

National Audit Office

Smarter Audit

Better audits now. A different audit for the future

Overview for discussion with the Financial Reporting Advisory Board

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A shared opportunity

Two complementary programmes can strengthen the central government financial reporting and audit system

HM TREASURY

Financial Reporting Reset

- High-quality, proportionate reporting
- Streamlined requirements for small bodies
- Focus preparer effort where it adds most value

HMT leads financial reporting reform

SHARED AMBITION

High-quality, proportionate, timely and efficient financial reporting and audit

NAO

Smarter Audit

- Proportionate, high-quality, risk-focused, supporting greater insight
- Technology-enabled, more efficient
- Protect quality, accountability and confidence

NAO leads audit approach and methodology

Close collaboration • distinct responsibilities • aligned programmes

The opportunity is to design reporting and audit reforms so they reinforce one another.

Audits must always comply with auditing standards and regulatory standards

2
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Two things we would like to agree today

Move from programme overview to a focused working relationship between Financial Reporting Reset and Smarter Audit

1

Where are the biggest opportunities?

FRAB's initial view on the most valuable areas for greater proportionality across financial reporting and audit, particularly:

- **Practice Note 10, Practice Note 28 and NAO audit methodology**
- **The reporting and audit interface**
- **Technology**

2

How should FRAB feed in?

Agreement in principle on a proportionate engagement model.

Alongside FRAB, we are planning to consult with other stakeholders including the Government Finance Function, wider auditing profession, and Parliament.

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1

Smarter Audit



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Smarter Audit: Better audits now. A different audit for the future

Smarter Audit brings existing improvements and the next opportunities into one whole-system programme, combining changes within the NAO with opportunities we need to shape with others.

PROGRESS TO DATE

Builds on progress

1. Stronger risk-based audit approach
2. More proportionate materiality and sampling
3. Investment in quality, technology and capability
4. Stronger engagement with accounts preparers

OPTIMISE AUDIT NOW

High quality, proportionate, insightful and efficient

1. Simplify methodology and workflows
2. Apply proportionality more deliberately
3. Make better use of people, technology and data
4. Test and scale through the Smarter Audit Lab

BUILD THE FUTURE

A different audit for the future

1. AI and audit intelligence
2. Data-led assurance and insight
3. Redesigned workflows and future workforce
4. New assurance models

SHAPE TOGETHER

Create the conditions for smarter audit

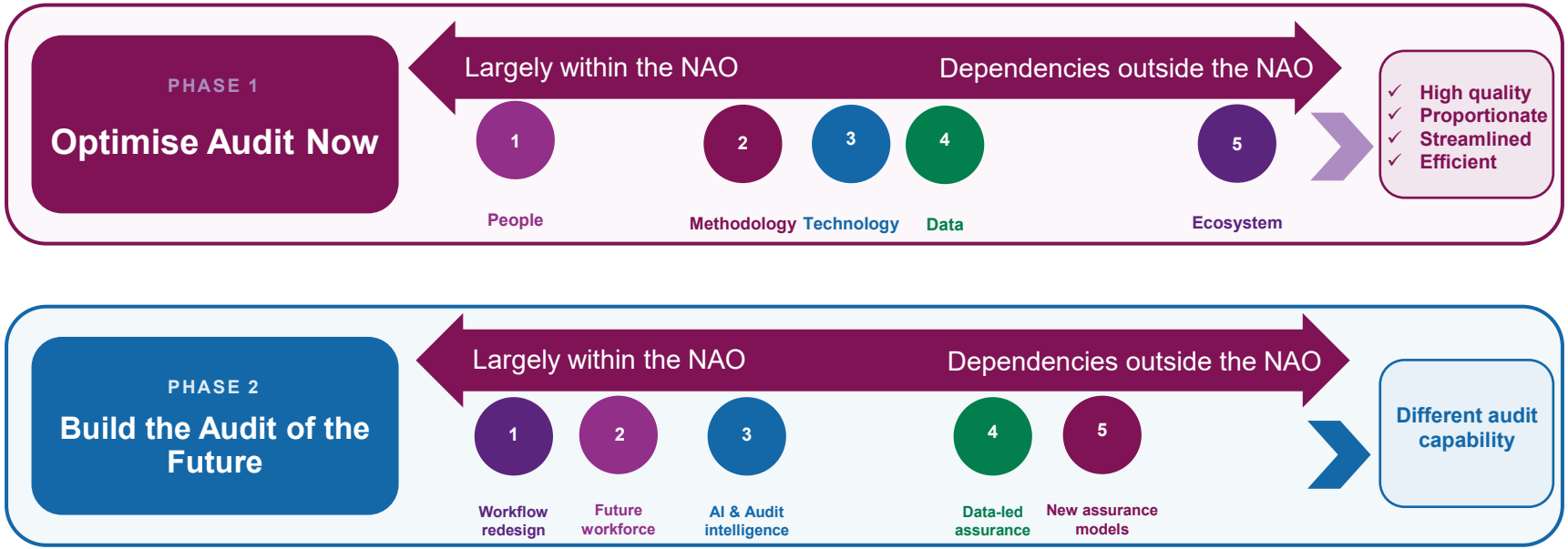
1. Practice Note 10 and Practice Note 28
2. Financial reporting requirements and standard setting
3. Account preparer capability, systems and shared services
4. Collaboration across the wider audit ecosystem

External collaboration and system dependencies shape both phases

Smarter Audit is one programme with two connected phases

The phases run in parallel and reinforce one another.

