



National Audit Office

Board Minutes

Meeting held on 9 June 2023 from 09:30 to 12:30 hrs.

The Spark, Drayman's Way, Newcastle Helix, Newcastle upon Tyne, NE4 5DE

Board members		
Dame Fiona Reynolds	FR	Chair
Gaenor Bagley	GB	Non-Executive Member
Alistair Conner	AC	Non-Executive Member
Sir Martin Donnelly	MD	Non-Executive Member
Dame Clare Tickell	CT	Non-Executive Member
Gareth Davies	GD	Comptroller and Auditor General
Abdool Kara	AK	Executive Director People
Daniel Lambauer	DL	Executive Director Strategy and Resources
Rebecca Sheeran	RS	Executive Director VFM service line
Attendees		
Catherine Hope-MacLellan	CHM	Chief People Officer
Elaine Lewis	EL	Executive Director responsible for Financial Audit Quality
Kate Mathers	KM	Executive Director Financial Audit service line
Max Tse	MT	Executive Director Knowledge
Meredith Brown	MB	Lead on Diversity and Inclusion (item 5)
Sarah Dickinson	SD	Audit Manager Financial Audit Operations (item 3)
Chloe Forbes	CF	Head of Strategy (item 3)
Tania Khan	TK	Head of Procurement (item 5)
Lewis Knights	LK	Director Financial Audit Operations (item 3)
Susan Ronaldson	SR	Director Audit Transformation Programme and Engagement (item 4)
Anna Sydorak-Tomczyk	AST	Lead Annual Report and Accounts (item 5)
Nigel Terrington	NT	Director Strategy
Baljinder Virk	BV	HR Specialist (item 5)
Helene Morpeth	HM	Head of Governance and Risk

1. Welcome and Chair's opening remarks

Welcome

- 1.1 Dame Fiona Reynolds, NAO Chair, welcomed members and attendees to the meeting in the new Newcastle office building. A pre-meeting tour of the new office had delighted everyone. She congratulated Catherine Hope MacLellan on her appointment as Chief People Officer and extended a special welcome to her first Board 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 March Minutes

- 2.1 The Board approved the minutes of the meeting held on 23 March 2023 as an accurate record of the meeting.

Matters arising

- 2.2 The Board noted that the Internal Whistleblowing policy has been published on the NAO's intranet and the external website following approval of the policy at the Board meeting on 23 March 2023.

Action log

- 2.3 Helene Morpeth reported that there were six actions on the log of which two would be completed as a result of today's Board meeting. The remaining four actions were on track for delivery by their respective due dates. The Board agreed the deletion of the completed actions.

Update from the Comptroller and Auditor General (C&AG)

- 2.4 The C&AG provided his update on events since the last meeting of the Board. The C&AG's update led to a wide-ranging discussion covering amongst other things his recent evidence session with the Select Committee on Levelling up, Housing and Communities as part of its inquiry into the accounts and audit of local authorities. The C&AG reported that the Committee is keen to understand the reasons for the severe delays to the completion of councils' audited accounts and why it is taking so long to resolve matters informed, in part, by the NAO's recent reporting on this theme. The salience of the issue is underlined by the growing list of councils in deep financial trouble with direct consequences for their residents in the form of steep council tax increases and reduced services. The Board also discussed the latest developments on the concerns raised about the governance and management of the large regeneration programmes on Teesside including the announcement by the Secretary of State for Levelling up, Housing and Communities to appoint a panel to oversee the investigation into matters raised. The C&AG reported on his recent positive engagement with lead non-executive directors in government where he discussed themes emerging from the NAO's work.
- 2.5 The Board discussed the implications of the latest developments on the negotiations with the Trade Union on the pay review for audit grades. Catherine Hope-MacLellan reported that over the coming weeks she will consider the next stage in this process and report back to the Board on progress.

3. Strategic discussions

Envisaging an Ideal State for the NAO

- 3.1 Nigel Terrington introduced the strategic discussion on “envisaging an ideal state for public audit”. He invited members to review the draft ideal state drawn together by the strategy team informed by the Board’s earlier conversations on the topic. He added that the outcome of today’s discussion will help shape the content for the Board strategy meeting in September and also refine the main themes on which we want to consult as part of the upcoming strategy review.
- 3.2 The main themes to emerge from the discussion were around taking a wider view of ideal government / governance rather than limiting ourselves to public audit. Alongside this, we should develop a handful of key messages on what good government / governance looks like. The Board also discussed looking more widely at key players in the system for example local government and private and third sectors, including considering the forward-looking aspects that government needs to plan and prepare for, for example transition of the economy to meet the challenges of climate change and role of the NAO in this transition. The NAO’s work on cross-government challenges and mechanisms was likely to be particularly helpful here. Members also commented that it was important that we consider more explicitly what is in our control and what is not and, considering these boundaries, that we are realistic about what is achievable without limiting our ambition. Members also discussed the government’s longer term fiscal planning and the consequences for the funding of high-quality public services.
- 3.3 The Chair thanked the Board for their helpful contributions which she said would help inform and shape the strategy day in September.

