

Presented pursuant to the National Audit Act 1983

National Audit Office Resource Accounts 2003-2004

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The National Audit Office
scrutinises public spending
on behalf of Parliament.

The Comptroller and Auditor General,
Sir John Bourn, is an Officer of the
House of Commons. He is the head of the
National Audit Office, which employs some
800 staff. He, and the National Audit Office,
are totally independent of Government.

He certifies the accounts of all Government
departments and a wide range of other public
sector bodies; and he has statutory authority
to report to Parliament on the
economy, efficiency and effectiveness
with which departments and other bodies
have used their resources.

Our work saves the taxpayer millions of
pounds every year. At least £8 for every
£1 spent running the Office.

This account can be found on the National Audit Office web site at
www.nao.org.uk

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Annual Report

Introduction

The Comptroller and Auditor General is an Officer of the House of Commons appointed by Parliament to carry out the external audit of central Government departments, executive agencies and many other public bodies. The Comptroller and Auditor General is wholly independent of Government.

The Comptroller and Auditor General is supported by the National Audit Office. The senior executive management team comprises the Heads of the six operational units, reporting to the Comptroller and Auditor General through the Deputy Comptroller and Auditor General. As at 31 March 2004, the National Audit Office employed some 801 staff based mainly in offices in London, Blackpool, Cardiff and Newcastle.

In addition to its National Audit Office work, the Cardiff Office also provides a comprehensive service of financial and value for money audit and administrative support to the Auditor General for Wales, who reimburses the costs incurred.

The financial statements on pages 13 to 31 have been prepared by the National Audit Office as required by statute, on a resource basis.

Aim and objectives

The National Audit Office's aim is to help the nation spend wisely. There are two parts to this: the formal statutory duty to provide independent information, assurance and advice to Parliament on the use of public resources, and a wider role helping to promote better financial management and value for money and to improve public services. This wider role is achieved by making well-founded recommendations and ensuring that good practice identified and developed during the course of the National Audit Office's work is disseminated widely.

The National Audit Office has identified five main objectives

- to carry out financial audits of central Government departments and bodies, to certify their accounts and report the results to Parliament;
- to examine the economy, efficiency and effectiveness with which audited bodies have used their resources and to report the results to Parliament;
- to examine and report on financial systems, regularity and propriety, including systems underpinning performance validation targets;
- to support the Committee of Public Accounts in its scrutiny of Government departments and other bodies, and to provide independent assurance, information and advice to a wide range of other public, international and overseas bodies; and
- to carry out the Comptroller function, which involves controlling the release of money from the Exchequer to Government departments.

The cost, and any associated revenues, of the National Audit Office's work in meeting each of these objectives is shown in the Statement of Resources by Objective on page 18.

Main activities

The main activities of the Comptroller and Auditor General and the National Audit Office are

- providing independent assurance and advice to Parliament on the proper accounting for central government expenditure, revenue and assets and on regularity and propriety, through auditing the annual accounts of public bodies;
- providing independent advice to Parliament on whether public bodies have spent taxpayers' money economically, efficiently and effectively; and
- providing independent assurance, information and advice to other public, international and overseas bodies.

Most of these activities are funded by parliamentary grant. However, income is generated from certain audits, including those which the Comptroller and Auditor General carries out by agreement, and from the provision of other services such as advice and training.

Operating and financial review

Performance for the year

Parliament approved an increase of £5.2 million in the National Audit Office's net resources in 2003-2004 to enable the Office to respond to a number of key developments including

- meeting the Public Accounts Commission's request for additional support to strengthen Parliamentary oversight of public expenditure programmes; and
- the recommendations of Lord Sharman's report - validating the systems underpinning departments' Public Service Agreement targets and taking on the audit of around 20 non-departmental public bodies.

The Office was successful in meeting its objectives in 2003-2004 and

- delivered 60 value for money and other major reports to Parliament, a 20 per cent increase over the previous year;
- completed the first round of a biennial review programme examining systems underpinning Public Service Agreement targets;
- completed the audit of 556 accounts, including 57 departmental resource accounts covering over £300 billion expenditure and assets in excess of £200 billion;
- played a key role in assisting departments with the preparation of resource accounts and budgets, along with providing regular feedback on work underpinning the introduction of whole of government accounts;
- supported the Public Accounts Committee in 49 hearings and provided advice in response to requests from other Select Committees;
- handled a complex and wide range of inquiries from Members of Parliament and members of the public, some of which came through on a designated whistleblower hotline;
- provided a comprehensive service of financial and value for money audit and administrative support to the Auditor General for Wales, who reimbursed the costs involved; and
- continued to audit functions in Scotland and Wales reserved to Westminster, such as defence, social security and revenue assessment and collection, which account for over a third of general government spending in Scotland and Wales.

In achieving this performance, the Office used £71.250 million resources. Resources were used to recruit additional staff and expert consultancy input to meet a growing and more complex workload, including ten extra value for money reports for Parliament. After taking account of £14.860 million income appropriated in aid, the Office's net resource requirement in 2003-2004 was £56.390 million, £0.400 million less than the sum approved by Parliament in the Office's Supply Estimate. From its work, the Office secured over £480 million savings for the taxpayer in 2003, meeting its target of achieving an eightfold return on its net costs.

Capital investment amounted to £1.309 million. The Office used resources to support additional investment in information technology assets needed to support the Office's operations. These included system monitoring and management software and additional laptops to support mobile computing.

The Office required cash amounting to £55.727 million in 2003-2004 to finance its activities, £0.223 million less than the sum approved by Parliament in the Office's Supply Estimate.

Going forward

The National Audit Office's Supply Estimate for 2004-2005 provides for a gross resource requirement of £77.7 million, which after taking account of income of £17.5 million, leads to a net resource requirement of £60.2 million. Factors influencing the resources required by the National Audit Office during 2004-2005 include

- new audits of special health authorities, and non-departmental public bodies transferred following Lord Sharman's report, and other organisations;
- additional support to Parliament, including work for Select Committees, to the Auditor General for Wales, for international twinning work and for investigating matters raised by Members of Parliament, citizens, and whistleblowers; and
- an increase in financial audit project work, focusing on areas where there are potentially significant risks to regularity, propriety, or financial control, to promote better use of resources, and in work on regulatory impact assessments.

Investing for the future

The National Audit Office's fixed asset base comprises its headquarters building, with associated fixtures and fittings, and information and communications technology equipment and software. The Office is reviewing its accommodation requirements to identify options that will meet its needs now and into the future. The Office continues to expand its asset base to support the increasing use of information technology in its work and to refresh its information technology hardware and software.

