

**The Board**  
**22 October 2015**

**Newcastle – Kielder and by VC to Buckingham Palace Road 3.8**

# Minutes

# Present

## Members

|                    |     |  |
|--------------------|-----|--|
| Michael Bichard    | MB  | Chair - Non-Executive Member           |
| Amyas Morse        | AM  | Comptroller and Auditor General (C&AG) |
| Sue Higgins        | SHi | Executive Leader                       |
| Sally Howes        | SHo | Executive Leader (Observer)            |
| 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

|            |    |                                  |
|------------|----|----------------------------------|
| Naaz Coker | NC | Non-executive Member (apologies) |
|------------|----|----------------------------------|

## Attendees

|                 |    |   |
|-----------------|----|---|
| Ruth Brutnall   | RB | Head of Governance                                |
| Stephen Smith   | SS | Executive Leader                                  |
| John Thorpe     | JT | Executive Leader                                  |
| James Gourlay   | JG | Head of Strategy and Performance                  |
| Nick Lacy       | NL | Head of Legal and Policy (Item 6)                 |
| Daniel Lambauer | DL | Director, Value for Money                         |
| Kate Mathers    | KM | Director, Financial Audit                         |
| Tim Valentine   | TV | Head of Finance (Item 3)                          |
| Tim Wright      | TW | Director, Business Improvement Programme (Item 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 MB welcomed members to the meeting. He noted that this was the first meeting attended by Stephen Smith since he joined the NAO, and extended a particular welcome to him.
- 1.2 Apologies had been received from Naaz Coker. To ensure the meeting remained quorate the Chair invited Sally Howes to attend as an observer.

### Declarations of interest

- 1.3 RSh declared a potential conflict of interest regarding item 7, noting that he had discussed the role with Martin Smith prior to his application. The Board noted this, and agreed it would not preclude him from participating in the discussion.

### Minutes of meetings and action points

- 1.4 The Board approved minutes of the meeting held on 22 September 2015, and agreed their publication on the NAO website.
- 1.5 The Board noted the progress on the actions arising from previous meetings, and agreed the deletion of those marked as complete. The Board received a note on the NAO's use of outsourcing to support its audit work. RSh queried whether the rates indicated in the note reflected the true cost to the NAO. MW agreed to provide further information on this point outside of the meeting

**Action:** To provide a note to the Board setting out the basis for the NAO's hourly rates. (MW)

### Matters arising

- 1.6 There were none.

### C&AG's update

- 1.7 The C&AG presented his written report and provided an update to the Board on the proposed legislation regarding the NAO's role with the Bank of England; the Chair noted

that he would be speaking on the legislation when it had its second reading in the House of Lords the following week.

### **Parliamentary Report**

- 1.8 The C&AG provided an update on the NAO's work with Parliament, highlighting the recent away day held by the Committee of Public Accounts. He also noted that following the formation of the shadow cabinet three members of the committee had been appointed to shadow ministerial posts, and as such there would be three new members of the Committee: Chris Evans, Caroline Flint and Bridget Phillipson.

## **Item 2**

### **NAO People Survey**

- 2.1 AM introduced this item noting that although the responses showed encouraging improvement in some areas, particularly regarding the understanding of the NAO's strategy and people's engagement with their work, the 2015 people survey had identified clear areas of concern regarding change management and perceptions of the leadership team. The Board discussed a number of aspects of the findings, including:
- The need to address concerns regarding the Leadership Team; executive members recognised that the Team could improve the way in which it engaged the office with the reasons for decisions, which at present were not always transparent and could lead to concerns regarding the extent to which they were taken in-line with the NAO's values;
  - AM commented that there was also further action which could be taken to explain the role of the executive leaders and the Leadership Team's established way of working, to address confusion and a lack of visibility of the work of the Team.
  - The Board queried the possible reasons behind the varied results between clusters; the survey results highlighted that there were individual clusters which were rated well but also some clusters where the results highlighted areas of concern. Members discussed the extent to which this related to individuals or whether there were more fundamental issues within individual clusters which was hindering them in achieving high performance and staff engagement.
  - Members agreed that any action taken must address the specific concerns in individual clusters. Executive members commented that clusters would have the opportunity to

consider their own results and identify actions which can be taken locally, as well as the wider action plan.

- Reports of bullying and harassment were relatively low, but there were areas and grades where reports were significantly higher and members encouraged the executive to understand the reasons for this.
- Members recognised that the current review of performance management and appraisal, which would conclude in November, would be an important part of any response to the results of the survey, and it would be important that this clearly demonstrated alignment with the values, particularly fairness.

2.2 The Board encouraged executive management to respond to each of the specific areas of concern, to take targeted action and to maintain focus and effort on those areas. Members also suggested that the NAO consider whether the company which administered the survey could provide further support in understanding the findings.

2.3 The Board endorsed the executive's planned work to understand more about the underlying issues raised by the survey results, and to develop an action plan in response. The Chair requested that the Board have the opportunity to consider the planned response to the survey.

**Action:** To ensure that the action plan is shared with the board. (RB)

## Item 3

### **NAO Strategy: Approval**

3.1 The Board was presented with the NAO Strategy for consideration and approval. The Chair noted that the draft reflected the revisions and comments he had provided, but that in his view further work would be required to make the strategy, and the summary especially, more robust before the Board approved it. In particular the section addressing the NAO's financial plan for the coming three financial years required additional drafting to make more clear the case for the approach taken, and for the nature, scale and source of the cost reductions identified.

