

The Board
11 June 2015

Minutes

Present

Members

Michael Bichard	MB	Chair - Non-Executive Member
Amyas Morse	AM	Comptroller and Auditor General (C&AG)
Sally Howes	SHo	Executive Leaders
Joanne Shaw	JS	Non-executive Member
Ray Shostak	RS	Non-executive Member
Robert Sykes	RSy	Non-executive Member
Michael Whitehouse	MW	Chief Operating Officer

Apologies

Naaz Coker	NC	Non-executive Member (apologies)
Sue Higgins	SHi	Executive Leader (apologies)

Attendees

Ruth Brutnall	RB	Head of Governance
Martin Sinclair	MS	Executive Leader
John Thorpe	JT	Executive Leader
Meredith Brown	MB	Diversity and Inclusion Specialist (Item 2)
Gurdip Juty	GJ	Financial Controller (Items 6 & 7)
John McCann	JMcC	Director, HR (Item 2)
Nikki Measures	NM	HR Manager (Item 2)
Nigel Terrington	NT	Head of Strategy and Performance (Items 3 & 4)

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

Item 1

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

Welcome & apologies for absence

- 1.1 MB welcomed members to the meeting. He noted that apologies had been received from Naaz Coker and Sue Higgins and recorded that, as there remained a majority of non-executive members, the meeting was quorate.

Declarations of interest

- 1.2 There were none.

Minutes of meetings and action points

- 1.3 The Board approved minutes of the meeting held on 9 April 2015, and agreed their publication on the NAO website.
- 1.4 Progress on the action points was noted and the Board agreed that those items marked as closed should be deleted. The Chair invited the Board secretary to review the action log and identify further items for deletion, to be agreed outside of the meeting.
- 1.5 The Board discussed the timing for the development of the NAO Strategy. JS queried why the NAO developed an annual strategy. MW explained that this was part of the NAO's accountability to Parliament; the Public Accounts Commission considered the NAO's strategy each year, as the basis for its subsequent approval of the NAO's estimate. As such, the strategy could set out a long term ambition, but would be considered annually and refreshed as required. The Board discussed the approach to the forthcoming strategy day to be held in July, and agreed it would be useful to share with members the timeline and briefing materials in advance of the meeting.

Matters arising

- 1.6 The Board received a note setting out the implications for the scope of the work undertaken as part of the programme of NAO approved services of applying a narrower definition. Members agreed that this resolved the outstanding queries.

C&AG's update

- 1.7 The C&AG presented his written report, and discussed with the Board a number of issues, including his invitation to attend a future meeting of the permanent secretaries weekly briefing, and the positive response from departments to his suggestion that he attend a meeting of each departmental board to brief them on the key issues from an audit perspective. The Board also discussed the current work to identify and implement further efficiencies and standardisation in the VFM process.

Parliamentary Report

- 1.8 Adrian Jenner presented an update of the NAO's work with Parliament and outlined the process under which committee chairs would be elected, including the Chair of the Committee of Public Accounts. The Board discussed the way in which the chair of PAC would have an impact on the work of the Committee and the potential areas of interest of members, and how this might impact on how the NAO supported the Committee.
- 1.9 AJ also provided an overview of other select committees, and noted that the NAO would be engaging with the chair of each committee and providing a short guide to each government department to inform the new committee members.

Action: To share the departmental short guides with Board members as they are published.
(RB)

Audit Committee Update

- 1.10 The Board received an update on the recent meeting of the Audit Committee, and JS noted that Items 5 and 6 on the Board agenda would deal with matters which had been formally escalated from the Committee. She highlighted the report from the Director of Internal Audit and Assurance on Training, noting that the report indicated that there was a need for a more clear understanding of the cost benefit of the NAO's training activities, and that this subject was an important element of the Board's ongoing consideration of the NAO's approach to the engagement, management and development of its people.

Remuneration and Nominations Committee Update

- 1.11 RSh provided an oral update on the work of the Remuneration and Nominations Committee, which had met that morning. He reported that the Committee had considered two main issues; the first was the set of objectives for the NAO's Leadership Team, which the Committee had considered and offered comments on the need for a clear line of sight between the corporate strategy and the objectives of individual executives, the potential to include further 'hard' measures against which performance

could be assessed, and the need to ensure greater consistency in presentation and style.

- 1.12 RSh reported that the Committee had also considered succession planning for the NAO's Leadership Team, including direction development pathways, and the profile of the NAO's recent leavers in terms of performance and new roles.

