



National Audit Office

Board Minutes

Meeting held on 31 October 2023 from 10:30 to 13:00 hrs

157-197 Buckingham Palace Road, London SW1W 9SP, Blue Mezz 1 & MS Teams

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
Andy Fisher	AF	Head of International Relations (item 5)
Susan Ronaldson	SR	Director of ATP and Change Management (items 5)
Nigel Terrington	NT	Director Strategy
Tim Valentine	TV	Director Finance (items 4 & 5)
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.

Apologies for absence

1.2 FR reported that apologies for absence have been received from Clare Tickell and Daniel Lambauer. FR added that Clare Tickell has provided comments on the Board papers that she will relay as the meeting progresses.

Declaration of Interests

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

2. Regular items

Approval of July Minutes

2.1 The Board approved the minutes of the meeting held on 27 July 2023 as an accurate record of the meeting.

Summary of the Board Strategy Day

- 2.2 The Board noted the internal note summarising the Board strategy day held on 28 September 2023.

Action Log

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

C&AG Update

- 2.4 The C&AG provided his update on events since the last meeting of the Board. He reported that the certification of the DHSC accounts has been pushed back to the end of November due to the continuing impact on the NAO of the backlog of unaudited local government accounts for financial years up to and including 2022-23¹. The C&AG's report led to a wide-ranging discussion on the reasons for the delayed publication of audited local authority accounts covering amongst other things: complexity of local government financial statements, capacity and capability of finance teams; rising standards in financial audit quality and regulatory impact. Taken together this means that the local audit market is less attractive than in prior years. The impact of all this is a significant accountability deficit for local taxpayers. The Board also discussed the implications of the Permanent Secretary for the Department of Transport accounting officer assessment regarding the decision to complete only phase 1 of HS2. The Board noted the key messages from the C&AG's presentation for his upcoming engagement with the Civil Service Board.

3. Strategic Discussion

High-level findings from the evaluation of the 2020-25 NAO Strategy

- 3.1 Antonia Gracie (AG) and Jenny Brown (JB) presented the high-level findings from the evaluation of the 2020-25 NAO Strategy which has been commissioned by the Executive Team to assess whether the Office is achieving the intended outcomes. They added that the evaluation exercise also provides opportunity to learn practical tangible lessons from the implementation of the current strategy to take forward as we enter the consultation phase of the next strategy.
- 3.2 The Non-Executives congratulated the evaluation team on an excellent, evidence based and accessible review which provides balanced findings on achievements to celebrate with challenges for further attention. They commented that the findings, brigaded around the six change themes, are aligned to prior Board discussions for example on audit quality and delivery and, separately, on resourcing and workloads. They enquired whether the findings from the evaluation would resonate with NAO people. AG and JB responded that recognition will vary however overall they are confident that people will recognise the main findings as fitting in with their experience of working at the NAO. The C&AG reported that the findings from the evaluation will be supplemented with the outcome of the recent Office wide cultural conversations with both outputs shared with the Office at the NAO Together event in early November.
- 3.3 The Non-Executives commented that the challenge now is to distil the multiple findings from the evaluation into a few clear messages to frame the next stage of engagement with internal and external stakeholders.

4. Substantial Approvals

2023-24 Supplementary Estimate

- 4.1 The Board received the 2023-24 Supplementary Estimate a summary of which was introduced at the recent Board strategy day. Tim Valentine (TV) explained the rationale for the additional resource funding of £3.7 million for 2023-24 covering machinery of government changes; additional work carried out on financial audit certification and costs associated with the implementation of the pay review for audit grades. He added that the Office would return £0.5 million in capital funding no longer required in 2023-24. The C&AG reported that the components

¹ Subsequently delays in local NHS audits (which are not audited by the NAO) and audit findings in relation to an arms-length body have delayed the consolidated DHSC accounts. We aim to certify the accounts in January 2024.

of the Supplementary Estimate were briefly introduced at the Public Accounts Commission (TPAC) accountability session in July.

