

The Board
27 September 2012

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 (apologies)
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
Andrew Baigent	AB	Director General, Financial Audit (Item 7)
Jeremy Lonsdale	JL	Director General, Value for Money Audit (Item 7)
Jim Rickleton	JR	Director General, Finance and Commerce (Item 5)

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

Item 1

Welcome & Apologies for absence

- 1.1 The Chairman noted that apologies had been received from Gillian Guy. To ensure that the meeting remained quorate, with a majority of non-executive members present, he invited Gabrielle Cohen to attend in an observer capacity.

Item 2

Declarations of interest

- 2.1 There were none.

Item 3

Good Governance: Minutes, Matters Arising and the C&AG's report

Minutes of meetings and action points

- 3.1 The minutes of the meeting held on 17 July 2012 were presented for approval. The minutes 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. MK commented that she would like a further discussion on the issue of the NAO's management accounts, and that non-executive members would welcome more information on the NAO's management costs. It was agreed that the NAO's executive management would develop a proposed format and reporting pattern, and provide this to the Board for consideration and agreement.

Action: The NAO's executive management to develop a proposed format and reporting cycle for the Board to consider the NAO's management accounts.

Matters arising

- 3.3 The Board Secretary reported that the external review of the NAO Board was proceeding to the agreed timescales, and that the report would be presented to the Board for consideration at its meeting in October. The Chairman reported that an emerging finding of the review was that the Board's engagement with Parliament should be more systematic, and that this was something he would consider.

C&AG's update

- 3.4 The C&AG presented his written report and provided an oral update noting his recent meeting with the newly appointed 2nd PUS at the Ministry of Defence. He also provided updates on the 2012 NAO Staff Survey, noting that the results showed some encouraging improvements, and that the Board would consider the findings of the survey, and the proposed action plan to address the issues raised, in detail later in the year.
- 3.6 The Board also discussed the forthcoming Senior Management Conference, which would be held in October and which was an important event in ensuring that the NAO's directors felt engaged with the strategy and thinking of the Leadership Team, and empowered to take ownership of specific issues.

Item 4

Audit Committee Update

- 4.1 MK provided a brief update on the discussions of the Audit Committee which had met in the morning. She commented that the Committee had welcomed the newly appointed Director of Internal Audit and Assurance, approving the 2012-13 Internal Audit work programme, and had also considered the short list of topics for consideration by the external auditor's annual value for money assessment of the NAO. MK thanked the NAO's executive management for their work to develop the short list and reported that two topics have been selected for further consideration, Knowledge Management and Management Information; the external auditor had been asked to develop detailed terms of reference for both topics, and the Board would be asked to agree the final subject in October for recommendation to TPAC.

Item 5

Good Governance: Business Report & Risk Report

Business Management Report

- 5.1 JR presented the Business Report. MW provided an overview of the actions that had been taken as part of the mid-year review of income and expenditure, including measures to increase the NAO's income from the subletting of its building in London and a review of the forecast budgets for the remainder of the financial year. As a result of these actions it was forecast that the NAO would meet its budget for 2012-13, but with a very small contingency. Further information on these actions was provided in a brief paper, which MW would provide to Board members after the meeting.
- 5.2 The Board noted the update, and discussed a number of elements of the business report including the need to consider whether it would be appropriate to introduce performance measures for those staff members who 'over budget' to ensure that budget forecasts remain accurate.
- 5.3 The Board also discussed concerns regarding underutilisation of some staff groups and the extent to which the NAO could use its own staff rather than its strategic partners for specific pieces of work, to address issues of budgeting and also the concern that some staff remained unallocated. MW reported that this had been done, but that there were limits on the extent to which all NAO staff could undertake pieces of work where specific specialisms were required. This was something which the NAO's senior management would continue to monitor as part of the work on the NAO's strategic workforce plan.

Action: MW to circulate the paper providing further information on the actions identified as part of the mid-year review of income and expenditure.

Risk Report

- 5.4 The Board received the risk report. There were no questions or comments.