Comptroller and Auditor General

Under the provisions of the Exchequer and Audit Departments Act 1866 and the National Audit Act 1983, the Office of Comptroller and Auditor General is a Crown appointment following the agreement of the Prime Minister and the Chairman of the Committee of Public Accounts. The Comptroller and Auditor General retains office unless removed by a resolution of both Houses of Parliament. Under the provisions of the National Audit Act 1983, the Comptroller and Auditor General is a corporation sole. The current Comptroller and Auditor General is Sir John Bourn.

Management Board

Senior executives of the National Audit Office are members of the Management Board by virtue of their positions, and remain on the Board during their term of appointment in the Office. The Board is chaired by the Comptroller and Auditor General and in 2003-2004 comprised the non-executive Chairman of the Audit Committee, the Deputy Comptroller and Auditor General, Deputy Auditor General (until June 2003), and five Assistant Auditors General (six from June 2003). The role of the Board is to advise the Comptroller and Auditor General on the discharge of his statutory duties. The Deputy Comptroller and Auditor General has corporate management responsibilities and deputises in the absence of the Comptroller and Auditor General. One Assistant Auditor General has been appointed by the Comptroller and Auditor General as the Board Member responsible for Finance whose responsibilities are the same as those set out in Government Accounting for the Finance Directors of government departments.

None of the Board members held company directorships or significant interests which might conflict with their management responsibilities.

Board members

The Board members during 2003-2004 were

Comptroller and Auditor General	Sir John Bourn KCB
Chairman of the Audit Committee	John Scotford CBE
Deputy Comptroller and Auditor General	Tim Burr
Deputy Auditor General	Martin Pflieger (until May 2003)
Assistant Auditors General	Jeremy Colman
	Wendy Kenway-Smith
	Caroline Mawhood
	Jim Rickleton (from June 2003)
	Martin Sinclair
	Michael Whitehouse (responsible for Finance)

Martin Pflieger retired at the end of May 2003. Jim Rickleton was appointed Assistant Auditor General with effect from June 2003.

Audit Committee

The Audit Committee is chaired by a non-executive, John Scotford - former President of the Chartered Institute of Public Finance and Accountancy, and comprises two other non-executive members, Sir Michael Davies and Christine Freshwater, the Deputy Comptroller and Auditor General, and two Directors. The Audit Committee meets three times each year and addresses issues raised by the National Audit Office's internal and external auditors. The Audit Committee is tasked with providing the Comptroller and Auditor General with advice and assurance on the adequacy of internal control and risk management within the National Audit Office including the framework of financial, operational and compliance controls and risk management processes and the quality and reliability of financial reporting.

Remuneration

Comptroller and Auditor General

The Exchequer and Audit Departments Act 1957 and the Superannuation Act 1972 provide for the remuneration of the Comptroller and Auditor General to be met from the Consolidated Fund.

Board members

Under the provisions of the National Audit Act 1983, the Comptroller and Auditor General determines the level of remuneration for National Audit Office employees, including senior executives on the Management Board. The Act requires the Comptroller and Auditor General to have regard to the desirability of keeping the remuneration and other terms and conditions of employment broadly in line with those applying to persons employed in the civil service of the State.

Further details about remuneration are disclosed in notes 2 and 3 to the accounts.

Pensions liabilities

The pension arrangements for the Comptroller and Auditor General are covered by the Superannuation Act 1972 and are analogous to those of a member of the Principal Civil Service Pension Scheme which is unfunded. The Act provides for defined pension benefits to be met from the Consolidated Fund and no liability rests with the National Audit Office.

Past and present employees of the National Audit Office are covered by the provisions of the Principal Civil Service Pension Scheme. The scheme is a defined benefit scheme and liability rests with the Scheme, and not the National Audit Office. Benefits are paid from the Civil Superannuation Vote to which the Office makes contributions calculated to cover accruing pension entitlement for staff employed. Statements of account for the Scheme are provided by the Cabinet Office Civil Superannuation Resource Account, 2003-2004.

Early departure costs

The National Audit Office meets the additional pension costs of any employees who retire before they reach normal pensionable age. The total pension liability up to the normal retiring age in respect of such employees is charged to the account in the year in which the early retirement decision is made to create a provision for future pension payments.

Further details about pensions are disclosed within notes 1.10, 3 and 13 of the accounts.

Public Accounts Commission

The National Audit Act 1983, which established the National Audit Office, also established the Public Accounts Commission consisting of the Chairman of the Committee of Public Accounts, the Leader of the House of Commons and seven other Members of the House. Under the Act, and in respect of the National Audit Office, the Commission are responsible for the

- appointment of the Accounting Officer;
- examination of the annual Supply Estimate; and
- appointment of the auditors of the annual accounts.

Accounting Officer

The Public Accounts Commission has appointed the Comptroller and Auditor General as the Accounting Officer for the National Audit Office. His responsibilities as the Accounting Officer and for the National Audit Office's system of internal control are set out on pages 8 to 10.

Code of Conduct

Consistent with his responsibilities as Accounting Officer, the Comptroller and Auditor General has issued to all National Audit Office employees

- a Vision, Mission and Values Statement - the purpose of the Statement is to ensure that each employee undertakes the work of the Office by reference to a clear set of core values which include integrity and professional excellence; and
- a Code of Conduct - the purpose of the Code is to provide all staff with clear guidance on the standards of corporate and personal conduct expected of them. The Code includes statements on the conduct of National Audit Office work, confidentiality, conflicts of interests and personal conduct.

Copies of both statements are available from the National Audit Office upon request.

Auditors of the National Audit Office

The Public Accounts Commission appointed Haines Watts (Chartered Accountants and Registered Auditors) as the auditors of the National Audit Office for the three years ending 31 March 2004 and have extended the appointment for a further two years ending 31 March 2006. In addition to their work to form an opinion on the financial statements, the auditors are paid to provide value for money reports to the Public Accounts Commission and audit some of the Office's claims related to international twinning work. Details of the cost of external audit services are disclosed in note 4 to the accounts.

Payment of suppliers

The National Audit Office has adopted the Confederation of British Industry prompt payment code. The policy is that all bills should be paid in accordance with contractual conditions, or where no such conditions exist, within 30 days of the receipt of goods or services, or the presentation of a valid invoice, whichever is the later. The calculation of payment performance for the year ended 31 March 2004 has been based on continuous monitoring of payments since the start of the year. On this basis, approximately 97 per cent of payments met the policy criteria.