Item 2

NAO People

People Report

- 2.1 MB welcomed John McCann, Meredith Brown and Nikki Measures to the meeting noting that the Board had recently held a number of detailed discussions on the subject of the NAO's people. JMcC introduced the NAO's Annual People Report which was made available to all NAO staff and drew together key data and performance indicators for the previous year. The Board discussed the measures contained in the report, querying whether it was appropriate for the NAO to benchmark itself against a civil service or industry average, or whether the organisation should seek to benchmark itself against high performing organisations (those in the top quartile in their sector, public and private). JMcC welcomed the suggestion, but noted often it was only possible to access data on industry or sector averages, as individual organisations did not publish performance data, for example on exam pass rates. Members requested that JMcC give further thought to what the most appropriate benchmarks would be for the NAO.

Action: JMcC to consider what benchmarks are appropriate for the NAO and provide a note to the Board on this. (JMcC)

- 2.2 Members also offered a number of specific observations on the report, including the need to address more specifically how the NAO was addressing the feedback received from the staff survey and also the points raised by the recent internal audit review of the NAO's training. The Board emphasised it remained committed to its interest in the NAO's people, and wondered whether this could be made more explicit in the report, suggesting that the report could include a preface from the C&AG & Board setting out their joint commitment to the NAO's people, and addressing the concerns raised.

Diversity Report

2.3 The Board also received the NAO's Diversity Annual Report. Members welcomed the progress made, as well as those areas where further attention was required, noting that these were addressed by the revised strategy considered by the Board at its meeting in March. The Board suggested that the language of the report could be sharper, particular with reference to future actions and highlighted the area of recruitment as one where the report might provide greater focus; the report was approved subject to these changes being incorporated.

Item 3

The Centre of Government

3.1 Nigel Terrington introduced this item, which was intended to provide the Board with an opportunity to consider what implications may arise for the NAO from any changes at the centre of government following the general election. The Board noted that the paper raised some interesting issues, but that the potential changes at the centre which had been anticipated by some commentators had not emerged. Members discussed a number of aspects of the paper, including:

- the importance for government in being able to apply a system wide view, particularly at a time of budget reduction and service reform, in order that the full impact of decisions taken on the centre may be understood, and how the NAO's work might help to support this;
- the NAO's potential channels of influence, and in particular the role of the Whole of Government Accounts. JT commented that the WGA was now in its fourth year, and had been used by the Committee of Public Accounts as the basis for work looking at balance sheet issues such as pensions and liabilities arising from nuclear decommissioning. There were plans to undertake further work on the UK government assets and liabilities;
- Matthew Hancock's (a former member of the Committee of Public Accounts) appointment as minister in the Cabinet Office, and the implications of this role in terms of the relationship between Cabinet Office and HM Treasury at ministerial and official levels;

- the potential priorities for the new government, particularly further devolution, and the potential for different models of devolution to emerge in the regions; the Board commented that the NAO may wish to identify early lessons from the models and highlight best practice or issues to be aware of; and
- the importance of considering the role of Number 10 in considering the centre of government, and how the NAO may reflect on this.

Item 4

Year-end Accountability Review

- 4.1 Nigel Terrington presented the report of the key findings from the final accountability review process for 2014-15. He noted that the reviews found three of the six clusters were performing well, while three remained lower performers; where clusters were not performing as expected the issues largely related to delivery against agreed work programmes and staff engagement.
- 4.2 The Board received the report and discussed what action the Leadership Team planned to take to address the poorer performing clusters and raise performance to that demonstrated by stronger performing areas. Members queried whether the expectations of clusters, and in particular the directors responsible for leading the clusters, were clearly understood and whether there was a single director who acted as a 'lead director' for each cluster.
- 4.3 Executive members commented that there was not a single individual responsible for each cluster and that in creating the cluster structure, and the four cluster director roles, the Leadership Team had been aiming to establish a collaborative approach to how the clusters developed and were managed. Two of the cluster lead role (the People Director and Strategy and Planning Lead) had worked well but the other two (Knowledge and Quality) required further development. Members also commented that there was further work to do with directors on the quality of their leadership – there were some examples where individuals were strong in product delivery but could improve their people leadership and management.
- 4.4 JS observed that collective leadership could be challenging and that this approach would require on-going investment in the skills and competencies of those tasked with delivering it.

4.5 The Board also considered the performance measures contained in Annex B. Members noted that these highlighted important performance indicators, but asked whether it would be possible to include other measures, such as performance against correspondence targets and feedback from client bodies. NT commented that the Annex showed those indicators which were reported quarterly, but that each cluster also received a monthly dashboard which provided an overview of progress against operational measures, including performance against the correspondence target. The Board asked whether an example of this dashboard could be shared with members.

