

The Board
14 July 2011

Minutes

Present

Members

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

Attendees

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|---------------|-----|---|
| Ruth Brutnall | RB | Head of Governance |
| John McCann | JMc | Director, Human Resources |
| Jim Rickleton | JR | Director General, Finance and Commerce (Item 4, 5 & 6) |
| Mike Suffield | MS | Lead Director, Future of Local Audit (Item 8) |

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 Ruth Evans informed the Board that her daughter was currently undertaking a work experience placement within Parliament, as part of which she would be visiting the constituency of the PAC Chair. The Board was satisfied that this did not present a conflict of interest, and RE's participation in the meeting need not be restricted.

Item 3

Minutes of meetings and action points

- 3.1 The minutes of the Board meeting held on 20 May 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 and the C&AG provided an update on the progress of certifying accounts before recess. The Board noted that the NAO may not meet its target of 392 accounts to be certified before recess, owing in part to delays in the preparation of financial accounts of sufficient quality by audited bodies despite an improvement in the overall quality of accounting information and financial capability in central departments.
- 3.5 The Board also discussed the C&AG's attendance at the NAO Board of Audit, and the recent Value for Money studies on IPSA and the Carrier project, discussing the implications of the issues of access which had emerged during the Carrier study. MW

updated the Board on the progress of the AIU's report on the NAO, which the Board would consider at its meeting in September.

Audit Committee & External Value for Money Report

- 3.6 PHP provided an update on the business of the Audit Committee, which met prior to the Board meeting to discuss the external auditor's value for money report on the NAO's 'recruitment, development and deployment of auditors'. PHP noted that the report was broadly positive, but identified the potential to improve the alignment of staff deployment with career development plans. PHP reported that the Committee's discussions had focused on what more could be done to develop NAO staff, to ensure that the quality reflected in NAO trainees consistently high pass rates in professional exams was maintained as individuals progressed in their careers, and the need to communicate the findings of the report to NAO staff.
- 3.7 The Board approved the report to be submitted to the Public Accounts Commission, and agreed that the Board would discuss the action plan setting out the NAO's response to the report in the autumn.

Item 4

Re-appointment of executive Board members.

MW, GC and EH left the room for the discussion of this item.

- 4.1 The C&AG recommended the re-appointment to the Board of Michael Whitehouse, Gabrielle Cohen and Ed Humpherson. The non-executive members recognised the achievements of the executive members in the previous twelve months, and unanimously approved the re-appointment of all three executives to the Board for a further year.
- 4.2 On their return to the meeting, the Chairman thanked the executive members for their contributions and welcomed them to the Board for another year.

Item 5

Business Report and Quarterly Risk Update

Business Report

- 5.1.1 JR presented the Business Report showing the position at the end of the first quarter of the financial year, noting the Amber ratings assigned to the measures on time take

to respond to correspondence, and the turnover at AP grade. The Board discussed a number of elements of the report, including consideration of the reasons behind the increased staff turnover rate at AP grade, and noted the plans in place to address any potential resource gaps with a small, targeted, recruitment campaign.

Quarterly Risk Update

- 5.2 RB introduced the Quarterly Risk Report, highlighting the increased rating to risk 6.3 'Managing the tensions between interests of key stakeholders'. The Board considered the report on an exceptions basis and discussion included considerations of the issue of 'cyber security' and the Board sought assurance that the NAO had not been subject to any incidents of this nature. MW reported that as SIRO he would be addressing this issue further, later in the year.

Item 6

Delivering Our Strategy: Managing NAO's Resources Effectively

Resource Allocation - An Update

- 6.1 John McCann introduced a paper, providing the Board with an update on the work to improve the resource allocation system used within the NAO. The Board discussed the feedback received from NAO staff on the new system, noting the positive responses to the availability of management information, as well as concerns regarding the lack of a sense of ownership of the allocation process at director level, the need for greater understanding by staff of the levers they can use to drive their own career path under the new system, and a need to reinforce a corporate and collaborative approach to the process. It was agreed that behaviour change and the support of directors was key to ensuring the anticipated benefits of the change were achieved.
- 6.2 The C&AG reported that this is something the NAO is taking steps to address, noting that he had held a meeting with development directors to inform management action to address concerns regarding the engagement of the wider Director cadre with the new approach, and to reinforce the importance of 'corporate' behaviour. He also highlighted the role of Lead Directors, in demonstrating leadership amongst their peer group as 'practice leaders'.

