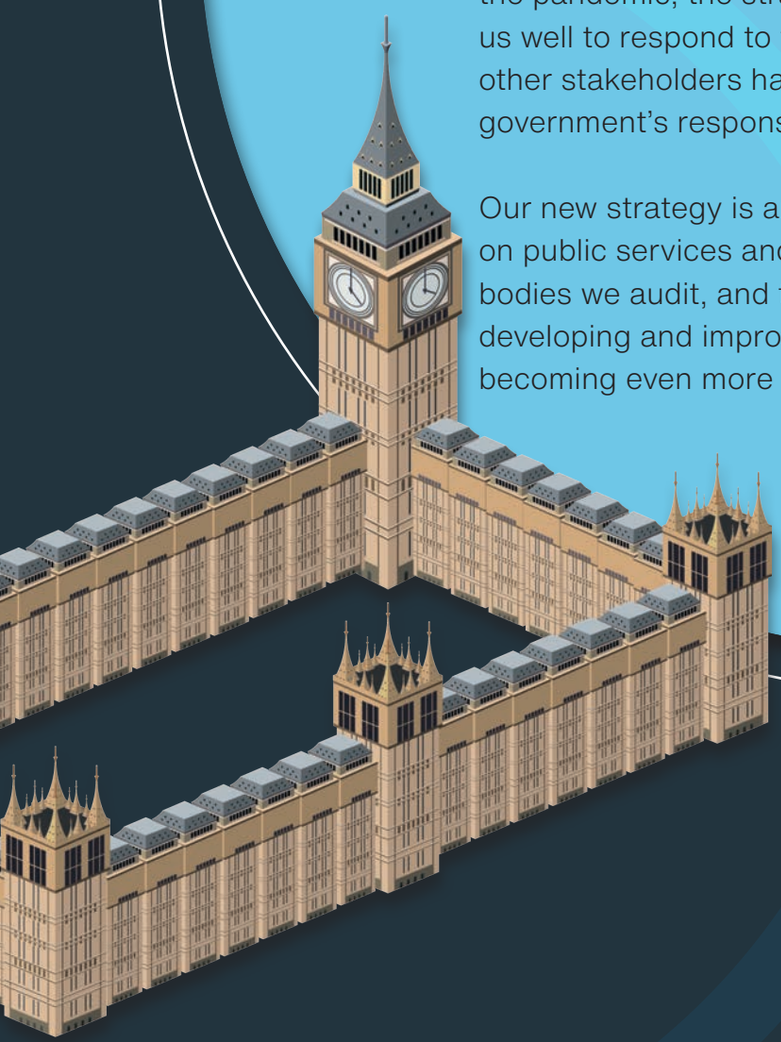


Our strategy

Last year we launched a five-year strategy. Our strategy builds on our strengths in providing high-quality, effective support to Parliament. It responds to feedback to share our knowledge and insights more effectively to support both accountability and improvement in outcomes and value for money. Increased expectations of the quality and rigour of audit mean we must modernise how we carry out our audit work.

We launched the strategy in June 2020 when widespread understanding of the COVID-19 pandemic's significance was beginning to emerge. We took the view that, despite the uncertainty caused by the pandemic, the strategy and associated investment would position us well to respond to the extra work needed of us. Parliament and other stakeholders had immediate expectations of us auditing the government's response to the crisis.

Our new strategy is ambitious for the positive impact we can have on public services and the difference we will make to Parliament, the bodies we audit, and the public. This means changing the way we work, developing and improving our audit processes, systems and skills, and becoming even more effective at what we do.



NEXT PAGE:
Strategy, values and future challenges

Figure 1

Overview of the National Audit Office's (NAO's) strategy 2020-21 to 2024-25

Our purpose

We are the UK's independent public spending watchdog.

We support Parliament in holding government to account and we help improve public services through our high-quality audits.

Our strategic priorities

Improving our support for effective accountability and scrutiny.

We provide assurance that public resources are accounted for accurately and used as intended. When this does not happen, we point it out. We will upgrade our methodology and software to deliver higher-quality audits using data analytics. This will provide Parliament with deeper insights to scrutinise public spending, and those responsible for the governance of the bodies we audit with the assurance they need.

Increasing our impact on outcomes and value for money.

Our work focuses on the issues that matter and we will place greater emphasis on where we can influence long-term value for money. We will make better use of our analytical and audit expertise to identify how public services can be improved. This will allow more insightful and practical recommendations that lead to better outcomes.

Providing more accessible independent insight.

We will be known as a valuable source of knowledge on how well public resources are used and how the governance and performance of public services can be improved. We will synthesise what we know on important issues and make it easier for others to understand and apply the lessons from our work.

Our strategic enablers

We will attract, retain and develop high-quality people.

Our people are proud to be part of our diverse, inclusive and healthy workplace. We attract talented people and support them to become even better at what they do, enhancing their careers and ensuring we have the skills and capabilities we need.

We will make more effective use of technology, data and knowledge.

We use technology and analysis of data to perform our audit work more effectively and to create and communicate new insights that cannot be achieved in other ways.

We aim to be an exemplar organisation.

We lead by example in holding ourselves to the high standards we expect from public bodies. We are efficient, provide value for money and focus on long-term sustainability.

Source: National Audit Office

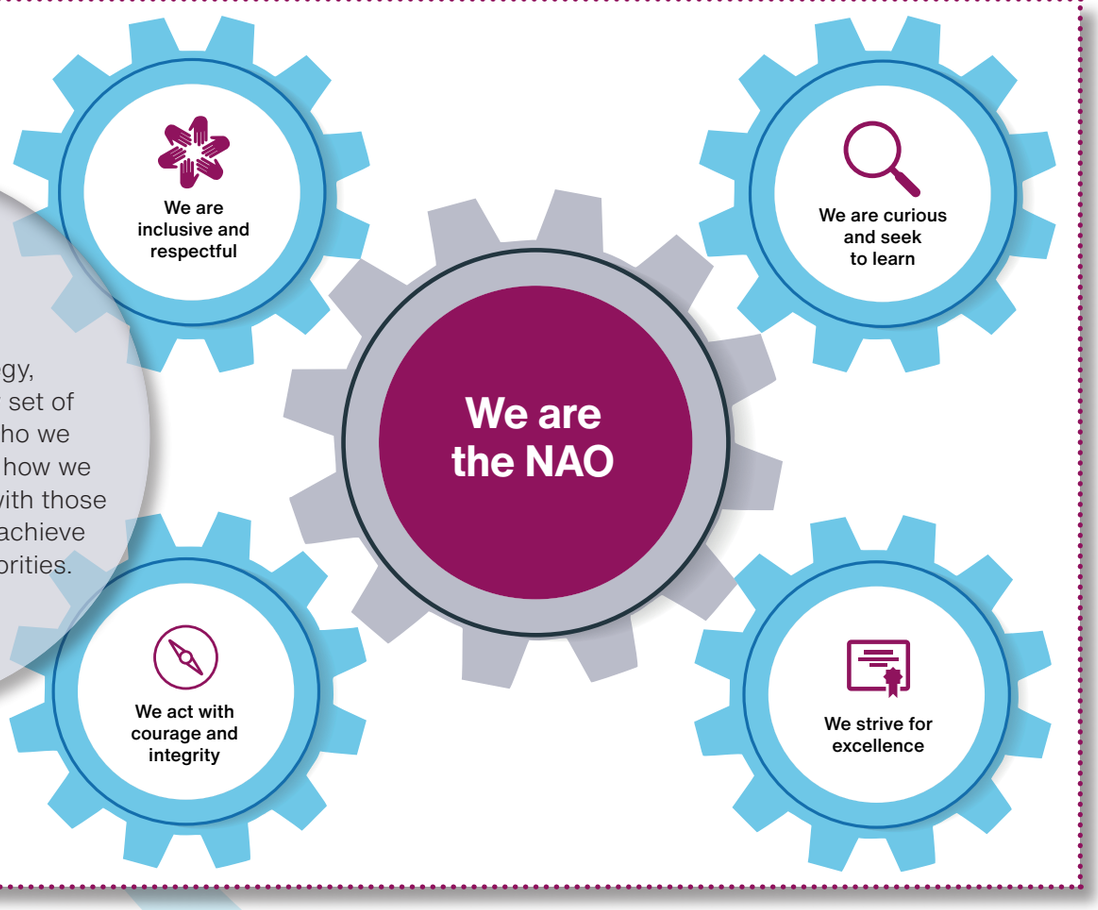
Future challenges

The UK faces new opportunities and demanding challenges in the 2020s. Alongside the effect of the COVID-19 pandemic, which we expect to continue for some time, the government is forging a new relationship with the European Union (EU) and the rest of the world and is working to achieve net-zero emissions by 2050. The government also has ambitious plans for improving national infrastructure. Demographic changes continue to lead to higher demand for health and social care. Public spending is having different impacts on different groups of people and in different places. The combined impacts of technological innovation and the COVID-19 pandemic are continuing to reshape whole industries, including public service delivery. The devolution of powers and responsibilities from central government has brought changes to accountability and governance arrangements which are continuing to develop.

This sets a demanding agenda for the NAO in supporting Parliament's scrutiny of how government's policy objectives are being implemented. Our strategy is to provide effective support to Parliament in examining public sector performance while making our insights available to those responsible for managing and improving public services (**Figure 1**). We will use our remit across all public spending to provide high-quality and objective evidence and analysis for Parliament. This includes examining the government's response to COVID-19.

Our values

Alongside our strategy, we developed a new set of values that reflect who we are as the NAO and how we work together and with those outside the NAO to achieve our purpose and priorities.



Our organisation

From 1 June 2020 we have organised our work around six management groups, each containing a mixture of audits, functional teams and a knowledge specialism. The new structure achieves a better balance of audit work, enables us to integrate all our work more effectively and brings consistency to senior management roles and responsibilities (**Figure 2** overleaf).



NEXT PAGE:
How we worked in 2021-21

Figure 2

How we worked in 2020-21



Responsibilities of the C&AG, the Board and the Public Accounts Commission

Comptroller and Auditor General

- Audits the annual accounts of government departments and many other public bodies.
- Performs value-for-money examinations into audited bodies' use of resources.
- Reports the results of audit work to Parliament.
- Approves the release of funds from the Exchequer.
- Sets the Code of Audit Practice for local public audit.

NAO Board

(Nine members: five non-executive and four executive members including the C&AG).

- Agrees the NAO strategy.
- Agrees the NAO's annual budget.
- Advises the NAO.
- Upholds NAO values and culture.
- Acts as a critical friend to the NAO.

The Public Accounts Commission

- Approves NAO's strategy and annual budget.
- Appoints the non-executive members of the Board.
- Appoints NAO's external auditor.
- Holds the NAO to account.

Source: National Audit Office

GROUPS	CENTRE	INFRASTRUCTURE	INTERNATIONAL	LOCAL	SOCIETY	CORPORATE
AUDIT TEAMS	Cabinet Office and cross-government	Business, energy, & industrial strategy	Border	Education	BBC	Finance, facilities and international
	Parliament	Environment, food & rural affairs	Defence	Health & social care	Culture, Media & Sport	Human Resources
	Regulators	Transport	Foreign, Commonwealth & Development Office	Housing, communities & local government	Justice	Internal Audit and Information Security Assurance
	Revenue & Customs		Home Office		Work & Pensions	Parliament
	Treasury		International trade			Strategy
	Bank of England					
HUB SPECIALISMS	Analysis	Major project delivery	Commercial	People & operational management	Financial & risk management	Digital
FUNCTIONAL TEAMS	Knowledge	Response	Compliance & Quality Unit	Learning & Development	Financial Audit Practice & Quality	Change
		Value for Money Practice & Quality		Local Audit Code & Guidance	Financial Audit Development	Comms
					IT Audit	Digital Services

NEXT PAGE:
Performance measurement framework

Our performance measurement framework

As this is the first year of our new strategy, we have implemented a new performance measurement framework that includes the new key performance indicators (KPIs) as set out in our Estimate memorandum for 2020-21. Some of the KPIs were set during the year, these are indicated within **Figure 3.** We will continue to revise and update our framework with new measures as we develop them over the course of our five-year strategy.

The performance measurement framework was originally implemented before the impact of COVID-19. Due to these circumstances, we have reassessed some of our performance measures – the latest version of our performance framework is in our 2021-22 Estimate received by the Public Accounts Commission (TPAC) in March 2020. Recognising the challenging year our audited bodies faced, we decided not to conduct a survey of our audited bodies.

Figure 3

Our performance measurement framework for 2020-21

Strategic priority	What success looks like	How we measure this	Achievements
We support effective accountability and scrutiny	Successful delivery of our programme of financial audit, value-for-money (VFM) and wider work programme.	Number of VFM and wider reports produced against a target of 55[1] and number of financial accounts certified.	**407** accounts certified (2019-20: 404).
	Successful delivery of a programme of work to support Parliament and Committee of Public Accounts evidence sessions.	Number of Committee of Public Accounts evidence sessions against a target of 50, and number of other select committee evidence sessions supported.	**61** VFM programme major outputs, comprising VFM studies, investigations, lessons learned reports, Section 2 reports and wider assurance reports.
	The quality of our audits is in line with the best of the profession and meets external quality standards.	Our financial audit internal and external quality reviews show that all our audit work requires no more than limited improvements.	**63** Committee of Public Accounts and **19** other select committee evidence sessions supported.
		VFM external cold review ratings meet quality standard (target of 100%), and work meets internal NAO cold review standards (target of 100%).[1]	**71%** of our 2018-19 financial audits reviewed by the Financial Reporting Council and **68%** of those reviewed internally required no more than limited improvements.
	Parliamentarians are familiar with our role in helping them hold public bodies to account for using public resources.	Annually commissioned independent feedback from the bodies we audit and the annual MPs survey shows: • MPs are familiar with the work of the NAO. • Senior officials and MPs agree we support effective accountability and scrutiny. • Senior officials and MPs rate our work as high quality.	**100%** of our VFM studies reviewed by our external cold reviewers and **83%** reviewed internally met cold review standards.
	Senior officials in audited bodies and Parliamentarians agree we support effective accountability and scrutiny.	Respond to correspondence we receive from the public within 20 working days.	**66%** of MPs surveyed know the NAO very well or a fair amount.
	Senior officials in the bodies we audit and Parliamentarians rate the quality of our audit work.		**89%** of MPs agree we support effective accountability and scrutiny.
			74% of MPs rate our work as high-quality.

Strategic priority	What success looks like	How we measure this	Achievements
			We responded to **99%** of correspondence received from the public within 20 working days.
Our work leads to better outcomes and value for money	Our work has a quantifiable positive financial impact on the public sector.	Total value of financial impacts generated by our work, as agreed with the audited body, against our final net outturn.	Positive financial impact from our work of at least **£13** for every pound spent, exceeding our target of £10.
	Our work leads to positive change in accountability and/or public services.	Case studies, agreed with the audited body, which give examples of positive changes resulting from our work.	**7** case studies illustrating some of the positive changes from our work (green boxes in the performance report).
	NAO and Committee of Public Accounts recommendations are accepted and implemented by the bodies we audit.	Percentage of Committee of Public Accounts and NAO recommendations accepted and implemented by the bodies we audit.	Government accepted **91%** of the Committee of Public Account's recommendations.
	Senior officials in bodies we audit say our work leads to better outcomes and value for money in their organisation.	Annually commissioned independent feedback shows senior officials in the bodies we audit agree our work has led to better outcomes and value for money in their organisation.	Bodies we audit accepted **95%** of our recommendations.
We provide accessible independent insight	Senior officials in audited bodies and Parliamentarians believe they can easily access the insight and knowledge we hold.	Annually commissioned independent feedback from the bodies we audit and results of the annual MPs survey show: • Senior officials agree that they can easily access our insights and knowledge. • Senior officials agree that the information and insight we provided is clear, useful and accessible. • Senior officials have heard about specific knowledge products and rate them as high quality. • MPs agree they can easily access our insights and knowledge.	**59%** of MPs agree they can easily access our insights and reports.
	Senior officials in audited bodies rate the information and insight we provide as clear, useful and accessible.		**4** lessons learned reports.
	Senior officials in audited bodies have a favourable opinion of our knowledge products.		**88,931** reports downloaded from and **585,983** repeat visitors to our website.
	Successful delivery of a suite of knowledge products that distil the lessons learnt from our back catalogue.	Number of lessons learned reports produced against target of 3–6.[1]	
		Volume of reports downloaded from, and repeat visitors to, our website.	

NEXT PAGE:
Performance measurement framework continued

Strategic priority	What success looks like	How we measure this	Achievements
We are a fantastic place for people to work and develop their careers	Our people report being highly engaged.	Our annual People Survey of NAO staff shows: • Our people are highly engaged in their work. • Our people agree their job enables them to learn and develop new skills.[2] • Our people feel they are growing professionally.[2]	Our overall engagement score is **7.3** (on a scale of 0–10). Score of **7.0** for our people who agree their job enables them to learn and develop new skills (on a scale of 0–10). Score of **6.8** for our people who feel they are growing professionally (on a scale of 0–10).
	We have a diversity of talent at all levels and a talent pipeline that embraces people from any background.	Percentage of women, ethnic minorities, LGBTQ+, people with disability, and people from socially disadvantaged backgrounds in senior leadership, middle management and junior positions.	Our staff compositions may be found on page 60.
	We see no gender and no ethnicity pay gap.	Gender and ethnicity pay gap.	Mean gender pay gap of **9.99%** (2019-20: 10.06%) and median gap of **7.04%** (2019-20: 7.82%). Mean ethnicity pay gap of **13.36%** and median gap of **19.75%** (no comparison available).
	Our level of sickness absence is in line with the best of the public sector and the best of the audit profession.	Sickness absence in days per full-time equivalent (FTE).	**3.8** sickness absence days per employee (2019-20: 6.6 days).
	Our people report having access to the learning opportunities when they need them and career development.	Percentage of our people who have personal development plans.	**100%** of our people with personal development plans.
We make effective use of technology, data and knowledge	Our digital change programmes are delivered to time, cost and scope and deliver the benefits intended.	External audit assurance opinion on digital change programmes, our digital service and knowledge function.[3]	Score of **7.9** for our people who agree they have the materials and equipment to do their job well (on a scale of 0–10). Score of **6.9** for our people who agree it is easy to find the information they need to do their work effectively (on a scale of 0–10).
	Our people say they have the right technology and tools to do their work.	Our annual People Survey of NAO staff shows: • Our people agree they have the materials and equipment to do their job well. • Our people agree it is easy to find the information they need to do their work effectively.[2]	
	Our people say that it is easy to find the information they need to do their work effectively.		
	External audit of our digital service and knowledge functions demonstrates that they are effective and provide value for money.		

Strategic priority	What success looks like	How we measure this	Achievements
We are an exemplar organisation	We demonstrate continued cost-effectiveness and efficiency.	Ratio of expenditure on front-line activities to expenditure on corporate services activities.	**80:20** ratio of expenditure on front-line activities to expenditure on corporate services activities.
	We demonstrate exemplar financial management.	External audit reports on efficiency of our corporate functions.	Our external audit report reported that the NAO Finance Function was working effectively and efficiently given the nature and size of the NAO.
		Annual expenditure within a defined margin of our gross budget.	Annual expenditure of **£99 million**, within our approved budget
		Costs of VFM and wider assurance reports.[4]	Our VFM and wider assurance reports cost **£205,000** on average.
		Rate of utilisation of our people against a target of 85%.[1,5]	**81.7%** of our staff time is spent on direct work.[6]
	We see a sustained reduction in our environmental impact.	Level of carbon emissions for the year.	We created **770 tonnes** of carbon emissions (CO_2e)
		Total waste in tons per FTE, % of waste recycled and water usage in m^2 per FTE for the year.	We generated **0.01 tonnes** of waste per FTE, recycled **52%** of our waste and used **2m^3** water per FTE.

Notes

1 Targets were set in June 2020.

2 During the year we introduced a new method of measuring our people. Therefore some questions have changed from the performance measurement framework published in our Estimate memorandum for 2020-21 to allow for benchmarking against other organisations.

3 This year external audit did not undertake a specific audit on our digital or knowledge functions.

4 Cost of reports is calculated based on staff time.

5 Direct work is deemed to include: work on client facing projects, value management, knowledge collection, financial impacts, communities of practice and business management. Indirect work includes: line management, administration, executive support and training.

6 Target missed due to the impact of COVID-19 when the availability of our people was reduced due to personal commitments.

Source: National Audit Office

NEXT PAGE:
Effective accountability

SECTION SUMMARY

Effective accountability and scrutiny

£1.8 trillion
expenditure of government bodies audited

407
financial statements certified

61
VFM and wider reports

1,181
responses to correspondence





63
Committee of Public Accounts sessions supported

19
other select committee sessions supported

10
departmental overviews

7.0
references to the NAO in Parliament per sitting day

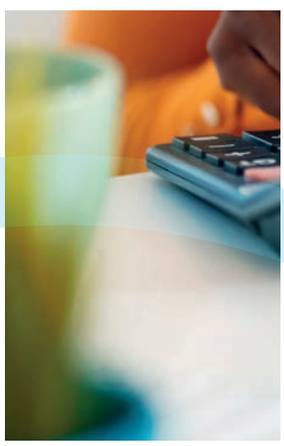
Our work

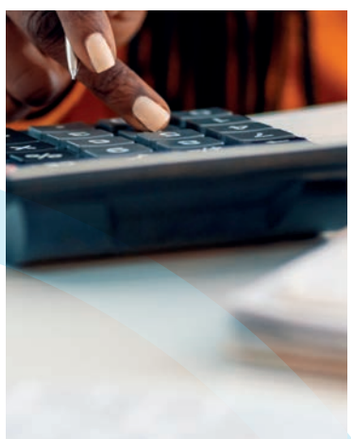
Financial audit

The Comptroller and Auditor General (C&AG), with the support of the National Audit Office (NAO), provides an independent audit opinion on more than 400 accounts across the public sector, including the major government departments. This audit work is defined by international auditing standards.

Our work has been more important than ever given the unplanned spending last year, with new processes and short timescales increasing the vulnerability to fraud and error. We used our audit opinions to point out disclosures made by government departments about uncertainties in their financial positions and issued several extra reports on accounts to draw issues to Parliament's attention.







CASE STUDY: **COMBINING OUR KNOWLEDGE**

The value of financial audit

The C&AG qualified his opinion on the financial statements of the Department of Health & Social Care (DHSC) due to a disagreement over how the loans to NHS trusts were valued and reported on. The C&AG's report on the matter drew on analysis from his value-for-money (VFM) reports to shine a light on what is happening in the financing of the system more generally.

The C&AG's reporting powers enable him to comment broadly on matters of relevance to users of the accounts. His report brought to light serious governance issues at University Hospitals of Leicester NHS Trust and how DHSC was working with others on solving these issues and explained a series of complex judgements he made on the regularity of certain spending within the sector.

Our audit teams worked with finance teams to understand how audit work could be carried out remotely and produced guidance to help audit and risk committees examine the effects on their organisation of COVID-19. We delivered 99% of our financial audits within the year while adjusting to accounts production timetables, certifying 42% of our audits before the Parliamentary summer recess in 2020, compared with 76% in 2019 (**Figure 4**).

We certified

42%

of our audits before the summer recess in 2020

CASE STUDY: **ADAPTATION**

Innovative auditing

English Heritage holds a significant value of inventory at shops across its historic sites such as Stonehenge. As part of our audit we need to confirm that inventory balances at financial year-end are subject to a reliable stocktake. However, in 2020, due to the closure of sites at the start of the first national COVID-19 lockdown, English Heritage was only able to complete stocktakes and then re-open its sites in July 2020.

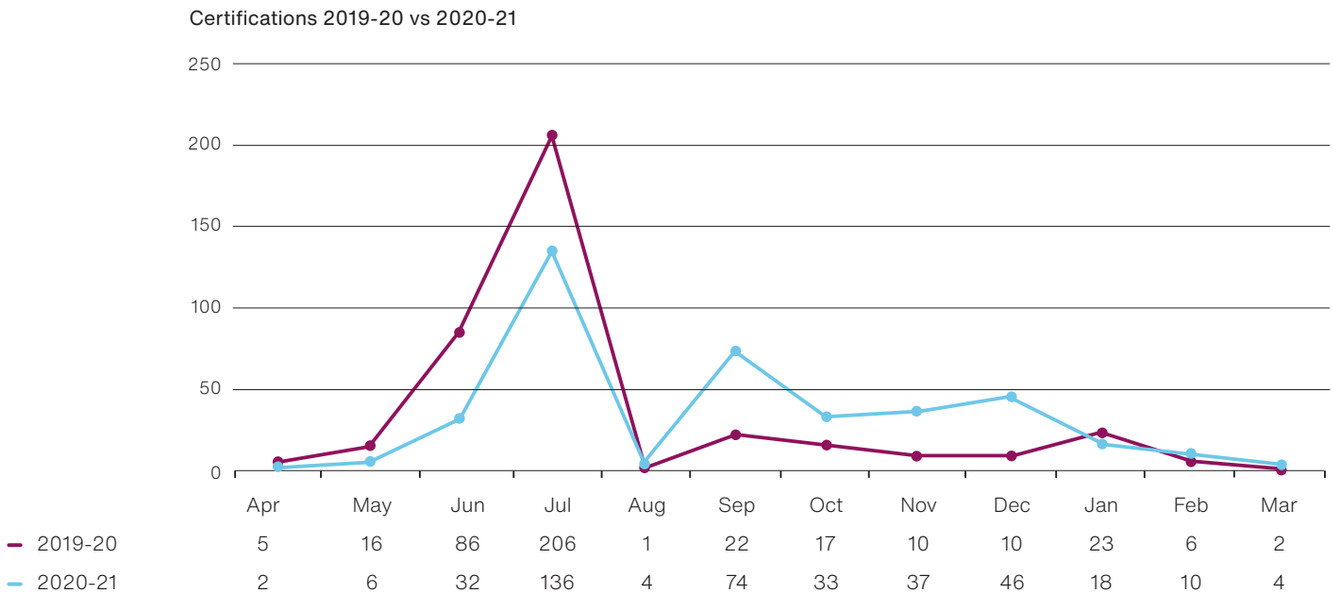
Unable to attend in person as we would normally, we went back to the drawing board and came up with using video cameras to attend a sample of site stocktakes virtually. To do this reliably, we ensured we had full control of the camera (for example, its direction and focus) and performed a live recount of the stock lines we independently selected for testing and confirmed we were shown all items within each stock line.

We examined independent plans, maps and photos of each site prior to the stocktake to check we were shown all possible locations holding stock at each site. We also used site records and other evidence to confirm that no deliveries or sales were made on site after closure and prior to re-opening so the stocktakes completed in July 2020 accurately represented the position at 31 March 2020.

Figure 4

Timing of certifications

The timings of our financial audit certifications throughout 2019-20 and 2020-21



	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
2019-20	5	16	86	206	1	22	17	10	10	23	6	2
2020-21	2	6	32	136	4	74	33	37	46	18	10	4

Source: National Audit Office

NEXT PAGE:
Support for parliament





Value-for-money work

Our VFM and wider assurance work examines if public bodies achieve efficiency, effectiveness and economy in their use of public resources. We conduct investigations to establish the facts where there are concerns about public spending issues, such as service failures or financial irregularities.

This year we produced a full programme of 61 VFM and wider assurance reports, including 17 on COVID-19. We produced our first report providing an overview of the UK government's COVID-19 response in May 2020, just two months after the pandemic was declared.

We refocused our planned work programme at the beginning of the year to support Parliament by providing timely and transparent information which highlighted risks for government to manage.

At the same time, we have continued to produce reports on long-term opportunities and risks to VFM. These include important infrastructure and defence projects, progress towards the net-zero carbon target and the ongoing impact of EU Exit, as well as VFM issues specific to government departments or discrete parts of the public sector.

CASE STUDY: **SOCIAL IMPACT**



Improving Broadband

In October 2020, we published a report on Improving Broadband building on previous NAO reports from 2013 and 2015 which looked at progress in delivery of the Government's Superfast (Rural) Broadband programme. Since we last reported, the Superfast Programme has moved increasingly to gigabit-capable full-fibre solutions and the government committed to 2025 for nationwide coverage, allocating £5 billion towards its UK gigabit programme.

The report focused on the role of the Department for Digital, Culture, Media & Sport and what the Superfast Programme has delivered, but also assessed the current position on broadband provision. This included how the UK's broadband infrastructure had held up during the COVID-19 pandemic and what the future demand for broadband might look like.

Looking to the future, we drew out lessons from Superfast Broadband and other comparative projects that we have reported on to assess how the Department could apply these as it establishes its new programme to deliver gigabit connectivity to the UK.





Support for Parliament

We support Parliament in holding government to account. We support the Committee of Public Accounts (the Committee), other select committees and individual MPs in their scrutiny of how public bodies use public resources and deliver services.

We have continued to support Parliament throughout the COVID-19 pandemic, providing briefings online or through hybrid arrangements as circumstances have allowed. More MPs interacted with the NAO's services this year (**Figure 5** on page 34), and MPs have used the NAO more frequently than in previous years with 39% of MPs using NAO information at least monthly (2019-20: 30%).

The Committee of Public Accounts

In 2020-21 we supported 63 of the Committee's evidence sessions, including 15 based on our reports on the government's response to COVID-19, through a combination of written and oral briefings. At these sessions, the Committee took evidence on a wide range of subjects, including the government's procurement of personal protective equipment; the COVID-19 vaccination and Test and Trace programmes; the government's support for jobs and businesses during the pandemic; and the impacts on education and local government finances.

The Committee held inquiries into issues supported by our VFM and wider reports. Following an inquiry, the Committee may choose to issue its own report and make recommendations, to which the government must respond in a published Treasury Minute. During 2020-21, the government accepted 249 of the Committee's 275 recommendations (91%). By comparison, in 2019-20, the government accepted 275 out of 300 (92%) of the Committee's recommendations.

NEXT PAGE:
Support for select committees

Support to select committees

We continue to support other select committees, including clerks and their teams, by providing oral evidence, written briefings and departmental overviews.

We supported 19 select committee evidence sessions, published three bespoke pieces of work and 10 overviews on government departments' accounts and performance as well as other cross-cutting issues. These are based on insight from our work and highlight key developments and challenges to aid MPs and committees in their scrutiny of government. This year we included the impact of COVID-19 on departments and their response, while still highlighting the variety of other challenges they face.

In 2020-21, we supported eight select committees and the Parliamentary Scrutiny Unit through our programme of secondments, including the Home Affairs, Environmental Audit and Treasury Committees. These support the committees' inquiries and develop our people's knowledge and skills.

CASE STUDY: **COVID-19 IMPACT**

Government procurement during COVID-19

In January 2021, our Director for Regulation, Charles Nancarrow, and our Head of Practice Commercial and Contracting, Joshua Reddaway, gave evidence to the House of Lords Public Services Committee as part of its session on procurement and public services.

The Committee asked about our *investigation into government procurement during COVID-19* and our wider expertise on public procurement.

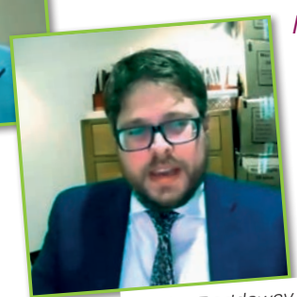
The Committee was interested in the standards that the public sector must meet to maintain fairness and transparency, how well government is meeting these standards and the skills needed in the future to avoid the procurement issues raised by the report and ensure value for money.

The Committee said:

"Many thanks to Joshua and Charles. We have interrogated you. We have pushed for clarity, but you have given us that, as well as some ideas for the future, so thank you very much indeed. Keep producing these reports; we all enjoy NAO reports."



Charles Nancarrow



Josuha Reddaway

CASE STUDY: **ENVIRONMENT**

Energy efficiency of homes

In October 2020, our Director for VFM on the Department for Business, Energy & Industrial Strategy, Simon Bittlestone, gave evidence to the Environmental Audit Committee as part of its inquiry on the energy efficiency of homes. The Committee asked about our past work on government's policies to insulate homes, including our 2016 report on the Green Deal scheme.

The Committee was interested in the lessons that government should draw from our report when developing new energy efficiency schemes, such as sufficient testing with consumers and having clear objectives. Simon also drew on our more recent reports on support for businesses in the pandemic, which showed the risks around fraud and non-compliance when attempting to implement policies quickly, as is the case with the latest energy efficiency scheme, the Green Homes Grant.

PERSONAL CASE STUDY

SUPPORTING PACAC

In January 2020, I joined the Public Administration and Constitutional Affairs Select Committee (PACAC) staff as part of the NAO's rolling programme of secondments to the House of Commons. The role was challenging but very rewarding. I was able to bring NAO skills and knowledge to managing inquiries in many areas, including major projects (where the NAO can lend great expertise).

When COVID-19 hit, we moved to working at home, and I supported the Commons teams in setting up the virtual chamber. The Committee moved quickly to scrutinising the response to the pandemic (alongside other ongoing work), and I launched an inquiry on COVID-19 data. This was a complex and challenging inquiry that drew on my NAO experience of working with data and asked really important questions of government. I supported the Committee to produce an impactful report and earned myself a mention by name in the House of Commons Chamber.

Working directly with MPs gives NAO people, like me, a real insight into how to support Parliament. There will be plenty of opportunities to bring this back to my VFM work.



