



National Audit Office

Board Minutes

Meeting held on 13th December 2022 from 10:00 to 12:30 hrs.
157-197 Buckingham Palace Road, London SW1W 9SP

Members		
Dame Fiona Reynolds	FR	Chair
Sir Martin Donnelly	MD	Non-Executive Member
Gaenor Bagley	GB	Non-Executive Member
Dame Clare Tickell	CT	Non-Executive Member
<i>Vacancy</i>		
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		
Abdool Kara	AK	Executive Director responsible for People
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 (item 4)
Steve Corbishley	SC	Director, Compliance Quality Unit (item 5)
Chloe Forbes	CF	Head of Strategy (item 3)
Adrian Jenner	AJ	Director Parliamentary Relations (item 5)
John McCann	JMcC	Director HR (item 4)
Susan Ronaldson	SR	Director ATP and Change (item 5)
Will Sharp	WS	Head of Internal Communications (item 5)
Nigel Terrington	NT	Director Strategy
Tim Valentine	TV	Director Finance (item 5)
Helene Morpeth	HM	Head of Governance and Risk

1. Chair Welcome

Welcome

1.1 Dame Fiona Reynolds, NAO Chair, welcomed members and attendees to the meeting.

Apologies for absence

1.2 The Chair reported that there no apologies for absence.

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 1 November 2022.

Action Log

2.2 The Board noted that there were five actions on the action log all of which were reported as 'complete' and therefore recommended for deletion. The Board agreed the deletion of the completed actions from the log.

General (C&AG) Update

2.3 The C&AG provided his update since the last meeting of the Board. The C&AG's update led to a wide-ranging discussion covering the current disruption from industrial strike action including the impact on the NAO's clients and internally in relation to staff who are members of the Trade Union. The Board also discussed the positive engagement with TPAC on Audit Quality and the impact for the office in terms of the update to the Financial Audit Quality Plan and the introduction, amongst other things, of audit quality indicators to enable the office to provide quantitative and qualitative measures of quality including both inputs and outputs.

2.4 The Board also discussed the main outcomes of the C&AG's attendance at the triennial Congress of Supreme Audit Institutions (SAIs) and noted the positive engagements with SAIs on environmental and sustainability reporting. The C&AG also reported on discussions held with two SAIs which will help support us with the refresh of the Strategy in 2023 i.e. the US SAI which will look at the NAO's digital capability and the SAI of the Netherlands which will review our approach to environmental reporting.

3. Strategic Discussion

The NAO's ambition

3.1 The Chair invited the Board to contribute to the strategy discussion on the "NAO's ambition", following the helpful discussion held at the November Board on the "NAO's position". In January the Board will discuss the theme of "Best in Class" and what this means for the NAO as an exemplar organisation. She added that the aim of these strategic discussions is to continue to reflect on the overarching aims of the NAO's Strategy in advance of the strategic review process which will kick off in February 2023.

3.2 The Board discussed whether there were any opportunities for greater ambition in fulfilling our strategic priorities and enablers and whether there were any shortfalls which required more effort.

The consensus from the Board discussion was that:

- The strategy is working well: it recognises the fundamental business challenges internally and externally including within Parliament; it is focused on the right critical enablers and creates alignment with the NAO's values.
 - The strategy should be viewed as a 10-year strategy: it is dynamic and already includes ambitious change projects within it, with more to build on for example: creating a compelling employer value proposition, increasing our digital capability and insight, responding to the challenges of environmental and sustainability auditing and reporting, optimising the impact of the Hubs in relation to sharing best practice, cross departmental challenges and lessons learned, driving forward methodologies on resilience etc.
- 3.3 The Board agreed that while there were candidates for new ambitions, it was important to continue focusing on the delivery of the existing objectives in the strategy, many of which were not yet achieved for example on diversity and inclusion which is central to our ambition. In addition we should continue supporting and promoting the importance of sound financial management and timely reporting within our client base.

4. Substantial approvals

Topics for the external review on the NAO in 2023

- 4.1 Gaenor Bagley presented the proposed terms of reference for the 2023 external Value for Money (VfM) review on the NAO to be carried out by the NAO's external auditors. She reported that the Audit and Risk Assurance Committee (ARAC), which had considered the scope for the review earlier in the month, recommends that the review should focus on the *Financial Management of the NAO's financial audit work*. The rationale for the topic is that financial audit represents the most significant area of the NAO's operational expenditure. The ARAC felt that the Board and the Public Accounts Commission (TPAC) would welcome external assurance that that the mechanisms in place to support the overall annual funding requirements relating to financial audit, alongside those in place to support financial estimates for individual assignments, are effective and in line with VfM principles. Gaenor Bagley added that ARAC had suggested minor tweaks to the terms of reference to ensure the scope was more precisely defined.
- 4.2 The Board agreed that the proposed topic would lend itself to external scrutiny and endorsed the overarching questions that the review would address. The Board also agreed with ARAC's view that the scope could be tighter and, on balance, felt that section three of the terms of reference covering the NAO strategic investments was lower priority. Furthermore, the Board agreed with the suggestion from ARAC that it would be helpful to receive external assurance on the use of experts by the financial audit practice.
- 4.3 The C&AG reported that TPAC has indicated an interest in being more involved in topic selection in future years. The Board welcomed the Commission's interest. It was agreed that the Board and ARAC should be consulted on future stakeholder engagement with the Commission, in respect of topic selection.

