

The Board
18 July 2013

Minutes

Present

Members

Andrew Likierman	AL	Chair - Non-Executive Member
Amyas Morse	AM	Comptroller and Auditor General (C&AG)
Naaz Coker	NC	Non-executive Member
Gillian Guy	GG	Non-executive Member
Paula Hay-Plumb	PHP	Non-executive Member
Ed Humpherson	EH	Executive Leader
Mary Keegan	MK	Non-Executive Member
Michael Whitehouse	MW	Chief Operating Officer

Apologies

Gabrielle Cohen	GC	Executive Leader
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Attendees

Ruth Brutnall	RB	Head of Governance
Sally Howes	SH	Executive Leader (Item 3)
Jim Rickleton	JR	Director General, Finance and Commerce (Items 2 and 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 The Chair noted that apologies had been received from GC. This did not affect the quoracy of the meeting.

Declarations of interest

- 1.2 There were none.

Minutes of meetings and action points

- 1.3 The minutes of the meeting held on 16 May 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.
- 1.4 Progress on the action points was noted and the Board agreed that those items marked as closed should be deleted. The Board also agreed that the item under 'Keep in View' relating to the management accounts could be deleted.

Matters arising

- 1.5 The Chair provided an update on his recent meeting with the Accounting Officer at HM Treasury, and informed the Board that he would also be meeting with the Cabinet Secretary and the Head of the Home Civil Service in the coming month, as part of his regular engagement with NAO stakeholders.

C&AG's update

- 1.6 The C&AG presented his written report to the Board, and invited any questions. The Board discussed a number of elements, including the NAO's recent work on financial management in government, the NAO's discussions with the Audit Commission regarding the transition arrangements pending legislation coming into effect, and the C&AG's recent meeting with the Chair of the Public Accounts Commission.
- 1.7 The Board enquired how the peak audit season had gone, and whether the action taken to reduce the impact of the peak audit period had been effective. The C&AG commented that the audit peak had gone well, staff had worked hard, but the workload had been reduced compared to the previous year partly as a result of actions taken to

conduct audit work earlier in the year, and stronger engagement on the audit process with audited bodies.

Update on Audit Committee

- 1.8 GG provided a brief update on the meeting of the Audit Committee which had taken place that morning. She noted that the Committee had approved the programme of internal audit and its own work programme for 2013-14. She also reported that the Committee had considered options for the NAO's external audit, and recommended to the Board that the NAO's external audit be put out to tender.
- 1.9 The Board agreed this approach, and requested that the NAO's executive management take the necessary action to initiate the procurement process.

Item 2

Good Governance: Business Report, Q1 Risk Report and Q1 Management Accounts

Business Report

- 2.1 MW introduced the business report, noting that the NAO was in a good position against its corporate targets at the end of the first quarter of the financial year. He highlighted that following action taken to address response times to correspondence, performance had improved, and that this would be reflected in the figures shown in business reports for future periods.
- 2.2 The Board raised a query regarding the management commentary, and the comment that the NAO needed to improve its budgeting and resource planning. JR noted that there remained instances where variance against budget was too high, making it difficult to ensure the most efficient use of resources. He commented that the finance team was working to review the audit budgets for 2013 to identify efficiencies, and that strong accountabilities for budgeting would be built into the cluster operating model, which would be developed in the second half of the financial year.

Quarter 1 Risk Report

- 2.3 RB presented the risk report. The Board queried the Amber-Red ratings applied to risks 3.1 and 6.4 relating to staff engagement and morale. MW commented that the NAO's executive management had anticipated a negative response to some of the actions taken as part of Phase 1 of the Transformation Programme, in particular the

restructuring of roles, and the uncertainty associated with change. This was reflected in the ratings. He also noted that engagement by more junior staff with the Transformation Programme had been limited by the requirements of the peak audit season, and that the focus over the summer would be to develop the engagement with these staff groups.

Quarter 1 Management Accounts

- 2.4 The Board received the quarter 1 management accounts, noting the clear presentation and congratulating JR and his team for providing comprehensive accounts so soon after the end of the period.
- 2.5 The Board raised two queries. The first related to table 1, which indicated that income was higher than forecast. JR explained that this was due to the early realisation of income from the NAO's work for the UN. The second related to table 3, with Board members querying what the outsourcing spend under Investigations and Insight related to. JR informed the Board that this related to legal advice, for example the advice sought on a recent report on gagging clauses, and represented a relatively small budget.

Item 3

Support and Advice: Transformation Programme

Update report

- 3.1 MW presented the update report which detailed the progress and achievements of Phase 1 of the programme, which was now complete. He invited the Board's comments and questions, and the sought further information on the benefits realisation framework, which would be presented for consideration by the Board in September. MW reported that this work was being undertaken by one of the NAO's Lead Directors. The intention was to develop a framework of performance measures which would enable the NAO to measure the impact of its work. The Board discussed the approach, noting that the framework will include some measures specific to the strategic issues identified by clusters, as well as how government departments implement change in response to the work of the NAO.
- 3.2 The Board also raised a query regarding the budget for the overall transformation programme, how much the programme was forecast to cost, and how these costs related to the skills strategy, presented as a separate paper under this item. MW

explained that there was a set budget for the transformation programme, the majority of which related to NAO staff time spent on specific projects, as well as a small budget for external advice. MW agreed to consider how to present the information on how these costs related to the costs contained in the skills strategy to the Board.

Action: MW to consider how to present the information on how these costs related to the costs contained in the skills strategy to the Board.

3.3 The Board also discussed the impact of the Transformation Programme on the NAO's risk profile. The Board observed that the key internal risks were to staff motivation and the effective implementation of the skills strategy. The Board also discussed how the programme should reduce the NAO's overall risk profile, allowing a more risk based approach to financial audit and ensuring the organisation was in a stronger position to respond to complex audit issues through the widening of the assurance approach and the development of specialist skills. It would also increase the organisation's ability to demonstrate the positive impact of its work, reducing the risk that external commentators could question the value of its work.

