

The Board
22 September 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 (Observer)
Sally Howes	SHo	Executive Leader (Observer)
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)
Joanne Shaw	JS	Non-executive Member

Attendees

Ruth Brutnall	RB	Head of Governance
John Thorpe	JT	Executive Leader
Adrian Jenner	AJ	Director, Parliamentary Relations (Item 1)
Gurdip Juty	GJ	Financial Controller (Item 3)
Nick Lacy	NL	Head of Legal and Policy (Item 6)
John McCann	JMcC	Director, HR (Item 2)
Susan Ronaldson	SR	Director, Engagement and Change (Item 2)
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 apologies had been received from Naaz Coker and Joanne Shaw. To ensure the meeting remained quorate he invited Sally Howes and Sue Higgins to attend as observers.

Declarations of interest

- 1.2 There were none.

Minutes of meetings and action points

- 1.3 The Board approved minutes of the meeting held on 11 June 2015, and agreed their publication on the NAO website.
- 1.4 The Chair provided an update to the meeting of progress on the recruitment of an independent external member of the Audit Committee.
- 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 also agreed that the actions relating to the NAO's strategy for its work with local bodies and the measures of the impact of its work had been addressed satisfactorily and could also be deleted.

Matters arising

- 1.6 The Board received three notes in response to matters arising from the June meeting:
 - a. **People indicators:** the Board noted the range of measures applied to the NAO's management, development and deployment of its people and encouraged the organisation to maintain a balanced portfolio of measures, reflecting best practice from comparable bodies in both the public and private sectors.
 - b. **Environmental targets:** the Board agreed the proposal to change the target for waste to a per FTE measure, to ensure that the impact of the increased density of the building use was accurately reflected in both the baseline and performance data. JT reported that a series of actions had been identified to engage NAO people and encourage

behaviour change to reduce the level of waste arising from NAO operations and further increase recycling rates.

- c. **Financial impacts:** members welcomed the note, though commented that the existing target seemed conservative. AM commented that the issue was in identifying the specific contribution of the NAO's work to improvements in public services. Members discussed whether the target and the NAO's achievements against it could be presented differently, to capture the full extent of the Office's impact and the wider contribution to efficiencies and improvements.

C&AG's update

- 1.7 The C&AG presented his written report, and discussed with the Board a number of issues, including government's proposals regarding the potential for the NAO to have VfM audit access to the Bank of England, the NAO's engagement with the new Chair of the Committee of Public Accounts and the development of the Office's thinking regarding the potential impact of further devolution on its ability to provide Parliament with the assurance it required.

Parliamentary Report

- 1.8 AJ presented an update of the NAO's work with Parliament and the first hearings held by the new Committee of Public Accounts and the changes in membership following the appointment of the shadow cabinet.

Item 2

NAO People Strategy

- 2.1 JMcC and SR presented a paper setting out a proposed approach to 'the NAO Experience', an important element of the overall People Strategy which was currently under development. He noted that the paper built on the points raised during the Board's previous discussions of people issues, and invited members' comments.
- 2.2 RSy commented that he had previously met with SR to discuss an earlier draft, and noted that the paper had addressed many of his comments. He commented that it would be important to place this ambition within the context of the wider changes the office sought, and to be explicit regarding the changes in behaviour expected. Members also commented that it would be useful to rationalise the number of statements about

the NAO and its people: currently the NAO had values, ways of working and 'the offer' and it would be important to bring all of these together into a coherent whole.

- 2.3 The Board also discussed a number of specific elements which members considered should be more clearly reflected in the strategy, including the role of the NAO in supporting improvement in public services and the opportunities presented to those who worked there, and the degree of professional challenge which the work offered. JMcC and SR welcomed the views of the board, and agreed that these would be reflected in the NAO's People Strategy as well as the NAO strategy.

Item 3

Three Year Finance Plan

- 3.1 GJ and TV presented this item which set out proposals for the NAO's financial resources plan for the coming three financial years and which would inform the development of the wider NAO strategy to be presented to the Public Accounts Commission in November. GJ commented that the aim of the plan had been to present reasonable and challenging efficiencies in the NAO's operational expenditure, which would allow the organisation to maintain the focus of resources on its front line audit work in support of Parliament.
- 3.2 The Board welcomed the paper, and discussed a number of aspects of the paper, including the potential to make further efficiencies in the NAO's operations; MW observed that this would be possible to an extent from front line activities, but would require teams to adopt new ways of working. AM emphasised that it was important to recognise that there was a certain threshold below which it would not be possible to go, in order to maintain the quality and rigour of the NAO's statutory financial audit work.
- 3.3 MW observed that it may be possible to identify further savings from the NAO's back-office functions, and to generate additional income from sub-letting more space in the NAO's London office, and that both the BIP programme and current review of corporate services would support this. Members discussed the potential areas where savings may be made, including whether some corporate services activities could be undertaken outside of London. They also considered whether further efficiencies could be made from the NAO's training and development activities, though reflected that it was important that the NAO invest in the skills of its people and maintain its status as a training organisation.

