



National Audit Office

## NATIONAL AUDIT OFFICE

### TERMS OF REFERENCE FOR THE REMUNERATION AND NOMINATIONS COMMITTEE

Updated by the Board on 28 November 2013 to include a nominations process for senior appointments attached as **Annex One** to these terms of reference<sup>1</sup>

1. The Remuneration and Nominations Committee ("the Committee") is a committee of the National Audit Office ("NAO") Board ("the Board"), from which it derives its authority and to which it shall regularly report.

#### Members

2. Members of the Committee shall be appointed by the Board. There shall be a maximum of five members of the Committee all of whom will be independent non-executive members.
3. The Chair of the Committee shall be an independent non-executive member of the Board. The Chair of the Board shall not be the Chair of the Committee, although they may be a member of the Committee.
4. Other members of the Committee with relevant experience and expertise may be appointed from outside the Board.
5. Appointments will be initially for three years with the possibility of reappointment for one further three-year term.

#### Quorum

6. The quorum necessary for the transaction of business shall be two. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers, and discretions of the Committee. If the meeting is inquorate, Committee decisions cannot be made, and any discussions will be informal only. The Chair may then decide to call a special meeting to undertake the remaining business.

#### Meetings

7. Meetings shall be held at least twice in each year at appropriate times in the reporting cycle, and at other times as required by the Chair of the Committee.
8. Meetings of the Committee shall be called at any time by the Secretary of the Committee at the request of the Chair of the Committee or the Chair of the Board.
9. Any other member of the Committee or the Comptroller and Auditor General (C&AG), may request the Chair of the Committee to convene a meeting at any time. Unless otherwise agreed, notice of each meeting confirming the venue, time, and date together with an agenda of items to be discussed and

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<sup>1</sup> History: The Committee's terms of reference were approved by the Board on 22 September 2009 and subsequently revised by the Board on 3 December 2010 and thereafter updated by the Board on 25 October 2012 and on 19 January 2017. The latter update appends five Annexes providing greater detail on content already contained and approved by the Board however there are no changes to the terms of reference. The Committee approved textual updates to its terms of reference in March 2021 to reflect changes in nomenclature since 2017. The five Annexes appended in 2017 have been removed from the terms of reference to avoid duplication of content.

papers relating thereto, shall be forwarded to each Committee member, any other person required to attend and all Board members no later than five working days before the meeting.

## **Chair**

10. The Chair of the Board will appoint one of the other independent non-executive members of the Board as Chair of the Remuneration and Nominations Committee ("the Chair"). The Chair of the Board shall not be the Chair of the Committee. In the absence of the Chair, the remaining members present shall elect one of themselves to chair the meeting.

## **Attendance at meetings**

11. Only members of the Committee shall have the right to attend Committee meetings. Other individuals may be invited to attend all or part of any meeting as appropriate. The C&AG, Director of Human Resources and external advisers may be invited to attend all or part of any meetings as and when appropriate. Any member of the Committee may ask the Chair to request the withdrawal of any non-member from any meeting or part of a meeting.

## **Access to the Chair**

12. The Director Human Resources will have free and confidential access to the Chair.

## **Secretarial support**

13. The Committee will have access to sufficient resources in order to carry out its duties. This will include the support of a secretary with responsibility for arranging meetings, drafting agendas in consultation with the Chair, commissioning and circulating papers, maintaining Committee records including taking minutes and undertaking any Committee business that may fall outside meetings.

## **Minutes**

14. Committee proceedings, decisions and actions required from all meetings will be minuted and will include a record of the names of those present and in attendance.
15. Any potential conflicts of interest shall be identified at the start of each meeting and recorded in the minutes. Each member shall have a duty to notify any circumstances which may constitute a conflict of interest to the Secretary and/or Chair prior to the commencement of the meeting to enable a determination to be made as to what procedure should be adopted to limit the member's participation in the meeting in respect of the agenda item(s) which gives rise to the conflict or potential conflict.
16. Draft minutes will be circulated promptly to Committee members and once approved, to meeting attendees and all Board members unless a conflict of interest or a matter of confidentiality exists.

## **Disclosure**

17. The Committee's Terms of Reference and membership will be available on the NAO website.
18. The NAO Annual Report will describe the role, responsibilities, and composition of the Committee. The number of meetings of the Committee, the attendance record of members and fees paid during the year will also be disclosed in the Annual Report.

## **Training**

19. The NAO will make resources available to provide Committee members with appropriate and timely training, in the form of a suitable induction process for new members and ongoing training as appropriate for existing members.

## **Conduct**

20. The same expectations for conduct as set out in the Code of Conduct for the Board apply to all members of the Board's Committees.

