

National Audit Office

The early years

The National Audit Office has existed in its present form since 1983, but the public audit function in United Kingdom central government has a much longer history. The earliest surviving mention of a public official charged with auditing government expenditure is a reference to the Auditor of the Exchequer in 1314. The Auditors of the Imprest were established under Queen Elizabeth I in 1559 with formal responsibility for auditing Exchequer payments. This system gradually lapsed and in 1780, Commissioners for Auditing the Public Accounts were appointed by statute. From 1834, the Commissioners worked in tandem with the Comptroller of the Exchequer, who was charged with controlling the issue of funds to the government.

Gladstone's reforms

But the role of Parliament in this process was limited. Whilst Parliament had for several centuries been responsible for raising revenue and authorising expenditure – and the nation had fought a civil war largely on this issue – Parliamentary control and scrutiny of public spending was weak. It was not until the 1860s that the first major steps towards proper financial accountability to Parliament were taken. The champion of reform was William Ewart Gladstone (below), who was Chancellor of the Exchequer from 1859-1866.

As Chancellor, Gladstone initiated major reforms of public finance and Parliamentary accountability. His 1866 Exchequer and Audit Departments Act required all departments, for the first time to produce annual accounts, known as appropriation accounts. The Act also established the position of Comptroller and Auditor General (C&AG) and an Exchequer and Audit Department (E&AD) to provide supporting staff within the civil service. The C&AG was given two main functions - to authorise the issue of public money to government from the Bank of England, having satisfied himself that this was within the limits Parliament had voted - and to audit the accounts of all Government departments, and to report to Parliament accordingly.

Parliamentary audit

The 1866 Act established a cycle of accountability for public funds. The House of Commons authorised expenditure, the Comptroller and Auditor General (C&AG) controlled the issue of funds, and accounts were produced by departments and audited by the Comptroller and Auditor General. The results of the C&AG's investigations were considered by a dedicated Parliamentary committee, the Committee of Public Accounts (PAC), which had been established in 1861, also by Gladstone. From the 1870s, the PAC took evidence from senior officials, normally Heads of Departments, who were designated as Accounting Officers by the Treasury.

Initially, the C&AG and his staff were required to examine every transaction. This became more unrealistic as the level of government activity expanded, particularly during the First World War. New legislation, the Exchequer and Audit Departments Act 1921, addressed this by allowing the C&AG to rely in part on departmental systems of control and thus examine a sample of transactions. This Act also required the C&AG to report to Parliament that money had been spent in accordance with Parliament's wishes.

1980s Reforms

Pressure for the reform of the public audit system grew from the 1960s, following concerns expressed by Parliamentarians and academics that the scope of public audit needed to be modernised to reflect the significant changes in the role of government over the course of the twentieth century. In particular, it was argued that there was a need for a specific power to allow the C&AG to report to Parliament at his own discretion on the value for money achieved by government departments. Reformers also argued that more robust arrangements should be put in place to ensure the independence of public auditors from government.

These changes were reflected in the National Audit Act 1983. This was originally a private member's bill, which commanded wide all-party support. Under the Act, the C&AG formally became an Officer of the House of Commons, and was given the express power to report to Parliament at his own discretion on the economy, efficiency and effectiveness with which government bodies have used public funds. The Act also established the National Audit Office (NAO) to replace the Exchequer and Audit Department in support of the C&AG.

Recent Changes

Devolution

Further important changes have occurred in recent years. Following devolution, new Auditors General have been set up in Scotland and Wales to audit the expenditure of the new Parliament and Assembly. The NAO in Cardiff provides audit services to the [Auditor General for Wales](#). In Scotland, the Auditor General will be supported by a new body, [Audit Scotland](#), made up from the staff of the NAO in Scotland and the Accounts Commission for Scotland, which oversees local government audit. There has been a separated Comptroller and Auditor General for Northern Ireland since the foundation of the state in 1921. He heads the [Northern Ireland Audit Office](#) and reports to the Northern Ireland Assembly.

Resource Accounting and Budgeting

The introduction of resource accounting and budgeting is an important development for the National Audit Office. This involves changing from a cash to an accruals based system for planning and accounting for expenditure.

People and Places

As a nationwide body responsible for auditing expenditure throughout the country, we have always had regional offices in various parts of the UK. Currently we have offices in London, Cardiff, Newcastle and Blackpool. The current headquarters of the National Audit Office are in Buckingham Palace Road, near Victoria Station in London. We moved here in 1986, following the departure of British Airways, the previous incumbents, for new headquarters at Heathrow. Our previous headquarters were at Audit House on Victoria Embankment in the City of London, and we once occupied part of Somerset House, the headquarters of the Inland Revenue.

Former Comptroller and Auditors General have included Sir David Pitblado, who served as a senior adviser to Winston Churchill, and Sir Gordon Downey, who became the first Parliamentary Commissioner for Standards in 1994. The current

incumbent is Sir John Bourn, a former senior Ministry of Defence and Northern Ireland Office official.

The development of audit

The work of successive Comptroller and Auditors General had reflected changes in the nature of government over the years. In the later years of the last century much audit work concentrated on issues of propriety, with the C&AG reporting to Parliament time and again on irregular payments and practices by Government departments.

The expansion of government in the twentieth century led to substantial changes in the work of the C&AG, with reports to Parliament concerning large budgets such as those for old age pensions, hospital construction programmes and payments to universities. Over time, the focus shifted from reporting simply on the details of expenditure to consideration of the value for money achieved by government expenditure.

This process was accelerated greatly by the passing of the 1983 National Audit Act. Since then, the C&AG and his staff at the NAO have prepared around 50 reports per year to Parliament on the economy, efficiency and effectiveness with which departments and other public bodies have spent public money. In the 1980s and 1990s, we reported extensively on the emerging themes in public sector management, such as privatisation. Our work in this area led to substantial savings for the taxpayer in later sales. And, our work on the proper conduct of public business fed through to some of the main recommendations of the Committee on Standards in Public Life under the chairmanship of Lord Nolan.

We have continued to initiate major programmes of evaluatory work on new developments in government, and have recently undertaken extensive studies on privatisation and public/private partnership projects. At the same time, our financial audit work has developed significantly to incorporate issues such as corporate governance, IT audit and the audit of risk, as well as the transition to resource accounting.