

**The Board**  
**24 November 2015**

# Minutes

# Present

## Members

Michael Bichard	MB	Chair - Non-Executive Member
Amyas Morse	AM	Comptroller and Auditor General (C&AG)
Sue Higgins	SHi	Executive Leader
Joanne Shaw	JS	Non-executive Member
Ray Shostak	RS	Non-executive Member
Robert Sykes	RSy	Non-executive Member
Michael Whitehouse	MW	Chief Operating Officer

## Apologies

Sally Howes	SH	Executive Leader
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## Attendees

Stephen Smith	SS	Executive Leader (observer)
John Thorpe	JT	Executive Leader (observer)
Adrian Jenner	AJ	Director Parliamentary Relations (Items 1-2)
Robyn Cox	RC	Strategic Communications Manager (Item 2)
David Kellett	DK	HR Manager (Item 3)
Tim Wright	TW	Director Business Improvement Programme (item 4)
John McCann	JMcC	Director Human Resources (Item 5)
Susan Ronaldson	SR	Director Engagement and Change (Item 5)
Nick Lacy	NL	Head of Legal and Policy (Item 7)
Mark Allen	MA	Incoming Head of Legal and Policy (Item 7)
Helene Morpeth	HM	International Liaison and Governance Manager (covering for Ruth Brutnall)

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 Michael Bichard (MB) welcomed members to the meeting. He noted that apologies had been received from Sally Howes. He paid tribute to Naaz Coker acknowledging the outstanding contribution she made to the NAO as a non-Executive Board member during her tenure. He expressed his and the Board's sadness at receiving the news of her death. Joanne Shaw (JS) responded that Naaz had made a huge impression on her when she first met her, a few years ago, in conjunction with an NHS leadership course. She had been tremendously helpful to her and influenced the way she subsequently embarked on her role as Chair of NHS Direct.

### **Declarations of interest**

- 1.2 There were none.

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

- 1.3 The Board approved the minutes of the meeting held on 22 October 2015 subject to a minor amendment to the wording at paragraph 4.1, and agreed their publication on the NAO website.
- 1.4 The Board noted the progress on the actions arising from previous meetings, and agreed the deletion of those marked as complete.

### **Matters arising**

- 1.5 There were none.

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

- 1.6 The C&AG presented his written report. He reported that the negotiations on the Bank of England Bill, with HM Treasury and with the Governor of the Bank of England, were coming to a satisfactory conclusion now that the veto has been removed from the draft legislation. He acknowledged MB's recent intervention in the Lords and the positive impact this has had in ensuring the C&AG role as Parliament's independent auditor is preserved. The Board discussed the investigation into the government's funding of

Kids Company and the effectiveness of this type of intervention as a means of tackling key issues with impartiality and helping Parliament to hold to account.

### **Parliamentary Report**

- 1.7 AJ presented a verbal update of the NAO's work with Parliament. He reported that Parliament's Environmental Audit Committee has commissioned the NAO to audit the Treasury's Spending Review process for its environmental impact.

## **Item 2**

### **NAO Stakeholder Feed-back**

- 2.1 Sue Higgins (SHi) presented the Stakeholder views received in 2015 through Moderated Feedback (clients), Ipsos MORI (MPs) and COMRES (public sector leaders) and highlighted key findings and NAO's proposed response. The Board held a detailed discussion on the results. The non-Executives expressed concern about the less positive feed-back from Clients on NAO's value for money work compared to the strong feed-back received on financial audit. The C&AG acknowledged this concern which he and the Leadership Team also share. He referred to his meeting with Permanent Secretaries as a means of arriving at a more nuanced understanding of the underlying issues given the inconsistency of some of the messages from Clients. In addition he outlined a range of actions the Office is taking to address findings, including the VFM development programme which he offered to share with the Board.
- 2.2 MB highlighted the positive trend from NAO's work on pan government issues over the last year and encouraged the Office do more sharing of good practice in this area. SHi reported that the Office is reviewing its stakeholder research programme with a view to rationalising and gaining more qualitative insights from next year. The non-Executives commented this offered the opportunity to bring some of the research in-house and for the Executive Leaders to carry out some of the qualitative discussions with Clients. In response to a question of detail on NAO's press releases, SHi said she would re-examine the question of bringing forward the embargo.

## Item 3

### Review of Performance Management and Appraisal

- 3.1 SHi presented a new performance management and appraisal scheme which is the culmination of an in depth internal review and consultation process following negative feed-back received from NAO people following the appraisal round for 2014. She reported that the new scheme will take place from the 2016 appraisal round and will place development, performance improvement and behaviour change at its heart, rather than the fine grained performance differentiation through exhaustive relative assessment of the previous scheme. The Board welcomed the new features of the scheme and expressed its satisfaction that the new scheme so clearly addresses the concerns raised by staff. The Board noted the new features of the scheme also addresses recurring issues with NAO's equality impact scores.
- 3.2 The Board encouraged SHi to be bold in communicating the new scheme to staff.

