



National Audit Office

Helping the nation spend wisely

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Reference GF/1584/G/12  
Date 18 December 2012

Dear Mr Webb,

GF/1584/G/12: correspondence of 19 November 2012

In your letter of the 19 November 2012 you raise a number of further points, again I have addressed each one in turn below.

1. *"You do not say whether you find my feedback and additional material helpful."*

A number of points you have raised to date are regarding areas that are either already under consideration by the NAO or outside of our remit. Therefore your queries to date have been of limited use in informing our forward plan. However correspondence with interested individuals is always of use. I would encourage you in future to consider other tools available to keeping up to date with the work of the NAO through our work in progress page on our website [http://www.nao.org.uk/publications/work\\_in\\_progress.aspx](http://www.nao.org.uk/publications/work_in_progress.aspx).

Other web pages you may find useful to consider when questioning whether an issue is being addressed are:

- Website for the Public Accounts Committee: this contains details of recent and upcoming committee hearings and other activities - <http://www.parliament.uk/pac>
- Website for all parliamentary committees: this contains details of the activities of the committees - <http://www.parliament.uk/business/committees/>

You will understand it uses valuable resource to respond to your queries, which could otherwise be used on our audit and other work.

I do not however want to discourage you from contacting the NAO if in the further there is a matter you feel is not being given appropriate attention having researched the work in progress through other avenues. Most of the further matters you raise are concerned with NAO's responsibilities which are largely defined by statute. However I thought it might be helpful to deal with each of the points you raise in turn.

2. *"You step round "government policy". Where are the 'no-go' boundaries that you do not cross within the continuous process that is the government total system?"*

The National Audit Act 1983 enables the NAO to consider the "economy, efficiency and effectiveness with which any [government department or other relevant body] has used its resources in discharging its functions". The Act does *not* allow the C&AG to question the merits of policy objectives. This is vital in safeguarding our independence and objectivity and means we are free from political influence. We do however examine how policy is formulated, and frequently examine aspects of the policy-making process.



National Audit Act 1983 defines policy as "in relation to any such department, includes any policy of the government so far as relating to the functions of that department".

3. *"I detect benefit in your VFM (Value For Money) work. But such is the disconnect between taxation of individuals and spending that the colloquial term VFM ought perhaps to be discontinued as having no quantifiable quality. I suggest EOE (Economic Operational Effectiveness) as an alternative."*

The National Audit Act 1983 set in legislation the powers of the NAO regarding our VFM work. We define good value for money as the optimal use of resources to achieve the intended outcomes. When determining a VFM opinion economy, efficiency and effectiveness are central to our work and drive both qualitative and quantitative conclusions. Although the National Audit Act 1983 did not define the words "economy", "efficiency" and "effectiveness" the debate around the legislation provided context:

- "economy" is the simplest concept of the value-for-money audit, and can be considered as the securing of resources - for example, goods or services - for the lowest possible cost, subject to the maintenance of an adequate standard of quality. The auditor might therefore be concerned with, say, contract tendering arrangements or the use of bulk purchasing to achieve larger discounts.
- "efficiency" involves the auditor in a comparison between output in respect of results achieved and input in respect of resources consumed - productivity, for example. It therefore goes beyond economy by examining performance and results as well as the costs involved. Thus, the auditor's task is to assess whether a given output could be obtained for the resources used. For example, centralising a service could achieve administrative savings
- "effectiveness" is concerned with the extent to which a body, project or programme achieves its stated objectives. It is not the auditor's task to attempt to specify what they should be, because that is a matter of policy for the Department or the body concerned. It must be recognised that a programme or project can be carried out efficiently without being effective. Effectiveness audit is, therefore, the most important part of assessing whether a body is in fact achieving value for money.

4. *"As for WGAs (Whole of Government Accounts), so late as to be almost worthless to the point of doing damage, I now learn that the Treasury has thus far given up on the natural next step i.e. WGBs (budgets i.e. plans, not fund allocations). I cannot see that you have formally commented on that. And, the European Court of Auditors now apparently assesses 86% of spending as inadequately controlled but I cannot see your corresponding assessment for UK government."*

The C&AG reported to Parliament, in his 2010-11 report on the WGA accounts, that any delay between gathering the data and publishing the Whole of Governments Accounts reduces its ability to inform government policy. It is recognised that the delays in producing the WGA does limit the speed at which improvements can be made to the process going forward and the C&AG has commented in his recent report about the need for HM Treasury to produce the WGA faster and to tighten up processes, procedures and accountability arrangements to help remove the causes of his qualifications of his audit opinion.

