



National Audit Office

The Board

17 February 2011

Minutes

Present

Members

Andrew Likierman	AL	Chair - Non-Executive Member
Ruth Evans	RE	Non-Executive Member
Richard Fleck	RF	Non-Executive Member
Paula Hay-Plumb	PHP	Non-executive Member
Mary Keegan	MK	Non-Executive Member
Amyas Morse	AM	Comptroller and Auditor General (C&AG)
Michael Whitehouse	MW	Chief Operating Officer
Gaby Cohen	GC	Assistant Auditor General
Ed Humpherson	EH	Assistant Auditor General

Attendees

Ruth Brutnall	RB	Head of Governance
Marcial Boo	MB	Director, Strategy, Knowledge & Communications (Item 5)
Simon Henderson	SH	Head of Performance & Delivery (Item 4 & 5)
Sally Howes	SHo	Director of IT and Analysis (Item 7)
Jim Rickleton	JR	Director General, Finance and Commerce (Item 4 & 5)

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

Item 1

Apologies for absence

1.1 There were none.

Item 2

Declarations of interest

2.1 There were none.

Item 3

Minutes of meetings and action points

- 3.1 The minutes of the Board meeting held on 18 January 2011 were approved. No sensitive items were identified which would affect their public disclosure.
- 3.2 Progress on action points was noted and it was agreed that those items marked 'propose delete' should be deleted from the action log.

Matters arising

3.3 There were none.

C&AG's update

- 3.4 The Board noted the written update provided and discussed a number of elements, including the continuing work on arrangements for local audit, the PAC hearing on accountability, progress made to appoint a new AAG and the recent launch of the Major Projects Authority, which the NAO jointly hosted with the Efficiency & Reform Group. It was agreed that there were a number of themes emerging from the work on accountability and local audit and that it would be useful for the Board to engage in an informal discussion of specific issues from time to time as the NAO's position is developed.

Action: Ruth Brutnall to ensure informal discussions on specific issues of interest to the Board are planned into the forward programme. (BM/3.4/02.11/RB)

Audit Committee Update

- 3.5 The Board noted the written update provided and MK provided an oral update on the proceedings of the Audit Committee held earlier in the day, including the reports on data quality in the Business Management Report, the 9 month SIC and the recommended subject of the external auditor's VfM report on the NAO; this was discussed further under Item 6. The Board agreed that in future the management response to Internal Audit & Assurance reports would include implementation timescales.
- 3.6 The Board also discussed Phase 2 of the Review of Risk Management and accepted the recommendations made in the report.

Item 4

Business Report, Risk Update & Quarter 3 Performance Report

Business Report

- 4.1 JR presented the Business Report for the period ending 31 January 2011. The Board discussed the reasons for the amber rating of item 2.4, Faster Submission of Reports to PAC, noting both the need to maintain the rigour provided by the target and the practical barriers which exist to achieving the target in every case.
- 4.2 The Board also discussed the risks to items 2.1 and 3.2 (Auditing Accounts within 4 months of Year End and Reducing Fee Deficit) of changes in the client base, for future financial years. The Board asked Management to ensure that all possible action is taken to mitigate against this.
- 4.3 In discussing item 3.5 in relation to staff turnover, the nature of the figure reported was queried, to ensure the Board had a shared understanding of what is meant by 'turnover' in this context. It was agreed that this would be made more clear in future reporting.

Action: Jim Rickleton to ensure greater clarity of terms in business report dashboard and supplementary notes. (BM/4.3/2.11/JR)

Risk Update

- 4.4 SH introduced the Risk Update, and MW outlined the nature of the discussion on risk at the recent Leadership Team meeting. Discussion focused on the risks to the NAO of a client or other public body failing, noting a change of focus within government to

protect public services rather than public bodies, and MW reported that management was undertaking further work to ensure the Office's response to this growing risk was robust. The Board also discussed the need to ensure that the risks emerging from the changing environment within client bodies were fully reflected in other management documents including the Quarterly Performance Report and Business Plan.

Quarter 3 Performance Report

- 4.5 SH introduced the Quarter 3 Performance Report. The Board noted that the report did not highlight any issues of concern. Noting that it was 6 weeks before year end, the Board queried the number of items rated Amber. SH reported that this indicated an area where an issue had been identified but that action was in hand to address it and it was not expected that this issue would prevent delivery against a particular target by year end.