Claire Hardy, Senior Analyst

"As I said on the floor of the House, the Committee and I have been immensely grateful for the work by Claire Hardy, who led on the COVID-19 data accountability and transparency inquiry. The experience NAO staff bring with their strong analytical skills, and ability to sift through large quantities of evidence, is invaluable and I hope they are able to return to the NAO with a first-hand experience of Parliament that serves them well in future posts."

William Wragg, MP

Support to members of Parliament

We provide embargoed reports to all MPs, along with an offer of a briefing on the report. We also provide regular updates on our work through our Parliamentary newsletter to more than 920 MPs and members of the House of Lords. We undertook 71 briefings on our work and areas of expertise to MPs and members of the House of Lords in addition to our work with the Committee.

MPs can also write to us to raise concerns over the misuse of public money or behaviour in public bodies we audit. It brings issues to our attention and MPs can draw on our knowledge and expertise as they seek to hold government to account. In 2020-21, we provided 86 responses to MPs' requests.

59%

of MPs find our insights and reports easy to access

NEXT PAGE:
MPs' perception

Figure 5

MPs' perception of the National Audit Office (NAO) 2016–2020

A Know the NAO very well or a fair amount.

B Have a favourable opinion of the NAO.

C Would speak highly of the NAO.

D Rated us as above average for influencing beneficial change.

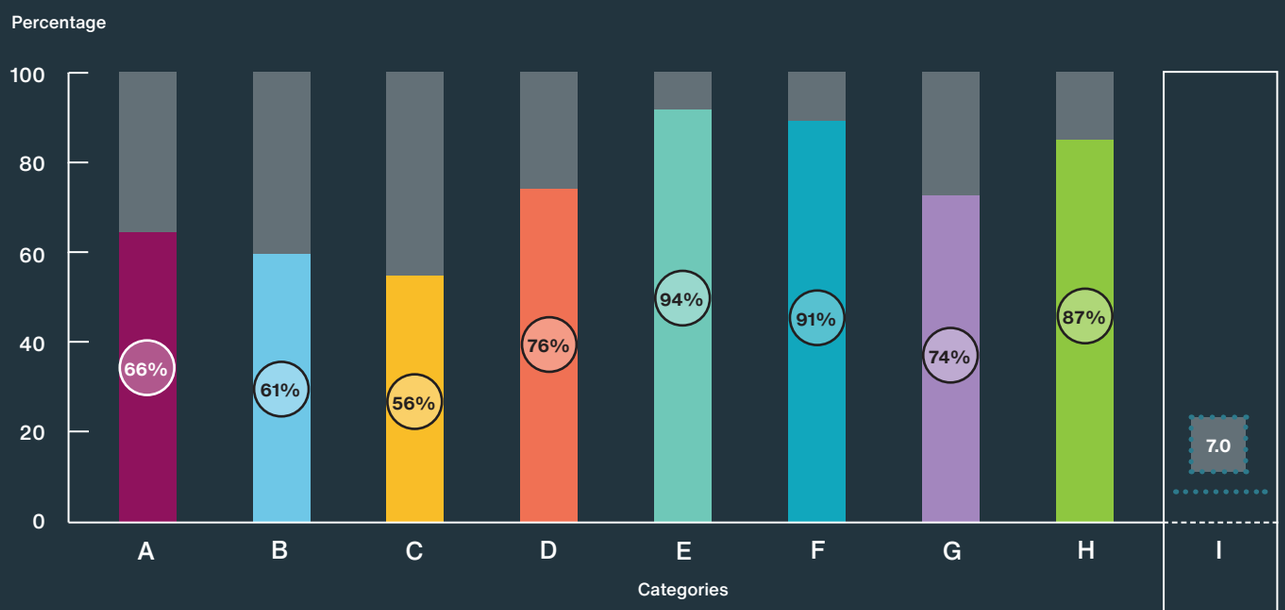
E Rated us as above average for acting impartially and independently.

F Rated us as above average for being authoritative.

G Rated us as above average for the quality of products or services.

H Rated us as above average for acting with honesty and integrity.

I Number of references to the NAO in Parliament per sitting day.



	A	B	C	D	E	F	G	H	I
Change since 2019	+1	+4	+4	+9	+14	+3	+8	+13	+2.2
2019	65%	57%	52%	67%	80%	88%	66%	74%	4.8
2018	75%	70%	57%	83%	83%	83%	77%	78%	5.6
2017	78%	66%	56%	69%	80%	88%	67%	77%	6
2016	73%	62%	50%	74%	81%	87%	73%	83%	5

Notes

1 Sample: 394 MPs contacted, 135 MPs interviewed, 101 MPs answered the National Audit Office questions (versioning used to control interview length).

2 Quotas and weighting used so results reflect the House by ministerial status within political party.

3 Broad sample controls also set on region, gender and newly elected MPs.

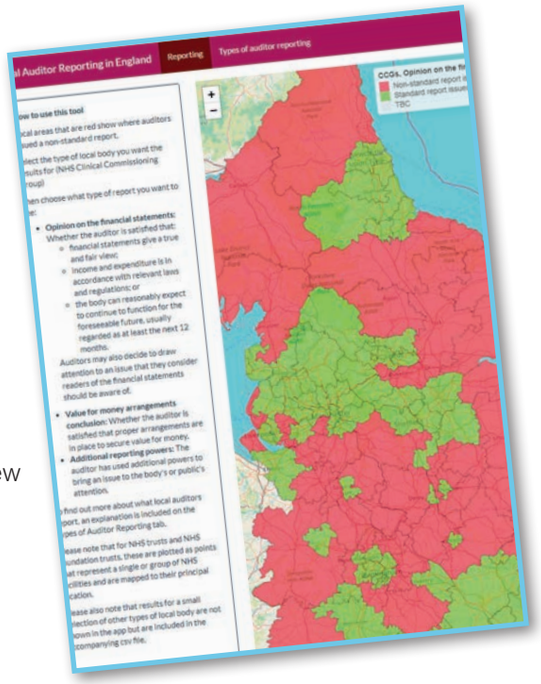
4 Fieldwork dates: 9 November–22 December 2020. Face to face interviews with MPs.

Source: Ipsos MORI MPs Winter 2020 survey

Local audit

During 2020-21, we consulted on and issued statutory guidance for auditors on the new Code of Audit Practice's VFM approach. Alongside issuing statutory guidance, we convened networks to help auditors address emerging issues such as the audit of 'going concern' in the public sector. We developed and issued an online tool[1] to improve public accessibility of local auditors' reports and have worked with other organisations with roles in the arrangements for local public audit to ensure that our activity supports the health of that sector.

During the year, Sir Tony Redmond published his review on local authority financial reporting and external audit, which endorsed our changes to the Code. The review recommended creating a new body to provide system leadership and bring together functions, including the maintenance of the Code, currently carried out by separate bodies. We are working with the Ministry of Housing, Communities & Local Government and other stakeholders as they respond.



1 Available at: www.nao.org.uk/other/find-a-local-public-bodys-audit-report/

Correspondence

Receiving, investigating and replying to correspondence is part of our core work. It is one of our direct contact points with MPs and the public. It is a rich and invaluable source of information for our audit work.

We typically receive around a thousand letters from the public and a hundred letters from MPs each year; we provided 1,181 responses in 2020-21 (2019-20: 1,222). We value the letters we receive, and we aim to respond to correspondence from MPs within 10 working days and from the public within 20 working days. In 2020-21, we responded to 99% of letters from the public and 92% from MPs within our target timescales (2019-20: 99% and 89%); and 100% from MPs within 20 working days (2019-20: 100%).

Correspondence gives us an opportunity to explain and inform people about our work and helps us focus our questions on public bodies to probe issues and concerns of interest to the public.

We also responded to 120 formal requests for information under the Freedom of Information Act 2000 (2019-20: 77) and one request under the Environmental Information Regulations 2004 (2019-20: 2). People can ask what personal data we hold about them, and we answered nine subject access requests under the Data Protection Act 2018 (2019-20: 5).[2]



We responded to

99%

of letters from the public within 20 working days

2 Response data is based on cases responded to and closed within 2020-21.

NEXT PAGE:
Quality

Quality

Financial audit work

The quality of our financial audit work gives the C&AG their licence to operate as Parliament's appointed auditor and, as such, is one of our strategic risks.

A key measure of the quality of our financial audit work is the outcome from our annual assessment programmes of internal and external reviews of a sample of our audits.

There is a lag in these assessments as they need to take place once the audit is finalised. During 2020-21, the Financial Reporting Council (FRC) completed its review of a sample of seven of our 2018-19 audits. Based on this small number, the FRC judged that 71% of audits (43% in 2017-18) required no more than limited improvements. Two audits were assessed as requiring significant improvements (none in 2017-18) and none as requiring improvement (four in 2017-18).

Our internal reviews are carried out by our Compliance and Quality Unit. It reviewed a sample of 28 of our 2018-19 audits (31 in 2017-18). Of these reviews, 68% (87% in 2017-18) required no more than limited improvements; 4% were assessed as requiring significant improvements (3% in 2017-18) and 28% as requiring improvement (10% in 2017-18).

The results from these reviews tell us that we deliver audit work that meets professional and widely accepted auditing standards. However, we do not always do this consistently and we are being held to account against the increasingly higher standards the audit profession is required to meet. We have taken several steps to provide further support for our audit teams, so they are confident in delivering work that meets these auditing standards.

We produced our first annual Financial Audit Quality Plan. The Plan set out interventions that will support teams over the next three years, with a particular focus on the 2020-21 audit cycle. These include:

- developing an open learning culture where people support each other to deliver quality audit work (for example, through a programme of grade meetings to discuss how we might overcome cultural barriers which could prevent good-quality outcomes);
- more effective people management (see Developing our people);
- a targeted learning and development programme;
- improving our audit methodology and access to appropriate technical support and expertise;
- more effective targeting of our quality control regime; and
- improved audit software and technology (see Audit transformation).

More detail, including the outcomes of our inspection programmes covering our 2019-20 cycle of audits currently under way, can be found in our annual Transparency Report.[3]

3 Available at: www.nao.org.uk/about-us/our-work/governance-of-the-nao/transparency/

Value-for-money and wider assurance work

As with financial audit, our VFM work is assessed each year through the external and internal review of a sample of our published reports and investigations. We use these findings to improve our processes and guidance, supported by additional training where required.

In 2020-21 RAND Europe and Risk Solutions undertook our external reviews, examining 12 reports in total. The reviews considered the scope and context of the report, quantitative and qualitative analysis, structure and presentation, graphs and statistics, methods used, synthesis of analyses and conclusions, recommendations and summary, leading to an overall assessment.

The reviewers assessed all 12 reports as meeting or exceeding expected standards, as they did in the previous year. Overall, the reviewers agreed that the definition of our scope and the context for the report continued to be areas of strength and that quantitative analysis was used to good effect. The reviewers also considered that the report structures generally led to an easy to follow report and that the summaries were seen as helpful, stand-alone pieces of work. Reviewers did feel, however, that the summaries would have more impact if they were shorter and that the rationale for the scope could be set out more clearly.

The reviewers also highlighted improvements in some cases in the use of qualitative analysis and the detail provided on the methodologies used, but there remained inconsistency across the reports in these areas. There was also potential to improve the clarity and targeting of recommendations, done well in some cases but in other cases needing greater specificity or a clearer link to supporting findings. Finally, the reviewers considered that, with the weight of evidence in some cases, there were opportunities for explicit or stronger judgements or where a conclusion was not included, explaining more clearly why one was not made due to the scope or purpose of work done.

Our internal reviews check for adherence with our VFM standards and quality assurance process and to identify good practice. In 2020-21, we reviewed 12 VFM studies and investigations and ten were rated as meeting our standards either as good/best practice or good with limited improvements (2019-20: eight). The remaining two were rated as having areas for improvement (2019-20: four), with no reports considered to have significant areas for improvement (2019-20: zero).

More details on the findings of our reviews, and our work to improve quality, can be found in our Transparency Report.[3]

We internally reviewed 12 VFM and wider assurance reports

10
met good/best practice or required limited improvements

2
were assessed as requiring some improvements

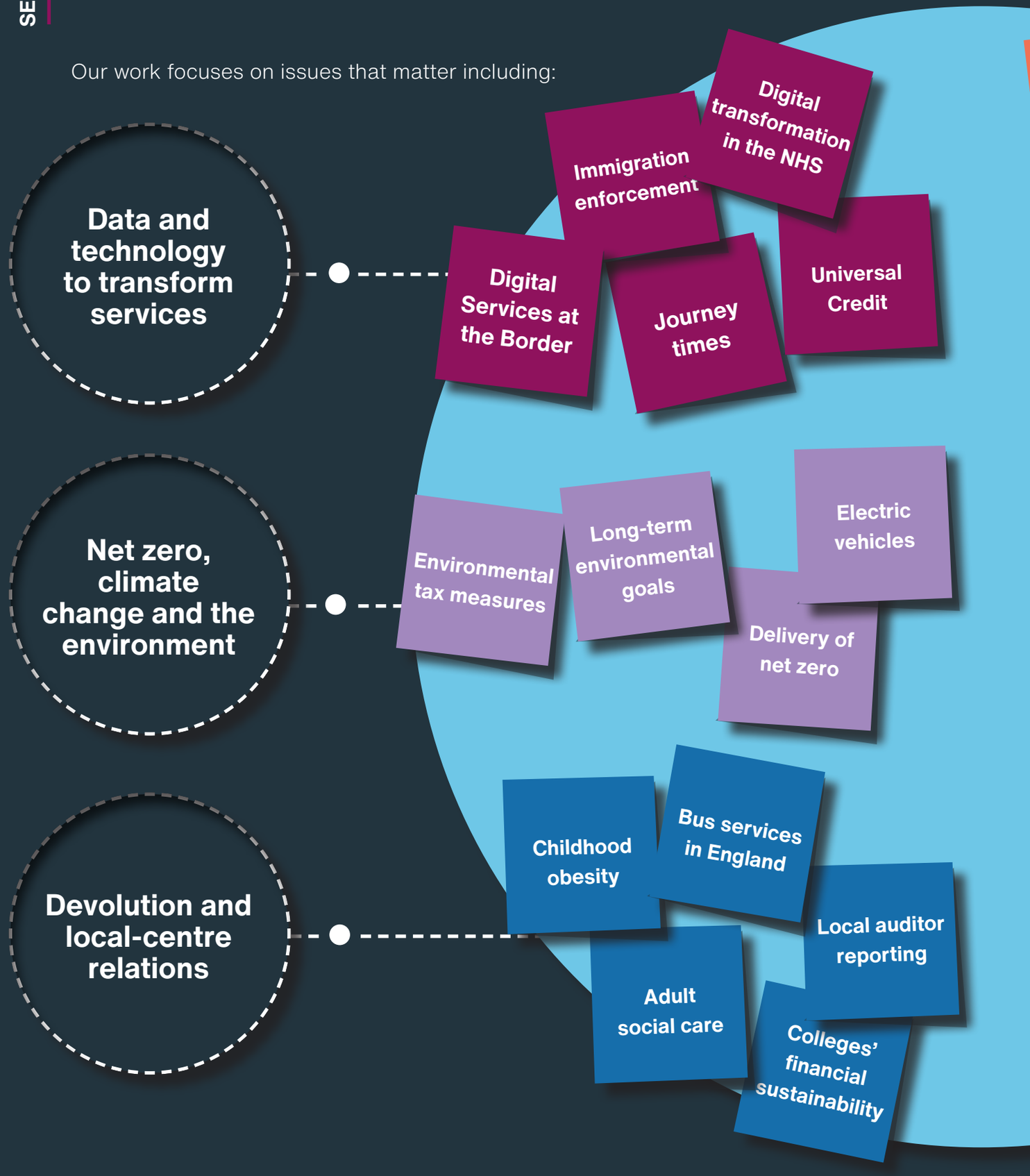
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were assessed as requiring significant improvement

NEXT PAGE:
Our impact

SECTION SUMMARY

Our impact on outcomes and value for money

Our work focuses on issues that matter including:




Government support for exports
EU Exit preparations
The Border
EU Exit
Procurement
Bounce back loan and job retention schemes
Local government finance
Culture and the arts
Children's education
NHS and social care
COVID-19
Restoration and Renewal of Parliament
Carrier Strike
Broadband
Equipment Plan
Major infrastructure projects

Our impact

We make recommendations on how government can achieve better value for money and improve the services under examination. These are practical changes that government can make to lead to better outcomes.

We track the progress departments make in implementing our recommendations on a five-year rolling basis to ensure our recommendations deliver positive change. Between 1 January 2015 and 31 December 2020, we made 967 recommendations, 807 of which have been discussed with audited organisations. Of these, 297 have been implemented, 473 are in the process of being implemented, and 37 have been rejected. This equates to an acceptance rate of 95% for our recommendations (2019-20: 94%).

Our financial impact

Our work saves the public money. We assess our financial impact, identifying where our work or influence has resulted in an improvement with a financially quantifiable net benefit.

This includes any impact that results in more cash being available for public funding, an improvement in productivity or an increase in output quality for the same or proportionately fewer resources. Financial impacts are agreed with the audited body and subject to an external audit review to ensure they are robust and reported accurately. A full list is included on pages 144 and 145.

During the calendar year 2020, the total audited impact was

£926 million.

This represents a positive financial impact from our work of at least £13 for every pound spent, exceeding our target of £10.

CASE STUDY: **FINANCIAL IMPACT**

Sellafield efficiency savings

Since 2012, the NAO has produced four reports examining nuclear decommissioning at Sellafield. In 2015, in response to our work and that of the Committee of Public Accounts, the Nuclear Decommissioning Authority (NDA) confirmed its decision to implement a new management model at Sellafield. In 2016, Sellafield Limited became a direct subsidiary of the NDA, which deemed that these new management arrangements would secure significant savings. In 2018, we reported that Sellafield Limited had accrued savings of £474 million since changing its management model for the site and that it expected to have saved £1.4 billion by 2020.

Our work supported the NDA's implementation of the new management model by influencing government to consider a new approach to management of the site. Our impact of £12 million in 2020-21 is part of an ongoing impact claim and reflects the NAO's contribution to the savings made by the NDA.

Driving change

Not all beneficial changes from our work are financially quantifiable – many other improvements result from all areas of our work. These include:

- a direct, beneficial impact on the lives of people as users of government services;
- helping to improve government capability;
- promoting transparency and accountability;
- drawing attention to risks that government must manage; and
- adding insights that improve processes and aid decision-making.

We have included examples of our impact, agreed with our audited bodies, in case studies throughout the report in **purple** boxes with the arrow icon.

NEXT PAGE:
Our long-term impact

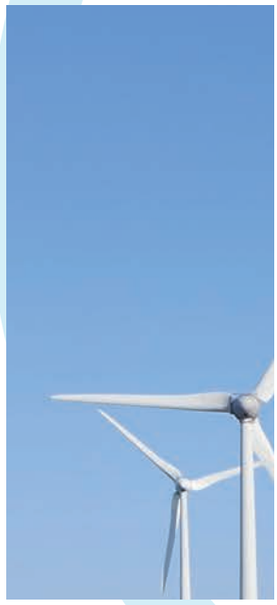
Deterring tax fraud

What we did

Each year we report on HM Revenue & Customs' (HMRC's) performance including its collection of taxes. Our 2015 report enabled the Committee of Public Accounts to examine factors contributing to the gap between tax due and the tax collected by HMRC, including tax evasion. In its subsequent report (November 2015), the Committee concluded the number of criminal prosecutions for offshore tax evasion was inadequate and it called for HMRC to strengthen its capability to investigate offshore tax evasion. In 2016, the Committee said HMRC must do more to tackle tax fraud and counter the belief that people are getting away with tax evasion. The Committee recommended that HMRC increase the number of investigations and prosecutions, including of wealthy tax evaders.

Outcome

Our work, and the Committee's scrutiny, contributed to the recognition that HMRC needed to urgently increase its capability to investigate tax evasion, and influenced its subsequent action to increase the number of investigations and prosecutions it undertakes. Since 2015 HMRC has received funding to increase its compliance activities. This funding has helped HMRC achieve its aims to support more prosecutions of "serious and complex" tax crimes. By March 2020, HMRC had delivered 121 positive charging decisions against its cumulative internal goal of 110, and it had increased eight-fold its investigations into serious and complex tax crime (from 50 in 2016-17 to 442 in September 2020). This increased activity deters criminals from committing tax crimes but it is currently not possible to quantify this impact.

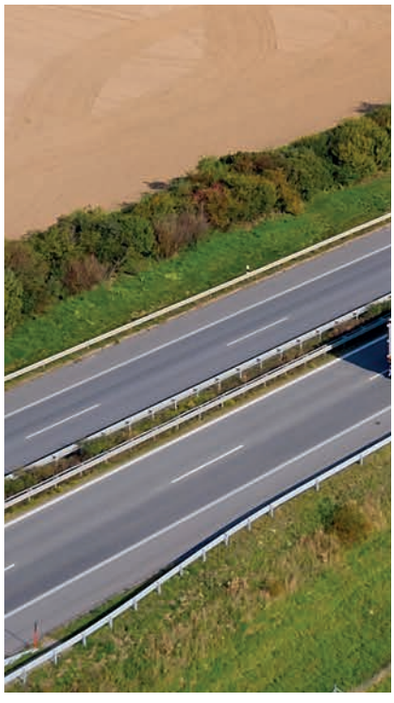






Our long-term impact

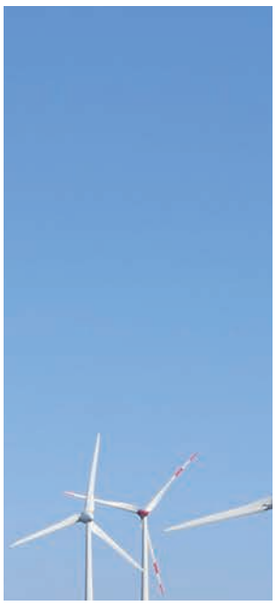
Our work responds to the long-term implications for public spending of government's plans, such as the long-term effects of COVID-19 on public spending, big infrastructure projects, the impact of EU Exit, progress towards the net-zero emissions target, the use of technology and data to transform services, devolution and the impact of public services on different groups.



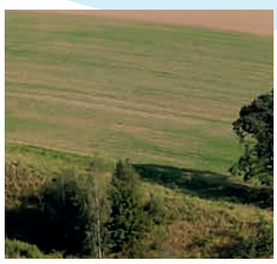
Net-zero and the environment

The government has set out its long-term environmental ambitions and tightened its climate change target to achieve net-zero carbon emissions by 2050. Meeting climate change targets will need significant changes, such as in energy, transport, housing and agriculture.

We examined how government assures delivery of important policies on achieving long-term environmental goals including the robustness of government's plans to fulfil net-zero emissions targets. We have also reported on supporting initiatives such as reducing carbon emissions from cars, and how vital infrastructure, such as flood defences, are being managed.









Improved cross-government accountability for the 25 Year Environment Plan

What we did

In January 2019, the government published its 25 Year Environment Plan, setting out its 10 overarching environmental goals. In November 2020 we examined how government had set itself up to deliver these goals. We found that while the Plan brought together many aspirations and commitments in one place, it did not provide a clear and coherent set of objectives. We also found government had not set a clear course for how it would go about developing these objectives so they were coherent, nor had it developed a full set of costed delivery plans.

Outcome

We recommended that Cabinet Office and the Department for Environment, Food & Rural Affairs (Defra) improve arrangements for engaging other departments. This included mapping out areas where other departments had a critical role and establishing clear expectations and strengthening coordination and oversight. Defra's director-general for Environment, Rural and Marine told the Committee of Public Accounts that Defra had acted on our recommendation and established a new board, with lead directors-general from all the big domestic delivery departments with a stake in the 25 Year Plan.

EU Exit

Since 2016 we have produced 30 reports examining the government's preparations for the UK leaving the EU. These reports varied in scope and breadth, highlighted risks for government at key stages of the exit process and supported Parliamentary scrutiny. In September 2020 we published a report drawing out insights from our previous work that government can apply to its ongoing work on EU Exit and to other complex cross-government challenges.

In November 2020, we published our fifth report on the management of the UK border, focusing on government and third parties' preparedness for the end of the transition period, including progress with implementing the Northern Ireland Protocol. We continue to highlight key risks around systems development, infrastructure and resourcing, and industry and trader readiness.



NEXT PAGE:
Diversity in our work



Diversity in our work

In 2020-21 the COVID-19 pandemic and other events have particularly brought existing inequalities experienced by different groups to the fore. Considering the impact of government activity on different groups is an important way of highlighting inequalities in how public services are delivered and securing deep and sustained improvement in the outcomes for all.

As part of our strategy we are doing more to make sure we consider the range of perspectives of users of public services in our value-for-money and wider assurance work and examine the effect public spending has on different groups of people. In 2020-21 we published 18 studies that considered the differential impact of services and policies on different groups of people.

Greater take-up of STEM apprenticeships by women

What we did

Our March 2019 report on the apprenticeships programme highlighted that the Department for Education had no targets relating to gender equality, despite the notable under-representation of women in science, technology, engineering and mathematics (STEM) apprenticeships. The Department also needed to evaluate the effect of its efforts to attract more women into STEM apprenticeships.

Outcome



As a result of our work, the Department undertook an evaluation of its actions. Alongside other parts of government, it is taking action to encourage women into these apprenticeships by promoting STEM careers to girls in schools and working with employers who have had low take-up of STEM apprenticeships by women.

DWP's information on benefits claimants who ended their lives by suicide

What we did

We published a report in February 2020 on information held by the Department for Work & Pensions (DWP) on deaths by suicide of benefits claimants, following correspondence from the then Chair of the Work and Pensions Select Committee, the Rt Hon Frank Field MP. This report concluded that it was highly unlikely that the 69 cases into which DWP launched Internal Process Reviews represented all the cases of deaths by suicide among its claimants that it could have investigated. It also found that DWP did not have processes to ensure recommendations from the reviews were followed up appropriately. Following this, the Work and Pensions Select Committee took evidence from DWP on how it deals with serious cases.

Outcome

Building on our findings, DWP improved its processes. It established an Internal Process Review Group to collate review findings and ensure changes are implemented across the Department. It has involved more senior staff in its reviews and is taking steps to identify more cases where a review should occur. In July 2020, DWP gave evidence to the Work and Pensions Select Committee on how it learns lessons from serious cases. DWP explained that where it identifies that a customer may need advanced support they will take additional steps to contact them. Where appropriate, they will contact other organisations, for example adult social services, before stopping their benefits.

DWP has also published minutes and terms of reference of its Serious Case Panel, which considers systemic issues arising from serious cases along with other insight impacting on DWP customer experience. The Serious Case Panel makes recommendations to address these issues, in order to reduce the incidence of such cases in future.

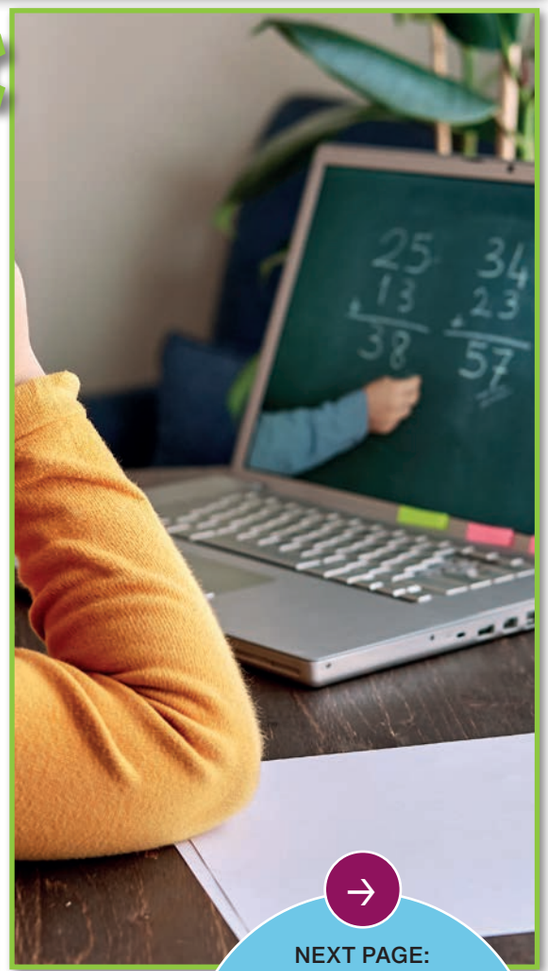
CASE STUDY: **EDUCATION**

Support for children's education during the early stages of the COVID-19 pandemic

Our report assessed the Department for Education's support for children's education during the early stages of the COVID-19 pandemic between March and July 2020, focusing on vulnerable and disadvantaged children. We found that, despite being allowed to attend, only a small minority of vulnerable children did attend school during this period, increasing risks to their safety and welfare. Among children learning remotely from home, those from disadvantaged backgrounds faced particular challenges, such as having no quiet space to work in and limited IT equipment. The period of disrupted schooling is likely to have longer-term adverse effects on children's learning and development and early assessments expect disadvantaged children to have lost out disproportionately from the disruption.

Recommendations

Our recommendations included that the Department for Education should track the longer-term impact of COVID-19 on all children's development and attainment, focusing particularly on vulnerable and disadvantaged children, and take action in light of the results.



NEXT PAGE:
Expertise

CASE STUDY: **TRANSPORT**



Improving local bus services in England outside London

Our report examined the effectiveness of government's support for improving bus services. In 2019, some 5.8 million bus passenger journeys were made in England every day (outside London). Buses are particularly important for people aged 17 to 20 and over 70, women and girls, most ethnic minority groups, and people on lower incomes. However, we found bus travel had fallen by 10% overall since 2010-11, despite government aiming to increase it. Government support for non-commercial bus services is vital for rural or disadvantaged users, but we found travel on these supported services had fallen most. The Department for Transport lacked data to understand how many people, and who, were being affected.

Recommendations

During the pandemic, the Department intervened to keep buses running. We recommended it should set out what it will do to support long-term improvement, what it expects local authorities and operators to do, and how it will measure outcomes for users.

CASE STUDY: **GENDER EQUALITY**



Improving the lives of women and girls overseas

Our report assessed the (then) Department for International Development's plans for implementing its Strategic Vision for Gender Equality. We found that individual programmes to improve gender equality were performing well and the Department is widely respected internationally for its broad range of influencing activity in this area. However, we reported that the Department had struggled to 'mainstream' gender and ensure it was considered across all of its work. We also found that not enough of the gender equality-focused programmes tackled social norms, such as negative attitudes to girls attending school, despite such programmes having the most long-term impact on improving gender equality.

Recommendations

We recommended that the Department for International Development should develop an overall long-term plan for implementation against which it can assess progress with its 2018 Strategic Vision and publish a short report setting out its progress every two years. It should also assess if it is focusing sufficiently on interventions that tackle social norms.

Strengthening our expertise

In 2020-21 we improved our expertise in skills that are important across government. Our specialisms cover analysis, commercial, digital, financial and risk management, major project delivery and people and operations management. We have appointed five senior practitioners with functional specialisms and cross-government expertise. These are building our expertise and providing our staff with opportunities to have a more varied career path. For example, we used our commercial expertise in many of our COVID-19 outputs.

Managing the expiry of Public Finance Initiative contracts

What we did

Nearly £4 billion of assets under the Public Finance Initiative (PFI) are expected to revert to public ownership in the next seven years. Contract expiries will also increase from 2024-25 onwards with more than 200 contracts set to expire in the next 10 years. Our 2020 study examined how the public sector is preparing for expiring contracts and what risks this raises for value for money. Our work identified opportunities to improve preparations and encouraged departments to take early action. We previously highlighted this issue in government, in particular with the Infrastructure and Projects Authority (IPA), and this supported government's efforts to improve preparations.

Outcome

Preparations for contract expiry and understanding of the risks have improved. In March 2020, HM Treasury awarded the IPA additional funding to begin its PFI contract management programme. HM Treasury's second permanent secretary welcomed the forward-looking nature of our study. The deputy chief executive of the IPA told the Chair of the Committee of Public Accounts that our report was extremely timely and helped it achieve the support it needed from HM Treasury and ministers to secure the funding for this programme. In November 2020, the Cabinet Office started developing a PFI training package, using the risks identified in our report to help design the training.

