

**The Board**  
**23 February 2012**

# Minutes

# Present

## Members

Andrew Likierman	AL	Chair - Non-Executive Member
Amyas Morse	AM	Comptroller and Auditor General (C&AG)
Gabrielle Cohen	GC	Assistant Auditor General (excluding Item 3.1)
Ruth Evans	RE	Non-Executive Member
Paula Hay-Plumb	PHP	Non-executive Member
Ed Humpherson	EH	Assistant Auditor General (excluding Item 3.1)
Richard Fleck	RF	Non-Executive Member (Items 1-6)
Mary Keegan	MK	Non-Executive Member
Michael Whitehouse	MW	Chief Operating Officer (excluding Item 3.1)

## Attendees

Ruth Brutnall	RB	Head of Governance
Marcial Boo	MB	Director, Strategy, Knowledge and Communications (Items 4 & 5)
Jim Rickleton	JR	Director General, Finance and Commerce (Items 4 & 5)
Sally Howes	SH	Director, ICT Systems & Analysis (Item 8)

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

## Item 1

### Apologies for absence

- 1.1 Richard Fleck offered his apologies; he would have to leave following the Board's consideration of item 6.

## Item 2

### Declarations of interest

- 2.1 There were none.

## Item 3

### Budget Responsibility & National Audit Act: Preparatory Work

#### Appointment of Executive Members

- 3.1 The Chairman reported that the Public Accounts Commission had met on 31 January and had appointed the non-executive members to the 'new' NAO Board, established under the Budget Responsibility & National Audit Act 2011. The Board noted that the Act would take full force from 1 April 2012, and the Board had been formed to enable it to take preparatory action in advance of this date.
- 3.2 The first action required was the appointment of the executive members. The Chairman noted that the Act required the non-executive members to appoint three executive members. The C&AG recommended the appointment of Gabrielle Cohen, Ed Humpherson and Michael Whitehouse as executive members of the NAO Board; the Board endorsed this recommendation and approved the appointments.

#### Approval of Constitutional Documents

- 3.3 The Chairman welcomed the executive members of the Board to the meeting. The Board considered the constitutional documents presented for approval. It noted that there were no material changes from the arrangements which had existed in shadow form, but that the Code of Practice had been updated to ensure consistency with the Act.

- 3.4 The Board discussed a number of elements of the papers, including the need to reflect clearly how the Board discharged its responsibility for ensuring a balance of skills and transparency in its own appointments process, and the ways in which it provided a wider perspective to the NAO's management of staff development and promotion, through for example the consideration of the HR strategy on an annual basis. The Board also considered how it fulfilled its responsibilities to monitor the carrying out of the C&AG's activities
- 3.5 The Board approved the documents, and the code of Practice for submission to TPAC, subject to minor drafting amendments.

## Item 4

### NAO Estimate, Memorandum and Business Plan

#### Estimate & Memorandum

- 4.1 JR presented the Estimate and Memorandum to the Board for approval. The Board queried the presentation of the figures, and the value of providing greater clarity in terms of where the figures relate to new arising from either the audit of the probation trusts or the closure of the Audit Commission; this would ensure a clearer presentation of where the NAO had delivered efficiencies in its existing operations. JR agreed to speak to HM Treasury to agree how this might be presented.
- 4.2 The Board approved the Estimate.

#### Business Plan

- 4.3 MB presented the Business Plan for 2012-13, noting that it was a working draft, and inviting the Board's comments. The Board discussed the need to emphasise that the reduction in the use of outsourcing reflected the development of specialist capability within the NAO; the importance of the NAO culture in ensuring it succeeded in delivering its objectives; and the link between fairness and diversity. The Board suggested the diversity strategy could be more explicitly referenced in the Business Plan.
- 4.4 The Board also discussed importance of the connection between the 'day job' of line delivery and the focus on insight and influence, two key themes for the 2012-13 Business Plan. It was agreed that the current diagram did not convey this clearly enough, and that this would be -re-drafted prior to the publication of the Business Plan.

**Action:** To ensure that the Board's comments were reflected in the final version of the Business Plan to be presented to staff at the end of March.

## Item 5

### Good Governance: Business Report & Risk Report

#### Business Management Report

- 5.1 JR presented the Business Management Report as at 31 January, highlighting the NAO's profile against budget, which showed a forecast underspend of 1.5% by year end. He reported that the Leadership Team had considered this and had agreed to surrender £1m of the estimate, and retain £0.5 million to manage year-end commitments.
- 5.2 The Board raised a number of queries regarding the reasons for the underspend, and whether there were any implications for the 2012-13 Estimate. MW reported that he was confident that the figures in the Estimate were robust, explaining that the underspend in 2011-12 had arisen primarily as a result of two factors: a reduction in outsourcing spend as a result of delays in clients work to prepare 9 month accounts; and work undertaken during the year to ensure a more appropriate mix of grades in the NAO's financial audit work. He explained that the approach to budgeting taken for 2012-13 was robust, and had included a zero based budgeting exercise for all financial audits. He also reported that some of the underspend in 2011-12 which was a result of delayed work with clients would lead to increased requirements for 2012-13.
- 5.3 The Board welcomed this explanation and asked that this information could be made more visible to the Board in future reports.