Item 5

Draft Business Plan & Estimate

- 5.1 JR presented the Business Plan for 2011-12. The Board noted the quality of the draft, which presented information in a clear and accessible way. The Board discussed the tone and structure of the Plan, as well as providing consideration of specific drafting points, and reached agreement on the following :
- the need to ensure that the tone of the Plan is correct. The Board agreed that the current draft was too focused on the corporate centre and would benefit from a greater emphasis on the relevance of the strategy to the delivery of front line activities;
 - the need to ensure that any assertions made, such as the extent to which government has acted on recommendations made by the NAO, can be evidenced;
 - the importance of the management focus on reducing the cost of individual VfM studies through a reduction in the use of external resources and the development of in-house expertise;
 - the need to reinforce the message that the reduction in resources used by the Office does not mean that there will be a reduction in the quality of products;
 - the need to provide prior year comparisons for figures to enable a clear communication of clear messages on resourcing and efficiency; and

- the addition of a footnote to the table under 5.10 to make clear that the budget for the Internal Audit function has been consolidated within another budget, but that the function remained.

Action: Marcial Boo to ensure the Board's comments and suggestions are incorporated into the final version of the Business Plan. (BM/5.1/02.11/MB)

5.2 JR introduced the Estimate, and confirmed that the Estimate reflected the resource requirements to meet the strategy agreed by the Board in 2010. The Board considered the Estimate and approved it for submission to TPAC. It was noted that Board members would find it useful when considering similar items in future to have a copy of relevant related documents to cross reference with to inform the conversation.

Action: Ruth Brutnall to ensure Board members receive copies of all relevant corporate documents to provide appropriate context to future discussions. (BM/5.2/02.11/RB)

5.3 RF raised a query regarding the potential under the Code of Practice to distinguish between resources used for non-statutory and statutory work within the estimate, and asked that this should be considered by management.

Action: Jim Rickleton to investigate whether the need to distinguish between resources used for the provision of statutory and non-statutory work exists, and respond to RF. (BM/5.3/02.11/JR)

5.4 The Board approved the Estimate.

Item 6

External Audit VfM Topic

6.1 The Board received the recommendation of the Audit Committee that the topic of the external auditor's report on the NAO should be '*The NAO's recruitment, procurement and deployment of auditors to undertake financial audits*'. The Board approved this study, to take place between February - May 2011.

6.2 The Board also agreed the importance of ensuring that the definition of Value for Money and the methodology applied during the review were consistent with NAO's own practices when undertaking VfM studies on client bodies, and asked management to ensure that this would be the case.

Action: Michael Whitehouse to liaise with the external auditor to agree approach to study and ensure it is consistent with NAO's own practice and standards. (BM/6.2/02.11/MW)

Item 7

ICT Capability Strategy

- 7.1 SHo presented a paper summarising the approach being taken to increase the capability of the NAO to be able to engage with ICT projects and issues with clients. The Board welcomed the update and discussed aspects of the paper including the importance of a strong understanding of ICT systems when undertaking financial audit of client bodies where complex IT systems are integral to their business such as DWP and HMRC, the need to facilitate more joint working between NAO's own operational ICT staff and client facing staff, the current work with government to raise the profile of the NAO on ICT related issues, and the need to develop the understanding of ICT as a key aspect of reform and reorganisation in government within the NAO, the PAC, and client bodies.
- 7.2 The Board also discussed the response of key stakeholder groups including Chief Information Officers in Government, and the IT Trade Press.

Item 8

Any Other Business

- 8.1 The Board noted the following papers received for information:
- Detailed information on ratio of Back Office to Front Line Costs
 - Detailed information on fee deficits
 - Progress in Achieving Corporate Efficiency Targets in 2010-11 (Follow up to External Audit Report)
- 8.2 The Board's discussion of the papers focused on corporate efficiency, particularly with relation to the target ratio for front line:corporate resources, noting that although the NAO was unlikely to achieve the target ratio during 2010-11 management had action in hand to address this, and would be considering further actions in March and April to ensure a ratio of 80:20 by Autumn 2011.
- 8.3 It was agreed that careful consideration of the presentation of current performance, and the impact of the calculation method proposed by the external auditors outlined in the paper provided, would be required to ensure to avoid any perception that the

change of calculation was undertaken in order to present a more favourable view of performance.

Ruth Brutnall

Board Secretary, 17 February 2011

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Chairman