

Presented to the House of Commons pursuant to the National Audit Act 1983

National Audit Office Resource Accounts 2008-2009

ORDERED BY THE HOUSE OF COMMONS TO BE PRINTED 21 MAY 2009

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 900 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 leads to savings and other efficiency
gains worth many millions of pounds: at
least £9 for every £1 spent running the Office.

This account can be found on The Stationery Office's
web site at www.tsoshop.co.uk

© Crown copyright 2009

The text in this document may be reproduced
free of charge in any format or medium providing
it is reproduced accurately and not used in a misleading context.
The material must be acknowledged as Crown copyright
and the title of the document specified.

Where we have identified any third party copyright
material you will need to obtain permission from
the copyright holders concerned.

For any other use of this material please write to
Office of Public Sector Information, Information Policy Team,
Kew, Richmond, Surrey TW9 4DU or e-mail: licensing@opsi.gov.uk.

Contents

	Page
Management commentary	2
Statement of Accounting Officer's responsibilities	13
Remuneration Report	14
Statement on Internal Control	19
Independent Auditors' Report to the House of Commons	24
Statement of Parliamentary Supply	26
Operating Cost Statement	27
Statement of Financial Position	28
Statement of Cash Flows	29
Statement of Changes in Taxpayers' Equity	30
Statement of Operating Costs	31
Notes to the Resource Accounts	32

Management commentary

The National Audit Office is headed by the Comptroller and Auditor General, an Officer of the House of Commons appointed 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.

The financial statements on pages 26 to 50 have been prepared by the National Audit Office as required by statute, on a resource basis. In preparing the accounts, the Office has opted for early adoption of the 2009-2010 Government International Financial Reporting Manual. The 2008-2009 reporting year is the first year of adoption of International Financial Reporting Standards and the date of transition is 1 April 2007.

Aim and objectives

The National Audit Office's aim is to help the nation spend wisely.

There are two parts to this aim: 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 improve public services.

National Audit Office activities in 2008-2009 were attributed to the following strategic objectives

- **Financial audit:** providing assurance that departments' financial statements have been properly prepared and give a true and fair view; that resources have been applied to the purposes intended by Parliament; providing assurance on the assessment and collection of tax revenue; and encouraging good governance and providing assurance on the management of risk, through reviews of financial systems.
- **Value for money:** providing Parliament with independent information and advice about economy, efficiency and effectiveness and validating systems underpinning Public Service Agreement targets, and work on regulation. The Office aims to produce 60 reports each year examining the whole range of public services and a range of other outputs to support accountability and deliver performance improvement, including conferences and reports on specific issues placed on the National Audit Office website.
- **Direct support to Parliament, the public, and other organisations:** support for the Committee of Public Accounts, other Select Committees, responding to enquiries from Members of Parliament and members of the general public, and the provision of advice and (on a cost recovery basis) training to support effective scrutiny of public finances in other countries.
- **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 are shown in the Statement of Operating Costs by Strategic Objectives on page 31.

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

The Office of Comptroller and Auditor General is a Crown appointment made in response to an address presented by the House of Commons. Under the National Audit Act 1983, the motion for such an address must be made by the Prime Minister with the agreement of 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, Tim Burr, was appointed on 1 February 2008. His appointment ends on 31 May 2009. Amyas Morse will be appointed Comptroller and Auditor General with effect from 1 June 2009.

Public Accounts Commission

The National Audit Act 1983 established the Public Accounts Commission. The current membership of the Commission consists of the Chairman of the Committee of Public Accounts and eight 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 Supply Estimate; and
- appointment of the auditors of the annual financial statements.

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 are set out on page 15. As Accounting Officer, the Comptroller and Auditor General is responsible for maintaining a sound system of internal control. The Statement on Internal Control on pages 19 to 23 sets out how this responsibility has been discharged in 2008-2009.

Auditors of the National Audit Office

The Public Accounts Commission appointed Tenon Audit Limited (Registered Auditors) as the auditors of the National Audit Office for a three year term from April 2006, with the option of two one-year extensions. The Public Accounts Commission has extended the appointment for a further year, to July 2010. All relevant audit information has been made available to the external auditors and the Comptroller and Auditor General has taken steps to make himself aware of any relevant audit information and has ensured that the external auditors were aware of that information.

In addition to their work to form an opinion on the financial statements, the auditors provide value for money reports to the Public Accounts Commission, review the statement of financial impacts, and provide assurance to funding organisations on the Office's claims for the reimbursement of costs related to the provision of advice and training under its international technical cooperation programme. Details of the cost of external audit services are disclosed in Note 8 to the accounts.

The external audit value for money reports are available on the Public Accounts Commission's website: http://www.parliament.uk/parliamentary_committees/public_accounts_commission.cfm

Corporate governance developments

In November 2007, the Public Accounts Commission commissioned John Tiner to review corporate governance within the National Audit Office. The Commission's 15th Report was published in March 2008 and set out proposals to address issues raised in the review. Progress against the proposals is as follows

National Audit Office Board and Chairman

- Professor Sir Andrew Likierman was appointed Chairman of the Board of the National Audit Office with effect from 1 January 2009; and
- progress was made on the recruitment of four non-executive Board members and a new Management Board with a non-executive majority will be constituted from 1 July 2009.

Statutory provisions covering the National Audit Office Board, the post of Chairman, and new statutory provisions covering the appointment of the Comptroller and Auditor General will be included in the Constitutional Renewal Bill.

Management Board

During 2008-2009, the role of the Management Board was to advise the Comptroller and Auditor General on the discharge of his statutory duties. Senior executives of the National Audit Office were members of the Board by virtue of their positions.

The Board was chaired by the Comptroller and Auditor General to December 2008 and by Professor Sir Andrew Likierman following his appointment as Chairman from January 2009. The non-executive Chairman of the Audit Committee and the Assistant Auditors General were also Board members.

One Assistant Auditor General was responsible for Finance whose responsibilities are the same as those set out in Managing Public Money for the Finance Directors of government departments.

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

The Board monitored implementation of corporate policies on human resources, diversity and health and safety, including consideration of the continued fitness for purpose of these policies against statutory requirements. The Board received advice and assistance from the Audit Committee on the adequacy of internal control and risk management.

The Board held meetings on a monthly basis and was supported by five functional committees

- Audit Practice and Quality Committee, focusing on the quality and integrity of the Office's audit judgements and audit reports;
- Operational Delivery Committee, focusing on resources and infrastructure;
- Staff Performance and Remuneration Committee, focusing on staff management;
- Audit Committee; and
- Health and Safety Committee.

Except as reported in Note 22 to the financial statements, none of the Board members held company directorships or significant interests that might conflict with their management responsibilities.

Board members

The Board members during 2008-2009 were

Chairman	Professor Sir Andrew Likierman (from 1 January 2009)
Comptroller and Auditor General	Tim Burr
Non-Executive member	Steve Freer
Assistant Auditors General	Gabrielle Cohen
	Ed Humpherson
	Wendy Kenway-Smith
	Caroline Mawhood
	Jim Rickleton
	Martin Sinclair
	Michael Whitehouse (responsible for finance)

Audit Committee

The Audit Committee is a committee of the Management Board, and is chaired by a non-executive member of the Board. Steve Freer, Chief Executive of the Chartered Institute of Public Finance and Accountancy, was Chairman during 2008-2009. The Committee comprises the Chairman and two other non-executive members, an Assistant Auditor General and a National Audit Office Director. In 2008-2009 the non-executive members were Sir Michael Davies, Christine Freshwater (to November 2008) and Professor Sir Andrew Likierman (from 1 January 2009).

In 2008-2009 the Committee held four meetings to consider issues raised by the National Audit Office's internal and external auditors. The Audit Committee provides the Comptroller and Auditor General with advice and assurance on the adequacy of internal control and risk management within the 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, as it considers 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 considering external audit management letters following the audit of the resource account and statement of financial impacts, the 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 National Audit Office and considers whether appropriate risk management, control and review processes are in place to support the Statement on Internal Control.

Under the arrangements set out in the Public Accounts Commission's 13th Report, issued in July 2007, the Chairman of the Audit Committee also has a responsibility for reviewing the planned expenses of the Comptroller and Auditor General and may discuss any issues arising with the Commission.

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. The Code of Conduct was revised in January 2009 and all National Audit Office staff are required to sign the Code on an annual basis.

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

Travel expenditure

Full details of travel expenditure incurred by members of the National Audit Office Management Board can be found on the Office's website at:

http://www.nao.org.uk/freedom_of_information/publication_scheme/what_we_spend_and_how_we_spend/travel_and_hospitality_expendi.aspx

Staff issues

The Office has a policy of close cooperation and consultation with the National Audit Office branch of the Public and Commercial Services Union over matters affecting staff. The Director of Human Resources meets regularly with the Chair of the Trade Union Side to exchange information on issues of current interest. Formal negotiations are held on the annual pay award and a range of other issues are discussed on a more informal basis. 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 equality and to recognising the diverse talents and contributions 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.

During 2008-2009 Jim Rickleton was the Board Member with overall responsibility for providing direction and for monitoring progress. A number of initiatives were taken forward, including

- disability awareness seminars;
- carer's workshops;
- staff networks that work on aspects of diversity;
- ethnic minority mentoring programme;
- an internship programme for ethnic minority and disabled undergraduates; and
- equality impact assessments for each of the Office's corporate services functions.