Skills Strategy

3.4 SH introduced the skills strategy, and invited the Board's comments. The discussion focused on the following points:

- Whether the budget identified in the strategy would be sufficient to meet the ambition set out. SH noted that the strategy was intended to be implemented within the existing training budget, and that professional training of accounting trainees was budgeted for separately.
- Whether there strategy adequately addressed management skills as well as technical skills. SH and MW commented that the NAO had established programmes for staff development of wider management skills, including the Direct and Future Leaders programmes, and that the intention was to maintain these while encouraging a focus on sector specific expertise.
- The leadership responsibilities for the strategy, and whether it was appropriate for this to sit with the Executive Leader for Digital and Innovation. MW commented that here was a collective Leadership Team responsibility for ensuring the NAO had access to the skills it required, and that individual members had specific responsibilities within this, but that it was appropriate for SH to lead on this work due

to her external experience of other organisation and her experience of joining the NAO as a non-audit expert.

Item 4

Management and use of resources: The NAO's Cost Base and approach to Financial Management

- 4.1 The Board received the paper on the NAO's cost base and financial management, noting the quality of the paper which addressed the queries and concerns raised in previous meetings, and thanking those involved in preparing it. There was one query, regarding the NAO's fee deficit. The Board questioned why this remained at £300,000 (gross), and whether the deficit arose from work with specific departments or bodies or whether the source varied. The executive members commented that the NAO had taken a series of actions in recent years to address the deficit, which had been significantly higher in 2009-10. However, pressure on client budgets mean that there remained a small gross deficit position. It was noted that this was largely due to a small number of individual clients, but that Maggie McGhee was considering what further action could be taken to address this.
- 4.2 The Board expressed a view that it was important for departments and other bodies to fully understand the cost of audit, and the steps they could take to reduce this through robust financial management. The Board recorded its full support to executive management in addressing this issue.

Client Insight

- 4.3 The Board also considered a paper providing details of the management and controls which applied to the budget for the NAO's work on 'Client Insight'. The key points of the discussion were:
- Whether the £1.6 million shown in table one of the paper for the development of work proposals was too high. Executive members noted that the figures in this table were indicative, and would vary as clusters developed their work plans. However, as this was a new area, it was legitimate that some budget was allocated to development work.
 - The controls which would be applied to the delivery of the specific products identified by clusters, and detailed in Figure 1. MW reported that the work to develop each

product would be allocated an individual time code against which all staff time and other costs (such as travel) would be booked. These costs would relate solely to the production of specific outputs, and not the other elements of client insight work.

- Whether it would be possible to provide a break down by cluster of the budget against each of the four areas shown in table one. MW commented that it would not be possible at this stage, as clusters were still developing work proposals based on an overall budget allocation, and the split into the four areas would vary as these proposals were subject to review and challenge by executive leaders.

4.4 The Board also sought executive members' views on what the future trends in this expenditure might be. The C&AG commented that he would expect to see an increase in work on thought leadership, as clusters develop their insight into the specific issues identified. The cost of client engagement would reduce, as tighter controls around the use of resources for this activity were implemented.

NAO approved service

4.5 The Board considered a paper on the programme of NAO approved services (that work undertaken by the NAO which required specific Board approval under the Budget Responsibility and National Audit Act 2011) which presented options for the definition and scope of this work, and sought the Board's agreement to the scope of this work, and the budget for 2013-14. The Board noted that while some members had previously favoured a more narrow definition, recent discussions had reinforced the value of that work which would be included within the wider scope and the Board was keen to remain engaged with this work.

4.6 The Board agreed to adopt the wider definition, which had been applied in previous years and approved the associated budget of £24.7 million for 2013-14.

Item 5

Good governance: NAO Board meeting with TPAC

5.1 MW introduced a paper providing the Board with information on the forthcoming meeting between the Board and members of the Public Accounts Commission. He noted that the purpose of the meeting was to enable an open discussion between members of the Board and the Commission, and that the meeting would consider two issues, a look back at the NAO's performance in 2012-13 and consideration of those issues the NAO may wish to address in its next strategy, which will be presented to the Commission for

formal approval in November. He informed the Board that the NAO would submit a brief paper to the Commission in preparation for the meeting, which would be shared with Board members during August to provide them with an opportunity to comment.

5.2 The Board discussed how it might approach the meeting, and the key messages the NAO may wish to convey. Members recommended that the Chair and the C&AG meet with the Chair of the Commission in advance of the meeting to agree expectations of the discussion for both Commission members and the Board. The Board also requested a short briefing on the key messages.

Action: To arrange a meeting between the Chair and C&AG and the Chair of the Commission (RB)

Action: To circulate a briefing paper on key messages and issues to Board members in advance of the meeting. (RB)

Item 6

Any other business

6.1 The Board received the following for information:

- Timetable for the development of the NAO strategy 2014-15 to 2016-17, including key dates for the Board
- The minutes of the Remuneration and Nominations Committee meetings on 21 February and 26 March 2013
- The minutes of the Audit Committee meeting held on 16 May 2013.

6.2 EH raised one issue of business, informing the Board that the NAO had received the Audit Quality Report, and providing the Board with an early indication of the findings, in advance of the Board's formal consideration of quality issues in September. He noted that the report process had provided the NAO with rigorous challenge, but the findings were broadly positive noting an improvement on areas highlighted in previous reports notable auditor scepticism. However, the issues regarding the NAO's application of the ethical standards remained, and EH commented that he would welcome a discussion with the Board on this issue in September.

Ruth Brutnall

July 2013