Post balance sheet events

There have been no events since the Balance Sheet date that would impact upon the financial statements for the year ended 31 March 2004.

Staff issues

The National Audit Office has a policy of close co-operation and consultation with the National Audit Office branch of the Public and Commercial Services Union over matters affecting staff. To ensure effective operation of this policy, a Joint Negotiating and Consultative Committee has been established. Staff involvement is also actively encouraged as part of the day-to-day process of line management and information on financial results and current and prospective developments is widely disseminated.

Equal opportunities and diversity

The National Audit Office is committed to the principle of equality of opportunity and values the diversity of its staff. It has established procedures to ensure that all staff and job applicants are entitled to fair and equal treatment free from unfair and unlawful discrimination. Following the retirement of the Deputy Auditor General in May 2003, Assistant Auditor General Jim Rickleton has had specific responsibility for the promotion of diversity throughout the Office.

Disabled persons

The National Audit Office is fully committed to providing equal opportunity for all staff, and disability itself is not a bar to recruitment or to advancement in the National Audit Office. To further this policy the Office promotes the observance of good practice in the areas of employment particularly relevant to disabled people.

John Bourn
Comptroller and Auditor General

25 June 2004

Statement of the Accounting Officer's responsibilities

Under the National Audit Act 1983, the National Audit Office is required to prepare resource accounts for each financial year, detailing the resources acquired, held, or disposed of during the year and the use of resources by the Office 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 National Audit Office, the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year.

Under the National Audit Act 1983, the Public Accounts Commission have appointed the Comptroller and Auditor General as Accounting Officer for the National Audit Office with responsibility for preparing the Office's accounts and for transmitting them to the auditor.

In preparing these accounts, the Comptroller and Auditor General has adopted the Resource Accounting Manual prepared by the Treasury, and in particular

- 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 Resource Accounting Manual, have been followed and disclosed any material departures in the accounts; and
- prepared the accounts on a going concern basis.

The Comptroller and Auditor General's relevant responsibilities as Accounting Officer, including responsibility for the propriety and regularity of the National Audit Office's finances, for keeping of proper records and for safeguarding the National Audit Office's assets, are set out in the Accounting Officer's Memorandum issued by the Public Accounts Commission.

Statement on Internal Control

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the National Audit Office's policies, aims and objectives, while safeguarding the public funds and departmental assets for which I am personally responsible.

I am accountable to the House of Commons through the Public Accounts Commission, which is responsible for examining the National Audit Office Supply Estimate, for appointing the auditor of the National Audit Office, and for presenting the annual financial statements to the House of Commons.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the National Audit Office's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively, and economically. The system of internal control has been in place in the National Audit Office for the year ended 31 March 2004 and up to the date of approval of the annual report and accounts.

Capacity to handle risk

Under the National Audit Office's risk management arrangements, senior members of the Office are personally responsible for the management of key risks which could affect the achievement of the Office's policies, aims and objectives. The Office has provided training and guidance to managers and staff on managing risks and further training and guidance is provided, as appropriate, in response to new risks. In 2003-2004, for example, the Office introduced a new training programme for all value for money staff designed to further improve the quality of reports, ran courses for managers on the importance of compliance with employment law, and on maintaining business continuity in the event of a major incident affecting business operations. And in March 2004, the Office strengthened its internal whistleblowing procedures by introducing confidential reporting arrangements independent of line management.

The risk and control framework

Risks which could affect the achievement of the National Audit Office's objectives are identified and key risks are actively managed. My responsibilities as Parliament's auditor means that the Office itself has to maintain the highest standards of propriety, regularity, the effective use of resources, and the quality of our work for Parliament.

The National Audit Office's current schedule of risks covers

- corporate leadership, at all levels;
- product quality and timeliness;
- business development;
- professional reputation and business relationships;
- staff skills and competences;
- flexible and responsive support services; and
- economic, efficient and effective use of resources.

The key risks were reviewed by the Management Committee and Senior Management Board periodically during 2003-2004.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the National Audit Office who have responsibility for the maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The effectiveness of the system of internal control was maintained and reviewed through

- a Senior Management Board which met to consider the strategic direction of the Office and performance against objectives. The Board comprises myself, the Chairman of the Audit Committee, the senior members of the Office and the Director of Communications and Corporate Affairs;
- a Management Committee which met on a weekly basis to consider both strategic and operational issues. The Committee comprises the Deputy Comptroller and Auditor General and senior members of the Office;
- an Audit Committee, comprising three non-executive members, including a non-executive Chairman, the Deputy Comptroller and Auditor General and senior National Audit Office staff, which met to monitor the operation of internal controls. The Chairman reports to me on the work of the Audit Committee.
- risk management arrangements, described above, under which key risks which could affect the achievement of the Office's objectives have been managed actively, with progress being reported to senior management;
- internal and external validation of the quality of the National Audit Office's certification and value for money work; and
- regular reports by internal audit to standards defined in the Government Internal Audit Manual, which include an independent opinion on the adequacy and effectiveness of the Office's internal controls, together with recommendations for improvement, where necessary.

The National Audit Office continues to keep its arrangements under review in response to external developments, including changes in the business environment. During the year, it launched a number of initiatives under the umbrella of 'meeting the challenge', including projects to ensure that the Office delivers the right product at the right time and to maximise the skills and talents of its staff by enhancing the Office's management capacity. I also took the decision to strengthen corporate governance by appointing two further non-executive members to the Audit Committee and to strengthen internal audit by appointing an in-house Director of Audit and Assurance. During 2004-2005, the Office will continue to develop and strengthen corporate governance and risk management in line with evolving best practice, and to further embed its risk management arrangements throughout the Office. For 2003-2004, I am able to report that there were no material weaknesses in the Office's system of internal controls which affected the achievement of the Office's policies, aims, and objectives.

John Bourn
Comptroller and Auditor General

25 June 2004

Independent Auditors' Report to the House of Commons

This report is made solely to the House of Commons in accordance with the National Audit Act 1983. Our work has been undertaken so that we might state to the House of Commons those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the House of Commons for our audit work, for this report, or for the opinions we have formed.

We certify that we have audited the financial statements on pages 13 to 31 under the National Audit Act 1983. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 19 to 20.