The National Audit Office continued to measure progress against its race, disability and gender equality schemes. The Office holds the Disability Two Ticks Accreditation and is a member of Stonewall's Diversity Champions Programme, the Age and Employment Network and the Disability Equality Forum.

During the year, the Office reviewed its diversity strategy. In January 2009, the Management Board approved a new strategy for 2009 to 2011. This sets out the Office's vision for diversity which is to be an organisation which provides

- clear and positive leadership on diversity issues – to maximise the business benefit of a diverse workforce delivering diverse products to a diverse audience;
- consistent and effective people management – where managers are equipped to get the best out of the diverse range of people they manage;
- support for all staff – so that everybody feels confident to be themselves and to play a full role in the Office, and people feel valued and treated fairly; and which
- resources the business to best effect – by recruiting and retaining people from the widest talent pool which is modern Britain, and by making the most of the unique skills, experience, and ideas each person brings; and
- maximises the impact of its value for money and good governance work – because it supports positive change in the delivery of public services to everyone in our diverse and changing society.

The strategy sets out the Office's broad goals, actions to be taken and its expectations in terms of progress or success.

Sickness absence

During 2008-2009, National Audit Office employees incurred an average of 5.2 days sick leave. This compares with a figure of 4.6 days in 2007-2008 which was an exceptionally low result. Although sick leave increased, the level remained below the level across the civil service as a whole which is expected to be around nine days per employee. The National Audit Office is committed to the health and well being of its staff and as such has a comprehensive sickness absence policy. The Office provides occupational health services, an employee assistance programme and a health screening service. During 2008-2009 the contracts for the external health providers were re-tendered. In addition to this support, ad hoc health awareness events are organised such as a Health and Safety week and presentations on specific issues. The Office continues to review its occupational health policies and practices to ensure that sickness absence remains at low levels.

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 that 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 usually considered by the Commission in February. Parliament normally authorises the 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 National Audit Office's four 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 2008-2009 was £107.7 million. This included £32.9 million for a 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.

Copies of the National Audit Office's corporate plan are available on its website at http://www.nao.org.uk/about_us/nao_governance.aspx

Copies of the Estimate are available from The Stationery Office website at <http://www.official-documents.gov.uk/document/hc0708/hc04/0488/0488.asp>

Risk

The National Audit Office's position as Parliament's auditor means that it has to maintain the highest standards of propriety and regularity, make effective use of its resources, and produce high quality work for Parliament. Failure to do so would damage the organisation's reputation and the confidence placed in it by Members of Parliament. The Office manages the risk through its recruitment of staff, through effective professional training and development programmes, quality assurance arrangements, and monitoring of programmes and impacts.

As a statutory body funded by public resources approved each year by the House of Commons, the National Audit Office has limited exposure to commercial risks. It is currently carrying out a major refurbishment of its London headquarters building which has increased the level of financial risk. The refurbishment programme is being managed with the support of professional advisers with experience of construction.

Sustainability

The UK Sustainable Development Strategy is founded on five overarching principles that seek to address environmental, social and economic issues¹. 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 2008-2009, the National Audit Office undertook a number of initiatives including

- working with the refurbishment contractor to maximise the recycling of waste material from the headquarters site – some 90 per cent of material removed from the site has so far been recycled;
- reviewing arrangements for the supply of stationery - the current contract is with an environmentally accredited supplier with a commitment to sustainability issues and over 54 per cent of spending on stationery items was on sustainable products;
- sourcing furniture and equipment for the refurbished headquarters through the Office of Government Commerce furniture framework agreement which provides access to a range of sustainable and environmentally friendly products and services; and
- continuing to follow the requirements of the environmental purchasing policy by ensuring that all electrical appliances purchases have an A rating.

Key relationships

The National Audit Office buys in support for financial audit and value for money work to assist it in managing peaks in its workload and to obtain specialist skills not available in-house. Some 29 per cent of financial audit and 22 per cent of value for money work was outsourced in 2008-2009. The Office worked in partnership with the following suppliers which were appointed following competitions. The Northern Ireland Audit Office also provided services in support of the Comptroller and Auditor General's certification of Northern Ireland financial statements.

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

Financial audit

Deloitte
KPMG
Mazars
Moore Stephens
PKF
PricewaterhouseCoopers

Value for money

Accenture
Arup
KPMG
London School of Economics
Oxford University
PricewaterhouseCoopers
Rand Europe

The Office also had significant business relationships with Wates Construction and the Turner and Townsend Group in connection with the refurbishment of its headquarters and with the Department for Business, Enterprise and Regulatory Reform for the supply of temporary office accommodation. Redfern Travel, Capita Business Travel and Expotel Hotel Reservations provided travel management services to the Office.

Review of performance

The National Audit Office achieved its key objectives

- **on financial audit** – it completed the audit of 448 accounts, including 56 departmental resource accounts covering over £495 billion expenditure. Some 74 per cent of audits were completed within four months of the end of the financial reporting period, up from 70 per cent in the previous year.
- **on value for money** – it presented 60 value for money reports to Parliament, including reports on the nationalisation of Northern Rock, accommodation provided for servicemen and women and their families, improving adult numeracy and literacy, the handling of customer complaints by the Department for Work and Pensions and on preparations for the 2012 Olympic and Paralympic Games. It also produced reports on regulation, performance validation, and the assumptions underlying the budget. Some 29 per cent of reports were produced within nine months of approval of the proposal compared with a 55 per cent target. The Office recently completed a detailed process improvement review designed to identify ways of reducing the elapsed time between study approval and publication. These ideas are being taken forward.
- **on other work programmes** – it sent 148 reports to audited bodies, dealt with a wide range of inquiries, including over 700 items of correspondence from Members of Parliament and members of the public and supported the Public Accounts Committee in 53 hearings and responded to requests for advice and assistance from 17 other Select Committees.

The Office achieved financial impacts equivalent to a ten times its net running costs, compared with a target of nine times.

The Public Accounts Commission approved additional resources for a number of initiatives and improvements by the National Audit Office in 2008-2009

- By the year end the Office had been appointed as auditor to 48 Government-owned companies following enactment of the Companies Act 2006;
- Work commenced on a new series of reports on financial management in departments. The first report on the Department for Children, Schools and Families was published in April 2009 and another three reports (Department of Communities and Local Government, Foreign and Commonwealth Office and Home Office) are due for publication shortly. Work on a further six reports will commence later this year;
- The Office increased its support for Select Committees by providing informal briefings and memoranda, informal oral presentations and formal briefings in response to requests for advice from 17 Select Committees. It also produced departmental performance briefings to support Committees' scrutiny programmes; and
- A second round of independent performance assessments of the Regional Development Agencies was deferred, but the Office was invited to assess the performance of 25 Sector Skills Councils.

- Performance validation work commenced on data systems underpinning Public Service Agreements, and was extended to include the new Departmental Strategic Objectives.
- The Office published a compendium report reviewing how regulators had adopted the principles set out in the Hampton Report on establishing proportionate and effective inspection regimes. It also published a second report on the impact of the Administrative Burdens Reduction Programme.
- The Office recruited 36 analysts with specialist knowledge of economics, statistics and operational research, employed a Research Fellow from the London School of Economics who provided support to a number of teams in developing economic modelling work, commissioned Oxford University to provide training to the majority of value for money staff on analysing financial and economic data, and held workshops on economic modelling for more than 50 staff.

The Office also carried out extra financial audit work following the Treasury's decision that departments will adopt International Financial Reporting Standards from 2009-2010.

Use of resources

The table below compares the Office's resource, capital, and cash outturn with its Estimate.

Resources	Estimate	Outturn	(Saving)/Excess	
	£m	£m	£m	Percent
Audit and other assurance services (Estimate section A)				
Gross resource requirement	94.826	93.842	(0.984)	(1.0)
Income	(20.000)	(19.966)	(0.034)	(0.2)
Net resource requirement	74.826	73.876	(0.950)	(1.3)
Capital expenditure	1.500	1.055	(0.445)	(29.7)
Repair and refurbishment project (Estimate sections B and C)				
Repair and refurbishment	24.209	20.724	(3.485)	(14.4)
Temporary office accommodation	8.665	8.337	(0.328)	(3.8)
Net resource requirement	32.874	29.061	(3.813)	(11.6)
Capital expenditure	14.240	7.868	(6.372)	(44.7)
Net cash requirement	121.250	111.206	(10.044)	(8.3)

Provision of audit and other assurance services (Section A)

Resources

The Office used 98.7 per cent of the net resources available. It met its key objectives of providing audit opinions on more than 400 financial statements, issuing 60 major reports, supporting the Committee of Public Accounts and Select Committees in examinations of the use of public resources and achieved a financial impact of £10 for every £1 net resources consumed.

One of the National Audit Office's financial targets was to increase the proportion of resources used on front-line work. The Office achieved 75.6 per cent in 2008-2009, compared with 73.1 per cent in 2007-2008 and a target of 75 per cent. It also achieved a 2.4 per cent reduction in the cost of providing corporate services, equivalent to a real terms reduction of 5.3 per cent, compared with a target of 3 per cent in real terms. It also met its target to secure a 2 per cent real terms reduction in the costs of value for money work.