Action: To provide Board Members with an example of the monthly cluster dashboard. (RB)

Item 5

Annual Report of the Audit Committee

- 5.1 The Board received the Annual Report of the Audit Committee. Members raised one query relating to the internal audit assessment of the NAO's approach to risk management, and JS reported that this was something that the Committee would be considering further at its July meeting.
- 5.2 The Board received the annual report of the Director of Internal Audit and Assurance. There were no comments.
- 5.3 The Board also considered the proposal that the NAO seek to appoint an external independent member to the Audit Committee. JS noted that the committee had discussed this proposal at its meeting in May; it was considered good practice, and had been adopted by a number of the larger government departments, and that she recommended this to ensure that the NAO remained an exemplar of good practice in its own governance arrangements. She recommended that the role should be externally recruited via an open and transparent process and modestly remunerated, in-line with practice in central government.
- 5.4 The Board accepted the recommendation, agreeing that the role should be recruited via open external competition and remunerated at the lower end of the proposed scale, agreeing an annual remuneration of £5,000. It further agreed that the appointment should be for an initial term of 18 months, after which it would be reviewed.

Item 6

NAO Annual Report and Accounts

- 6.1 The Board received the draft Annual Report and Accounts for 2014-15. JS reported that the Audit Committee, having considered the assurances provided by the NAO's management, internal and external auditors, concluded that there were effective financial, operational and compliance controls in place to support the quality and reliability of the report, and recommended its submission to the Board for approval.
- 6.2 The Board noted the quality of the report, and it was approved without further amendment.

Item 7

Business & Risk Reporting

Business & Risk Reports

- 7.1 The Board received the final business report of 2014-15 which showed the year-end position against the corporate measures. The Board expressed disappointment regarding the NAO's performance against its correspondence target, noting that it should be possible to provide an initial response to all cases within the targeted timeframe. NL commented that future reports would provide details of performance at a cluster level, supporting the Leadership Team in identify and challenging those areas where systemic issues were affecting performance.
- 7.2 The Board also discussed the NAO's financial impact target. Members queried the level of ambition represented by the target, given the NAO's history of exceeding this target in previous years. The Board noted that it was a target which executive members felt was narrow in its measure of the impact of the organisation, and which it would be helpful to make less prominent, but which nonetheless some stakeholders found useful. Members noted that it would be useful to understand more regarding the target and how the impacts reported were identified, quantified, tested and reported.

Action: To provide further information to the Board on the financial impact target reporting process.

Business Improvement Programme Update

- 7.3 SHo presented a brief update on the progress made by the Business Improvement Programme (BIP), the first since she took on the role as SRO for the programme, noting that the Board would receive a full business case for approval in September. Board members commented that the programme appeared complex and multifaceted, and queried whether more work was required to develop a clear statement of ambition and of the specific problems which the programme sought to address. Members encouraged SHo, as SRO, to consider how external advice could be used to support not only the development of the mechanisms to deliver the programme, but also to support the testing and further development of the aims of the programme.
- 7.4 Members also commented on the written report. They noted that the written report had presented a complex view, but that SHo's presentation had provided clarity and assurance that the programme was progressing as planned.

Item 8

Environmental Sustainability

- 8.1 John Thorpe presented a paper containing recommendations from the Leadership Team regarding the targets for the NAO's environmental performance. He noted that the NAO had previously voluntarily adopted the targets set by government for its own performance, but that the current targets would shortly expire and a new target regime was yet to be published. He noted that the NAO had undertaken some work to develop its own target set, but that this was not yet mature; as such the recommendation was that for the coming year the NAO would seek to make further improvement against the existing targets.
- 8.2 The Board accepted this recommendation with the exception of the two target areas (display energy certificates and waste) where the NAO's own reporting suggested it may not meet the stated targets. Members noted that it was not good practice to retain a target which could not reasonably be met, and encouraged the NAO's management to consider whether more meaningful targets may be identified and adopted.
- 8.3 The Board also considered how the NAO might consider and reduce the wider impact of its operations, for example from staff commutes. JT noted that the NAO took a number

of actions in this area already, for example through the cycle to work scheme and the provision of facilities for cyclists and those who ran to the office.

Action: John Thorpe to provide the Board with a proposal for alternative targets for the energy performance of the NAO's estate, and the waste arising from its operations. (JT)

Item 9

Health & Safety Annual Report

9.1 The Board noted and received the Annual Health & Safety report, noting that the NAO reported that it had maintained a safe working environment for its people tenants and visitors, and that there had been no major incident during 2014-15 which required the Board's further attention.

Item 10

Any Other Business

10.1 The Board noted that the next meeting would be the Board Strategy Discussion, to take place on 24 July.

Ruth Brutnall

July 2015