



National Audit Office

NAO Board Minutes

Meeting held on 24 October 2019 from 13:30 to 15:30

4th floor St Nicholas Building, Nicholas Street, Newcastle NE1 1RF

| Present | | |
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| Michael Bichard | MB | Chair |
| Gareth Davies | C&AG | Comptroller and Auditor General (C&AG) |
| Janet Eilbeck | JE | Non-Executive Member |
| Rob Sykes | RSy | Non-Executive Member |
| Dame Clare Tickell | CT | Non-Executive Member |
| Ray Shostak | RShk | Non-Executive Member |
| Daniel Lambauer | DL | Executive Member, Strategy and Operations |
| Stephen Smith | SS | Executive Member, Financial Audit |
| Max Tse | MT | Executive Member, VFM and Digital |
| Attendees | | |
| Abdool Kara | AK | Executive Leader, Local public services |
| Kate Mathers | KM | Executive Leader, Financial Audit |
| David Aldous | DA | Director, FAPQ (via VC) |
| George Crockford | GC | Head of Reporting (via VC) |
| Chloe Forbes | CF | Head of Strategy and Corporate Affairs |
| Adrian Jenner | AJ | Director Parliamentary Relations (via VC) |
| John McCann | JMcC | Director HR |
| Jonny Mood | JM | Director Strategy and Performance |
| Tim Valentine | TV | Director Finance |
| Helene Morpeth | HM | Board Secretary and interim Head of Governance |

Transactional Business

Welcome and Apologies for absence

- 1.1 Michael Bichard (Chair) welcomed members and attendees to the annual meeting in Newcastle. He thanked Newcastle staff for their warm welcome and commented on the constructive lunchtime engagement on the strategy review. There were no apologies for absence.
- 1.2 The Chair suggested that future Board meetings should be extended by 30 minutes and invited the non-executives to keep the lunchtime slot preceding a Board meeting free to enable them to engage with NAO people on topics of interest and relevance. The non-executives agreed this was a good idea that should be phased-in to allow for necessary adjustment of diaries.

Action: Helene Morpeth (HM) to arrange NED informal briefings, over lunch, ahead of each Board meeting.

Declaration of Interests

- 1.3 There were no additions or changes to declarations of interest.

Minutes of the last meeting

- 1.4 The Board approved the minutes of the meeting held on 2 July 2019 including their publication on the NAO's external website.

Action Log

- 1.5 The Board noted the log contained 4 open actions all of which were in hand.

C&AG update

- 1.6 The C&AG provided his update on key events since the last Board in July covering, amongst other things, the five external workshops held with senior leaders across the civil service, local government, audit and consulting firms as part of the strategic review. He commented how helpful it had been to draw on the insight of such a diverse and experienced group of individuals. He also reported on the latest developments on the Kingman review; his meeting in September with the Civil Service Board and his engagement with the Committee of Public Accounts (PAC). He referred to the NAO's programme of work and recent reports published.

Parliamentary and Committee of Public Accounts (PAC) update

- 1.7 Adrian Jenner (AJ) reported on the latest developments in Parliament and PAC including the Speaker elections on 4 November and the prospective dates for the next elections. He reported that five departmental overviews had been published to date with the remainder on track for publication by end of December.

Strategic insight

Note of the Board strategy day and progress on the strategic review

- 2.1 The Board received the note of the strategy day held on 16 September.
- 2.2 Jonny Mood (JM) provided an update on progress on the strategic review. He reported that phase 1 of the review (listening phase) was coming to an end and engagement so far, both internally and externally, had been excellent with 300 responses received from the general public on the external consultation. To date he had spoken to approximately 500 people at different cluster events and commented on the quality of the conversations he had held. He added that feed-back from the senior management conference had been very positive. Furthermore external stakeholders (departments, MPs, senior civil servants, professional firms, thought leaders and local services leaders) have told us they are positive about NAO's work; and believe the NAO can play a positive role in helping them address the challenges they face over the coming years. External stakeholders are interested in drawing on best practice derived from the

accumulated body of NAO's work, but also drawing on what is happening internationally. He reported the next major staff engagement would be the whole of office event on 26 November where the conversation would focus on people, culture, and knowledge.

- 2.3 The Board welcomed the positive engagement achieved so far and commented that their engagement with Newcastle staff over lunch was a good reflection of the quality of conversations being held throughout the organisation.

TPAC strategy document

- 3.1 Chloe Forbes (CF) presented the annual NAO strategy document which is subject to approval by the Board ahead of its submission to the Public Accounts Commission in time for the annual strategy hearing in Parliament. She explained that the strategy document was a bridging document which references the on-going strategic review the conclusion of which, in spring 2020, is likely to signal a change in the NAO's strategic approach.
- 3.2 The Board agreed the document could be shortened. It was agreed CF would action this and share the document with the Board, via email, for any additional comments they may have.