Income

The National Audit Office generated £19.97 million income from fee-paying work, just under the £20 million provision included in the Estimate. Revenue fell short of relevant costs by 1.8 per cent (1.4 per cent in 2007-2008). The Office is seeking to bring revenue and expenditure into balance over the next two years.

Capital expenditure

During 2008-2009, the National Audit Office invested in information technology assets needed for its operations, including upgrades of hardware and software to manage its 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. The National Audit Office also invested in encryption software to help minimise data security risks and expanded its use of smart phones to support mobile working. Total capital investment amounted to £1.1 million. Expenditure was £0.4 million less than the sum provided in the Estimate because improved laptop reliability meant that some planned replacements could be deferred. In addition, the programme to replace monitors was deferred to coincide with the return to the refurbished headquarters building in November 2009.

Net assets

Total assets employed by the National Audit Office, less current liabilities, increased by £4.4 million to £41.6 million, largely reflecting the increase in value of the Office's headquarters arising from the refurbishment work.

Repair and refurbishment project (Sections B and C)

The programme of work to repair and refurbish the National Audit Office's London headquarters building is due for completion in November 2009, some three months later than originally planned. Strip out works in the basement and sub-basement were delayed due to shortcomings in the clearance of asbestos. There was also significant unplanned demolition and restoration work needed on the concrete slab under one section of the roof top plant because of salt corrosion, and additional work was required to even out floor screed depths.

The Office submitted a request to the Public Accounts Commission for additional funding of £5.8 million for costs relating to the additional work and other factors. This was approved in October 2008, taking the aggregate budget to £83.2 million.

Section B of the Estimate included a provision of £38.4 million for the repair and refurbishment work. There was an underspend of £9.9 million because of delays in the programme which led to expenditure which had been planned for 2008-2009 slipping into 2009-2010.

Section C of the Estimate included a provision of £8.7 million for temporary office accommodation while the headquarters building is being refurbished. Outturn was £0.3 million less than the Estimate because facilities management costs were lower than expected.

Payment of suppliers

The National Audit Office has adopted the Confederation of British Industry prompt payment code (www.cbi.org.uk). 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 is based on continuous monitoring of payments since the start of the year. On this basis, 94 per cent of payments met the policy criteria. From January 2009, the Office also started monitoring payments against a 10 day target, in recognition of the Government's commitment to pay suppliers within this period wherever possible. During the period January to March 2009, 75 per cent of payments were paid within 10 days.

Resources required in 2009-2010

The National Audit Office's Estimate for 2009-2010 was approved by the Public Accounts Commission in March 2009. It provides for a gross resource requirement of £124.7 million, which, after taking account of income of £21.0 million, gives a net resource requirement of £103.7 million.

The approved net resource requirement consists of £78.0 million relating to the provision of audit and assurance services; the remaining £25.7 million relates to the repair and refurbishment of the London headquarters building and the rental of temporary accommodation for London-based staff during the refurbishment.

The National Audit Office's priorities for 2009-2010 include

- evaluating the use of public resources to counter the effects of the economic downturn;
- supporting departments' work to implement International Financial Reporting Standards by auditing a full set of shadow accounts for 2008-2009 prepared under international standards;
- extending its efficiency work to carry out an annual review of departments' achievement of savings and reductions in administrative budgets;
- providing support to the new Regional Select Committees, by providing members of staff to work with the Committees on briefings and reports on regional issues;
- providing extra support for other Select Committees, in response to demands for advice;
- continuing to take on new audits of government-owned companies and extending its series of reports on financial management in departments; and
- completion of the repair and refurbishment of its headquarters.

In taking forward its work in 2009-2010, the Office will seek to secure cost reductions in corporate services of at least 4 per cent in real terms and efficiency improvements in financial audit and value for money work of at least 2 per cent in real terms. To this end, the Office undertook a review of corporate services in 2008 which identified scope for securing cost reductions. It also commissioned an independent review of its procurement capability which it is taking forward in 2009. On value for money work, the Office is carrying out a lean review of processes with a view to identifying further scope for streamlining the way value for money reports are produced.

T J Burr
Comptroller and Auditor General

19 May 2009

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, and of its net resource outturn, resources applied to objectives, income and expenditure, recognised gains and losses and cash flows for the financial year.

Under the National Audit Act 1983, the Public Accounts Commission has 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 opted for early adoption of the Government International Financial Reporting Manual issued by the Treasury, and in particular has

- 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 International Financial Reporting Manual, have been followed and disclosed and explained 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.

Remuneration report

Remuneration policy

1 Comptroller and Auditor General

The remuneration of the current Comptroller and Auditor General is linked to Group 4 of the judicial salaries scale, which includes High Court Judges. 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 and associated national insurance contributions are disclosed in Note 8 on page 42 as Consolidated Fund Standing Services under Other Administration Costs.

2 Chairman

The Public Accounts Commission approves the remuneration of the Chairman. The remuneration is non-pensionable.

3 National Audit Office staff

The National Audit Act 1983 provides that the Comptroller and Auditor General shall appoint such staff as he considers necessary for assisting him in the discharge of his functions. The Act further provides that they shall be appointed at such remuneration and on such other terms and conditions as the Comptroller and Auditor General may determine, subject to him having regard to the desirability of keeping the remuneration and terms and conditions broadly in-line with those applicable in the Civil Service.

National Audit Office staff normally hold appointments which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

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 National Audit Office has a Staff Performance and Remuneration Committee that is responsible for overseeing and advising the Board as necessary on negotiations with the Unions and staff side for annual pay awards and the resulting annual pay award. The Committee comprises five members including the Assistant Auditor General with responsibility for Human Resources, the Director of Human Resources and three further Assistant Auditors General.

The following sections provide details of the remuneration and pension interests of the Comptroller and Auditor General and members of the National Audit Office Management Board. The information on pages 15 to 17 is covered by the audit opinion.

	Date of Appointment	Notice Period	2008-2009		2007-2008	
			Salary £000	Benefits in kind (to nearest £100)	Salary £000	Benefits in kind (to nearest £100)
Professor Sir Andrew Likierman Chairman (From 1 January 2009)	01/01/09	3 months	45-50	–	–	–
Tim Burr Comptroller and Auditor General	01/02/08	None – see below	170-175	–	165-170	–
Gabrielle Cohen Assistant Auditor General	01/04/05	3 months	135-140	–	130-135	–
Ed Humpherson Assistant Auditor General	16/07/07	3 months	120-125	–	110-115	–
Wendy Kenway-Smith Assistant Auditor General	15/05/00	3 months	125-130	55,300	120-125	5,000
Caroline Mawhood Assistant Auditor General	01/01/96	3 months	135-140	–	130-135	–
Jim Rickleton Assistant Auditor General	01/06/03	3 months	130-135	–	125-130	–
Martin Sinclair Assistant Auditor General	29/01/99	3 months	135-140	–	130-135	–
Michael Whitehouse Assistant Auditor General	01/04/02	3 months	140-145	–	135-140	–

The Comptroller and Auditor General's salary is met from the Consolidated Fund. The Comptroller and Auditor General retains office unless removed by a resolution of both Houses of Parliament.

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 £6,975. He received no benefits in kind and no pension entitlement.

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

Benefits in kind

The monetary value of benefits in kind covers any expenditure incurred by the National Audit Office and treated by HM Revenue and Customs as a taxable emolument.

In 2007 Wendy Kenway-Smith received an interest-free loan under the Office's relocation scheme on her transfer to head the Newcastle office. The balance outstanding on this loan at 31 March 2009 was £65,000 and the benefit in kind relating to the loan was £4,200. To facilitate the timing of relocation to meet business requirements, under the same scheme the Office guarantees the price of properties sold by staff who relocate. The price guaranteed is determined on the basis of professional valuations on an open market sale basis by surveyors appointed by the Office and the Office takes over control of the sale of the staff member's property. Following a deterioration in the property market between the time of Wendy Kenway-Smith's relocation and the eventual sale of the property, the sum realised was less than the guaranteed price. The value of the benefit in kind for the expenses associated with maintaining the property and the eventual loss on the sale was £51,100. The Office has provided for the tax liability of £45,000 arising on the latter benefit.

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 and Customs to meet income tax and national insurance on this benefit on an aggregate basis, so it is not practicable to disclose individual liabilities.

Payments to the Consolidated Fund

In 2007-2008, the former Comptroller and Auditor General, Sir John Bourn published a book *Public Sector Audit: Is it Value for Money?* During 2008-2009, Sir John remitted royalties of £152.30 to the National Audit Office generated from the sale of the book, net of the income tax liability. This receipt is payable into the Consolidated Fund and is reported in Note 6.

Pension Liabilities

1 *Comptroller and Auditor General*

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.

2 *National Audit Office staff*

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 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

The pension entitlements of the most senior managers of the National Audit Office were as follows.

