

Presented pursuant to the National Audit Act 1983

National Audit Office Resource Accounts 2006-2007

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

The Comptroller and Auditor General
is an Officer of the
House of Commons. He is the head of the
National Audit Office, which employs some
850 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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Introduction

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

As at 31 March 2007, the National Audit Office employed some 854 staff based mainly in offices in London, Blackpool and Newcastle.

The financial statements on pages 20 to 38 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: firstly the formal statutory duty to provide independent information, assurance and advice to Parliament on the use of public resources. Secondly the National Audit Office has 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 Office's work is disseminated widely.

The National Audit Office has identified five main objectives

- **Financial audit:** providing assurance that departments' and other bodies' financial statements have been properly prepared and give a true and fair view; that resources have been properly applied to the purposes intended by Parliament; and providing assurance on the assessment and collection of tax revenue;
- **Value for money:** providing Parliament with independent information and advice about economy, efficiency and effectiveness. The Office aims to produce 60 reports each year examining the whole range of public services;
- **Reviews of departmental systems:** encouraging good governance and providing assurance on the management of risk through reviews of financial systems; validating systems underpinning Public Service Agreement targets; and work on regulation;
- **Direct support to Parliament and the public and work for other organisations:** supporting the Committee of Public Accounts and other Select Committees; responding to enquiries from Members of Parliament and members of the general public; and the provision of advice and training to support the effective scrutiny of public finances in other countries; and
- **Comptroller function:** the Comptroller and Auditor General's statutory responsibility to approve the release of funds from the Exchequer to 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 Operating Costs by Aim and Objectives on page 24.

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, through auditing the annual accounts of public bodies;
- providing independent advice to Parliament on whether public bodies have used resources 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 and from the provision of other services such as advice and training.

Comptroller and Auditor General

Under the provisions of 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 is a corporation sole and retains office unless removed by a resolution of both Houses of Parliament. The current Comptroller and Auditor General is Sir John Bourn KCB.

Public Accounts Commission

The National Audit Act 1983 also established the Public Accounts Commission. The current membership of the Commission consists of the Chairman of the Committee of Public Accounts and six other Members of the House. Under the Act, and in respect of the National Audit Office, the Commission is responsible for the

- appointment of the Accounting Officer;
- examination of the annual Corporate Plan and 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 14 to 17.

Auditors of the National Audit Office

The Public Accounts Commission appointed Tenon Audit Limited (Chartered Accountants and Registered Auditors) as the auditors of the National Audit Office for a three year term from April 2006. All relevant audit information has been made available to the external auditors, the Comptroller and Auditor General has made himself aware of any relevant audit information and has established that the external auditors are aware of that information.

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, review the statement of financial impacts and audit some of the Office's claims related to the provision of international advice and training. Details of the cost of external audit services are disclosed in note 6 to the accounts.

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 2006-2007 comprised the non-executive Chairman of the Audit Committee, the Deputy Comptroller and Auditor General, and seven Assistant Auditors General. 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.

In advising the Comptroller and Auditor General, the Board considers the Office's business strategy and corporate plan in order to make recommendations to the Public Accounts Commission on future resource requirements. It monitors progress in the delivery of the Office's work programme, and the quality and impact of that work; and assesses the status of key corporate risks throughout the year.

The Board monitors implementation of corporate policies on human resources, diversity and health and safety, including considering the continued fitness for purpose of these policies against statutory requirements. The Board has delegated the provision of advice and assurance on the adequacy of internal control and risk management within the National Audit Office to the Audit Committee.

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

Board members

The board members during 2006-2007 were

Comptroller and Auditor General	Sir John Bourn KCB
Chairman of the Audit Committee	Steve Freer
Deputy Comptroller and Auditor General	Tim Burr
Assistant Auditors General	Gabrielle Cohen
	Wendy Kenway-Smith
	Caroline Mawhood
	Jim Rickleton
	Anna Simons
	Martin Sinclair
	Michael Whitehouse (responsible for finance)

Audit Committee

The Audit Committee is a committee of the Senior Management Board, and is chaired by a non-executive who is also a member of the Board. Steve Freer, Chief Executive of the Chartered Institute of Public Finance and Accountancy, was Chairman during 2006-2007. The Committee comprises the Chairman and two other non-executive members, Sir Michael Davies and Christine Freshwater, the Deputy Comptroller and Auditor General, and a National Audit Office Director.

Meetings are held three times each year in which issues raised by the National Audit Office's internal and external auditors are considered. The Audit Committee provides 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 internal control, risk management processes, and the quality and reliability of financial reporting.

The Comptroller and Auditor General authorises the Audit Committee to investigate any activity within its terms of reference, and to seek any information it requires to carry out its duties. It is also authorised to obtain independent legal or other professional advice, and to secure the attendance at meetings of staff or other individuals with relevant experience and expertise, if it considers this necessary.

The Audit Committee advises the Comptroller and Auditor General on the effectiveness of internal and external audit, ensuring that the internal audit function is adequately resourced and has appropriate standing within the Office, and considers the results of internal audit reviews and monitors the implementation of internal audit recommendations.

Other main duties of the Audit Committee include receiving external audit management letters following the audit of the resource account, external audit's value for money studies and any other reports relating to significant internal control matters.

It also reviews the adequacy and effectiveness of the mechanisms for identifying, evaluating and managing significant risks to the Office and considers whether appropriate risk management, control and review processes are in place to support the Statement on Internal Control. Full details of the Committee's terms of reference are available on request from enquiries@nao.gsi.gov.uk.

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.

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.

Diversity

The National Audit Office is committed to the principle of equality for all and to recognising the diverse talents of its staff. The Office values diversity and the benefits it brings to the organisation and its work and monitors key activities such as recruitment, performance ratings, promotion, training, and employee representation to ensure equality of opportunity. In addition, an equal pay audit is carried out annually in relation to ethnicity, gender and age. The National Audit Office organises a number of initiatives to support diversity such as Deaf Awareness Workshops, Mental Health Awareness workshops and employment law courses for new managers. The Office also supports various staff networks that focus on diversity issues.

The National Audit Office's Diversity Strategy sets out a series of action plans aimed at building on past successes and raising awareness on diversity issues. Over the last 12 months the Office has completed two equality monitoring exercises focusing on ethnicity and disability, launched an ethnic minority mentoring programme to help facilitate career progression and successfully introduced a workplace programme for ethnic minority and disabled undergraduates. The Office published its Disability Equality Scheme in 2006 and formed a working group to monitor the implementation of the scheme and the action plan. The Gender Equality Scheme has been completed and was published in April 2007. In addition the Office has joined Stonewall's Diversity Champions Programme, a good practice forum for Sexual Orientation issues in the work place, with the aim of improving the working environment for our lesbian, gay and bisexual staff.

