

The Board
27 March 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
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
Marcial Boo	MB	Director, Strategy, Knowledge and Communications (Items 3-4)
Jim Rickleton	JR	Director General, Finance and Commerce (Item 2)

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 There were none.

Declarations of interest

- 1.2 There were none.

Minutes of meetings and action points

- 1.3 The minutes of the meeting held on 21 February 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. EH provided a brief update on progress of the NAO's considerations of issues arising from the application of the Ethical Standards in the public audit context. He noted that the NAO had undertaken a deep review of the standards and had also held discussions with other public audit bodies in the UK, and stakeholders at BIS. The NAO had written to the Financial Reporting Council setting out its views. MK reported that she had spoken separately with EH on this matter, and suggested that it may be useful for the NAO to review how other supreme audit institutions approached the issue of ethical standards for the audit profession, to provide an international perspective.

Matters arising

- 1.5 There were none.

C&AG's update

- 1.6 The C&AG presented his written report. He provided an overview of the recent hearing of the Public Accounts Commission at which the Commission had considered the NAO's budget for 2013-14. He noted that the Commission had been supportive of the ambition and aims of the Transformation Programme, but that a minority of members had expressed a view that the NAO should seek to identify further budget reductions, in addition to those already identified and implemented in previous years, and those planned for 2013-14. AM noted that it was important to emphasise that the NAO had

identified cost reductions voluntarily, and would continue to identify opportunities to further reduce costs where possible.

- 1.7 He provided a brief update on recent stakeholder meetings, including meetings with ministers at both the Department for Education and Ministry of Justice, and a forthcoming meeting with the Local Government Association to discuss the NAO's forward programme of work on aspects of local delivery.

Update on Audit Committee

- 1.8 MK provided a brief update on the meeting of the Audit Committee, which had met that morning. She noted that the Committee had received the 9 month accounts, congratulating those involved in their production. The Committee had considered an assessment of the NAO's information assurance, using the Information Assurance Maturity Model, and was content with the assurance provided, subject to the completion of annual training by NAO staff. The Committee had also received two reports from the NAO's director of internal audit, one on the loading of NAO Directors and one on a review of the NAO's financial systems.
- 1.9 MK raised one other point, relating to the valuation of the NAO's pension liability. She noted that while the committee understood the context to this issue, and did not seek to influence the C&AG's assessment of this in his audit opinion on government bodies, the Audit Committee felt that the NAO should clearly explain the issue in its own accounts.

Action: To provide revised wording to the Audit Committee for members' consideration in advance of meeting on 1 May (JR).

Item 2

Good Governance: Business Report and Risk Report

Business Report

- 2.1 MW presented the business report, noting that the NAO was on track to meet its performance targets for 2012-13. PHP raised a query regarding the red rating applied to the NAO's performance in responding to correspondence. MW explained that there had been a peak in correspondence sent via the Committee of Public Accounts relating to corporation tax. The team responsible was working to develop a consistent approach to addressing the queries and concerns raised, but that each item of correspondence would be considered in detail to establish whether it contained concerns of a

whistleblowing nature. He confirmed that this peak would be addressed shortly. He also commented that where there were delays in providing a correspondent with a substantive response, the NAO would always provide a 'holding' response, to ensure that the correspondent was aware of the progress being made in considering the issue he or she had raised.

- 2.2 PHP thanked MW for his explanation, and suggested that it might be useful to ensure that in future any similar issues be explained in the cover note to the report.
- 2.3 The Board also discussed the issue of the NAO's management accounting information, noting that the non-executive members would be meeting with the NAO's external auditors to discuss the current value for money review of the NAO's management information immediately after the Board meeting. MW reported that the information provided to the Board was that which the NAO's executive management used to manage the organisation, but that if there were aspects of this information which were not of value to the Board, or information which the Board would find useful but which was not included in the current report, then members should raise this and the NAO's management would seek to revise its reporting accordingly.
- 2.4 JR also invited the Board's comments on the management accounts provided to the Board in October for the first two quarters of the financial year, suggesting that if there were any additional items of information the Board would find it useful to have included in the accounts then he would be happy to discuss this with individual members and make any revision to the format of the accounts as required. Members may also wish to provide their views directly to the external auditor, to inform their report.

Action: Board members to provide any comments on the management reporting and accounts provided to the Board, to inform the development of the report for 2013-14.

Risk Report

- 2.5 RB presented the risk report. The Board sought further information regarding risk 7.4. *'The NAO does not deliver key business objectives in terms of improving public services'* which was reported as amber-red. GC commented that work was in hand to review the uptake of recommendations made by both the NAO and Committee of Public Accounts, which had recently declined slightly. She noted that the Chair of the Committee had asked the NAO to hold initial discussions with HM Treasury to understand the reasons behind this and to explore possible means by which the Treasury Minute process could support both the NAO and the Committee in undertaking further work to follow up the

progress of implementing those recommendations which had been accepted. No further action was required at this stage.