NEXT PAGE:
Accessible insight

SECTION SUMMARY

Accessible independent insight

9 major outputs

including lessons learned, good-practice guides and data

2 insight reports for Parliament



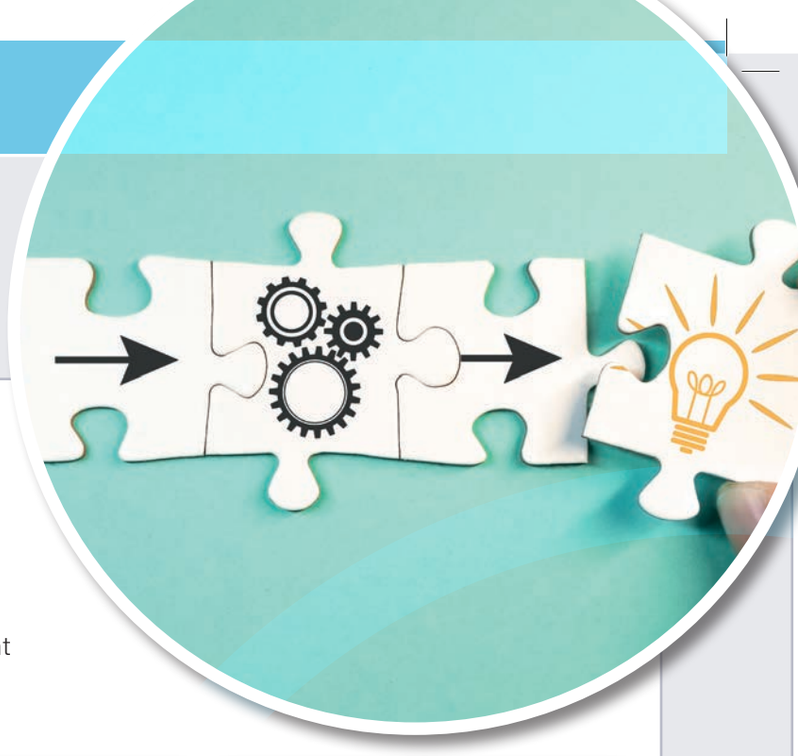


Our international work

5 data visualisations

supporting our published reports

Accessible insight



Lessons learned reports

Our lessons learned reports bring together learning from our work on important recurring issues across government.

We use them to influence projects and programmes at an early stage and where our input can help government achieve better outcomes. In 2020-21 we produced four lessons learned reports including:

Palace of Westminster Restoration and Renewal Programme[4]

draws on our back catalogue to identify early risks associated with the approach taken to restore the Palace. We recommend how Parliament and the Sponsor Body can reduce these risks and describe the potential impact of not doing so.

4 Available at:: www.nao.org.uk/report/palace-of-westminster-restoration-and-renewal/

Lessons for government from EU Exit preparations[5]

shares insights from our previous 28 reports on EU Exit on what government can learn from its preparations for EU Exit. We draw out key learning points which have ongoing relevance for future EU Exit-related work and other large cross-government programmes such as achieving net-zero.

5 Available at: www.nao.org.uk/report/learning-for-government-from-eu-exit-preparations/

Lessons learned from major programmes[6]

brings together insights from our recent reports on major programmes, including on Crossrail, Carrier Strike and Universal Credit, and point to the root causes of the issues we see most often. We identify learning points that government should focus on to improve its performance on major programmes.

6 Available at: www.nao.org.uk/report/lessons-learned-from-major-programmes/

Defining and assessing value for money at PHSO

What we did

The Parliamentary and Health Services Ombudsman (PHSO) makes final decisions on complaints in the NHS and public organisations, and shares learning from its casework to make recommendations aimed at improving public services. Understanding the value for money of its work is challenging and requires a robust framework for assessing its activities and measuring the beneficial impact of its work. The PHSO is in the process of developing a new framework and to assist with this our Commercial Hub regulation experts shared lessons learnt from our 2016 report on performance measurement by regulators and our guidance on reporting to boards. We also described how we assess the beneficial effect of our own work through a combination of both quantitative and qualitative methods.

Outcome

The PHSO has developed a VFM framework linking its organisational balanced scorecard with more specific analysis derived from peer review and through several value-for-money dashboards. Taken together these assess the beneficial impacts of its work. Our engagement with PHSO contributed to how it developed its framework and its ability to demonstrate and measure value from its work. Once implemented, the new framework is expected to improve the quality of its reporting, transparency and enhance PHSO's understanding of the impact of its work.



Good-practice guidance

Our guides make it easier for others to understand and apply the lessons from our work.

They are for use by non-executive directors and members of audit and risk committees to help them discharge their responsibilities and for senior decision-makers in government. These guides included:

Fraud and Error[7]

Our work over the past year has shown the risk of fraud and error has risen significantly due to government's response to COVID-19. This guide sets out insights from our recent work on fraud and error and, using our fraud and error audit framework, good practice using case studies.

7 Available at: www.nao.org.uk/report/good-practice-guidance-fraud-and-error/

Good practice in annual reporting[8]

sets out our principles against which an annual report can be judged and highlights best practice from across the public sector to support government bodies as they prepare their annual reports.

8 Available at: www.nao.org.uk/report/good-practice-in-annual-reports-february-2021/

Improving operational delivery in government[9]

is a practical guide for senior leaders in organisations that provide government services. It sets out actions that can be taken in important areas, questions that senior leaders should ask of their organisation and things they should look out for, illustrated by examples of good practice.

9 Available at: www.nao.org.uk/report/managing-operations-senior-leaders-guide/

Insights and accessible data

We publish insights from our work to make it easier for others to understand important and topical issues.

These include short papers we have produced for the International Trade Committee on the Trade Remedies Investigations Directorate[10] and the Science and Technology Committee on the proposed Advanced Research Projects Agency[11] to support their inquiries and aid scrutiny.

Data visualisations communicate messages from our work and provide Parliament and the public with transparent and accessible data that aid scrutiny and accountability. Examples include:

Local public bodies audit reports[12]

This data visualisation of local auditor reporting in England maps the areas where auditors have issued their audit report and if they are satisfied with the local public bodies' financial statements and their arrangements to secure value for money.

Transport accessibility to local services: a journey time tool[13]

Local public transport provision influences how people can access the services they need, including healthcare, education, employment, leisure and business facilities. This tool explores how access to different local services across England is enabled or restricted by the local public transport provision in an area.

10 Available at: www.nao.org.uk/report/the-trade-remedies-investigations-directorate/
11 Available at: www.nao.org.uk/report/briefing-for-the-science-and-technology-committee-advanced-research-projects-agency/
12 Available at: www.nao.org.uk/other/find-a-local-public-bodys-audit-report/
13 Available at: www.nao.org.uk/other/transport-accessibility-to-local-services-a-journey-time-tool/



COVID-19 cost tracker

In response to the challenges presented by the COVID-19 pandemic, the government has introduced at great pace a wide range of measures to support individuals, businesses, public services and the wider economy. To increase transparency and facilitate scrutiny and Parliamentary accountability for government spending relating to COVID-19, we have developed a new approach to gathering, sharing and updating information from across government on this large and unprecedented area of public spending.

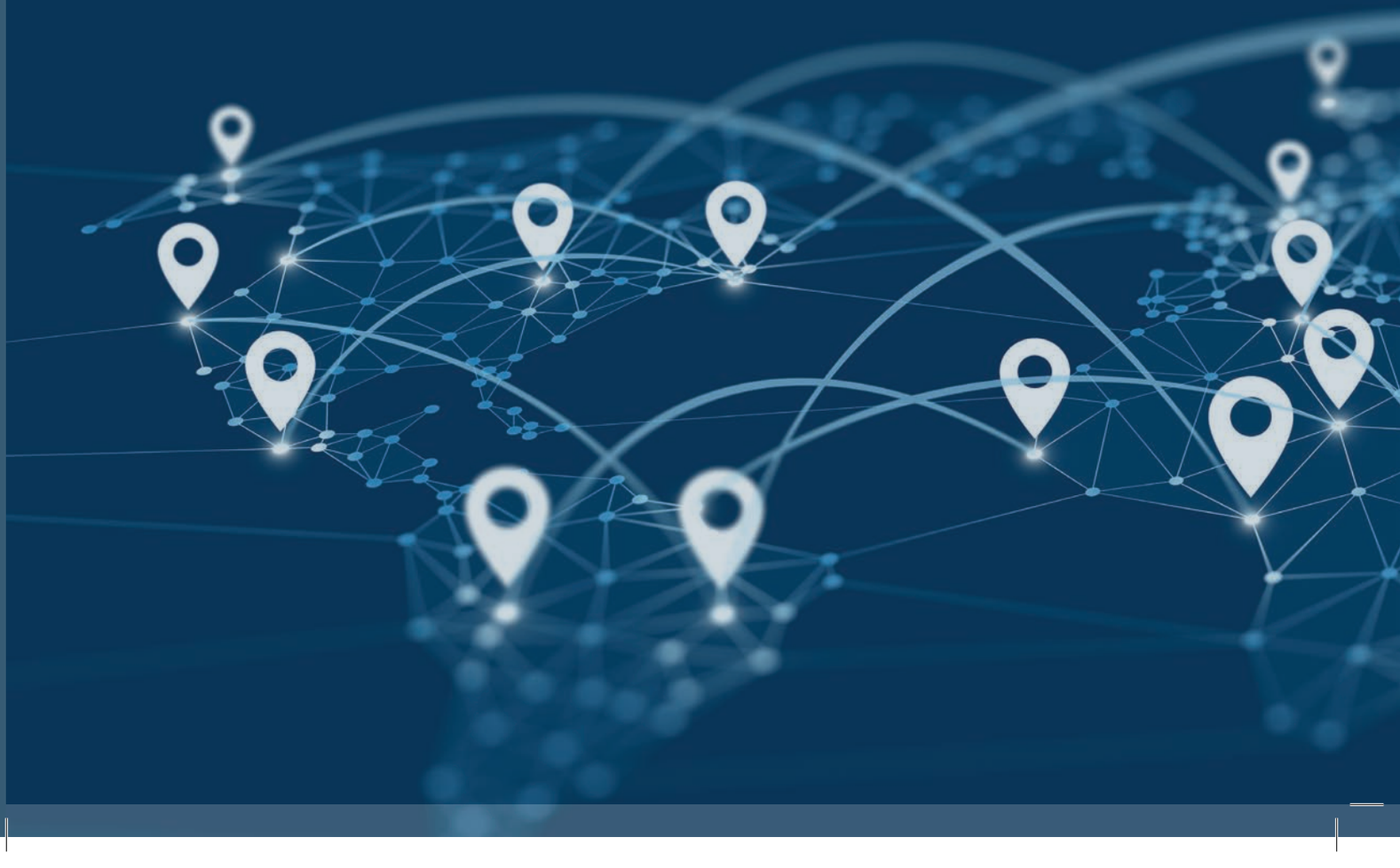
Our new online interactive tool, the COVID-19 cost tracker, brings together the measures the government has taken in response to the pandemic in a simple and accessible way, enabling users to sort, filter and interrogate the data. Updated around every four months, it provides estimates of the lifetime costs of these measures and how much the government has spent on them so far.

Our international work and insights

Working with audit offices across the world provides an insight into different approaches and new perspectives on ways of working. We have used these relationships to use international comparators to support 14 of our studies on subjects such as the environment, national defence and COVID-19.

We fulfilled our role as the appointed external auditor of several international organisations, including the World Intellectual Property Office and the Pan American Health Organization. We were also appointed as auditors of the United Nations specialized agency for information and communication technologies – the International Telecommunication Union.

In April 2021 we were appointed to the Governing Board of Supreme Audit Institutions (EUROSAI), which has 51 member SAIs. Our role will be to lead EUROSAI's consideration of emerging issues such as the impact of digitalisation, the UN Sustainable Development Goals and population and demographics on public services.



Knowledge sharing

We established an international project group on auditing the response to the COVID-19 pandemic. We share information and experiences with the SAIs of 34 countries, and held 20 knowledge-sharing events to strengthen our ability to report on test and trace, procurement, preparedness for vaccines, and children's education during the pandemic.

Award-winning auditing

The NAO and our partners, the Commonwealth Parliamentary Association UK and the Government Internal Audit Agency, won a public finance award for our technical cooperation project supporting good governance and financial oversight in the UK Overseas Territories. We have been working with the audit institutions of overseas territories since 2016, training staff, developing audit approaches and arranging secondments.

International experts

We undertook a peer review of the French Cour des comptes.[14] Our experts advised the Court on opportunities to enhance the timeliness and relevance of its work. The Court has published a new five-year strategy, which includes measures inspired by our working such as fast-track audits (similar to NAO investigations), better external communication and faster completion times for all audits.

14 Available at: www.ccomptes.fr/en/news/peer-review-french-cour-des-comptes-its-uk-counterpart

NEXT PAGE:
Our people

SECTION SUMMARY

Our people

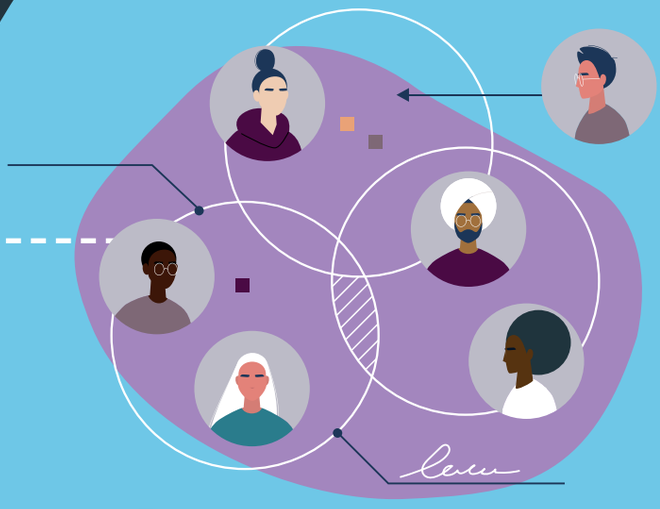
863

full-time equivalent permanent employees



10

Pulse surveys used to listen to our people and make improvements



86.9%

first-time passes in ACA exams



100%

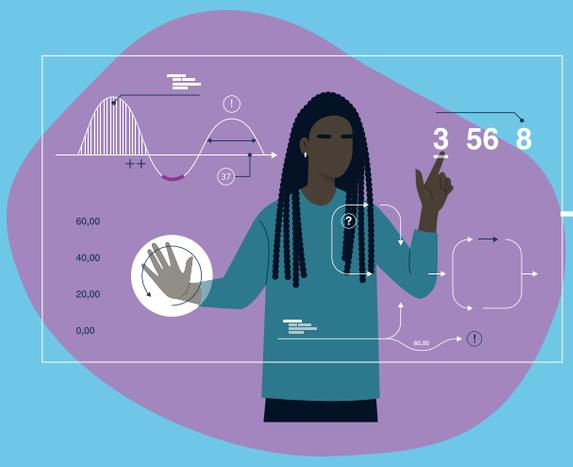
have a personal development plan





77%

of our people completed our People Survey



Our overall engagement score is

7.3

(on a scale of 0–10)



Gender pay gap of

9.99%

and ethnicity pay gap of

13.36%



65

mental health first aiders

Supporting our people

Our people adapted remarkably well to remote working arrangements; however, it has been a challenging time. We have communicated regularly to keep our people informed of our latest guidance and support they can access, including providing online resources on both physical and mental wellbeing. Our people have looked after each other, adapting how they work as teams and finding new ways to stay in touch such as virtual coffee clubs. Mental health first aiders and the employee assistance programme have been available for those who needed additional support.

Throughout the pandemic we ran a regular Pulse survey, which gathered feedback from our people every two to three weeks (**Figure 6**). We could understand whether we were providing the right support and respond quickly to emerging issues. Across the 10 surveys we conducted, people gave an average score of 8 (1 to 10 scale) for both feeling supported to work comfortably and productively from home and having good support from their manager.

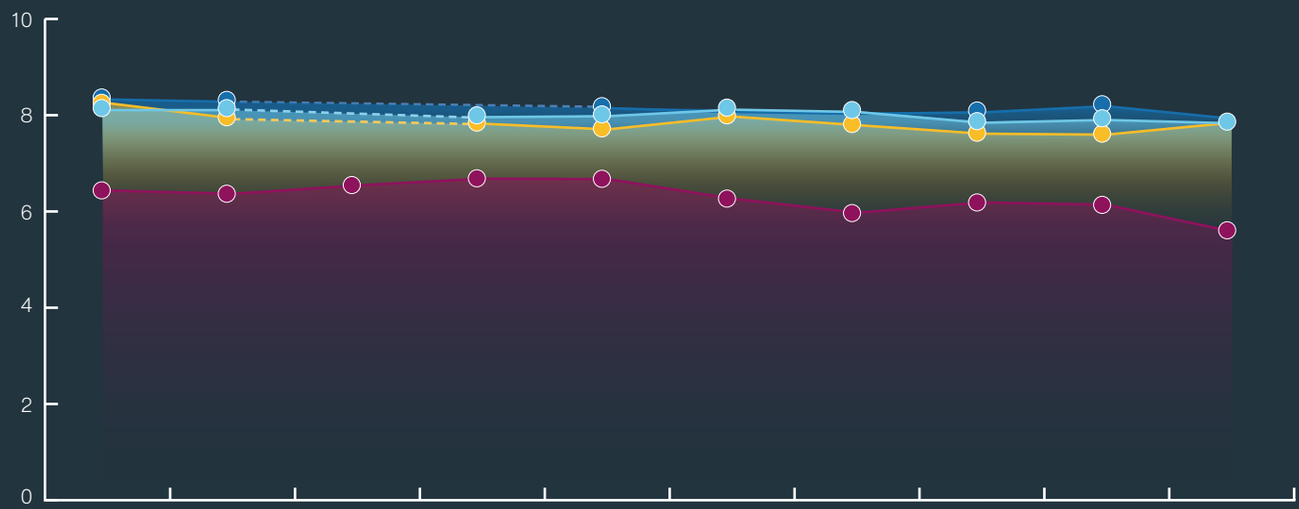
The pulse surveys showed us how responsive the NAO can be when we regularly listen to each other and make improvements based on that feedback. We decided that the more frequent and responsive model of pulse surveys would be more useful than the annual survey we used previously. Our new People Survey builds on this success and will ensure that our people remain engaged and at the heart of how we implement and prioritise changes.

Figure 6

Our people throughout the year

Responses of our people to questions asked in our Pulse surveys throughout 2020-21

- How have you been feeling this week?
- How well do you understand your work priorities and what is expected of you?
- Do you feel sufficiently supported by your line manager?
- Do you feel well supported to work comfortably and productively at home?



3 Jun	17 Jun	3 Jul	7Aug	3 Sep	25 Sep	23 Oct	13 Nov	11 Dec	15 Jan
6.47	6.4	6.58	6.72	6.71	6.3	6	6.22	6.17	5.61
8.14	8.14	–	7.99	8.01	8.15	8.1	7.87	7.93	7.86
8.27	7.95	–	7.84	7.72	7.99	7.81	7.63	7.61	7.86
8.36	8.31	–	–	8.18	8.1	8.06	8.09	8.22	7.96

Source: National Audit Office

In our new methodology we have a question bank of 45 questions, and we ask a subset (15 questions) to the organisation each month. Everyone in the organisation is given the opportunity to answer all 45 questions quarterly. The survey includes questions on demographics, which allow us to provide or adapt resources to specific groups as required.

Figure 7

People Survey results 2020-21

Average driver results out of 10



Source: National Audit Office

The results are summarised under 14 drivers, included in **Figure 7**. We are pleased to see positive scores this year following the launch of our new strategy with people giving an average score of 7.5 for 'our overall business goals are taking the organisation in the right direction' and 7.8 for 'our values are a good fit for the things that I feel are important in life'. People also felt that they had good support from their managers and good peer relationships (7.8).

The survey highlights those drivers which we need to focus on to deliver improvements in our engagement score. This year the drivers highlighted were **Meaningful Work (7.1), Growth – Career Path (5.3) and Organisational Fit – Equality (6.7)**.

Career development and equality are areas that we identified for improvement in our strategic review and our Organisational Development Plan includes actions to address both areas including the introduction of performance coaches, personal development plans, and a new diversity and inclusion strategy (further details on these can be found below). We are seeking to understand how we can better demonstrate the link between individuals' work and our overall organisational impact, and how we can ensure that people feel that they get to undertake work that makes best use of their strengths.

NEXT PAGE:
Developing our people

Developing our people

We continue to make changes to support our people's career development. We set up personal development plans to encourage our people to be open about their career hopes and to set out a plan for achieving them. Of our people, 100% have a personal development plan, we score 6.8 on a scale of 0–10 for our people agreeing they are growing professionally and 7.0 for our people agreeing their job enables them to learn and develop new skills. We want to improve this and have therefore also introduced a new people management structure to provide our people with better and more consistent development support.

Of our graduates, 85.7% passed the Professional Stage examinations for the Association of Chartered Accountants (ACA) qualification at the first attempt (above the national average of 83.2%), and 91.0% passed the Advanced Stage examinations at the first attempt (above the national average of 85.8%).

PERSONAL CASE STUDY

On secondment with L&D



Dee Oloko, Audit Principal

I applied for a secondment to the learning and development team because I wanted to find a way to improve the experience of our ethnic minority trainees while they completed their training contracts. The secondment gave me the opportunity to do that by completely transforming the way I looked at communicating, learning, teaching and developing our people. It also gave me a level of exposure to the NAO's strategic objectives and how they are being implemented in the central functions.

I found trying to produce and deliver a virtual learning package with a traditional interactive classroom concept was not without its challenges. But by pulling together knowledge from around the office, I and the team were able to develop and deliver innovative training which will increase the skills and capabilities of our trainees and allow us to use our people more flexibly. The programme has since won the Accounting, Bookkeeping, Financial Management category at the Learning Excellence Awards 2021.

It was extremely interesting to work with the NAO workforce as my 'client' rather than the more traditional audit bodies. The secondment was intended to help me develop our people, but I also left having developed as an individual.



Diversity and inclusion

We aim to be an exemplar organisation for all aspects of diversity and inclusion (D&I) and 2020-21 has been an important year where we have begun to make more progress on our D&I journey. Having a workforce which reflects our diverse society is essential in ensuring we fully understand the impacts of public services on diverse groups.

Feedback we collected as part our strategy consultation confirmed we have much to do to realise our ambitions. Analysis of our position showed the need to accelerate progress in several key areas including: the retention and progression of our ethnic minority colleagues, the representation of women at senior levels of the business and creating an organisation where disabled colleagues can realise their full potential.

During the year we launched our first diversity mentoring programme, giving leaders a richer insight into the lives and experiences of colleagues from diverse backgrounds, improved the diversity of our graduate intake, built on the success of our internship programme, and made progress against our targets for increased representation of women and those from ethnic minority backgrounds at senior levels of the organisation (see **Figure 8** overleaf).

To support our ambitions, following wide consultation across the organisation, we launched our Race Equality Action Plan (REAP) in December 2020 and signed the Race at Work Charter. The REAP addresses identified barriers to progression and retention. It will not only work to improve the diversity of our workforce, but also their feeling of inclusion. We have also since launched our Disability Equality Action Plan (DEAP) to ensure all disabled colleagues benefit from a supportive and confident environment and reach their full potential. These will support our new four-year D&I strategy, which was launched in June 2021.

Our D&I strategy, REAP and DEAP contain detailed and ambitious targets to ensure our representation figures are comparable with employers recognised as exemplars in the D&I area. Initiatives such as our revised recruitment and promotion protocols, implemented in August 2020, have secured positive results with improved representation of women and ethnic minorities at senior levels. We have exceeded our initial targets for representation of women and ethnic minorities at senior levels and continue to attract a diverse pipeline of trainees to our accountancy training programmes.

We will make sure our progress is sustained to achieve our ambition of being an exemplar employer. We are focusing on developing a culture of inclusion and belonging, ensuring all our people feel that they can bring their whole selves to work, are respected for the difference they bring and receive a career-enhancing experience with the NAO.



CASE STUDY: **DIVERSE TALENT**



Access Accountancy scheme

Each summer we are joined by 12 penultimate year undergraduates for an eight-week summer internship. The programme is focused on ethnic minorities and those from lower socio-economic backgrounds.

This year we adapted the programme to work remotely and delivered activities to give experience and insight into working in a professional environment. We replaced the usual House of Lords tour with a virtual version, built in time for participants to get to know each other and their managers, supported them in using our software and communication tools, and set up regular virtual coffee catch-ups.

Each student was allocated a line manager and buddy to support them throughout their time with us. The students learnt about our Financial Audit work and VFM reports through first-hand experience of working on live projects. They also met with the C&AG, our diversity networks and learnt about our graduate scheme.

Reflecting on their experience, one intern commented:

"I have learned so much, not only about accountancy but also about the culture, aims and people in the NAO. I found it really easy to approach anyone (regardless of their roles) and found that they all treated me with so much respect and care. I felt very welcome and was honestly very happy to wake up every morning knowing that a) I will be doing some meaningful work and b) I will be surrounded by such amazing people...."

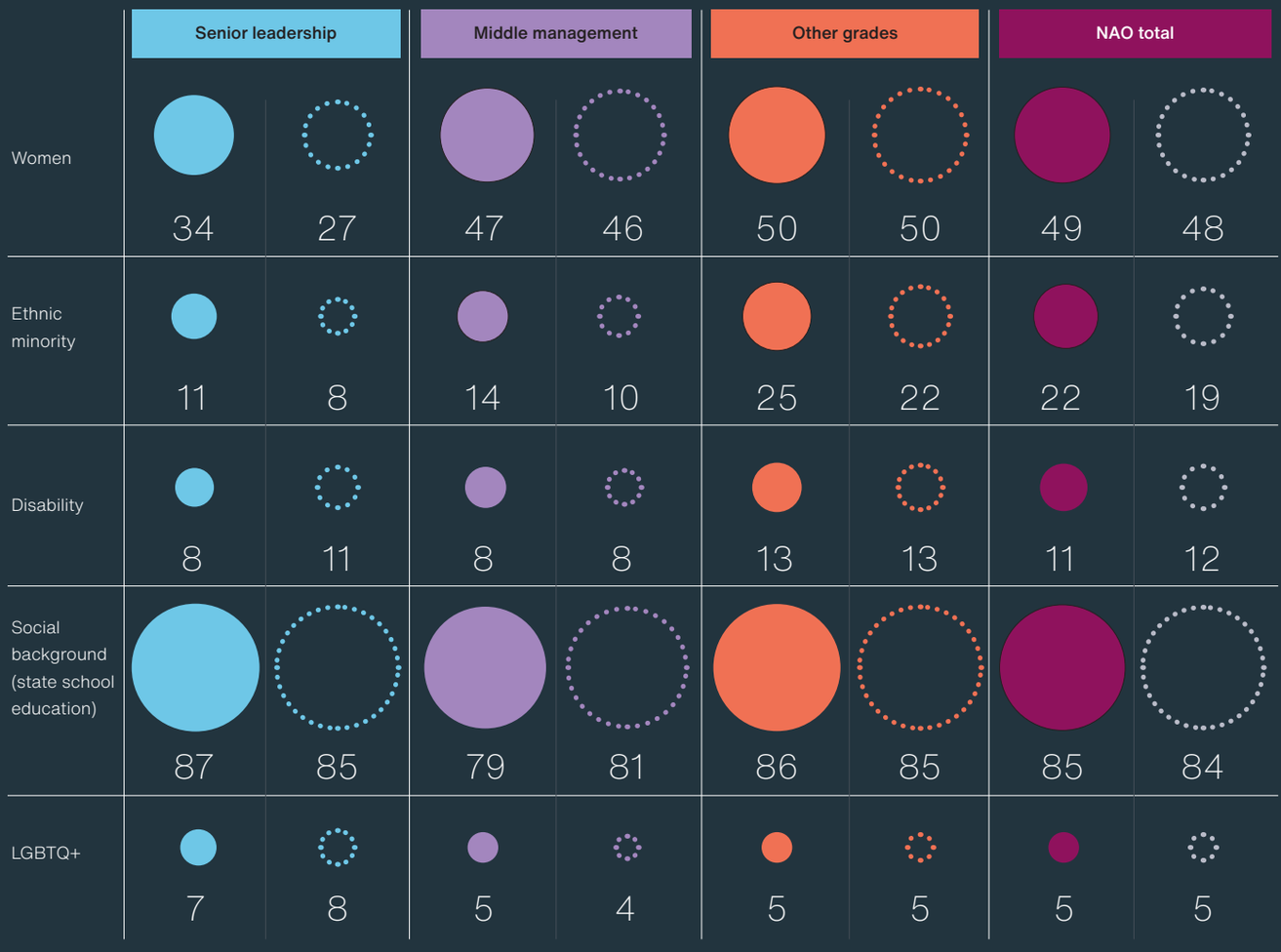
All students passed a virtual assessment centre on completion of their internship and were offered a place on our graduate scheme.

NEXT PAGE:
Staff composition

Figure 8

Staff composition as at 31 March 2021

Percentage of women, ethnic minorities, LGBTQ+, people with disability, and people from state school backgrounds in senior leadership, middle management and junior positions



Notes

1 Data as at 31 March 2021.

2 Senior Leadership = Executive Director/Director; Middle Management = Audit Manager/Band 1; Other Grades = all grades below Audit Manager/Band 1.

3 Social background is based on percentage of people who attended a state school (including selective state school).

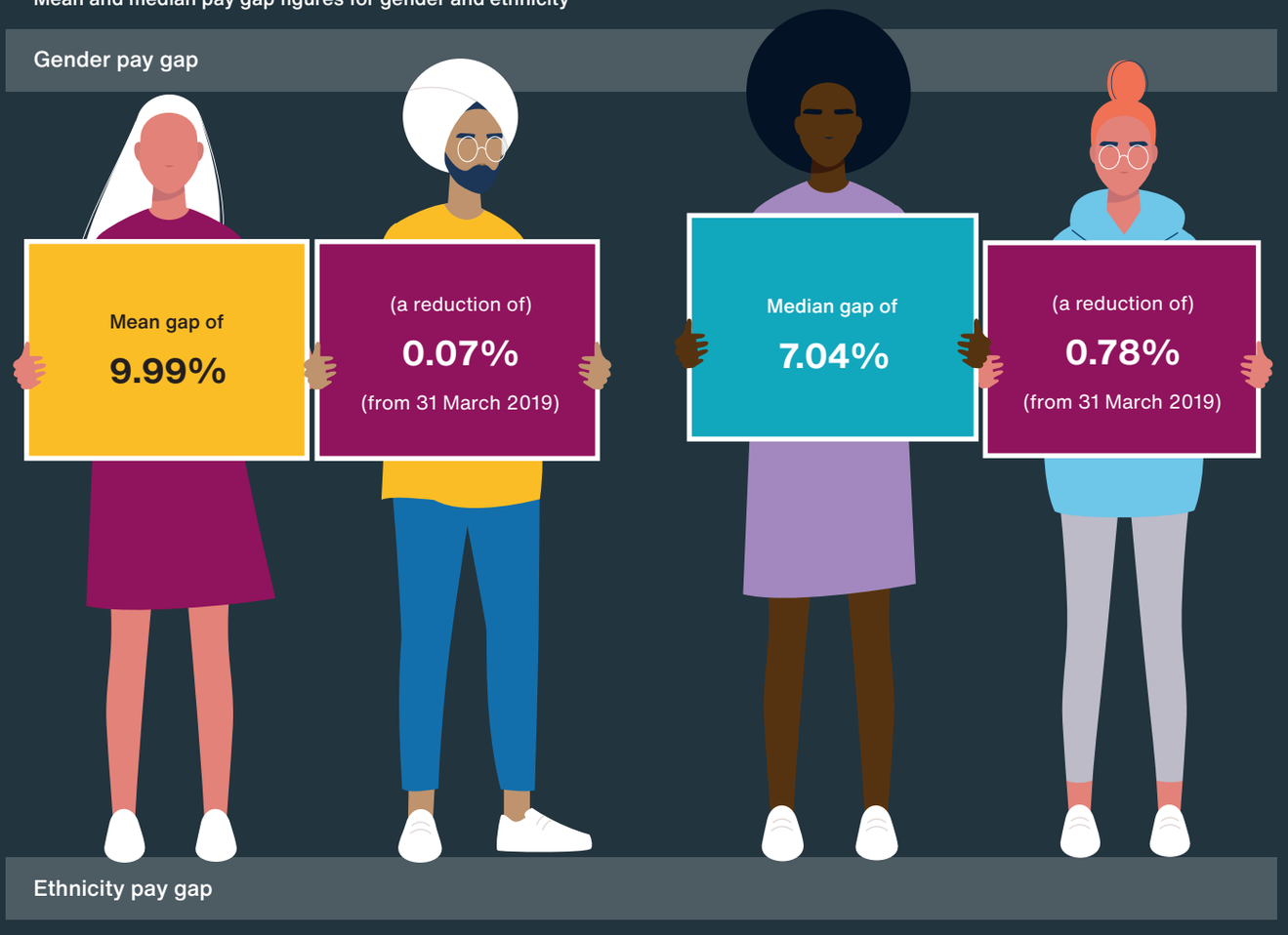
4 Analysis excludes 'Prefer Not to Say' and non-disclosure which was 1% for gender, 2% for ethnicity, 5% for disability, 35% for social background and 13% for LGBTQ+.

Source: National Audit Office

Figure 9

Diversity pay gaps

Mean and median pay gap figures for gender and ethnicity



Source: *Diversity pay gap*, December 2020. Available at: www.nao.org.uk/about-us/wp-content/uploads/sites/12/2020/12/The-NAO-Diversity-pay-gap-report-2020.pdf

Diversity pay gaps

In December 2020, we published our diversity pay gap report,[15] based on pay data as of 31 March 2020. The report voluntarily includes our ethnicity pay gap for the first time (**Figure 9** on page 61) and outlines the actions we are taking to close our pay gaps.

The key factors affecting both pay gaps are the low proportion of female and ethnic minority colleagues in director roles and of ethnic minority colleagues at middle management level. We have made some progress in increasing the proportion of women in director roles (excluding the Executive Team) from 26% to 32% and of ethnic minority colleagues in director roles from 5% to 8%. We have also seen a rise in the proportion of ethnic minority colleagues employed at middle management level from 10% to 14%.

