

**The Board**  
**21 February 2013**

# 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 (apologies)
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
John McCann	JMcC	Director, Human Resources
Lynda McMullan	LMcM	Assistant Auditor General, Local Services
Mike Suffield	MS	Lead Director, Local Government Audit

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

## **Item 1**

### **Welcome & apologies for absence**

- 1.1 The Chairman noted that apologies had been received from Gillian Guy.

## **Item 2**

### **Declarations of interest**

- 2.1 There were none.

## **Item 3**

### **Appointment of Executive members**

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

- 3.1 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 the findings of the external evaluation of the NAO Board that there was a good balance of skills among board members, and unanimously approved the re-appointment of all three executives to the Board for a further year.
- 3.2 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 4**

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

#### **Minutes of meetings and action points**

- 4.1 The minutes of the meeting held on 17 January 2013 were approved. No sensitive items were identified which would affect their public disclosure, and the Board agreed to their publication on the NAO website.

- 4.2 Progress on the action points was noted and the Board agreed that those items marked as closed should be deleted.

#### **Matters arising**

- 4.3 There were none.

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

- 4.4 The C&AG presented his written report. He noted that the key focus of his work in the coming month, and that of other Leadership Team members, was the NAO Transformation Programme. He reported that following the Board's discussion in January, the Leadership Team presented the vision for the Transformation Programme to NAO Directors on 8 February, setting a clear expectation that although the Leadership Team and Board had determined the 'what' of the programme, the 'how' would be determined by working with directors and their teams. Directors were now working in the proposed clusters to test the thinking regarding the strategic issue. He reported that the Leadership Team had been impressed with the level of engagement shown, which suggested that the principle of working with directors to agree how the change will be implemented was working well.
- 4.5 The Board sought the views of executive members on the benefits of the change for individuals. The C&AG noted that previously the structure of the NAO had been a barrier to individuals and teams working collaboratively and to individuals developing deep expertise; the Transformation Programme represented an opportunity to address this. The Board also discussed the concerns expressed by staff, including uncertainty during the period of change, the potential need for redundancies and the implications for individual roles. The Board agreed that it was important to establish a shared language and understanding of what a 'post-transformation' NAO will look like, and work with staff to achieve cultural change as well as the change in structure and approach.
- 4.6 The C&AG also provided a brief update on his recent engagement with stakeholders, reporting that he had met with Carolyn Downs and had also recently attended the Social Justice Committee chaired by Iain Duncan Smith to discuss early action following the publication of the NAO's recent report.

#### **Update on Remuneration and Nominations Committee**

- 4.7 PHP provided a brief update on the meeting of the Remuneration and Nominations Committee, which had met that morning to consider the C&AG's proposals on the pay of

the executive members of the NAO Board. The Committee had also received an update on proposals on changes to the pay and benefits of NAO staff for 2013-14 and discussed the NAO's approach to succession planning and talent development for senior roles.

## **Item 5**

### **Good Governance: Business Report and Risk Report**

#### Business Report

5.1 MW presented the business report, noting that the NAO was on track to meet its performance targets for 2012-13. He highlighted one issue of concern, regarding the NAO's response to correspondence where five items of correspondence from members of the Committee of Public Accounts were currently overdue. The Board the NAO's approach to managing correspondence, and the different aspects involved in producing a response, noting that often in cases of concerns raised by MPs, either directly or via the Chair of the Committee of Public Accounts, required the NAO to undertake further investigative work before responding.

#### Risk Report

- 5.2 RB presented the risk report, highlighting early concerns which had emerged from the cold review of recent financial and value for money work. EH informed the Board that this was an issue which the Audit Practice and Quality Committee was aware of and would consider at its meeting in March, to identify any areas where additional guidance may be required.
- 5.3 MK raised a query regarding the progress of the NAO's considerations of the ethical standards, and those areas where it was difficult for the NAO, as a public audit body, to fully comply. EH reported that the NAO was currently discussing this issue with other public audit bodies in the UK, and that as part of this work the NAO would consider a joint approach to the Financial Reporting Council on the ethical standards' application in a public audit context.

## Item 6

### Management & Use of Resources: NAO Estimate and Business Plan 2013-14

- 6.1 MW presented the NAO's estimate for 2013-14 and memorandum to the Board for approval, noting that the total resources were consistent with the indicative figures presented in the NAO's strategy, considered by the Public Accounts Commission in November 2012. He also noted that following the Board's consideration and any amendments the Board wished to recommend, the estimate and memorandum would be submitted to the Public Accounts Commission for consideration at a hearing on 12 March 2013.
- 6.2 The Board discussed a number of aspects of the estimate, including the potential risk that a delay or failure to deliver the changes planned under the Transformation Programme could impact the costing assumptions underpinning the estimate; the need to provide a clear explanation to the Commission of the NAO's approach to developing its insight and how the resources used will support the Office in providing more timely assurance to Parliament; how the resource bid for the additional work which the NAO will undertake under the new arrangements for local government audit, including setting the Code of Audit Practice; and the need to provide a clear explanation of the re-stated figures.
- 6.3 The Board approved the estimate, subject to amendments to reflect the comments made.

