

The Board
17 January 2013

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
Naaz Coker	NC	Non-executive Member
Gillian Guy	GG	Non-executive Member
Paula Hay-Plumb	PHP	Non-executive Member
Ed Humpherson	EH	Assistant Auditor General
Mary Keegan	MK	Non-Executive Member
Michael Whitehouse	MW	Chief Operating Officer

Attendees

Ruth Brutnall	RB	Head of Governance
Marcial Boo	MB	Director, Strategy, Knowledge & Communications (Item 4)
Nick Lacy	NL	Head of Legal and Policy (Item 5)
Jim Rickleton	JR	Director General, Finance and Commerce (Item 4)

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

Item 1

Welcome & apologies for absence

- 1.1 There were none.

Item 2

Declarations of interest

- 2.1 There were none.

Item 3

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

Minutes of meetings and action points

- 3.1 The minutes of the meeting held on 29 November 2012 were approved, subject to a minor amendment. No sensitive items were identified which would affect their public disclosure, and the Board agreed to their publication on the NAO website.
- 3.2 Progress on the action points was noted and the Board agreed that those items marked as closed should be deleted.

Matters arising

- 3.3 RB provided a brief update on the progress against the actions agreed in response to the external evaluation of the Board, reporting that an opportunity for members of the Board to meet with members of the Public Accounts Commission was being arranged, and that following the Board's decision that it would like to visit the Newcastle office, arrangements were in hand to hold the November 2013 Board meeting in Newcastle, and for members to meet NAO staff during this visit.

C&AG's update

- 3.4 The C&AG presented his written report. He commented that the current discussions on reform of the civil service could have potential implications for both the NAO and Committee of Public Accounts, and that the NAO would continue to keep this under

review. He provided an update on the issue of innovation in government, and the NAO's role, which was an issue which had been raised by ministers during 2012. He reported that he had commissioned some work to set out the NAO's views on innovation, and the factors required for innovation to succeed, including contractual and procurement considerations.

- 3.5 He also discussed the pre-legislative scrutiny of the draft Local Audit Bill, a report on which had been published that week. He noted that the report's recommendations reflected the areas covered by his own testimony to the committee, including the role of the Financial Reporting Council, and the committee's concerns regarding the procurement of audit services. He agreed to send a copy of the report to non-executive members, with a short briefing note, highlighting the key issues for the NAO.

Update on Audit Committee

- 3.6 MK provided a brief update on the meeting of the Audit Committee, which had met that morning and received three reports from the NAO's Director of Internal Audit and Assurance. The Committee had also considered the proposed scope and terms of reference for the external auditor's review of the NAO's management information, and had asked that it be widened to include the information received and used by the Leadership Team as well as the Board.

Item 4

Good Governance: Business Report, Performance Review and Quarter 3 Risk Report

Business Report

- 4.1 JR presented the Business Report reporting that the detailed review of income and expenditure, undertaken at the end of 2012, had resulted in a contingency of £0.7million against the 2012-13 budget, to enable the NAO's Leadership Team manage any uncertainty in the final quarter of the financial year. MW reported that the Leadership Team had discussed the need to improve financial management within the NAO, and to ensure that directors and others were aware of their own personal accountability for budgeting and resource management.
- 4.2 The Board commented that it was important to ensure that the NAO's performance management approach recognised the importance of demonstrating corporate

behaviours with clear consequences for those who do not, and that the culture of the NAO was one in which individuals had a clear sense of personal accountability for issues such as financial management.

Performance Review

- 4.3 MB introduced the Performance Review, which provided an overview of the NAO's performance against its externally reported performance measures. He noted that the NAO's performance against its measures was broadly good, with an improvement against measures since the mid-year review presented to the Board in October. The NAO was on track to meet its targets, in particular performance against the financial impacts target was positive, and there had been an improvement in the feedback received from audited entities. However, there were areas of concern; there appeared to be a disparity between teams' own assessment of their performance against measure 5 (the NAO is a recognised authority on its core areas of expertise) and the data received from external assessments. He also noted that the quality of individual teams' objectives was variable, and that work was in hand to address this for 2013-14.
- 4.4 The Board noted the report and queried how it would be used raise awareness of the NAO's corporate performance with NAO staff. MB noted that the report would be published on Merlin, following the Board's considerations, but that further work could be undertaken to discuss the review and its key messages with staff, and seek their views on the NAO's areas of strength and also those areas it could improve. This would also provide a clear message that the NAO takes corporate performance seriously, supporting the focus on improving individual performance management and appraisal as part of the move to the revised performance management and appraisal approach planned for 2013.

Quarter 3 Risk Report

- 4.5 The Board received the Quarter 3 risk report, and raised one query, regarding the assessment of the risk 'Failure to manage our financial resources', querying whether the Amber assessment was appropriate, or whether given the outcome of the review of income and expenditure, discussed earlier, whether this risk had now reduced. JR reported that the review had provided greater contingency, but given the remaining uncertainty in the final quarter, and the NAO's low capacity for risk in this area, the overall assessment of amber remained appropriate.