Name and Title	Accrued pension at age 60 at 31 March 2009 £000	Accrued lump sum at age 60 at 31 March 2009 £000	Real increase in annual pension £000	Real increase in lump sum £000	CETV at 31 March 2009 £000	CETV at 31 March 2008* £000	Real increase in CETV £000
Tim Burr Comptroller and Auditor General	85-90 (80-85)	255-260 (240-245)	0-2.5 (0-2.5)	0-2.5 (0-2.5)	2,029	1,866	10
Gabrielle Cohen Assistant Auditor General	35-40 (30-35)	105-110 (100-105)	0-2.5 (0-2.5)	2.5-5 (5-7.5)	587	527	16
Ed Humpherson Assistant Auditor General	25-30 (20-25)	40-45 (35-40)	2.5-5 (5-7.5)	0-2.5 (7.5-10)	295	237	33
Wendy Kenway-Smith Assistant Auditor General	15-20 (15-20)	55-60 (50-55)	0-2.5 (0-2.5)	2.5-5 (2.5-5)	339	294	17
Caroline Mawhood Assistant Auditor General	55-60 (50-55)	165-170 (155-160)	0-2.5 (0-2.5)	0-2.5 (5-7.5)	1,147	1,046	15
Jim Rickleton Assistant Auditor General	45-50 (40-45)	135-140 (125-130)	0-2.5 (2.5-5)	2.5-5 (7.5-10)	804	724	14
Martin Sinclair Assistant Auditor General	50-55 (45-50)	105-110 (105-110)	0-2.5 (2.5-5)	-2.5-0 (0-2.5)	946	844	17
Michael Whitehouse Assistant Auditor General	50-55 (45-50)	155-160 (145-150)	0-2.5 (2.5-5)	2.5-5 (7.5-10)	985	888	15

Pension information has been supplied by the People, Pay and Pensions Agency, the National Audit Office's pensions administrators.

*The figure may be different from the closing figure in the 2007-2008 Resource Accounts. This is due to the CETV factors being updated to comply with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008.

Employer contributions to partnership pensions

None of the above benefited from such contributions during 2008-2009.

Cash equivalent transfer values

The Cash Equivalent Transfer Value (CETV) is the actuarially 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. It 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.

The real increase in CETV reflects the increase effectively funded by the employer. It does not include 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.

T J Burr
Comptroller and Auditor General

19 May 2009

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 period ended 31 March 2009 and up to the date of approval of the annual accounts, and is consistent with Treasury guidance.

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 that helps form a judgement 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.

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

The risk and control framework

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

- 1 not delivering audits to time and professional standards;
- 2 not making 60 major reports of appropriate quality to Parliament, spread across the year;
- 3 not meeting its target of identifying each year achievable quantified value for money improvements equivalent in financial value to nine times the annual net running cost of the Office;
- 4 incurring an excess vote or failure to utilise efficiently and effectively resources voted by Parliament;
- 5 not maintaining high standards of corporate governance or complying with relevant legislation, and staff failing, or being seen to fail, to act with propriety in the performance of their duties, or to exercise good stewardship in their use resources voted by Parliament;
- 6 the Office's remit is curtailed or opportunities to extend its remit or acquire new business, where appropriate, are missed;
- 7 not delivering major corporate projects/initiatives; and
- 8 not managing the refurbishment project appropriately.

The Management Board review the strategic risks on an annual basis and consider whether they remain relevant and whether there are any new strategic risks that need to be managed. The Board decided to establish data handling and security as a separate strategic risk from April 2009.

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

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

Value for money work

- value for money standards setting out what the Office expects from staff carrying out this work and enshrining good practice;
- a framework of quality thresholds to enable staff to assess progress;
- oversight of the value for money programme by a specialist team that 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
- independent external reviews of all studies at the draft report stage.

Corporate oversight

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

Refurbishment project

- an Assistant Auditor General is the 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 provide specific expertise and additional control over the overall construction budget.

Corporate policies

There is a corporate governance and internal control system detailing the aims and principles through which the Office conducts its business. This system 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. All staff confirm annually their compliance with the code of professional conduct.

Statement of information risk

The Comptroller and Auditor General and the National Audit Office have privileged and wide-ranging access to data and information to support the discharge of the audit function and ensure that the Comptroller and Auditor General's reports to Parliament are factual, accurate and complete. The Office has a duty to respect this privileged access and to ensure that the personal information entrusted to it is safeguarded properly.

Actions taken to manage the risk

The National Audit Office has opted to follow the Cabinet Office's recommendations on information security and is complying with the Cabinet Office Security Policy Framework and using the Government's Information Assurance Maturity Model to measure progress. The Office undertook a gap analysis of practice against the Cabinet Office data handling guidance and the Security Policy Framework and developed an information assurance action plan to implement the recommendations from its review of data handling and any disparities identified by the gap analysis.

In early 2008, the National Audit Office produced a Statement on the Management of Personal Data setting out its key policies for protecting personal data. This statement has been sent to all clients. It also introduced a Data Protection Framework for the management of personal data to help its staff to decide the best way to request, process, store and destroy personal data. The Data Protection Framework includes guidance on the sensitivity and the volume of the data to be held and the roles and relevant responsibilities of staff in the requesting and subsequent management of that data. It applies equally to data held by the Office and data processed by contractors on its behalf.

The National Audit Office also established a network of Information Asset Owners whose role is to understand what information is held, what is added and what is removed, how information is moved, and who has access, so as to understand and address risks to the information they use. They are required to approve the arrangements for managing data and information at the start of each individual job and confirm their application on completion, and provide overall assurance quarterly on the use and security of the data for which they are responsible.

In 2008-2009, all staff received training in data protection and information security through e-learning packages. This training was incorporated into induction training for new staff. The code of conduct requires staff to confirm in their annual compliance declaration they have complied with policies on requesting and handling personal data. Compliance with these policies is subject to validation through processes established by the Data Protection Officer.

The National Audit Office has also encrypted the hard drives of all laptops, in line with Cabinet Office guidance. For data that cannot be transmitted via the Government Secure Intranet, it has implemented bulk data transfer via disk using approved encryption and defined procedures.

The Cabinet Office's review of data handling procedures in government, published in June 2008, made a number of recommendations to be implemented across government. In addition, the Cabinet Office published the Security Policy Framework in December 2008 which embraces the requirements of the Data Handling Review. This framework superseded the Manual of Protective Security and set out 70 mandatory requirements for government departments on protective security, covering physical, personnel and information security.

The National Audit Office's risk register included a sub risk on data handling and information assurance. The register is considered by the Management Board and the Audit Committee on a regular basis and sets out actions to mitigate the risks. The Office has zero tolerance for information asset losses and reinforced this through policies and procedures and staff acceptance of them through the Code of Conduct. From 1 April 2009, data handling and information assurance is being managed as one of the Office's main strategic risks.

The National Audit Office has made good progress in implementing its information assurance action plan. Actions to date include

- the publication of an overarching information assurance policy, consolidating policy on the acquisition, use, storage and destruction of personal data, and the revision of supporting policies and procedures;
- the publication of an information charter on its website;
- the publication of clearly defined roles and responsibilities for information assurance, including a list of obligations for Information Asset Owners;
- encryption of all laptops; and
- training for all staff on data handling and information assurance.

In order to meet all the mandatory requirements of the Security Policy Framework, further action is needed in relation to training, cultural issues and embedding best practice, risk management and governance, ensuring contractor compliance with the Office's information assurance policies and procedures, and consolidation of policies and procedures on counter-terrorism. The Office is close to reaching Level 1 (awareness of the criticality of information assurance to the business and its legal requirements) on the Government's Information Assurance Maturity Model and aims to achieve it by the end of June 2009.

Personal data related incidents

There were no protected personal data related incidents reportable to the Information Commissioner's Office in 2008-2009. Neither were there any centrally recorded protected personal data related incidents not formally reported to the Information Commissioner's Office in 2008-2009. If the Office was subject to reporting to the Cabinet Office, there would be no significant incidents to report.

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 Director of Internal Audit and Assurance 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 in the following ways

- The Management Board considered the strategic direction of the Office and performance against objectives. The Board comprised the Comptroller and Auditor General, the Chairman (from January 2009), the Assistant Auditors General and the Chairman of the Audit Committee.
- The Audit Committee, comprising three non-executive members including a non-executive Chairman, an Assistant Auditor General and a National Audit Office Director, met to monitor the operation of internal controls. Its Chairman reports to me on the work of the Audit Committee.
- The Director of Internal Audit and Assurance has direct access to the Comptroller and Auditor General and the Chairman of the Audit Committee.
- Internal audit reviews are conducted to international standards, and include an independent opinion on the adequacy and effectiveness of the Office's internal controls, together with recommendations for enhancements where necessary.
- The external auditor forms an opinion on the financial statements, validates the financial impacts claimed and reports the results of value for money examinations of the Office's activities.
- Key risks which could affect the achievement of the Office's objectives are managed actively under the risk management arrangements described above, with progress being reported regularly to the Management Board.

The National Audit Office continues to keep its internal control arrangements under review in response to internal and external developments.

The Office continued to emphasise to staff the importance of effective data security and has taken additional measures to manage the risk of accidental loss of data by enhancing security on all of the laptop computers used by its staff.

The Office continued to develop and strengthen financial management, business management, and risk management, including the implementation of recommendations made following reviews by Tenon, our external auditors. The Office delivered its key objectives using almost 99 per cent of the available resources in 2008-2009.

The Director of Internal Audit and Assurance's assessment of internal control in 2008-2009 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 2008-2009 that affected the achievement of the Office's key policies, aims, and objectives.

