

The Board
9 April 2015

Minutes

Present

Members

Michael Bichard	MB	Chair - Non-Executive Member
Amyas Morse	AM	Comptroller and Auditor General (C&AG)
Sue Higgins	SHi	Executive Leader
Sally Howes	SHo	Executive Leaders
Joanne Shaw	JS	Non-executive Member
Robert Sykes	RSy	Non-executive Member
Michael Whitehouse	MW	Chief Operating Officer

Apologies

Ray Shostak	RSh	Non-executive Member (apologies)
Naaz Coker	NC	Non-executive Member (apologies)

Attendees

Ruth Brutnall	RB	Head of Governance
Diane McGiffen	DMcG	Chief Operating Officer, Audit Scotland
Martin Sinclair	MS	Executive Leader
John Thorpe	JT	Executive Leader
[redacted under s40]		Project Support Coordinator (Item 3)
[redacted under s40]		Audit Principal (Item 3)
[redacted under s40]		Digital Architect (Item3)
[redacted under s40]		Head of Legal and Policy (Items 2 and 4)
[redacted under s40]		Head of Strategy and Performance (Item 5)
[redacted under s40]		Head of Finance (Item 4)
[redacted under s40]		Audit Manager (Item 3)

The Minutes record the business of the Board in Agenda order.

Item 1

Good Governance: Minutes, Matters Arising and the C&AG's report

Welcome & apologies for absence

- 1.1 MB welcomed members to the meeting, and extended a particular welcome to Diane McGiffen, who was attending the meeting as an observer. He noted that apologies had been received from Ray Shostak and Naaz Coker. Accordingly, to ensure that the Board maintained a majority of non-executive members, he invited Sue Higgins and Sally Howes to attend as observers.

Declarations of interest

- 1.2 There were none.

Minutes of meetings and action points

- 1.3 The Board approved minutes of the meeting held on 5 March 2015, subject to a drafting change to paragraph 2.9, to be agreed with the chair of the Remuneration and Nominations Committee. The Board also agreed the note of the Board Strategy Discussion, held on 6 March.
- 1.4 Progress on the action points was noted and the Board agreed that those items marked as closed should be deleted.

Matters arising

- 1.5 The C&AG reported that the Leadership Team would be developing a three year business plan for the organisation in the coming months, which would include work on scenario planning, and which he would share with the Board as it developed.

C&AG's update

- 1.6 The C&AG presented his written report, and discussed the reaction to his recent speech at an event hosted by Reform, and his interview with the Financial Times, noting that feedback had been largely positive, and demonstrated the potential impact of a limited number of carefully targeted public engagements. He highlighted two forthcoming events, his speech to an event hosted by the London School of Economics, which would

take place at the end of April, and the peak audit season, noting the work in hand to identify additional resources to ensure audit teams were appropriately resourced.

- 1.7 The Chair provided an update on his recent stakeholder engagement, which included meetings with permanent secretaries and a number of local government chief executives.

Parliamentary Report

- 1.8 Adrian Jenner presented an update of the NAO's work with Parliament in the period running up to the general election and an overview of the potential timetable for the formation of select committees, including the Committee of Public Accounts, following the election in May. He noted that since the dissolution of the current Parliament his team had also been developing proposals for how the NAO could engage with the new Parliament. The Board discussed two elements: the extent to which the NAO could engage further with the House of Lords; and how the organisation could seek to improve the feedback received from MPs, making the information it presents more relevant to a wider Parliamentary audience.

Item 2

Devolution: Implications for Audit

- 2.1 The Board invited Diane McGiffen to provide a brief presentation on the lessons learned from Audit Scotland's experience of devolution, and the wider implications of devolution (both national and regional) for audit. She noted that under devolution, the level of spending which came under the direct control of the Scottish Government has risen to £9 billion, and that this could potentially increase further under the proposals set out by the Smith Commission.
- 2.2 The Board discussed a number of issues which arose from the presentation, including the risks that may arise from levels of financial management capability in devolved bodies; the difficulties of forming meaningful comparisons of the cost or quality of public services between bodies operated under different service models or models of devolution; the potential complexities for audit and accountability which could arise were bodies to adopt different models of devolution; the role of consolidated accounts in a devolved landscape; and the importance of maintaining a focus on implementation issues where the policy debate is focused on 'big picture' matters.