Respective responsibilities of the Accounting Officer and Auditors

As described on page 8, the Accounting Officer is responsible for the preparation of financial statements and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the other contents of the Annual Report. Our responsibilities, as independent auditors, are established by statute and we have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

We report our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the National Audit Act 1983, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. We also report if, in our opinion, the Annual Report is not consistent with the financial statements, if the National Audit Office has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We review whether the statement on pages 9 to 10 reflects the National Audit Office's compliance with the Treasury's guidance on the Statement on Internal Control. We report if it does not or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. We are also not required to form an opinion on the effectiveness of the entity's corporate governance procedures or its risk and control procedures.

Basis of opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the National Audit Office in the preparation of the financial statements, and of whether the accounting policies are appropriate to the National Audit Office's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion

- the financial statements give a true and fair view of the state of affairs of the National Audit Office as at 31 March 2004 and of the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the year then ended, and the statements have been properly prepared in accordance with the National Audit Act 1983;
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

We have no observations to make on these financial statements.

Haines Watts
Chartered Accountants and Registered Auditors

28 June 2004

30 Camp Road
Farnborough
Hampshire
GU14 6EW

Schedule 1

Summary of Resource Outturn

	Notes	2003-2004 Estimate A in A		Net total	2002-2003 Outturn A in A		Net total	Net total outturn compared to estimate saving or (excess)	Prior year outturn
		Gross expendi- ture	£000		£000	Gross expendi- ture			
Request for Resource 1*	6	72,108	15,318	56,790	71,250	14,860	56,390	400	51,091
Total resources		72,108	15,318	56,790	71,250	14,860	56,390	400	51,091
Non operating cost A in A				-			-	-	-
Net cash requirement				55,950			55,727	223	49,816

* Request for Resource 1: Providing independent assurance to Parliament and other organisations on the management of public resources.

Administrative expenditure and associated non-cash items incurred in the provision of independent assurance, information and advice to Parliament on the proper accounting for central government expenditure, revenue and assets, including compliance with laws and regulations, and in the economy, efficiency and effectiveness with which central government resources have been used; and the provision of independent assurance, information and advice to a wide range of other public, international, and overseas bodies.

Summary of income payable to the Consolidated Fund.

In addition to appropriations in aid, the following income relates to the National Audit Office and is payable to the Consolidated Fund.

	Note	Forecast 2003-2004		Outturn 2003-2004	
		Income £000	Receipts £000	Income £000	Receipts £000
Total	5	-	-	-	821

The notes on pages 19 to 31 form part of these accounts.

Reconciliation of resources to cash requirement

	Note	Estimate	Outturn	Outturn compared to estimate: saving/ (excess)	2002-2003 Prior year outturn
		£000	£000	£000	£000
Net total resources		56,790	56,390	400	51,091
Capital					
Purchase of fixed assets	7&8	1,000	1,488	(488)	1,603
Non operating cost A in A		-	-	-	-
Accruals adjustments					
Non-cash items	4	(3,100)	(3,823)	723	(4,201)
Changes in working capital other than cash	12	260	758	(498)	395
Use of provision	13	1,000	914	86	928
Net cash requirement		55,950	55,727	223	49,816

1 Actual outturn - resources:

Request for Resource 1: Net total outturn £56,389,212.71. Actual amount of saving compared with estimate: £400,787.29.

Actual outturn - cash:

Net cash requirement: outturn net cash requirement £55,727,483.74, which is £222,516.26 less than the estimate.

The notes on pages 19 to 31 form part of these accounts.

Schedule 2

Operating Cost Statement for the year ended 31 March 2004

	Note	2003-2004 £000	2002-2003 £000
Administration costs			
Staff costs	3	41,808	38,257
Non-staff administration costs	4	29,607	25,687
Gross administration costs		71,415	63,944
Operating income	5	(14,860)	(13,521)
Net operating cost	6	56,555	50,423
Net resource outturn	6	56,390	51,091

All income and expenditure is derived from continuing operations.

There were no acquisitions or disposals during the year.

Statement of Recognised Gains and Losses for the period ended 31 March 2004

	Note	2003-2004 £000	2002-2003 £000
Unrealised (loss) gain on revaluation of tangible fixed assets	15	(1,233)	971

The notes on pages 19 to 31 form part of these accounts.

Schedule 3

Balance Sheet as at 31 March 2004

	Note	31 March 2004		31 March 2003	
		£000	£000	£000	£000
Fixed assets					
Tangible fixed assets	7	22,057		23,301	
Intangible fixed assets	8	1,315		<u>1,302</u>	
			23,372		24,603
Debtors falling due after more than one year	9		198		340
Current assets					
Debtors	9	6,443		5,731	
Cash at bank and in hand	10	223		<u>184</u>	
		6,666		5,915	
Creditors (amounts falling due within one year)	11	(3,762)		(3,911)	
Net current assets			<u>2,904</u>		<u>2,004</u>
Total Assets less Current Liabilities			26,474		26,947
Creditors (amounts falling due after more than one year)	11		-		(179)
Provisions for liabilities and charges	13		<u>(3,415)</u>		<u>(2,654)</u>
			23,059		24,114
Taxpayers' equity					
General fund	14	16,780		16,525	
Revaluation reserve	15	6,279		<u>7,589</u>	
			<u>23,059</u>		<u>24,114</u>

John Bourn
Comptroller and Auditor General

25 June 2004

The notes on pages 19 to 31 form part of these accounts.

Schedule 4

Cash Flow Statement for the year ended 31 March 2004

	2003-2004	2002-2003
Note	£000	£000
Net cash outflow from operating activities (Note i)	(53,583)	(47,310)
Other amounts received	-	-
Capital expenditure (Note ii)	(1,488)	(1,603)
Payments of amounts due to the Consolidated Fund	(821)	(1,385)
Financing (Note iii)	55,931	49,827
Increase/(decrease) in cash in the period	39	(471)

Notes to the Cash Flow Statement

	£000	£000
Note i: Reconciliation of operating cost to operating cash flows		
Net operating cost	56,555	50,423
Adjust for		
Non-cash transactions	4 (3,823)	(4,201)
Movements in working capital other than cash	12 (63)	160
Use of provisions	13 914	928
Net cash outflow from operating activities	53,583	47,310
Note ii: Analysis of capital expenditure		
Fixed asset additions	7,8,11 1,488	1,603
Net cash outflow for capital expenditure	1,488	1,603
Note iii: Analysis of financing and reconciliation to the net cash requirement		
From the Consolidated Fund (supply) - current year	55,766	49,674
From the Consolidated Fund (non-supply)	4 165	153
Net financing	55,931	49,827
(Increase)/decrease in cash	10 (39)	471
Net cash flows other than financing	55,892	50,298
Adjustment for payments and receipts not related to supply		
Amounts due to the Consolidated Fund received in prior year paid over	-	(329)
Amounts due to the Consolidated Fund received in current year and not paid over	-	-
Consolidated Fund Standing Services - payments	(165)	(153)
Net cash requirement (Schedule 1)	55,727	49,816
Amount of grant actually issued to support the net cash requirement	£55,950,000.00	

The notes on pages 19 to 31 form part of these accounts.