- 4.2 The Non-Executives commented that the rationale for the additional monies requested to cover additional audit worked should be strengthened. In discussion Board members referred to the findings from the external review on the NAO's Financial Audit work which acknowledges that there are circumstances, external to the NAO, which lead to audits costing more than anticipated at the time the annual Estimate is presented to TPAC. Given that we do not include contingency in our Estimate or seek direct recovery from departments in cases where audit costs are higher, the normal route where audit costs exceeded the budget would be for the NAO to submit a supplementary estimate to TPAC.
- 4.3 FR recommended that the 2023-24 Supplementary should be updated to reflect the comments from the Board's discussion and circulated for approval via correspondence ahead of submission to TPAC, for TPAC approval.

Action: TV to update the 2023-24 Supplementary Estimate informed by the comments from the Board and circulate for approval via correspondence.

Scope and timing of 2024 external VfM review

- 4.4 The Board noted that TPAC had consented at the accountability session in July that the topic for external review in 2024 should be on the Audit Transformation Programme (ATP). As follow up to this, the Board received a paper from the external auditor setting out the proposed scope and approach for the ATP review including timing and cost of the review. The Board endorsed the proposed scope of the review noting that the Audit and Risk Assurance Committee (ARAC) had helpfully suggested that the review should also include the role of the Board and the Audit Quality Board (AQB) in overseeing the risks to the delivery of the ATP taking into account benefits realization, project management and financial management of the project.

5. Substantial operational matters

Audit Quality and Audit Quality Review (AQR) outcome

- 5.1 Elaine Lewis (EL) thanked the Board for their comments on the Transparency Report which was circulated to members via correspondence at the end of October. She informed members that the report has not changed much since the version that was circulated in July except for the Forewords and Part 3 where we have provided the update on the financial audit side of the Office's work which was missing from the July draft as we needed more information from the Audit Quality Review (AQR) team.
- 5.2 EL reported that the annual quality evidence session with TPAC has been rescheduled from 28 November 2023 to January 2024 by which time the AQR team should have provided the scores for the two reviews which are still outstanding.
- 5.3 The Non-Executives commented that whilst the scores on the reviews received to date are disappointing and below our target, they do not point to a fundamental problem with the NAO's audit quality. Gaenor Bagley (GB), in her capacity as member of the AQB which advises the C&AG on audit quality, commented that audit quality is improving and is on the right trajectory underpinned, amongst other things, by the investments in the Audit Transformation Programme (ATP).
- 5.4 The Board agreed to that the Transparency Report should not be held up any further and approved its publication as soon as possible informed as necessary by the comments received from members via correspondence. The Board noted that the outstanding scores would be included in next year's Transparency Report. The Board strongly endorsed the C&AG's recommendation to seek the acceleration of the timetable for the reviews of the Office's 2022-23 audits from the AQR team.

Update of Audit transformation Programme

- 5.5 Susan Ronaldson (SR) provided the update on the ATP since the last meeting of the Board. She reported on the successful release of the audit software (APEX) to the financial audit service line at the end of September and that overall the programme is running to time and budget. Timetables for the final releases do however remain challenging with work to do to agree a design with the supplier for the engagement portal and a plan for Release 3. SR added that in light of this the overall programme rating remains at Amber as it was in July.
- 5.6 The Non-Executives welcomed the focus on people as evidenced by the successful take up of the APEX training. The Non-Executives sought assurance on the state of the relationship with the supplier in light of the change in ownership in the summer. Kate Mathers reported that the engagements with the supplier and new owner are good.

International work update

- 5.7 Andy Fisher provided an update on progress on the Office's international work which covers international relations; international technical cooperation and international audits. He reported that the objectives of the NAO's international work are to directly improve what we can offer Parliament in terms of best practice and benchmarking data from audit offices around the world and, separately, to develop our people to give them new perspectives, skills, and knowledge. The NAO's international work is an approved service which is in the scope of the Board's responsibility. He informed the Board that there will be an opportunity for the NAO to bid for a seat on the UN Panel of External Auditors in 2028 which is when the next Western Europe and Other Group vacancy will occur.
- 5.8 The Board discussed the pros and cons of pursuing the UN opportunity including the risks associated with auditing such a large and complex supranational organisation. The C&AG reported that it is possible to manage risks associated with this type of international engagement and referred to the NAO's prior experience of being a member of the Panel of External Auditors from 2010-2016. The Board agreed that the opportunity should be explored further with key external stakeholders.
- 5.9 The Board endorsed the direction of travel of the Office's international work and commented on the benefits of drawing on international best practice in our VfM and wider assurance work including the important motivating factor presented by international work for NAO people.