- 2.3 The Board noted that accountability would remain a central issue for those bodies taking on devolved powers, and those responsible for audit. In particular challenges may arise around ‘boundary issues’ where bodies fall outside of the scope of the relevant audit institution but are responsible for delivery of publicly funded services. SHi confirmed that the NAO would continue to focus on accountability as an issue and would be undertaking work on areas such as city deals to identify at an early stage any risks or issues.
- 2.4 The Board thanked Diane for her thoughtful presentation and noted that the NAO and Audit Scotland had formed a close working relationship, learning much from each other; the C&AG expressed his view that this would continue under any further devolution.

Item 3

Business Improvement Programme: Next Steps

- 3.1 The team responsible for the Business Improvement Programme (the successor programme to the ERP replacement project) presented a paper on the programme. The team outlined the proposed staged approach which would first consider and address issues within the current systems and processes and raise levels of compliance, prior to seeking to procure or implement a new system.
- 3.2 The Board welcomed this approach, noting that it was appropriate to understand more fully the NAO’s existing processes prior to any implementation of a new system, rather than the ‘big bang’ implementation that had been previously proposed. Members emphasised the importance of examining and, where necessary, improving existing processes to inform the requirement for any new system rather than looking to the system first. Members further emphasised the need for a clear articulation of the issues the programme sought to address and the objectives for the work, to ensure that this was clear at the start of the programme.
- 3.3 The Board queried the timing of the work, and the interaction with the potential external VFM review of the NAO’s HR processes (item 6), cautioning the team to ensure that any interdependencies were identified early and appropriately managed. The team noted this, reporting that the timing of the review should support the wider programme, as the review would provide draft recommendations over the summer and conclude by September, the point at which the programme planned to commence the procurement of any replacement system.

- 3.4 The team reported that they would present a paper to the Board in September, outlining the proposed approach to the next stage of the programme, as well as a planned budget.
- 3.5 MW emphasised the importance of culture change to the programme, but also to the achievement of wider change within the NAO. He reported that in recognition of this, the Leadership Team had appointed a Director of Engagement and Change, Susan Ronaldson, who would take up post in July. The Board welcomed this appointment, and highlighted the need to monitor, manage and report how far the desired change had been achieved, and take timely action to address any barriers.
- 3.6 The Board endorsed the programme approach, agreeing that it would consider the next phase at its meeting in September. Members requested that they receive regular updates on the programme as it proceeded, and also welcomed the invitation of the programme team to attend a 'walkthrough' demonstration of the programme.

Action: To provide regular programme reports to the Board.

Action: To arrange 'walkthrough' sessions for non-executive members.

Item 4

Business and Risk Reporting

Risk Report

- 4.1 [redacted under s40] introduced the risk report. The Board focused on the 'resilience' risk, querying what action had been taken in the final quarter of the financial year to address the risk, and what impact the action had. MW reported that staff turnover was stabilising at around 22% in key grades, but that the target turnover rate was 17%. The NAO now had a rolling programme of recruitment, which had brought in six new members of staff at the Audit Principal grade, and the organisation was exploring whether any of the graduate intake who would join in September could take up their post earlier. He also noted that the Leadership Team had considered how to prioritise the NAO's resources, reviewing each of the high profile audits and testing the resourcing plans for vulnerabilities.
- 4.2 He noted that these were 'coping mechanisms' to enable the organisation to deliver against the agreed work programme, and the Leadership Team acknowledged the need

to better make the case to the NAO's newly qualified staff for why they should stay with the NAO, and what the 'offer' was in terms of career development. JS commented that it was important to achieve a balance in the way the NAO communicated with its people between 'broadcast' messages and personal messages. She observed that having a quality conversation with those individuals who the NAO wished to retain would be one step which could have a positive impact.

- 4.3 The C&AG observed that this remained an area which the NAO's executive management would monitor and take further actions where required. The actions taken to address the audit peak audit, through earlier planning and greater work at the interim audit stage had helped to smooth the impact of the 'peak'. This had been supported by a greater use of VFM staff on financial audit, which also had wider organisational benefits encouraging shared insight and more holistic view of audit issues.