The National Audit Office has established a Diversity Steering Group, chaired by a Board Member, to advise senior management on diversity issues.

Management Report

Financial planning

The National Audit Office's workload and resource needs are influenced by the value and type of public expenditure and revenue under scrutiny, the financial and value for money risks likely to arise, machinery of government changes, structural changes in the provision of services, requests to extend the scope of the Office's scrutiny, and the expectations of Parliament and other stakeholders.

The National Audit Office produces a Corporate Plan which sets out developments in its work programme for a three year rolling period and the related resource requirements. The Office updates its corporate plan annually for review by the Public Accounts Commission.

Supply Estimates are the means by which authority is sought from Parliament for spending each year. Once the Public Accounts Commission has examined the corporate plan and endorsed the resource bid, the National Audit Office prepares its Estimate which is normally considered by the Commission in February. Parliament usually authorises the provision sought in the Main Estimate towards the end of July, when the Appropriation Act is passed.

The resources approved by the House of Commons are allocated to budget holders in support of the Office's five objectives. The main types of expenditure are salaries, outsourced services, travel and corporate costs. During the year the Office monitors the consumption of resources compared with budgets.

The total net resource requirement sought by the National Audit Office for 2006-2007 was £71.204 million. This included £0.832 million to begin work on the project to repair and refurbish the Office's London headquarters building, the business case for which was approved by the Public Accounts Commission in July 2006. The additional resources were approved by the Commission through a Winter Supplementary Estimate.

Copies of the National Audit Office's corporate plan are available on its website www.nao.org.uk and copies of the Estimate are available from The Stationery Office at www.official-documents.co.uk.

Review of performance

Parliament approved additional resources to enable the National Audit Office to respond to a number of key developments in 2006-2007 including

- supporting departments to achieve the delivery of resource accounts before the summer Parliamentary recess;
- securing sustainable improvements in public service delivery by following up both financial audit and value for money recommendations, and sharing expertise and efficiency improvements across departments;
- addressing the increasing complexity of value for money work, in particular more complex delivery of public services for example through local area agreements or the voluntary sector;
- providing detailed briefings to Select Committees to enable more informed scrutiny of public expenditure; and
- producing extra work in response to demand from Parliament and Government for our expertise, for example examining the economic cycle and expanding our role on regulation.

The National Audit Office achieved £582 million independently validated savings for the taxpayer in 2006, exceeding its target of an eightfold return on its net costs by almost £20 million. The Office was also successful in achieving its key objectives and

- completed the audit of 483 accounts, including 54 departmental resource accounts covering over £400 billion expenditure and assets in excess of £200 billion. 64 per cent of audits were completed before the Parliamentary summer recess, up from 52 per cent in the previous year;

- delivered 60 value for money and other major reports to Parliament, including reports on the Government's Efficiency Programme, the use of consultants, anti-social behaviour and the London 2012 Olympics. It also produced reports on Regional Development Agencies and regulation;
- delivered 118 good governance reports and other outputs to audited bodies, including reviews of corporate governance arrangements in audited bodies and hosting conferences to spread good practice and encourage discussion of issues across a sector;
- handled a complex and wide range of inquiries, including 788 items of correspondence, from Members of Parliament and members of the public, some of which came through a designated whistleblower hotline; and
- supported the Public Accounts Committee in hearings including briefings for individual members and provided advice in response to requests from other Select Committees, including the Public Administration, Work and Pensions, Treasury, Transport and Environmental Audit Committees.

The table below compares the Office's financial outturn for 2006-2007 with its estimate

	Estimate £m	Outturn £m	(Savings)/excess £m	percent
Audit and assurance services (Estimate subhead A)				
Gross resource requirement	87.872	87.828	(0.044)	(0.1)
Income	(17.500)	(19.980)	2.480	14.2
Net resource requirement	70.372	70.328	(0.044)	(0.1)
Capital	2.000	1.492	(0.508)	(25.4)
Refurbishment project (Estimate subhead B)				
Net resource requirement	0.832	0.831	(0.001)	(0.2)
Capital	0.120	0.120	0	0
Net cash requirement	71.200	70.985	(0.215)	(0.3)

The Office seeks to make full use of the resources approved by the House of Commons, and aims to use at least 99 per cent of its net resource requirement and 99.5 per cent of its net cash requirement. These targets were achieved in 2006-2007.

During the year, the Office expanded its spending on outsourced services in line with its Corporate Plan to provide specialist expertise on value for money studies and provide necessary resources to further support faster closing of Departmental resource accounts. It also reduced its infrastructure and support costs from a baseline of £13.95 million in 2004-2005 to £12.96 million.

The Office was successful in generating £2.48 million more income than planned which will be surrendered to the Consolidated Fund. The increase in income was largely due to new audits generating more income than planned and extra work being undertaken on some audits, with the agreement of the bodies concerned.

Capital investment amounted to £1.49 million and the Office used the resources to support additional investment in information technology assets needed for its operations. These included upgrades of hardware and software to manage the Office's work more effectively, supporting the faster production of robust business management information, and expanding the use of laptops with broadband connectivity to support mobile computing and more flexible working. There was also capital investment in set up costs associated with the acquisition of office accommodation in Newcastle to support an expansion of staff in the North of England.

The net assets employed by the Office increased by £9.80 million in 2006-2007 largely reflecting an increase in the valuation of the Office's headquarters reflecting changes in London commercial property values.

The table on page 8 shows the Office used the resources made available by the House of Commons broadly in line with its Estimate. The variance on certification work reflects additional work carried out during 2006-2007, and was offset by variances on reviews of systems and value for money work.

Objective	Estimate £ million	Outturn £ million
1 Certifying and reporting on accounts	39.7	40.2
2 Value for money work	24.7	24.4
3 Examining and reporting on risks to financial systems, regularity and propriety	9.8	9.4
4 Other work for Parliament and the public	13.5	13.6
5 Comptroller function	0.2	0.2
Gross resources on front line activity (excluding the repair and refurbishment project)	87.9	87.8
Repair and refurbishment project	0.8	0.8
Total gross resources	88.7	88.6

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 2007 has been based on continuous monitoring of payments since the start of the year. On this basis, 95 per cent of payments met the policy criteria.