Some workstreams will have external dependencies, where we are keen to work with HM Treasury, accounts preparers and other stakeholders



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Smarter Audit builds on progress already made

	Before 2021	2021	2022	2023	2024	2025	2026	Future
External standards have continued to develop, leading to new requirements for accounts preparers and the National Audit Office								
Changes in Accounting Standards	• IFRS 15: Revenue from Contracts with Customers • IFRS 9: Financial Instruments • IFRS 16: Leases			• IFRS 17: Insurance Contracts			• Charities revised SORP	• IFRS 18: Presentation & Disclosure in Financial Statements
Changes in Auditing Standards	• ISA 570: Going Concern • ISA 540: Auditing Estimates • ISA 500: Audit Evidence	• ISA 315: Identifying & Assessing the Risks of Material Misstatement • ISA 240: Auditors Responsibility Relating to Fraud	• ISA 220: Quality Management for an Audit of Financial Statements	• ISA 600: Group audits • ISQM 1 & 2: Quality Management				• IFRS 19: Subsidiaries without Public Accountability: Disclosures
The NAO has responded with significant investment to enhance our methodology, use of technology, the capacity and capability of our people, and engagement with accounts preparers								
Methodology				• New risk based approach under ISA 315 • Revised sampling approach	• Launch of integrated Quality First Plan	• Revised approach to materiality for small & less complex entities	• Further enhancements to materiality approach	Smarter Audit
Technology				• New Apex audit software system	• Streamlined journals application • DataSnipper	• Introduction of CoPilot	• Documine	
People		• Launch of Property, Pensions, Digital & Financial Instruments Centres of Excellence		• Revised approach to outsourcing of audits	• Significant investment in NAO trainee intake		• Recruitment of NAO Actuary	
Engagement with accounts preparers			• First NAO ARAC Chairs event		• Working Together to Achieve High-Quality, Timely and Efficient audit guide		• Inaugural Insights Guide	

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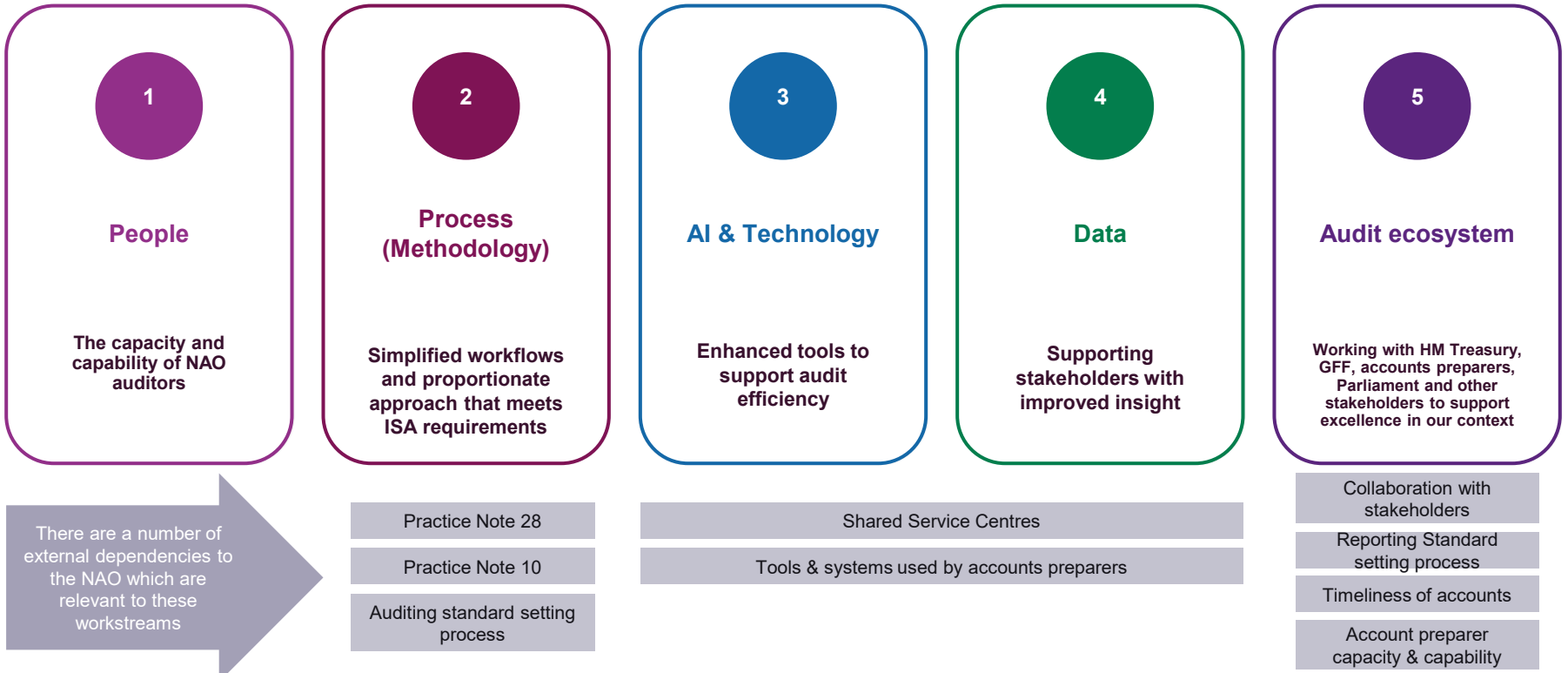
Smarter Audit is a whole-system programme, not just a technology workstream