Business Report

- 4.4 [redacted under s40] introduced the business report. The Board congratulated the NAO on its performance in 2014-15. TV highlighted two areas where the NAO had missed its targets: utilisation rates and correspondence. On utilisation he observed that the NAO needed to improve the accuracy of time recorded by staff; improved management information on time reporting had been developed to enable clusters to provide appropriate challenge.
- 4.5 MW observed that there was a wider issue of compliance which had an impact on the NAO's ability to manage its resources; where hours were not accurately reported, managers could not identify areas of pressure. He commented that there was a need to strengthen the accountability mechanisms and consequences for non-compliance. Members highlighted the importance of leadership and of directors and managers demonstrating the behaviours expected of all staff, to send a clear message regarding the importance of compliance.
- 4.6 The C&AG observed that in addition to addressing compliance it would be important to address the time taken on internal management matters. He observed when cluster were first formed, directors often sought to take a consensus based approach to decision making on cluster management issues requiring widespread consultation; as the cluster management model matured he expected that this would reduce.
- 4.7 The Board also discussed the NAO's performance against its correspondence target. Members noted that this was an important performance measure; how the NAO managed its responses to those who contacted it was a key element of how it managed

its reputation. Performance in this area had been below target for a large part of the year, and members queried whether this indicated a wider problem, where current solutions may not be sufficient. Non-executives queried what action was being taken by the Leadership Team to monitor and address this, and requested more granular performance data in future reports.

- 4.8 The C&AG commented that he shared the Board's view of this measure as one which was core to the NAO's reputation and acknowledged the need for further action. He observed that it may not be an issue with the system, but rather a need for all those in the NAO to view responding to correspondence as being core to their roles. SHi reported that she was undertaking a review of the NAO's correspondence system which may identify further improvements.

Action: To ensure that the Board received more granular performance information on correspondence targets.

Item 5

NAO Plan for Achieving Our Objectives 2015-16

- 5.1 The Board received the final version of the 'Plan for achieving our objectives 2015-16' for approval. Members noted that the plan reflected a good response to the Board's comments on the draft presented at the March meeting, and approved the plan for internal publication.

NAO approved services: approval

- 5.2 The Board also received a paper setting out the planned programme of 'NAO approved services' for 2015-16, which was presented for approval. RB noted that the plan reflected the scope of NAO approved services agreed by the Board in July 2013, which was wider than a strict interpretation of the Budget Responsibility and National Audit Act would provide for, to include elements such as the NAO's work with Parliament, which arguably were core to the C&AG's statutory responsibilities.
- 5.3 The Board agreed the programme as presented, but requested a paper on the implications of adopting a more narrow scope to the programme of NAO approved services in future years. The Board also agreed that members would welcome a wider discussion on the NAO's programme of work, including the VFM programme. The Board recognised that this remained an area where the C&AG preserved his

independence, but suggested that a discussion would aid the Board in its role of supporting and advising the C&AG.

Action: To provide a note for the Board on the implications for the programme of NAO services of adopting a more narrow scope.

Major projects and contracts 2015-16: approval

5.4 The Board also considered a paper setting out the major projects and contracts to be undertaken in 2015-16 and which supported the delivery of the 'Plan to achieve our objectives'. The Board noted the four projects detailed (Flex Roll Out; SharePoint Review; Business Improvement Programme (discussed under Item 3); and the re-tendering of the NAO's framework for strategic partners.). The Board approved the proposal that the re-tendering of the framework take place on the basis of a single framework.

Item 6

Audit Committee Approvals

- 6.1 The Board considered two items arising from the work of the Audit Committee. The first was the proposed topic for the VFM review of the NAO by its external auditors. The Board noted that the Committee had considered a long list of subjects and had shortlisted two topics for further consideration at its meeting in February: 'HR Processes' and 'Workforce Deployment and Utilisation'. JS reported that the Committee's view was that while both topics were valid areas for consideration, at this point it was felt that the review of HR processes would be more suitable. She invited the Board to approve this recommendation.
- 6.2 The Board approved the Audit Committee's recommendation that the 2015 external VFM review of the NAO should consider the Office's HR processes.
- 6.3 The second item for consideration was the Committee's programme of work for the coming year. The Board commented that the programme represented a convincing and comprehensive programme of work, noting that there remained the flexibility to consider other issues should the need to do so arise.
- 6.4 The Board received the draft minutes of the meeting of the Committee held on 25 February.

Item 7

Any Other Business

- 7.1 The Board received the proposed dates of the Board and Committee meetings to be held in 2016. The Board secretary invited members to contact her with any potential diary clashes or other issues.

Ruth Brutnall

April 2015