Resources required in 2007-2008

The National Audit Office's Estimate for 2007-2008 was approved by the Public Accounts Commission in February 2007. It provides for a gross resource requirement of £108.9 million, which after taking account of income of £18.5 million, gives a net resource requirement of £90.4 million.

The approved net resource requirement consists of £73.3 million relating to the provision of ongoing audit services; the remaining £17.1 million relates to the repair and refurbishment of the Office's London headquarters building, and providing temporary accommodation for London staff during the refurbishment.

In addition to the London office refurbishment project, the resources will be used to

- increase the impact of the Office's work to both improve public services and generate audited savings of over £660 million in 2007 in line with the target to save £9 for every £1 spent, an increase from £8 for £1 in 2006;
- improve delivery of value for money work by ensuring that published reports are produced more evenly throughout the year;
- address the increasing complexity of value for money work through the greater use of external expertise and independent data, maintaining quality assurance and further reducing the time taken to complete studies – the Office aims to produce 45 of the 60 reports within 8 months;
- expand the range of the Office's financial audit work, undertaking the audit of the statement of the UK's use of EU funds, preparing for audits of publicly controlled companies, and supporting departments to achieve faster closure of all departmental resource accounts;
- extend work on regulation, working with the Better Regulation Executive and regulators to develop an external review of regulatory performance; and
- strengthen the Office's support to Parliament through meeting an increasing number of requests for support from Select Committees to assist them in their scrutiny of public expenditure.

Remuneration Report

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.

The remuneration of the Comptroller and Auditor General, which is at the same level as a High Court Judge, and associated employer's national insurance contributions are met directly from the Consolidated Fund, rather than from Supply.

For the year ended 31 March 2007 the amount paid in respect of the Comptroller and Auditor General's remuneration was £159,058 (2005-2006 – £155,404), and the employer's national insurance contributions were £19,714 (2005-2006 – £19,265). These costs are included under Other Administration Costs as Consolidated Fund Standing Services in note 6 on page 31.

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.

Benefits in kind

The monetary value of benefits in kind covers any expenditure incurred by the National Audit Office and treated by HM Revenue & Customs as a taxable emolument. Travel expenditure incurred when Lady Bourn accompanied the Comptroller and Auditor General on official business was so classified. The expenditure incurred by the National Audit Office, including the associated tax liability, amounted to £26,667 in 2006-2007 (2005-2006 – £47,581).

National Audit Office Salaries

Staff service contracts

National Audit Office staff hold appointments which are open-ended until they reach retirement age. Early termination, other than for misconduct, would result in the individual receiving compensation from the National Audit Office Vote.

Pension liabilities

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. Details of the scheme can be found at www.civilservice-pensions.gov.uk.

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.

Other factors which are taken into consideration in determining senior executives' levels of remuneration are:

- the need to recruit, retain and motivate suitably able, qualified and high calibre people;
- the type and weight of the portfolios of work managed;
- the level of performance and contribution made to the organisation;
- the funds available to the National Audit Office;
- current and prospective rates of inflation; and
- the relevant legal obligations including equality and anti-discrimination requirements.

There is no formal performance pay or bonus scheme. Performance is one among a number of factors reflected in the overall level of remuneration.

The Deputy Comptroller and Auditor General made recommendations for the remuneration levels of Assistant Auditors General, to the Comptroller and Auditor General, which were based on an assessment of the individual's contribution relative to his/her peers. The Comptroller and Auditor General determined the remuneration level of each Assistant Auditor General on the recommendation of the Deputy Comptroller and Auditor General. In the case of the Deputy Comptroller and Auditor General's remuneration, the Director of Human Resources made a recommendation to the Comptroller and Auditor General who determined the appropriate remuneration level.

The salary and pension entitlements of the most senior managers of the National Audit Office are shown in the table below (2005-2006 figures are in brackets). This information is subject to audit

Name and Title	Salary (as defined below) £000	Real increase in annual pension £000	Real increase in lump sum £000	Pension at 31 March 2007 £000	Lump Sum at 31 March 2007 £000	CETV at 31 March 2007 £000	Real increase in CETV £000
Tim Burr Deputy Comptroller and Auditor General	160-165 (150-155)	2.5-5 (2.5-5)	5-7.5 (10-12.5)	75-80 (70-75)	230-235 (220-225)	1,733 (1,642)	49 (73)
Gabrielle Cohen Assistant Auditor General	120-125 (100-105)	5-7.5 (2.5-5)	15-17.5 (12.5-15)	30-35 (20-25)	90-95 (70-75)	451 (374)	77 (64)
Wendy Kenway-Smith Assistant Auditor General	115-120 (110-115)	0-2.5 (0-2.5)	2.5-5 (2.5-5)	15-20 (10-15)	45-50 (40-45)	258 (227)	15 (18)
Caroline Mawhood Assistant Auditor General	125-130 (120-125)	0-2.5 (0-2.5)	2.5-5 (5-7.5)	45-50 (45-50)	140-145 (135-140)	944 (897)	26 (38)
Jim Rickleton Assistant Auditor General	115-120 (110-115)	2.5-5 (0-2.5)	7.5-10 (5-7.5)	35-40 (30-35)	110-115 (100-105)	614 (572)	42 (38)
Anna Simons Assistant Auditor General	145-150 (110-115)	0-2.5 (0-2.5)	0 (0)	10-15 (10-15)	0 (0)	199 (162)	21 (4)
Martin Sinclair Assistant Auditor General	125-130 (115-120)	2.5-5 (2.5-5)	2.5-5 (0-2.5)	40-45 (35-40)	100-105 (95-100)	736 (661)	43 (36)
Michael Whitehouse Assistant Auditor General	125-130 (115-120)	2.5-5 (2.5-5)	10-12.5 (7.5-10)	40-45 (40-45)	130-135 (120-125)	771 (630)	52 (39)

Pension information has been supplied by the Department for Work and Pensions, the National Audit Office's pensions administrators.

Steve Freer was the non-executive chairman of the Audit Committee and a non-executive member of the Management Board. During this period CIPFA, his employer, was paid £7,050 based on his attending six meetings during the year. He received no benefits in kind and no pension entitlement.

Wendy Kenway-Smith's salary is based on a four day working week.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by HM Revenue & Customs as a taxable emolument. As part of its remuneration package the National Audit Office provides all its employees with additional death in service benefit equivalent to one year's salary. The National Audit Office has an agreement with HM Revenue & Customs to account for income tax and national insurance on the benefit on an aggregate basis, so it is not practicable to disclose individual amounts.