Action: Board and ARAC to be consulted on future stakeholder engagement with the TPAC in respect of the annual external VfM topic.

2023 Code of Conduct

- 4.4 John McCann presented the 2023 Code of Conduct for Board approval. He explained the rationale for the proposed updates to the Code (from the prior year version) in respect of two areas: security clearance for certain members of staff and, separately, the consumption of alcohol at office social events.
- 4.5 The Board agreed the proposed updates and approved the 2023 Code of Conduct for publication to the wider office.

Diversity Pay Gap Report

- 4.6 John McCann presented the 2022 Diversity Pay Gap report, including key pay gap data as at 31 March 2022, which the NAO has a statutory obligation to publish each year in respect of gender pay gaps. He added that as part of the office's wider commitment to diversity and inclusion the office has also published, on a voluntary basis, the pay gaps in respect of ethnicity and disability.
- 4.7 The Board discussed the key pay gap data noting that the results were in line with expectations i.e. the gender pay gap continues to reduce as a result of improving the proportion of women in middle management and senior levels. The Board also discussed ethnicity and disability pay gaps which have widened principally as a result of recruiting a high proportion of trainees with these protected characteristics. The Board received assurance that over time these pay gaps would reduce as the talent pipeline progresses up the pay grades.
- 4.8 The non-executives enquired about in-grade pay gaps. John McCann explained that whilst in-grade pay differentials are not themselves a major factor in the NAO's diversity pay gaps; they are an area of focus for the ongoing pay framework review and for ensuring that the office has a fair and transparent pay structure. The Board asked for an overview of the current in-grade pay gaps to assure themselves that there were no specific areas of concern that should be addressed. John McCann agreed to provide a briefing note on in-grade pay gaps.
- 4.9 The Board approved the 2022 Diversity Pay Gap report for publication on the NAO's external website.

Action: John McCann to provide a briefing note to the Board on in-grade pay gaps.

5. Substantial operational matters

Draft Strategy update and 2023-24 Estimate

- 5.1 Daniel Lambauer presented the draft NAO strategy progress update and 2023-24 estimate request for the fourth year of the five-year strategy. He highlighted the key components of the proposed 8% increase in the NAO's net resource requirement. The components included a proposed 3% pay award for staff, in addition to the costs of implementing the new pay framework, and a small increase in staff numbers as a result of additional audit work required as a consequence of new ISA 315 risk assessment standards. He reported that the net resource requirement also allowed for inflationary increases in the office's non-staff costs, for example spending on audit firms which has increased by almost 20% year on year, and which is disclosed, separately, for the first time as the increase raises important value for money questions. He added that the proposed estimate reflected the outcome of the recent round of operational planning.
- 5.2 The Board engaged in a detailed discussion on the proposed pay award, taking into account the views of the Remuneration and Nominations Committee (RemCo) which had considered the matter at its meeting in October. Clare Tickell reported that the Committee considered that a 3% award would be at the lower end of the spectrum and risked contributing to a build-up of pressure on pay in future years. Members discussed the on-going impact of inflation on the pay environment in the private and public sectors, and they also considered the impact of other economic indices on pay. Against this background, the Board commented that a 4% pay award seemed a more reasonable and justifiable offer and was still well below current inflation rates. Combined with the effect of the pay review, the overall pay award for staff would be reasonable and in line with comparable organisations. The Board noted that the outcome of the pay review for corporate services staff was due to complete by September 2023. Any pay increase resulting from this review would be backdated to 1 April 2023.
- 5.3 The Board turned to the introductory and summary part of the draft Strategy document and commented that the narrative on pay should be heightened. They also commented that the narrative on staff numbers should be clarified.

- 5.4 Nigel Terrington thanked members for their helpful comments. The Board noted the timeline for comments on the next iteration of the document ahead of final approval by the Board at its meeting on 24 January 2024.

Action: Nigel Terrington to reflect the comments of the Board in the next iteration of the draft strategy update and 2023-24 Estimate.

Update on the Financial Audit Quality Plan

- 5.5 Elaine Lewis presented the Financial Audit Quality Plan Year 3 which includes the measures the office is putting in place to support the 2022-23 audit cycle and beyond. She added that the Plan represents the preventative controls in place to mitigate against the strategic risk on Financial Audit Quality. She added that this year the Plan is presented as a set of actions, contained in an overall action plan, in line with the recommendation from the Financial Reporting Council (FRC). To increase engagement with staff the Plan will be supported by several explanatory videos. She added that progress against the actions will be monitored by the Audit Quality Board (AQB).
- 5.6 The non-executives welcomed the Plan and the new approach proposed for Year 3. They suggested that the actions could be formulated in a slightly SMARTER way; and that actions could be prioritised and linked to outcomes. The non-executives also made some drafting suggestions in relation to the C&AG's foreword.

