

The Board
20 September 2011

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
Ruth Evans	RE	Non-Executive Member
Paula Hay-Plumb	PHP	Non-executive Member
Ed Humpherson	EH	Assistant Auditor General
Richard Fleck	RF	Non-Executive Member
Mary Keegan	MK	Non-Executive Member
Michael Whitehouse	MW	Chief Operating Officer

Attendees

Ruth Brutnall	RB	Head of Governance
Andrew Baigent	AB	Director General, Financial Audit
Jeremy Lonsdale	JL	Director General, Value for Money Audit
Jim Rickleton	JR	Director General, Finance and Commerce

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

Item 1

Apologies for absence

- 1.1 There were none.

Item 2

Declarations of interest

- 2.1 In relation to Item 7 RF noted his role as a member of the Board of the Financial Reporting Council. The Board was satisfied that this did not represent a conflict and that RF's participation in the discussion of the AIU report need not be restricted.

Item 3

Minutes of meetings and action points

- 3.1 The minutes of the Board meeting held on 14 July 2011 were approved. No sensitive items were identified which would affect their public disclosure, and the Board agreed to their publication on the NAO website.
- 3.2 Progress on action points was noted and it was agreed that those items marked 'propose delete' should be deleted from the action log.

Matters arising

- 3.3 There were none.

C&AG's update

- 3.4 The Board noted the written report and thanked the C&AG for the additional information included in the revised format. The C&AG provided an update on the NAO's activities over the summer period, including the certification of accounts which missed the recess, and the press coverage of the NAO's use of procurement cards and early departure payments to staff as part of the programme of headcount reduction; this was considered further under Item 4. The Board also noted the appointment of Lynda McMullen to the post of AAG with effect from October.

Item 4

Managing our resources: Use of procurement cards

- 4.1 MW presented a paper to the Board outlining the background to the recent press coverage of the NAO's use of procurement cards, and the additional controls and guidance introduced following an internal review. The Board discussed the importance of balancing the legitimate role of procurement cards as a valuable and cost-effective means of procuring low value items with the need for the NAO to demonstrate the very highest standards of propriety in its management of public funds, and the lessons that had been learned from the experience of the summer.
- 4.2 The Board noted both the thoroughness of the response, and the additional rigour provided by the further controls introduced, and agreed that it was satisfied by the management response to this issue.

Item 5

Business Report and Quarterly Risk Update

Business Report & Risk Report

- 5.1 JR presented the Business Report showing the position at the end of August. The Board discussed a number of elements of the report, including the record of excessive hours worked, noting the trends for specific grades, and also the concern that not all staff are fully recording excess hours worked. The Board also noted the red rating assigned to the time taken to respond to correspondence, and the actions in hand to address this.
- 5.2 The Board noted the August risk report.

Item 6

Delivering Our Strategy: Quality

Quality Reports

- 6.1 Ed Humpherson introduced the paper, and invited the Board's comment on the quality reports of the Directors General for both Financial and Value for Money Audit. The

Board noted the reports and the subsequent discussion focused on the following points:

- The criteria used by the external reviewers to assess the quality of our Value for Money reports and the changes in process implemented during 2010-11 which has allowed for more thematic reviews across the full portfolio of published reports. It was noted that this approach has provided valuable in-put to the considerations of the Audit Practice Quality Committee and supported it in considering wider issues of quality.
- The assessment of the validity of the recommendations contained in our reports, both against the extent to which they are fully supported by the analysis contained in the report as well as the impact and outcome of their implementation. The Board noted that HMT was now monitoring the implementation of the recommendations of both the NAO and the Committee of Public Accounts by departments, which would inform a further measure of the relevance and quality of our recommendations - their implementation and impact.
- The role of client feedback in assessing the quality and relevance of our work on both Value for Money and Financial Audit.
- The resourcing of hot reviews, and how the reviews compared with the AIU inspection in terms of rigour. AB reported that the hot reviews of financial audits had provided useful challenge to the audit process and formation of audit opinion.
- The importance to the NAO of retaining people of sufficient calibre and experience as well as a diversity of skills to ensure the continued quality of its work.

Transparency Report

- 6.2 Ed Humpherson presented the Transparency Report to the Board for approval, thanking members for the drafting comments received to date. The Board approved the report for publication, subject to a number of drafting amendments, specifically the need to consider the use of the term 'client' when referring to audited entities. The Board noted that term describes the relationship in terms of the quality of service that the NAO aims to provide to bodies, but agreed that it could lead to confusion regarding the audience for the NAO's audit work. It was agreed that the Transparency Report would be updated prior to publication to reflect the outcome of this discussion and the other drafting suggestions provided, and that the Leadership Team would consider the broader issue of the use of the term 'client' in NAO publications.
- 6.3 The Board approved the report for publication, subject to drafting changes provided.

Action: Ed Humpherson to ensure that the drafting comments of the Board were incorporated into the version approved for publication (BM/6.2a/9.11/EH)

Action: The Leadership Team to consider further the use of the term client in describing our relationship with audited bodies. (BM/6.2b/9.11/RB)

Item 7

The Audit Inspection Unit Report

7.1 AB presented this item, noting that the report, the second that the AIU have provided on the NAO's financial audit work, did not reveal any areas of concern or issues of which the NAO was unaware, and that it provided additional impetus to work already in hand to further improve the financial audit approach; he invited the Board's comments on the report and action plan. The Board discussed a number of elements of the report, including the extent to which the AIU recognises the features of the NAO's work which are unique to public audit, and varies its approach accordingly; this was particularly relevant to the way in which the ethical standards and understanding of non-audit services mapped onto the NAO's own processes.

7.2 It was agreed that it was important to engage with the AIU further on these issues to established an agreed understanding of the nature of public audit, and how it differs from the work of the Firms, informing future engagement with the AIU by the NAO, and any wider role in the local audit landscape that the AIU may take on following the closure of the Audit Commission.

Action: Executive members of the Board to consider how best to address these points as part of engagement with the AIU and preparation for the 2012 exercise. (BM/7.2/9.11/LT)

Item 8

Any Other Business

9.1 The Board noted the draft minutes of the Audit Committee meeting held in July which were presented for information, and Mary Keegan provided an overview of the actions arising from the Committee's considerations.

9.2 The C&AG raised one other item of business, briefly discussing the implications for the NAO's future resourcing requirements, and the current strategy of cost reduction, of the external pressures and potential for additional responsibilities for the Office. It

was agreed that this is something that should be addressed in the Strategy, which would be considered by the Board in October.

Ruth Brutnall September 2011

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Chairman