

The Board
5 March 2015

Minutes

Present

Members

Michael Bichard	MB	Chair - Non-Executive Member
Amyas Morse	AM	Comptroller and Auditor General (C&AG)
Gabrielle Cohen	GC	Executive Leader (Item 3 only)
Naaz Coker	NC	Non-executive Member
Joanne Shaw	JS	Non-executive Member
Ray Shostak	RSh	Non-executive Member
Robert Sykes	RSy	Non-executive Member
John Thorpe	JT	Executive Leader (excluding Item 1)
Michael Whitehouse	MW	Chief Operating Officer (excluding Item 1)

Apologies

None

Attendees

Ruth Brutnall	RB	Head of Governance
Meredith Brown	MBr	Diversity and Inclusion Specialist
Gurdip Juty	GJ	Financial Controller
Nikki Measures	NM	HR Manager
Nigel Terrington	NT	Head of Strategy and Performance

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

Item 1

Appointment of executive members

- 1.1 AM proposed that, following a discussion with the Remuneration and Nominations Committee, Sue Higgins and Sally Howes sit on the Board as executive members along with Michael Whitehouse, for the coming. The Board approved this recommendation which would take effect from April 2015. The Board also agreed to AM's request that in future, members of the Leadership Team who were not executive members of the Board be invited to attend meetings of the Board as observers.
- 1.2 AM also suggested that in future he would seek to rotate the executive members of the Board on an annual basis, with the exception of the Chief Operating Officer, who should be a permanent member of the Board, subject to the approval of the non-executive members.

Item 2

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

Welcome & apologies for absence

- 2.1 MB welcomed the executive members to the meeting.

Declarations of interest

- 2.2 There were none.

Minutes of meetings and action points

- 2.3 The Board approved minutes of the meeting held on 22 January 2015.
- 2.4 Progress on the action points was noted and the Board agreed that those 7 items marked as closed should be deleted. Members requested that in future the action log should also include a date by which each action is expected to be complete.

Action: To amend the action log to include a target date for completion of each action (RB).

Matters arising

- 2.5 Members requested the full reports from the 2014 moderated feedback and also the reports from both the survey of MPs and NAO staff.

Action: To circulate the reports requested. (RB)

C&AG's update

- 2.6 The C&AG presented his written report, and provided members with an update on his engagement with the Cabinet Secretary, and the recent changes made to the clearance process for NAO value for money reports. He also discussed the intention to develop a three year business plan for the NAO which he anticipated would be developed quickly, early in the next financial year.

Update from Audit Committee

- 2.7 JS provided an update on the work of the Audit Committee, which met on 25 February 2015, thanking Helene Morpeth for her work in preparing the committee. She reported that the committee had considered the long list of potential subjects for this year's value for money view of the NAO by its external auditor, noting that members will recommend a subject to the board for consideration at its meeting on 9 April. She reported that in considering the subject, the committee had agreed that while it might not be appropriate for the review to consider knowledge management this year, this was an issue of particular interest, and it was suggested that the Board should consider this further later in the year.
- 2.8 She also highlighted the committee's consideration of the potential for the board to appoint an external member to the committee, with more recent financial experience, noting that this was a matter which the committee would consider further later in the year.

Action: Board Secretary to ensure Board has opportunity to consider Knowledge Management at a future meeting. (RB)

Remuneration & Nominations Committee Update

- 2.9 RSh reported on the work of the Remuneration and Nominations Committee, which had met on the morning of 5 March 2015. The committee had approved the remuneration of the executive members of the Board for 2015-16, on the basis that the Leadership Team continued to develop the objectives and new arrangements for the performance assessment of these roles in 2015/16. The Committee had also begun to identify with C&AG a work programme for the year which would be further developed at the next meeting.

Item 3

NAO Diversity Strategy

- 3.1 MB welcomed MBr, GC and NM to the meeting. NM provided an overview of progress against the current strategy, noting that the organisation had made positive progress in particular in improving the diversity of its graduate intake and the completeness of the data on the diversity of NAO people; the office had received external recognition for its work notably from Stonewall and Race for Opportunity.
- 3.2 She also highlighted areas where the expected progress had not been made, in particular in the representation of women and black and minority ethnic staff at Manager level and above, and in addressing the inequality in appraisal outcome between white and BAME staff, though on the second point it was hoped that action taken last year to improve the equality of opportunity through the allocation system would lead to improvements in the appraisal grades for 2014.
- 3.3 MBr introduced the proposed strategy, highlighting the three pillars and the specific action plans which supported each. She noted that the strategy was informed by the NAO's values, in particular the value of fairness, and that the intention was to embed diversity and inclusion within existing processes.
- 3.4 The Board commented that the strategy compared well with those members had seen in other organisations and welcomed the widening of the strategy to address inclusion. Members noted the suggestion that the C&AG take the ownership for the strategy, seeking assurance that he would have sufficient time to undertake the role of sponsor. The discussion addressed a number of aspects, including:
- the extent to which the NAO had been able to reflect diversity considerations in its audit work, acknowledging that there had been limited progress under the existing strategy, and emphasising the importance of moving away from a 'tick box' approach in future;
 - the importance of creating a culture of inclusion and fairness, acknowledging unconscious bias and acting to address it where appropriate. Members recognised that diversity and inclusion were facets of good people management, and emphasised the importance of recognising and promoting the behaviours expected of all NAO staff, particularly in those who lead and manage teams;