Employer contributions to partnership pensions

None of the above benefited from such contributions during 2006-2007.

Cash equivalent transfer values

The Cash Equivalent Transfer Value (CETV) column shows the member's CETV accrued at the beginning and the end of the reporting period as notified by the Department of Work and Pensions. The real increase in CETV column 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 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 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.

John Bourn
Comptroller and Auditor General

28 June 2007

Sustainability Report

The UK Sustainable Development Strategy is founded on five overarching principles which seek to address environmental, social and economic issues.¹ The National Audit Office applies these principles to areas of its work and activities where environmental or social concerns are tangible and significant.

The National Audit Office has assigned responsibility for sustainability issues to two Board members. The Director of Facilities has delegated authority to implement and monitor the Office's Sustainable Development statement and Environmental Purchasing Policy.

During 2006-2007, the National Audit Office undertook a number of initiatives and actions including

- continuing compliance with its Sustainable Development Policy Statement and its Environmental Purchasing Policy which set out the NAO's general position on sustainability issues associated with its operations and activities;
- planning the introduction of energy efficient systems as part of its redevelopment programme, which is seeking to achieve an "Excellent" BREEAM assessment;
- increased purchasing of new products made from recycled materials; and
- recycling unwanted furniture and equipment through the Disposals Services Agency.

The Office's Sustainable Development and Environmental Audit team liaises with key bodies in Whitehall – the Sustainable Development Unit in DEFRA, and the Sustainable Development Commission – and with other professional bodies. The team has facilitated ongoing discussions on the Sustainable Development in Government questionnaire and contributed to a working group of the Chartered Institute of Public Finance and Accountancy on sustainable development reporting. The Office is also an active member of the EUROSAI and INTOSAI working groups on environmental auditing.

The National Audit Office has a Sustainable Office Group – a network of over 70 individuals who work to raise the profile of sustainability issues across the Office. The Group has encouraged staff to participate in World Environment Day by making personal pledges to help save energy and natural resources and is committed to making the whole Office more environmentally friendly.

John Bourn
Comptroller and Auditor General

28 June 2007

¹ Living within environmental limits; ensuring a strong healthy and just society; achieving a sustainable economy; promoting good governance; using sound science responsibly.

HM Government, *Securing the Future – UK Government sustainable development strategy*, 7 March, 2005

Statement of 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 Government Financial Reporting 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 Government Financial Reporting 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 proper records and for safeguarding the 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

I have been appointed as the Accounting Officer for the National Audit Office by 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. I am accountable to the House of Commons through the Commission.

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 assets for which I am personally responsible, in accordance with the responsibilities assigned to me by the Commission.

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 2007 and up to the date of approval of the annual accounts.

Capacity to handle risk

The Management Board has identified strategic risks which could affect the achievement of the National Audit Office's policies, aims and objectives and which need to be managed actively. Under the National Audit Office's risk management arrangements, senior members of the Office are personally responsible for the management of these risks.

The Office has established processes designed to

- maintain a policy framework within which risks are identified, managed and regularly reviewed;
- embed risk management by assigning specific responsibility for strategic risks to Board Members and allocating responsibility for operational risks to specific directors;
- ensure adoption of a consistent approach to the assessment of each operational risk which helps form a judgment on the status of the strategic risks for consideration at each Management Board meeting;
- encourage identification and management of risks by Assistant Auditors General and their directors through jointly reviewing risks and promoting understanding of the importance of managing the risks to all their staff; and
- institute separate specific risk management arrangements with a Senior Responsible Officer (usually at Board level) for specific projects of significant monetary value or unique requirements.

The Office provides training and guidance to managers and staff on managing risks and further training and guidance is provided, as appropriate, in response to new risks.

There is a continuous programme of training in core financial audit and value for money work to ensure that staff have appropriate and current knowledge and skills. In 2006-2007 a financial analysis course has been piloted for value for money staff.

The Office has continued to develop its leadership and management training programme called *unlocking our potential* to support learning and development in key areas of management excellence.

The risk and control framework

My responsibilities as Parliament's auditor mean that the National Audit Office has to maintain the highest standards of propriety and regularity, make effective use of its resources, and produce high quality work for Parliament.

The Office maintains a risk register which identifies strategic and operational risks that could affect the achievement of its aim to help the nation spend wisely. The register is reviewed by the Management Committee, Audit Committee and Management Board. The current strategic risks are

- 1 failure to complete, to professional standards and within designated timescales, the financial audit of the accounts for which I am the appointed external auditor;
- 2 failure to deliver 60 major value for money reports of appropriate quality to Parliament, spread evenly across the year;
- 3 not meeting the target agreed with Parliament to identify through our work annual financial savings equivalent to 8 times the net running cost of the Office (increasing to 9 times from 2007);
- 4 failure to manage the resources voted by Parliament efficiently and effectively;
- 5 damage to the reputation and integrity of the National Audit Office through: failure to maintain high standards of corporate governance or to comply with relevant legislation; impropriety; or poor stewardship of resources;
- 6 ensuring my remit is not curtailed or opportunities to extend my remit on behalf of Parliament or acquire new business, where appropriate, are not missed;
- 7 failure to deliver major corporate projects/initiatives; and
- 8 failure to appropriately manage the project to refurbish the Office's London headquarters building.

Strategic risks are subject to annual review by the Management Board. Following the Public Accounts Commission's approval of the refurbishment project, risk 8 was added during 2006-2007.

Proper consideration and mitigation of risk is crucial to the effectiveness of the system of control. Appropriate methodologies for the Office's work and principles and policies for staff conduct are developed, maintained and communicated to staff.

The principal features of the high level controls include

Staff policies

- a formal corporate governance and internal control system detailing the aims and principles through which the Office conducts its business. This includes manuals setting out operational and financial procedures and delegated authorities, codes of professional conduct setting out the standards expected of staff, an anti-fraud strategy and response plan and a whistle blowing policy to enable staff to report concerns over any aspect of the Office's business;
- annual confirmation by all staff of compliance with the code of professional conduct; and
- human resource strategies to recruit, retain and develop sufficient professional staff.

Financial audit

- policies and procedures to ensure compliance with auditing standards and auditing regulations are set out in mandatory guidance;
- access to advice provided by a specialist technical team, independent of the operational audits, who also review proposed qualified audit opinions and reports; and

- financial audits across the Office are subject to internal hot and cold review, and external reviews by the Quality Assurance Directorate of the ICAEW. Results of these reviews are communicated to all financial audit teams to spread best practice.