Item 5

Support & Advice: Responding to the Public

- 5.1 NL and GC introduced the paper, which provided an overview of the ways in which the NAO responded to queries and concerns from members of the public, the value to the NAO of doing so, and how this was managed. They noted that this was an important area for the organisation, and one which was likely to increase in terms of both volume and significance as a result of the changes in public service delivery and the increasingly diverse service delivery models. The NAO's approach was informed by recognition that issues and concerns raised by correspondents and whistleblowers provide a valuable source of insight and audit evidence, and the need to address both reputational risk and legal requirements.
- 5.2 They commented that the intention behind this paper was to share with the Board the NAO's current approach, and its ambition to develop this further in response to the commitment in the strategy to adopt a more investigative approach, and the additional responsibilities which the NAO and C&AG would take on under the Local Audit Bill.
- 5.3 The Board discussed a number of aspects of the paper, including the need to ensure that the NAO was able to prioritise its work in responding to concerns appropriately, the ways in which the NAO currently measured the impact of its work in this area, how the NAO investigated anonymous concerns, and the current work to change the focus of teams in responding to correspondence to avoid providing a procedural response and instead be more enquiring and investigative in their approach. The Board also discussed recent work undertaken by the NAO in response to concerns raised by correspondent and whistleblowers which had resulted in a VFM report, or report to the PAC.

Item 6

Support and Advice: NAO Transformation

- 6.1 The C&AG introduced a discussion of the NAO's Transformation Programme, which the Board had previously discussed at its meeting in November 2012. He provided an outline of the aspiration for the change, setting out the need for the NAO to consider

how it continued to provide assurance to Parliament in an effective and efficient way, reflecting the changes and complexity of public services, and the changing demands of the Committee of Public Accounts, as well as continuing to make further efficiencies in its audit and corporate functions, adopting a greater 'risk based' approach to its work.

- 6.2 He set out in broad terms the Leadership Team's ambition to move beyond the current ways of providing assurance, which had traditionally been focussed on formal financial and value for money audit work, to provide a wider range of assurance products and to ensure that the NAO's approach was more holistic and reflected the varying degrees of complexity of the bodies it audits. He also spoke of the need to develop greater expertise in key areas, such as procurement, and the need to consider how the NAO structured itself to ensure that its capabilities were aligned with the requirements of the bodies with which it worked.
- 6.3 He noted that the PAC did not specify a certain way of reporting, and that in future the NAO would need to expand the ways in which it reported and supported Parliament in holding departments to accounts. This would enable the organisation to better meet the Committee's requests for more 'real time' audit of specific programmes of work. He noted that in the first three year strategy he proposed a shift from output to outcomes, but that the organisation had not changed its way of working sufficiently to fully achieve this. To meet the ambition set out in the strategy for the next three years would require a change in the way the NAO works; the Transformation Programme aimed to achieve this.
- 6.4 The Board agreed that the proposed approach seemed to set out two main objectives for the programme: to change and widen the NAO's delivery mechanisms; and to improve the skills mix of the organisation. The Board endorsed these objectives and the subsequent discussion included the following points:
- The need to consider the culture change required to meet the objective, alongside the changes in structure and output. Board members commented that this might involve changing people's views of what the NAO's role was in a changing landscape; members agreed that to an extent, the NAO had already started to reflect these changes in its work.
 - The importance of establishing a common language, consistent with the change sought, to support changes in behaviour and ways of working, and to change the emphasis away from 'products' and onto the ways in which the organisation provided assurance.

The Board suggested that it might be useful to consider how the NAO's annual report, to be published in the spring, could be used to start to communicate these messages.

- Acknowledgement that supporting Parliament in holding departments to account and providing value to audited bodies need not be mutually exclusive, but that to ensure the NAO remained a relevant and authoritative body would require a change in approach.
- Discussion of the 'case for change' and the potential barriers to achieving it. The barriers discussed included a culture where staff took a narrow view of the NAO's statutory responsibilities and were focused on the 'product' of an audit process, rather than the outcome; the current structure, which created a divide between financial and value for money audit work, inhibiting a wider view of assurance; and a lack of confidence in our capability, both individually and corporately.
- The importance of strong relationships with both Parliament and the bodies the NAO audits, if it were to succeed in moving to a position of providing greater through leadership on key issues. It would be important to ensure the NAO considered the views of stakeholders in the change programme, and consulted them at an early stage, and in particular the importance of ensuring that the PAC and Public Accounts Commission were consulted on the changes, and supportive of them.
- When talking to staff it would be important to be clear that the driver for the change was not to reduce costs, but to improve capability. To an extent much of this capability existed within the audit disciplines of the NAO, but it was acknowledge that this would need to be supplemented with expertise in other disciplines such as procurement.
- The next stages in the programme, and the timeframe for implementation. MW reported that following this discussion the next step would be to share the vision for the transformation with NAO directors and, in parallel, to develop a plan for the implementation. He noted that there would be some early 'no regrets' actions in relation to structure and people which could be taken within the next six months which would provide greater clarity for NAO staff while the wider programme was developed and implemented.

6.5 The Chairman summarised the discussions, noting that the Leadership Team had presented a radical vision for the way in which the NAO provided assurance to Parliament, and the Board endorsed this vision. The Board would next consider this

issue in detail at its strategy day in March, but in the meantime individual members may wish to provide further comments to the C&AG.

Action: To consider the views of the Board in developing the programme plan

Action: To consider how the NAO's Annual Report in 2013 could be used to communicate key messages regarding the Transformation Programme both to NAO staff and external stakeholders

Action: To ensure the Board had sufficient time to consider the next steps at its strategy day in March.

Item 7

Any Other Business

7.1 The Board received the following papers:

- Code of Conduct 2013 for approval
- Further information on the NAO's work life balance, a reported in the staff survey, for information.

7.2 In considering the Code of Conduct MK reminded the Board that the NAO's executive management had committed to considering what further safeguards may be required to ensure that the NAO met the ethical standards for its audit work. The Board approved the Code of Conduct.

7.3 The Board also discussed the update on work life balance, noting that it was a subjective measure, and that in future it might be useful to ask staff more about their work load, than their work life balance. MB agreed to consider whether a change in the question included in the staff survey might provide a more meaningful measure.

Ruth Brutnall

January 2013