However, we need to go further to close these gaps fully. We will capitalise on our junior talent pipeline (ethnic minority colleagues make up 25% of the population and 42% of our graduate trainee intake). We will support these colleagues in progressing their careers by removing the barriers to development..

15 Available at: www.nao.org.uk/about-us/wp-content/uploads/sites/12/2020/12/The-NAO-Diversity-pay-gap-report-2020.pdf

Sickness absence

We are committed to the physical and mental health of our people, which was especially important this year. We have a comprehensive sickness management policy and aim to keep our sickness absence rates comparable with public and private sector benchmarks. Data published in March 2021 by the Office for National Statistics show a sickness absence rate of 1.8% of working time, with the public sector rate at 2.7%. This rate is calculated as the number of working hours lost to sickness absence as a proportion of the number of hours worked in the year and does not include furloughed workers.

Our sickness absence rates have reduced every month, to an average of 3.8 days (1.4%) per employee from 6.6 days (2.5%) in 2019-20, despite the year's challenges. We implemented official government advice quickly and asked our people to work from home in March 2020, a week before the national lockdown began. Relatively few people recorded COVID-19-related absence in the spring. However, we saw a small wave of confirmed infections over the Christmas period due to the spread of the new variant through the South East.

We provided equipment and undertook display screen assessments of everyone's home workstation, with our health and safety manager following up any indications of concern.

We developed a dedicated area of our intranet for advice and support on managing physical and mental health. Our mental health first aider network has provided support throughout the year, signposting people to further support or just being available to listen. We also offered flexibility or a reduction in working hours for those who could not work their usual hours due to, for example, childcare commitments or their health.

Our Executive Team provided regular updates including a weekly email from the C&AG to all staff. We encouraged learning and development and social activities to continue online and used the results of regular Pulse surveys to respond quickly to wellbeing issues. When possible, we opened our offices to a limited number of our people whose wellbeing would be best supported by working in the office building. When not, we put additional support in place for these people.

AY GAP



NEXT PAGE:
Technology, data
and knowledge

SECTION SUMMARY

Technology, data and knowledge

7.9

score for our people having the right materials and equipment (scale of 0–10)

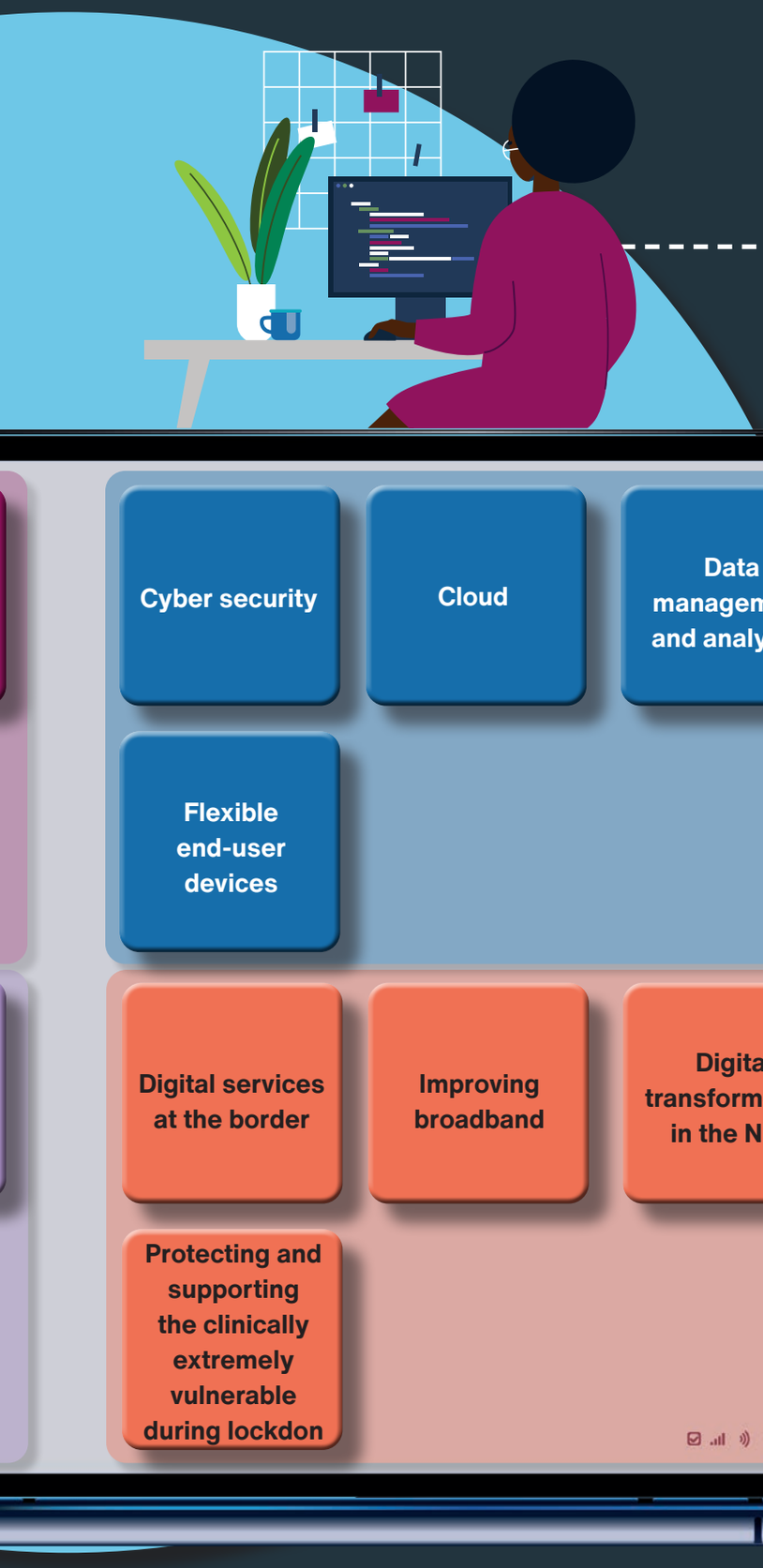


Data analytics tools for financial audit

- **Automated consolidation of departmental group accounts**
- **Trial balance to general ledger reconciliation**
- **Journals analytics supporting Management Override Testing**
- **Automated Data Ingestion Routines**

Audit Transformation Programme

- **Completed detailed planning**
- **Started the procurement process**
- **Deployed our cloud-based data platform**
- **Began transforming our methodology**



6.9

score for our people finding information they need (scale of 0–10)

Our technology investment supported remote working

Our key digital assurance work

Technology, data and knowledge



Technology and data play a vital role supporting our work, enabling us to improve the quality of our work, efficiently risk assess our audits and create insights about how public money is being managed, that are otherwise not possible. Automation and data analytics enable us to perform routine work quickly, freeing-up our people to focus on areas of greater complexity where professional judgement is required, enhancing the quality of our work.

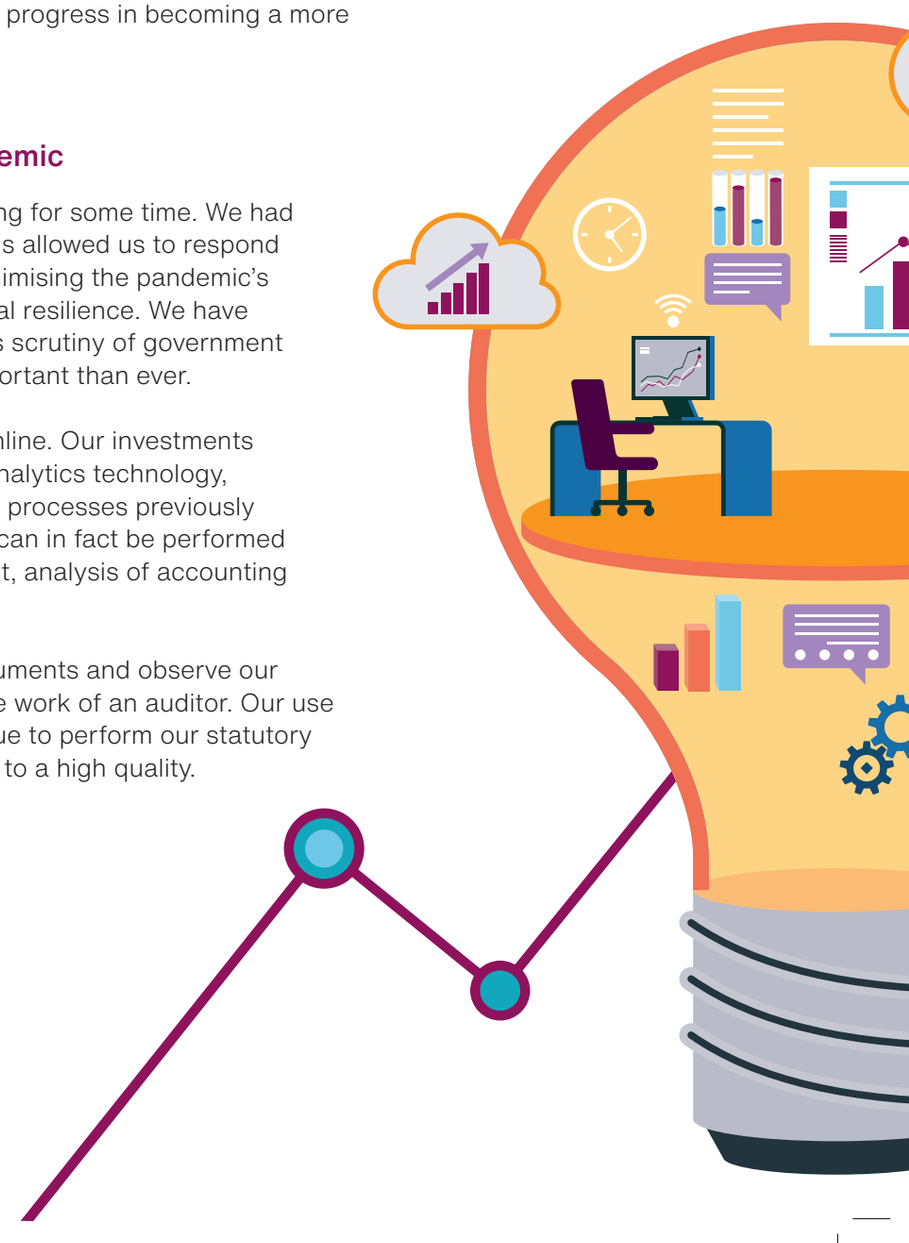
Our technology also enables us to run an efficient workplace. We use technology to share, collaborate and communicate our knowledge simply, quickly and securely. We used the lessons learned about how to operate as an entirely remote workplace during the COVID-19 pandemic to accelerate our progress in becoming a more agile organisation.

Using technology during COVID-19 pandemic

As an organisation we have valued flexible working for some time. We had already invested in our capability to do so and this allowed us to respond swiftly and adapt to extended home working, minimising the pandemic's effect on our people and increasing organisational resilience. We have been able to continue to support Parliament in its scrutiny of government effectively when this scrutiny has been more important than ever.

Work we once did face-to-face we can now do online. Our investments in cloud, cyber security, data management and analytics technology, and flexible modern end-user devices meant that processes previously thought possible only at audited body premises, can in fact be performed remotely (for example laying reports in Parliament, analysis of accounting sheets and signing accounts).

Screen sharing has allowed us to review the documents and observe our audited bodies' ways of working, a key part of the work of an auditor. Our use of technology has therefore allowed us to continue to perform our statutory responsibilities and complete our financial audits to a high quality.

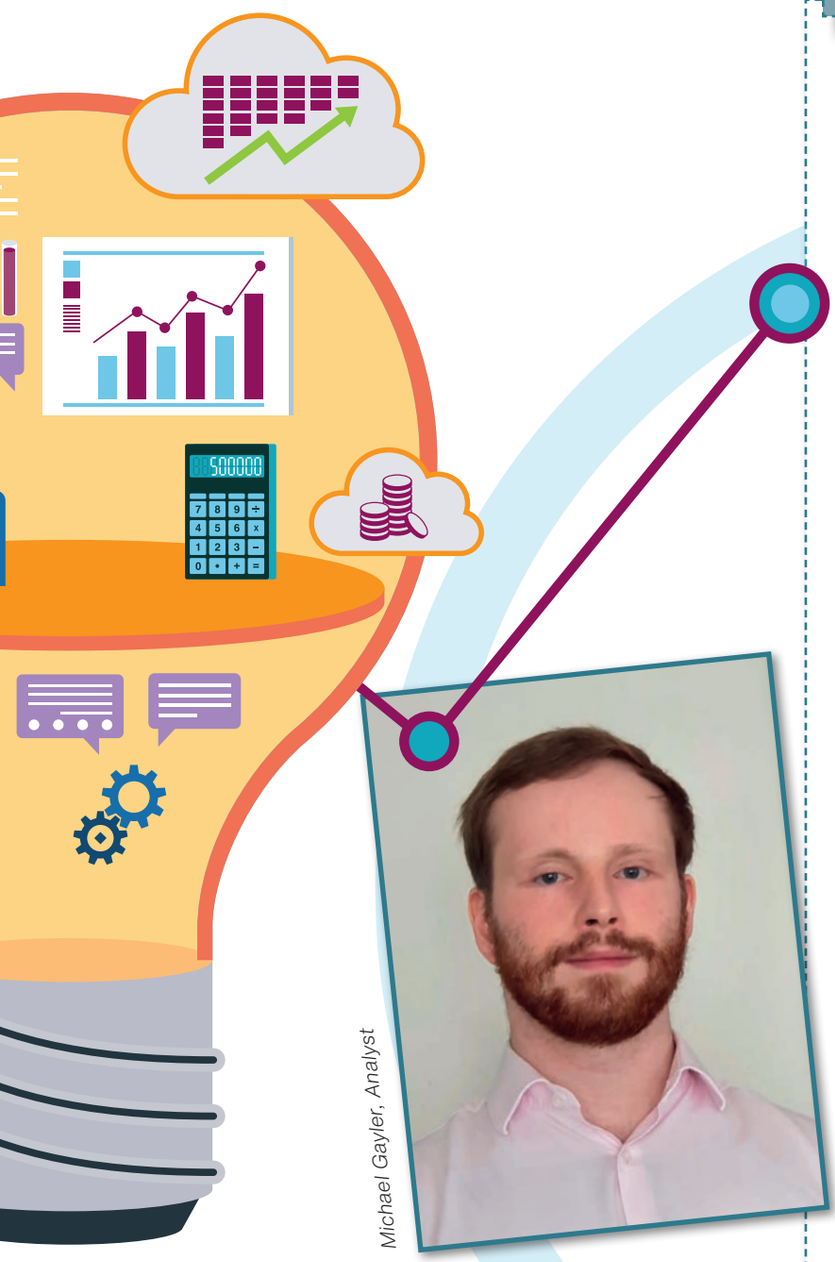


Audit transformation

The role of technology and data analytics is becoming more important across the audit profession, with all audit firms investing in new technology and data analytics to provide higher-quality audits, better insight and more efficient audit processes.

In response to these changes we are carrying out a phased delivery of strategic transformation over several years under our Audit Transformation Programme. This year we completed detailed planning and started the procurement process for new audit software. We started to transform our methodology to consider risks using a deeper data-driven understanding of the entities we audit.

We also rolled out our cloud-based data platform (Audit Information Management System) for use across all of our audits. This allowed us to increase the use of automation and enhanced our journal-testing and risk assessment applications. Our in-house data analytics team has built a range of applications which automate time-consuming tasks (allowing our people to spend more of their time considering significant areas of judgement) and analyse data in an approved and standardised way (helping ensure audit quality).



Michael Gayler, Analyst

PERSONAL CASE STUDY

Developing an analytics tool

My first project when I started at the NAO as a data science intern after a few initial weeks learning about data science and coding was to develop the trial balance application. This application automates the reconciliation between the general ledger (where financial transactions are recorded) and the trial balance (a summary of the general ledger balances) and from the trial balance to draft financial accounts.

It performs the reconciliation in a few seconds, providing information about the files and identifying where there are discrepancies. This information is then presented in a standardised output where our auditors document their findings and work done to rectify any discrepancies.

While the idea behind the app is simple it has had significant impact and is now commonplace in our audit work throughout the audit cycle. The standardised output helps reviewers quickly understand where there are issues and what work has been done to fix them. The process also takes less time and reduces the chances of error compared to performing the reconciliation manually.

Working on the app gave me great exposure to how audits work and the challenges faced by auditors. I also developed my data science skills, which I have continued to use to help with the NAO's ongoing digital transformation project.

NEXT PAGE:
Using our knowledge

Using our knowledge

The current COVID-19 pandemic highlighted the importance of digital technology as a means of providing and accessing public services remotely. We use expertise we are gaining from undertaking our own technology developments to support our wider assurance work on technology and transformation in government.

Challenges in using data across government



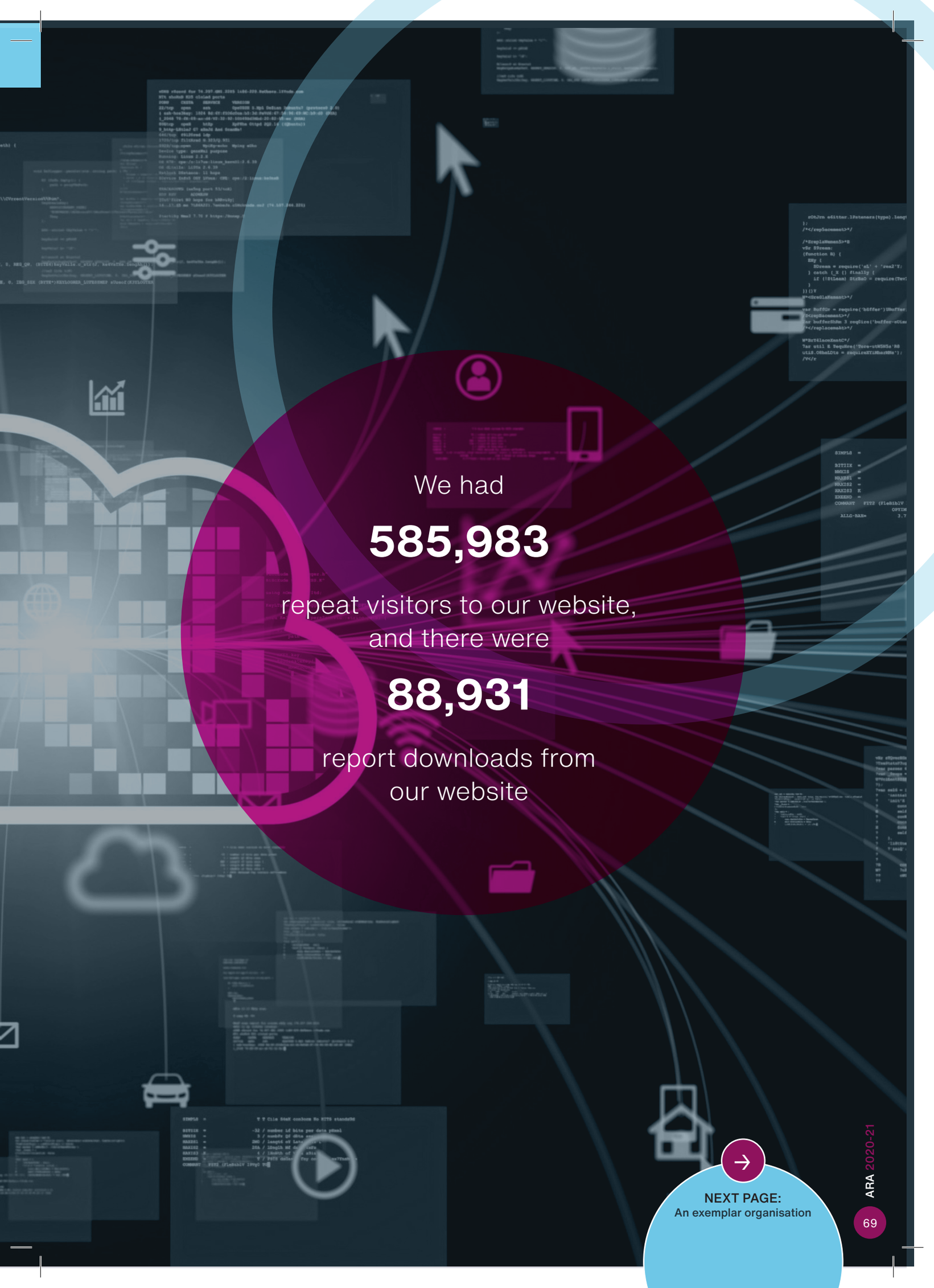
What we did

Better management and use of data present a significant opportunity for government to improve public services and decisions. In June 2019 we published our report about the challenges in using data. We outlined practical steps that organisations individually, as well as government as a whole, can take to address the challenges. Our work engaged closely with the government's development of the National Data Strategy, which was being prepared at the time of our review and published in September 2020.

Outcome

Our work has influenced a renewed focus on data across government, generating interest, engagement and consensus from a wide range of stakeholders, from senior figures at the centre of government to those in operational roles and the wider data and digital community. The National Data Strategy drew on our work and set out a number of actions government was taking to address issues such as standards and capabilities across government.

In following up on our findings and recommendations, our work and Digital Hub experts have helped inform several of government's specific initiatives including: the cross-government Data Quality Framework, published in December 2020; HM Treasury's development of the £200 million Shared Outcomes Fund to encourage better joint-working across the public sector; and the Cabinet Office's Legacy IT Programme to address the challenges presented by legacy systems.



We had

585,983

repeat visitors to our website, and there were

88,931

report downloads from our website

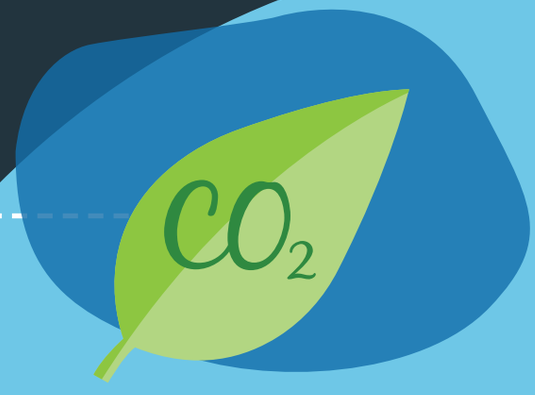
NEXT PAGE:
An exemplar organisation

SECTION SUMMARY

An exemplar organisation

65%

reduction in CO_2 emissions from PPE (from 2010-11)



0%

of our waste went to landfill



96%

reduction in paper consumption (from 2009-10)



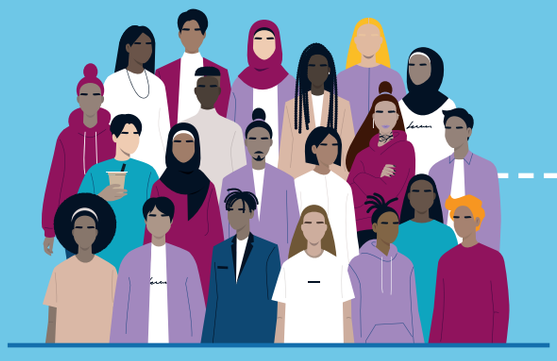
0.01 tonnes

of waste per FTE (against target of <0.14 tonnes)





We managed the year within our approved budgets



80:20

our frontline: corporate ratio



Spent

£98.5m

against budget of

£99.0m

Earned

£24.6m

against budget of

£23.1m

Financial performance

We aim to be an exemplar organisation and demonstrate high standards of financial management.

Parliament authorises separate resource, capital and cash budgets, which form totals within which the NAO must manage. Our overall financial performance against budget is set out in **Figure 10** and the figures in bold are the control limits which were voted by Parliament. We managed the year within our approved resource and capital budgets despite the major impact that the pandemic has had on our portfolio of work and our operations.

Figure 10
Financial performance 2020-21

	Budget	Outturn	Variance	Variance
	£m	£m	£m	%
Audit and assurance work	99.0	98.5	-0.5	-0.5
Less: income	23.1	24.6	1.5	6.5
Net resource expenditure	**75.9**	**73.9**	**-2.0**	**-2.6**
Capital expenditure	1.5	1.1	-0.4	-27.6

Notes

1 These figures exclude non-voted expenditure items, such as the Comptroller and Auditor General's and Chair's salaries, which are paid directly by Parliament and are outside the control of the National Audit Office.

2 Figures have been rounded.

Source: National Audit Office



Audit and assurance work

Our audit and assurance work consists of our financial audits, VFM studies, responsive work, international work and direct support to Parliament.

Around 70% of expenditure is on staff salaries and related costs, including the use of temporary staff where these are required. These costs vary directly with the volume and nature of work that we do. We spent more on our staffing during the year with an average number of people of 863 against a planned headcount of 852.

This was largely a result of the pervasive effect that COVID-19 had on our portfolio of work. It introduced major new expenditure streams, impacted asset valuations and changed both the timing and risks of many financial audits. We adjusted our staffing numbers and use of temporary staff to make sure we could still successfully meet revised deadlines agreed with audited bodies.

The remaining 30% of our cost base consists of the use of other audit offices and firms to help us with our work, travel to audit locations, training and development of our people, provision of IT equipment and support and the costs of running office locations in London and Newcastle.

We made more use of audit firms to help us carry out our audit work; we also incurred additional IT costs as we provided support to home working. However, we also saw a big fall in our travel expenditure. The restrictions on the movement of people that were effective for a large part of the year meant we spent very little on hotels, travel and subsistence payments to employees who work away from the office for extended periods. These restrictions made us review how we carried out audits, using innovative approaches with IT and technology to carry out our fieldwork and obtain audit evidence.

The extra expenditure on our audit and assurance work was offset by savings on our travel budgets. Overall, we spent £98.5 million compared with a budget of £99.0 million, a variance of 0.5%.

Income

Parliament directly funds most of our audit and assurance work, including the financial audits of major government departments and our value-for-money work. However, the NAO does earn income from some of its UK audit work, typically where these bodies or public companies operate at an arm's-length to government. Also, we earn revenue from the rental of surplus office space, from providing services to overseas bodies, and from seconding our people to other organisations.

Our audit fees are set to cover the full costs of our audit and assurance work, with the principles laid out in a scheme of fees approved by Parliament. This scheme requires that the NAO cover the full cost attributable for the service. The NAO therefore neither profits at the expense of the consumer of its services nor makes a loss for taxpayers to subsidise. Individual audit fees are calculated based on an estimate of the time and level of skill required to complete each audit to ensure that the work is both compliant with International Standards on Auditing (UK) and meets the high-quality standards set out in the NAO's strategy.

We earned £24.6 million against a budget of £23.1 million, a variance of 6.5%. Where the volume of our audit work increases for those bodies who pay their fees directly to the NAO, the fee is adjusted to take account of this.

NEXT PAGE:
Capital expenditure

Capital expenditure

Each year we require a capital budget to purchase assets whose use extends beyond one year. Our capital budgets are based on detailed capital asset plans and cover a range of projects, from the standard replacement cycle of assets to building enhancements. These budgets cover the purchase of IT assets such as laptops and monitor screens.

We budgeted for £1.5 million of capital expenditure, and we spent £1.1 million, which is a variance of 26.7%. Our plans included the replacement and installation of video conferencing equipment across our offices. However, the scope of this work was significantly reduced due to the premises being closed for significant periods of the year, and the work will be completed in the subsequent financial year.

Assets and liabilities

The assets and liabilities of the NAO are set out in the Statement of Financial Position in the Financial Statements and include property, amounts due to the NAO in respect of audit fees and amounts due to employees and suppliers. This Statement shows that the net assets of the NAO have fallen by £14.2 million from £104.4 million as at 31 March 2020 to £90.2 million as at 31 March 2021.

The main change is in relation to the valuation of the long lease for the NAO's London office, which has gone down in value year-on-year by some £14 million. The valuation is provided by a professional independent building surveyor using an industry standard methodology. They have highlighted the uncertainty over demand for office space, as flexible working practices become more prominent, and they expect rental prices of office space to remain depressed for a period. This has resulted in a lower valuation of this property than in previous years.

However, as the NAO has no intention of selling its interest in this lease and plans to continue using the building, the change in valuation has no material impact on its daily operations or its annual budgets.



Our efficiency

We have published measures by which we can prove we are cost-effective and use the resources which Parliament provides us responsibly.

We aim to make sure that our ratio of expenditure on front-line activities to expenditure on corporate activities are at least 80%. We achieved this aim and the frontline:corporate ratio for the year was 80:20.

Every year, the Board commissions our external auditors to undertake a value-for-money study on an area of our organisation to establish if resources have been used economically, efficiently and effectively. In 2020, the external auditors assessed our Finance Function. They reported to Parliament in March 2021 that our Finance Function is working effectively and efficiently given the nature and size of the organisation; and that it is generally fit for purpose and value for money in the use of its resources.

Resources for future years

The Public Accounts Commission approved our budget for the year ending 31 March 2022. This included a £80.2 million net resource requirement, after allowing for income of £23.8 million, a £2.3 million net capital requirement and a £79.8 million net cash requirement. We will increase our staffing capacity to 940 full-time equivalent next year, compared with a headcount of 863 in the year just gone.

This budget allows for a significant increase in our audit and assurance work as a direct response to the pandemic. In 2021-22 we will be auditing the 2020-21 accounts of government departments, in which most of the significant sums of unplanned government spending to date has taken place. Most of this expenditure has taken place at pace and within a strained control environment, and we need to examine this extra spending with the rigour that Parliament expects. We will also continue our VFM examinations of the government's response to the pandemic. This will include new areas for us, such as the effect of economic stimulus packages, and we will need to provide assurance about whether these large sums of public money are being spent effectively and that lessons are being learned.

Beyond next year we expect that staffing numbers will reduce as extra work required to provide assurance on exceptional government expenditures in relation to COVID-19 reduces. Our budgets for 2022-23 and 2023-24 reflect this assumption, although this will be dependent on the course of the pandemic.

Our forward budgets also enable us to continue our ongoing investment which forms an integral part of the NAO's strategy for the five-year period ending 2025. This includes investment in our:

- Audit Transformation Programme, which will allow us to purchase a new IT platform for our audits, help us transform our audit methodology and provide the learning and development activities needed to support our people in adapting to new audit techniques;
- value-for-money expertise, which will allow us to recruit and buy-in more specialists in areas where we have gaps, such as in environmental auditing and digital change; and
- knowledge systems, which will allow us to put in place better knowledge management processes and systems. This includes the development of our external website to make our work more accessible to the public.

Figure 11 provides further information on how our resources have changed over the previous five financial years and plans for the following two years. Despite the recent increases in our budget, by the end of 2023-24 we expect our net expenditure to be at least 15% lower than in 2010-11, after adjusting for the effect of inflation over the same period.

While the volume of work the NAO does increases, we continue to focus on our efficiency. We are confident there is no unnecessary spending in our plans and that the NAO represents good value for money.

Figure 11
Resources from 2016 to 2024

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
	Outturn (£m)	Outturn (£m)	Outturn (£m)	Outturn (£m)	Outturn (£m)	Estimate (£m)	Proposed (£m)	Proposed (£m)
Audit and assurance work	83.2	83.9	86.7	91.3	98.5	104.0	102.8	103.0
Less: Income	19.3	19.1	21.0	23.0	24.6	23.8	25.2	25.6
Net resources	63.9	64.8	65.7	68.3	73.9	80.2	77.6	77.4
Capital expenditure	0.9	0.8	1.3	1.0	1.1	2.3	2.2	3.1

Source: National Audit Office

NEXT PAGE:
Our environmental commitment

Our environmental impact

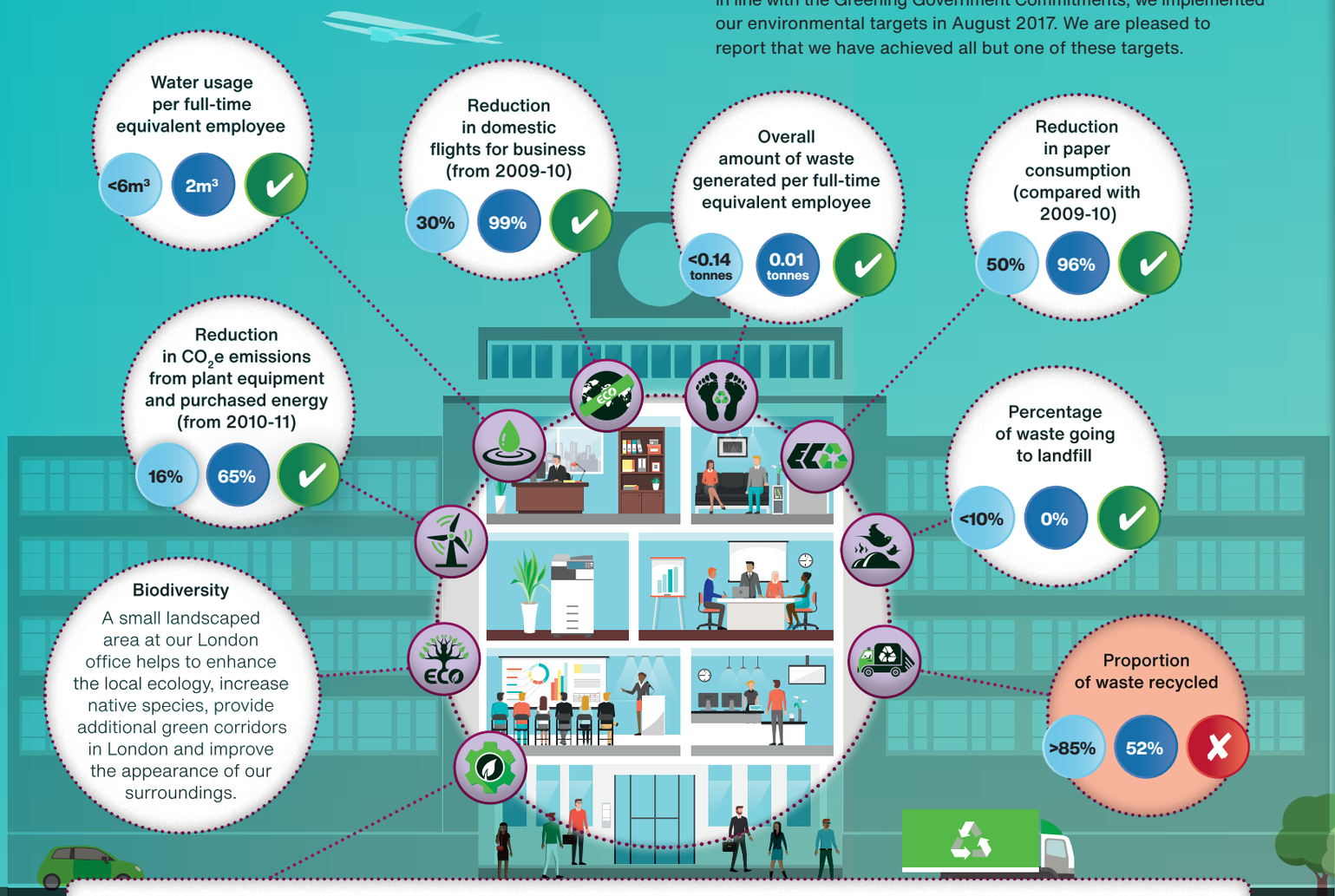
Journey to net-zero carbon

Our performance against the Greening Government Commitments in 2020-21

Target | Results | Target achieved | Target not achieved

We manage our organisation in the most environmentally responsible manner and comply with environmental legislation and any other requirements necessary. Our direct impact on the environment includes greenhouse gas emissions, water use, paper consumption and waste generated by our operations. We have challenging sustainability targets in all these areas; the related data are published on our website and summarised below. We assess the impact on the environment of our activities and use an ISO 14001:2015 certified environmental management system to provide a framework to support continuous improvement.