Six monthly performance and risk updates.

- 5.10 The Board received the six-monthly performance and risk update. Fiona Reynolds commented that the spread of largely amber with some amber / green on the 'strategic wheel' felt right taking into account the papers considered by the Board so far in today's meeting. She invited Catherine Hope-MacLellan (CHM) to comment on the additional information provided on the People related KPIs.
- 5.11 CHM reported that there has seen a positive upturn in the overall engagement score in the latest People Survey which took place in September. All the main drivers of the engagement score which consist of reward, workload and growth have increased. She added that this suggests that actions taken in these areas have had the intended positive impact. CHM turned to the KPI on gender and ethnic representation and reported that on gender most targets are operating in line, or marginally ahead, of the March 2024 target. The exception is on trainee recruitment where the September 2023 intake was below target. CHM reported that action to address the latter includes, amongst other things, interaction and contact during the application process to encourage completion.
- 5.12 CHM reported that further activity is needed to further improve the pipeline of talent of ethnic minority colleagues, and to reduce the associated pay gap. Some of the actions to improve ethnic minority representation at director level include the introduction of a senior audit manager sponsorship programme and continuation and expansion of the diversity mentoring programme.
- 5.13 The Board commented that the Office has improved significantly on ethnic minority representation since the launch of the Diversity & Inclusion Strategy but recognised that we are

lagging on some tough targets which we have set ourselves. The Non-Executives thanked CHM for the assurances provided on the People related KPIs.

- 5.14 The Board noted the summary of NAO's strategic risks as at 30 September including the outcome of the recent risk stock take undertaken by the Executive Team and reviewed by the Audit and Risk Assurance Committee (ARAC). The Board noted ARAC's conclusion, following the risk stock take, that the Office has the most appropriate set of risks and that the risk register works well as a management tool to manage the key risks facing the Office. In addition the Board noted the inherent tension between keeping the number of risks to a level that highlights the key issues what the Office needs to manage and keeping the risks specific enough to allow meaningful ratings and discussion.

6. Matters for Board to note

Update from the NAO Chair on the current Non-Executive vacancy

- 6.1 FR provided a brief update on progress on the recruitment campaign for the upcoming Non-Executive vacancy on the Board. She reported that she was very pleased with the calibre of the applicants, including the gender and diversity composition of the longlist.

Update from the Chair of ARAC

- 6.2 Gaenor Bagley (GB) referred to the draft minutes of the ARAC meeting held on 11 October which have been circulated to the Board. She highlighted the positive internal audit opinions provided in the recent round of internal audit reviews and, separately, the assurance provided to the Committee that the office has a robust framework underpinning the NAO's counter-fraud plan. GB also referred to the risk stock take the outcome of which has been provided separately to the Board. She reported that the moderation meeting for the external audit contract tender would take place on 1 November with the results of the latter reported to the Board at its meeting in December. It was disappointing that only one tender had been received by the closing date of the campaign.

Update from Non-Executive members of AQB

- 6.3 Gaenor Bagley (GB) referred to the draft minutes of the AQB meeting held on 25 September which have been circulated to the Board. She highlighted the discussion on audit quality scores which was in line with the Board's discussion earlier in the meeting. She also referred to helpful discussions undertaken by the Chair of AQB with a number of financial audit directors to get a better perspective on quality issues from their respective perspectives.

Tender for replacement of fire alarm system

- 6.4 The Chair confirmed the Non-Executives' approval – via correspondence prior to the Board meeting - of the tender for the replacement for the NAO's fire alarm system. She thanked members for their helpful comments which have been noted by the Finance and Facilities teams.

AOB – Board dates to end December 2026

- 6.5 The Board received the calendar of Board meetings from January 2024 to December 2026 noting that the calendar is aligned to the NAO's business cycle. Helene Morpeth thanked members for their collaboration with the timetabling exercise which is intended to ensure that dates are fixed as far in advance as reasonably possible to avoid diary clashes.
- 6.6 The Board noted the range of support available to colleagues affected by the ongoing crisis in the Middle East.

7. Conclusion

Date and time of next meeting

- 7.1 The Board noted the next meeting would take place on 12 December 2023.