



National Audit Office

Board Minutes

Meeting held on 14 September 2022 from 11:00 to 12:00 hrs.
157-197 Buckingham Palace Road, London SW1W 9SP

Members		
Dame Fiona Reynolds	FR	Chair
Sir Martin Donnelly	MD	Non-Executive Member
Janet Eilbeck	JE	Non-Executive Member
Gaenor Bagley	GB	Non-Executive Member
Dame Clare Tickell	CT	Non-Executive Member
Gareth Davies	GD	Comptroller & Auditor General
Daniel Lambauer	DL	Executive Director responsible for Strategy and Resources
Kate Mathers	KM	Executive Director responsible for Financial Audit Service Line
Max Tse	MT	Executive Director response for Knowledge
Attendees		
Elaine Lewis	EL	Executive Director responsible for Financial Audit Quality
Rebecca Sheeran	RS	Executive Director responsible for VFM service line
Katie Clifford	KC	Head of HR policy and services
John McCann	JMcC	Director HR
Nigel Terrington	NT	Director Strategy
Tim Valentine	TV	Director Finance
Helene Morpeth	HM	Head of Governance and Risk

1. Welcome and Chair's opening remarks

Welcome

- 1.1 Dame Fiona Reynolds, Chair, welcomed members and attendees to the additional meeting of the Board to discuss the 2022-23 supplementary estimate bid. The Board observed a minute's silence in remembrance of HM Queen Elizabeth II.

Apologies for absence

- 1.2 The Chair reported that Martin Donnelly was unable to attend the meeting due to a prior commitment however he had provided comments in writing on the proposal for the in-year pay award. The Chair also reported that apologies for absence had been received from Abdool Kara.

Declaration of Interests

- 1.3 There were no additions or changes to declarations of interest.

2. Regular items

Approval of Minutes

- 2.1 The Board approved the minutes of the meeting held on 26 July 2022 subject to an addition to paragraph 6.2 to reflect that the next meeting of the Audit Quality Board would be looking in depth at the findings from the Financial Reporting Council's (FRC) review of a sample of nine 2020-21 audits.

Action Log

- 2.2 The Board noted the status of the action log and agreed the deletion of the three completed actions. The C&AG reported that the Board would receive the updated 2021-22 Transparency Report for final review ahead of publication of the report on the NAO's website. He reported that the report now included updated forewords which set out the improvements the Office is making, particularly in relation to the financial audit practice, following receipt of the findings from the FRC's review.

General (C&AG) Update

- 2.3 The C&AG provided a verbal update on emerging issues since the last meeting of the Board. The Board discussed the changes in No 10, in the Cabinet, and at senior levels in the civil service. The Board's discussion also covered the stated priorities of the new government in the areas of economic growth, energy, and deregulation and the likely spending commitments associated with these. The Board discussed the potential implications on the Office's work programme arising from these external factors including the potential risks to value for money. The Board made reference, as context, to the lessons learned from the COVID-19 suite of reports and highlighted the key issue of resilience across government. The Chair suggested the Board should return to the theme of resilience at a future meeting.

Action: the Board to consider the theme of resilience at a future meeting. Helene Morpeth to coordinate as necessary.

3. Substantial approvals

Supplementary Estimate 2022-23:

- 3.1 Daniel Lambauer (DL) introduced detailed proposals addressing the issues previously discussed in the context of the proposed 2022-23 supplementary Estimate bid i.e. the Newcastle Office lease and the question of an in-year pay award. He reminded members that both had been considered, at a high level, at the Board meeting in July. On the Newcastle office, the Board had provided their in principle support for the move to a slightly larger, better quality, and environmentally friendly site, earlier than planned, subject to consideration of more detailed

costings. The Board had also requested further costings in relation to the question of an in year pay award.

Newcastle office lease

- 3.2 Daniel Lambauer summarised the strategic rationale for relocating to a more modern office as follows:
- the NAO consolidates its position as an attractive and competitive employer in the audit sector with established links to local Universities, retaining skills and graduates in the region;
 - the proposed new office is 10% greater in size and will allow us to increase our numbers in the North in response to the Government's levelling up agenda and the shift of the Civil Service outside London, (a major Economic Campus is being established in Darlington, with good links from Newcastle); and
 - the new office has top environmental credentials with no future costs of conversion required. Its energy systems allow us to meet our own target of being a net zero carbon organisation by 2029.
- 3.3 Daniel Lambauer provided a detailed explanation of the cost implications, on the current financial year, of moving to the new office earlier than planned and why a supplementary budget for 2022-23 was required to provide budget cover in relation to three main budget headings: an increase in the Capital budget; an increase in the Resource budget and in increase in the Net Cash Requirement. He informed the Board of the implications under IFRS 16 Leases for the NAO to account for the full value of a 10 year lease, on inception, as a capital asset.
- 3.4 In discussion, the Board confirmed their support for the strategy of consolidating the NAO's presence in the North and noted the support expressed by Newcastle based staff for the move. The Board commented that the office move opened up the possibility of using resources more strategically. The Board agreed that the move to the new office represented the best long term option for the NAO. Against this context, and following careful consideration of the cost implications, the Board approved the 2022-23 supplementary bid request to the Public Accounts Commission (TPAC), to cover the move to a new office site.

Pay award

- 3.5 Following the implementation of the pay award from 1 April, and in response to further increases in the cost of living, the Board considered the cost and affordability of an in-year pay increase for staff. To inform their decision, the Board noted pay trends in the private and public sector; resignation rates principally at Audit Principal level; feed-back from the people survey and the impact of increases in employee NI contributions from 1 April 2022. Daniel Lambauer reported that the Executive Team's proposal was that a modest increase, targeted at the lowest paid employees, should be funded within the NAO's existing approved resources for the current financial year. He reported that the affordability of such a pay award was based on an extensive review by the Finance Team of the office's forecast position in all areas of expenditure and income including a historic review of trends to understand how forecasts at this stage of the year have varied from eventual outturn.
- 3.6 The Non-Executives agreed that action should be taken to limit staff turnover in the grades that are critical for the delivery of the NAO's business objectives, and also to support lower-paid staff with rapidly rising costs of living. The Non-Executives commented that the proposed 1% award may not be enough given rapidly changing external factors but supported the principle, endorsed by the Remuneration and Nominations Committee, that the pay award should be covered by the office's current budget. The Board commented that the in-year pay award should not be considered in isolation but alongside the positive implications of the proposed review of the pay framework effective from 1 April 2023 and next year's pay award.
- 3.7 The Board approved a consolidated increase of 1% to all staff below Audit Manager / Band 1 grade effective from 1 October 2022. The Board noted the cost implications on the six months remaining of the 2022-23 budget and the implications of the full-year impact of these costs on the 2023-24 baseline budget. These decisions would not require a bid for supplementary in-year funding, but the NAO's decisions would be brought fully to TPAC's attention because of their implications for future years.

4. Non-Executive succession

- 4.1 The Chair reported that the preferred candidate for the non-executive vacancy on the Board had not been able to proceed with the appointment for reasons outside of the NAO's control. She reported that the recruitment campaign would be relaunched in the weeks ahead with a focus on applicants with strategic business transformation skills and experience rather than data and digital.

5. Date and time of next meeting

- 5.1 The Board noted that the next meeting would be the all-day strategy meeting on 29 September 2022.