In line with the Greening Government Commitments, we implemented our environmental targets in August 2017. We are pleased to report that we have achieved all but one of these targets.



Sustainable procurement

Waste

We assess our contractors' environmental credentials and ensure that goods supplied come from sustainable sources and that unnecessary packaging is kept to a minimum.

Social value

We allocate at least 10% weighting for social value on all tenders. Questions on sustainability, diversity and inclusion were included in recent tenders and will be used in all future procurements.

Procurement

We use government frameworks, where selection criteria include sustainability checks, or Tender Services, where our suppliers must adhere to current sustainable procurement legislation.

Contract management

Key Performance Indicators and Service Level Agreements include sustainability criteria and we monitor changes to social value policies of suppliers. We are collating carbon data from suppliers where contracts pre-date our current sustainability criteria.

Explanation of variances

Waste recycling

We have significantly reduced the amount of waste we produced but much of our waste related to COVID-19 cleaning and PPE which is not recyclable. As a result, the proportion of recyclable waste as percentage of the total waste generated has gone down.

Risks

COVID-19 has significantly impacted all areas of our operations and will continue to pose a risk to our environmental performance for the foreseeable future. Reduced use of our offices has affected our results both positively and negatively. We have generated very low levels of waste, but the proportion of waste we are able to recycle has reduced as waste from COVID-19 cleaning and PPE has to be incinerated. We disabled our heat recovery units in the London office to follow industry recommendations on COVID-19 ventilation precautions. As a result, our gas consumption has increased.

In 2020, we agreed to be a 'net-zero carbon' organisation and have a set ourselves the target of achieving this in nine years.

What is net-zero carbon?

'Net-zero carbon' is defined as cutting greenhouse gas emissions to as little as possible and then balancing the remainder by enhancing carbon sinks, which remove carbon dioxide from the atmosphere. This means that there are two elements to net-zero: a reductions route and a removals route.



Our nine net-zero carbon ambitions by 2029

Progress

We have created a Net-Zero Carbon Project, agreed governance arrangements and our scope and begun to work on measuring our current carbon footprint. We have identified the ambitions above to support our aim to be net-zero carbon by 2029.

1 Remove our reliance upon gas to heat our buildings and water

- Replace our London office's gas boilers at their end of life in 2024-25.
- Move our Newcastle operations to an office which does not use gas.
- To maintain our air conditioning equipment adequately to ensure we reduce the risk of leaks.

2 Purchase all our electricity from renewable resources

- To ensure we purchase 100% renewable electricity for our estates.
- To continue to monitor our electricity consumption and reduce wherever possible.

3 Reduce our business travel carbon

- To reduce the number of journeys we complete for business.
- Where we have to travel, ensure we use the most environmentally friendly travel option.
- Where we need to stay in hotels, ensure we use green hotels.

4 Reduce our carbon from waste

- To reduce the amount of waste we produce.
- To encourage our suppliers to reduce packaging.
- To ensure that our waste disposal routes create as little carbon as possible.

5 Reduce carbon created by our suppliers on our behalf

- To encourage our current suppliers to adopt a net-zero carbon aim.
- To expect all new suppliers to have a net-zero carbon aim.
- To expect our new suppliers to provide their carbon emissions information.
- To include carbon emissions and sustainability within contract Service Level Agreements.

6 Carbon capture

Where we are unable to achieve zero carbon in some of these areas, to offset the remaining carbon.

7 Reduce our working from home carbon

- To measure the carbon impact from our people working from home.
- To encourage our people to purchase renewable electricity.
- To encourage our people to modify their homes to improve energy performance.
- To encourage our people to replace gas boilers.

8 Reduce our commuting carbon

- To measure the carbon impact from our people travelling to and from our offices.
- To encourage our people to travel in the most environmentally friendly way.
- To support flexible working, which allows a reduction in commuting.
- To encourage our people to purchase electric cars.

9 Continuous improvement

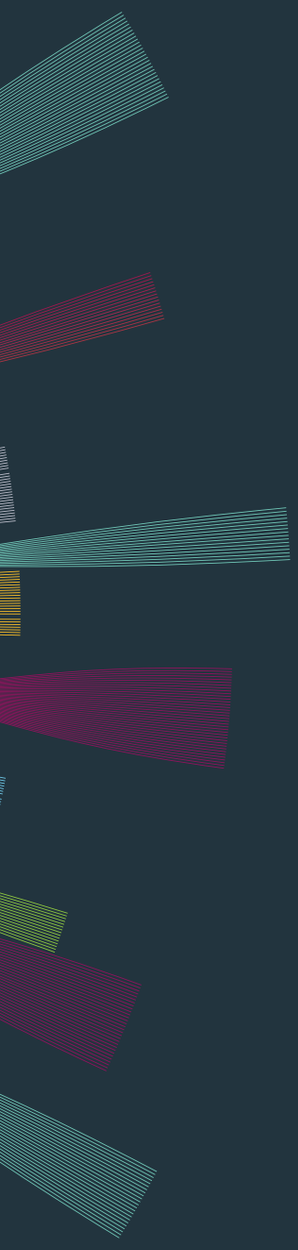
To commit to continuous improvement and to seek to reduce our energy consumption and carbon further as data, technology, legislation and processes develop over time.

Gareth Davies
The Comptroller and Auditor General

11 June 2021



ACCOUNTABILITY REPORT



2

Directors' Report

The directors of the National Audit Office (NAO) are the Executive Team and the non-executive Board members, whose details are set out in the Governance Statement.

Register of interests

The Executive Team and Board members must complete a declaration of interests. There were no declarations of significant company directorships or other interests that may have conflicted with their management responsibilities. No member of the Executive Team or Board had any other related-party interests.

Pension liabilities

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

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

Further information on pension liabilities is set out in the Remuneration and staff report, and in notes 1.5 and 1.6 of the financial statements.

Personal data incidents

No protected personal data-related incidents were reportable to the Information Commissioner's Office in 2020-21. Unlike government departments, the NAO is not required to report significant incidents relating to personal data to the Cabinet Office. If it were required to do so, there would be no incidents to report.

Auditor of the NAO

The Public Accounts Commission appointed Crowe U.K. LLP as our external auditor. It undertakes a value-for-money study of the NAO annually, provides assurance over the Statement of NAO's Financial Impact and advises on various matters as required. Full details of remuneration for both audit and non-audit work are disclosed in note 4 of the financial statements.

Other disclosures

Some disclosures required within the directors' report have been included elsewhere in the Annual Report. Disclosures on employment and training and people engagement are in the 'Our people' section, which begins on page 54. Additional information is included in the remuneration report on page 99. Future developments affecting our business are disclosed in the performance report under 'Financial performance' on page 72.

Statement of Accounting Officer's responsibilities

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

In preparing these resource accounts, I, as the Comptroller and Auditor General (C&AG), adopted the Government Financial Reporting Manual (FReM) issued by HM Treasury, and have:

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

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

As the Accounting Officer, I have taken all the steps I ought to have taken to make myself aware of any relevant audit information and to establish that the NAO's auditors are aware of that information. So far as I am aware, there is no relevant audit information of which the auditors are unaware.

I confirm that this Annual Report and Accounts as a whole is fair, balanced and understandable. I take personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

Governance Statement

As Accounting Officer, and working together with the NAO Board, the C&AG has responsibility for maintaining effective governance and a sound system of internal control that supports the achievement of the NAO's policies, aims and objectives, while safeguarding the public funds and assets for which the C&AG is personally responsible, under the responsibilities assigned by the Public Accounts Commission.

Budget Responsibility and National Audit Act 2011

The Budget Responsibility and National Audit Act 2011 established the NAO as a body corporate on 1 April 2012.[16] Schedule 2, 24(1) of the Act requires the NAO to prepare resource accounts.

In line with the requirements of the Act (Schedule 2), the Prime Minister and the Chair of the Public Accounts Committee (the Committee) announced Dame Fiona Reynolds as the next Chair of the NAO on 1 July 2020.

She succeeded Lord Michael Bichard when his tenure came to an end on 10 January 2021. Dame Fiona was chosen following an open competition led by Parliament; the selection panel included the Chair of the Committee, the Auditor General for Scotland and the Permanent Secretary of the Treasury.

16 Available at: www.nao.org.uk/other/transport-accessibility-to-local-services-a-journey-time-tool/

NEXT PAGE:
The NAO Board and Executive Team

The NAO Board and Executive Team

Key

- Chair of the Board
- Chair of the Audit and Risk Assurance Committee
- Chair of the Renumeration and Nominations Committee
- Comptroller and Auditor General
- Non-executive director
- Executive director
- Board member

1



Credit: David Levinson

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Dame Fiona Reynolds | Appointed 10 Jan 2021

Dame Fiona Reynolds was appointed as Chair of the NAO on 10 January 2021 following confirmation by Parliament and HM The Queen. Dame Fiona has had a long career in the voluntary and public sectors, including as director-general of the National Trust from 2001–2012. Before joining the National Trust, she was director of the Women's Unit in the Cabinet Office from 1998–2000, director of the Council for the Protection of Rural England (now Campaign to Protect Rural England) from 1987–1998 and secretary to the Council for National Parks (now Campaign to Protect National Parks) from 1980–1987. She is also an Honorary Fellow of the British Academy.

Dame Fiona is the current Master of Emmanuel College, Cambridge, in post since 2012. She will step down from this role in summer 2021. She also holds a number of non-executive roles, including trustee of the Grosvenor Estate, a non-executive director of Wessex Water, a trustee of the Green Alliance, and chair of the International National Trusts Organisation, the Cathedrals Fabric Commission for England, Bennett Institute for Public Policy (Cambridge) and Cambridge University's Botanic Garden.

In May 2021 she was appointed vice-chair of the Royal Agricultural University.



Gareth Davies

Gareth Davies was appointed C&AG on 1 June 2019. Before his appointment as C&AG, he was Head of Public Services at Mazars, a global accountancy firm specialising in audit, tax and advisory services. Prior to this, he was managing director of the Audit Commission's Audit Practice. His experience spans financial and value-for-money audit, organisational leadership and board governance. Gareth is a Fellow of the Chartered Institute of Public Finance and Accountancy and a member of the Institute of Chartered Accountants in England and Wales.



Lord Micael Bichard KCB | Term of office ended 9 Jan 2021

Lord Bichard was appointed as chair of the NAO in January 2015 following confirmation by Parliament and HM The Queen. He was reappointed as chair in January 2018 for a final three-year term of office ending on 9 January 2021. Lord Bichard has worked at senior levels in local government and was the chief executive at both Brent and Gloucestershire County Councils. He moved to central government as chief executive of the Benefits Agency and then as permanent secretary at the Department for Education and Employment.

Since his retirement from the civil service in 2001, he has held a variety of positions including vice-chancellor of the University of the Arts London, chair of the Legal Services Commission, founder director of the Institute for Government, and chaired an inquiry into the Soham murders in 2004. Lord Bichard was also chair of the Design Council 2008–2013 and chair of the Social Care Institute for Excellence 2011–2017.

Lord Bichard is a trustee of the Harris Foundation for Lifelong Learning.

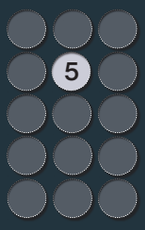


Janet Eilbeck

Janet Eilbeck was appointed by the Public Accounts Commission as a non-executive member of the Board in October 2016 and was re-appointed to the role in October 2019 for a final three-year term. She has chaired the Audit and Risk Assurance Committee since October 2016. Janet is a chartered accountant with more than 40 years' experience. She was an assurance partner at PricewaterhouseCoopers (PwC) until 2011, specialising in government and the broader public sector, including wide experience of external and internal audit, financial accounting advice and risk management. Janet also has an expertise in pensions.

She chaired PwC's two legacy staff pension schemes for nine years until December 2019 and following her retirement from the firm she became the first chair of the Internal Audit Standards Advisory Board (IASAB), and the independent financial expert for the Department for Education, until December 2016.

Janet has been appointed as non-executive member of the Board and chair of the Audit and Risk Committee at West Kent Housing Association. Her appointment will take effect in June 2021.



Gaenor Bagley | Appointed 1 Jan 2021

Gaenor Bagley was appointed by the Public Accounts Commission as a non-executive member of the Board from 1 January 2021. Gaenor has broad experience across the public and private sectors. Significant roles include chair of the Audit Committee and Remuneration Committee of Zopa Bank Ltd, external council member and chair of Remuneration Committee of Cambridge University, chair of TKAT Multi-Academy Trust, chair of the Advisory Board Leeds University Business School and non-executive director Royal Surrey Foundation Trust. She was a non-executive director at the Foreign & Commonwealth Office from May 2018 to August 2020.

Gaenor combines a chartered accountancy qualification with extensive and innovative HR experience within a professional services environment and very strong understanding of audit and finance, mergers and acquisitions and corporate social responsibility. During her 30 years in professional services she has held a variety of leadership and board positions, including five years to 2016 on the PwC UK board as head of people. She has also been a member of the UK Tax Leadership team at PwC.



Sir Martin Donnelly | Appointed 1 Jan 2021

Sir Martin Donnelly was appointed by the Public Accounts Commission as a non-executive member of the Board from 1 January 2021. Sir Martin has experience across a range of government departments and public bodies. He was a permanent secretary for seven years from 2010 to 2017, leading the Department of Business, Innovation & Skills for six years, then setting up the Department for International Trade.

He has worked as a senior civil servant in HM Treasury, Cabinet Office, Foreign & Commonwealth Office and Home Office, and served as a non-executive director of GCHQ for five years. Sir Martin is on the board of several charities including RADA and the Oxford Centre for Islamic Studies.

He is currently president of Boeing Europe.



Dame Clare Tickell | Senior independent member (from 1 Jan 2021)

Dame Clare Tickell was appointed by the Public Accounts Commission as a non-executive member of the Board in January 2018. She was re-appointed by the Commission in December 2020 for a final three-year term. She is the NAO's senior independent director and chair of the Remuneration and Nominations Committee.

Dame Clare has extensive experience at board level, having led a variety of organisations across the charitable and public housing sectors. She was appointed as independent director of the John Lewis Partnership in October 2019. Prior to this, she was chief executive officer of Hanover Housing Association until November 2018, having previously been chief executive of Action for Children.

Until February 2020 Dame Clare was the chair of the Early Intervention Foundation. She was also a commissioner on the Royal Society of Arts (RSA) 2020 Commission into Public Services, chair of the Community and Voluntary Services Honours Committee from 2011 to 2018 and a former board member of The Guinness Partnership. She is a Fellow of the RSA.



Ray Shostak CBE | Term of office ended 31 Dec 2020

Ray Shostak was appointed by the Public Accounts Commission as a non-executive member of the Board in January 2015 and was re-appointed to the role in January 2018 for a final three-year term ending on 31 December 2020. He chaired the NAO's Remuneration and Nominations Committee until January 2018.

Ray has held a number of positions in local and central government, including head of the Prime Minister's Delivery Unit, director of public services in Her Majesty's Treasury and director of Hertfordshire's children, schools and families department. In addition to working internationally with other governments on performance and reform issues, Ray holds a number of other appointments: chair of trustees of the Consortium of Voluntary Adoption Agencies, member of the Public Policy Committee of the British Academy, Honorary Norham Fellow at Oxford University and affiliated researcher at the Bennett Institute for Public Policy.



Robert Sykes OBE | Term of office ended 31 Dec 2020

Robert Sykes was appointed by the Public Accounts Commission as a non-executive member of the Board in January 2015 and was re-appointed to the role in January 2018 for a final three-year term ending on 31 December 2020.

During his tenure he served as the NAO's senior independent director. Robert has significant experience of working in local government and served as chief executive of Worcestershire County Council for 10 years. He has non-executive experience in the public and private sectors and has wide experience of coaching and leadership training.



Abdool Kara

Abdool Kara is responsible for the NAO's work with departments focused on local services, including local government, education and health. He also leads on our wider people agenda including culture and values, staff development and diversity and inclusion. Before joining the NAO in 2017, he had been chief executive of Swale Borough Council since 2009.



Daniel Lambauer

Daniel Lambauer joined the NAO in 2009 as a performance measurement expert and helped to establish our local government value-for-money team. Before his appointment to the Executive Team, he led the development of the NAO's value-for-money workstream. Daniel is the Executive Director with responsibility for Strategy and Resources. He is also the NAO's Chief Information Officer and senior information responsible owner (SIRO). Before joining the NAO, Daniel worked in a range of sectors, including academia, management consultancy and the civil service.



Elaine Lewis

Elaine Lewis is responsible for the NAO's work with departments focused on home affairs, defence and overseas matters. She is also the Executive Team lead on audit quality. She has had experience across a range of portfolios throughout her NAO career, including defence, international and culture, media and sport.



Kate Mathers

Kate Mathers is responsible for the NAO's work with departments focused on culture, justice and welfare. She also provides leadership to our financial audit specialists. Kate joined the NAO in 2000. Kate is a chartered accountant with many years' experience auditing a wide range of public sector bodies. She held senior management positions in finance and operations while working on secondment at the Independent Parliamentary Standards Authority and sits on the Institute of Chartered Accountants in England and Wales' (ICAEW's) Council and Board.



Rebecca Sheeran

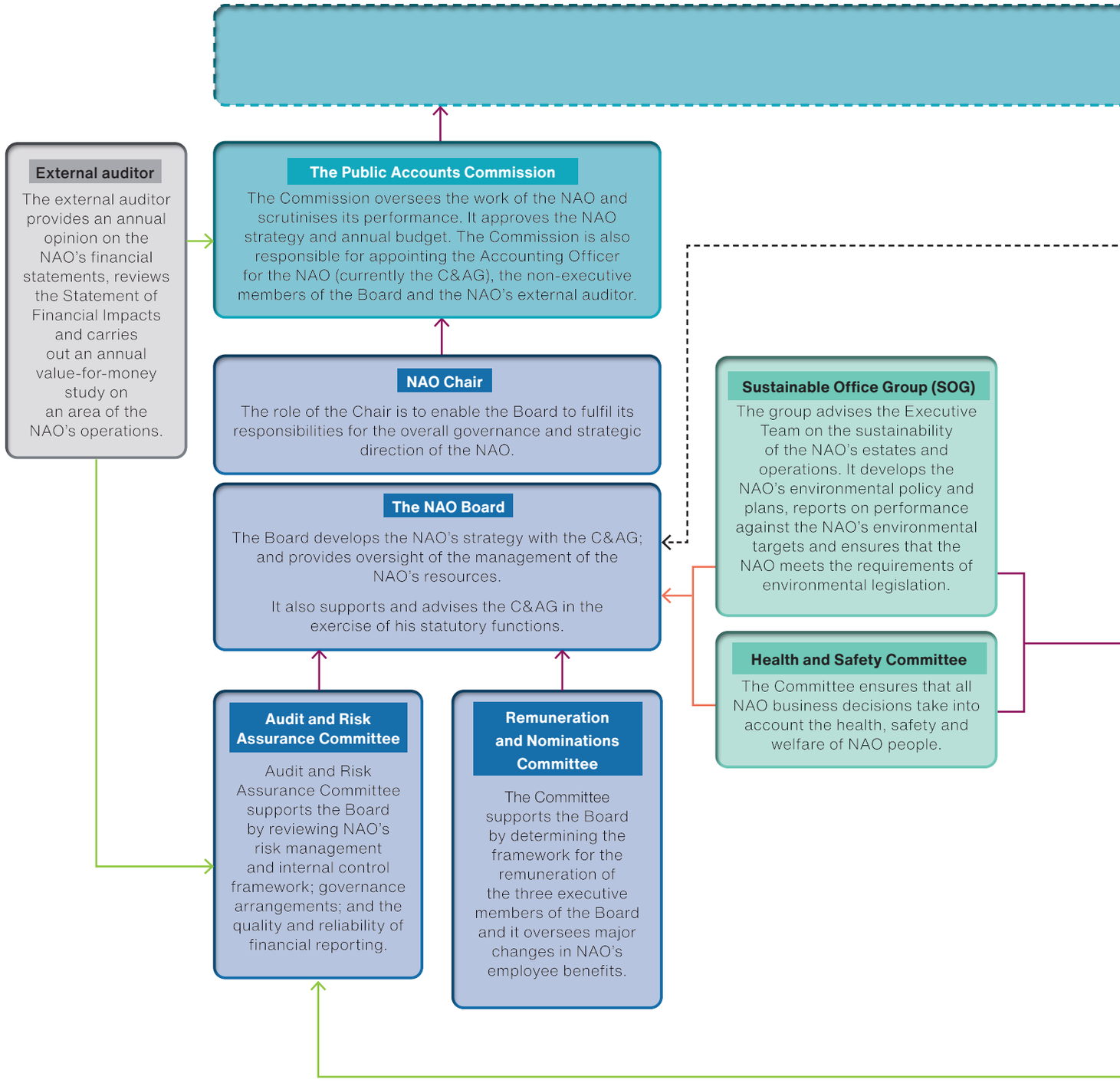
Rebecca Sheeran is responsible for the NAO's work with departments focused on the UK's infrastructure as well as climate change and environment. She also provides leadership to the NAO's value-for-money and investigations specialists. Rebecca Sheeran has worked at the NAO since 2004. She is a chartered accountant with many years' experience in both financial and value-for-money audit of a range of public sector bodies.



Max Tse

Max Tse is responsible for the NAO's work with departments that sit at the centre of government. He also leads the NAO's work on making better use of our knowledge. Max joined the NAO in 2011. Previously Max led the NAO's value-for-money audit of the Department for Work & Pensions and our work on digital transformation in government. Before joining the NAO, Max worked as a consultant with McKinsey & Co. He has worked in the UK and overseas in a range of sectors, including logistics, regulatory strategy, retail, climate finance and health.

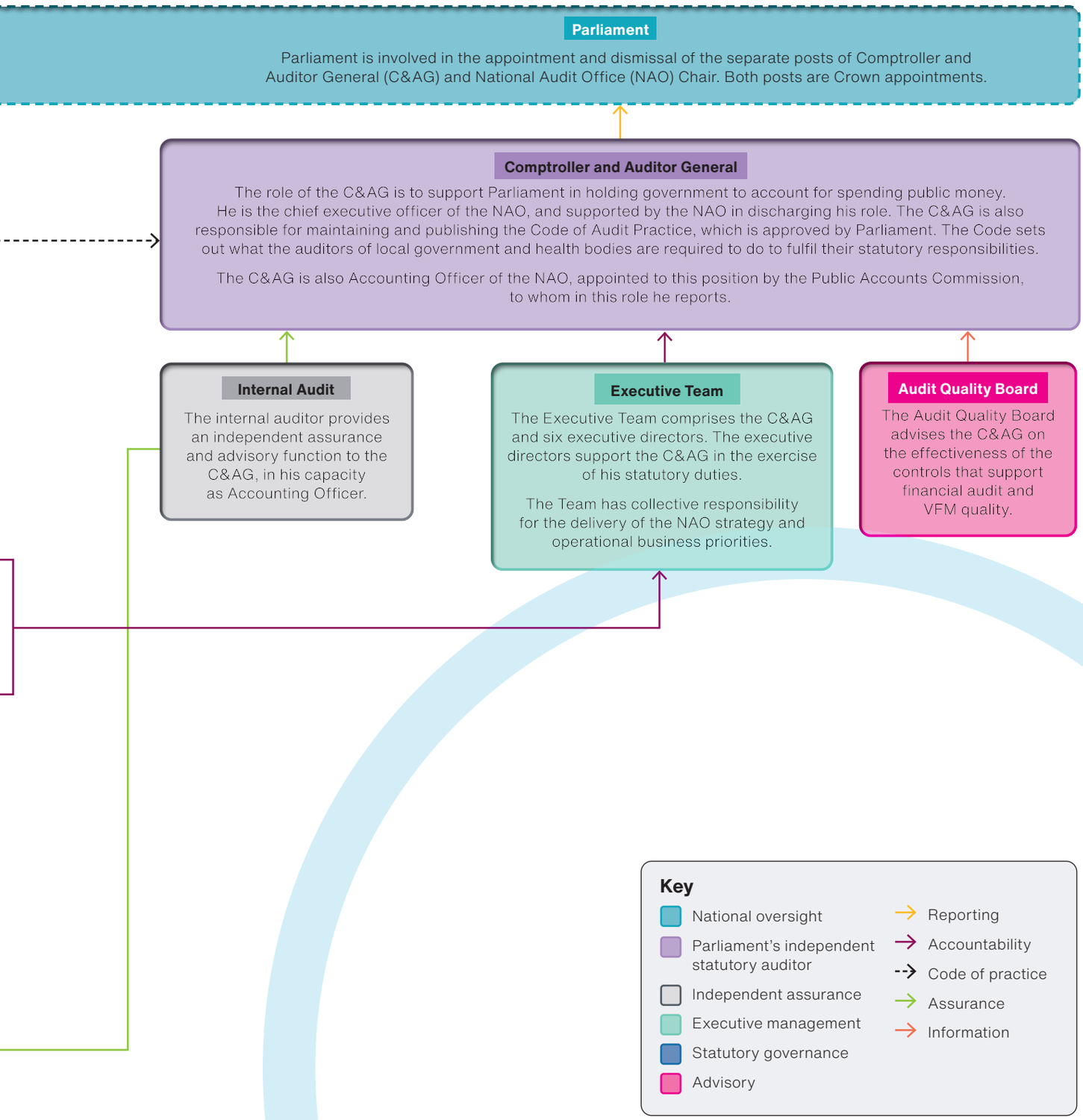
NAO Governance Framework



Note

1 Graphic also shows the two Board sub-committees and two committees that support the Executive Team.

Source: National Audit Office



NEXT PAGE:
The Public Accounts Commission

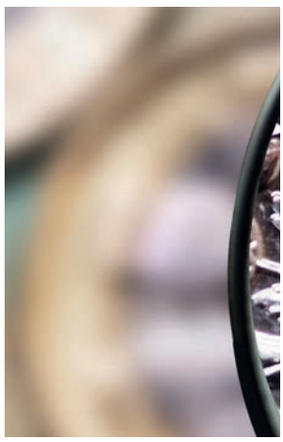
The Public Accounts Commission

The NAO is accountable to Parliament via the Public Accounts Commission. The Commission appoints the non-executive members of the Board, examines the NAO's annual budget (Estimate) and lays it before Parliament, considers the NAO's strategy, and appoints the NAO's external auditor.

The Commission met four times in 2020-21:

- In April 2020, it considered and approved the NAO's Estimate for 2020-21.
- In October 2020, it received evidence from the Chair and the C&AG on how the organisation had spent its budget and the NAO's external auditor's report on our impacts process.
- In December 2020, it:
  - appointed Gaenor Bagley and Sir Martin Donnelly and re-appointed Dame Clare Tickell as non-executive Board members, on the recommendation of both outgoing and incoming Chairs. The appointments were made following an open competition and according to the Commissioner for Public Appointments Code of Practice; and
  - questioned the incoming Chair, Dame Fiona, on the priorities for the NAO.
- In March 2021, it considered and approved the update to the NAO's strategy and 2020-21 Estimate and received the external auditor's report on the NAO's finance function.









The NAO Board

The Board provides constructive challenge and support to the C&AG and the Executive Team. The Board shaped its work programme to focus on the responsiveness and quality of our work, investment decisions to make better use of technology, data and knowledge, and staying committed to diversity and inclusion in everything we do.

Membership of the Board

The Board is composed of five non-executive and four executive members. The C&AG is a permanent member of the Board. The executive members of the Board in 2020-21 were Daniel Lambauer, Kate Mathers and Rebecca Sheeran. Their appointment was approved by the non-executives on the C&AG's recommendation.

Lord Bichard's six-year term as Chair came to an end on 9 January 2021, and Ray Shostak and Robert Sykes' respective six-year terms as non-executive members ended on 31 December 2020. Dame Fiona Reynolds became the NAO Chair on 10 January 2021, Gaenor Bagley and Sir Martin Donnelly were appointed as new members of the Board with effect from 1 January 2021, and Dame Clare Tickell was re-appointed. The induction of the new non-executives started with immediate effect and will continue during 2021-22.

The role of the Board

The Board is responsible for ensuring leadership through effective oversight and review. It shapes our strategic thinking and sets the tone from the top. The Board has established the Audit and Risk Assurance Committee and the Remuneration and Nominations Committee, to which it has delegated specific responsibilities (see Figure 2 on page 11).

Board meetings

The Board met six times during the year (in addition to its annual strategy day), in line with the Board terms of reference. The Board's focus during the year has been on supporting the Executive Team in addressing the COVID-19 crisis and considering our people's safety and wellbeing. It also:

- advised on a proposed framework for looking at the government's preparedness and response to the pandemic and in March 2021 discussed initial lessons learnt from our COVID-19-related work;
- input to the new performance and risk frameworks, the Audit Transformation Programme and the new Diversity & Inclusion (D&I) strategy;
- completed a benchmark of the NAO's governance arrangements against the code of good practice for governance in central government departments[17] and concluded the NAO complies with all principles and supporting provisions in the Code, where they apply to the NAO;
- delivered its core duties to oversee year one of the five-year strategy, oversaw culture, governance and succession planning; and
- held, as part of its strategy day, a workshop on strategic foresight to consider key changes in the NAO's external operating environment.

The Board confirmed that Board papers presented during the year helped inform good decision-making.