Item 6

Good Governance: Risk Management - Safeguarding the NAO's Ethics and Independence

- 6.1 EH introduced a paper on the NAO's approach to the Ethical Standards in its audit work which provided background information on the standards and the specific issues of relevance to the NAO as a Supreme Audit Institution. He commented that many of the Board's discussions have an ethical dimension, and that the purpose of the paper was to seek the Board's views on the way in which the NAO manages and applies considerations of professional ethics in its work.
- 6.2 The Board welcomed the opportunity to consider this issue, and discussed a number of elements of the paper, including:
- The context in which the NAO had chosen to adopt the Ethical Standards, which were designed with the commercial audit firms in mind. The Board discussed the elements of the NAO's role in public audit which meant and how this informed the NAO's approach to ethics and independence.
 - The differing expectations of the NAO's primary stakeholders in Parliament about the role of the NAO in both holding government departments to account, and in supporting them to improve; it was noted that this led to a different risk consideration than might apply to a commercial firm.
 - Noting the difference between the NAO and a commercial audit firm, where the latter had a financial incentive in engaging more widely with organisations. The NAO does not receive additional income from its engagement with audited bodies outside of audit work, and did so to meet its other statutory obligations.
 - The value that secondments provided in terms of staff development and building capability within government bodies, the need to balance these benefits against the risk, whether perceived or actual, to the NAO's independence.
 - The importance of senior management exercising sound judgement in considering other aspects of the standards, and in particular the issues presented when NAO staff are seconded to bodies for which the NAO is the statutory auditor.
 - The safeguards which the NAO had put in place around staff secondments, discussing the importance of ensuring that staff seconded to departments were not involved in the preparation of, or exercising management judgements on, the financial statements or directly involved in the accountability of departments to Parliament. The Board asked

the NAO's executive management to give consideration to the safeguards in the case of senior secondments, and to identify any additional ways in which they could be further strengthened.

- The proposal that the FRC consider a public audit interpretation of the standards, which would address those issues highlighted in the paper, and the NAO's engagement with both FRC and other public audit bodies in the UK on this matter.

6.3 The Board agreed that the discussion had been valuable, and that this would be an issue which the Board would keep in view during the coming year. The executive management agreed to provide an update on any further safeguards put in place following this discussion.

Item 7

Support and Advice: Delivering the NAO Strategy: Quality

Annual Quality Reports

- 7.1 The Directors General for Financial Audit and Value for Money Audit presented their annual reports on the quality of the NAO's work for the Board's consideration. The Board welcomed the reports, commenting that they provided a clear assessment of the internal and external quality review processes, and provided the Board with assurance regarding the controls in place. The C&AG commented that there had been a significant improvement in the quality of the NAO's work in recent years, and that this was not necessarily conveyed by the reports, which provided a review of the actions and issues addressed in the previous year.
- 7.2 The Board discussed a number of elements of the reports included the extent to which the NAO had sufficient resources to ensure it remained up to date with developments in thinking about technical audit issues, the role of external review of the NAO's value for money audit work in directing attention on those areas where quality could be improved; the wider aspects of audit quality beyond technical compliance; and the challenges in maintaining quality while reducing the cost of our audit work, and the steps taken to address these.
- 7.3 The Board also discussed the NAO's aspirations in respect of the quality of its work, to move beyond process and compliance to a wider understanding of how the quality of our work should be informed by its strategic alignment and the extent to which it contributes to our aim to improvements, and how this aspiration fitted in with the wider cultural aspirations of the NAO's senior management.

- 7.4 The Board noted the findings of the Audit Inspection Units recent review of the NAO, and congratulated the NAO's executive management on the progress made.

Transparency Report

- 7.5 EH presented the draft 2012 Transparency Report. He noted that in previous years the NAO had developed its Transparency Report as an exercise in compliance, but that this year the aim was to move towards a more open articulation of the NAO's understanding of wider aspects of quality: technical, cultural and strategic; the report represented a step towards this.
- 7.6 The Board discussed a number of elements of the report including whether the report could provide greater consideration of the NAO's role as a Supreme Audit Institution, and the extent to which this brought additional responsibilities in terms of accountability than were implied by conventional approaches to financial audit; the wider role of the NAO to act in the public interest, which included investigation of concerns raised by members of the public and to advocate improvements in the bodies it audits; the need to consider the developments in the wider audit market, particularly the EU considerations regarding competition, and the potential for the Transparency Report to include information on this.
- 7.7 The Board also discussed the extent to which, subject to some re-drafting, the report could be used to communicate more widely the NAO's role as a Supreme Audit Institution and the value of public audit.

Action: EH to reflect the Board's comments in a further draft of the report, to be provided to the Board for consideration before publication.

Item 8

Good Governance: Board Objectives

- 8.1 The Chairman introduced a short paper providing an assessment of the NAO Board's performance against its objectives for 2012, and invited Board members to provide any comments they may have to the Board Secretary, who would reflect these views in a draft of the objectives for 2013, to be discussed in October.

Item 9

Any other business

- 9.1 There was none.

Ruth Brutnall

September 2012