The Treasury is examining how it can use the WGA to inform the next Spending Review. Although it is considering how spending teams might use WGA data to assess the impact of policy changes on government's long term financial position, identify new sources of revenue and improve the management of debt, there are no current plans to incorporate WGA as part of a Whole of Government Budget package. The original scoping document for the WGA ([http://www.hm-treasury.gov.uk/d/whole\\_of\\_government\\_accounts\\_31-03-2011.pdf](http://www.hm-treasury.gov.uk/d/whole_of_government_accounts_31-03-2011.pdf)) did not envisage a Whole of Government Budget, although there is a recognition that a WGA covering the whole of the public sector would aid the setting and monitoring of fiscal policy. There is currently no requirement for the Treasury to report WGBs, the C&AG has not commented on this area. Parliament currently votes on resources on a departmental basis which are subject to Parliamentary scrutiny.

The C&AG's audit opinion requires him to report whether the accounts are true and fair. In his audit opinion for the 2010-11 WGA he qualified his opinion in a number of respects including such issues as valuations and completeness

([http://www.nao.org.uk/publications/1213/wga\\_2010-11.aspx](http://www.nao.org.uk/publications/1213/wga_2010-11.aspx)). Although the C&AG does not specifically report in the same format as the European Court of Auditors, the WGA audit does assess the impact of where component bodies auditors have considered poor controls have led to risk of material error in the WGA. For example, the two material underlying qualifications identified in the education sector over need for proper accountability metrics in the education systems highlight this assessment.

The act covering the WGA does not require the C&AG to give a regularity opinion on the accounts. Within our report on accounts for the 2010-11 WGA accounts we do however bring this to the attention of readers:

"The external auditor of some 22 accounts (16 in 2009-10) included in the WGA, qualified their audit opinions owing to the material existence of irregular spending; that is using resources not in accordance with Parliamentary intentions. Of these, two are of significance to the WGA. These cover error and fraud in benefit payments and tax credit payments. These irregularities lead me to qualify my regularity opinion on the resource accounts of the Department for Work and Pensions since 1988-89 and the trust statement of HM Revenue and Customs since 2003-04. Because the scope of my audit of the WGA, which is set out in the Government Resources and Accounts Act 2000, does not require me to provide an opinion on regularity, irregular transactions do not lead to a qualification of my audit opinion on the WGA."

*5. a) You seem to want to avoid formal advocacy of the annual report (not just by local authorities) by confusing format and address list with definition, purpose and standard. After contact with CIPFA I get the impression that it is preoccupied with the minutiae of accounting with little regard to the ultimate presentation of refined data comprehensible to 'lay' citizens within the comprehensive narrative activity report. We don't want to be presented with a clock in pieces, but to be told the time. Much the same applies to government management interest. The annual report should nevertheless be a gateway to all subsidiary data and published over the signature of the responsible leader.*

As discussed in our letter of the 2 November 2012 the role of preparing the Code of Audit Practice for Local Government does not extend to setting the format for Local Government annual reports and financial statements.

Additionally the majority of our Central Government audit clients are bound by the rules of the Government Financial Reporting Manual<sup>1</sup> which sets the scope of an annual report. The Government Financial Reporting Manual in turn takes its principals from Companies Act 2006.

We of course agree an organisation's Annual Report should be clear and concise providing all relevant information, and do work with our clients as part of each audit cycle to develop their annual reports.

*5. b) Guildford Borough Council does not produce an annual report for its residents but the local hospital Trust presents one in timely fashion to Parliament. Is government aware? Does the House of Commons pay attention on our behalf to such a fundamental obligation?*

We are not responsible for the audit of Guildford Borough Council, nor are we responsible for setting The Local Authority Code of Accounting Practice. I feel this particular line of enquiry would be best raised directly with Parliament (through the MP for Guildford, Anne Milton, [anne.milton.mp@parliament.uk](mailto:anne.milton.mp@parliament.uk)) and the House of Commons ([hcinfo@parliament.uk](mailto:hcinfo@parliament.uk)).

<sup>1</sup> [http://www.hm-treasury.gov.uk/d/2012\\_13\\_frem\\_full\\_version.pdf](http://www.hm-treasury.gov.uk/d/2012_13_frem_full_version.pdf)

6. *In jest: given the Tudor origins of 'comptroller' shouldn't your confusing title be updated to eliminate a conflict of interest between him and the auditor?*

The Comptroller and Audit General (C&AG) title itself originates from the nineteenth century, with the enactment of the Exchequer and Audit Departments Act 1866. The role of the C&AG combined the offices of Auditor General of the Exchequer and the Commissioners for Auditing the Public Accounts meaning control over issues from the Exchequer and the examination of public accounts were amalgamated. Issues are authorised by the C&AG following a request from HM Treasury release funds from government accounts, held at the Bank of England. The Comptroller function therefore provides a separation of duties between the request for funds and the approval of those funds, based on Parliamentary Authority.

Today the C&AG's statutory independence from the Executive Government and HM Treasury remains firmly in place. The C&AG reports to Parliament through certification of the accounts of central government bodies and examinations of the economy, efficiency and effectiveness to which government bodies have used public resources.

I hope you find the above sufficiently answer your queries.

Yours sincerely,



Nick Lacy  
Head of Policy and Legal