**Action:** to revise the draft memorandum to reflect the Board's comments, prior to its submission to TPAC.

- 6.4 JMcC introduced a paper setting out the basis for an additional resource bid, which, subject to the Board's approval, would also be presented to the Public Accounts Commission. He reported that the bid was for funding for a programme of targeted redundancies to support the NAO in achieving a better mix of skills and expertise, more closely aligned with the strategic issues being addressed by government bodies. The intention was to release up to 42 posts, targeted primarily at director and manager grades, and to create around 10 new posts, to address those areas where the NAO needed to develop further expertise, for example on procurement and commercial matters.

- 6.5 The Board sought further explanation of the thinking behind the proposed redundancy programme, the intended objectives and timing of any changes. JMcC reported that the funding was being sought now, in line with the Parliamentary calendar and requirements for voted funds, but that the implementation of the programme would be dependent on the agreed timescales for the wider Transformation Programme, which would be discussed with the Board in March. He stated that once the timescales were agreed the programme would be implemented as quickly as possible, balancing the need for formal consultation with the need to minimise the period of uncertainty which the programme may create.
- 6.6 The Board sought to understand the reasons for the proposed approach, querying whether the Transformation Programme was driven by a need to reduce the NAO's staffing levels. The C&AG commented that this was not the case; the Transformation Programme was driven by a need to improve the NAO's skills mix, rather than to reduce costs. He noted however that the Transformation Programme would represent a significant change in the way the NAO worked and its expectations of all staff, and that the redundancy programme was intended to allow those who were not open to this change with a change to move on. It would also create opportunities for high performing staff at lower grades to take on more responsibility.
- 6.7 The Board also queried how the number of 42 redundancies had been calculated, and whether the leadership Team was confident that the NAO would achieve the indicated savings. MW noted that the figures in the bid represented a cautious estimate, and that they were informed by a piece of work to develop a strategic workforce plan for the NAO which had been undertaken in 2012 by one of the NAO's Lead Directors, and this, as well as the efficiencies at the director grade which were forecast to be generated by the cluster approach to working, had informed the calculations.
- 6.8 The Board endorsed the bid for additional funding.
- 6.9 The Board received the draft business plan, noting that it had been provided to inform the consideration of the estimate, and members were invited to provide any drafting comments outside of the meeting or via e-mail. The Board noted that there would be a further substantive discussion on the Business Plan when the Board met in March, and requested that this discussion be held after the discussion on the Transformation Programme.

## Item 7

### Support and Advice: NAO's Local Government Strategy

- 7.1 LMcM introduced a presentation on the NAO's strategy for its work with local government, noting that the discussion was timely; it was a year since the NAO had adopted additional responsibilities under the new arrangements, and that the pre-legislative scrutiny of the draft Local Audit Bill had concluded. She reported that the NAO had published two of the four reports planned for 2012-13, with a further two to be published before the end of the financial year.
- 7.2 LMcM commented that, as local government accounted for around 25% of all public sector spending, an important element of the NAO's approach would be to work with all those teams across the organisation whose work involved elements of local authorities' responsibilities, for example DWP and housing benefit. MS added that the NAO's ambition for the next two years was to establish the organisation as a credible source of insight and expertise on the sector, independent of both central and local government affiliations.
- 7.3 The Board discussed the challenges to achieving the strategy, and LMcM noted that one of the greatest challenges would be to manage the complex stakeholder relationships, which would require the NAO to balance the expectations and requirements of local and central government bodies and of Parliament. NC commented that it would be important for the NAO to guard against any possibility that local government bodies sought an ally in the NAO in their discussions with central government. LMcM commented that while the NAO had been active in seeking to establish relationships with stakeholders in the sector, it had set a clear expectation that the NAO would maintain its independence, and would pose challenges to local bodies as well as central government.
- 7.4 The Board also discussed the expectations of the Committee of Public Accounts, noting that the Chair had previously expressed reservations regarding the NAO's role in the new arrangements. The C&AG commented that the NAO had been clear from the start of this work that it would not seek to replace the Audit Commission directly, but to use its existing capabilities to look at complex and cross-sector issues, to provide assurance to Parliament on those funds channelled through local delivery bodies. He noted that the NAO had addressed previous concerns regarding its capability by seeking to appoint individuals with experience in the sector, including former Audit Commission staff where



appropriate, through permanent appointments and secondments. The Chair's concerns were now focused on the capacity of the NAO given the scale of the local authority landscape, but that the NAO would address this through appropriate sampling and survey methodologies.

- 7.5 The C&AG also commented that the recent changes in the public sector made clear the need for a more holistic view of public service delivery, and that the previous distinctions between local and central government were less clear; the NAO had a clear role in providing insight into these issues.

## **Item 8**

### **Any Other Business**

- 8.1 The Board discussed the arrangements for the forthcoming meeting between Board members and members of the Public Accounts Commission, and requested a short briefing note on the backgrounds and interests of the members of the Commission.

**Action:** RB to provide Board members with a short briefing note on the members of the Public Accounts Commission.

- 8.2 The Board received the draft minutes of the Audit Committee meeting, held on 17 January 2013.

### **Ruth Brutnall**

February 2013