



National Audit Office

Board Minutes

Meeting held on 12 December 2023 from 10:30 to 13:00 hrs
157-197 Buckingham Palace Road, London SW1W 9SP

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		
Kate Mathers	KM	Executive Director Financial Audit service line
Elaine Lewis	EL	Executive Director responsible for Financial Audit Quality
Catherine Hope-MacLellan	CHM	Chief People Officer
Max Tse	MT	Executive Director Knowledge
David Betteley	DB	Senior Analyst (item 3)
Katie Clifford	KC	Head of HR Policy and Services (item 4)
Adrian Jenner	AJ	Director Parliamentary Relations
Lewis Knights	LK	Director Financial Audit Delivery (item 4)
Nigel Terrington	NT	Director Strategy
Tim Valentine	TV	Director Finance (item 3)
Helene Morpeth	HM	Head of Governance and Risk

1. Welcome and Chair's opening remarks

Welcome

- 1.1 Dame Fiona Reynolds (FR), NAO Chair, welcomed members and attendees to the meeting.
- 1.2 FR reported the excellent news that the Public Accounts Commission (TPAC) have re-appointed Gaenor Bagley and Martin Donnelly as non-executive members of the Board for a final 3-year term ending on 31 December 2026. FR added that TPAC will reconvene on 16 January 2024 to consider the recommended candidate for appointment to the Board in succession to Clare Tickell.
- 1.3 FR confirmed the Board's approval of the re-appointment of Richard Cartwright as Independent External Member of the Audit and Risk Assurance Committee (ARAC) until 31 December 2026.

Apologies for absence

- 1.4 There were no apologies for absence.

Declaration of Interests

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

2. Regular items

Approval of the October Minutes

- 2.1 The Board approved the minutes of the meeting held on 31 October 2023 subject to the inclusion of a footnote to report on the delay in the certifications of the DHSC accounts.

Action Log

- 2.2 Helene Morpeth reported that there were three actions on the log of which one had been completed prior to the Board meeting and a further action would be completed as a result of today's meeting. The remaining action was on track for delivery by its due date. The Board agreed the deletion of the completed actions.

C&AG Update

- 2.3 The C&AG provided his update on events since the last meeting of the Board. The C&AG's update informed a discussion on the NAO's proposed solution to address the delay in the certification of local authority accounts, in the context of the NAO's role to set out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014.
- 2.4 The C&AG reported that we have published the NAO's 2022-23 Transparency Report however we are still waiting for the Audit Quality Review for the year, published by the Financial Reporting Council (FRC). The former will inform the Audit Quality evidence session with TPAC next January. The C&AG added that he will shortly be meeting the new Chief Executive of the FRC and looks forward to establishing a strong professional relationship with the new incumbent.
- 2.5 The C&AG reported that the HMRC Audit Team have won the Public Finance Awards for Excellence in Public Sector Audit. The prestigious award is in recognition for delivering two highly complex financial audits, covering £731 billion of tax revenues and £52 billion of expenditure. The Board extended their congratulations to the HMRC team for their excellent achievement. They also extended their congratulations to the VFM team for the series of high impact reports published since the last Board meeting.

3. Strategic Discussion

Review of the outline 2024-25 Strategy update and Estimate

- 3.1 Daniel Lambauer (DL) presented the draft Strategy Update and 2024-25 Estimate document explaining that it builds on the Board's initial discussion at the September strategy day. He reported that the Estimate assumes an overall pay award of 3% for staff which is aligned with the Office of Budget Responsibility forecast for average inflation in 2024-25.
- 3.2 DL summarised the four strategic drivers underpinning the Estimate: embedding audit quality, restoring the timeliness of audit certifications, delivering increased audit responsibilities, and supporting Parliament by reporting on the most significant risks to value for money in public spending. He added that we will increase our graduate intake next year to build our future capacity in anticipation that we will outsource fewer audits from 2025. DL also referred to the plans to refurbish the London Office to provide improved collaborative workspace. The Board noted that the Estimate represented a net resource increase of 7.5% in nominal terms (4.4% in real terms once adjusted for CPI) compared with the 2023-24 Supplementary Estimate.
- 3.3 The Board endorsed the strategic case for the Estimate. Members discussed the tone in the document and concluded that it should be more confident however without coming across as arrogant. It should also highlight more forcefully the impact that the NAO achieves for Parliament and, by extension, for citizens. The non-executives recommended that the document should be shorter and punchier.
- 3.4 The Board discussed the proposed pay award and agreed that the 3% increase seemed reasonable given the latest inflation figures, comparative benchmark data, retention figures and taking into account the positive impact of the pay review on staff over and above the annual pay award. The non-executives suggested leaving room for manoeuvre to cover reasonable

adjustments. The Board noted the letter from the Trade Union setting out their position on the 2024-25 pay award.