#### Risk Report

- 5.4 The Board considered the risk report, noting that for the first time in 2011-12 it did not contain any red ratings. They queried whether this was a fair reflection of the risk profile of the NAO, particularly in the light of the continuing changes and financial pressures faced by government departments. GC reported that the ratings reflected the risk to the NAO, not to its client base, noting that although uncertainties remain, the NAO was now more confident in its ability to respond to these issues.

- 5.5 The Board noted the steps taken to address the current issues with the NAO's audit support software and discussed the increased risk to the NAO of the issues which may arise from the delivery of public services by third parties, and the potential for an increase in whistle blowing.

## **Item 6**

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

#### **Minutes of meetings and action points**

- 6.1 The minutes of the Board meeting held on 24 January 2012 were approved, subject to minor drafting amendments. No sensitive items were identified which would affect their public disclosure, and the Board agreed to their publication on the NAO website.
- 6.2 Progress on action points was noted and the Board asked that the action relating to the assessment of the NAO against the Code of Good Practice be kept open until the final assessment was agreed as part of the May Board and Audit Committee meetings' considerations of the NAO's year-end financial reports.

#### **Matters arising**

- 6.3 There were none.

#### **C&AG's update**

- 6.4 The C&AG presented his written report and provided an oral update on specific elements, including the proposed timetable for legislation relating to the changes arising from the closure of the Audit Commission. He also discussed the implications for the NAO of discussions relating to the Public Accounts Committee and its interactions with the Civil Service, as well as the emergence of greater clarity regarding the split in the roles of Cabinet Secretary and Head of the home Civil Service, following Gus O'Donnell's retirement. He provided an update on the Performance Management event the NAO had hosted and which was attended by senior stakeholders from government, including HM Treasury.
- 6.5 The Board discussed the continuing engagement with the Whole of Government Accounts, focussing on issues on the potential consolidation of further state owned entities, of which the NAO was not the Auditor. The C&AG explained that the NAO would take a consistent approach to consolidation, based on broad principles, and that this was an issue which the NAO's executive management would discuss further with the Board as it developed.

6.6 The Board also queried the progress of the NAO's engagement with the FRC on its ethical standards, noting the importance to the NAO's reputation of continuing to maintain a strong position with regards to its application of the ethical standards. It was agreed that the non-executive members would be provided with further briefing on this matter in advance of the next meeting.

**Action:** To arrange a briefing session for the non-executive members on the NAO's response to the Ethical Standards in advance of the Board meeting on 29 March.

### **Audit Committee**

6.7 MK provided a brief report on the considerations of the Audit Committee, which had met that morning. She informed the Board of the update provided by the NAO's auditors RSM Tenon following recent press coverage, and the Committee's consideration of the 9 month accounts and governance statement, and the NAO's reported impacts for 2011.

## **Item 7**

### **Diversity Strategy**

7.1 GC introduced the Diversity Strategy, setting it in the context of the Annual HR report received by the Board each July, and discussing the role of the NAO's diversity networks in developing the strategy. She reported that the strategy represented a broad approach to all areas of diversity, and that the priority area for the NAO during the period of the strategy would be to improve the representation of ethnic minority staff in the NAO's senior grades. GC also reported that the Leadership Team had identified an issue with potential under-reporting in the area of disabilities, and action would be taken to address this.

7.2 The Board considered a number of aspects of the Diversity Strategy, noting the positive ambition and commitment, and discussions focussed on:

- welcoming the targets and proposal for year on year improvement in key areas, noting this represented a strong commitment to addressing the issues identified;
- the importance of staff communications in developing and delivering the strategy, and the need to ensure wide engagement across the office, not just those who 'self-select' via the diversity groups;

- the potential costs to the NAO of implementing the strategy. GC reported that costs of e-training on unconscious bias, and for the appointment on a short term contract of a specialist to help the NAO address the priority areas, had been included in the planned budgets for 2012-13. There were no further material costs anticipated to arise from the implementation of the strategy.
- the issue identified of appraisal outcomes for ethnic minority staff, and the report received from an external specialist on how the NAO might address this. The Board noted that this would be taken forward as part of the planned review of the NAO's appraisal and performance management processes.

7.3 The Board approved the strategy.

## Item 8

### Support & Advice: Update on the NAO's work to develop its ICT capability

- 8.1 MW introduced SH to the Board, noting the progress made by her and her team in developing the NAO's capability to address issues of ICT in government, a key focus of the NAO strategy for 2012-14. The C&AG reported that with a continuing period of austerity in the public sector, which would require further change in how services delivered and greater reliance of ICT solutions, it was even more important that the NAO have the capability to scrutinise the value for money of these projects and provide credible and robust assessments, thanking SH for her work which had ensured the NAO was in a good position to meet this challenge.
- 8.2 The Board welcomed the update and discussed a number of elements, including the challenges of providing reports and products which were suitable for the PAC; the importance of developing credible approaches to technical analysis and of embedding this in the NAO's wider delivery for example through support to specific financial audits; the NAO's work with the Cabinet Office's digital services team; and issues of legacy systems in government.

## Item 9

### Any Other Business

- 9.1 The Board received a paper from the Director of Internal Audit and Assurance on the progress by the NAO to address the requirements of the Bribery Act. MK reported that the Audit Committee had considered this matter and recommended that the Board



formally note its endorsement of the approach and progress made to date. The Board endorsed the approach, noting its satisfaction with the proposed controls.

**Ruth Brutnall**

February 2012

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**Chairman**