- the Board welcomed the development of detailed diversity data on NAO people, and the potential to identify, monitor and report on trends. Members suggested that it would be valuable to identify specific measures for the actions set out in the action plan, and then report against them. The Board also discussed the potential to use diversity data to inform future actions, for example whether it would be possible to collate data on the outcome of specific interview or appraisal rounds to identify areas of good or poor practice, and take targeted action to improve performance to a consistently high level;
- the issue of work allocations and the role of staff allocation in creating an equality of opportunity. Members discussed the action taken in 2014 to address an issue with staff allocations. GC reported that a review of the experiences of the 2013 in-take of graduate trainees indicated that BAME staff were obtaining disproportionately lower appraisal marks. A detailed review of allocations indicated that there was an issue with the opportunities being provided to staff, and action taken to address this. Early data for the 2014 in-take suggests that this has been addressed, and the diversity specialists continued to work with People Directors in clusters to monitor the situation;

3.5 Members sought assurance regarding bullying and harassment, as reported in the staff survey, and whether there were any indications that this arose from diversity issues. GC reported that the NAO's diversity groups had analysed the survey responses and had not found a difference in the levels of reported bullying or harassment by those staff who identified as having a protected characteristic. She commented that while the NAO continued to take reports of bullying and harassment seriously, it did not appear that there was a diversity aspect to this.

3.6 The Board approved the strategy.

Item 4

Management and Use of Resources: Business and Risk Reporting

Business Report

4.1 GJ introduced the Business and Risk Reports to the Board, highlighting two aspects. The first was the forecast underspend of £1.9million, which had arisen in part due to staff turnover being higher than profiled. The second was the performance against the correspondence target; GJ noted that following action taken in January, performance

against this target had improved, but that it would not have sufficient impact on the average performance reported for the year.

- 4.2 Members focussed on the issue of staff turnover and recruitment. The Board sought assurance that the NAO was taking all appropriate action to address the shortfall in staff numbers, including actions to address reward and retention of existing members of staff, particularly in key grades. MW reported that the NAO was taking a series of actions intended to address the retention of staff in the AP grade, which was an area where staff turnover was particularly high, including the development of 'the deal' which would set out the NAO's offer to staff approaching qualification what they could expect from the organisation in terms of pay, progression and development opportunities in the three years post-qualification. He commented that this would be available from April.
- 4.3 AM commented that the intention was not to stop staff turnover entirely, but to slow down the rate. He observed that the NAO would remain under pressure as the external market recovered and that the quality of the roles taken on by those who left indicated the extent to which the NAO was improving the quality of its people. The Board discussed the importance of understanding what motivated NAO staff and the importance of addressing the softer aspects of staff motivations, including the creation of a strong sense of community. It was also suggested that the NAO could consider the potential to build on its strong reputation internationally, and seek secondees for other audit institutions.

Risk Report

- 4.4 Informed by the consideration of the Business Report, the Board considered the risk report, and whether it adequately reflected the real risks to the organisation specifically with regard to resilience, and considered whether the risk report should highlight more clearly both the risks to the organisation and the actions being taken to address them. MW agreed that this would be reflected in future risk assessment and reporting.

Item 5

Management and Use of Resources: NAO Plan for using our resources 2015-16

- 5.1 NT presented the draft 'NAO Plan for using our resources 2015-15' noting that the Board would be invited to consider and approve a final version when it met in April, and this draft was intended to provide members with an early opportunity to comment on and shape the document.

- 5.2 The Board sought to clarify the purpose of the Plan, confirming that it was an internal publication. MW commented that the document was intended to bring together the planning undertaken across the office and demonstrate what the NAO will do in the coming year. AM added that in addition to this document, the Leadership team was also developing a longer term business plan, which would set out the corporate priorities for the coming three years, and the actions planned to address them.
- 5.3 Members provided comments on a number of aspects of the draft including the potential for the NAO to use the document to engage people, and to provide a clear sense purpose. Members commented that the document highlighted the number of different ways in which the NAO described its structure via clusters, activities, objectives and suggested that it may be valuable to rationalise these to provide greater clarity. NT agreed to reflect these comments in the final draft, and invited members to contact him with any further specific comments.

Action: To reflect the Board's discussions in the final draft plan, to be presented for approval in April. (NT)

Item 6

Good governance: Adoption of Corporate Seal

- 6.1 RB presented a resolution seeking the Board's approval of the NAO's adoption of a corporate seal, and a protocol governing its use. The Board agreed the resolution, which was signed by the Chairman, and approved the protocol.
- 6.2 RB reported that the seal would be used to execute four deeds, three deeds of novation to transfer contracts held by the Audit Commission to the NAO, and a separate indemnity agreement between the NAO and the Department for Communities and Local Government, indemnifying the NAO against any claim from former employees of the Audit Commission. The Board noted and agreed these applications of the Corporate Seal, which would be recorded in the Register of Sealings.

Item 7

Any other business

Quarter 3 Management Accounts

- 7.1 The Board received the quarter three management accounts for information. In considering the format of the accounts, members commented that in future they would

prefer less narrative, requesting that the text simply highlight variance against the profile shown.

Action: To reflect the Board's comments in future versions of the management accounts.

7.2 Members queried why, given the pressures of staff turnover, utilisation rates remained below target levels. MW reported that this arose due to two main issues. The first was that despite a number of actions to address it, there remained an issue of staff not recording the full hours worked. The second was the profile of the NAO's financial audit work, where despite action in recent years there remained a 'peak' of activity in the period before the summer recess.

7.3 Members also discussed the NAO's use of outsourcing in its financial audit work, the possibility of the NAO using some of the underspend in 2014-15 to secure the exit of specific roles, and the profiled run rate for quarter four.

Annual Report and Accounts 2014-15

7.4 Members received a paper setting out the approach and milestones for the development of the 2014-15 Annual Report and Accounts.

Ruth Brutnall

March 2015