T J Burr
Comptroller and Auditor General

19 May 2009

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 2009 under the National Audit Act 1983. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement, the Statement of Financial Position, the Statement of Cash flows, the Statement of Changes in Taxpayers' Equity, the Statement of Operating Costs by Strategic 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 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 judgements 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 that 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 2009, and the net cash requirement, net resource outturn, net operating cost, operating costs applied to objectives, recognised gains and losses and cash flows 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, the Introduction 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
Registered Auditors
Clifton House
Bunnian Place
Basingstoke
Hampshire
RG21 7JE

20 May 2009

Statement of Parliamentary Supply

Summary of Resource Outturn 2008-2009

	2008-2009 Estimate			2008-2009 Outturn			Net total outturn compared with Estimate: saving or (excess)	2007-2008 Outturn Restated
	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	127,700	20,000	107,700	122,903	19,966	102,937	4,763	80,374
Total Resources	127,700	20,000	107,700	122,903	19,966	102,937	4,763	80,374
Non-operating Cost A in A			-			-		

Net Cash Requirement 2008-2009

	Note	Estimate	Outturn	2008-2009 £000 Net total outturn compared with Estimate: saving or (excess)	2007-2008 Outturn Restated
Net cash requirement	5	121,250	111,206	10,044	80,413

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 2008-2009		Outturn 2008-2009		Outturn 2007-2008	
		Income £000	Receipts £000	Income £000	Receipts £000	Income £000	Receipts £000
Total	6a	-	-	5	-	-	2,480

Outturn for 2008-2009 has been presented in-line with International Financial Reporting Standards. The Estimate provision was based on United Kingdom financial reporting standards and has not been restated.

Comparative figures for 2007-2008 have been re-stated in line with International Financial Reporting Standards.

Reasons for variances between Estimate and outturn are provided in the Management Commentary on page 11.

Operating Cost Statement for the year ended 31 March 2009

		2008-2009	2007-2008 Restated
	Note	£000	£000
Administration costs			
Staff costs	7	55,171	53,232
Non-staff administration costs	8	67,922	45,197
Gross administration costs		123,093	98,429
Operating income	9	(19,966)	(17,831)
Net operating cost	4	103,127	80,598

There were no acquisitions or disposals during the period.

All operations are continuing.

Figures for 2007-2008 have been re-stated in line with International Financial Reporting Standards.

Statement of Financial Position as at 31 March 2009

		31 March 2009		31 March 2008 Restated	
	Note	£000	£000	£000	£000
Non-current assets					
Property, plant and equipment	10	34,380		31,436	
Intangible assets	11	1,204		1,431	
Receivables falling due after more than one year	12	582		495	
Total non-current assets			36,166		33,362
Current assets					
Trade and other receivables	12	11,639		9,974	
Cash and cash equivalents	13	183		2,830	
Total current assets			11,822		12,804
Total assets			47,988		46,166
Current liabilities					
Trade and other payables	14	(6,381)		(9,007)	
Total current liabilities			(6,381)		(9,007)
Total assets less current liabilities			41,607		37,159
Non-current liabilities					
Provisions	15	(2,504)		(3,065)	
Total non-current liabilities			(2,504)		(3,065)
Assets less liabilities			39,103		34,094
Taxpayers' Equity					
General Fund			29,169		19,660
Revaluation reserve			9,934		14,434
Total taxpayers' equity			39,103		34,094

Figures for 2007-2008 have been re-stated in line with International Financial Reporting Standards.

A revised statement of financial position has not been presented as the impact of applying International Financial Reporting Standards was limited as shown in the Statement of Changes in Taxpayers' Equity on page 32.

T J Burr
Comptroller and Auditor General

19 May 2009

Statement of Cash Flows for the year ended 31 March 2009

	Note	2008-2009 £000	2007-2008 £000
Cash flows from operating activities			
Net operating cost	4	(103,127)	(80,598)
Adjustments for non-cash transactions	8	3,999	4,015
(Increase)/decrease in trade and other receivables	12	(1,752)	656
Increase in trade payables	14	21	1,592
Use of provisions	15	(1,614)	(597)
		<u>(102,473)</u>	<u>(74,932)</u>
Net cash outflow from operating activities			
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(8,587)	(1,857)
Purchase of intangible assets	11	(336)	(951)
From Non-Operating Income	6c	5	0
		<u>(8,918)</u>	<u>(2,808)</u>
Net cash outflow from investing activities			
Cash flows from financing activities			
From the Consolidated Fund (Supply) – current year		108,554	82,650
From the Consolidated Fund (Non-Supply)	8	190	185
		<u>108,744</u>	<u>82,835</u>
Net financing			
Net (decrease)/increase in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund	13	(2,647)	5,095
Payments of amounts due to the Consolidated Fund		0	(2,480)
Net (decrease)/increase in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		<u>(2,647)</u>	<u>2,615</u>
Cash and cash equivalents at the beginning of the period	13	2,830	
Cash and cash equivalents at the end of the period	13	183	

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2009

	Note	General Fund £000	Revaluation Reserve £000	Total Reserves £000
Balance at 31 March 2007		19,939	19,141	39,080
Effect of changes under International Financial Reporting Standards		(1,422)	–	(1,422)
Restated Balance at 1 April 2007		18,517	19,141	37,658
Changes in taxpayers' equity for 2007-2008				
Net loss on revaluation of property, plant and equipment	10	–	(4,513)	(4,513)
Non-cash charges – cost of capital	8	1,327	–	1,327
Consolidated Fund Standing Services	8	185	–	185
Transfers between reserves		194	(194)	–
Effect of changes under International Financial Reporting Standards	2	(39)	–	(39)
Net operating cost for the year		(80,559)	–	(80,559)
Total recognised income and expense for 2007-2008		(78,892)	(4,707)	(83,599)
Net Parliamentary Funding – drawn down		82,650	–	82,650
Net Parliamentary Funding – deemed		215	–	215
Supply payable adjustment		(2,830)	–	(2,830)
		80,035	–	80,035
Balance at 31 March 2008		19,660	14,434	34,094
Changes in taxpayers' equity for 2008-2009				
Net loss on revaluation of property, plant and equipment	10	–	(4,500)	(4,500)
Non-cash charges – cost of capital	8	1,240	–	1,240
Consolidated Fund Standing Services	8	190	–	190
Net operating cost for the year	4	(103,127)	–	(103,127)
Total recognised income and expense for 2008-2009		(101,697)	(4,500)	(106,197)
Net Parliamentary Funding – drawn down		108,554	–	108,554
Net Parliamentary Funding – deemed	13	2,830	–	2,830
Supply payable adjustment	14	(178)	–	(178)
		111,206	–	111,206
Balance at 31 March 2009		29,169	9,934	39,103

The General Fund serves as the chief operating fund. The General Fund is used to account for all financial resources except those required to be accounted for in another fund.

The Revaluation Reserve records the unrealised gain or loss on revaluation of assets.

Statement of Operating Costs by Strategic Objectives for the year ended 31 March 2009

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

	2008-2009				Total £000	2007-2008 Restated				Total £000
	Strategic Objective 1 £000	Strategic Objective 2 £000	Strategic Objective 3 £000	Strategic Objective 4 £000		Strategic Objective 1 £000	Strategic Objective 2 £000	Strategic Objective 3 £000	Strategic Objective 4 £000	
Gross Expenditure	50,792	32,896	10,166	178	94,032	48,110	29,866	10,542	199	88,717
Income	(16,026)	(883)	(3,057)	-	(19,966)	(14,008)	(181)	(3,642)	-	(17,831)
Subtotal	34,766	32,013	7,109	178	74,066	34,102	29,685	6,900	199	70,886
Repair and refurbishment of the Office's London headquarters building					20,724					4,351
Provision of temporary office accommodation					8,337					5,361
Net Expenditure	34,766	32,013	7,109	178	103,127	34,102	29,685	6,900	199	80,598
Total Assets	25,921	16,788	5,188	91	47,988	25,035	15,541	5,486	104	46,166

Figures for 2007-2008 have been re-stated in line with International Financial Reporting Standards

Objective 1 **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;

Objective 2 **Value for money:** providing Parliament with independent information and advice about economy, efficiency and effectiveness. The Office's reports examine the whole range of services delivered or funded by central government.

Objective 3 **Direct support to Parliament, the public, and 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

Objective 4 **Comptroller function:** the Comptroller and Auditor General's statutory responsibility to approve the release of funds from the Exchequer to departments.

From 2008-2009, the Office moved from a five objectives structure to a four objectives structure. The 2007-2008 comparatives have been re presented to reflect this change. The National Audit Office maintains a resource management system that links the cost of individual assignments to one of the four objectives. Indirect costs are allocated pro-rata to staff costs. For 2009-2010 the Office will move back to a five objective structure to reflect new corporate governance arrangements.

The National Audit Office is currently refurbishing its London headquarters accommodation. The Public Accounts Commission has approved a separate budget for the refurbishment project and temporary accommodation which is included in Request for Resources under 1B and 1C. As it is funded separately, expenditure on the project has not been allocated to Objectives 1-4.

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. In meeting this requirement the financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted and interpreted by the 2009-2010 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM comply with IFRS as adapted or interpreted for the public sector context.

Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be 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 particular policies adopted by the National Audit Office are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

In addition to the primary statements prepared under IFRS, the FReM also requires the National Audit Office to prepare 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 Statement of Operating Cost by Strategic Objectives and supporting notes analyse the National Audit Office's income and expenditure by the objectives of the Comptroller & Auditor General.

IFRS 1 – First time adoption

The National Audit Office has opted for early adoption of IFRS and the Office's date of transition is 1 April 2007. IFRS 1 First-time adoption of International Financial Reporting Standards allows entities adopting IFRS for the first time to take certain exemptions from the full requirements of IFRS in the year of transition (i.e. 2008-2009). The National Audit Office elected not to take any exemptions.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of property, plant and equipment.

1.2 Financing

The National Audit Office is primarily resourced by funds approved by the House of Commons through the annual Appropriation Act. Resources are drawn down each month to meet expenditure requirements and are credited to the General Fund. Some 20 per cent of the Office's resource requirement is met by charging fees for certain financial audit assignments and other services. The level of income that the Office may use in support of its activities (known as Appropriations in Aid) is also approved by the House of Commons in the Appropriation Act. Income earned in excess of the approved level cannot be used in support of the Office's activities and is required to be paid over to the Consolidated Fund as excess Appropriations in Aid in accordance with Managing Public Money.

1.3 Capital charge

A charge, reflecting the cost of capital utilised by the National Audit Office, is included in operating costs. The charge is calculated at the real rate set by HM Treasury, currently 3.5 per cent (2007-2008: 3.5 per cent), on the average carrying amount 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.

1.4 Pensions

Past and present employees of the National Audit Office are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which are described at Note 7(b). The defined benefit schemes are unfunded and are non-contributory except in respect of dependents' benefits. The National Audit Office recognises the expected cost of these elements 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 National Audit Office recognises the contributions payable for the year.

1.5 Property, plant and equipment

Expenditure on property, plant and equipment of £1,500 or more is capitalised. On initial recognition, assets are measured at cost including any costs such as installation directly attributable to bringing them into working condition. All Property, plant and equipment is reviewed annually for impairment and is carried at fair value. Land and buildings are stated at their fair value based on an annual professional valuation as at the end of the financial year. All non-property operational assets are deemed to be short-life or low value assets and are therefore valued on the basis of depreciated replacement cost as an approximation of fair value.

1.6 Intangible assets

Expenditure on intangible assets which are software licenses and the associated costs of implementation is capitalised where the cost is £1,500 or more. Intangible assets are reviewed annually for impairment and are stated at amortised historic cost. Software licences are amortised on a straight line basis over the shorter of the term of the licence and the useful economic life (four to seven years).

1.7 Depreciation

Property, plant and equipment are depreciated at rates calculated to write them down to the estimated residual value on a straight-line basis over their estimated useful lives. The residual values of assets are reviewed on an annual basis.

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 IAS 16 Property, plant and equipment, material non-structural elements of the headquarters building have been separately identified and depreciated over periods up to 25 years. Depreciation on the leasehold land, buildings and plant was not charged from December 2007 following the National Audit Office's move to temporary accommodation in November 2007. During the refurbishment phase, the headquarters building is being treated as an asset in the course of construction and depreciation will be charged again once the headquarters building is re-occupied.

The term of the lease for long leasehold land and buildings (the Office headquarters) is 130 years. Revaluation was undertaken at 31 March 2009, at which time the lease had 103 years remaining.

1.8 Trade receivables

Trade receivables are recognised initially at fair value less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the National Audit Office will not be able to collect all amounts due according to the original terms of the receivables.

1.9 Inventory and work in progress

Consumable inventory is charged to the operating cost statement in the year of purchase. Work in progress, mainly related to fee-paying audit assignments, represents 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. Costs comprise staff salary costs and direct expenses together with an appropriate proportion of overheads.

1.10 Operating income

Operating income 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 value of invoices raised on completion of work and the value of work completed but not yet invoiced on assignments which will be completed in the subsequent year. Operating income is stated net of VAT. Non operating income is surrenderable to the Consolidated Fund and is reported in Note 6b.

1.11 Operating leases

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

1.12 Financial instruments

The National Audit Office does not hold any complex financial instruments. The only financial instruments included in the accounts are receivables and payables (Notes 12 and 14). Trade receivables are recognised initially at fair value less provision for impairment. A provision for impairment is made when there is evidence that the National Audit Office will be unable to collect an amount due in accordance with agreed terms.

1.13 Foreign exchange

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Any outstanding monetary assets and liabilities at the year end are translated into sterling at the rates ruling at 31 March. Translation differences are dealt with in the Operating Cost Statement.

1.14 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 HM Treasury discount rate.

1.15 Value Added Tax

The majority of the National Audit Office's work is performed under statute and is outside the scope of output VAT. Output tax is however charged on certain fee-paying services. Where output tax is charged, income is stated net of VAT. Input VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets. Recoveries of input VAT are netted off against expenditure in the Operating Cost Statement.

1.16 Staff costs

Under IAS19 Employee Benefits legislation, all staff costs must be recorded as an expense as soon as the organisation is obligated to pay them. This includes the cost of any untaken leave as at the year end. The cost of untaken leave has been determined using data from electronic leave records.

1.17 Accounting estimates

Other than the capitalisation of refurbishment costs on the headquarters building, no material accounting estimates or judgements were made by the National Audit Office in preparing these accounts.

2 First-time adoption of International Financial Reporting Standards

	General Fund £000	Revaluation Reserve £000
Taxpayers' equity at 31 March 2008 under UK Generally Accepted Accounting Practice	21,121	14,434
Adjustments for:		
IAS19 Employee Benefits – Accrued untaken paid leave	(1,461)	–
Taxpayers' equity at 1 April 2008 under International Financial Reporting Standards	<u>19,660</u>	<u>14,434</u>
		£000
Net operating cost for 2007-2008 under UK Generally Accepted Accounting Principles		80,559
Adjustments for:		
Movement in accrued untaken paid leave – 2007-2008	39	
Net operating cost for 2007-2008 under International Financial Reporting Standards		<u>80,598</u>
		£000
Net operating cost for 2008-2009 under UK Generally Accepted Accounting Principles		103,088
Adjustments for:		
Movement in accrued untaken paid leave – 2008-2009	39	
Net operating cost for 2008-2009 under International Financial Reporting Standards		<u>103,127</u>

The adoption of IFRS has no impact on the cash position of the National Audit Office. No reconciliation is therefore required for prior year cashflow.

3 Analysis of net resource outturn by section

		Outturn		2008-2009 £000 Estimate Net Total	2007-2008 £000	
	Gross resource expenditure	A in A	Net Total		Net total outturn compared with Estimate: saving or (excess)	Prior-year outturn Restated
RfR 1: Providing independent assurance to Parliament and other organisations on the management of public resources						
1A. Provision of audit and other assurance services	93,842	19,966	73,876	74,826	950	70,701
1B. Repair and refurbishment of Office's headquarters building	20,724	–	20,724	24,209	3,485	4,351
1C. Provision of temporary office accommodation	8,337	–	8,337	8,665	328	5,361
Resource Outturn	122,903	19,966	102,937	107,700	4,763	80,413

Figures for 2007-2008 have been re-stated in line with International Financial Reporting Standards.

The Office used 98.7 per cent of its resources under RfR1A and met its key objectives of providing audit opinions on more than 400 financial statements, issuing 60 major reports, and supporting the Committee of Public Accounts and Select Committees. It achieved a financial impact of £10 for every £1 net resources consumed.

Expenditure on RfR1B was lower than the Estimate due to delays in the refurbishment programme which led to expenditure that was originally planned for 2008-2009 slipping into 2009-2010.

Expenditure on RfR1C was lower than the Estimate because facilities management costs were lower than expected.

A fuller account for reasons for variances is set out on page 10–11 of the Management Commentary.

4 Reconciliation of net resource outturn to net operating cost

	Note	Outturn £000	Estimate £000	2008-2009 Outturn compared with Estimate £000	2007-2008 Restated Outturn £000
Net resource outturn	3	102,937	107,700	(4,763)	80,413
IFRS adjustment – Movement in accrued untaken leave accrual					39
Non-supply income (CFERs)	6	–	–	–	–
Non-supply expenditure	8	190	192	(2)	185
Net operating cost		103,127	107,892	(4,765)	80,637

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, assets and liabilities, 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.

Figures for 2007-2008 have been re-stated in line with International Financial Reporting Standards.

5 Reconciliation of net resource outturn to net cash requirement

	Note	Estimate £000	Outturn £000	Net total outturn compared with Estimate: saving/ (excess) £000
Resource outturn		107,700	102,937	4,763
Capital				
Acquisition of assets	10, 11	15,740	8,923	6,817
<i>Accruals adjustments</i>				
Non-cash items	8	(3,310)	(3,999)	689
Changes in working capital other than cash		(390)	1,731	(2,121)
Use of provisions	15	1,510	1,614	(104)
Net cash requirement		<u>121,250</u>	<u>111,206</u>	<u>10,044</u>

Explanation of variances between estimate and outturn

Resource outturn was 4.4 per cent less than the Estimate.