## Item 4

### Business Improvement Programme (BIP) Business Case

- 4.1 The C&AG presented his assessment of the updated BIP business case, following the discussion at the Board in September and the limited assurance provided at the time on the business case by the Director of Internal Audit and Assurance. He reported that Sally Howes and the Digital Team have made good progress in most key areas of the BIP project and are well placed to move to procurement, subject to the Board's approval of the business case. He pointed to the internal audit follow up report highlighting that significant progress has been sustained to enable the Director of Internal Audit and Assurance to provide adequate assurance. He referred to the increased cost of the business case, compared to the figures presented in September, and acknowledged the non-Executives would wish to challenge management on these and confirmed the costs were affordable and not under-budgeted.
- 4.2 Tim Wright (TW) presented the detail of the updated business case. He explained the rise in estimated programme costs since the last business case which consisted of increased staff costs, external implementation costs and on-going costs. He reported that the new business case accounts for all predicted future costs for a five year period

including contingency, in addition to the sunken costs on the strategic thinking and discovery phase of the current programme and all the costs of the previous ERP project. He added that the costs of the BIP programme have been validated by internal audit, finance and three separate audit teams within the Office.

- 4.3 TW answered detailed questions from the non-Executives on return on investment; risks and assumptions and benefits realisation. Peter Wood (PW) confirmed his adequate assurance opinion reflects the increased granularity and stress testing that has been applied to the assumptions and risks in the design of the updated business case.
- 4.4 MB summed up by confirming the non-Executives supported the rationale for BIP but there remained lingering questions around cost structure and benefits realisation. The C&AG recommended two actions to address the concerns of the non-Executives: i) to provide a detailed explanation of the cost structure and ii) to provide external validation of the cost structure and benefits realisation, including an assessment of whether there are more cost effective procurement solutions.

**Actions:** Michael Whitehouse (MW) to provide a detailed explanation of the cost structure to the Board. MW to commission external validation of the cost structure and benefits realisation, including an assessment of whether there are more cost effective procurement solutions, and present these to the Board.

## Item 5

### People Survey – Initial Response

- 5.1 Susan Ronaldson (SR) presented the proposed response to the issues raised in the 2015 People Survey. She identified the cross-cutting issues which arise from the survey about how the NAO works, its communication and common points of pain. She provided details of the five proposed pathways to address the key issues.
- 5.2 The Board endorsed the proposed pathways but advised SR to provide an overall response to NAO people that is short, pithy, and clearly states it addresses issues raised by NAO people. JS suggested that there was mileage in unpacking some of the issues around leadership and strategy as a separate exercise.

## Item 6

### NAO Strategy: Formal Approval

6.1 The Board approved the updated NAO Strategy 2016-17 to 2018-19 following discussion at the meeting in October and consideration of subsequent revisions circulated via email. The Board acknowledged it is unusual for an organisation to go through a strategy formulation process on an annual basis but accepted this is a requirement of the Public Accounts Commission (TPAC). The Board agreed to hold a discussion on strategy formulation at a future meeting to enable members to reach a consensus on best way forward taking into account the requirements set out in the Code of Practice and best practice principles in strategy formulation.

**Action:** Ruth Brutnall (RB) to arrange a Board discussion on strategy formulation which takes into account the requirements of the Code of Practice and best practice principles in strategy formulation.

## Item 7

### Business and Risk Reporting

7.1 MB welcomed Nick Lacy (NL) and Mark Allen (ML). He informed the Board that NL was retiring from the NAO on Friday following 36 years of distinguished service to the organisation. He extended the Board's thanks and gratitude and wished NL a good retirement.

7.2 NL presented the business and risk reports. The Board noted the latest position on correspondence, forecast outturn, utilisation rates, forecast financial impacts and programme of work to PAC. The Board noted the financial impacts target was at risk. The Board noted the actions in place to mitigate the two red rated risks on Change Management and Further Devolution.

## **Item 8**

### **2016 Programmes of Work**

- 8.1 The Board approved the programme of work in 2016 for the Audit Committee and the Remuneration and Nominations Committee. The Board noted the update from the Audit Committee following its meeting on 2 November and received the draft minutes of the meeting.

## **Item 9**

### **Use of NAO Seal**

- 9.1 The Board ratified the use of the NAO seal on a legal entity form for the EU.

## **Item 10**

### **Any other Business**

- 10.1 MB informed the Board he would carry out the role of Senior Independent Director (SID), previously held by Naaz Coker, on a temporary basis during the vacancy on the Board.

## **Item 11**

### **Date and time of next meeting**

- 11.1 The Board noted the next meeting would take place on 28 January 2016 at 14:30 in London.

**Helene Morpeth**

**25 November 2015**