

**The Board**  
**17 May 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
Ruth Evans	RE	Non-Executive Member (apologies)
Paula Hay-Plumb	PHP	Non-executive Member
Ed Humpherson	EH	Assistant Auditor General (observer)
Richard Fleck	RF	Non-Executive Member
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)
Lynda McMullan	LMcM	Assistant Auditor General
Jim Rickleton	JR	Director General, Finance and Commerce (Items 4 & 5)
Mike Suffield	MS	Director, Financial Audit

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

## Item 1

### Welcome & Apologies for absence

- 1.1 The Chairman welcomed everyone to the meeting, and noted that this was the last formal meeting of the Board before RF and RE would step down when their terms of office came to an end on 30 June 2012. The Chairman recorded his gratitude to both RE and RF for their service on the NAO Board, and for their contributions in developing the NAO's governance since joining the Board in July 2009, as two of the first non-executive members of the NAO Board under the new arrangements.
- 1.2 Ruth Evans had sent her apologies. In order to ensure that the meeting maintained a majority of non-executive members are required by the Board's constitution, the Chairman requested EH attend the meeting in an observer capacity.

## Item 2

### Declarations of interest

- 2.1 RF reported a potential conflict arising from his role as Chair of the Financial Reporting Council's Conduct Committee. The Board agreed that the potential conflict of interest should be recorded, but that it should not prevent RF from participating fully in the business of the meeting.

## Item 3

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

#### Minutes of meetings and action points

- 3.1 The minutes of the Board meeting held on 29 March 2012 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 held discussions with two members of the PAC, Richard Bacon and Ian Swales, and that they had offered positive feedback on their views of the NAO; he hoped to arrange meetings with selected Accounting Officers in the coming months.

### **Matters arising**

- 3.3 The Chairman provided a brief update on the process to identify candidates to be recommended to the Public Accounts Commission to fill the vacancies on the NAO Board from 1 July 2012. He noted that over 60 applications had been received, and that the candidates represented a good cross section of the targeted sectors of local government, health and charitable organisations. The panel had met earlier in May to agree a short list of candidates for interview, and interviews would take place on 23<sup>rd</sup> May.
- 3.4 He also reported that the tender process to identify an organisation to support this year's external evaluation of the NAO Board would commence shortly. The intention was that the appointed organisation would be in place to be able to seek the views of those members whose terms of office ended in June, before the stepped down.

### **C&AG's update**

- 3.5 The C&AG presented his written report and provided an oral update on a number of key areas including his recent meeting with the Chair of the BBC Trust, at which they discussed the the NAO's engagement with the BBC and the process to identify a new Chief Executive of the BBC; the launch of the NAO's Diversity Strategy in April and the positive feedback received from staff; the C&AG's forthcoming meeting with the Minister for the Cabinet Office and the potential implications for the NAO's work with central government, particularly the Cabinet Office, of Ian Watmore's resignation; and the potential implications for the NAO and government departments of the continuing uncertainty in the Eurozone, particularly for those departments which undertake significant transactions in Euros, and the wider implications of national deficits for the work of SAIs.
- 3.6 The Board also discussed the peak audit season, with the C&AG reporting that the strong focus on planning and resource allocation had supported measures to reduce the pressures on staff, and that the organisation was also starting to feel the benefit of the more structured engagement by the C&AG with accounting officers on the financial reporting and audit processes.

### **Audit Committee**

- 3.7 MK provided a brief update on the discussion of the Audit Committee, which had met that morning, noting that many of the Committee's recommendations to the Board would be covered by subsequent agenda items.

## Item 4

### Good Governance: Business Management Report, Risk Report and Management Accounts

#### Business Management Report

- 4.1 JR presented the final Business Management Report of 2011-12 showing the position at the end of March and the Board noted the reported performance against each of the measures.

#### Risk Report

- 4.2 The Board received the risk report.

#### Management Accounts

- 4.3 The Board raised two queries in respect of the year end management accounts. The first related to the level of outsourcing reported within Corporate Services. PHP sought clarification that this did not reflect a reliance on the use of temporary staff or outsourcing to deliver core services. JR reported that this was not the case, and that some of the spending referred to reflected the use of external expertise drawn from the NAO's strategic partners to support a project on strategic workforce planning.
- 4.4 The second query related to how corporate services costs were allocated in the split of resources used for statutory and non-statutory work. JR explained that the distinction between statutory and non-statutory work was a legacy which would not exist as the NAO moved to operating under the new Act, but that it had been retained in some circumstances to ensure a comparability of financial data as the NAO transitioned to the new system; Table 7 of the management accounts provided further clarity on how corporate costs such as leave were apportioned across the business. The Board agreed it would be useful for non-executive members to hold a further discussion on the NAO's management accounts to ensure it understood fully how such issues were addressed.

**Action:** To arrange a further discussion for the non-executive members on the NAO's approach to its management accounts.