- 3.4 The Board considered the argument for modelling and presenting the impact of further savings, but executive members expressed caution that this could present difficulties when presenting the plan to external stakeholders. Members agreed this, but felt that there was further work required to demonstrate more clearly the reasons for the approach proposed.
- 3.5 The Board also discussed the impact on the NAO's income of the loss of the UN work and how this had been reflected in the forecasts and the extent to which the NAO already outsourced aspects of its work, and whether this could offer further efficiencies. The C&AG commented that in many cases it remained more cost effective to undertake work in-house. Members requested further details of the factors which informed decisions to outsource work.

Action: To provide the Board with details of the NAO's approach to outsourcing.

Item 4

Business Improvement Programme (BIP) Business Case

- 4.1 TW introduced this item. He informed the Board that the Programme had not yet completed the 'discovery' phase, which had initially been planned to be completed by September, and as such the business case presented would require further refinement. He explained that the delay was caused in part by limitation on the staff available to support the programme during the peak audit period and summer. Prior to the full business case being available for approval further work would be required to define the requirement and appropriate procurement route for any software and to identify and quantify the anticipated benefits. He sought the Board's approval to extend the discovery phase, to end by October, and to provide a revised, full, business case at this stage.
- 4.2 The Board agreed, that as the programme had been delayed it could not approve the business case as presented and that instead it would consider this once the work planned under 'discovery' was complete. Members commented that given the work which remained to be completed, rather than consider this business case in October, it may be more realistic that this be presented to the Board when it met in November.
- 4.3 Members discussed the need to ensure that the programme maintained momentum and did not miss any further key milestones; the Chair commented that the user labs and

staff engagement had been valuable, but that it had also raised expectations and as such it would be important that the programme met these to ensure it retained its credibility. They also discussed why the costs of the programme to date (including the strategic thinking and discovery stages) were not included in the costs presented in the business case and requested that the final business case include the full costs in both the budget information and return on investment calculations.

- 4.4 The C&AG sought assurance regarding the potential impact of the delay in the discovery phase on the overall timetable. TW noted that at present the overall timescales were not compromised. Assuming discovery work could be completed by the end of October, as was now planned, it would still be possible to undertake any necessary procurement under the 'alpha' phase, with the programme moving into 'beta' by April 2016 as originally planned. SHo added that there would be a natural order to the deployment, to allow existing systems to be integrated into the new solution in a logical manner aligned with the Office's business cycle.
- 4.5 The Board also discussed the potential to make improvements to existing processes and systems in advance of the implementation of any changes under the BIP. MW commented that this would be possible and that JT and SS as practice leads for the NAO's audit work were considering ways in which the planning process could be streamlined and improved; JT agreed that there were early actions which could be taken to improve this and the resource allocation system.
- 4.6 The C&AG welcomed the Board's challenge and consideration of this subject, noting that it had been helpful; he suggested that he would also request that the Director of Internal Audit and Assurance maintain his work to review the controls framework around the programme. The Board concluded that the business case would be next considered in November, but asked for a short update note at its meeting in October which set out in clear terms the aim of the programme, the changes sought, and a cost estimate.

Action: To ensure the Board receives all reports of the Director of Internal Audit and Assurance on the programme. (RB)

Action: To provide the Board with a paper at its October meeting providing an overview of the programme and status update. (TW)

Item 5

NAO Strategy

- 5.1 The Board received a brief paper setting out the approach to the development of the NAO Strategy for the period of the current Parliament and the timescales, including the points at which members would be provided with drafts for comment and review. The Board noted the paper and agreed the approach.

Item 6

Business and Risk Reporting

- 6.1 NL presented the Business Report to the Board highlighting two aspects: the forecast financial position to year end, which showed a slight underspend, and the continuing issues with performance against the correspondence target. The Board expressed disappointment that this issue had still not been addressed, commenting that members had a clear expectation that performance should have improved, the NAO must practise what it preached. AM accepted the Board's challenge, and agreed that the executive would act on the comments, and address the issue, noting that there were currently too many points of failure in the existing system, and that action would be required to address these.
- 6.2 The Board received the risk report, noting the red ratings applied to the risks associated with further devolution and the BIP programme, both of which had been discussed under other agenda items.

Item 7

External Audit: Value for Money Report on HR Processes

- 7.1 The Board received a report from the NAO's external auditor, examining the value for money of the NAO's HR processes. MW commented that he found the report balanced and helpful and that the recommendations made, which supported the case for the changes sought under the BIP, had all been accepted by the NAO's executive management. The Board discussed two aspects: firstly the overall cost of the NAO's HR function, including staff time and training, and whether it would be possible to identify any efficiencies. MW commented that under the transformation programme

undertaken in 2013, the NAO had sought a change in management culture with directors taking increased ownership of people issues, which had required an investment of time and resource, but that he was confident that the overall cost of the NAO's HR activities could be reduced as these changes, and those additional changes sought under BIP, became embedded.

7.2 The second aspect discussed were the concerns regarding the performance management and appraisal processes and the steps being taken to address them. RSy commented that this second issue was one which the Remuneration and Nominations Committee had discussed at its meeting earlier that day, and the Board expressed a strong interest in the current review, requesting that the Board have chance to consider this before it was finalised.

Action: To ensure the Board considered the proposals regarding the proposed changes to the performance management and appraisal process. (RB/SHi)

Item 8

Any Other Business

8.1 The Board received two papers:

- a paper setting out the proposed timetable for its visit to Newcastle, which would take place on 22 October;
- a paper providing the board with an update on a settlement reached in an employment dispute with a former employee.

Ruth Brutnall

October 2015