Future Financial Audit Services Line: options for the NAO’s contracted out audits.

- 3.4 Kate Mathers and Lewis Knights introduced a discussion paper setting out the financial case for reducing the volume of outsourced audits including the timing of when this can be done to ensure that the Office retains high operational delivery confidence as well as sufficient access to the firms to benefit from learning and benchmarking through these partnerships. The next step would be to provide a detailed business case incorporating the views and thoughts of the Board.
- 3.5 The non-executives welcomed the proposed direction of travel of building the Office’s in-house capability to support specialist expertise and advice to audit teams. The non-executives recommended that the business case should cover the financial and value for money implications but also set out the human element in more detail; for example the ability of internal services to scale up to absorb the additional staff complement. The business case should also set out our future skills needs, and how we plan to develop and deploy the skills and competencies brought in-house to enhance the expertise in other areas such as insights and wider assurance work.

Action: Kate Mathers and Lewis Knights to present the business case for the future delivery of financial audit in the autumn informed by the Board’s comments.

4. Substantial operational matters

Audit quality update

- 4.1 Rebecca Sheeran (RS) presented a progress update on VfM quality covering the range of indicators that the Office uses including internal and external reviews of our completed reports and feedback from Members of Parliament and audited entities. She reported that internal and external reviews suggest that we can be confident in the strategic and technical quality of our VfM and wider assurance work. Other key stakeholders have fed back that the NAO’s work asks important and relevant questions in a timely way.
- 4.2 The non-executives welcomed the assurances provided by RS and the improvements made by the practice over the last year. Members discussed how best to communicate and amplify the messages from the Office’s VfM and wider assurance work. RS reported that as part of the upcoming strategy review, we will consider how we report and present our findings in an accessible and compelling way taking into account parliamentary privilege. She added that we want to ensure that we continue to increase our impact by targeting our reports as precisely as possible to key audiences, and that we also continue to meet the needs of a new Parliament following the next election.
- 4.3 Elaine Lewis (EL) provided a progress update on Financial Audit quality including progress on the external reviews currently underway the findings of which will be included in the 2022-23 Transparency Report which the Board will receive in July. She reported that the Financial

Reporting Council (FRC) has selected nine 2021-22 audits for review. Three reviews are complete and all three have met the required standard. The other six reviews are in progress. In its emerging findings the FRC has identified areas of improving / good practice including areas for improvement. EL's update informed a discussion on the how the Office is responding to the findings including actions the Office is taking in respect of 2022-23 audits. The Board commented that the internal cold reviews currently underway cover a much larger sample of audits and therefore provide a more balanced assessment of quality, and that it would be helpful to reflect this context in the upcoming Transparency Report.

Audit Transformation Programme (ATP)

- 4.4 Kate Mathers and Susan Ronaldson provided the regular progress update on the ATP. They reported that the roll out of the new software to all audits, building on the phase 2 pilot release, is planned for late September / early October. They commented that this is a realistic time frame which balances scope with delivery confidence. The Board discussed progress with the delivery of phase 2 and agreed to engage in a fuller discussion at the July meeting covering benefits realization achieved to date and the alignment of these benefits with the broader quality agenda. The non-executives suggested a demonstration of the software platform would be helpful, to inform the July discussion.

Action: KM and SR to provide a fuller briefing on the ATP, including benefits realization, at the July meeting. Helene Morpeth to arrange a demonstration of the software platform.

5. Substantial approvals

2022-23 NAO Annual Report and Accounts

- 5.1 Anna Sydorak-Tomczyk presented the final version of the draft 2022-23 Annual Report (ARA) and Accounts following the Board's early review of content and structure at the meeting in March. She reported that the final version also incorporated the helpful comments provided by members in advance of today's Board meeting.
- 5.2 The Board noted that the ARA had been endorsed by the Audit and Risk Assurance Committee (ARAC) and that the external auditors have provided a clean audit opinion on the 2022-23 financial statements. The Board approved the report for submission to the Public Accounts Commission. The Chair thanked the ARA drafting and designs teams for an excellent report underpinned by appealing visual content.

2022-23 Diversity and Inclusion annual report

- 5.3 Meredith Brown and Baljinder Virk presented the 2022-23 Diversity and Inclusion annual report incorporating comments received from the Board at the March meeting. They highlighted key achievements during the year such as the Office's improved ranking in the 2022 Social Mobility Index, achievement of a strong pipeline of trainees from ethnic minority backgrounds and from lower socio-economic groups as well as trainees with a disability. They also referred to the introduction of a new measure in the regular people survey to strengthen the Office's understanding of how connected and included people feel. The Board discussed some challenges such as the widening of the ethnicity and disability pay gaps which they recognised were due primarily as a consequence of the outcomes on trainee recruitment and resignation rates from ethnical minority post-qualifiers. This meant that the target on representation of ethnic minorities at all post-qualification levels had not been met.
- 5.4 The Board congratulated the drafting team on a strong performance during the year and encouraged the team to keep focussing on the challenges. The Board endorsed the Diversity and Inclusion annual report for publication on the NAO's external website.