## **Scope of delegated authority**

21. The Committee is a committee of the Board to which it reports on a regular basis.
22. The Committee's authority extends to all relevant matters (as set out in these Terms of Reference) relating to the carrying out of national audit functions (C&AG functions and NAO functions).
23. The Committee is authorised by the Board to investigate any matters within its Terms of Reference and to seek any information it requires from any Board Member or employee of the NAO in order to carry out its duties.
24. In connection with its duties, the Committee is authorised by the Board to obtain independent legal or other professional advice at the NAO's expense, and within any budgetary constraints to appoint remuneration consultants and to commission or purchase any relevant reports, surveys, or information which it deems necessary to help it fulfil its duties.

## **Responsibilities of the Committee**

### **Remuneration**

25. The Committee shall:
  - Determine and agree with the Board the framework or Board policy for the remuneration of the three executive (employee) members of the Board. No member shall be involved in any decisions as to their own remuneration.
  - In determining such policy, consider all factors which it deems necessary. The objective of such policy shall be to ensure that the executive members are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the NAO.
  - Review the ongoing appropriateness and relevance of the remuneration policy for executive members.
  - Approve the design of, and determine targets for, any performance related pay schemes for executive members operated by the NAO and approve the total annual payments made under such schemes.
  - Determine the policy for, and scope of, pension arrangements for each executive member.
  - Ensure that contractual terms on termination, and any payments made, are fair to the individual executive member, and the NAO, that failure is not rewarded and that the duty to mitigate loss is fully recognised.
  - Within the terms of the agreed policy and in consultation with the Board Chair and the C&AG, as appropriate, determine the total individual remuneration package of each executive member including bonuses, and incentive payments. In determining such packages and arrangements, give due regard to any relevant legal requirements and Treasury guidance.
  - Review and note annually the remuneration trends across the NAO and have regard to the guidance issued by the Review Body on Senior Salaries.
  - Ensure that all provisions regarding disclosure of remuneration, including pensions, are fulfilled;
  - Be exclusively responsible for establishing the selection criteria, selecting, appointing, and setting the terms of reference for any remuneration consultants who advise the Committee.
  - Obtain reliable, up-to-date information about remuneration in other organisations to assist the Committee's work. The Committee shall have full authority to commission any reports or surveys which it deems necessary to help it fulfil its obligations.
  - Advise on the remuneration of any other NAO staff referred to the Committee by the Board.
  - Oversee any major changes in employee benefits structures throughout the NAO.

### **Nominations:**

26. Advise the Chair on succession planning for non-executive members of the Board considering the challenges and opportunities facing the NAO and what skills and experience are therefore needed on the Board in the future.
27. Advise the C&AG on the succession plans they have in place for the Office's Executive Team, including their views on the roles and skills necessary for the effective leadership of the organisation. A discussion with the C&AG on the future make-up of the Executive Team will be a regular agenda item at meetings of the Committee.

28. Keep under review the leadership needs of the NAO; both executive and non-executive, with the view to ensuring the continued ability of the NAO to operate effectively in the public audit marketplace, and review periodically the governance arrangements underpinning the NAO's talent management and promotion practices.

### **Non-executive appointments**

29. The Committee shall:

- before any new appointment is made to the Board, evaluate the balance of skills, knowledge, and experience on the Board, and, in the light of this evaluation, advise the Chair (in respect of the non-executive members) ) on the role and capabilities required for a particular appointment;
- advise the Chair on the selection process for the non-executive members: i.e. whether to use NAO services or the services of external advisers to facilitate the search; and
- review periodically the balance of skills and experience on the NAO Board and report its findings to the Board.

### **Executive Team appointments**

- where a vacancy arises for a member of the Executive Team or where a new role is envisaged, the C&AG will discuss with the Committee the balance of skills, knowledge or experience required of the role(s) prior to any role being advertised;
- the C&AG will also consult the Committee on the components of the remuneration package to be offered to attract appropriate candidates for the role, including the range of starting salaries which might be offered;
- the C&AG shall be solely responsible for determining the advertising and selection process which will be used to fill each Executive Team role; however, a member of the Board will be invited to sit on the selection panel for any Executive Team appointment, the individual to be determined through agreement between the Chair of the Board and the Chair of the Committee; and
- following selection of a preferred candidate, the member of the Board sitting on the selection panel will be authorised to act on the Committee's behalf in agreeing the remuneration package to be offered to the successful candidate and any subsequent negotiations on the final package.

### **Reporting responsibilities**

30. Following a meeting of the Committee, the Chair will provide an oral report on Committee proceedings at the next Board meeting. The minutes of Committee meetings will be circulated to all Board members in advance of Board meetings to enable the Board to discuss items where appropriate.
31. The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is required.

### **Other matters**

32. The Committee shall:

- Prepare an annual report for the Board on the NAO's remuneration policy and practices which shall form part of the NAO's Annual Report.
- Review its own Terms of Reference annually and recommend to the Board any amendments to these Terms of Reference that it considers necessary.
- Regularly review its own skills mix to ensure it is appropriate to the Committee's duties.
- Assessment of Performance: the Committee's annual assessment of performance shall be coordinated with the annual Board evaluation exercise.