Value for Money audit

- a framework of quality thresholds to enable staff to assess progress;
- oversight of the value for money programme by a specialist team which also provides technical support to study teams;
- internal quality assurance review of all studies at the business case stage and of all completed studies; and
- Oxford University or the London School of Economics undertake external reviews of all studies at the draft report stage and they also review all completed studies.

Corporate oversight

- regular monitoring of the execution of financial audit, value for money studies and other work through monthly reports to the Management Committee;
- an appropriate management framework and guidance to staff to ensure agreed financial impacts are achieved and independently verified;
- the production of regular business management reports for the Management Board measuring key performance indicators including budget setting and monitoring; and
- regular horizon scanning to identify potential changes in client base and opportunities to expand influence.

Refurbishment project

- an Assistant Auditor General has been appointed as Senior Responsible Officer for the refurbishment project, providing oversight at Board level;
- specific risk management arrangements are in place for the project, including a dedicated risk register; and
- project managers have been appointed to provide specific expertise and additional control over the overall construction budget.

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 development and 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 Management 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 Management Board which considers the strategic direction of the Office and performance against objectives. The Board comprised myself, the Deputy Comptroller and Auditor General, the Assistant Auditors General, the Chairman of the Audit Committee and the Director of Corporate Affairs;
- a Management Committee which met on a weekly basis to consider strategic, operational and financial issues. The Committee comprised the Deputy Comptroller and Auditor General and the Assistant Auditors General;
- an Audit Committee, comprising three non-executive members, including a non-executive Chairman, the Deputy Comptroller and Auditor General and a National Audit Office Director, 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 regularly to the Management Board;
- regular reports following internal audit reviews to international standards, which include an independent opinion on the adequacy and effectiveness of the Office's internal controls, together with recommendations for enhancements where necessary; and
- the work of the external auditor in forming an opinion on the financial statements, in validating the financial impacts claimed and in reporting the results of value for money examinations of the Office's activities.

2006-2007 review of effectiveness

The National Audit Office continues to keep its internal control arrangements under review in response to internal and external developments, including changes in the business environment. During the year, it has continued to develop and strengthen corporate governance and risk management and further embed its risk management arrangements throughout the Office.

The Management Board assessed the risk relating to securing a more even delivery of value for money reports across the year as high throughout the year. The risk was actively managed, and 60 reports were published during 2006-2007. The Office is continuing to develop its programme and project management with the aim of achieving a more even spread of reports.

As the accounts show, some £2.5 million of income will be surrendered to the Consolidated Fund as excess Appropriations in Aid. This largely reflected the National Audit Office's success in winning new work in 2006-2007 and performing additional unforeseen fee paying work in agreement with clients. The Office has reviewed its income forecasting arrangements with the aim of making sure that future Estimates reflect, where practicable, potential changes in its client base and in the forecast volume of work.

Following an internal review of its procurement arrangements, the Office is taking steps to clarify responsibilities and strengthen its internal controls to minimise the risk of non-compliance with new regulations governing public sector procurement.

Internal audit's assessment of internal control in 2006-2007 concluded that there were no significant weaknesses.

Significant internal control weaknesses

I am able to report that there were no significant weaknesses in the Office's system of internal controls in 2006-2007 which affected the achievement of the Office's policies, aims, and objectives.

John Bourn
Comptroller and Auditor General

28 June 2007

Independent Auditors' Report to the House of Commons

We certify that we have audited the financial statements of the National Audit Office for the year ended 31 March 2007 under the National Audit Act 1983. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the Statement of Operating Costs by Departmental Aim and Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them. We have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and Auditors

The Accounting Officer is responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the National Audit Act 1983 and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

Our responsibility is to audit the financial statements and the part of the remuneration report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the National Audit Act 1983. We report to you whether, in our opinion, certain information given in the Annual Report, which comprises only the unaudited part of the Remuneration Report and the Management Report, is consistent with the financial statements. We also report 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.

In addition, we report to you if the National Audit Office has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information regarding remuneration and other transactions is not disclosed.

We review whether the Statement on Internal Control reflects the National Audit Office's compliance with HM Treasury's guidance, and we report if it does not. We are not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of the National Audit Office's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our certificate if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinions

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. Our audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most 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 in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, 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 and the part of the Remuneration Report to be audited.

Opinions

Audit opinion

In our opinion

- the financial statements give a true and fair view, in accordance with the National Audit Act 1983, of the state of the National Audit Office's affairs as at 31 March 2007, and the net cash requirement, net resource outturn, net operating cost, operating costs applied to objectives, recognised gains and losses and cashflows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the National Audit Act 1983; and
- information given within the Annual Report, which comprises the unaudited part of the Remuneration Report and the Management Report, is consistent with the financial statements.

Audit opinion on regularity

In our opinion, 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.

Tenon Audit Limited
Chartered Accountants and Registered Auditors
Clifton House
Bunnian Place
Basingstoke
Hampshire
RG21 7JE

29 June 2007

Statement of Parliamentary Supply

Summary of Resource Outturn 2006-2007

Note	2006-2007 Estimate			2006-2007 Outturn			Net total outturn compared with Estimate: saving or (excess) £000	2005-2006 Outturn Net Total £000
	Gross Expenditure £000	A in A £000	Net Total £000	Gross Expenditure £000	A in A £000	Net Total £000		
RfR 1: Providing independent assurance to Parliament and other organisations on the management of public resources								
1 – A Provision of audit and other assurance services	87,872	17,500	70,372	87,828	17,500	70,328	44	65,189
1 – B Repair and refurbishment of Office's headquarters and building	832	–	832	831	–	831	1	–
Total resources 2	88,704	17,500	71,204	88,659	17,500	71,159	45	65,189
Non-operating cost A in A			–			–		

Net cash requirement 2006-2007

Note	Estimate	Outturn	2006-2007 £000 Net total outturn compared with Estimate: saving or (excess)	2005-2006 £000 Outturn
Net cash requirement	3 71,200	70,985	215	65,043

Summary of income payable to the Consolidated Fund

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

Note	Forecast 2006-2007 Income Receipts £000		Outturn 2006-2007 Income Receipts £000		Outturn 2005-2006 Income Receipts £000	
Total	4	–	–	2,480	649	649

The notes on pages 25 to 38 form part of these accounts

Operating Cost Statement for the year ended 31 March 2007

	Notes	2006-2007 £000	2005-2006 £000
Administration costs			
Staff costs	5	52,391	48,494
Non-staff administration costs	6	36,447	33,135
Gross administration costs		88,838	81,629
Operating income	4	(19,980)	(16,914)
Net operating cost	2	68,858	64,715

There were no acquisitions or disposals during the year.