3.2 The Board discussed in more detail the financial approach proposed in the strategy, considering the importance of maintaining a strong audit function at a time of change and reform in the nature and delivery of public services and changing accountability landscape. Members recognised the need to balance this with the need to demonstrate that the NAO was responding to the fiscal constraints faced by other public bodies. The

C&AG commented that the NAO had consistently offered cost reductions during the previous Parliament, and would continue to do so.

- 3.3 The C&AG further commented that the standards which applied to financial audit required a certain level of resource, so although there were opportunities to address the loading of work around the audit peak which would support a more effective resourcing approach, it would not be possible to make significant cost reductions in this area. Action had been taken to improve the efficiency of the NAO's other audit activities, in particular through the increasing use of focussed investigations into specific subjects. In recognition of the need to maintain the standard and rigour of the NAO's audit work, the Board noted that the majority of the cost reductions offered in the strategy would be made in the NAO's back office functions.
- 3.4 The Board also discussed the need for a stronger narrative to run through the strategy, to make a compelling case for the value which the NAO would add in the complex and changing environment of the bodies it audited, and for how the organisation was responding to the specific challenges for public bodies identified in the strategy.
- 3.5 Members agreed the need for further discussions about the strategy development process and the structure of the documents itself.
- 3.6 The Board agreed that it would not approve the strategy today, but would do so via correspondence following further work to address the points raised during the Board's discussions. The Chair invited members to provide any bullet point comments on the strategy which they may wish to offer. A revised draft would be circulated for approval in two weeks' time.

**Action:** For members to provide any drafting points or comments on the strategy by correspondence. (all)

**Action:** Final version of strategy to be circulated for approval in advance of the November meeting. (MW)

## Item 4

### **Risk Management: Audit Quality**

- 4.1 JT introduced this item, noting that the risk to the quality of the NAO's work was a key risk the management of which permeated all of the Office's activities. The paper

presented drew together a view of the mechanisms by which the NAO managed this risk during the year, across both the financial and non-financial audit disciplines. He drew the Board's attention to the data reported on slides 3 and 4 of the presentation, which provided an overview of the formal review mechanisms. He noted that the NAO was considering the extent to which it could undertake more 'real time' review of its work, and how to make the key data and indicators available to the office in a more timely way.

- 4.2 The Board recognised the comprehensive and holistic nature of the quality assurance approach taken by the NAO, and discussed the role of client feedback in assessing and assuring the quality of the NAO's work. Members commented that it may be valuable to undertake aspects of the client feedback directly, rather than using an external researcher to allow the NAO's senior management to engage with senior leaders in client bodies on the issues which concern them. JT commented that the feedback received via the moderated feedback process was used by executive leaders and directors as the basis of discussions with clients.
- 4.3 Members discussed some of the specific issues raised by the quality reviews, in particular the variation between the internal and external cold reviews of value for money work. DL explained that this related to the scope of the review processes, which looked at different things. The Board also noted that the reviews found that systemic issues could be brought out further in the NAO's work, and DL acknowledged that this was an area that the Practice Quality team were looking at currently.
- 4.4 KM informed the Board that the Audit Quality Review process for this year had concluded, and that the NAO had held their final meeting with the review team. The NAO would be responding to each of the points raised by the review, and the AQR had offered to hold further discussions with the NAO on the wider and systemic issues they had identified from their reviews of the private firms, and which were of interest to the Financial Reporting Council.
- 4.5 The Board also discussed how the findings of the quality assurance mechanisms were used to inform the NAO's training and development. DL commented that this was something which was used as the focus of the recent annual assurance update, compulsory training for all NAO audit staff.
- 4.6 Having considered the annual report on the NAO's quality assurance mechanisms the Board approved the NAO's Transparency Report.

## Item 5

### BIP Update

- 5.1 The Board received a brief paper providing an update on the progress of the Business Improvement Programme. TW provided a further update, noting that the work to develop the revised business case was on track to provide the Board with a business case to consider at its November meeting. The Programme had identified additional resources to support the completion of the work required for the 'Discovery' phase and the current focus was on refining the benefits realisation framework and the definition of the solution requirements. The Board noted the update.

## Item 6

### Business and Risk Reporting

- 6.1 NL presented the Business Report to the Board highlighting the forecast financial position to year end, which showed a slight underspend. The Board noted this and discussed the continuing issue with the NAO's performance against its target for correspondence. The Board expressed concern that this remained an issue, despite being something first highlighted to the Board in January of this year. Members highlighted the importance of this measure, in particular the need to respond to MPs in a timely manner.
- 6.2 SHi noted that the review into this issue would be completed in November; early findings indicated a number of potential issues including some issues with the central system for logging and chasing correspondence. The Board urged the NAO's management to address this, and the Chair asked to see a copy of the final report on the issues and actions identified by the review.

**Action:** To share the final report on correspondence handling with the Chair. (SHi)

- 6.3 The Board also discussed the current performance against the financial impact target. NL reported that currently reported impacts were below the expected level, and that action was being taken to encourage team to identify and report impacts arising from



their work. Members discussed the value and presentation of this target, noting that it did not represent a comprehensive view of the impact of the NAO's work.

- 6.4 NL introduced the risk report, noting that he had met with JSh to discuss how the NAO identified, managed and reported on risk and noted that this topic would be subject to further discussion at the Audit Committee meeting to take place in November.

## **Item 7**

### **Audit Committee: Appointment of Independent External Member**

- 7.1 The Board approved the appointment of Martin Smith to the Audit Committee as an independent external member, following an open competition.

## **Item 8**

### **Any Other Business**

- 8.1 There was none.

Ruth Brutnall

October 2015