2022-23 Modern Slavery Statement

- 5.5 Daniel Lambauer presented the 2022-23 modern slavery and human trafficking statement which sets out the steps the Office has taken during the financial year to ensure that slavery and human trafficking is not taking place either in our supply chains or our business. The Board noted the

positive assurance provided by internal audit on the completeness and robustness of the statement.

- 5.6 The Board endorsed the publication of the 2022-23 statement on the NAO's external website.

Contract to provide permanent and temporary recruitment services

- 5.7 Daniel Lambauer (DL) presented the business case for the creation of two new standalone procurement solutions to enable access to a range of expert recruitment agencies for both audit and non-audit staff. He reported that the current contracts with a range of suppliers expires in December 2023. The business case represents a contract value of £16.3 million over the full 5-year period and covers permanent and temporary staff. DL added that the contract value is not a financial commitment and while we budget for some element of temporary and permanent staff, often spend in this area is to address unplanned shortfalls against staffing positions.
- 5.8 The Board approved the business case but commented that the Office's wider ambition is to reduce the reliance on temporary staff.

6. Matters for the Board to note / discuss by exception

Performance and risk report to end April 2023

- 6.1 The Board received the performance and risk updates to end April 2023. The non-executives questioned the amber rating relating to the KPI on "we make more effective use of technology." Daniel Lambauer (DL) and Max Tse (MT) provided brief explanations. DL and MT agreed to provide a short briefing paper to explain in more detail the actions being taken on this performance indicator.

Action: DL and MT to provide a briefing on the KPI "we make more effective use of technology" for discussion at the Board meeting in July.

- 6.2 The non-executives noted that Catherine Hope-MacLellan would provide her early reflections on the People agenda at the September strategy day.

2022-23 Annual assurance / governance reports

- 6.3 The Board received the annual assurance report from the Audit and Risk Assurance Committee. Gaenor Bagley reported that the Committee was pleased with the quality of the assurances it has received during the year and there were no issues to bring to the Board's attention. She added that the key priority for the year ahead was to secure the smooth completion of the tender process for the external audit contract effective from 1 April 2024.
- 6.4 The Board received the annual report from the Remuneration and Nominations Committee. Clare Tickell (CT) commented that the annual report included the outcome of the annual review of the Committee's compliance with its terms of reference and feed-back from the Chair's internal evaluation of the Committee's performance. CT reported that there were no issues from the Committee's activities during the year to bring to the Board's attention.
- 6.5 The Board noted the Director of Internal Audit and Assurance (DIAA) annual report to the C&AG which concludes that the NAO has adequate and effective governance, risk, and control arrangements. Gaenor Bagley (GB) reported that the "failing audit opinion" delivered by the DIAA during the year represented an isolated internal control incident which did not undermine the adequacy and effectiveness of the Office's overall framework of internal control. GB reported that ARAC would receive a follow up report on the incident at its next meeting.
- 6.6 The Board received the Health, Safety and Wellbeing Committee's annual report. The Board noted that one of the key priorities for the year ahead was the development of an organisational wellbeing plan and the continued monitoring of sickness absence. The Board welcomed the Office's increased focus on wellbeing whilst recognising this represented a wider societal issue.
- 6.7 The Board received the Sustainable Office Group's annual report and noted that it would receive a progress update on the Net Zero project at the July meeting.

ARAC and Audit Quality Board (AQB) minutes

6.8 The Board noted the draft minutes of the ARAC and AQB meetings held in May.

Internal Board evaluation follow up: action plan to implement the recommendations for improvement.

6.9 The Board noted the action plan to implement the recommendations for improvement from the recent internal Board evaluation.

7. Conclusion

Feedback on meeting

7.1 The non-executives thanked the executives for a set of high-quality papers which had led to constructive strategic discussions and important operational approvals.

7.2 The non-executives commented how pleasing it was to visit the new Newcastle office and congratulated management on the smooth transition from the old office to the new modern and energy efficient building.

AOB

7.3 The C&AG reported that it was likely the Office would require a supplementary Estimate to reflect the change in government machinery and the small incremental cost of the pay review for audit grades. An update on this would be provided at the July meeting.

7.4 Helene Morpeth reported that the Board would be invited to endorse the completed 2023 external value for money review outside the normal timetable for Board meetings to meet the date for the TPAC accountability hearing which had moved forward from the autumn to mid-July.

Date and time of next meeting

7.5 The Board noted that the next meeting would be held on 25 July 2023 in London.