

NAO BOARD MINUTES

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

Board meeting 1 – Financial year 2017-18

Room:	Blue Mezzanine 1
Location:	National Audit Office 157-197 Buckingham Palace Road, London SW1W 9SP
Date:	15 June 2017
Time:	14:00 – 16:30

Present		
Michael Bichard	MB	NAO Chair
Amyas Morse	C&AG	Comptroller and Auditor General (C&AG)
Rob Sykes	RSy	Non-Executive Member
Ray Shostak	RSho	Non-Executive Member
Janet Eilbeck	JE	Non-Executive Member
Daniel Lambauer	DL	Executive Member (Observer)
Rebecca Sheeran	RShe	Executive Member
John Thorpe	JT	Executive Member
Kate Mathers	KM	Executive Leader
Stephen Smith	SS	Executive Leader
Max Tse	MT	Executive Leader
Chloe Forbes	CF	Head of Strategy and Corporate Affairs
Adrian Jenner	AJ	Director, Parliamentary Relations
Mark Allen	MA	Head of Legal and Policy
Tim Valentine	TV	Financial Controller
Peter Gray	PG	Director, VFM Department for exiting the EU
Hafsa Khan	HK	Secretary to the Board
Apologies		
Abdool Kara	AK	Executive Leader

Transactional Business:

Welcome & apologies for absence

1 The Chair, Michael Bichard (MB), welcomed members to the Board meeting of 15 June 2017. For this meeting, Daniel Lambauer stepped down as an executive member to observe the meeting so that the Board remained quorate.

Declarations of Interest

2 There were no declarations of interest.

Action Points

3 There were no action points to discuss from the board meeting in June.

Matters Arising

4 The Comptroller and Audit General (C&AG) confirmed that the executive member accountable as the Finance Director on the Board would be John Thorpe (JT). In future, JT will attend the NAO Audit Committee meetings.

5 Ray Shostak (RSho) informed members of the Board that both he and Rob Sykes (RSy) were sent the Executive Leaders goals in the afternoon for approval from the Remuneration and Nomination Committee (RemCo). Once RemCo approves the Executive Leader goals, the Board Secretary agreed to circulate for publication on the staff intranet. RSho discussed how he would like a lessons learned exercise going forwards.

Minutes of the meeting of 20 April 2017

6 The minutes of the meeting held on 20 April 2017 were approved by the Board for publication on the NAO website.

Update from the Comptroller and Auditor General

7 The C&AG provided the Board with his routine update at the Board meeting. He noted that he has continued his programme of annual review and emerging findings meetings with Permanent Secretaries. The C&AG mentioned that the purdah period gave the Leadership Team an opportunity to discuss its strategy to a range of matters, including Exiting the EU, the current programme of work, and the approach to audit quality. He told the Board how he held a Leadership Team away day to discuss and agree how the team can work successfully with the office.

Update on latest developments with PAC and Parliament

8 Adrian Jenner (AJ) provided the Board with an update from the latest developments in Parliament. In light of the results of the recent General Election, the Queen's speech was due to take place on 21 June and AJ explained to the Board how this will effect the NAO's future work. The Summer Recess would begin in late July, and how this would effect the NAO's work programme. AJ informed the Board that this team was working the NAO departmental teams on their short guides.

Good Governance:

Item 2 - Update from the Audit Committee

9 Janet Eilbeck (JE) updated the Board on the decisions taken at the Audit Committee meeting held in May. JE complimented the Finance Team on the work they had achieved on the accounts section of the

NAO annual's report and accounts. The Committee received the external auditor's progress report on the external review on NAO's enabled change programme.

10 The Board noted the annual report of the Audit Committee during 2016-17, and the annual Internal Audit and Assurance Report 2016-17.

Item 3 – Annual Report and Accounts 2016-17

11 The Annual Report and Accounts 2016-17 were approved by the Board. The Chair thanked the staff involved in producing the report, and JE thanked the team for incorporating the advice received at the Audit Committee meeting.

Item 4 – Governance Annual Reports

12 The Board discussed the Diversity and Inclusion 2016-17 report for approval. The report was well received by the Board, and they noted the good progress on diversity within the Office, particularly on the importance of Mental Health support to staff. The Board were interested in viewing the diversity figures by cluster to assess the cluster performance and to see how different parts of the Office vary in performance. The C&AG assured the Board that he will continue to chair the Diversity Delivery Board. The Board approved the Diversity and Inclusion 2016-17 report.

13 The Board noted and received the Health & Safety 2016-17 report, noting that the NAO reported that it had maintained a safe working environment for its people, tenants and visitors, and that there had been no major incident during 2016-17 which required the Board's further attention. The C&AG mentioned how he would have a meeting with the Leadership Team to discuss the business continuity programme; and the risks involved if the Office was to shut down from a security alert.