Schedule 5

Statement of Resources by Objective for the year ended 31 March 2004

		2003-2004			2002-2003 Restated		
		Gross £000	Income £000	Net £000	Gross £000	Income £000	Net £000
Objective 1	Certifying and reporting on accounts	31,022	9,138	21,884	29,511	8,211	21,300
Objective 2	Value for money work	18,870	54	18,816	16,811	26	16,785
Objective 3	Examining and reporting on risks to financial systems, regularity and propriety	6,698	-	6,698	4,626	-	4,626
Objective 4	Other work for Parliament and the Public	14,655	5,668	8,987	12,859	5,284	7,575
Objective 5	Comptroller function	170	-	170	137	-	137
	Total	71,415	14,860	56,555	63,944	13,521	50,423

The National Audit Office maintains a resource management system which links the cost of individual assignments to one of the five objectives. Indirect costs are allocated pro-rata to staff costs.

Work for the Auditor General for Wales previously recorded across objectives 1 to 4 is now classified under objective 4. The amounts for 2002-2003 have been restated accordingly.

The notes on pages 19 to 31 form part of these accounts.

Notes to the resource accounts

1 Statement of accounting policies

The financial statements have been prepared in accordance with section 4 of the National Audit Act 1983. The Act requires the National Audit Office to prepare resource accounts and, in meeting this requirement, the Office has followed the Resource Accounting Manual (RAM) issued by HM Treasury. The accounting policies contained in the RAM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. Where RAM permits a choice of accounting policy, the accounting policy which has been judged to be the most appropriate to the particular circumstances of the National Audit Office for the purpose of giving a true and fair view has been selected. The National Audit Office's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets at their value to the business by reference to their current costs.

1.2 Tangible fixed assets

Tangible fixed assets are stated at the lower of replacement cost and recoverable amount. Expenditure on tangible fixed assets of £1,500 or more is capitalised. On initial recognition, they are measured at cost including any costs such as installation directly attributable to bringing them into working condition. Where appropriate, tangible fixed assets are restated to current value each year. Land and buildings are restated to current value using professional valuations each year. Non-property operational assets are revalued to open market value where obtainable, or on the basis of depreciated replacement cost where market value is not obtainable. Published indices appropriate to the category of asset are normally used to estimate value.

1.3 Intangible fixed assets

Purchased computer software licences and the associated costs of implementation are capitalised as intangible fixed assets where expenditure of £1,500 or more is incurred. Except where reliable evidence of current value cannot be readily ascertained, these are restated to current value each year. Software licences are amortised over the shorter of the term of the licence and the useful economic life.

1.4 Depreciation

Tangible fixed assets are depreciated at rates calculated to write them down to estimated residual value on a straight-line basis over their estimated useful lives.

Asset lives are normally in the following ranges

Leasehold land and buildings	Remaining life of lease
Computers and other equipment	3 to 10 years
Furniture, fixtures and fittings	10 years

To comply with FRS15 Tangible Fixed Assets, material non-structural elements of the Headquarters building have been separately identified and depreciated over periods up to 25 years.

The term of the lease for long leasehold land and buildings (the Office headquarters) is 130 years. Revaluation was undertaken at 30 September 2003, at which time the lease had 107 years remaining. Depreciation is charged on the revalued amount over the remaining term of the lease.

1.5 *Stocks and long term contract balances*

Consumable stocks are charged to the account in the year of purchase. Long term contract balances, mainly related to fee based audit assignments, represent costs incurred on specific contracts, less foreseeable losses and payments on account not matched with operating income. Operating income is determined by reference to the value of work carried out to the balance sheet date. Provision is made for the full amount of foreseeable losses on contracts. Cost comprises staff salary costs and direct expenses together with an appropriate proportion of overheads.

1.6 *Operating income*

Operating income is income which relates directly to the operating activities of the National Audit Office. It principally comprises fees and charges for services provided by statute or by agreement with client organisations. Income represents the amounts derived from the provision of completed work for clients during the year and includes an appropriate allowance for work in progress on assignments which will be completed in the following year. It includes not only income appropriated in aid of the Estimate but also income to the Consolidated Fund, which in accordance with the RAM is treated as operating income. Operating income is stated net of VAT (see note 5).

1.7 *Capital charge*

A non-cash capital charge, reflecting the cost of capital utilised by the National Audit Office, is included in operating costs. The charge is calculated at the government's standard rate of 3.5 per cent (2002-2003 6 per cent) in real terms on the average carrying value of all assets less liabilities, except for cash balances with the Office of the Paymaster General and amounts to be surrendered to the Consolidated Fund.

1.8 *Operating leases*

The total cost of operating leases is expensed in equal instalments over the life of the lease.

1.9 *Foreign exchange*

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. Translation differences are dealt with in the Operating Cost Statement.

1.10 *Pensions*

Present and past employees of the National Audit Office are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which are described at Note 3(b). The defined benefit elements of the schemes are unfunded and are non-contributory except in respect of dependants' benefits. The National Audit Office recognises the expected cost of providing pensions on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution elements of the schemes, the NAO recognises the contributions payable for the year.

1.11 *Provisions*

The National Audit Office provides for legal or constructive obligations which are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the Treasury discount rate.

1.12 *Value Added Tax*

Most of the activities of the National Audit Office are outside the scope of VAT. Output tax is however charged on certain services. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets.

2 Remuneration of the Comptroller and Auditor General

By statute the remuneration of the Comptroller and Auditor General and associated employer's national insurance contributions are met directly from the Consolidated Fund, rather than from Supply. For the year ended 31 March 2004 the amount paid in respect of the Comptroller and Auditor General's remuneration was £147,198 (2002-2003 - £137,377) and the employer's national insurance contributions were £18,250 (2002-2003 - £15,665). These costs are included under Other Administration Costs and are referred to as Consolidated Fund Standing Services (see note 4).

