

Box 3: The National Audit Office (NAO) of the United Kingdom

The introduction of performance auditing in Britain was legislated in response to the demands of the Parliament (the Public Accounts Committee, or PAC) for audited information extending beyond mere financial audit opinions. Increasing parliamentary concerns about the influence that the executive body, particularly the Treasury, retained over the NAO created the political climate to pass the National Audit Act in 1983, which gave the Comptroller and Auditor General (C&AG), who reports to the House of Commons (Public Accounts Committee), express powers to carry out investigations of how departments use their resources (see Annex C). Thus, the C&AG is now able to provide assurance about performance and about whether public money has been spent properly and for the purposes intended by Parliament. However, the C&AG is not entitled to question the merits of policy objectives; examinations are focused on the means employed to achieve the policy objectives set by the government and approved by Parliament.

Selection of performance audit studies are made annually based on a variety of criteria which include the amount of money involved; prima facie evidence of poor value-for-money; the level of political, parliamentary; and political concern; and the likely added value to be derived from the NAO conducting a study. The choice of audits is solely that of the C&AG, but the views of the PAC are taken into account, and its response to the NAO report may be included in the final report to Parliament.

NAO is one of the leading SAIs and emphasizes rigorous audits, quality assurance, and objectivity. A well trained staff conducts a wide variety of performance and financial audits with the latter having become increasingly important in

the face of government restructuring. During the past decade, NAO has offered a lot of training to its staff, hired a large number of accountants and social scientists, enabling integrated audit teams—supplemented by experts from the private sector and academia—to use multi-disciplinary approaches to performance auditing by combining diverse skills and background.

Similar to the US GAO contribution to government savings, the UK NAO performance auditing has identified savings of £270 million (US\$425 million)—equivalent to £7 saved for £1 spent on audits. From an annual budget of US\$66 million, about 38 percent of NAO resources are dedicated to performance auditing to produce over 50 reports annually. The cost of performance audits continues to decline as a result of better management and planning, with an emphasis on tighter, faster, and sharper examinations. Also, performance auditors have improved the quality and value of their reports by:

- identifying financial savings;
- adopting emerging trends such as market testing;
- using a thematic approach;
- applying rigorous methodologies that provide defensible findings and conclusions; and
- contracting with private sector experts when their expertise enhances a performance audit.

As in Canada and the United States, NAO undertakes internal quality reviews of ongoing and completed work, through contractual arrangements with independent quality panels. The panels provide advice on audit issues, evidence and report drafting.

Taken from:

Kenneth M. Dye and Rick Stapenhurst (1998): “Pillars of Integrity: The Importance of Supreme Audit Institutions in Curbing Corruption”, The Economic Development Institute of the World Bank.