- 3.5 Nigel Terrington (NT) informed the Board of the tight turnaround of the next iteration of the document to meet the deadlines for submission to the Committee of Public Accounts and TPAC ahead of their respective evidence sessions in February and March 2024.

Strategic review progress update

- 3.6 NT presented the progress update on the Strategic Review including: timelines and progress to date, summary of evaluation findings, suggestions for involving the Board in the review, and summary of the discussions from the Board strategy day and Senior Leadership Conference. NT reported that the Board would be invited to agree the outline 2025-30 Strategy at the Board strategy day in September 2024.
- 3.7 Fiona Reynolds invited members to take stock of progress to date and to reflect on the purpose of the NAO. The Board discussed whether the primary purpose of the NAO is to serve Parliament or to serve citizens. Following discussion the Board agreed that the NAO's purpose, as enshrined in legislation, is to serve Parliament by holding government to account. Members added that the NAO serves citizens, via Parliament, through a combination of our watchdog function and our capacity building function aimed at improving the delivery of public services. FR thanked members for their contribution to the debate and commented that she was pleased that the Board has a clear and unanimous view on our purpose.
- 3.8 The Board endorsed the themes for strategic discussion for the Board meetings from January to July 2024.

4. Substantial Approvals

Business case for the future of contracting out financial audits

- 4.1 Kate Mathers (KM) presented the principles and assumptions underpinning the strategic and financial business case for reducing the volume of outsourced audits. She reported that the business case was informed by the Board's initial discussion in June. At this meeting, the Board had endorsed the approach whereby the Office retains high operational delivery confidence as well as sufficient access to the firms to benefit from learning and benchmarking through these partnerships.
- 4.2 KM presented the key features of the business case which consists of: a carefully managed reduction in the number of contracted out audits over four audit cycles, increasing the Office's headcount by approximately 60 staff with staff phased in the lead up to 2026-27, and retendering to allow a new contract to be awarded in 2026 when the current contractual arrangements end. The intention of the latter is to allow for a smaller number of audits contracted out going forward.
- 4.3 KM responded to the non-executives' questions which covered risks and mitigations, estimated costs, capacity, building in-house strategic skills, timeline, and overall management of the ebb and flow of contracting arrangements. The Board agreed that the business case represented additional positive features for staff such as more promotion opportunities as a result of the NAO growing in size.
- 4.4 The Board endorsed the business case for the future arrangements for contracted out financial audits.

2024 Code of Conduct

- 4.5 Catherine Hope-MacLellan (CHM) presented the 2024 Code of Conduct for Board approval ahead of publication to the wider Office. She reported that there were no material changes to the Code compared to the 2023 version apart from an update to the reference for the Continuous Professional Development policy which will apply to all staff from January not just those who are professionally qualified.
- 4.6 The Board commented that the Code could be improved by clearer signposting to the requirements relating to the Official Secrets Act and, separately, the use of social media by staff. The Board approved the 2024 Code of Conduct.

2023 Diversity Pay Gap Report

- 4.7 CHM presented the 2023 Diversity Pay Gap report which the NAO has a statutory obligation to publish each year. She reported that as part of the Office's wider commitment to diversity the Office took the decision in 2020 to also report on our ethnicity pay gap on a voluntary basis, and from 2021 we have published our disability pay gap. CHM added that in line with new government guidance on reporting on ethnic pay gaps, the Office is publishing more detailed monitoring on pay gaps for different ethnic backgrounds.
- 4.8 The Board noted that the main cause for the Office's pay gap relates to the proportion of staff in senior grades. CHM reported that the steps the Office is taking give confidence that we will meet our target to reduce these gaps by the target date of 2027. CHM also reported that the steps to improve the representation of colleagues from ethnic minority backgrounds and disabled colleagues in the trainee pipeline will have a positive impact in the longer term.
- 4.9 The Board approved the publication of the 2023 Diversity Pay Gap report.