Board ways of working

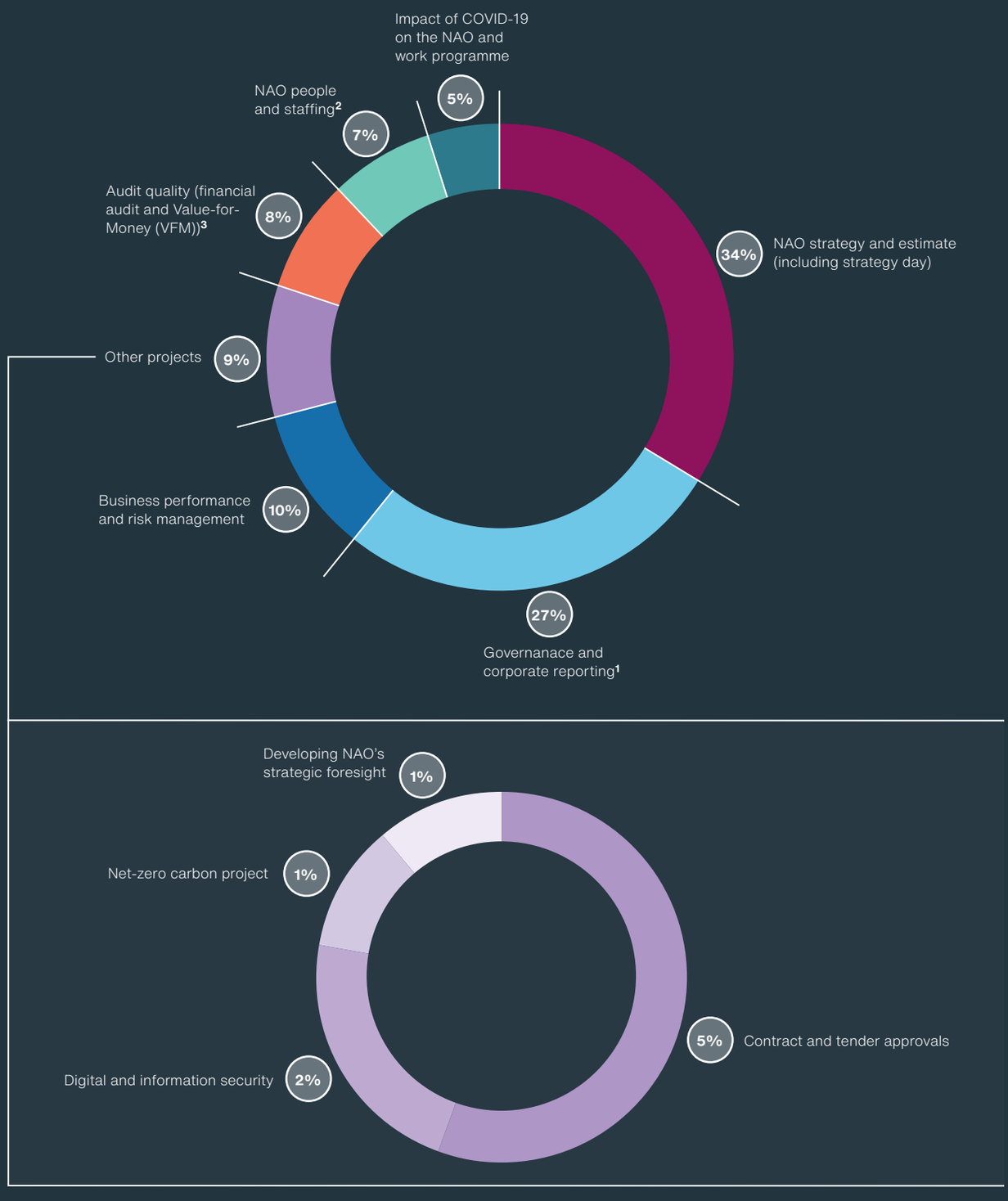
Due to the change in composition and Chair of the Board, it did not carry out a traditional self-assessment exercise in 2020-21. Instead it continued its dialogue on Board ways of working and behaviours, initiated as part of the strategic review in 2019-20. During 2021-22 the new Chair will take forward an action plan to address the feedback from the Board.

17 Available at: www.gov.uk/government/publications/corporate-governance-code-for-central-government-departments-2017

NEXT PAGE:
Audit and Risk Assurance Committee

Figure 12

Where the Board allocated its time



Notes

1 Includes non-executive member succession planning and induction.

2 Includes Diversity and Inclusion strategy and pay equality.

3 Includes Audit Transformation Programme.

4 Based on allocated timings of agenda items.

Source: National Audit Office

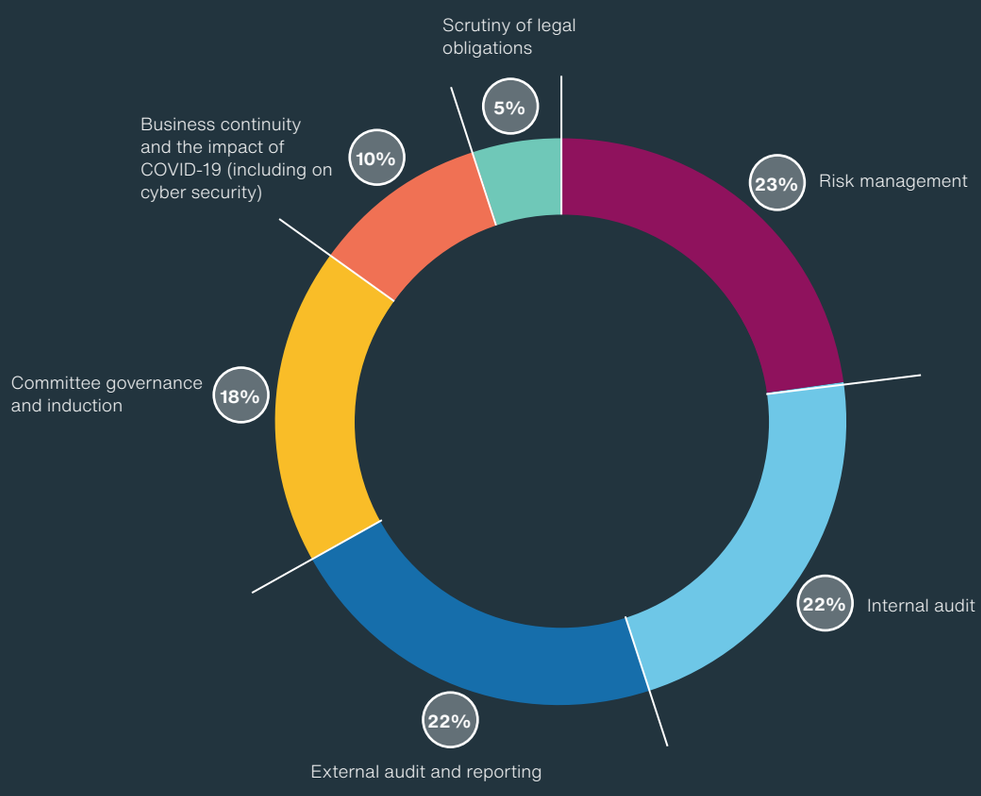
Audit and Risk Assurance Committee

The Audit and Risk Assurance Committee (ARAC), chaired by Janet Eilbeck, is responsible for monitoring the integrity of our financial statements, reviewing internal controls and maintaining the relationship with the external auditor. The Committee met four times during the year.

In June 2020, the Committee's remit was widened to advise the Board on the robustness of the NAO's risk management framework.

Figure 13

Where the Audit and Risk Assurance Committee allocated its time



Notes

1 Based on allocated timings of agenda items.

2 Excludes Committee transactional business and Any Other Business agenda items.

Source: National Audit Office

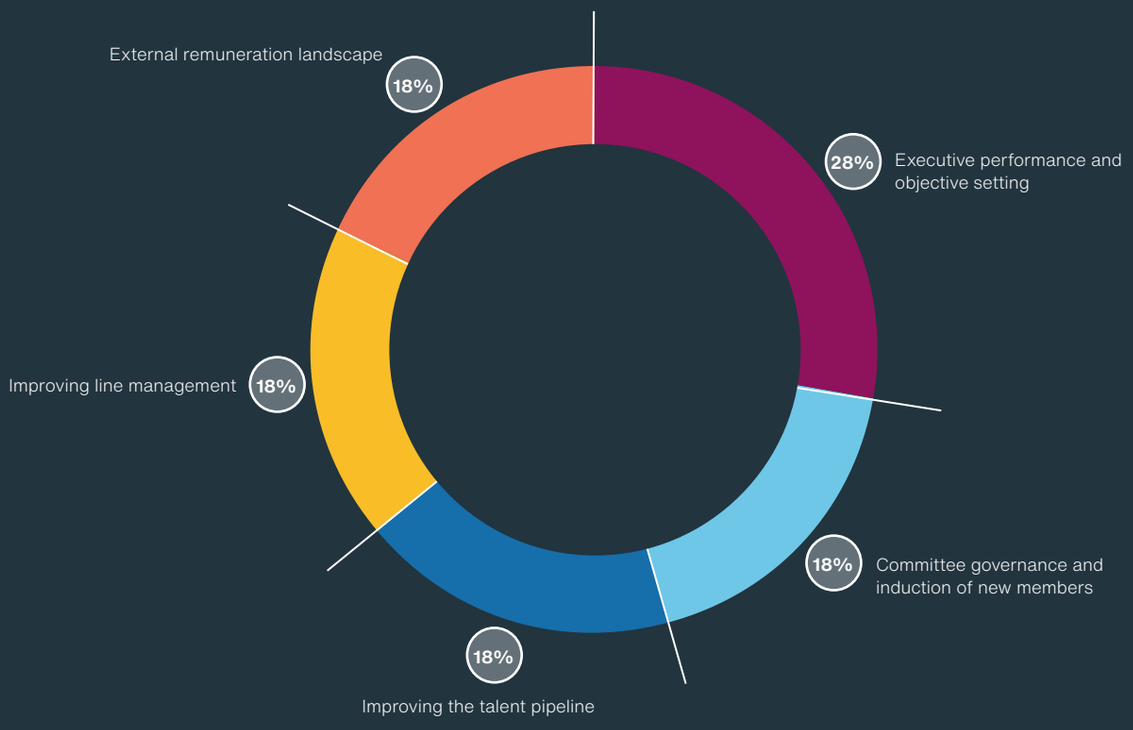
NEXT PAGE:
Renumeration and Nominations Committee

Remuneration and Nominations Committee

The Remuneration and Nominations Committee, chaired by Clare Tickell, looks at the pay and performance of the executive directors, human resources-related topics, and talent and succession planning. The committee held two meetings during 2020-21.

Figure 14

Where the Remuneration and Nominations Committee allocated its time



Notes

1 Based on allocated timings of agenda items.

2 Excludes Committee transactional business and Any Other Business agenda items.

Source: National Audit Office

Executive Team

The Executive Team comprises the C&AG and six executive directors. Each executive director has functional responsibility, and is accountable, for the performance of an area of our work that is essential for the successful delivery of our new strategy. They are responsible for that function across the office. Each executive director also leads, and is accountable for, the overall performance of one of our six groups.

The Executive Team met monthly throughout 2020-21 to provide strategic and operational leadership and set goals, develop our strategy and ensure it was executed effectively and receive regular management information. It also met every week, to keep each other up to date with developments in their areas of responsibility.

In response to the emergence of the COVID-19 pandemic and the decision to ask staff to work from home, the Executive Team began meeting each day in order to make business continuity decisions. The agendas for these meetings were also driven by feedback from a weekly Pulse survey, which gathered information from staff on their physical and mental wellbeing, their ability to work productively at home and how they felt about their workload. In addition to making decisions to ensure the availability and security of IT services for staff, the Executive Team also agreed policies regarding the health and wellbeing of staff and how, as lockdown restrictions eased, our office buildings and ways of working within it could be adapted to allow the return of those staff who needed to.

The Executive Team also carried out a significant review of our programme of work and, in consultation with audited bodies, rephased some of our financial audits and refocused our programme of value-for-money (VFM) and wider assurance work.

We established the Audit Quality Board, an advisory committee to the C&AG, to challenge the effectiveness of the controls to support audit quality in both financial audit and VFM. It first met in March 2021 and agreed its composition should include the executive directors responsible for financial audit, financial audit quality and value for money; the C&AG; and two non-executive members (including the Chair).

NEXT PAGE:
Risk management and control

Attendance at committees

Figure 15



Notes

1 Fiona Reynolds became Chair on 10 January 2021.

2 Fiona Reynolds also attended one meeting as an observer, before becoming Chair.

3 Michael Bichard ceased to be Chair on 9 January 2021.

4 Ray Shostak and Rob Sykes ceased to be members on 31 December 2020.

5 Gaenor Bagley and Martin Donnelly became members on 1 January 2021.

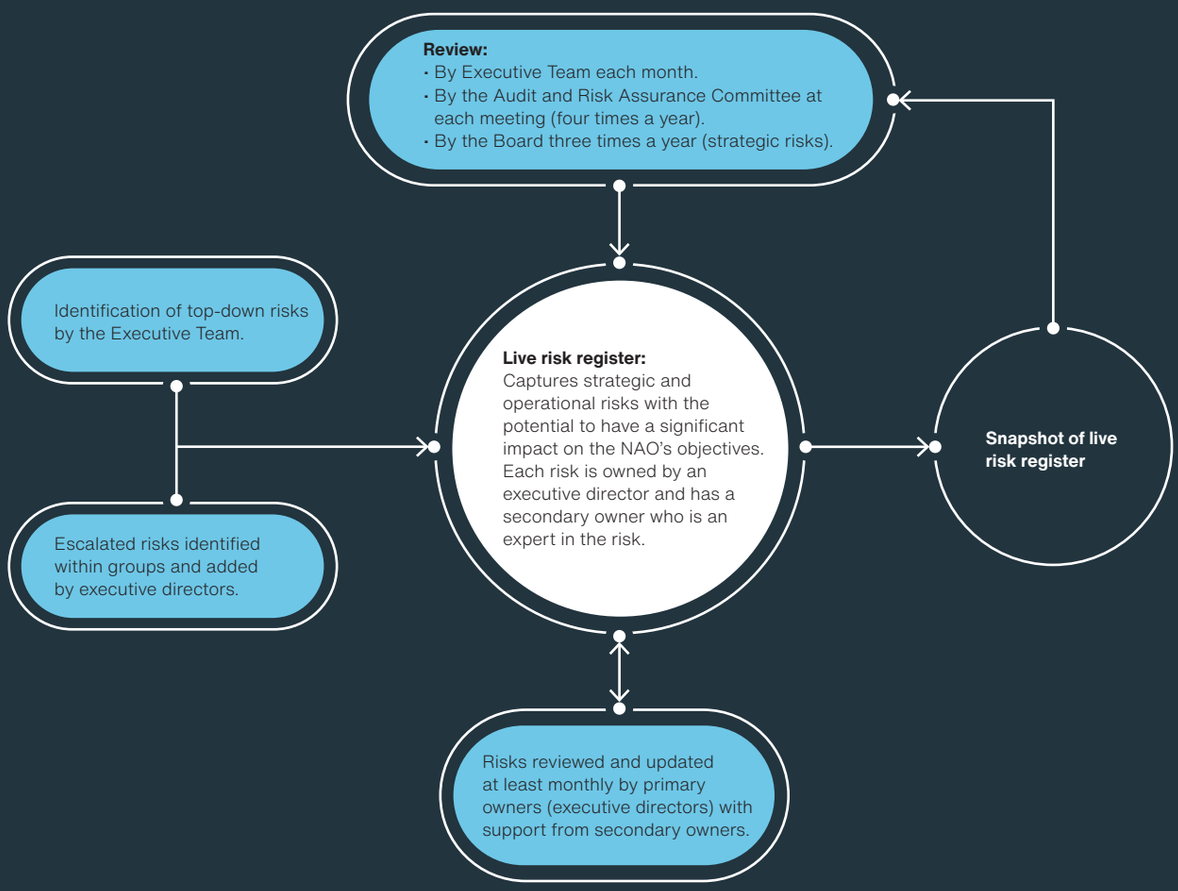
6 Denotes attendance in attendee or observer capacity.

Source: National Audit Office

Risk management and control

Figure 16

Risk management process



Source: National Audit Office

Changes to risk management

During 2020-21 we made several changes to our risk management process in response to our review against the *Orange Book*, our strategic review and good practice:

- The Board now receives the full set of strategic risks three times a year with an extended slot for discussion and a summary each month.
- The remit of the Audit Committee was extended, in June 2020, to become the Audit and Risk Assurance Committee, with a wider role in overseeing the risk architecture.
- Executive directors are specifically responsible for identifying risks arising in their groups and updating the risks they are primary owners for, with support from the secondary owners who are experts in the specific area.
- Executive directors identified a new set of risks, aligned to strategic areas, to aid the discussion of risks and thus help the Executive Team analyse and manage risks.
- We created a new set of risk criteria for probability and impact. We also revisited the RAG (red, amber, green) rating for risk levels and added a red/amber category.
- We built up the skills of the Risk Management team through professional training.
- The Risk Management team shared best practice with our new Finance and Risk Management specialist hub.

NEXT PAGE:
Principal risks

Principal risks

The principal risks by area, as of 31 March 2021, are shown in **Figure 17**, along with the key mitigations, the average current and target risk ratings for each area and the expected trajectory to achieving the target rating for each area.

Figure 17

Risks by area, with key mitigations

Risks	Risk area average rating	Key mitigations	Target risk rating	Trajectory to achieve target
Financial audit quality **Value-for-Money (VFM) quality** **Enhancing our financial audit quality accountability arrangements**	Quality 13	New Financial Audit Quality Plan launched January 2021. Quality assurance arrangements and training for VFM studies.	7	Improvements in quality of 2020-21 financial audits should be reflected in reviews conducted in 2021-22. From 2022-23, we expect to see improved quality in VFM outputs as a result of increased compliance with controls for quality risks.
Diversity of talent **Inequitable pay** **Knowledge and skills** **Personal development** **Health & safety** **People engagement** **Mental health and wellbeing**	People 9	Performance coaches to oversee people development appointed February 2021. Race at Work Charter signed November 2020 and Race Equality Action Plan launched December 2020. Following government advice on office working. New approach to gathering views of our people.	5	Due to the length of the pipeline of talent, we do not expect to reach our gender pay gap target until 2027-28 and our ethnicity pay gap target until 2030. We expect our risks on health and safety and mental health and wellbeing to be reduced to target once COVID restrictions are lifted.
Financial Impacts **Public reputation** **Parliamentary impact/influence**	Impact 9	Pipeline management of recommendations to identify impacts, through new recommendations tracking tool. Communications campaigns for highest interest outputs and social media approach developed.	8	Risk rating currently in line with target.
Disaster recovery **Information security** **Work programme** **Procurement and contract management** **COVID-19** **New ways of working** **Change management**	Delivery 10	Disaster recovery plans – worked well under the test of COVID-19. Information Security Strategy. Executive Team approval of work programme. Support for our people and additional temporary resources to minimise disruption from COVID-19 restrictions.	8	Risks to disaster recovery and information security will be reduced later in 2021 when we have fully transitioned to cloud storage. Risks to delivery of work from COVID-19 restrictions will reduce when COVID-19 restrictions are relaxed.
Outturn not within budget **Ineffective or inefficient use of resources** **Lack of budgetary cover** **Natural resources**	Financial and natural resources 6	Spending control process. Monthly management accounts and scorecard reporting. Net-Zero Carbon Project.	6	Risk rating currently almost on target.

RAG risk ratings

- <8 Green
- 8–9 Amber
- 10–14 Red/Amber
- >14 Red

Source: National Audit Office

Due to the creation of new risks during the year, the update to the risk criteria and the changes to the RAG ratings, it is not possible to compare the ratings of risks from the start to the end of the year.

Managing our information risk

We have privileged and wide-ranging access to data and information to support the discharge of the audit function and ensure that the C&AG's reports to Parliament are factual, accurate and complete. We must respect this privileged access and ensure that the personal and other sensitive information entrusted to it is safeguarded. During 2020-21 we have:

- refreshed our Information Security Plan which was approved by both the Executive Team and NAO Board. This provides for substantial additional investment in both technology and people to, not only refine our Information Security Management System (ISMS) to deliver our Risk Improvement Plan, but also increase our agility to respond to the rapidly changing threat landscape;
- successfully passed external and independent assessment of our ISMS including 'Cyber Security Essentials Plus' and ISO 27001;
- provided monthly assurance through balanced scorecard reporting and delivery of year 1 of the Organisation Development Plan; and
- reduced the Corporate Risk Register rating in February as a result of our investment and increased insight of in the performance of our security posture.

Review of effectiveness of internal controls

As Accounting Officer, the C&AG has responsibility for reviewing the effectiveness of the system of internal control. This review is informed by the work of the director of internal audit and assurance (DIAA), the executive directors within the NAO responsible for developing and maintaining the internal control framework, and comments made by external auditors in their management letter and other reports.

The DIAA's annual report, concludes that the NAO has "adequate and effective governance, risk and control arrangements". The DIAA has arrived at this opinion by:

- delivering an annual operational plan for 2020-21, approved by the Executive Team and Audit and Risk Assurance Committee, set against a detailed Audit Needs Assessment to prioritise activity over a three-year planning period, and designing an internal audit strategy and annual operational plan;
- consistently applying a risk-based methodology, validated by an External Quality Assessment as conforming to the Public Sector Internal Audit Standards;
- delivering 28 individual assurance assignments, together with advisory support and, where appropriate, agreeing an action plan with system owners to secure improvements; and
- monitoring the implementation of internal audit recommendations throughout the year and assessing the progress.

The DIAA has assured the C&AG that the resources made available have been sufficient to complete the operational plan, and the safeguards in place have maintained their independence.

The Board keeps its internal control arrangements under review in response to internal and external developments. The Board is independently advised by the Audit and Risk Assurance Committee.

NEXT PAGE:
Remuneration and staff report

Internal control weaknesses

There were no significant weaknesses in our system of internal controls in 2020-21 that affected the achievement of our key policies, aims and objectives.

Internal whistleblowing

Staff and others who work for or provide services to us can raise a concern without fear of reprisal. Our policy covers situations where someone wants to raise a concern about suspected or actual malpractice or impropriety, improper conduct or unethical behaviour within the NAO. It is published on our website[18] for transparency.

There were no internal whistleblowing cases brought to the attention of NAO management during 2020-21.



In 2020-21 we had

0

internal whistleblowing cases

External complaints

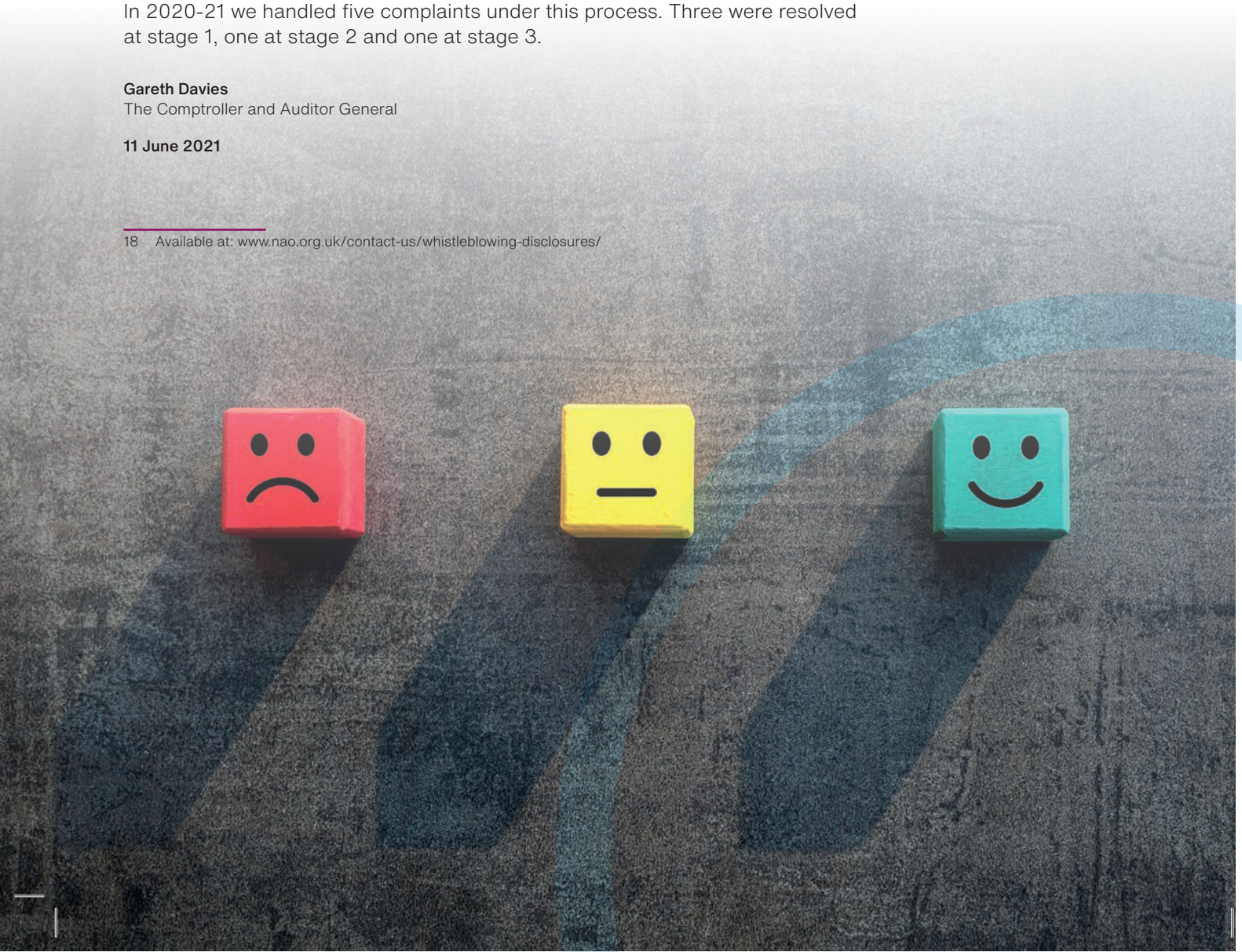
Anyone who encounters the NAO and is unhappy or dissatisfied can complain. We have a formal three-stage complaints process. We make every effort to resolve a complaint at the first stage satisfactorily but, if we cannot, the complaint will be reviewed by a member of staff uninvolved with the case. In the final stage of our process, the complaint is considered by a member of the Executive Team.

In 2020-21 we handled five complaints under this process. Three were resolved at stage 1, one at stage 2 and one at stage 3.

Gareth Davies
The Comptroller and Auditor General

11 June 2021

18 Available at: www.nao.org.uk/contact-us/whistleblowing-disclosures/



Remuneration and staff report

Remuneration policy for senior management

C&AG and the NAO Chair

The Prime Minister and the chair of the Committee of Public Accounts jointly determine the remuneration of the C&AG and the NAO Chair. In accordance with the provisions of Part 2 of the Budget Responsibility and National Audit Act 2011, their remuneration is charged on, and paid out of, the Consolidated Fund.

Non-executive Board members

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

Executive Team

The NAO Remuneration and Nominations Committee determines and agrees the remuneration of the executive members of the Board. The non-executive members appoint the executive members for a renewable period of 12 months, on the recommendation of the C&AG. During 2020-21, Daniel Lambauer, Kate Mathers and Rebecca Sheeran were executive members of the Board.

Figure 18 overleaf provides details of the remuneration and pensions for the NAO Board and Executive Team. The information on pages 100 to 108 has been subject to audit.

NEXT PAGE:
Remuneration and staff report

Figure 18

Single total figure of remuneration (audited)

Non-executive members of the Board	Salary £000		Benefits in kind (to nearest £100)		Pension benefits[1] (to nearest £1,000)		Total remuneration £000	
Name	2020-21	2019-20	2020-21	2019-20	2020-21	2019-20	2020-21	2019-20
Dame Fiona Reynolds, National Audit Office (NAO) Chair (from 11 January 2021)	5–10 (full-year equivalent 40–45)	–	–	–	–	–	5–10 (full-year equivalent 40–45)	–
Lord Michael Bichard, NAO Chair (up to 10 January 2021)	30–35 (full-year equivalent 40–45)	40–45	–	–	–	–	30–35 (full-year equivalent 40–45)	40-45
Gaenor Bagley (from 1 January 2021)	0–5 (full-year equivalent 20–25)	–	–	–	–	–	0–5 (full-year equivalent 20–25)	–
Sir Martin Donnelly (from 1 January 2021)	0–5 (full-year equivalent 20–25)	–	–	–	–	–	0–5 (full-year equivalent 20–25)	–
Janet Eilbeck	20–25	20–25	–	500	–	–	20–25	20–25
Robert Sykes (up to 31 December 2020)	15–20 (full-year equivalent 20–25)	20–25	–	2,100	–	–	15–20 (full-year equivalent 20–25)	20–25
Ray Shostak (up to 31 December 2020)	15–20 (full-year equivalent 20–25)	20–25	–	600	–	–	15–20 (full-year equivalent 20–25)	20–25
Dame Clare Tickell	20–25	20–25	–	–	–	–	20–25	20–25

Note

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

Figure 18 *continued*
Single total figure of remuneration (audited)

Executive Team

	Salary £000		Benefits in kind (to nearest £100)		Pension benefits[1] (to nearest £1,000)		Total remuneration £000	
Name	2020-21	2019-20	2020-21	2019-20	2020-21	2019-20	2020-21	2019-20
Gareth Davies, Comptroller and Auditor General (from 1 June 2019)	220–225	180–185 (full-year equivalent 220–225)	–	–	–	–	220–225	180–185 (full year equivalent: 220–225)
Abdool Kara[2]	165–170	165–170	300	300	–	–	165–170	165–170
Daniel Lambauer[5]	135–140	135–140	200	200	54,000	53,000	190–195	185–190
Elaine Lewis[4] (from 1 October 2019)	120–125	60–65 (full-year equivalent: 120–125)	200	200	112,000	102,000	235–240	160–165 (full-year equivalent: 220–225)
Kate Mathers[5]	135–140	135–140	200	200	64,000	93,000	200–205	225–230
Rebecca Sheeran[3]	125–130 (full-time equivalent 135–140)	115–120 (full-time equivalent: 135–140)	200	200	–	–	125–130 (full-time equivalent 135–140)	115–120 (full-time equivalent: 135–140)
Stephen Smith[2] (up to 30 April 2020)	10–15 (full-year equivalent 165–170)	165–170	–	300	–	–	10–15 (full-year equivalent 165–170)	165–170
Max Tse[5]	135–140	135–140	200	200	54,000	53,000	190–195	185–190

Notes

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

2 Stephen Smith and Abdool Kara do not participate in the NAO pension scheme.

3 Rebecca Sheeran participates in the NAO's Partnership Pension scheme. This is a defined contribution scheme and we are only required to disclose the contributions made by the NAO in the year. The total contribution made for 2020-21 was £18,000 (2019-20: £17,000).

4 2019-20 Total remuneration includes the change in pension benefits which occurred during the year as a result of joining the Executive Team on 1 October 2019. The benefit is linked to each individual's length of service at the NAO and annual salary, depending on the nature of the pension scheme in which they are enrolled. The reported change in the value of pension benefit is significant in the year in which salaries are uplifted on joining the Executive Team but is not expected to recur at this level.

5 Pension benefit disclosed in this table is determined by the specific pension schemes enrolled in. Career average schemes accrue pension benefit as a fixed percentage of the salary earned in-year whereas the final salary pension schemes benefit accrue on the basis of length of service and the latest annual salary. Therefore, entitlements for individuals will differ in-year depending on what scheme they are in. Of the Executive Team, Daniel Lambauer and Max Tse are members of career average schemes only. Kate Mathers and Elaine Lewis are members of final salary schemes in addition to career average schemes.

Source: National Audit Office

NEXT PAGE:
Salary

Salary

Salary' includes gross salary and any other allowance to the extent that it is subject to UK taxation. This report is based on accrued payments made by the NAO and thus recorded in these accounts.

Benefits in kind

The monetary value of benefits in kind covers any expenditure incurred by the NAO and treated by HM Revenue & Customs as a taxable payment. As part of the remuneration package, the NAO provides all its employees with additional death-in-service benefit equivalent to one year's salary. The benefits column in the table on page 101 shows the cost to the NAO of providing the death-in-service benefit to members of the Executive Team, and the associated income tax and National Insurance liability that was met by the NAO. The benefits in kind disclosed for non-executive members of the Board on page 100 relate to travel to the NAO for Board and other committee meetings and include the associated income tax and National Insurance liability, which was met by the NAO. The NAO has an agreement with HM Revenue & Customs to meet income tax and National Insurance on these benefits on behalf of non-executive members of the Board.

Pension arrangements (including audited cash equivalent transfer value figures)

Comptroller and Auditor General

The pension arrangements for the C&AG are covered by the Superannuation Act 1972 and are analogous to those of a member of the Principal Civil Service Pension Scheme, which is an unfunded scheme. The Act provides for defined pension benefits to be met from the Consolidated Fund and no liability rests with the NAO. On taking up his appointment as C&AG on 1 June 2019, Gareth Davies waived his pension benefit entitlement.

Executive Team

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

The pension entitlements of our most senior managers (NAO's executive directors) were as shown in **Figure 19** (audited).

Figure 19

Pension entitlements of National Audit Office (NAO) executive directors

	Accrued pension as at 31 March 2021 and related lump sum	Real increase in pension and related lump sum at pension age	CETV[3] at 31 March 2021	CETV[3] at 31 March 2020	Real increase in CETV
	£000	£000	£000	£000	£000
Daniel Lambauer	20–25	2.5–5	222	186	19
Elaine Lewis	35–40 plus a lump sum of 75–80	5–7.5 plus a lump sum of 7.5–10	587	496	68
Kate Mathers	50–55	2.5–5	745	679	35
Max Tse	25–30	2.5–5	261	222	20

Notes

1 Stephen Smith and Abdool Kara do not participate in the NAO pension scheme.

2 Rebecca Sheeran participates in the Partnership Pension scheme of NAO's pension scheme. This is a defined contribution scheme and we are only required to disclose the contribution made in the year rather than the information in the table above. The total employer contribution made for 2020-21 was £18,000.

3 CETV = Cash Equivalent Transfer Value.

Source: National Audit Office

Cash Equivalent Transfer Value (CETV)

A CETV is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or an arrangement to secure pension benefits in another pension scheme or an arrangement when the member leaves a scheme and chooses to transfer the pension benefits they have accrued in their former scheme.

The pension figures shown relate to the benefits that the individual has accrued because of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement, which the member has transferred to the civil service pension arrangements. They include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost.

CETVs are calculated in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

The real increase in the value of the CETV

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

Fair pay disclosure (audited)

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the median remuneration of the organisation's workforce (**Figure 20**).

Total remuneration includes salary, non-consolidated performance-related pay and benefits-in-kind. It does not include severance payments, employer pension contributions or the CETV of pensions.