3 Staff costs and numbers

3a Staff costs consist of

	2003-2004	2002-2003
	£000	£000
Wages and salaries	33,764	30,985
Social Security costs	2,959	2,575
Other pension costs	5,085	4,697
Sub total	41,808	38,257
Less recoveries received in respect of outward secondments (note 5a)	(633)	(994)
Total net costs	41,175	37,263

3b Pension arrangements

The Principal Civil Service Pension Scheme is an unfunded multi-employer defined benefit scheme but the National Audit Office is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2003-2004, normal employer contributions of £5,085,000 were payable to the PCSPS (2002-2003: £4,697,063) at one of four rates in the range 12 per cent to 18.5 per cent of pensionable pay based on salary bands. Rates will remain the same next year subject to revalorisation of the salary bands. Employer contributions are to be reviewed every four years following a scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

From 1 October 2002, existing staff had the option of being a member of one of three statutory based 'final salary' defined benefit schemes (classic, premium, and classic plus). The three options which were available to existing staff are described at paragraphs (i) to (iii) below. Employees joining after 1 October 2002 may choose between membership of premium or joining a good quality 'money purchase' stakeholder based arrangement with a significant employer contribution (partnership pension account). This scheme is described at paragraph (iv) below.

i Classic Scheme

Benefits accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. Members pay contributions of 1.5 per cent of pensionable earnings. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, the scheme pays a lump sum benefit of twice pensionable pay and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.

ii Premium Scheme

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, but members may commute some of their pension to provide a lump sum up to a maximum of 3/80ths of final pensionable earnings for each year of service or 2.25 times pension if greater (the commutation rate is £12 of lump sum for each £1 of pension given up). For the purposes of pension disclosure the tables assume maximum commutation. Members pay contributions of 3.5 per cent of pensionable earnings. On death, pensions are payable to the surviving spouse or eligible partner at a rate of 3/8ths the member's pension (before any commutation). On death in service, the scheme pays a lump-sum benefit of three times pensionable earnings and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction. Where the member's ill health is such that it permanently prevents them undertaking any gainful employment, service is enhanced to what they would have accrued at age 60.

iii Classic Plus Scheme

This is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per classic.

Pensions payable under classic, premium, and classic plus are increased in line with the Retail Prices Index.

iv Partnership Pension Account

Employer contributions of £4,550 were paid to one or more of a panel of four appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £371 (0.8 per cent of pensionable pay) were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

No contributions were due or prepaid to the partnership pension providers at the balance sheet date.

This is a stakeholder-type arrangement where the employer pays a basic contribution of between 3 per cent and 12.5 per cent (depending on the age of the member) into a stakeholder pension product. The employee does not have to contribute but where they do make contributions, these will be matched by the employer up to a limit of 3 per cent (in addition to the employer's basic contribution). Employers also contribute a further 0.8 per cent of pensionable salary to cover the cost of risk benefit cover (death in service and ill health retirement). The member may retire at any time between the ages of 50 and 75 and use the accumulated fund to purchase a pension. The member may choose to take up 25 per cent of the fund as a lump sum.

3c The average number of whole-time equivalent persons employed (including senior management) during the year was as follows

	2003-2004	2002-2003
	Number	Restated Number
Objective 1: Certifying and reporting on accounts	371	378
Objective 2: Value for money work	204	185
Objective 3: Examining and reporting on risks to financial systems, regularity and propriety	65	53
Objective 4: Other work for Parliament and the Public	166	147
Objective 5: Comptroller function	2	2
Total	808	765

Senior managers work on all objectives.

Staff undertaking work for the Auditor General for Wales previously recorded across objectives 1 to 4 are now classified under objective 4. The classification of staff for 2002-2003 has been restated accordingly.

3d The salary and pension entitlements of the most senior managers of the National Audit Office were as follows

(2002-2003 figures are in brackets)

Name and Title	Salary (as defined below)	Real increase in annual pension and related lump sum at age 60	Total accrued annual pension and related lump sum at age 60 at 31 March 2004	CETV at 31 March 2004	Real increase in CETV
	£000	£000	£000	£000	£000
Tim Burr Deputy Comptroller and Auditor General	140-145 (130-135)	2.5-5.0 (5.0-7.5)	60-65 (55-60)	1,087 (989)	56
Martin Pflieger Deputy Auditor General (to May 2003)	20-25 (115-120)	0-2.5 (0-2.5)	50-55 (50-55)	945 (903)	22
Jeremy Colman Assistant Auditor General	115-120 (100-105)	0-2.5 (0-2.5)	10-15 (10-15)	224 (195)	19
Wendy Kenway-Smith Assistant Auditor General	115-120 (105-110)	0-2.5 (0-2.5)	10-15 (5-10)	141 (118)	15
Caroline Mawhood Assistant Auditor General	110-115 (105-110)	0-2.5 (0-2.5)	35-40 (35-40)	583 (521)	31
Jim Rickleton Assistant Auditor General (from June 2003)	90-95 (80-85)	2.5-5.0 (0-2.5)	25-30 (25-30)	342 (288)	34
Martin Sinclair Assistant Auditor General	105-110 (100-105)	2.5-5.0 (0-2.5)	30-35 (25-30)	423 (363)	36
Michael Whitehouse Assistant Auditor General	100-105 (95-100)	2.5-5.0 (2.5-5.0)	30-35 (25-30)	424 (363)	41

John Scotford was non-executive chairman of the Audit Committee and non-executive member of the Management Board. During 2003-2004, he was paid a salary of £7,850, received no benefits in kind and no pension entitlement.

Salary

- i 'Salary' includes gross salary; performance pay or bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation.

Pension

- ii The pension arrangements are as described in Note 3b above.

Benefits in kind

- iii None of the above received benefits in kind during 2003-2004.

Employer contributions to partnership pensions

- iv None of the above benefited from such contributions during 2003-2004.