Item 3

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

- 3.1 The Chairman introduced this item, setting the Business Plan in the context of the Transformation Programme, which the Board had discussed in detail during the strategy discussions held the previous day. GC highlighted that the Plan was an internal publication, and that its aim was to ensure that NAO staff understood the priorities and objectives for the new financial year. MB noted that the Business Plan reflected the comments received by Board members on the draft version, and that in response to the suggestion of the Board the NAO would also be producing a four page summary version which would be circulated to all staff.
- 3.2 The Board emphasised the importance of ensuring consistency between the key messages in the Business Plan and in the implementation plan for the Transformation Programme, and suggested that the current draft could provide a more coherent narrative regarding the Transformation Programme, reflecting the Board's discussions on the previous day. The executive members committed to revise the draft Business Plan before publication, in-line with the Board's comments.
- 3.3 MK raised two specific queries regarding the £10.4million of the NAO's budget shown as being planned for 'Client Insight' work. She highlighted the importance in the current environment of being able to clearly demonstrate the impact of every aspect of the NAO's work, and sought clarification of what work would be undertaken as part of client insight, and what its impact would be. The C&AG explained that client insight was an important enabling function for the NAO's audit activities, and would it was necessary to view this work in the context of the NAO's ambition to develop a wider range of outputs, informed by greater insight into the strategic issues of most relevance to the bodies the NAO audited. He remarked that the work undertaken as part of client insight would not always lead to specific outputs or products, but would ensure that the NAO's VFM and financial audit had greater strategic focus.

- 3.4 MK also sought clarification regarding which elements of client insight which were considered 'NAO approved services' and which were undertaken as part of the C&AG's statutory responsibilities, to support the Board in understanding the difference between the budget figure contained in the Business Plan (£10.4million) and that presented for approval under Item 4. The C&AG explained that certain elements of the NAO's client insight work, for example the £3million proposed to develop the NAO's audit approach, were undertaken in direct support of the his statutory responsibilities, and as such were excluded from the programme of work presented for approval by the Board as 'NAO approved services'. He accepted that this distinction could have been made clearer in the covering paper, and also noted that this work was not part of a 'one off' activity or part of the Transformation Programme, but would continue in future years, to ensure that the NAO continued to develop its understanding of the bodies it audits and that its work remained relevant to Parliament and departments.
- 3.5 MK also raised a query regarding the annex to the paper, which set out the contracts and projects with a value of over £500,000 which would be undertaken during 2013-14. She requested further information on the planned framework for strategic partners to support the NAO's financial audit work, and the potential implications for the pool of potential suppliers for the NAO's own external audit when the contract with the current supplier comes to an end.

Action: To provide a note to the Board with further information on the strategic partner framework (JR)

- 3.6 The Board approved the Business Plan, subject to any revisions made by management to reflect the comments of the Board.

Item 4

Management and Use of Resources: NAO Approved Services

- 4.1 MB presented the programme of NAO approved services for 2013-14 to the Board for approval. MW reported that the NAO was currently undertaking a review of its international work, which would report in the first quarter of 2013-14 and which would inform the future programme of NAO work with international organisations; this review would report to the Board in May.
- 4.2 The Board emphasised the need for clarity of what work would be undertaken under the 'client insight' activity, and for a further breakdown of the budget, to ensure that Board

members had sufficient visibility of the resources proposed to be used in support of client insight during 2013-14. It was agreed that the Board would need to consider this additional information and would agree whether a further discussion would be required, or whether the programme of NAO approved services could be approved via correspondence, subject to this further consideration.

Action: To provide the Board with a note containing a breakdown of the resources planned to be used for the client insight element of the NAO approved services programme, and to arrange a further discussion if member consider it necessary.

Item 5

Support and Advice: Risk Management

- 5.1 RB presented a paper which set out changes to the NAO's approach to risk management and reporting which would be implemented in 2013-14, subject to the Board's consideration. She noted that it was proposed to move to a more visual, dashboard, style of report which would be more closely aligned with the NAO's strategic objectives and would include both operational risks and external risks in a single report. RB also noted that the revised approach would include a quarterly 'horizon scan' by the Leadership team and Board to identify those issues in the external environment which may present a risk for the NAO in the future.
- 5.2 The Board welcomed the proposed changes to the presentation of risk information, and sought clarification of how the current risks had been mapped into the new risk framework and assurance that the detailed quarterly reporting format would remain in place under the new approach. RB confirmed that the quarterly report, which provided information on all risks, would remain in use during 2013-14.
- 5.3 RB also highlighted the horizon scanning paper, which would be provided to the Leadership Team and Board on a quarterly basis in 2013-14. The Board noted that this would be used to ensure that the NAO's consideration of risk was more outward facing, and would support an open discussion throughout the year on those external events or issues which could present a risk to the NAO. The Board agreed that it would be valuable to discuss those low probability:high impact events which may affect the NAO and its ability to meet its objectives, and that it would be useful to use the September strategy discussion to consider different scenarios, and how the NAO might respond.

Action: To include scenario planning as part of the September Strategy discussions. (RB)

Item 6

Any Other Business

- 6.1 MK raised one item of any other business, reminding the Board that the timescale for the preparation and review of the NAO's Annual Report and Accounts for 2012-13 was particularly tight this year, and as such it would be important for Board members to provide comments on the drafts circulated, in advance of the formal meetings of the Audit Committee and Board planned for 1 and 16 of May.
- 6.2 MW reported that the NAO would shortly be announcing to staff the outcome of the pay review for 2013-14. He informed that the Board that the NAO had been unable to reach agreement with the NAO's branch of the trade union, which had aligned itself with the national union's campaign for a 5% pay rise, and had also raised objections to wider changes in the terms and conditions offered to all staff. The Leadership Team had determined that although the NAO had been unable to reach an agreement which was acceptable to the union committee it would announce the changes to staff, to prevent any delay in implementing the pay rise in April, and the Leadership Team will write an open letter to all staff explaining the context to the pay review and the dispute with the Union.

Ruth Brutnall

April 2013