Action: Elaine Lewis to take forward the publication of Year 3 of the Financial Audit Quality Plan informed by the views of the Board.

Update on the Audit Transformation Programme (ATP)

- 5.7 Kate Mathers provided a progress update on the ATP. She reported that the overall programme rating remains Amber (no change since November). Two of the four training events on the new methodology and tooling have now taken place. As reported to the Board in November a revised timetable was agreed with the supplier for the first pilot release which has now gone live with pilot teams using the software from 2nd December. She added that a second release is due at the end of January 2023.
- 5.8 The non-executives enquired about the financial forecast which pointed to the full utilisation of the contingency within the 2022-23 budget. Kate Mathers reported that there is a 10% contingency for every year of the business case, and that the 10% allocated in 2022-23 is being used in a controlled way.
- 5.9 The C&AG reported that the supplier had been acquired by a digital transformation Managed Service Provider, and that he would meet the new supplier in the New Year.
- 5.10 The Chair thanked Kate Mathers for her update and commented how helpful these updates were in providing assurance to the Board on the overall progress of this significant strategic change project.

Parliamentary engagement plan for 2023-24

- 5.11 Adrian Jenner presented a progress update on the Parliamentary Engagement Plan covering how the NAO is responding to changes in the Parliamentary environment including plans for engagement with MPs in the remainder of the current Parliament and the longer-term. He also reported on progress on key performance indicators to 31 October 2022 and added that the field work for the annual Ipsos MORI survey of MPs had started, the outcome of which will be reported to the Board in Spring 2023.
- 5.12 The non-executives welcomed progress made to date. There followed a brief discussion about the possibility of tailoring data at constituency level which is always appreciated by MPs. Rebecca Sheeran responded that this was dependent on available of data and how impactful such data would be to illustrate issues.

Update on the Board engagement Plan

- 5.13 Will Sharp presented progress on the Board engagement plan which was launched in March 2022. The Board noted that the plan had so far focused on promoting corporate outputs for which the Board has collective responsibility. The Board welcomed progress made to date, including the direction of travel of the plan. The non-executives suggested that the plan could be improved by incorporating meetings between the non-executives with small groups of staff, on topic specific issues. It was agreed that Will Sharp should contact individual non-executives to ascertain the topics on which they would like to share knowledge with the office.

Action: Will Sharp to reach out to non-executives to seek their views on topics they would like to engage with the wider office.

6. Matters for Board to note/for Information

December performance and risk reports

- 6.1 The Board noted the performance and risk reports to end October 2022.

Verbal update from ARAC Chair following December meeting

- 6.2 Gaenor Bagley provided a verbal update on the ARAC meeting held on 6th December. Key items to note were the approval of the external audit planning memorandum for 2022-23; the consideration of the proposed topic for the 2023 external VfM review; assurance received from management on the mitigations and actions in place in respect of four emerging risks; and the annual assessment of the external auditor's performance in 2021-22. The Committee had also received an update on the external audit contract effective from 1 April 2024. She added that the minutes of the meeting would be circulated to the Board's meeting in January.

Verbal update from Gaenor Bagley following Audit Quality Board (AQB) meeting

- 6.3 Gaenor Bagley reported that the AQB at its meeting on 6th December had discussed Audit Quality Indicators; the Financial Audit Quality Plan for Year 3; and progress on the implementation of the International Standard for Quality Management (ISQM1).

Verbal update from Chair on NED Vacancy

- 6.4. The Chair reported that the Appointment Panel will interview five shortlisted candidates for the non-executive vacancy on 15th December with the view to recommending a preferred candidate for appointment to the Public Accounts Commission on 10th January 2023.

Update on Pay Framework

- 6.5 The Board noted the update on the Pay Framework which was circulated for information.

RemCo October minutes for information

- 6.6 The Board noted the minutes of the RemCo meeting held on 25 October 2022 following the verbal update provided by Martin Donnelly at Board's November meeting.

Any other Business

- 6.7 Daniel Lambauer reported that that the procurement team would be seeking Board approval, via correspondence, to re-procure the Mobile Voice and Data Sim contract so that staff can continue to connect to NAO services from any location when the current contract runs out in May 2023.

Action: Helene Morpeth to circulate the Mobile Voice and Data Sim tender for Board approval via correspondence.

7. Conclusion

Date and time of next meeting

- 7.1 The Board noted that the next meeting would be held on 24 January 2023.
- 7.2 The Chair wished Members and attendees a very good break over the Christmas and New Year holiday period. She extended the Board's best wishes to the wider office. She also extended the Board's congratulations to the winners of the recent internal and external awards.