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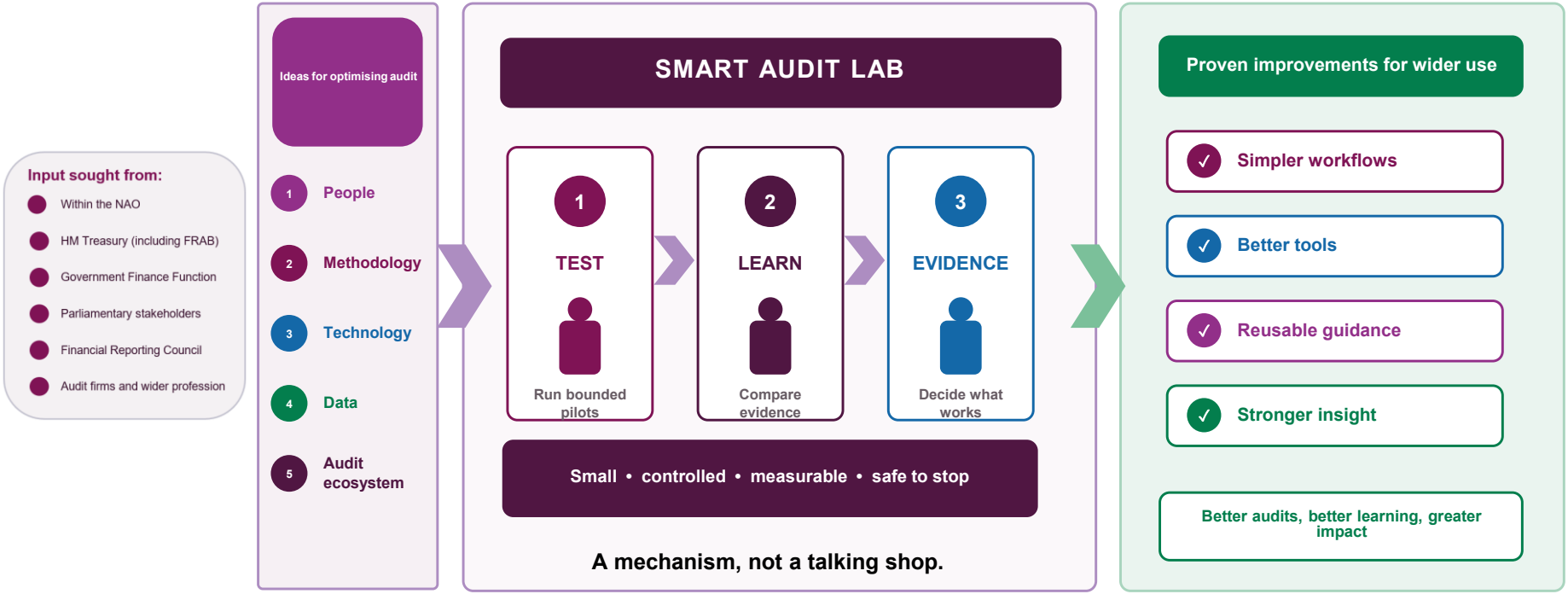
We will launch the Smarter Audit Lab. The Lab will identify, test and scale ideas that make today's audit faster, better and easier to deliver, as well as feeding into the audit of tomorrow



1 **CAPTURE** Ideas and friction points

2 **PRIORITISE** Impact, feasibility and risk

3 **TEST** Rapid, controlled pilots

4 **EVALUATE** Evidence and learning

5 **SCALE** Embed what works

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2

Input & consultation



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Seeking FRAB's input: discussion

Priorities: Where does FRAB see the greatest opportunities for Financial Reporting Reset and Smarter Audit to work together to streamline central government reporting and audit, whilst maintaining transparency, rigour and quality?

Safeguards and success: What principles and evidence should guide simplification, to maximise the benefits of Smarter Audit while protecting audit quality, parliamentary accountability and confidence in public accounts?

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3

Next steps



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