## Item 5

### Good Governance: Annual Report of the Audit Committee to the Board

- 5.1 MK introduced the annual report of the Audit Committee to the Board, which had been prepared in accordance with guidance from HM Treasury, noting that the draft provided to members in advance had been revised by the Committee during its meeting to reflect fully the Committee's role in considering all reports of the Director of Internal Audit & Assurance, and provide to more clarity regarding the Committee's conclusion regarding the NAO's governance statement.
- 5.2 The Board noted the report and the proposed amendments, and MK confirmed that she would submit a signed version of the final report to the C&AG for consideration prior to his signing of the resource accounts.

## Item 6

### Good Governance: Annual Report & Accounts

- 6.1 MK reported that the Audit Committee had considered the accounts in detail at its meetings on 2 May and 17 May and subject to some minor changes recommended them to the Board and the C&AG for approval; she recorded formally the Audit Committee's congratulations to the finance team for producing a high quality set of accounts in a short time.
- 6.2 MB presented the final draft of the NAO's Annual Report for approval, noting that the draft reflected the comments received from Board members, with the exception of those parts of the text which had been cleared with client departments, and the introductory text, which was a standard element of all NAO publications; on the latter he reported that RF's comments would be considered when the NAO next updates this text.
- 6.3 The Board approved both the Annual Report and the Resource Accounts.

## Item 7

### External Auditor's Value for Money Report: Financial Management in the NAO

- 7.1 MK reported that the Audit Committee had considered the external auditor's annual value for money assessment of the NAO, which this year had examined the issue of

financial management in the NAO. The Committee had held a detailed discussion of the report with both the Chief Operating Officer and the auditor, and concluded that the report reflected a fair assessment of the NAO, and provided positive recommendations, but that it lacked the context which would enable a reader to make an informed assessment of the NAO's financial management arrangements.

- 7.2 The Board discussed the report and its findings and agreed that it was important to ensure that the report provided greater context in drawing its conclusions, specifically with regard to the assessment of the NAO using the Financial Management Maturity Matrix, to ensure that it fully reflected the NAO's circumstances and the assessment of its financial management arrangements. It was agreed that the NAO's executive management would work with the external auditor to provide this context, and to develop the management response to each of the recommendations made, and that the final version of the report should be circulated to the Audit Committee for consideration prior to its submission to the Public Accounts Commission.

**Action:** To circulate the final report to the members of the Audit Committee for consideration prior to its submission to the Public Accounts Commission.

## Item 8

### The NAO's work with Local Services

- 8.1 LMcM introduced a paper setting out the NAO's approach to the development of its work with local services, noting that the paper addressed two issues: the NAO's adoption of new responsibilities following the planned closure of the Audit Commission; and the changes in local service delivery under the Government's localism agenda, which would lead to significant changes in the governance and accountability arrangements.
- 8.2 The Board sought clarification of the NAO's role in relation to local bodies, and an explanation of the distinction between those activities that the NAO would undertake in response to the changing audit arrangements for local government, which are subject to draft legislation which is expected during 2012, and those activities which would arise in response to the changing governance and delivery arrangements under the localism agenda. The Board emphasised the need to maintain clarity of these two issues as the drivers for the NAO's action to develop its work with local bodies.

8.3 The Board discussed the paper in detail, and the key points of the discussion included:

- Government's thinking on the changes in local government arrangements had developed, as the policy moved into implementation, but the NAO's role in these new arrangements remains essentially the same as had been previously discussed with the Board;
- the NAO would not be the auditor of individual local bodies. Its work would be focused on the need to provide assurance to Parliament of the accountability and governance of funding provided by central government departments to local bodies, such as academies; the NAO would be engaging with these organisations in its role as the SAI for the UK Parliament, rather than as the auditor;
- the NAO's plans included a number of national studies, which may involve some work with individual local bodies to enable it to make evidenced based comparisons and conclusions. This was featured in the NAO's strategy which was considered and agreed by the Public Accounts Commission in November;
- the timescale for legislation, and the implications for when the NAO would start work on a Code of Audit for local government. LMcM reported that draft legislation was expected during 2012, with a full bill likely to pass through the legislative process during 2013;
- the NAO would be discussing these issues with the Committee of Public Accounts, which had previously expressed concerns about the accountability and assurance arrangements and the implications for the NAO, and for the work of the Committee, and seeking to address the Committee's specific concerns in advance of the draft legislation; and
- agreement that the issues addressed were complex and that the development of clear communications and message would be crucial, to ensure that key stakeholders, including the PAC, understood the proposed role of the NAO, and the implications for its work.

8.4 The Board agreed that the discussion had been valuable, and that it would be valuable for the Board to return to this issue during the discussions on the development of the NAO's strategy in the autumn.



## Item 9

### Any other business

- 9.1 The Board received the draft minutes of the Audit Committee meeting held on 2 May 2012 for information.
- 9.2 MK raised one item of other business, relating to the NAO's engagement with its strategic partners, and the implications for the NAO's own audit, asking whether the NAO's management could consider ways to ensure that the NAO was able to draw upon as wide a pool as possible of potential providers when RSM Tenon's current contract came to an end.

Ruth Brutnall

May 2012