## **Appendix A: Remuneration and Nominations Committee information requirements**

NAO management will ensure that all significant changes to NAO remuneration policy are notified to the Committee promptly.

**For each meeting the Remuneration and Nominations Committee will be provided with:**

- a report summarising any significant changes to the NAO's remuneration policies and relevant changes to legislation.

**As and when appropriate the Committee will also be provided with:**

- any internal or external audit reports containing information relevant to the work of the Committee.

## Annex One

### Remuneration and Nominations Committee Protocol - Nominations process for senior appointments

#### Background

1. The Budget Responsibility and National Audit Act 2011 sets out the broad requirements for the process to appoint the Chair, the C&AG and Board of the NAO. To ensure appropriate governance of these appointments, the NAO Board has established a Remuneration and Nominations Committee; this protocol sets out the approach for the appointment of Board members in accordance with the Act and the role of the NAO's Remuneration and Nominations Committee in each type of appointment which could be made to the NAO Board.
2. The protocol also covers the approach for appointments to the Executive Team. Although these appointments are not covered by the Act, the process for senior executive appointments is included in the Remuneration & Nominations Committee terms of reference (paragraph 27).

#### Chair of the NAO Board

3. **The Act states that** the Chair be appointed by the Queen, upon an address of the House of Commons. (Schedule 2, Part 2, para 3). The Prime Minister must move the motion for the address and in doing so must have the support of the person who chairs the Committee of Public Accounts. This ensures that the appointment is independent of the NAO's executive management, and that the chosen candidate has the support of both the legislative and executive branches.
4. To ensure its independence the process to identify a candidate for appointment is managed and run by the House of Commons. The appointment panel by convention includes a representative of the Prime Minister (typically the Permanent Secretary of HM Treasury), the Chair of the Committee of Public Accounts, and an individual to represent the requirements of the NAO – this person must bring an understanding of the nature of public audit, the role of the Auditor General and the relationship between the C&AG and the Board, but must not be a member of the NAO's management.
5. The panel may seek the advice of the incumbent Chair to clarify its understanding of the requirements of the role, and the desired competencies and experience.

6. As the process is independent of the NAO, there is no role for the Committee in this process, though it would be informed of the planned approach and timetable for any recruitment.

## **C&AG**

7. **Part 2 of the Act states** that the C&AG is an officer of the House of Commons, and the appointment is made by the Queen, under letters patent. This appointment is made following an address of the House Commons, for which the Prime Minister moves the motion; in doing so the Prime Minister must have the agreement of the person who chairs the Committee of Public Accounts. The appointment is to be for a fixed term of 10 years, which cannot be renewed. The C&AG may resign from office by giving formal written notice to the Prime Minister, or be removed from office by the Queen, upon an address of both Houses of Parliament.
8. As the process is independent of the NAO, there is no role for the Remuneration and Nominations Committee in this process, though it would be informed of the planned approach and timetable for any recruitment.

## **Non-executive members**

9. **The Act requires** that the NAO's non-executive members be appointed by the Public Accounts Commission, on the recommendation of the Chair of the NAO. (Schedule 2, Part 2, para 3)
10. Established practice is that candidates are identified via a fair and open recruitment process, run in-line with the requirements of the Commissioner for Public Appointments. The selection and interview panel is chaired by the NAO Chair with two other members, one of whom is a non-executive member of the Board and the other an independent advisor drawn from the Commissioner for Public Appointments' list.
11. The Committee will advise the Chair on the overall balance of skills on the Board, and any specific skills or experience needs which should be addressed by the recruitment process, informed by any relevant findings of the Board evaluation. This advice may be used by the Chair to assist in the development of the role description, which would be agreed by the selection panel as a whole. The non-executive member of the selection panel should be a member of the Committee, typically the Chair of the Committee.

## **Executive Board members**

12. **The Act requires that** the executive members of the Board are appointed by the non-executive members, upon the recommendation of the C&AG (Schedule 2, Part 4 para 12). This takes place annually.
13. Ahead of making their recommendations the C&AG may consult the Committee regarding the balance of skills on the Board.

## **Appointments which are not covered by the Act Executive Team posts**

14. **The Act does not cover** the appointment of members of the Executive Team. The Terms of Reference of the Remuneration and Nominations Committee state that where there is a vacancy on the NAO's Executive Team, either through the departure of an existing member, or a decision to appoint to a new post the C&AG will discuss with the Committee the balance of skills, knowledge and experience required of the role(s) prior to any role being advertised.
15. A member of the Board will be invited to sit on the selection panel for any Executive Team appointment, the individual to be determined through agreement between the Chair of the Board and the Chair of the Committee.

## **Review**

16. The Committee will review the appropriateness and relevance of this protocol on an annual basis.