All operations are continuing.

Statement of Recognised Gains and Losses for year ended 31 March 2007

	Note	2006-2007 £000	2005-2006 £000
Unrealised gain on revaluation of tangible fixed assets	15	8,771	4,149

The notes on pages 25 to 38 form part of these accounts.

Balance Sheet as at 31 March 2007

	Notes	31 March 2007		31 March 2006	
		£000	£000	£000	£000
Fixed assets					
Tangible fixed assets	7	35,904		26,962	
Intangible fixed assets	8	972		1,299	
			36,876		28,261
Debtors falling due after more than one year	10		99		132
Current assets					
Work in progress	9	8,768		5,614	
Debtors	10	2,258		2,076	
Cash at bank and in hand	11	215		207	
			11,241	7,897	
Creditors (amounts falling due within one year)	12	(5,858)		(4,300)	
Net current assets			5,383		3,597
Total assets less current liabilities			42,358		31,990
Provisions for liabilities and charges	13		(3,278)		(2,711)
			39,080		29,279
Taxpayers' equity					
General fund	14		19,939		18,800
Revaluation reserve	15		19,141		10,479
			39,080		29,279

John Bourn
Comptroller and Auditor General

28 June 2007

The notes on pages 25 to 38 form part of these accounts

Cash Flow Statement for the year ended 31 March 2007

	Notes	2006-2007 £000	2005-2006 £000
Net cash outflow from operating activities	16a	(69,023)	(63,344)
Capital expenditure	16b	(1,492)	(1,823)
Payments of amounts due to the Consolidated Fund		(649)	(51)
Financing	16c	71,172	65,209
Increase/(decrease) in cash in the period	16d	8	(9)

The notes on pages 25 to 38 form part of these accounts

Statement of Operating Costs by Aim and Objectives for year ending 31 March 2007

Aim: Providing independent assurance to Parliament and other organisations on the management of public resources

	2006-2007			2005-2006		
	Gross £000	Income £000	Net £000	Gross £000	Income £000	Net £000
Objective 1 Certifying and reporting on accounts	40,221	15,284	24,937	38,024	13,359	24,665
Objective 2 Value for money work	24,416	1,002	23,414	22,312	292	22,020
Objective 3 Examining and reporting on risks to financial systems, regularity and propriety	9,371	0	9,371	8,635	0	8,635
Objective 4 Other work for Parliament and the Public	13,820	3,694	10,126	12,502	3,263	9,239
Objective 5 Comptroller function	179	0	179	156	0	156
Sub total	88,007	19,980	68,027	81,629	16,914	64,715
Repair and refurbishment of the Office's London headquarters building	831	0	831	0	0	0
Net operating costs	88,838	19,980	68,858	81,629	16,914	64,715

Note 2 provides a reconciliation of operating cost shown here to resource outturn shown in the Statement of Parliamentary Supply.

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.

The notes on pages 25 to 38 form part of these accounts

Notes to the Resource Accounts

1 Statement of accounting policies

These 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 Financial Reporting Manual (FRM) issued by HM Treasury. The accounting policies contained in the FRM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

In addition to the primary statements prepared under UK GAAP, the FRM also requires the preparation of two additional primary statements. The Statement of Parliamentary Supply and supporting notes show outturn against Estimate in terms of the net resource requirement and the net cash requirement. The consolidated Statement of Operating Cost by Departmental Aim and Objectives and supporting notes analyse the NAO's income and expenditure by the objectives set out in the National Audit Office Corporate Plan.

Where FRM 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 certain fixed assets at their value to the business by reference to their current costs.

1.2 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 (2005-2006 3.5 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.

1.3 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 5(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.

1.4 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. 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.

The Office holds assets in the course of construction in relation to capital elements of the refurbishment of its headquarters building.

1.5 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. Software licences are amortised over the shorter of the term of the licence and the useful economic life.

1.6 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
Plant	25 years
Computers and other equipment	3 to 10 years
Motor Vehicles	3 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 31 March 2007, at which time the lease had 105 years remaining. Depreciation is charged on the revalued amount over the remaining term of the lease.

Assets in the course of construction are not depreciated until the refurbished offices are brought into use.

1.7 Stocks and work in progress

Consumable stocks are charged to the account in the year of purchase. Work in progress 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.

1.8 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 FRM is treated as operating income. Operating income is stated net of VAT (see note 4).

1.9 Operating leases

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

1.10 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.

1.11 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 Reconciliation of net resource outturn to net operating cost

	Notes	2006-2007 £000	2005-2006 £000
Net resource outturn		71,159	65,189
Operating income not classified as A in A	4	(2,480)	(649)
Consolidated Fund Standing Services	6	179	175
Net operating costs		<u>68,858</u>	<u>64,715</u>

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; the provision of independent assurance, information and advice to a wide range of other public, international, and overseas bodies and to members of the public; the repair and refurbishment of the National Audit Office's London headquarters; and the provision of temporary office accommodation for London-based staff.

Net operating cost is the total of expenditure and income appearing in the operating cost statement. 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 Statement of Parliamentary Supply.

3 Reconciliation of resources to cash requirement

	Notes	Estimate £000	Outturn £000	Net total outturn compared with estimate: saving/ (excess) £000
Resource outturn		71,204	71,159	45
Capital				
Acquisition of assets		2,120	1,492	628
Accruals adjustments				
Non-cash items	6	(3,152)	(4,068)	916
Changes in working capital other than cash	16a	278	3,584	(3,306)
Changes in creditors falling due after more than one year		0	0	0
Use of provisions	13	750	649	101
Excess cash surrenderable to the Consolidated Fund	4	0	649	(649)
Consolidated Fund Extra Receipts	4	0	(2,480)	2,480
Net cash requirement		71,200	70,985	215

Explanation of variances between estimate and outturn

Costs of acquiring assets were less than expected as the Office has reduced fixed asset investment this year following approval of the refurbishment project.

Non-cash items shows a large variance due to a larger than expected increases in cost of capital and new provisions raised. The cost of capital increase is due to a larger than anticipated increase in the value of the Office's London headquarters building. An additional provision has been raised in relation to restructuring costs of the Office's Blackpool base.

Changes in working capital other than cash have increased substantially from the estimate due to the increase in work in progress at the year end, reflected in the increase in income shown in the variances in excess cash and CFERs.