Figure 20
Fair pay disclosure

	2020-21	2019-20
Remuneration banding for highest paid individual	£220,000 to £225,000	£220,000 to £225,000
Median remuneration	£54,315	£51,609
Ratio	4.10	4.31
Remuneration range	£17,000–£220,000 to £225,000	£17,550–£220,000 to £225,000

Source: National Audit Office

NEXT PAGE:
Staff numbers and related costs

NAO staff remuneration policy

In accordance with the provisions of the Budget Responsibility and National Audit Act 2011, the NAO is responsible for employing staff and must have regard to the desirability of keeping the terms broadly in line with those that apply to the civil service. NAO staff normally hold appointments which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

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

Staff numbers and related costs (audited)

The average number of persons employed during the year was:

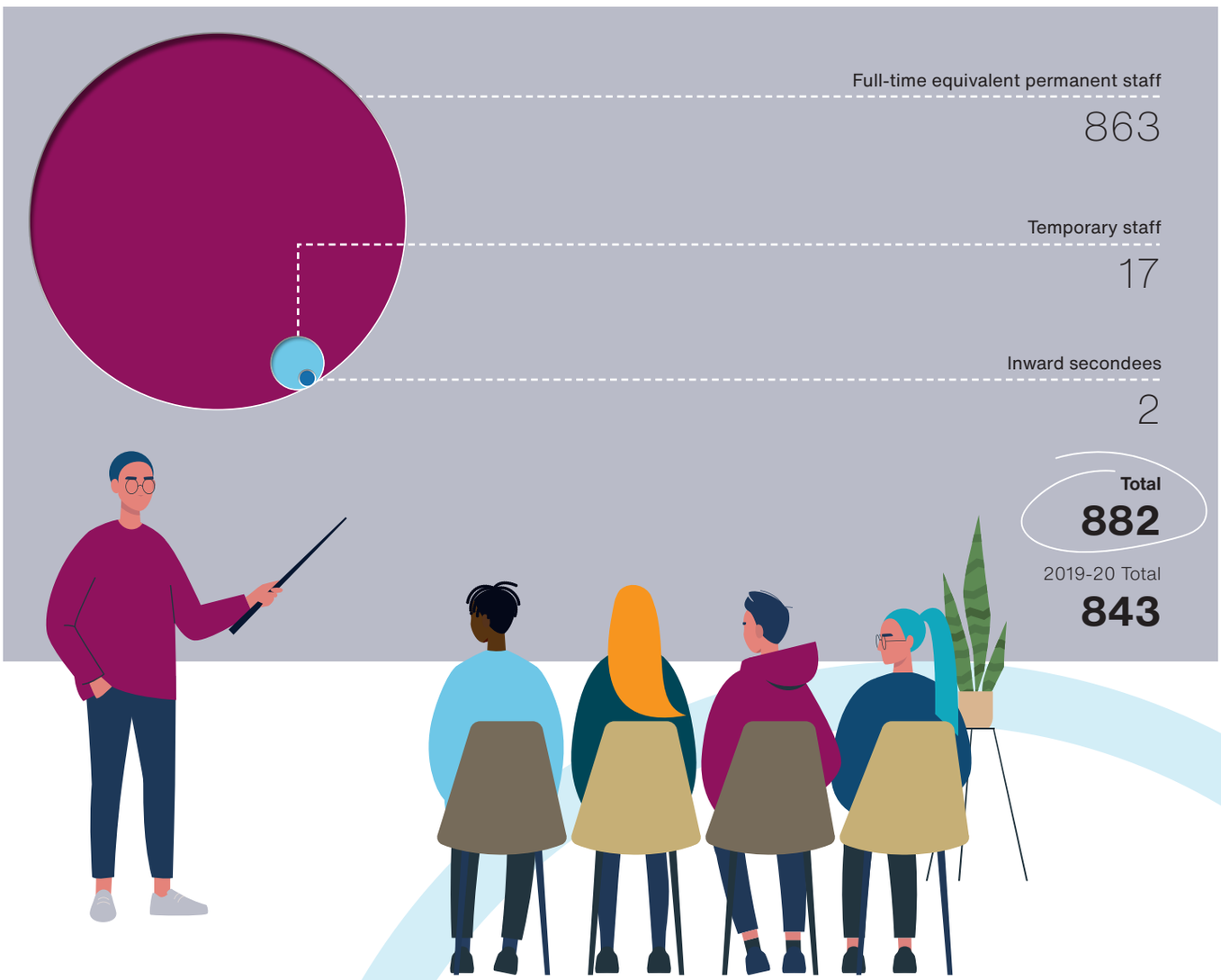


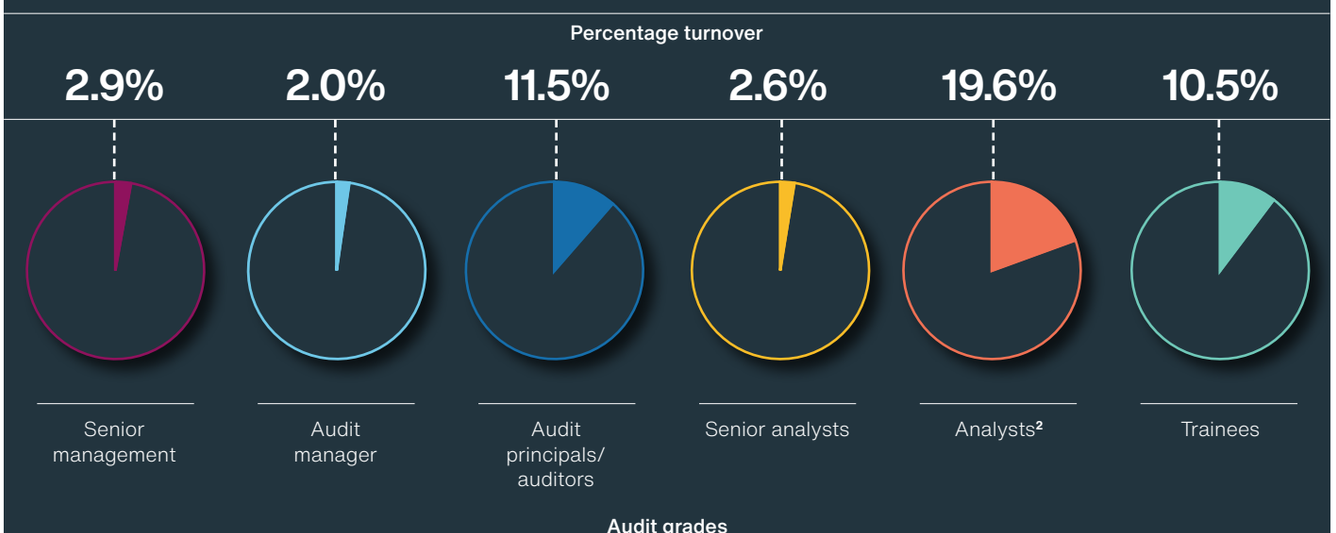
Figure 21
Staff costs comprise

	2020-21			2019-20		
	Total £000	Permanent £000	Temporary £000	Total £000	Permanent £000	Temporary £000
Wages and salaries	50,645	48,045	2,600	47,119	44,395	2,724
Social security costs	5,622	5,622	–	5,286	5,286	–
Pension costs	13,054	13,054	–	12,006	12,006	–
Gross cost	**69,321**	**66,721**	**2,600**	**64,411**	**61,687**	**2,724**
Less recoveries in respect of outward secondments	(154)	(154)	–	(269)	(269)	–
Net cost	**69,167**	**66,567**	**2,600**	**64,142**	**61,418**	**2,724**

Source: National Audit Office

Staff turnover

Staff turnover is calculated using the Cabinet Office methodology. The figures show overall 'Turnover' as the concept of 'Departmental turnover', which includes staff moving from one department to another, does not apply to the NAO as an independent organisation, entirely separate from the civil service.



Notes

1 Reflects 12 months to end March 2021.

2 This represents six resignations from the grade against an expected rate of 16%.

NEXT PAGE: Staff pension arrangements

NAO staff pension arrangements

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

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

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

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

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

NEXT PAGE:
Compensation packages

Reporting of civil service and other compensation schemes – exit packages (audited)

We offer compensation when staff agree to leave the organisation in circumstances where the departure provides an opportunity to refresh our skills base and contributes to a reduction in our costs. Details of the packages offered during the year and the previous year are shown in **Figure 22** below.

These redundancy and other departure costs are paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972.

Figure 22 shows the total cost of exit packages agreed and accounted for in 2020-21 (2019-20 comparative figures are also given). Exit costs are accounted for in full in the year that the departure is agreed. Where the NAO agrees early retirements, the additional costs would be met by the NAO and not by the Civil Service Pension Scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table.

Figure 22
Compensation packages offered during 2020-21

	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
Exit package cost band	**2020-21 (2019-20)**	**2020-21 (2019-20)**	**2020-21 (2019-20)**
<£10,000	– (-)	– (–)	– (–)
£10,001–£25,000	– (1)	– (–)	– (1)
£25,001–£50,000	– (-)	– (–)	– (–)
£50,001–£100,000	– (-)	– (1)	– (1)
£100,001–£150,000	– (-)	– (–)	– (–)
£150,001–£200,000	– (-)	– (–)	– (–)
£200,001–£250,000	– (-)	– (–)	– (–)
>£250,000	– (-)	– (–)	– (–)
Total number of exit packages by type	**– (1)**	**– (1)**	**– (2)**
Total costs disclosed in financial statements (£000)			**– (75)**

Source: National Audit Office

Off-payroll engagements

There were no off-payroll engagements in 2020-21 (2019-20: nil).

Expenditure on consultancy

The NAO spent £1.7 million on consultancy in 2020-21 (2019-20: £1.2 million) to obtain objective advice relating to strategy, structure, management or operations. Use of consultancy includes activities relating to the delivery of IT improvements and specialist legal advice on specific matters of policy or commerce where it is not economical to maintain this expertise in-house.

Our policy on equality and disability

Disability

We are committed to building an inclusive workplace for disabled staff. We have a positive record of recruiting staff with existing conditions, partly supported by our commitment to guarantee interviews to all disabled candidates who meet the minimum criteria for the role and adjustments to our selection processes. In addition, we have a supportive approach to implementing workplace adjustments to help overcome disadvantage when disabled people join the NAO.

We support people who become disabled during their employment to remain in work and realise their potential. Where appropriate, we seek specialist advice, through our occupational health advisers and other specialist organisations such as Lexxic (specialists in dyslexia and dyspraxia), on adjustments which will support people to continue in their current post. We have 65 trained mental health first aiders who provide confidential support and guidance to those facing a mental health issue.

Workplace adjustments are made to allow disabled employees to access suitable learning and development opportunities, with a specific focus on supporting our graduates through their professional training programme. When promotion and other development opportunities arise, disabled colleagues are encouraged to apply and discuss any adjustments they might require to the selection arrangements to remove any potential disabling barriers.

In 2022-23 we will be updating our workplace adjustments process and guidance in line with latest best practice and developing an online system for recording adjustments with appropriate consent. This will provide greater opportunity for adjustments to be kept up to date and shared with appropriate staff such as performance coaches and assignment managers.

NEXT PAGE:
Parliamentary accountability

Equality and fairness

We are committed to fostering an inclusive working environment in which individuals' differences are respected, and everyone is encouraged to realise their potential to make a full contribution to the NAO's corporate objectives.

In late spring 2021 we launched our new four-year D&I Strategy 2021–2025. This document frames our approach to D&I and sets out four priority areas: proactively strengthening the diversity of our pipeline; maximising the potential of all our people; building a culture of inclusion and respect for others; and setting clear ambitions and holding ourselves to account. The strategy will be supported by a detailed action plan and a series of clear and ambitious targets.

Our ambition in key focus areas is supported by our Race Equality Action Plan, published in December 2020 and our Disability Equality Action Plan, launched in April 2021. Progress against our targets will be monitored by our Diversity and Inclusion Operational Committee and our Executive Team who will challenge the pace and direction of change and provide regular input into how we might address the D&I challenges we are facing. The work of these committees is supported by our active diversity networks who play a role in developing our approach to a range of D&I issues and in enhancing the profile of our work.

We aim to ensure all staff receive equal treatment that is free of discrimination and we follow all employment-related procedures impartially and objectively. This approach includes decisions relating to recruitment, training and development, performance management, reward and benefits, and promotion.

We do not tolerate bullying and harassment of any kind and emphasise the importance of respecting others in a range of people policies. We are working hard to ensure people feel confident they can raise issues in a safe, supportive and confidential environment and that we will investigate allegations quickly, sensitively and fairly. We have a strong team of Dignity at Work leads who offer informal, confidential support to those who have experienced or witnessed inappropriate behaviour. Our Dignity at Work and related training programmes also embed the principles of fair treatment and inclusive behaviours.

Parliamentary accountability and audit report

Statement of Outturn against Parliamentary Supply

In addition to the primary statements prepared under the International Financial Reporting Standards (IFRS), the Government Financial Reporting Manual (FReM) requires the NAO to prepare a Statement of Outturn against Parliamentary Supply (SOPS) and supporting notes.

The SOPS and related notes are subject to audit, as detailed in the Independent Auditor's Certificate and Report to the House of Commons.

The SOPS is a key accountability statement that shows, in detail, how an entity has spent against their Supply Estimate (the estimate). Supply is the monetary provision (for resource and capital purposes) and cash (drawn primarily from the Consolidated Fund), that Parliament gives statutory authority for entities to utilise. The estimate details supply and is voted on by Parliament at the start of the financial year.

Should an entity exceed the limits set by their estimate – called control limits – their accounts will receive a qualified opinion.

The format of the SOPS mirrors the estimates, published on gov.uk, to enable comparability between what Parliament approves and the final outturn.

The SOPS contain a summary table, detailing performance against the control limits that Parliament has voted on, cash spent (budgets are compiled on an accruals basis and so outturn will not exactly tie to cash spent) and administration.

The supporting notes detail the following: Outturn by estimate line, providing a more detailed breakdown (Note 1); a reconciliation of outturn to net operating expenditure in the Statement of Comprehensive Net Expenditure (SoCNE), to tie the SOPS to the financial statements (Note 2); a reconciliation of outturn to net cash requirement (Note 3); and, an analysis of income payable to the Consolidated Fund (Note 4).

The SOPS and Estimates are compiled against the budgeting framework, which is similar to, but different to, IFRS. Information on the Public Spending Framework and the reasons why budgeting rules are different to IFRS can be found in chapter 1 of the Consolidated Budgeting Guidance, available on gov.uk.

The SOPS provides a detailed view of financial performance, in a form that is voted on and recognised by Parliament. The finance review, in the Performance Report, provides a summarised discussion of outturn against estimate and functions as an introduction to the SOPS disclosures.

NEXT PAGE:
Statements of Outturn

Figure 23

Statement of Outturn against Parliamentary Supply

Summary table, 2020-21, all figures presented in £000s

Type of Spend	SOPS note	Outturn			Estimate			Outturn vs estimate saving/ (excess)		Prior year Outturn total 2019-20
		Voted	Non-voted	Total	Voted	Non-voted	Total	Voted	Total	Net total (voted and non-voted)
Departmental Expenditure Limit										
Resource	1.1	73,853	293	74,146	75,900	320	76,220	2,047	2,074	68,594
Capital	1.2	1,093	–	1,093	1,500	–	1,500	407	407	973
Total budget expenditure		**74,946**	**293**	**75,239**	**77,400**	**320**	**77,720**	**2,454**	**2,481**	**69,567**
Non-budget expenditure		–	–	–	–	–	–	–	–	–
Total budget and non-budget		**74,946**	**293**	**75,239**	**77,400**	**320**	**77,720**	**2,454**	**2,481**	**69,567**

Notes

1 Figures in the areas outlined in the thick line cover the voted control limits voted by Parliament. Refer to the 2020-21 Supply Estimates, available at: www.gov.uk.

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

Source: National Audit Office

Figure 24

Net cash requirement 2020–21, all figures presented in £000s

Item	SOPS	Outturn	Estimate	Outturn vs estimate saving/(excess)	Prior year Outturn total 2019-20
Net cash requirement	3	71,467	75,107	3,640	66,997

Source: National Audit Office

Figure 25

Programme costs 2020–21, all figures presented in £000s

Item	SOPS	Outturn	Estimate	Outturn vs estimate saving/(excess)	Prior year Outturn total 2019-20
Programme costs	1.1	73,853	75,900	2,047	68,300

Source: National Audit Office

Figure 26
SOPS1 outturn detail, by Estimate line

SOPS1.1 Analysis of resource Outturn by Estimate line

Type of spend (resource)	Resource outturn			Estimate	Outturn vs estimate saving/ (excess)	Prior year Outturn total, 2019-20
	Programme			Net		
	Gross	Income	Net total			
Spending in Departmental Expenditure Limits (DEL)						
Voted expenditure						
A – Provision of audit and other assurance services	98,451	(24,598)	73,853	75,900	2,047	68,300
Total voted DEL	**98,451**	**(24,598)**	**73,853**	**75,900**	**2,047**	**68,300**
Non-voted expenditure						
B – The Chair and the Comptroller & Auditor General costs	293	–	293	320	27	294
Total non-voted DEL	**293**	**–**	**293**	**320**	**27**	**294**
Total spending in DEL	**98,744**	**(24,598)**	**74,146**	**76,220**	**2,074**	**68,594**

Source: National Audit Office

Figure 27
SOPS1.2 analysis of net capital outturn

Type of spend (capital)	Capital outturn			Estimate	Outturn vs estimate saving/ (excess)	Prior year Outturn total, 2019-20
	Programme			Net		
	Gross	Income	Net total			
Spending in Departmental Expenditure Limits (DEL)						
Voted expenditure						
A – Provision of audit and other assurance services	1,093	–	1,093	1,500	407	973
Total voted DEL	1,093	–	1,093	1,500	407	973

Source: National Audit Office

SOPS2. Reconciliation of outturn to net operating expenditure

No reconciliation is required as total resource outturn in SOPS is the same as net operating expenditure in the SoCNE.

NEXT PAGE:
Statements of Outturn

Figure 28

SOPS3 Reconciliation of net resource outturn to net cash requirement

	Note	Outturn	Estimate	Outturn vs estimate/saving (excess)
Resource outturn	SOPS 1.1	74,146	76,220	2,074
Capital outturn	SOPS 1.2	1,093	1,500	407
Accruals to cash adjustments				
Adjustments to remove non-cash items				
Depreciation		(3,098)	(3,000)	98
Change in provisions		16	1	(15)
Loss on disposal of assets		–	–	–
Impairment of non-current assets		–	–	–
Adjustments to reflect movements in working balances				
Increase/(decrease) in receivables		(75)	200	275
(Increase)/decrease in payables		(364)	500	864
Use of provisions		42	6	(36)
Total		71,760	75,427	3,667
Removal of non-voted budget items:				
Consolidated fund standing services		(293)	(320)	(27)
Net cash requirement		**71,467**	**75,107**	**3,640**

Note

1 As noted in the introduction to the SOPS above, outturn and the Estimates are compiled against the budgeting framework, not on a cash basis. Therefore, this reconciliation bridges the resource and capital outturn to the net cash requirement.

Source: National Audit Office

Fees and charges (audited)

We charge fees for our audit work and other services where it is permitted to do so under legislation. These are charged in accordance with a scheme prepared by the NAO which is developed with consideration of best practice set out in *Managing Public Money* (guidance published by HM Treasury) and approved by the Public Accounts Commission.

Fees for audit and assurance work are set to cover the full planned cost attributable for the service. This makes sure that the NAO neither plans to profit at the expense of the consumer of its services nor makes a loss for taxpayers to subsidise. Costs are calculated on an accrual basis, including overheads. This includes the time that people spend on activities, which is set using a standard hourly rate. As our audit portfolio has diversified and become more challenging, there have been transitional and familiarisation costs which we have not yet been able to recover directly from the audited body. We continue to invest in our audit methodology to design an efficient and sustainable approach. The NAO's objective is to break even on its fee-paying work and to address short-term deficits arising.

Secondments are usually arranged on a full cost recovery basis. However, we may at times subsidise the cost of a secondment where the experience and skills gained through the secondment will bring future benefit to the NAO. Rental income is earned in line with agreed rental rates for office space per square foot, with any rent-free period amortised over the period of the lease. Any surplus on rental income is subject to corporation tax (**Figure 29**).

Losses and special payments (audited)

There were no losses or special payments that require disclosure because of their size or nature in 2020-21.

Figure 29
Fees and charges

2020-21			
	Income	Expenditure	Surplus/(deficit)
	£000	£000	£000
Audit and Assurance work[1,2]	21,902	25,845	(3,943)
Secondment income	154	281	(127)
Rental of office space	2,473	1,262	1,211
Grant income	69	69	–
Total income	**24,598**	**27,457**	**(2,859)**

2019-20			
Audit and Assurance work	20,418	24,090	(3,672)
Secondment income	269	437	(168)
Rental of office space	2,237	1,154	1,083
Grant income	45	45	–
Total income	**71,760**	**75,427**	**3,667**

Notes

1 Income from clients reported in the financial statements is affected by movement in provision for future deficits; a provision which is required by accounting standards.

2 Audit and Assurance work expenditure includes VAT that we are unable to recover of £661,000. If non-recoverable VAT is excluded our deficit would be £1,808,000.

Source: National Audit Office

Gareth Davies
The Comptroller and Auditor General

11 June 2021

NEXT PAGE:
Independent
Auditor's report

Independent Auditor's Certificate and Report to the House of Commons

Opinion

We certify that we have audited the financial statements of the National Audit Office ('NAO') for the year ended 31 March 2021, which comprise the NAO's Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity and related notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and international financial reporting standards as interpreted by HM Treasury's Government Financial Reporting Manual.

In our opinion the financial statements:

- give a true and fair view of the state of the NAO's affairs as at 31 March 2021 and of the NAO's net operating costs for the year then ended;
- have been properly prepared in accordance with the 2020-21 *Government Financial Reporting Manual*; and
- have been prepared in accordance with the Budget Responsibility and National Audit Act 2011.

Opinion on regularity

We have audited the Statement of Parliamentary Supply and the related notes. In our opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary Control Totals for the year ended 31 March 2021 and shows these totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities that govern them.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the NAO in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the NAO's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Accounting Officer with respect to going concern are described in the relevant sections of this report.

Other information

The Accounting Officer is responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements, the parts of the Accountability Report that are described in that report as having been audited and our auditor's report thereon. Our opinion on the financial statements, the Statement of Parliamentary Supply and related notes, and the information in the Remuneration and Staff Report and the Parliamentary Accountability Disclosures within the Accountability Report that is described in those reports and disclosures as having been audited does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters

We have also audited the information in the Remuneration and Staff Report and the Parliamentary Accountability Disclosures within the Accountability Report that is described in those reports and disclosures as having been audited. In our opinion in all material respects:

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

NEXT PAGE:
Independent Auditor's Certificate and Report

Matters on which we are required to report by exception

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

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

Responsibilities of the Accounting Officer

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Accounting Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Accounting Officer is responsible for assessing the NAO's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention to liquidate or cease operations or there is no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our responsibility is to audit, certify and report on the financial statements in accordance with the Budget Responsibility and National Audit Act 2011. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

We are also required to obtain evidence sufficient to give reasonable assurance that the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary Control Totals. For the NAO, the voted Parliamentary Control Totals are Departmental Limits (Resource and Capital) and Net Cash Requirement. We are also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities . This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We identified and assessed the risks of material misstatement of the financial statements from irregularities, whether due to fraud or error, and discussed these between our audit team members. We then designed and performed audit procedures responsive to those risks, including obtaining audit evidence sufficient and appropriate to provide a basis for our opinion.

We obtained an understanding of the legal and regulatory frameworks within which the NAO operates, focusing on those laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements. The laws and regulations we considered in this context were the Budget Responsibility and National Audit Act 2011 and the Government Financial Reporting Manual (FReM 20/21) which applies international financial reporting standards as adopted by the European Union (IFRSs). We assessed the required compliance with these laws and regulations as part of our audit procedures on the related financial statement items.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which might be fundamental to the NAO's ability to operate or to avoid a material penalty. We also considered the opportunities and incentives that may exist within the NAO for fraud. The laws and regulations we considered in this context for the UK operations were General Data Protection Regulation (GDPR) and regulations as the statutory auditor of Companies Act 2006 entities.

Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Accounting Officer and other management and inspection of regulatory and legal correspondence, if any.

We identified the greatest risk of material impact on the financial statements from irregularities, including fraud, to be within the timing of recognition of revenue and the override of controls by management. Our audit procedures to respond to these risks included enquiries of management, internal audit and the Audit and Risk Assurance Committee about their own identification and assessment of the risks of irregularities, sample testing on the posting of journals, reviewing accounting estimates for biases, reviewing regulatory correspondence, and reading minutes of meetings of those charged with governance.

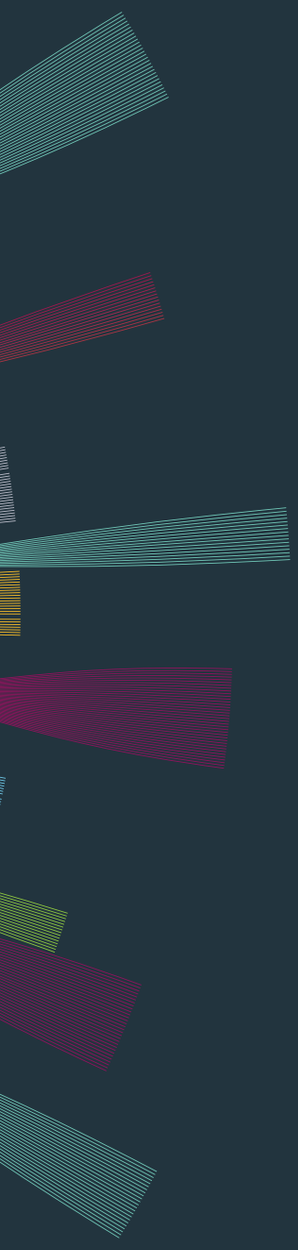
Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

Crowe U.K. LLP
Statutory Auditors
2nd Floor
55 Ludgate Hill
London
EC4M 7JW
UK

Date: 11/06/21



FINANCIAL STATEMENTS 2020-21



Statement of Comprehensive Net Expenditure for the period ended 31 March 2021

	Note	2020-21 £000	2019-20 £000
Contract income	6	(21,902)	(20,418)
Other income	6	(2,696)	(2,551)
Total operating income		**(24,598)**	**(22,969)**
Staff costs	3	69,321	64,411
Purchase of good and services	4	26,090	23,901
Depreciation and provision changes	5	3,098	3,035
Tax expense		235	216
Total operating expenditure		**98,744**	**91,563**
Net operating expenditure for the year		**74,146**	**68,594**
Other comprehensive net expenditure			
Items that will not be reclassified to net operating costs:			
Net loss/(gain) on revaluation of property, plant and equipment	7	11,806	(8,717)
Total comprehensive net expenditure for the year		**85,952**	**59,877**

Source: National Audit Office

Statement of Financial Position as at 31 March 2021

		2020-21		2019-20	
	Note	£000	£000	£000	£000
Non-current assets:					
Property, plant and equipment	7	90,730		104,455	
Intangible assets	8	84		170	
Receivables falling due after one year	9	118		46	
Total non-current assets			**90,932**		**104,671**
Current assets:					
Trade and other receivables	9	5,614		5,814	
Contract assets – accrued income	9	2,518		2,465	
Cash and cash equivalents		1,551		518	
Total current assets			**9,683**		**8,797**
Total assets			**100,615**		**113,468**
Current liabilities:					
Trade and other payables	10	(8,437)		(6,730)	
Contract liabilities – payments received on account	10	(1,667)		(1,977)	
Provisions		(137)		(194)	
Total current liabilities			**(10,241)**		**(8,901)**
Total assets less current liabilities			**90,374**		**104,567**
Non-current liabilities:					
Provisions		(126)		(127)	
Total non-current liabilities			**(126)**		**(127)**
Total assets less liabilities			**90,248**		**104,440**
Taxpayers' equity and other reserves:					
General fund			29,445		30,033
Revaluation reserve			60,803		74,407
Total equity			**90,248**		**104,440**

Gareth Davies
The Comptroller and Auditor General authorised these financial statements for issue on

11 June 2021

NEXT PAGE:
Statement of Cash Flows

Statement of Cash Flows for the period ended 31 March 2021

	Note	2020-21 £000	2019-20 £000
Cash flows from operating activities:			
Net operating expenditure for the year		(74,146)	(68,594)
Adjustments for non-cash transactions	5	3,098	3,035
(Increase)/decrease in trade and other receivables	9	128	189
(Increase)/decrease in contract assets	9	(53)	531
Increase/(decrease) in trade and other payables	10	51	(2,626)
Increase/(decrease) in contract liabilities	10	(310)	1,128
Use of provisions	11	(58)	(12)
Net cash outflow from operating activities		**(71,290)**	**(66,349)**
Cash flows from investing activities:			
Purchase of property, plant and equipment	7	(1,093)	(941)
Purchase of intangible assets	8	–	(32)
Increase/(decrease) in non-trade payables	10	623	31
Net cash outflow from investing activities		**(470)**	**(942)**
Cash flows from financing activities:			
From the Consolidated Fund (Supply)-current year		72,500	67,500
Consolidated Fund Standing Services	4	293	294
Net financing		**72,793**	**67,794**
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		**1,033**	**503**
Cash and cash equivalents at the beginning of the year		**518**	**15**
Cash and cash equivalents at the end of the year		**1,551**	**518**

Source: National Audit Office

Statement of Changes in Taxpayers' Equity for the period ended 31 March 2021

	Note	General fund[1] £000	Revaluation reserve[2]	Total reserves £000
Changes in taxpayers' equity				
Balance at 31 March 2019		**29,814**	**67,212**	**97,026**
Net Parliamentary Funding drawn down		67,500		67,500
Net Parliamentary Funding deemed		15	–	15
Supply payable adjustment		(518)	–	(518)
Consolidated Fund Standing Services	4	294	–	294
Comprehensive net expenditure for the year		(68,594)	8,717	(59,877)
Realised element of revaluation reserve		1,522	(1,522)	–
Balance at 31 March 2020		**30,033**	**74,407**	**104,440**
Net Parliamentary Funding drawn down		72,500	–	72,500
Net Parliamentary Funding deemed		518	–	518
Supply payable adjustment		(1,551)	–	(1,551)
Consolidated Fund Standing Services	4	293	–	293
Comprehensive net expenditure for the year		(74,146)	(11,806)	(85,952)
Realised element of revaluation reserve		1,798	(1,798)	–
Balance at 31 March 2021		**29,445**	**60,803**	**90,248**

Notes

1 The General Fund records all changes in financial resources for the year with the exception of those that are recorded in the revaluation reserve. This includes the Parliamentary funding provided and the net expenditure for the year.

2 The revaluation reserve records the gain or loss on the revaluation of assets. The depreciation charge on the revalued asset will be different to the depreciation that would have been charged based on the historical cost of the asset. Each year the National Audit Office (NAO) transfers an amount equal to the excess annual depreciation from the revaluation reserve to the general fund, which makes sure that by the time the asset is fully depreciated there is no residual balance associated with the asset in the revaluation reserve.

Source: National Audit Office

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Notes to the
Financial Statements

Notes to the Financial Statements

1. Accounting policies, key accounting estimates and judgements

1.1 Statement of accounting policies

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

The accounting policies adopted by the National Audit Office (NAO) are described below. Where the FReM permits a choice of accounting policy, the accounting policy most appropriate to give a true and fair view of the particular circumstances of the NAO has been selected. They have been applied to all items that are material to the financial statements.

1.2 Basis of preparation

These financial statements have been prepared under the historical cost convention, except as otherwise set out in the accounting policies. Figures are presented in pounds sterling and are rounded to the nearest £1,000. Transactions in foreign currencies are translated into sterling at the exchange rate at the dates of the transaction. Any assets and liabilities in a foreign currency are translated into sterling at the exchange rate on the date of reporting. Translation differences are recognised in the Statement of Comprehensive Net Expenditure.

1.3 Reporting standards issued but not yet effective

There are two reporting standards issued but not yet effective:

- IFRS 16 (Leases).
- IFRS 17 (Insurance Contracts).

IFRS 16 introduces changes to accounting for leases. The new standard requires an organisation to recognise all the assets which it leases, such as any property, vehicles or equipment, in the statement of financial position as if they were owned outright. All future payments due under the terms of lease are to be recognised upfront as a corresponding liability. Current effective standards do not require all leased assets to be recognised in this way, and future payment commitments are simply disclosed.

IFRS 16 has been adopted by the FReM and was planned to be effective from 1 April 2020. However, HM Treasury has agreed with the Financial Reporting Advisory Board (FRAB) to defer the implementation of IFRS 16 Leases until 1 April 2022. This is because of the impact of the COVID-19 pandemic.

We have carried out an assessment of the new standard on leases to which the NAO is a party, and have concluded that the only significant leases that will be affected by this new standard are those relating to the use of property.

The NAO has a 130-year lease for the use of the London property which is at a peppercorn rent: this is currently recognised as an asset in the Statement of Financial Position. We do not expect any change in our treatment of this lease under the new standard.

