

The Board
19 January 2017

Minute of January Board Meeting

Present

Members

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| Michael Bichard | MB | Chair - Non-Executive Member |
| Amyas Morse | AM | Comptroller and Auditor General (C&AG) |
| John Thorpe | JT | Executive Member |
| Janet Eilbeck | JE | Non-executive Member |
| Greg Parston | GP | Non-executive Member |
| Ray Shostak | RSh | Non-executive Member |
| Stephen Smith | SS | Executive Member |
| Robert Sykes | RSy | Non-executive Member |
| Michael Whitehouse | MW | Chief Operating Officer |

Attendees

| | | |
|-----------------|----|--|
| Hafsa Khan | HK | Board and Leadership Team Secretary |
| Susan Ronaldson | SR | Director, Engagement and Change (Item 2) |
| Tim Wright | TW | Director, Business Improvement Plan (Item 3) |
| Tim Valentine | TV | Financial Controller (Item 5, 6, and 7) |
| Mark Allen | MA | Head of Legal, Policy, and Governance (Item 7) |

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

Item 1

Good Governance:

Welcome & apologies for absence

1.1 The Chair, Michael Bichard (MB), welcomed members to the meeting.

Declarations of Interest

1.2 There were no declarations of interest.

Minutes of meetings and action points

1.3 The Board approved the minutes of the meeting held on 17 November 2016 for publication on the NAO's external website.

C&AG's Update

1.4 The Comptroller and Auditor General (C&AG) provided the Board with a short report of his ongoing work since the last Board meeting in November.

The C&AG informed the Board of the further developments made with the financial audit of the BBC. The Privy Council received the BBC Charter and Framework Agreement in December; and the NAO are engaging with the BBC to ensure a smooth transition for its work as their external auditors for the next financial year which starts in April 2017.

The C&AG has also continued its work with Parliament over the UK's exit from the EU and how this will effect the NAO in its future work.

Rob Sykes (Rsy) also mentioned attending the Core Cities Group in Leeds which he found useful to understand the latest developments in local government. The C&AG concurred as he also attended.

Update on tPAC December hearing

1.5 The Chair, C&AG and COO attended an evidence session before the Public Accounts Commission (tPAC) in December to approve the supplementary estimate for 2017 and the NAO strategy for 2017-18 to 2019-20. Both the supplementary estimate and strategy were approved by the Commission. The Chair, C&AG, and COO will appear before the Commission again in March to approve the NAO estimate for 2017-18.

Update from the Audit Committee

- 1.6 The Board received a briefing note from the Chair of the Audit Committee, Janet Eilbeck which included the minutes of the Audit Committee meeting held on 16 December 2016.

Item 2

NAO People Survey 2016 Results and actions

- 2.1 The Board received the headline results of the 2016 NAO People Survey at its meeting in November. Susan Ronaldson (SR) presented the detailed results, including a breakdown by cluster, grade and diversity characteristics. Although there are variations between categories, the results were broadly in-line with both the Civil Service and professional services benchmarks. SR said she met with the People Directors and has taken advice from Caroline Waters who has experience in this field.

The survey showed improvements in the people's view of the NAO across all 14 areas of the survey. This reflected an increased level of trust within the organisation, particularly through leadership that is more open and a more consultative approach to managing change. Despite the improvements, there are still areas in need of further progress, which is in part due to the fact that some key interventions, notably Business Improvement Programme and the Way We Work programme have not yet been fully implemented or embedded and as such the benefits have not yet been realised.

SR informed the Board of four priorities in responding to the 2015 People Survey:

1) Open leadership

The NAO people's views were in line with our benchmarks. However, there is shortly to be significant changes to the Leadership Team which may cause some uncertainty for staff. The Board discussed the importance of explaining the changes to NAO people.

The Chair said the leadership team should:

- Continue to be visibly committed to leading the organisation and ensure that messages clearly link to our strategy;
- Make sure the new leadership team 'speaks with one voice', presents a clear vision to NAO people and actively advocates for decisions; and
- Take part in a development programme that will include elements on engaging our people.

2) Good change management

SR said results show NAO people are more confident about how the NAO manages change. 43% of staff now say we manage change well: 26% higher than 2015 and 14% higher than the civil service. However, change management will remain a challenge in 2017 due to the continued implementation of BIP. The Board encouraged SR to sustain the high levels of communication about the BIP process with NAO people to continue to improve how we manage change.

3) Performance management and development

Last year was the first year of our new performance management framework design to support NAO people develop their potential and improve their performance in their roles. SR described how the NAO intended to embed the framework and support for career development. She said this was supported by the Way We Work programme, the first modules of which has been a success with staff.

4) Effective planning and management of our work

SR said it is necessary to ensure that ways of managing workloads would be improved as this was an area showing least improvement. She said this was not unexpected as the Business Improvement Programme was crucial to addressing this issue and the benefits will only start being realised from now on.

The Board thought that the NAO undersold itself with the staff survey results and thought they had improved and should focus more on the positive aspects and how the NAO has changed since the last People Survey. The Board recommended that clusters should share knowledge and for SR to investigate how this can be implemented. SR confirmed that there were already plans in place to do this through the People Directors.

Item 3

Business Improvement Project (BIP) Benefit Realisation Plan

- 3.1 Following a request at the Board meeting in November 2016, the Board were given a briefing by Tim Wright (TW) on the BIP benefit realisation plan. The paper was well received and the Board suggested a continued focus on the behavioural changes was required to make a success of BIP.

