

The Board
19 July 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
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 and Communications (Items 5 & 6)
Stephen Fitzgerald	SF	Director, CLG Value for Money (Item 8)
John McCann	JMcC	Director, Human Resources (Item 7)
Lynda McMullan	LMcM	Assistant Auditor General (Item 8)
Jim Rickleton	JR	Director General, Finance and Commerce (Items 4 & 5)

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

Item 1

Welcome & Apologies for absence

- 1.1 The Chairman opened the meeting by welcoming the two new members, GG and NC, to their first meeting of the Board since their appointment on 1 July 2012.

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 Chairman noted that a copy of the draft minutes of the meeting held on 17 May 2012 had been sent to Richard Fleck, who stepped down from the Board on 30 June, and that he had no comments. The minutes were approved; 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 action points was noted and the Board agreed that those items marked as closed should be deleted. The Chairman reported that he had recently met with Sir Nicholas Macpherson, the Permanent Secretary at HM Treasury, and that further discussions were planned to discuss the NAO's work.

Matters arising

- 3.3 The Chairman provided a brief update on the progress of the external review of the NAO board which was expected to report in the autumn.

C&AG's update

- 3.4 The C&AG presented his written report and provided an oral update on the NAO's recent work on tax disputes. He reported that the work had raised a number of issues for both the NAO and the Committee of Public Accounts in relation to the NAO's access to certain information and the extent to which the NAO should take steps to safeguard the anonymity of organisations covered by the scope of the review; he noted that the team had worked well in managing a number of complex issues in delivering the work.
- 3.6 The Board also discussed the 2012 audit season. The C&AG reported that the strong focus on planning and resource allocation, and his early engagement with accounting officers in departments, had supported efforts to manage the impact of the implementation of Clear Line of Sight reporting within government, and that this engagement had provided a platform for further engagement with accounting officers in the future. The Board asked that its thanks and recognition of the efforts of staff in meeting the challenges of this year's audit cycle be passed on to all those involved.

Item 4

Good Governance: Board Committees Structure and Membership

- 4.1 The Chairman introduced a paper proposing that both GG and NC become members of the Board's Audit and Remuneration Committees, and that, following the end of Richard Fleck's term of office, PHP be appointed as the NAO's Senior Independent Member. He also proposed that the scope of the Remuneration Committee be widened to include an advisory role in respect of senior appointments in the NAO, and that the Committee should be reconstituted as a Remuneration and Nominations Committee.
- 4.2 The Board considered the proposals, noting that the alignment of the governance of both the remuneration and nomination of senior appointments under a single committee was in-line with good practice in other organisations, and that draft terms of reference for the Committee would be provided for Board consideration.

- 4.3 The Board agreed the appointment of GG and NC as members of both the Audit Committee and the Remuneration and Nominations Committee, and PHP's appointment as Senior Independent Member, noting that the NAO's whistleblowing policy would be updated accordingly.

Item 5

Good Governance: Business Report & Quarterly Risk Update

Business Management Report

- 5.1 JR presented the Business Report. The Board discussed the issue of staff costs, resulting from a lower than forecast turnover of staff, particularly at the Audit Principle grade. MW reported that steps had been taken to address this, including encouraging staff to explore secondment opportunities.
- 5.2 The Board also noted the increased controls which had been implemented with regard to the use of outsourcing, querying whether this was too drastic an action at this stage in the financial year. MW reported that the controls had been implemented until the mid-year review of income and expenditure was completed; the intention was to reinforce the need for staff to question where outsourcing should be used, and increase the discipline of teams in budgeting and using resources. The Board was content that the controls put in place to address the issue of staff costs were adequate.
- 5.3 The Board also suggested that it would be useful to have a short summary paper to accompany the Business Report, highlighting the key issues for the Board's consideration.

Action: To provide a summary of the key issues arising from the Business Report for the Board's consideration.

Risk Report

- 5.4 The Board received the risk report. There were no questions or comments.

Management Accounts

- 5.5 JR presented the management accounts for the first quarter. The Board requested further explanation as to how the NAO manages and accounts for its corporate costs.

Action: To provide non-executive Board members with further information on the NAO's Management Accounting approach, particularly in respect of corporate costs.

Item 6

Developing the NAO Strategy 2013-15

- 6.1 MB provided a short update to the Board on the plans for the development of the NAO's strategy for the three year period starting in 2013-14, highlighting the proposed timescale, likely issues that will be addressed in the development of the strategy, and the date of the Board's strategy discussion, to be held in September. The Board noted the update.

Item 7

Management & Use of Resources: Managing NAO's Staff Resources Effectively

- 7.1 JMcC introduced a paper setting out the NAO's approach to the management and development of its staff. The Board discussed a number of elements of the paper, including:
- the NAO's approach to performance management and the current review which aimed to address issues of both culture and process. The executive members discussed current issues including the need to foster a greater sense of ownership of the development of staff at Director level;
 - the need to move away from the current process based approach, which limited the opportunities to integrate performance management and staff development into the day job;
 - the Leadership Team's ambition for the NAO's culture and values; for NAO staff to be more confident in their own, and the organisation's, expertise and to move towards a culture where staff felt more able to be innovative; and
 - the possibility for the Board to give further consideration to the NAO's aspirations as an employer and how it develops and manages its staff as part of the Board's Strategy Discussion in September.

7.2 The Board considered a number of HR reports, commenting that the HR Annual Report could be improved to reflect more of the passion of executive management to develop the NAO's staff as the current draft felt rather process oriented. The Board reviewed both the Diversity Report and Health & Safety Report for 2011-12. The Board approved both reports.

Action: To review and revise the HR Annual Report prior to publication to reflect the Board's comments on its current 'process based' focus.

Item 8

Support & Advice: Engaging with Local Delivery - the NAO's response to Localism and the Closure of the Audit Commission

- 8.1 LMcM provided an update to the Board on the progress of the draft legislation on local audit reporting that the government had issued a command paper pre-recess, provided to the board for information, and that the NAO would continue to work with the Department for Communities and Local Government on the detail of the wording of the legislation relating to the role of the NAO and the C&AG in the new arrangements, during the consultation period.
- 8.2 SF led a discussion of the NAO's work with local services, using a current study on financial resilience as a case study to provide examples of how the work will be delivered in practical terms. He noted that the key elements of the study would include consideration of the central government approach to financial stability in local authorities and the management response of local authorities to the reduction in funding from central government. The key points of the discussion included:
- the NAO's ability to provide a comprehensive view of issues of the management of central government funding and the provision of services in local government, to support the PAC and stakeholders in government in further understanding the issues;
 - the importance to the NAO of understanding the dynamic between local and central government bodies;
 - the potential for the NAO Board members to provide their individual expertise in supporting the NAO in developing its work in this area;
 - how the NAO will ensure that it balances the political viewpoints expressed by potential interviewees during the study, to ensure that the value for money

conclusions and any best practice provided by the NAO reflect the NAO's neutrality and independence; and

- the need to ensure that the scope of the NAO's work on local delivery of services is carefully managed, to remain within the C&AG's statutory responsibilities.

Item 9

Any other business

- 9.1 MK raised one item of any other business relating to the Audit Committee, which would next meet again in September. She asked that the NAO's executive management initiate the process to determine the shortlist of potential subjects for the external auditor's value for money study on the NAO to enable the Committee to consider the shortlist when it met.
- 9.2 She also noted that the Audit Committee would continue to monitor the issues being faced by the NAO's external auditor.

Ruth Brutnall

July 2012