The NAO has a 10-year lease for the use of office space in Newcastle, which commenced in 2013. This will require the recognition of a right of use asset and a liability for the future lease payment commitments, which will be recognised in the Statement of Financial Position. The amount to be recognised will only be applied to transactions relevant to the period after the date of the policy change.

The Newcastle lease is due to expire by August 2023, and as at 1 April 2022 we estimate the value of asset and liability to recognise will be approximately £307,000.

IFRS 17 Insurance Contracts was issued in May 2017 replacing IFRS 4 Insurance Contracts. The effective date of IFRS 17 in the public sector is for accounting periods beginning on or after 1 January 2023. IFRS 17 requires that insurance liabilities be measured at present value of future insurance cash flows, resulting in more uniform measurements and presentation for all insurance contracts. Management has assessed the likely effect of the new standard and has concluded that there are no material assets or liabilities recognised as insurance contracts in the NAO, and therefore this standard will have no impact on the NAO financial statements.

1.4 Financing

The NAO covers some of its expenditure by charging fees for certain financial audit assignments and other services. These are recorded as income in the Statement of Comprehensive Net Expenditure and disclosed in Note 6.

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

Accounting policies for expenditure

1.5 Staff costs

Staff costs include wages and salaries, social security costs and pension costs. All short-term staff costs payable at the year end, which will be paid within one year from the date of reporting, are recognised in the Statement of Comprehensive Net Expenditure. These include any accrued leave entitlements.

1.6 Pensions

Most past or present employees are covered by the provisions of the civil service pension arrangements, which are defined benefit schemes open to participating public sector bodies in which the benefit the employee receives during retirement is dependent on factors such as age, length of service and salary. These schemes are administered by My CSP on behalf of the Cabinet Office. NAO pays contributions into these schemes at an agreed rate. As one of many participating organisations, the NAO is not able to identify its share of any liability for making future pension payments to members and accordingly, NAO accounts for this as if it were a defined contribution scheme and recognises the costs of these contributions when they fall due.

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

1.7 Early departure costs

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

NEXT PAGE:
Accounting policies

1.8 Leases

The NAO only holds one finance lease, which is a long lease for the London property at a peppercorn rent. The NAO has operating leases for use of property in Newcastle and other office equipment. Payments in relation to operating leases are charged to the Statement of Comprehensive Net Expenditure on a straight-line basis. Future payment commitments under operating leases are disclosed in Note 12. The accounting policy will be amended by IFRS 16 'Leases' adopted by the FReM with effect from 1 April 2022. The impact of the new standard has been disclosed in Note 1.3.

1.9 Value Added Tax on purchases

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

1.10 Corporation tax

As a body corporate, the NAO is considered to be liable for corporation tax on rental income earned. The tax expense is recognised in the Statement of Comprehensive Net Expenditure.

Accounting policies for income

1.11 Revenue from contract with customers

The NAO charges fees for financial audits and other services where it is permitted to do so under legislation. Income is recognised progressively as the performance obligations associated with these engagements are satisfied over time. Further information on revenue from contracts with customers is set out in Note 6.

1.12 Secondment income

At times the NAO seconds staff to other organisations. Depending on the arrangement, the NAO seeks to recover part or all of the associated salary costs of the staff member on secondment.

1.13 Rental income

The NAO rents parts of its London property to third parties. Rental income is recognised as it falls due at the agreed rate per square foot. Any financial incentives offered, such as rent-free periods, are accounted for separately and apportioned across the non-cancellable term of the lease. Rental income includes a service charge levied on an annual basis to recover central costs borne by the NAO.

1.14 Apprenticeship Levy

The NAO can make use of eligible Apprenticeship Levy funds to meet the costs of providing training for its employees. The FReM requires the use of such funds to be treated as a government grant with grant income recognised at the same point in time that an associated expense for training services is incurred.

1.15 Value Added Tax on sales

Where output tax is chargeable, income is stated net of VAT. The NAO does not charge VAT for any work it carries out under statute.

Accounting policies for assets and liabilities

1.16 Property, plant and equipment and intangible assets

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

All non-current assets are reviewed annually for impairment and are carried at fair value. Property, plant and equipment is depreciated, and intangible assets amortised, on a straight-line basis over their useful lives to ensure that they are reported at their estimated residual value at the end of their lives.

Property, plant and equipment

Land, buildings, plant and machinery are stated at their current value with reference to a professional valuation carried out at the end of each financial year. All non-property operational assets are valued based on depreciated historic cost as a proxy for fair value. This is because these are relatively short-life or low-value assets whose values do not fluctuate significantly over the period they are in use.

Asset lives are in the following ranges:

Land	**Non-depreciable**
Building elements	40–62 years
Plant and machinery	10–19 years
Computers and other equipment	2–10 years
Furniture, fixtures and fittings	5–20 years

Intangible assets

An intangible asset is an asset that is not physical in nature. In the NAO intangible assets consist of licences for the rights to use software or the costs of developing our own software. Intangible assets are amortised on a straight-line basis over their useful economic life.

Asset lives are in the following ranges:

Internally developed software	2–10 years
Software licences	2–10 years

Software licences

When the NAO purchases perpetual software licences that it owns outright, the licences are recognised as an intangible asset at the point the licences are delivered to the NAO and the NAO can obtain benefit from them.

Internally developed software

When the NAO develops its own software, an intangible asset is recognised in line with IAS 38 when we are able to demonstrate that:

- it is technically feasible to complete the software so that it is available for use, and we intend to use it;
- there are sufficient resources available to complete the development;
- it will be available for use and will generate future economic benefits; and
- the costs of the development can be measured reliably.

Research costs associated with development projects are expensed as incurred; this includes any market engagement and analysis activities and any related procurement or project management costs associated with the research phase.

Cloud computing services

When the NAO makes payments in respect of the use of cloud computing services purchased from a third-party service provider (which may include licences for the use of software, the use of an operating environment in which the NAO can develop its own software, or the use of digital processing capability), then these are not capitalised as the NAO has no legal title to, or rights to control of, the underlying assets associated with these services. This includes associated implementation costs, such as customisation, configuration or training services, which enable the NAO to benefit from the cloud computing service.

1.17 Cash and cash equivalents

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

1.18 Contract receivables and trade receivables

Contract receivables are amounts invoiced and due in respect of the fee-paying audit assignments or other services.

Trade receivables are amounts invoiced and due in respect of secondments of NAO staff to other organisations and rental income.

1.19 Contract assets (accrued income) and liabilities (payment on account)

Contract assets (accrued income) relate to our enforceable right to consideration for our completed performance in respect of fee-paying audit assignments or other services which have not yet been invoiced. It is determined on the basis of percentage completion of contractual work, less any provision for unrecoverable amounts.

Payments received in advance of completed performance are recognised as contract liabilities (payment on account). This is then recognised as income as work is performed.

Accounting estimates and judgements

1.20 Contract assets (accrued income) – management estimate

In order to calculate the income to be recognised in respect of audit services, the NAO estimates the stage of completion of each audit so that income can be recognised progressively as services are provided. The stage of completion is determined with reference to the proportion of total budgeted costs which have been incurred at the reporting date. This percentage completion rate is then applied to the audit fees to allocate income to the reporting period, less any provision required for unrecoverable amounts. The future budgeted costs and audit fees of a project are based on estimates provided by individual project managers, which are derived from their experience of prior year audits and knowledge of the audit bodies.

Further information on accrued income is provided in Note 6 of the financial statements.

1.21 Property valuation – management judgement

The NAO accounts for its London property (which is on a lease of 130 years) as if it owns the building. Each year the NAO considers the fair value of this property, and whether there has been a change year-on-year. The NAO uses a professional valuer to help arrive at these estimates, who considers expected future rental rates of return and rental values per square foot. The value is apportioned between land and components of the building using an apportionment ratio consistent with longer-term trends. More information on this valuation is included in Note 7.

Sensitivity analysis

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

- A change in value of rental yield of +/- 0.5% could lead to fluctuations between a reduction of £7.7 million to an increase of £8.4 million in the value of the building.
- A change in value of market rental value by +/- £1 per square foot could lead to an increase of £1.9 million or a decrease of £2.5 million in the value of the building.

Any change in the value of the building is accounted for through the revaluation reserve. The NAO does not apply a different accounting treatment to those floors of the building sub-let to third parties. Following the provisions of IAS 40, as adapted by the FReM, the NAO's judgement is that it is not appropriate to account for these elements separately as investment property because a significant portion of the building is owner-occupied and primarily held for the operation of the NAO. If it were to do so, then changes in values of the sub-let parts of the building would be accounted for through the Statement of Comprehensive Net Expenditure. In line with its accounting policy, the NAO has applied the requirements of IFRS 15 to income earned from fee-paying audits and other services.

NEXT PAGE:
Operating segments

2 National Audit Office operating segments £000

2020-21

	Audit and assurance	Value for money	Investigations and insight	Support to Parliament	International relations	Comptroller function	Voted	Non-voted	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Gross expenditure	67,469	16,671	8,239	5,117	829	126	**98,451**	293	**98,744**
Contract Income	(21,858)	–	–	–	(44)	–	**(21,902)**	–	**(21,902)**
Other Income	(1,847)	(457)	(226)	(140)	(23)	(3)	**(2,696)**	–	**(2,696)**
Net expenditure	**43,764**	**16,214**	**8,013**	**4,977**	**762**	**123**	**73,853**	**293**	**74,146**

2019-20

	Audit and assurance	Value for money	Investigations and insight	Support to Parliament	International relations	Comptroller function	Voted	Non-voted	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Gross expenditure	62,047	16,029	7,597	4,331	1,149	116	**91,269**	294	**91,563**
Contract Income	(20,214)	–	–	–	(204)	–	**(20,418)**	–	**(20,418)**
Other Income	(1,735)	(448)	(212)	(121)	(32)	(3)	**(2,551)**	–	**(2,551)**
Net expenditure	**40,098**	**15,581**	**7,385**	**4,210**	**913**	**113**	**68,300**	**294**	**68,594**

Notes

1 Voted expenditure and income is allocated to the NAO by a Parliamentary vote each year through the Supply and Appropriation Act. The NAO reports the use of this expenditure and income under its main operating segments about which further information can be found in the Performance Report on pages 72 to 75. Non-Voted expenditure comprises the C&AG's and Chairman's salaries and is paid directly from the Consolidated Fund. This is outside of the control of the NAO and is not subject to the same annual Parliamentary approval process.

2 Contract income includes fees charged on UK and international audits, costs recovered on the NAO's outward secondment programme to support Parliament and other government bodies, and fees charged for some of the NAO's international relations work. Other income cannot be directly attributed to the NAO's operating segments and has been apportioned between them in line with gross expenditure.

3 The chief operating decision body of the NAO is considered to be the Executive Team and details of its membership can be found on page 82. Due to the nature of the NAO's activities, the Executive Team does not receive assets and liabilities analysed by operating segment and therefore such an analysis is not presented here.

Source: National Audit Office

3 Staff costs[1]

	2020-21			2019-20
	Total	Permanent	Temporary	Total
	£000	£000	£000	£000
Wages and salaries	50,645	48,045	2,600	47,119
Social security costs	5,622	5,622	–	5,286
Pension costs	13,054	13,054	–	12,006
Gross costs	**69,321**	**66,721**	**2,600**	**64,411**
Secondment income	(154)	(154)	–	(269)
Net costs	**69,167**	**66,567**	**2,600**	**64,142**

Note

1 Details on staff numbers and related costs can be found in the Remuneration Report on pages 104 to 105.

Source: National Audit Office

4 Purchase of goods and services

	2020-21		2019-20	
	£000	£000	£000	£000
Professional services	14,080		11,993	
Audit technology[1]	2,191		450	
Facilities management	5,128		4,761	
Travel, subsistence, hospitality	88		2,146	
Digital services	2,813		2,842	
Recruitment and training	1,543		1,655	
Staff-related costs	484		605	
External auditors – audit fee[4]	65		42	
– other work	46		61	
Other administration costs	665		451	
Operating lease rentals	172		174	
VAT recoverable[2]	(1,478)		(1,573)	
Total voted costs		**25,797**		**23,607**
Comptroller & Auditor General salary[3]	249		250	
Chair salary[3]	44		44	
Total non-voted costs		**293**		**294**
		26,090		**23,901**

Notes

1 The NAO is undertaking a programme called 'Audit Transformation Programme' to shape the future of our audit approach over the next two years. This spend therefore includes the cost of developing and implementing our new audit software and methodology.

2 The NAO partially recovers VAT on its expenditure on an agreed methodology with HMRC, therefore VAT recovered cannot be directly attributed to specific expenditure and has been disclosed separately.

3 The Comptroller and Auditor General and Chair's salaries include employer social security costs.

4 External audit costs recognised in 2020-21 include £8,280 of costs relating to the audit of the 2019-20 Annual Report and Accounts that were agreed after the 2019-20 Annual Report and Accounts were authorised for issue.

5 These additional costs relate to auditors' work associated with the impact of the COVID-19 pandemic.

6 'Digital services' replaces the 'Office supplies and equipment' description used in 2019-20 accounts to better reflect the type of transactions included in this line. General office costs of £74,000 in the comparative figures are now included in 'Other administration costs'.

Source: National Audit Office

5 Depreciation and provision charges

	2020-21		2019-20	
	£000	£000	£000	£000
Non-cash costs:				
Amounts provided for in year		–		187
Depreciation on property, plant and equipment	2,001		1,717	
Depreciation on other items	1,011		984	
Amortisation on intangible assets	86		147	
Total depreciation		**3,098**		**2,848**
		3,098		**3,035**

Source: National Audit Office

6 Income

In line with its accounting policy, the NAO has applied the requirements of IFRS 15 to income earned from fee-paying audits and other services.

Identification of a contract

The basis of the different streams of audit work are set out below.

Audit income stream	Basis for identifying a contract	Performance obligation
Statutory Audit	For those audits where we are appointed auditors under statute and we charge a fee directly to the body. There is no legal contract with fee-paying statutory audit clients but there is deemed to be a contract in accordance with the FReM adaptation of IFRS 15 that the definition of a contract is expanded to include legislation and regulations enabling an entity to receive income. The contract is deemed to be as set out in the Letter of Understanding between the NAO and the audited body.	Issue a certificate and report of the C&AG to Parliament.
Agreement Audit (including international audits)	For those audits where we are appointed auditors by the organisation's board under their own governance arrangements and have a contract with them in the form of a Letter of Engagement.	Issue a certificate and report of the C&AG to Parliament.
Companies Act Audit	For these audits, we are appointed auditors by the board of the organisation under the Companies Act 2006 and therefore have a contract with them in the form of a Letter of Engagement.	Issue an independent auditor's report to the members of the company.
International Relations	For these assignments we contract with international bodies to provide advisory and capacity-building services.	Issue a report or advice as per the terms of the engagement.

Identification of performance obligations

The NAO has determined that there is a single performance obligation for each engagement which is identified as the objective of these assignments in the Letter of Understanding or Letter of Engagement, or contract for services in the case of other services provided to international bodies. In the case of audits, other outputs, such as interim reports and reports to those charged with governance of the audited body, are produced during audit assignments, but these other outputs are integral to the audit opinion: they are highly interrelated with the delivery of the audit certificate or report, so do not qualify as distinct performance obligations

Determination of when performance obligations are satisfied

The NAO has determined that the performance obligations described above are satisfied over time rather than at a point in time. This is because the NAO's performance of the engagement does not create an asset with an alternative use to the NAO and the NAO has an enforceable right to payment for performance completed to date.

The majority of the NAO's financial audits are on an annual cycle. The fee (which is based on estimated costs to the NAO) and invoicing schedule is agreed between the individual assignment teams and the client. The NAO is entitled to recover costs in respect of work completed to date at any stage of the audit. The typical schedule is to invoice audits with fees of more than £50,000 in two instalments and all other audits are invoiced when the audit is complete. The payment terms are that audit fee invoices should be paid within 30 days. Contracts for audit services do not have a significant financing component and the consideration amount is not variable except in respect of fee increases where it has become necessary to perform additional work.

Allocation of transaction price to performance obligations

Revenue is recognised in relation to percentage completion against budgeted costs. Income is recognised as the services are provided, determined by reference to the proportion of budgeted costs that have been spent to date for each engagement, less a provision for any unrecoverable amounts. This provides a faithful depiction of the transfer of services because the nature of work is that the costs of staff time, travel expenses and other costs incurred represent progress towards satisfaction of the performance obligation. There is a direct relationship between these inputs and the transfer of services to the audit client.

	2020-21	2019-20
	£000	£000
Contract income		
Audit and assurance		
Statutory audit income	10,322	9,389
Agreement audit income	6,450	5,713
Companies Act audit income	5,086	5,112
	21,858	**20,214**
International Relations	44	204
Other income		
Secondment income	154	269
Rental of office space	2,473	2,237
Grant income	69	45
Total income	**24,598**	**22,969**

Notes

1 Included within contract income earned for the year is £1,961,000 (2019-20 £788,800) which had been received in advance at the last reporting date and had been included as a contract liability (payment on account) in the prior year Statement of Financial Position.

2 Included within contract income is £1,048,000 in relation to increases in fee quotes to audits that were in progress at the previous reporting date. The effect of this increase has been included in the revenue figure for the year. The prior year equivalent was an increase of £893,000.

3 As at the current reporting date, we expect to earn future income of £15,353,000 (2019-20 £13,705,000) for audits which are currently in progress. The typical audit cycle is a year and therefore we expect to recognise the majority of this income in the next reporting period.

Source: National Audit Office

NEXT PAGE:
Property, plant and equipment

7 Property, plant and equipment

	2020-21					
	Land	Buildings	Plant & machinery	Computers & other equipment	Furniture fixtures & fittings	Total
	£000	£000	£000	£000	£000	£000
Cost or valuation						
At 1 April 2020	43,590	39,291	18,945	5,055	3,499	110,380
Additions	–	–	38	909	146	1,093
Disposals	–	–	–	–	–	–
Reclassification	–	–	–	–	–	–
Revaluation	(5,590)	(5,542)	(2,668)	–	–	(13,800)
Impairment	–	–	–	–	–	–
At 31 March 2021	**38,000**	**33,749**	**16,315**	**5,964**	**3,645**	**97,673**
Depreciation						
At 1 April 2020	–	–	–	3,158	2,767	5,925
Charged in year	–	886	1,115	894	117	3,012
Disposals	–	–	–	–	–	–
Reclassification	–	–	–	–	–	–
Revaluation	–	(886)	(1,108)	–	–	(1,994)
Impairment	–	–	–	–	–	–
At 31 March 2021	–	–	**7**	**4,052**	**2,884**	**6,943**
Net book value						
At 31 March 2021	**38,000**	**33,749**	**16,308**	**1,912**	**761**	**90,730**
At 31 March 2020	43,590	39,291	18,945	1,897	732	104,455

Note

1 The NAO obtains a professional valuation of its land and buildings each year. The NAO London headquarters is valued using the valuation techniques in the RICS Valuation – Global Standards 2020 ("The Red Book") and UK National Supplement (2019) to estimate the existing use value of the portion of the building occupied by the NAO and the market value of the portion that is available for occupation by tenants. The valuers have regard to the building's location, style, part sub-let/part owner-occupied nature and prevailing market conditions, as well as the rents paid for other office spaces on the market. The valuers apportion the total value of the property between the land and buildings elements.

Montagu Evans (independent property consultants and surveyors and a member of RICS) valued the land and buildings, and plant and machinery at £88 million as at 31 March 2021 (31 March 2020: £101.8 million).

The net effect of the revaluation (after the annual depreciation charge) was a decrease of £11.8 million, which was accounted for through the revaluation reserve. The decrease in value reflects the uncertainty over demand for office space as flexible working practices become more prominent, which the NAO's professional valuers anticipate will result in depressed office space rental prices for a period.

Further information on the key judgements relating to the valuation are provided in Note 1.21

7 Property, plant and equipment *continued*

	2019-20					
	Land	Buildings	Plant & machinery	Computers & other equipment	Furniture fixtures & fittings	Total
	£000	£000	£000	£000	£000	£000
Cost or valuation						
At 1 April 2019	42,575	35,251	16,973	5,031	3,844	103,674
Additions	–	–	27	685	229	941
Disposals	–	–	–	(668)	(574)	(1,242)
Reclassification	–	–	–	7	–	7
Revaluation	1,015	4,040	1,945	–	–	7,000
Impairment	–	–	–	–	–	–
At 31 March 2020	**43,590**	**39,291**	**18,945**	**5,055**	**3,499**	**110,380**
Depreciation						
At 1 April 2019	–	-	-	3,092	3,091	6,183
Charged in year	–	778	939	727	250	2,694
Disposals	–	–	–	(668)	(574)	(1,242)
Reclassification	–	–	–	7	–	7
Revaluation	–	(778)	(939)	–	–	(1,717)
Impairment	–	–	–	–	–	–
At 31 March 2020	**–**	**–**	**–**	**3,158**	**2,767**	**5,925**
Net book value						
At 31 March 2020	**43,590**	**39,291**	**18,945**	**1,897**	**732**	**104,455**
At 31 March 2019	42,575	35,251	16,973	1,939	753	97,491

Source: National Audit Office

NEXT PAGE:
Intangible assets

8 Intangible assets

	2020-21
	Total
Cost	**£000**
At 1 April 2020	765
Additions	–
Disposals	(23)
Reclassification	–
Impairment	–
At 31 March 2021	**742**
Amortisation	
At 1 April 2020	595
Charged in year	86
Disposals	(23)
Reclassification	–
Impairment	–
At 31 March 2021	**658**
Net book value	
At 31 March 2021	**84**
At 31 March 2019	170

	2019-20
	Total
Cost	**£000**
At 1 April 2019	1,335
Additions	32
Disposals	(595)
Reclassification	(7)
Impairment	–
At 31 March 2020	**765**
Amortisation	
At 1 April 2019	1,043
Charged in year	154
Disposals	(595)
Reclassification	(7)
Impairment	–
At 31 March 2020	**595**
Net book value	
At 31 March 2020	**170**
At 31 March 2019	292

Note

1 The NAO's intangible assets consist of licences for the rights of use software or the costs of developing our own software.

Source: National Audit Office

9 Trade and other receivables

	2020-21	2019-20
	£000	£000
Amounts falling due within one year:		
Contract receivables	2,500	2,408
Trade receivables	11	195
Deposits and advances	30	215
Other receivables	77	198
Contract assets – accrued income	2,518	2,465
Prepayments	2,996	2,798
	8,132	**8,279**
Amounts falling due after more than one year:		
Deposits and advances	–	3
Other receivables	118	43
	118	**46**
Total	**8,250**	**8,325**

Note

1 The figures in the table above are net of a loss allowance for expected credit losses of £199,000 on receivables and nil on any contract assets in 2020-21 (2019-20: nil on receivables and contract assets). The loss allowance recognised in 2020-21 relates to a single receivable. Other receivables include lease incentives granted to tenants of our London office.

Source: National Audit Office

10 Trade and other payables

	2020-21	2019-20
	£000	£000
Amounts falling due within one year:		
Amounts payable to HMRC	330	693
Trade payables	47	21
Other payables	105	103
Accruals	6,404	5,395
Contract liabilities – payments received on account	1,667	1,977
	8,553	**8,189**
Amounts issued from the Consolidated Fund for supply but not spent at year end	1,551	518
Total	**10,104**	**8,707**

Note

1 Other payables include lease incentives on the lease for our Newcastle Office.

Source: National Audit Office

NEXT PAGE:
Commitments under leases

11 Commitments under leases

	2020-21	2019-20
	£000	£000
Aggregate minimum lease payments are as follows:		
Obligations under operating leases comprise:		
Land and buildings:		
Payable within 1 year	218	172
Payable later than 1 year and not later than 5 years	308	526
	526	**698**
Other:		
Payable within 1 year	10	19
Payable later than 1 year and not later than 5 years	–	10
	10	**29**

Note

1 The amounts shown above relate to the NAO's commitments as lessee under its lease for the Newcastle office building (Land and buildings) and for printers (Other).

Source: National Audit Office

12 Future income due under non-cancellable operating leases :

	2020-21	2019-20
	£000	£000
Land and buildings		
Receivable within 1 year	1,389	1,785
Receivable later than 1 year and not later than 5 years	713	1,341
Receivable in more than 5 years	–	–
Total	**2,102**	**3,126**

Note

1 The lease information above relates to the letting of office space in the London headquarters building. The balance above reflects the cash payments expected over the remaining non-cancellable term of each lease. A separate service charge is also levied (and is included in rental income in Note 6) to recover the cost of utilities and other facilities costs borne by the NAO. This charge is not included within the figures above as it varies annually.

Source: National Audit Office

13 Financial instruments

The NAO's resource requirements are met from Parliament through the Estimates process and from income. The NAO has no powers to borrow money or to invest surplus funds. The only financial instruments held by the NAO are those which arise from the NAO's day-to-day operational activities and include trade and other receivables (Note 9) and trade and other payables (Note 10). The carrying value of the financial instruments approximates to their fair value and the NAO is exposed to limited credit, liquidity or market risk.

All financial assets and financial liabilities recognised in Notes 9 and 10 are measured at amortised cost.

Liquidity risk

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

Credit risk

The NAO charges fees for both audit and other services. There has been no history of default on any amounts due to the NAO and management assess its counter parties to not present a significant credit risk. However, the impact of the COVID-19 pandemic has the potential to affect the credit risk associated with the NAO's receivables. Management have assessed the NAO's credit exposures:

- The majority of bodies for which the NAO charges for audit services are government-owned companies and other public bodies. These are guaranteed or receive funding from Parliament. The NAO has assessed that the related receivables are not subject to material credit risk because the majority of NAO clients continue to deliver required public services that are expected to be funded by Parliament. The NAO has not observed any trend of delays or failure to make payment as a result of the impact of the COVID-19 pandemic. Amounts due from audit bodies in respect of work invoiced as at 31 March 2021 were £2.9 million (31 March 2020: £2.6 million).
- The NAO also rents out space in its London building to third parties for which it charges quarterly. Management has concluded that the NAO is not exposed to significant credit risk from rental income. Where a risk has been identified, management has recognised a provision for non-payment in line with accounting standards. The NAO has been in communication with its tenants over rental charges and has deferred the due date of some rental payments to 31 December 2021.

The amounts expected to be recovered have been reflected in the rent receivables recognised, as adjusted for the loss allowance for expected credit losses recognised in accordance with IFRS 9: a single rental income receivable balance has been subject to a loss allowance in 2020-21.

From time to time, the NAO has some exposure to foreign currency markets because fees for some international work are denominated in US Dollars or Euros. Before pricing or commissioning work, the NAO seeks to identify the potential exposure to exchange rate variations and to manage the risk accordingly. The NAO does not maintain significant assets or liabilities in foreign currency, except for minor operational cash balances to meet short terms costs of overseas assignments. There is no material foreign currency exposure risk as at 31 March 2021 (there was no material foreign currency exposure as at 31 March 2020).

NEXT PAGE:
Related party and other transactions

14 Related party and other transactions

The NAO is headed by the Comptroller and Auditor General and was established as a body corporate by the Budget Responsibility and National Audit Act 2011. The NAO is independent of government and is accountable to Parliament through the Public Accounts Commission. The NAO does not have any related party relationships as defined by IAS 24 Related party disclosures.

The NAO does have transactions with government departments and central government bodies which are also audited by the NAO. These are not related party transactions but given the role of the NAO, they may be of interest to users of the financial statements and have been disclosed for the purposes of transparency. These transactions consist of:

- the provision of accommodation, training courses and the hosting of seminars for public sector bodies for which the NAO may charge a fee. The amounts are not material to the parties involved;
- the NAO provides capacity building services to other supreme audit institutions and receives funding to cover the costs of this work. The funding can come from many sources but may be directly from government bodies. In 2020-21 the NAO earned income of £82,543 from the Foreign, Commonwealth & Development Office and its contractors (2019-20: £14,776 from the Department for International Development and £21,765 from the Foreign & Commonwealth Office);
- routine transactions with HM Revenue & Customs to meet statutory taxation requirements and with the Cabinet Office which operates the Principal Civil Service Pension Scheme; and
- contractual relationships with organisations who occupy space in the NAO's headquarters building and pay rental to the NAO on commercial terms. Before we enter into agreements we assess the ethical considerations of this and make sure that safeguards are in place to preserve the independence of the C&AG. Further information on these transaction values is set out in the table below.

Party	Nature of relationship with the party	Rent and service charge earned	
		2020-21	2019-20
Professional Standards Authority for Health and Social Care (formerly Council for Healthcare and Regulatory Excellence)	Central government body audited by the NAO. Occupied part of the NAO's headquarters building since October 2010.	£324,096	£324,096
Ordnance Survey	Central government body audited by the NAO. Occupied part of the NAO's headquarters building since January 2012.	£331,111	£289,336
Home Office	Central government department audited by the NAO. Occupied part of the NAO's headquarters building since May 2018.	£493,831	£481,425

15 Events after the reporting period

There are no events after 31 March 2021 that require an adjustment to the financial statements and no non-adjusting events for which additional disclosure in the financial statements is required. In making this assessment, the NAO has considered the ongoing impacts of the COVID-19 pandemic.

The Accounting Officer authorised these financial statements for issue on 11 June 2021.

Statement of National Audit Office financial impacts

The statement of financial impacts represents our estimate of the financial benefits achieved in 2020 following the implementation of our recommendations to government. Financial impacts arise where there is a direct link between our work and a quantifiable beneficial change in an audited body. Financial impacts must be either:

- cashable, reducing expenditure or increasing revenue;
- non-cashable, leading to improvements in public sector efficiency through improved quality or service delivery; or
- represent benefits to third parties.

We record an impact only when the related benefit has been brought about, when it has data to substantiate the benefit, and when the audited body gives its agreement. Because of this high threshold, there is usually a time lag between making recommendations and the impact being recorded.

In calculating the value of impacts, we deduct any implementation costs incurred directly by the audited body or indirectly by other parties.

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

The statement of impacts has been prepared in accordance with internal guidance. Estimates are subject to internal quality assurance review by senior management and internal audit. The Executive Team endorses all impacts.

We report impacts on a calendar year basis; applying the following principles:

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

NEXT PAGE:
NAO impacts

Figure 30

2020 National Audit Office (NAO) impacts valued at more than £5 million

Description	Impact identified (£)	Nature of impact	Year of claim	Audited body with whom impact agreed
Wider government adoption of commercial frameworks Wider use by government and public sector bodies of the Crown Commercial Service's procurement frameworks generated increased commercial benefits and better value for money.	311,250,000	Recurring	1 of 3	Crown Commercial Service
Motability Operation's release of capital reserves The consideration of an external review of Motability Operations' capital reserves resulted in a donation from Motability Operations to Motability to support today's disabled population with their mobility needs without a detrimental impact on the financial sustainability of Motability Operations.	150,000,000	One-off	–	Department for Work & Pensions
Errors in Employment and Support Allowance Increase in Employment and Support Allowance (ESA) paid correctly to claimants following correction of a systemic underpayment error affecting people whose benefits transferred to ESA from older incapacity benefits.	144,000,000	Recurring	3 of 7	Department for Work & Pensions
Discharging older patients from hospital Avoidance of delayed transfers of care of patients.	141,535,773	Recurring	2 of 2	NHS England
Reduction of Carer Allowance overpayments Improvements to the Department's control environment led it to detect more overpayments earlier in the process.	47,500,000	One-off	–	Department for Work & Pensions
Online VAT fraud Overseas sellers failing to charge VAT on online sales – impact of HM Revenue & Customs measures in tackling online VAT fraud and error.	30,000,000	Recurring	3 of 4	HM Revenue & Customs
Local authority borrowing and investment Change to the interest rate for loans to local authorities leading to a reduction in public sector net debt.	23,125,000	One-off	–	Ministry of Housing, Communities and Local Government
Recovering the cost for overseas visitors Increased the recovery of costs of NHS treatment for overseas visitors.	20,151,500	Recurring	3 of 4	NHS England

Figure 30

2020 National Audit Office (NAO) impacts valued at more than £5 million *continued*

	Impact identified (£)	Nature of impact	Year of claim	Audited body with whom impact agreed
NHS Property Services Ltd income model Working with the organisation to develop a methodology to ensure that all recoverable costs are appropriately recharged	20,000,000	Recurring	2 of 2	NHS Property Services Ltd
Efficiency savings Change to the management model of Sellafield Ltd.	11,987,500	Recurring	2 of 3	Nuclear Decommissioning Authority
NHS Pay Modernisation: **New Contracts for General Practice Services in England** Reallocation of NHS payments to general practice so that funding better reflects need.	10,097,901	Recurring	5 of 6	NHS England
PFI in Housing Cashable savings realised through reduced PFI contract values in the Ministry's housing portfolio.	6,982,370	Recurring	9 of 10	Ministry of Housing, Communities & Local Government
Subtotal	£917 million			
Impacts below £5 million	£9 million			
Total financial impacts	**£926 million**			

Note

1 The column may not add up due to rounding.

Source: National Audit Office

Independent statement to the Public Accounts Commission

The Accounting Officer, on behalf of the Public Accounts Commission, has asked us to carry out an independent review of the Statement of Financial Impacts for 2020.

Respective responsibility of the Accounting Officer and the Auditors

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

Scope of the review

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

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

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

Opinion

In our opinion:

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

Crowe U.K. LLP
Statutory Auditor
Crowe U.K. LLP
55 Ludgate Hill
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UK

Date: 11/06/21

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