Not all of the prior year provisions have been needed, so the variance on use of provisions is due to some of the provision being reversed unused.

4 Income and Appropriations in Aid

4a 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 Income £000	Receipts £000	Outturn Income £000	Receipts £000
Operating income and receipts – excess A in A	0	0	2,480	649
Total income payable to the Consolidated Fund	0	0	2,480	649

4b Analysis of operating income by classification and activity

	2006-2007			
	Resource Outturn Netted off gross expenditure	Appropriated in Aid	Operating cost statement Payable to Consolidated Fund	Income included in Operating Cost Statement
Appropriated in Aid				
Audit Fees	0	12,804	2,480	15,284
Other income – Twinning	0	2,878	0	2,878
Other income – General	0	1,002	0	1,002
Secondment income	0	816	0	816
Total income	0	17,500	2,480	19,980

	2005-2006			
	Resource Outturn Netted off gross expenditure	Appropriated in Aid	Operating cost statement Payable to Consolidated Fund	Income included in Operating Cost Statement
Appropriated in Aid				
Audit Fees	0	12,710	649	13,359
Other income – Twinning	0	2,627	0	2,627
Other income – General	0	291	0	291
Secondment income	0	637	0	637
Total income	0	16,265	649	16,914

4c Analysis of income from services provided to clients

	2006-2007			2005-2006		
	Income	Expenditure	Surplus/ (deficit)	Income	Expenditure	Surplus/ (deficit)
Audit Fees	15,284	15,477	(193)	13,359	13,468	(109)
Other income – Twinning	2,878	2,747	131	2,627	2,540	87
Other income – General	1,002	1,063	(61)	291	271	20
Secondment income	816	816	0	637	637	0
	19,980	20,103	(123)	16,914	16,916	(2)

The National Audit Office sets audit fees with the aim of recovering the cost, including overheads, of undertaking fee paying work.

5 Staff numbers and related costs

5a Staff costs comprise

	2006-2007 £000	2005-2006 £000
Wages and salaries	39,439	37,043
Social security costs	3,542	3,248
Other pension costs	8,600	7,553
Staff with a permanent (UK) employment contract	51,581	47,844
Other staff – short term contract, agency/temporary costs	810	650
Sub total	52,391	48,494
Less recoveries received in respect of outward secondments	(816)	(637)
Total net costs	51,575	47,857

5b 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 is due to be carried out as at 31 March 2007. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2006-2007, employer's contributions of £8,551,318 were payable to the PCSPS (2005-2006: £7,553,000) at one of four rates in the range 17.1 per cent to 25.5 per cent (2005-2006: 17.1 to 25.5 per cent) of pensionable pay based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme revaluation.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer contributions of £36,706 (2005-2006 £24,854) 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 (2005-2006: 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 £3,221 (0.8 per cent; (2005-2006: £2,362, 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.

5c Average number of persons employed

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

	2006-2007 Number	2005-2006 Number
Objective 1:		
Certifying and reporting on accounts	387	389
Objective 2:		
Value for money work	229	220
Objective 3:		
Examining and reporting on risks to financial systems, regularity and propriety	92	90
Objective 4:		
Other work for Parliament and the Public	144	125
Objective 5:		
Comptroller function	2	2
Total	<u>854</u>	<u>826</u>

For 2006-2007, the total average number of whole-time equivalent persons employed as short term contract staff, agency or temporary staff is 19 (2005-2006 14). Six were employed on objective 1 and thirteen on objective 4 (2005-2006: four were employed on objective 1, one on objective 2 and nine on objective 4).

6 Other administration costs

	Notes	2006-2007		2005-2006	
		£000	£000	£000	£000
Professional services bought in		16,935		15,665	
Accommodation		3,949		3,618	
Travel, subsistence, hospitality		3,771		3,707	
Office supplies/equipment		3,056		2,940	
Recruitment and training		2,056		2,512	
Refurbishment costs*		829		0	
Staff related costs		695		714	
International work		624		519	
Other administration costs		181		260	
Operating lease (buildings)		44		27	
Operating lease (vehicles)		12		7	
Consolidated Fund Standing Services (C&AG's salary)		179		175	
Remuneration to external auditors for other work		13		76	
External auditor's fee		35		20	
			<u>32,379</u>		<u>30,240</u>
<i>Non cash items</i>					
Cost of capital charge*		1,204		950	
Provisions raised in year – early departure	13	474		253	
Provisions raised in year – other	13	742		95	
Depreciation and amortisation	7,8	1,648		1,570	
Disposal of fixed assets		0		27	
			<u>4,068</u>		<u>2,895</u>
			<u>36,447</u>		<u>33,135</u>

* Refurbishment costs relate to the project to repair and refurbish the National Audit Office's headquarters building which started in 2006-2007. The figure stated in the Statement of Parliamentary Supply is £2,000 higher than this figure, relating to cost of capital associated with the project.

7 Tangible fixed assets

	Long Leasehold Land and Buildings £000	Plant £000	Computers and other Equipment £000	Furniture Fixtures and Fittings £000	Motor Vehicles £000	Asset in the course of construction £000	Total £000
Cost or valuation							
At 1 April 2006	23,193	1,460	3,453	1,377	0	0	29,483
Additions	0	0	712	390	42	120	1,264
Disposals	0	0	(438)	(60)	0	0	(498)
Revaluation	8,554	0	0	0	0	0	8,554
At 31 March 2007	31,747	1,460	3,727	1,707	42	120	38,803
Depreciation							
At 1 April 2006	0	653	1,446	422	0	0	2,521
Charged in year	217	54	679	142	1	0	1,093
Disposals	0	0	(438)	(60)	0	0	(498)
Revaluations	(217)	0	0	0	0	0	(217)
At 31 March 2007	0	707	1,687	504	1	0	2,899
Net Book Value							
At 31 March 2007	31,747	753	2,040	1,203	41	120	35,904
at 31 March 2006	23,193	807	2,007	955	0	0	26,962

Notes

Land and buildings (the Office headquarters) were revalued at £32,500,000 (2005-2006: £24,000,000) as at 31 March 2007 in accordance with the Guidance Notes of the Royal Institute of Chartered Surveyors 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 £35,000,000 (2005-2006: £27,000,000). The valuation of the land and building has been allocated between the main fabric of the building, £31,747,000 and plant £753,000. These figures have previously been presented together under leasehold land and buildings.