Preferred supplier for the external audit contract

- 4.10 The Board approved the recommendation from the Audit and Risk Assurance Committee (ARAC) that the contract for the NAO's audit services should be awarded to the current incumbent subject to approval by TPAC. The contract will cover the audit of the financial statements for the financial years ending 2025, 2026 and 2027. The contract will allow for a further 2-year extension subject to approval by TPAC to apply the extension.
- 4.11 The Board noted the lessons learnt from the recent procurement exercise.

5. Substantial operational matters

Update on the Parliamentary Engagement Plan

- 5.1 Adrian Jenner (AJ) presented the plan for the post-general election engagement with Parliament which will focus on four key areas:
- Collaboration with the House of Commons (HoC) service on induction activity to embed the NAO offer
 - Pro-active and tailored engagement with new MPs
 - Promoting / raising awareness of the NAO with the HoC – expanding events and engagement with training materials and training sessions
 - Identifying opportunities to expand our audience and engagement, particularly MPs' staff and the House of Lords
- 5.2 AJ added that the plan takes into consideration the high turnover of MPs expected at the next election. The Board endorsed the plan commenting in particular on the value of providing dedicated training for MPs' staff. The Board suggested hosting such events at the NAO. The non-executives enquired whether the NAO could deliver the engagement plan early should there be an earlier than anticipated election. AJ confirmed that plans could be delivered earlier if required.

Update on Audit transformation Programme (ATP)

- 5.3 Kate Mathers (KM) provided the update on the ATP since the last meeting of the Board. She reported that usage of the new Apex system is now increasing as staff move onto 2023-24 audit planning. There have been some teething issues but generally the system is operating well and feedback from staff is positive. The timetable for the next release has been slightly delayed to mid-January 2024. KM added that the timetable remains tight and the team is monitoring delivery closely.
- 5.4 The non-executives commented that the ATP is progressing in line with expectations for complex and difficult programmes. The non-executives requested that the next update to the Board should include an update on overall benefits realisation including whether the latter will be impacted by the delay to release 2.1.

Action: KM and Susan Ronaldson to include an update on benefits realisation in their next report to the Board.

6. Matters for Board to note

Performance and Risk summaries

6.1 The Board noted the performance and risk reports to 31 October 2023.

Update from the Chair of ARAC

6.2 Gaenor Bagley (GB) reported that ARAC, at their meeting on 6 December, received a reassuring follow up report from internal audit on IT assets. The risk deep dive had focussed on two people related risks. The meeting had also considered the outcome of the tender for the external audit contract the outcome of which has been reported to the Board earlier in the meeting. Helene Morpeth (HM) reported that the minutes of the meeting would be circulated to the Board via correspondence.

Update from non-executive member of the Audit Quality Board (AQB)

6.3 GB reported that the AQB meeting held on 6 November had discussed the update on the Audit Quality review results including actions arising. In addition the AQB had carried out a helpful deep dive on the Auditor Learning and Development Programme facilitated by the learning and development team. HM reported that the minutes of the meeting would be circulated to the Board via correspondence.

Update from the Chair of the Remuneration and Nominations Committee

6.4 Clare Tickell reported that the Remuneration and Nominations Committee meeting held on 2 November endorsed the flat rate 3% increase to corporate services staff by the end of the calendar year as part of the corporate services pay review. The Committee also focussed its time on the external remuneration landscape in 2024-25 and implications for the NAO's pay award. The Committee agreed that a 3% award was respectable though it was at the lower end the spectrum with members recognising that a slightly higher award may be more realistic once further information emerged from the Autumn Statement and the Bank of England's decision on interest rates. The Committee also received a helpful update from Catherine Hope-MacLellan on the relations with the Trade Union.

AOB

6.5 Kate Mathers informed the non-executives that they would be invited to approve in the following days, via correspondence, the procurement of specialist audit services for the BBC audits.

6.6 Fiona Reynolds reported that the Board meeting coincided with Clare Tickell's end of tenure on the Board. On behalf of the Board, she thanked Clare for her outstanding commitment to the Board and the NAO. She highlighted Clare's invaluable contribution to the strategic development of the NAO, her independent thinking and constructive challenge. FR added that Clare had been an excellent Chair of the Remuneration and Nominations Committee and a highly effective Senior Independent Director. The Board would miss her.

6.7 Clare Tickell responded that it has been an immense privilege to serve on the NAO Board and be part of an independent institution that plays a key role in supporting the UK's democratic constitutional framework. She wished the Board and the NAO continued success in supporting Parliament hold government to account and in championing value for money in the delivery of public services.

7. Conclusion

Date and time of next meeting

7.1 The Board noted the next meeting would take place on 30 January 2024.