Expenditure on the provision of audit and other assurance services was within 1.3 per cent of the Estimate provision. There was, however, a significant underspend on the provision for the repair and refurbishment of the Office's headquarters building. This was caused by slippage in the refurbishment project which also led to underspends against the capital provision and the net cash requirement.

The increase in non-cash items mainly reflected new early departure provisions agreed during the year which were not envisaged when the Resource Estimate was prepared. This also explains the variation in the use of provisions.

The variation in working capital reflects a lower level of trade payables at the end of 2008-2009 than had been assumed when the Estimate was prepared.

6a Analysis of income payable to the Consolidated Fund

	Note	Forecast		Outturn	
		Income £000	Receipts £000	Income £000	Receipts £000
Operating income and receipts – excess Appropriations in Aid	14	–	–	–	–
Non-operating income and receipts not classified as Appropriations in Aid	14	–	–	4	–
Other amounts collectable on behalf of the Consolidated Fund	14	–	–	1	–
Total income payable to the Consolidated Fund		<u>–</u>	<u>–</u>	<u>5</u>	<u>–</u>

6b Reconciliation of income recorded within the Operating Cost Statement to operating income payable to the Consolidated Fund

	Note	2008-2009 £000	2007-2008 £000
Operating income	9	19,966	17,831
Income authorised to be appropriated in aid	3	19,966	17,831
Operating income payable to the Consolidated Fund	6a	<u>–</u>	<u>–</u>

6c Non-operating income not classified as appropriations in aid

	2008-2009 £000	2007-2008 £000
	<u>5</u>	<u>–</u>

£4,574 is payable to the Consolidated Fund from sale proceeds following the disposal of fixed assets. £152 is payable to the Consolidated Fund in respect of royalties on a book published by the former Comptroller and Auditor General, Sir John Bourn.

7 Staff numbers and related costs

7a Staff costs comprise:

	Total	Permanently employed staff	2008-2009 £000	2007-2008 Restated £000 Total
Wages and salaries	42,558	41,908	650	40,875
Social security costs	3,499	3,499	-	3,457
Other pension costs	9,114	9,114	-	8,900
Sub Total	55,171	54,521	650	53,232
Less recoveries received in respect of outward secondments	(653)	(653)	-	(650)
Total net costs	<u>54,518</u>	<u>53,868</u>	<u>-</u>	<u>52,582</u>

Figures for 2007-2008 have been re-stated in line with International Financial Reporting Standards.

Benefits in kind

Tax and national insurance relating to benefits in kind met by the National Audit Office are included within wages and salaries expenditure.

7b Pension arrangements

The Principal Civil Service Pension Scheme (PCSPS) 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 2007. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

Employer's contributions of £9,094,406, were payable to the PCSPS as at 31 March 2009 (2007-2008: £8,877,486) at one of four rates in the range 17.1 per cent to 25.5 per cent (2007-2008: 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. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer contributions of £35,751 (2007-2008: £38,605) 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 (2007-2008: 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 £2,709; 0.8 per cent of pensionable pay (2007-2008: £2,747; 0.8 per cent) 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. All these contributions are included in 'Other pension costs'.

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

7c *Average number of persons employed*

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

	Total	2008-2009 Number Permanent staff	Others	2007-2008 Restated Number Total
Departmental Strategic Objective				
Objective 1				
Financial audit	489	451	38	478
Objective 2				
Value for money	303	300	3	282
Objective 3				
Direct support to Parliament, the public and other organisations	125	109	16	128
Objective 4				
Comptroller function	4	4	–	4
Total	<u>921</u>	<u>864</u>	<u>57</u>	<u>892</u>

In 2008-2009, the Office moved from a five objectives structure to a four objectives structure. Staff numbers previously attributed to Objective 3: Review of departmental systems are now attributed to either Objective 1: Financial audit or Objective 2: Value for money. Figures for 2007-2008 have therefore been restated.

8 Other administration costs

	Note	2008-2009		2007-2008	
		£000	£000	£000	£000
<i>Audit and other assurance services</i>					
Professional services bought in		22,640		17,456	
Travel, subsistence, hospitality		3,552		3,594	
Accommodation		301		2,610	
Office supplies and equipment		2,914		3,118	
Recruitment and training		2,984		2,476	
Staff related costs		1,026		869	
International work		494		569	
Operating lease (buildings)		209		210	
Other administration costs		390		240	
Operating lease (vehicles)		0		11	
Consolidated Fund Standing Services (Comptroller and Auditor General's salary)		190		185	
Remuneration to external auditors for other work		95		82	
External auditor's fee		67		50	
			34,862		31,470
<i>Repair and refurbishment of the headquarters building</i>					
Refurbishment costs		20,724		4,351	
<i>Temporary office accommodation</i>					
Temporary accommodation costs		8,337		5,361	
			29,061		9,712
			63,923		41,182
<i>Non cash items</i>					
Cost of capital charge		1,240		1,327	
Provision for early departure costs provided for in the year	15	1,053		276	
Other provisions	15	-		108	
Depreciation and amortisation	10, 11	1,566		1,650	
Loss on disposal of property, plant and equipment		140		526	
Impairment	10	-		128	
			3,999		4,015
			67,922		45,197

9 Income

9a Analysis of operating income by classification and activity

	2008-2009			
	Resource Outturn Netted off gross expenditure	Appropriated in Aid	Operating cost statement Payable Consolidated Fund	Income included in operating cost statement
	£000	£000	£000	£000
Appropriated in Aid				
Audit Fees – UK	–	14,787	–	14,787
Audit Fees – International	–	1,239	–	1,239
International Technical Cooperation	–	2,404	–	2,404
Secondment income	–	653	–	653
Other income	–	883	–	883
Total income	–	19,966	–	19,966

	2007-2008			
	Resource Outturn Netted off gross expenditure	Appropriated in Aid	Operating cost statement Payable Consolidated Fund	Income included in operating cost statement
	£000	£000	£000	£000
Appropriated in Aid				
Audit Fees – UK	–	13,141	–	13,141
Audit Fees – International	–	867	–	867
International Technical Cooperation	–	2,992	–	2,992
Secondment income	–	650	–	650
Other income	–	181	–	181
Total income	–	17,831	–	17,831

9b Analysis of income from services provided to clients

	2008-2009			2007-2008		
	Income £000	Expenditure £000	Surplus/ (deficit) £000	Income £000	Expenditure £000	Surplus/ (deficit) £000
Audit Fees – UK	14,787	15,733	(946)	13,141	14,018	(877)
Audit Fees – International	1,239	990	249	867	828	39
International Technical Cooperation	2,404	2,109	295	2,992	2,547	445
Secondment income	653	653	–	650	650	–
Other income	883	849	34	181	46	135
	19,966	20,334	(368)	17,831	18,089	(258)

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

For international work, the policy is to carry out the work at no cost to Parliament and the aim is to recover expenditure directly attributable to the work. The Office did not recover the full cost of its UK audits and is seeking to bring revenue and expenditure back into balance over the next two years.

This information is provided for fees and charges purposes and not for IFRS 8 (Segmental Reporting) purposes.

10 Property, plant and equipment

	Long Leasehold Land & Buildings £000	Plant £000	Computers & other Equipment £000	Furniture Fixtures & Fittings £000	Motor Vehicles £000	Asset in the course of construction £000	Total £000
Cost or valuation	26,932	860	4,694	888	42	742	34,158
At 1 April 2008	–	–	711	8	–	7,868	8,587
Additions	–	–	(250)	(191)	–	–	(441)
Disposals	(4,500)	–	–	–	–	–	(4,500)
Revaluation	–	–	–	–	–	–	–
At 31 March 2009	22,432	860	5,155	705	42	8,610	37,804
Depreciation	–	–	–	–	–	–	–
At 1 April 2008	–	292	2,137	278	15	–	2,722
Charged in year	–	–	928	61	14	–	1,003
Disposals	–	–	(237)	(64)	–	–	(301)
Revaluations	–	–	–	–	–	–	–
At 31 March 2009	–	292	2,828	275	29	–	3,424
Net book value	–	–	–	–	–	–	–
at 31 March 2009	22,432	568	2,327	430	13	8,610	34,380
at 31 March 2008	26,932	–	2,557	610	27	742	31,436

The National Audit Office owns all its assets and has no finance leases or PFI contracts, except for the long lease of the land and buildings for the Headquarters Office which is at a peppercorn rent.

Notes

IAS 16 requires measurement at fair value. Management considers open market value to be the best available estimation of fair value. Land and buildings (the Office headquarters) were revalued by Drivers Jonas, independent property consultants and surveyors and a member of RICS in accordance with the Guidance Notes of the RICS. The headquarters are currently being refurbished and the capital value of the refurbishment work is disclosed separately in the table above as an asset in the course of construction. Drivers Jonas valued the land and buildings on an open market basis on the special assumption that no refurbishment expenditure had been incurred at £23,000,000 as at 31 March 2009 (31 March 2008: £27,500,000). The estimated capital value of the refurbishment work is based on an assessment carried out at the planning stage which analysed expenditure between repair and refurbishment costs to bring the building back to its original condition that would be treated as revenue expenditure and enhancements, plant and equipment which would be capitalised. On this basis, assets in the course of construction were estimated to be £8,610,000 at 31 March 2009 (31 March 2008: £742,000). The total value of land and buildings is therefore £31,610,000 at 31 March 2009 (31 March 2008: £28,242,000). Land and buildings are revalued annually.