Item 5 – Business Reports and Risk Register

14 Tim Valentine (TV) and Mark Allen (MA) introduced the Business Reports for May 2017. TV highlighted the budget pressure on the staffing rate and informed the Board of the Voluntary Exit Scheme that will be proposed to staff. He mentioned how the secondment opportunities within the Office helped to manage the staffing budget. TV assured the Board that the NAO would return to a position whereby it has resilience within its budget. It was also mentioned at the Board that the forward allocation rates are below target across all clusters for the next three months. Clusters have been asked to review the position on forward allocations and ensure productive work is available for those becoming free from final audit in July. The People Directors will report back to the Operational and Capability Committee in late June.

15 There were no other issues raised on the rest of the business report, and the Board were pleased that performance on Correspondence had reached a 100% response rate. MA told the Board that the team will remain vigilant and manage correspondence effectively to keep up this level of performance.

16 MA presented the Board with a revised format of the risk register following on from discussions at the Board meeting in March where they requested enhancements to the format of the strategic risk register. The Board asked that the Audit Committee consider and approve proposed changes ahead of the revised register being used to support Board and Leadership Team meetings from June 2017 onwards. The following changes were made to the re-formatted risk register:

- i. introduced 'primary risk owner' comments – to provide senior level 'sign-off' on risk assessments and highlight future actions;
- ii. given each risk a unique reference to facilitate cross referral/integration between the risk

register and Board/LT papers and activities;

- iii. introduced additional risks to reflect Board member comments and ensure alignment with other information sources e.g. Dashboard reports;
- iv. included 'indicators' where appropriate to support risk owner commentaries;
- v. added 'target risk positions' to provide a clear steer regarding our ambition for specific risks;
- vi. added brief comments to explain mitigated risk scores;
- vii. moved away from lengthy narratives to use shorter, focussed bullet points.

17 The Board approved the re-formatted risk register, and noted a more consistent approach throughout the register. MA will continue to manage the risks.

Operational Insight:

Item 6 – Board Strategy Day meeting note

18 The Board discussed their reflections from the Strategy day which was held in May. The Board wanted the strategy on value management to be given priority, and encouraged the Strategy team to remind clusters to keep an eye on this. The Chair wanted the actions recorded from the Day to be clearly presented and for these to be followed up at the next meeting.

Item 7 – Board way of working

19 The Board reviewed its way of working, following on from discussions concluded with Caroline Waters. The Board agreed that it would reduce its number of meetings to six, and have one strategy day. The Board will review this in six months, where they will confirm if this the way going forwards for future years. Subject to this approval, the Board agreed that it will update its terms of references if these changes are to be implemented.

Strategic Business:

Item 8 – Exiting the European Union

20 The Board discussed the challenges faced by the public sector following the UK's decision to exit the European Union, and what this might mean for the work of the National Audit Office (NAO). Peter Gray (PG), Director of Exiting the European Union presented this discussion. A number of points were discussed:

- i. PG set out some of the key challenges for the public sector: negotiating the UK's exit from the EU including any financial settlement and our future trade relationship with Europe; the assumption of EU competencies by UK institutions; the replacement of EU-funded programmes with new UK programmes after Brexit; and preparing to negotiate trade agreements with countries outside the EU.
- ii. Public bodies faced three big challenges: scale, uncertainty and the short timescale. The longer it took for the likely end-state to become clear the shorter the time available for public bodies (and businesses) to respond.
- iii. These challenges were arising at a time when the NAO had already highlighted the difficulty public bodies were having in matching their priorities to the skills and capacity available to them. A successful delivery of Exit would require ruthless prioritisation.

- iv. The Board discussed the NAO's role in Brexit. Parliament faced with a heavy and important legislative task in the period before Brexit and its attention would also be drawn to whatever was happening to the negotiations with the EU. The NAO had an important role to play in helping Parliament focus sufficient attention on the plethora of programmes and projects that need to be delivered.
- v. Exiting the EU would have an impact on the NAO's financial audit and VFM work. The NAO was already encountering Brexit issues in its value for money work and anticipated extra demands on its financial audit teams once the UK leaves in 2019. To manage the impact on the NAO, the C&AG had created a 'Brexit team' to take forward work on Brexit, ensure our teams take a consistent approach to Brexit-related issues and ensure work across the Office is properly coordinated.
- vi. The Board discussed the challenge of undertaking work in a fast-moving environment and where there were inevitable sensitivities in reporting at a time when the UK was still in negotiations. The NAO's primary responsibility was to Parliament but the Leadership Team was acutely aware that the NAO needed to be mindful of risk. The NAO response would need to be flexible, quick and timely.
- vii. The Board considered the potential implications of any financial settlement with the EU for the NAO's audit approach. It was still very unclear what such a financial settlement might look like. Based on published information the European Commission seemed to be pressing for some form of formula-based agreement which would be used to derive a financial figure when the UK left. The NAO would need to be in a position to advise the UK Parliament on the adequacy of any assurance arrangement put in place by the UK government. It was still too early to assess the resource implications for the Office but the Leadership Team would report back to the Board as soon as this became clearer.

Date and time of next meeting:

Thursday 20 July 2017 at the London Office.