Cash Equivalent Transfer Values

Column 5 of the table in Note 3d shows the member's cash equivalent transfer value (CETV) accrued at the beginning and the end of the reporting period. Column 6 reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003-2004 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service Pension arrangements and for which the Civil Superannuation Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

4 Non-staff administration costs

	2003-2004		2002-2003	
	£000	£000	£000	£000
Professional services bought in	10,569		7,632	
Accommodation	4,038		3,856	
Travel, subsistence, hospitality	3,059		2,849	
Office supplies/equipment	2,951		3,102	
Recruitment and training	2,330		1,754	
Other costs	2,430		1,983	
Operating lease (buildings)	179		100	
Operating lease (vehicles)	10		10	
Consolidated Fund Standing Services	165		153	
Remuneration to external auditors for other work	39		33	
External auditor's fee	14		14	
		25,784		21,486
Non cash items				
Cost of capital charge	841		1,474	
Provision for early departure costs	1,675		1,619	
Depreciation & amortisation	1,298		1,080	
Disposal of fixed assets	9		28	
		3,823		4,201
		29,607		25,687

5 Income and appropriations in aid

5a Analysis of income payable to the Consolidated Fund

In addition to appropriations in aid the following income relates to the Office and is payable to the Consolidated Fund

	Estimate		Outturn	
	Income £000	Receipts £000	Income £000	Receipts £000
Operating income and receipts - excess A in A	-	-	-	821
Other operating income and receipts not classified as A in A	-	-	-	-
Other non-operating income and receipts not classified as A in A	-	-	-	-
Other amounts collectable on behalf of the Consolidated Fund	-	-	-	-
Excess cash surrenderable to the Consolidated Fund	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>821</u>

Operating income

Operating income not appropriated in aid (i.e. transferred to the Consolidated Fund) is analysed for resource budgeting purposes between that which is included in public expenditure and that which is not (see Note 6). In 2003-2004 all operating income was appropriated in aid. In 2002-2003, all operating income not classified as A in A was within public expenditure.

5b Analysis of operating income by classification and activity

	2003-2004			
	Resource outturn		Operating cost statement	
	Netted off gross expenditure in sub-head £000	Appropriated in Aid £000	Payable to Consolidated Fund £000	Income included in Operating Cost Statement £000
Appropriated in Aid				
Audit fees	-	9,138	-	9,138
Other miscellaneous income	-	5,-89	-	5,-89
Secondment income	-	633	-	633
Total operating income	<u>-</u>	<u>14,86-</u>	<u>-</u>	<u>14,860</u>
	2002-2003			
	Resource outturn		Operating cost statement	
	Netted off gross expenditure in sub-head £000	Appropriated in Aid £000	Payable to Consolidated Fund £000	Income included in Operating Cost Statement £000
Appropriated in Aid				
Audit fees	-	7,665	546	8,211
Other miscellaneous income	-	4,095	221	4,316
Secondment income	-	940	54	994
Total operating income	<u>-</u>	<u>12,700</u>	<u>821</u>	<u>13,521</u>

5c Analysis of income from services provided to clients

	2003-2004			2002-2003		
	Income	Full cost	Surplus/ (deficit)	Income	Full cost	Surplus/ (deficit)
	£000	£000	£000	£000	£000	£000
Audit fees	9,138	9,233	(95)	8,211	8,118	93
Other miscellaneous income	5,089	5,089	-	4,316	4,316	-
Secondment income	633	633	-	994	994	-
	<u>14,860</u>	<u>14,955</u>	<u>(95)</u>	<u>13,521</u>	<u>13,428</u>	<u>93</u>

The National Audit Office has a target of recovering the full cost of undertaking fee paying work.

6 Reconciliation of operating cost to net resource outturn

	2003-2004 £000	2002-2003 £000
Net operating cost	56,555	50,423
Operating income not classified as A in A	-	821
Consolidated Fund Standing Services	(165)	(153)
Net resource outturn	<u>56,390</u>	<u>51,091</u>

Net operating cost is the total of expenditure and income appearing in the operating cost statement (Schedule 2). Net resource outturn is the total of those elements of expenditure and income that are subject to parliamentary approval and included in the National Audit Office's Supply Estimate. The outturn against the Estimate is shown in the summary of resource outturn (Schedule 1).

7 Tangible fixed assets

	Long leasehold land and buildings £000	Computers and other equipment £000	Furniture fixtures and fittings £000	Total £000
Cost or valuation				
<i>At 1 April 2003</i>	22,538	2,656	592	25,786
Additions	-	698	232	930
Disposals	-	(17)	-	(17)
Revaluation	(1,423)	-	-	(1,423)
At 31 March 2004	<u>21,115</u>	<u>3,337</u>	<u>824</u>	<u>25,276</u>
Depreciation and amortisation				
<i>At 1 April 2003</i>	1,173	1,086	226	2,485
Charged in year	260	596	76	932
Disposals	-	(8)	-	(8)
Revaluations	(190)	-	-	(190)
At 31 March 2004	<u>1,243</u>	<u>1,674</u>	<u>302</u>	<u>3,219</u>
Net book value at 31 March 2004	<u>19,872</u>	<u>1,663</u>	<u>522</u>	<u>22,057</u>
<i>at 31 March 2003</i>	21,365	1,570	366	23,301

Notes

Land and buildings (the Office headquarters) were revalued at £20,000,000 (2002-2003: £21,500,000) as at 30 September 2003 in accordance with the Guidance Notes of the RICS by Drivers Jonas, independent property consultants and surveyors, on the basis of value for existing use. Drivers Jonas valued the building on an open market basis at £22,000,000 (2002-2003: £22,000,000).

8 Intangible fixed assets

	Software licences and implementation costs £000
Cost or valuation	
At 1 April 2003	3,109
Additions	379
Disposals	-
Revaluation	-
At 31 March 2004	<u>3,488</u>
Depreciation and amortisation	
At 1 April 2003	1,807
Charged in year	366
Disposals	-
Revaluations	-
At 31 March 2004	<u>2,173</u>
Net book value at 31 March 2004	<u>1,315</u>
<i>at 31 March 2003</i>	1,302

The Cash Flow Statement, Schedule 4, includes payment of £179,000 to prior year capital creditors in addition to acquiring assets noted above.

9 Debtors

	2003-2004 £000	2002-2003 £000
Amounts falling due within one year		
Work in progress	3,662	3,022
Deposits and advances	353	294
Trade debtors	1,575	1,569
Prepayments and accrued income	725	683
Other debtors	128	163
	<u>6,443</u>	<u>5,731</u>
Amounts falling due after more than one year		
Deposits and advances	198	340
Total	<u>6,641</u>	<u>6,071</u>

There are no amounts (2002-2003 - £821,000) that will be due to the Consolidated Fund once the debts are collected (see note 12).