The net effect of the revaluation has been accounted for through the revaluation reserve.

During the refurbishment of the National Audit Office's Headquarters building which commenced in December 2007, the building is treated as an asset in the course of construction and is not being depreciated. Depreciation will be charged when the refurbished building is brought back into use.

Fixed assets acquired by the Office solely for its temporary accommodation are being depreciated over the period during which the temporary office accommodation is being used.

	Long Leasehold Land & Buildings £000	Plant £000	Computers & other Equipment £000	Furniture Fixtures & Fittings £000	Motor Vehicles £000	Asset in the course of construction £000	Total £000
Cost or valuation							
At 1 April 2008	31,747	1,460	3,727	1,707	42	120	38,803
Additions	–	–	1,158	77	–	622	1,857
Disposals	–	–	(191)	(896)	–	–	(1,087)
Impairment	–	(600)	–	–	–	–	(600)
Revaluation	(4,815)	–	–	–	–	–	(4,815)
At 31 March 2008	26,932	860	4,694	888	42	742	34,158
Depreciation							
At 1 April 2008	–	707	1,687	504	1	–	2,899
Charged in year	302	57	643	142	14	–	1,158
Disposals	–	–	(193)	(368)	–	–	(561)
Impairment	–	(472)	–	–	–	–	(472)
Revaluations	(302)	–	–	–	–	–	(302)
At 31 March 2008	–	292	2,137	278	15	–	2,722
Net book value							
at 31 March 2008	26,932	568	2,557	610	27	742	31,436
at 31 March 2007	31,747	753	2,040	1,203	41	120	35,904

11 Intangible assets

Intangible assets are software licences and the associated implementation costs.

	Total £000
Cost	
At 1 April 2008	3,631
Additions	<u>336</u>
At 31 March 2009	3,967
Amortisation	
At 1 April 2008	2,200
Charged in year	<u>563</u>
At 31 March 2009	2,763
Net Book Value	<u> </u>
at 31 March 2009	1,204
at 31 March 2008	1,431
	Total £000
Cost	
At 1 April 2007	2,680
Additions	<u>951</u>
At 31 March 2008	3,631
Amortisation	
At 1 April 2007	1,708
Charged in year	<u>492</u>
At 31 March 2008	2,200
Net Book Value	<u> </u>
at 31 March 2008	1,431
at 31 March 2007	972

12 Trade receivables and other current assets

	2008-2009 £000	2007-2008 £000
Amounts falling due within one year		
Trade receivables	2,274	564
Work in progress	7,477	7,700
Deposits and advances	414	388
Other receivables	439	494
Prepayments and accrued income	1,035	828
	11,639	9,974
Amounts falling due after more than one year		
Deposits and advances	582	495
Total	12,221	10,469

13 Cash and cash equivalents

	2008-2009 £000	2007-2008 £000
Balance at 1 April 2008	2,830	215
Net change in cash and cash equivalent balances	(2,647)	2,615
Balance at 31 March 2009	183	2,830
The following balances were held at		
Officer of HM Paymaster General	137	2,389
Commercial banks and cash in hand	46	441
Balance at 31 March 2009	183	2,830

14 Trade payables and other current liabilities

	2008-2009 £000	2007-2008 Restated £000
Amounts falling due within one year		
Trade payables	61	2
Other payables	204	27
Accruals and deferred income	5,799	6,075
Payments received on account	134	73
Amounts issued from the Consolidated Fund for supply but not spent at period end	178	2,830
Consolidated Fund extra receipts received due to be paid to the Consolidated Fund received	5	–
receivable	–	–
Total	6,381	9,007

Figures for 2007-2008 have been re-stated in line with International Financial Reporting Standards.

15 Provisions for liabilities and charges

	Early departure £000	Other £000	2007-2008 Restated £000
Balance at 1 April 2008	2,142	923	3,065
Provided in the year	1,032	–	1,032
Unwinding of discounts	21	–	21
Provisions utilised in the year	(691)	(923)	(1,614)
Balance at 31 March 2009	2,504	–	2,504

Analysis of expected timing of discounted flows

	Early departure £000	Other £000	2007-2008 Restated £000
In the remainder of the Spending Review period (to 2011)	1,742	–	1,742
Between 2012 and 2016	701	–	701
Between 2017 and 2020	61	–	61
Thereafter	–	–	–
Balance at 31 March 2009	2,504	–	2,504

15.1 Early departure costs

The National Audit Office meets the additional costs of benefits beyond the normal Principal Civil Service Pension Scheme benefits in respect of employees who retire early by paying the required amounts annually to the Principal Civil Service Pension Scheme over the period between early departure and normal retirement date. The National Audit Office provides for this in full when the early departure decision is approved by establishing a provision for the estimated payments discounted by the Treasury discount rate of 2.2 per cent in real terms.

15.2 Other provisions

The opening balance of other provisions related to restructuring costs of the National Audit Office's Blackpool Office, losses expected on the sale of properties belonging to staff who relocated to Newcastle and made use of the Cartus scheme available under the Office's relocation arrangements, liabilities arising on the termination of the lease of the official car and penalties arising on the assessment of the official car as a benefit in kind. These provisions have been fully utilised.

16 Capital commitments

	2008-2009	2007-2008
	£000	£000
Property, plant and equipment	10,854	1,112

17 Commitments under leases

Total future minimum lease payments under operating leases are given in the table below for each of the following periods.

	2008-2009	2007-2008
	£000	£000
Obligations under operating leases comprise		
<i>Land and buildings</i>		
Not later than one year	182	182
Later than one year and not later than five years	642	823
Later than five years	–	–

The long lease of the land and buildings comprising the Office's headquarters is at a peppercorn rent.

18 Other financial commitments

The National Audit Office has entered into non-cancellable contracts (which are not leases or PFI contracts), in connection with the refurbishment of its headquarters. The payments to which the National Audit Office is committed, analysed by the period during which the commitment expires are as follows.

	2008-2009	2007-2008
	£000	£000
Not later than one year	25,948	1,890

19 Financial Instruments

The National Audit Office's resources are met from Parliament through the Estimates process and from income from work carried out on a repayment basis. The Office has no powers to borrow money or to invest surplus funds. Other than financial assets and liabilities which are generated by day to day operational activities, the Office holds no financial instruments.

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 Office is not therefore exposed to material liquidity risks.

Credit Risk

The National Audit Office's clients are mainly government departments, executive agencies and other public bodies. The Office is therefore not exposed to any material credit risk.

Foreign Currency Risk

The National Audit Office has some exposure to foreign currency risk because fees for certain international work is denominated in dollars or euros. Before pricing or commissioning work the National Audit Office seeks to identify the potential exposure to exchange rate variations and to manage the risk accordingly.

20 Contingent liabilities

The National Audit Office had no contingent liabilities at 31 March 2009 (31 March 2008: Nil).

21 Losses and special payments

No losses and special payments that required separate disclosure because of their nature or amount were incurred (2007-2008: Nil).

22 Related party transactions

The National Audit Office is headed by the Comptroller and Auditor General and was established by the National Audit Act 1983. The Office is independent of government and is accountable to Parliament through the Public Accounts Commission. The National Audit Office had transactions with government departments and central government bodies, for the provision of accommodation, training courses and the hosting of seminars. Some of these transactions have been with entities that are fee paying clients. The Office also had transactions with HM Revenue and Customs to meet statutory taxation requirements and with the Cabinet Office which operates the Principal Civil Service Pension Scheme.

The most significant business transaction related to the leasing of temporary office accommodation, on commercial terms, from the Department for Business and Regulatory Reform which amounted to some £8.3 million in 2008-2009.

Three members of the National Audit Office Management Board have positions with the Chartered Institute of Public Finance and Accountancy, to whom the National Audit Office pays professional subscriptions on behalf of staff who are members. Caroline Mawhood was President of the Institute from June 2008, Steve Freer is the Chief Executive and Martin Sinclair is a member of the Council.

23 Post balance sheet events

There were no post balance sheet events between the balance sheet date and the date the accounts were signed.

The accounts were authorised for issue on 20 May 2009.

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: 009079-001

Published by TSO (The Stationery Office) and available from:

Online

www.tsoshop.co.uk

Mail, Telephone Fax & E-Mail

TSO

PO Box 29, Norwich, NR3 1GN

Telephone orders/General enquiries 0870 600 5522

Order through the Parliamentary Hotline Lo-call 0845 7 023474

Fax orders: 0870 600 5533

E-mail: customer.services@tso.co.uk

Textphone: 0870 240 3701

The Parliamentary Bookshop

12 Bridge Street, Parliament Square,

London SW1A 2JX

Telephone orders/General enquiries: 020 7219 3890

Fax orders: 020 7219 3866

Email: bookshop@Parliament.uk

Internet: <http://www.bookshop.parliament.uk>

TSO@Blackwell and other Accredited Agents

Customers can also order publications from

TSO Ireland

16 Arthur Street, Belfast BT1 4GD

028 9023 8451 Fax 028 9023 5401

ISBN 978-0-10-328829-1



9 780103 288291