Item 4

Update on Executive Leader (EL) recruitment campaign

- 4.1 Michael Whitehouse (MW) updated the Board about the Executive Leader (EL) recruitment campaign. The Board were told the candidates shortlisted by the panel, and were told that interviews would start in the next two weeks. The panel would be the C&AG, MW, and JE as well as Jo Hennessy, an external assessor. The Board will be told the outcome at its meeting in March 2017.

Item 5

NAO Estimate Memorandum 2017-18 and the Main Supply Estimate 2017-18

- 5.1 The Board received the first draft of the NAO Estimate 2017-18, and the timetable setting out the process from Tim Valentine (TV).

TV said the amount requested in the Estimate reflected the major changes to the audit portfolios for the coming year. This included the costs of the BBC audit (both the handover period between April and the summer of 2017) and the subsequent period when we would fully take over the role as external auditors to the BBC. The Estimate also included the full costs of the UK Asset Resolution Authority Limited, and our investment in the use of technology in our audit practice. There was no budget adjustment for where our audit work would be effected by Brexit, given the uncertainty over the timing of this. However, TV said we signalled that we currently carried out £2.5 million of work on behalf of the EU which is at risk.

TV said the Estimate also set out further information about our work programme of major reports and investigations which it would cover next year. The Estimate includes the pay proposals for a pay award of 1%, but with the flexibility to increase this up to 2% if there is a compelling business case to do so. It also introduces the planned changes to the senior management of the NAO.

The Board approved the timetable and were going to email TV their comments. The Board will approve the final copy of the Estimate via email for it then be sent to tPAC for the evidence session on 21 March.

Item 6

External Audit Review of the NAO

- 6.1 The Board approved the topic for the value for money external audit review in 2017: Delivery of benefits from the NAO's IT-enabled change programme. TV said the VFM review, once completed, would be submitted to tPAC whose role would be to receive reports from the appointed external auditor, Crowe Clark Whitehall (CCW).

Item 7

Business and Risk Reporting

- 7.1 The Board received the risk register and business reports for the year end from Mark Allen (MA). The Board were concerned about the initial response targets for replying to correspondence not being met. The C&AG attributed this to recent staff changes in his Private Office and the Board emphasised prioritising correspondence once again. The Board also suggested correlating our investigations work with the increase in correspondence and to observe any trends. Mark Allen (MA) told the Board that this was already underway.

A new risk was added to the risk register relating to information security governance. This is the risk that information is lost, disclosed or accessed by an unauthorised person. There were no current specific threats but the NAO are alert to the risks to information security, and the affect a failure would have if procedures are not followed.

MA mentioned the increase in our net budget of £1.1 million following the tPAC hearing on the supplementary estimate. £0.8 million of this is for us to make preparations for the BBC audit team.

Item 8

NAO Code of Conduct 2017

- 8.1 The Board approved the NAO Code of Conduct 2017.

Item 9

Board Strategy Day

9.1 The Board discussed the proposals for the next strategy day in spring 2017. The Board were reminded of its strategy days in 2016 on the strategic focus of the NAO over the next 3 years, and the enablers (people, skills, and technology) which need to be sustained. The success of the strategy, endorsed by the Public Accounts Commission in December, will depend on the delivery of the intended benefits, both to Parliament and those that the NAO audit, including local government.

MW said the proposal for the NAO's next strategy day was, to consider how we could add more value for the bodies we audit, and how we could demonstrate this to our stakeholders including Parliament. The discussion would draw on the independently collected feedback the NAO receives from Parliament, departments, and agencies. MW suggested the discussion could consider the Office's approach to communication, including social media, influence and engagement as well as how NAO staff are supported and equipped with the skills they need.

The Board agreed in principle the suggestions for the next strategy discussion. The will receive a proposed agenda at their meeting in March 2017 for approval.

Item 10

Board Compliance

10.1 The Board received a note on its compliance with the Board Terms of Reference for 2016. The paper focused on the seven key responsibilities: strategy; programme of work; Estimate; performance; risk; organisational change; and remuneration (succession planning). The Board found this paper informative, however the Chair delayed further discussion preferring to include it at a later Board evaluation meeting on 19 January.

Item 11

Board Programme of Work 2017

11.1 The Board noted its programme of work for the coming year, 2017. No suggestions were made to change the programme of work, however, the Board suggested that this was updated regularly and provided at each of its meeting. The Board also received the 2017

programmes of work for the Audit Committee, and the Remuneration and Nominations Committee.

Greg Parston (GP) suggested having fewer Board meetings in the year to allow the Board time to advise the Leadership Team and use the skills that the non-executives have such as assisting the Leadership team to develop their strategy. JE suggested that perhaps some matters of the Board should be discussed at the Audit Committee. However, the Board were aware of the legal implications which may be involved as mentioned in BRANAA 2011, and the NAO Board's terms of reference.

Item 12

Remuneration and Nominations Policies

12.1 The Board received a revised terms of reference for the Remuneration and Nominations Committee, which was accompanied by five policy frameworks, respectfully:

- 1 A review of remuneration trends
- 2 The early termination of members of NAO leadership team
- 3 The annual disclosure of remuneration and pension benefits
- 4 The major changes to employee benefit structures
- 5 The appointment and remuneration of members of NAO leadership team, which includes the pension arrangements

The Board approved the revised terms of references and the five policy frameworks.

Date and time of next meeting

Thursday 16 March 2017, 14:30-16:30