10 Cash at bank and in hand

	2003-2004 £000	2002-2003 £000
Balance at 1 April 2003	184	655
Net cash inflow/(outflow)	39	(471)
Balance at 31 March 2004	<u>223</u>	<u>184</u>

The following balances at 31 March are held at

Office of HM Paymaster General	201	126
Commercial banks and cash in hand	22	58
	<u>223</u>	<u>184</u>

The balance at 31 March comprises

Cash due to be paid to the Consolidated Fund		
Consolidated Fund extra receipts received and due to be paid to the Consolidated Fund	-	-
Amounts issued from the Consolidated Fund for Supply but not spent at year end	223	184
	<u>223</u>	<u>184</u>

11 Creditors

	2003-2004 £000	2002-2003 £000
Amounts falling due within one year		
VAT	193	237
Trade creditors	188	554
Other creditors	367	51
Accruals and deferred income	1,964	1,354
Payments received on account	827	710
Total excluding amounts due to the Consolidated Fund	3,539	2,906
Amounts issued from the Consolidated Fund but not spent at year end	223	184
Consolidated Fund extra receipts received and receivable and other income due to be paid to the Consolidated Fund	-	821
Sub total	3,762	3,911
Amounts falling due after more than one year		
Other creditors: capital creditor	-	179
Total	<u>3,762</u>	<u>4,090</u>

12 Movements in operating working capital other than cash

	2003-2004 £000	2002-2003 £000
Total movements		
Increase/(decrease) in debtors	570	1,245
Decrease/ (increase) in creditors (excluding amounts due to the Consolidated Fund)	(633)	(1,085)
	(63)	160
Less movements not relating to supply		
Decrease/(increase) in A in A debtor (note 9)	821	235
Increase in supply working capital	<u>758</u>	<u>395</u>

13 Provisions for liabilities and charges

	Early departure costs £000
Balance at 1 April 2003	2,654
Provided in the year	1,675
Provisions utilised in the year	(914)
Balance at 31 March 2004	<u>3,415</u>

Some 31 per cent of the provision will be used during the next financial year and approximately 54 per cent will be used during the next two to five years. On the basis of the ages of the retirees, expenditure is likely to be incurred over a period of up to 10 years.

Early departure costs

The National Audit Office meets the additional pension costs of any employees who retire before they reach normal pensionable age. The total pension liability up to the normal retiring age in respect of such employees is charged to the account in the year in which the early retirement decision is made to establish a provision for the estimated payments discounted by the Treasury discount rate.

14 Reconciliation of net operating cost to changes in general fund

	2003-2004 £000	2002-2003 £000
Net operating cost for the year (Schedule 2)	(56,555)	(50,423)
Income for 2003-2004 not appropriated in aid payable to Consolidated Fund	-	(821)
Receipts for 2002-2003 not appropriated in aid paid to Consolidated Fund	-	-
Parliamentary funding: drawn down	55,766	49,674
Parliamentary funding: deemed Supply	184	326
Realised element of Revaluation Reserve transferred to general fund (note 15)	77	77
Transferred from Consolidated Fund for standing services	165	153
Consolidated Fund creditor for cash unspent	(223)	(184)
Non-cash charges		
Cost of capital	<u>841</u>	<u>1,474</u>
Net increase/(decrease) in General Fund	255	276
General Fund at 1 April	<u>16,525</u>	<u>16,249</u>
General Fund at 31 March	<u>16,780</u>	<u>16,525</u>

15 Revaluation Reserve

	2003-2004 £000	2002-2003 £000
Balance at 1 April	7,589	6,695
Unrealised (loss)/gain on tangible fixed assets during the year (see note 7)	(1,233)	971
Transferred to General Fund	(77)	(77)
Balance at 31 March	<u>6,279</u>	<u>7,589</u>

The revaluation reserve reflects the unrealised element of the cumulative balance of indexation and revaluation adjustments.

16 Commitments under leases

Commitments under operating leases to pay rentals during the year following the year of these accounts are given in the table below, analysed according to the period in which the lease expires.

	2003-2004 £000	2002-2003 £000
Obligations under operating leases comprise		
Land and buildings		
Expiry within one year	-	-
Expiry within two to five years	171	27
Expiry thereafter	-	138
Other		
Expiry within one year	-	-
Expiry within two to five years	10	-
Expiry thereafter	-	-

Land and buildings leases expiring within two to five years include a lease for office accommodation in Cardiff which, subject to the enactment of the Public Audit (Wales) Bill now before Parliament, will be transferred to the Wales Audit Office on 1 April 2005.

17 Capital commitments

The National Audit Office had no capital commitments as at 31 March 2004.

18 Other financial commitments

The National Audit Office has entered into a non-cancellable contract for electronic document management software. Under the terms of the contract £54,000 will become payable in 2005-2006, subject to the implemented software meeting agreed performance targets. There were no other financial commitments.

19 Contingent liabilities

The National Audit Office had no contingent liabilities at 31 March 2004.

20 Related party transactions

The National Audit Office is headed by the Comptroller and Auditor General and was established by the National Audit Act 1983. It is independent of Government and is accountable to Parliament through the Public Accounts Commission.

Sir John Bourn, the Comptroller and Auditor General, is also the Auditor General for Wales. The National Audit Office provides services to the Auditor General for Wales. The fee for the services provided in 2003-2004 amounted to £2.5 million and was set on a basis designed to recover full costs.

The Office also had transactions with Government Departments and central Government bodies for the provision of training courses and the hosting of seminars. Some of these transactions have been with entities which are fee paying clients.

None of the Board members or key managerial staff has undertaken any material transactions with the National Audit Office during the year.

21 Notes to statement of resources by objective

Staff and other direct costs are allocated to objectives on the basis of costs recorded in the National Audit Office's resource management system. Indirect costs are allocated to objectives by apportioning them pro-rata to staff costs.

The National Audit Office's capital is employed exclusively for administration purposes. Its distribution between objectives is therefore not markedly different from the distribution of the related gross administration cost.

22 Financial instruments

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the largely non-trading nature of its activities and the way in which it is financed, the National Audit Office is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. The National Audit Office has no powers to borrow or invest surplus funds and except for relatively insignificant forward purchases of foreign currency, financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the department in undertaking its activities.

As permitted by FRS 13, debtors and creditors which mature or become payable within 12 months from the balance sheet date have been omitted from the currency profile.

Liquidity risk

The National Audit Office's net revenue resource requirements are financed by resources voted annually by Parliament, as is its capital expenditure. The National Audit Office is not therefore exposed to significant liquidity risks.

Interest rate risk

The National Audit Office is not exposed to any interest rate risk.

Foreign currency risk

The National Audit Office's exposure to foreign currency risk is not significant, although the volume and value of transactions denominated in euros has grown in recent years. The Office operates a euro bank account which is used to handle euro denominated transactions. This helps manage potential exposure to exchange rate fluctuations.

23 Accountability

No exceptional kinds of expenditure such as losses and special payments that required separate disclosure because of their nature or amount were incurred.

For further information about the National Audit Office please contact:

National Audit Office
Press Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Tel: 020 7798 7400

Email: enquiries@nao.gsi.gov.uk

DG Ref: 4232WC