HR Annual Reports

- 6.3 John McCann provided an overview of the NAO's management of its Human Resources, informed by a series of reports, including the HR Annual Report and the annual

Diversity Report. The Board approved the reports for publication on the NAO's intranet and, where appropriate, externally, noting the following:

- the establishment of a separate plan to address staff concerns regarding bullying, raised via the 2010 staff survey. It was noted that specific concerns related to isolated incidents, but that as the issue is often closely related to issues of diversity in other organisations, it was right that the Diversity Report addressed the issue;
- the need to consider issues of quality in assessing the performance of HR processes, to ensure that there remains a focus on the quality of the NAO's staff, both in recruitment and on-going career development;
- the trends in diversity of candidates applying for and achieving promotion internally, where performance is not as strong as in external recruitment exercises. The Board noted the need to understand the drivers for this, and the importance of demonstrating sensitivity in providing targeted support to individual members of staff and staff groups (e.g. through mentoring programmes) while avoiding a sense that individuals were being singled out; and
- that the consideration of the value for money report on the NAO by TPAC represented an opportunity to place the report in the wider context of the issues considered by the Audit Committee and Board.

Item 7

Update on Budget Responsibility & National Audit Act

7.1 GC presented this item, providing the Board with an update on the activities being undertaken to ensure that the NAO is prepared for the Act to come into force. The Board noted the paper and discussed two elements: the importance of a clear understanding of the distinction between statutory and non-statutory work in understanding the role of the C&AG and the Board; and the need to ensure that the NAO developed a succession plan for Board appointments, in recognition that the Act formalised the current practice of fixed term appointments for non-executive members.

Action: Ruth Brutnall to work with the Chairman to develop a succession plan for the NAO Board.

Item 8

Future of Local Audit

8.1 MS presented a series of papers setting out the NAO's response to the Government's decision to abolish the Audit Commission, including detailed information on the risk management approach and the NAO's position on even key issues. The Board noted the anticipated timeline for the changes and gave detailed consideration to a number of elements, focussing on the following key points:

- The Board noted the continuing uncertainty regarding expectations of the NAO's future role, and agreed that it was important to mitigate this by planning for the implementation of any changes, including the development of resource plans.
- The risks for the NAO of the increased scrutiny of its own work from increasingly diverse sources as its role may become more visible, and the distinction between the NAO's role and of the local authority auditors becomes blurred.
- Noting the proposal in the DCLG consultation that the NAO should take on the responsibility for preparing and maintaining the Code of Practice, and the need for the NAO to effectively manage the risks associated with this.
- The need for the NAO to establish relationships with key stakeholders in local authorities and to develop and manage the reputation of the NAO in addressing national value for money work, as the Audit Commission begins to cease activity in this area.
- The role of the FRC and AIU, and the importance of ensuring that the development of any work by the FRC and AIU on audit quality is informed by the experiences of the AIU inspections of the NAO and reflect the differences in audit in the public sector.

8.2 It was agreed that the subject including initial work on the resource implications would be further considered as part of the Board strategy day in September.

Action: Mike Suffield to develop work on the resource implications of anticipated changes to the NAO's role, to inform thinking by the Board at the Strategy Day in September.

Item 9

Any Other Business

9.1 The Board noted the following papers received for information:

- Minutes of the Audit Committee meeting on 20 May;
- The NAO's Environmental Policy Statement, which was approved and recommended to the C&AG for signature; and
- A paper on the implications of the Bribery Act for the NAO and NAO Board members. The Board agreed to discuss this item further in the autumn, noting its confidence in the measures taken by the NAO to ensure it has established appropriate control measures.

Ruth Brutnall

Board Secretary, July 2011

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Chairman