Assets in the course of construction relate to amounts capitalised in relation to the project to repair and refurbish the Office's headquarters building. These amounts will not be depreciated until the refurbished offices are brought into use.

8 Intangible fixed assets

	Software Licences and Implementation costs £000
Cost or valuation	
At 1 April 2006	2,486
Additions	228
Disposals	(34)
Revaluation	0
At 31 March 2007	2,680
Amortisation	
At 1 April 2006	1,187
Charged in year	555
Disposals	(34)
Revaluations	0
At 31 March 2007	1,708
Net Book Value	
At 31 March 2007	972
at 31 March 2006	1,299

9 Work in progress

	2006-2007 £000	2005-2006 £000
Work in progress	8,768	5,614

There is £2,480,000 (2005-2006 – £649,000) excess appropriations in aid that will be paid to the Consolidated Fund once the work in progress has been invoiced and the debt collected (see note 12).

10 Debtors

	2006-2007 £000	2005-2006 £000
Amounts falling due within one year		
Trade debtors	677	872
Deposits and advances	394	377
Other debtors	160	198
Prepayments and accrued income	1,027	629
	2,258	2,076
Amounts falling due after more than one year		
Deposits and advances	99	132
Total	2,357	2,208

11 Cash at bank and in hand

	2006-2007 £000	2005-2006 £000
Balance at 1 April 2006	207	216
Net change in cash balances	8	(9)
Balance at 31 March 2007	215	207
The following balances at 31 March are held at		
Office of HM Paymaster General	180	183
Commercial banks and cash in hand	35	24
Balance at 31 March 2007	215	207

12 Creditors

	2006-2007 £000	2005-2006 £000
Amounts falling due within one year		
VAT	138	114
Trade creditors	4	64
Other creditors	21	68
Accruals and deferred income	2,962	2,921
Payments received on account	38	277
Total excluding amounts due to the Consolidated Fund	3,163	3,444
Amounts issued from the Consolidated Fund but not spent at year end	215	207
Consolidated Fund Extra Receipts receivable and other income due to be paid to the Consolidated Fund	2,480	649
Total	5,858	4,300

13 Provisions for liabilities and charges

	Early departure costs £000	Other Provisions £000	Total £000
Balance at 1 April 2006	2,616	95	2,711
Provided in the year	474	815	1,289
Provisions released in year	0	(73)	(73)
Provisions utilised in the year	(627)	(22)	(649)
Balance at 31 March 2007	2,463	815	3,278

13.1 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.

Some £463,767 of the provision will be used during the next financial year and approximately £1,212,279 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.

13.2 Other provisions

The opening balance of other provisions related to unresolved legal action. £22,000 of this provision was utilised in the year and the remaining £73,000 was released.

£815,000 additional provision has been raised in relation to restructuring costs of the National Audit Office's Blackpool Office.

14 General fund

	2006-2007 £000	2005-2006 £000
Balance as 1 April 2006	18,800	17,738
Net Parliamentary funding: drawn down	70,993	65,034
Parliamentary funding: deemed	207	216
Consolidated Fund creditor for cash unspent	(215)	(207)
Income for 2006-2007 not appropriated in aid payable to Consolidated Fund	(2,480)	(649)
Net operating cost	(68,858)	(64,715)
<i>Non-cash charges</i>		
Cost of capital	1,204	950
Transfer from Revaluation reserve	109	258
Consolidated Fund Standing Services (C&AG's salary)	179	175
General fund at 31 March 2007	19,939	18,800

15 Revaluation reserve

	2006-2007 £000	2005-2006 £000
Balance at 1 April 2006	10,479	6,588
Arising on revaluation during the year (net)	8,771	4,149
Transferred to General Fund in respect of realised element of revaluation reserve	(109)	(258)
Balance at 31 March 2007	19,141	10,479

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

16 Notes to the Cash Flow Statement*16a Reconciliation of operating cost to operating cash flows*

	Note	2006-2007 £000	2005-2006 £000
Net operating cost	2	68,858	64,715
Adjust for non-cash transactions	6	(4,068)	(2,895)
Increase in work in progress	9	3,154	2,149
Increase/(decrease) in debtors	10	149	(2,115)
Decrease in creditors	12	281	773
Use of provisions	13	649	717
Net cash outflow from operating activities		<u>69,023</u>	<u>63,344</u>

16b Analysis of capital expenditure

Tangible fixed asset additions	7	1,264	1,491
Intangible fixed asset additions	8	228	332
Net cash outflow for investing activities		<u>1,492</u>	<u>1,823</u>

16c Analysis of financing

From the Consolidated Fund (Supply) – current year	14	70,993	65,034
From the Consolidated Fund (non-Supply)	14	179	175
Net Financing		<u>71,172</u>	<u>65,209</u>

16d Reconciliation of net cash requirement to increase/(decrease) in cash

Net cash requirement	3	70,985	65,043
From the Consolidated Fund (Supply) – current year	16c	70,993	65,034
Amounts due to the Consolidated Fund – received in prior year paid over		0	0
Increase/(decrease) in cash		<u>8</u>	<u>(9)</u>

Note: all amounts due to the Consolidated Fund received in year were paid over

17 Capital commitments

The National Audit Office has capital commitments of around £403,000 as at 31 March 2007 relating to the refurbishment of its headquarters building. This relates to the capital element of the financial commitments described in note 19, and is the Office's best current estimate of the proportion of initial costs which relate to enhancement of the building based on its estimated future value after refurbishment.

2005-2006: No capital commitments.

18 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.

	2006-2007 £000	2005-2006 £000
Obligations under operating leases comprise		
<i>Land and buildings</i>		
Expiry within 1 year	129	8
Expiry within 2 to 5 years	645	0
Expiry thereafter	62	0
Other		
Expiry within 1 year	3	10
Expiry within 2 to 5 years	0	3
Expiry thereafter	0	0

19 Other financial commitments

The National Audit Office had financial commitments as at 31 March 2007 in connection with the refurbishment of its headquarters building. The Office is contracted to pay £341,000 to King Sturge and £2,848,000 to Turner & Townsend Group over the life of the refurbishment project relating to professional fees for specialist project management. The project is scheduled for completion in 2009-2010. These figures include a capital element as described in note 17.

2005-2006: No financial commitments.

20 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 NAO 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.

21 Contingent liabilities

The National Audit Office had no contingent liabilities at 31 March 2007.

22 Losses and special payments

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

23 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. 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.

24 Events after the balance sheet date

These financial statements were authorised for issue by the Comptroller and Auditor General on 28 June 2007.

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

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