Action: CF to circulate a shorter version of the strategy document for any further comments the Board may have.

Redmond Review

- 4.1 David Aldous (DA) presented a summary of the scope and objectives of the review of local government financial reporting and audit arrangements which the government has commissioned from Sir Tony Redmond. The review includes an examination of the purpose, scope and quality of statutory audits of local authorities in England, and the supporting regulatory framework. He reported that that initial recommendations are expected in December 2019 with a final report to be laid in Parliament in early 2020.
- 4.2 DA invited the Board's observations and comments on the issues that it would be helpful to consider as the NAO develops its response to the detailed consultation questions (43 in total) noting the issues relevant to the review could be grouped into two overarching themes: 'local authorities' governance and reporting' and 'local audit framework'. He added that the NAO is working proactively to ensure that the review and NAO's work on a new Code of Audit Practice (subject to discussion later in the meeting) kept in step with each other.
- 4.3 The Board discussed issues potentially impacting on the functions of the C&AG and the work of the NAO, for example the review will need to consider whether one, possibly new, organisation will be responsible for most or even all elements of the regulatory framework. A further option would be to consider bringing together some elements of the local audit framework but without vesting all these in one public body. In this latter scenario it is conceivable that the NAO could be invited to take on some further elements of the local audit framework.
- 4.4 The Board held a wide ranging discussion covering the risks to consistency and quality of local audit reporting including timeliness, transparency, and public accountability arising from the fragmentation of the local audit market. The Board agreed that whatever structure is recommended by the review, it should pass the key test of supporting and contributing to the health and robustness of the local audit regime.

Operational insight

Code of Audit Practice

- 5.1 David Aldous (DA) provided an update on progress in developing and consulting on a new Code of Audit Practice (the Code). He cross referenced to issues being considered in the wider audit landscape such as the Redmond review. He added that the consultation closes on 22 November and the NAO aims to finalise the text of the new Code by the end of the year. Subject to

completion of the Parliamentary process the Code will come into force on 1 April 2020 and will apply to audits from 2020-21.

- 5.2 DA covered the main changes to the Code as follows: maintenance of a single principles-based Code but NAO has strengthened references to public accountability and proportionality; maintenance of the requirement to comply with international auditing standards but introduction of the option to specify more detailed reporting of financial audit findings at some, or all public bodies in future; replacement of the requirement for auditors to issue a conclusion on proper arrangements with a commentary focussing on three criteria: financial sustainability, governance and improving economy.
- 5.3 The Board welcomed the proposed changes to the Code commenting they would contribute to making local audit reporting more impactful. The Board added the proposed changes also reflected the common themes reported in the NAO's study on Local Auditor Reporting in England published in January 2019.

Good governance

External audit of the NAO

- 6.1 The Board received the external auditor's 2019 report on NAO's impact reporting. The Board commented the report provided good comparative data from other Supreme Audit Institutions including an interesting perspective from the US Government Accountability Office in relation to their approach to clearance of financial impacts. The Board welcomed the report's recommendation that NAO should broaden its measure of impact and consider introducing a balanced scorecard approach as part of the implementation of the strategic review.
- 6.2 The Board approved the submission of the external auditor's report to the Public Accounts Commission and noted management's response to the recommendations for improvement would be circulated in time for the November Board meeting.
- Action: management response to be circulated in time for the November Board.**
- 6.3 Janet Eilbeck (JE) reported that the Audit Committee, at its meeting on 9 October, had agreed the external auditor's proposal to seek agreement of the 2020 topic for review at the Board meeting in March 2020 (rather than January). This would enable better reflection of the emerging findings of the strategic review prior to preparing the shortlist of topics. The slight delay in the timeline would not affect the overall timetable for submission of the review to the Public Accounts Commission.
- 6.4 The Board noted the external auditor's positive validation of the progress on recommendations arising from the 2018 review on NAO's contract management.

Business reports and risk register

- 7.1 The Board considered the business reports and noted the NAO was at risk from not meeting the financial impacts target. The Board discussed the declining financial impacts pipeline and commented on issues around compliance and behaviours. It was agreed the financial impacts target should be added to the risk register.
- 7.2 Helene Morpeth (HM) presented the September risk register and reported the addition of a new risk to cover health and safety. She added that the risk on internal processes had been transferred to the corporate risk register, where it will continue to be monitored, as the current risk is in line with appetite. In addition the Redmond review has been added to the register. The Board agreed with the changes to the register and welcomed the changes to the format including revised narrative to make it more focused.
- 7.3 The C&AG reported that, as part of the strategic review, the office is exploring options for improved reporting to the Board; in addition to simplification of some reporting requirements from clusters which is overly complicated, time consuming and adds little value internally. Against this

context, he proposed that the twice-yearly cluster accountability report should be suspended and replaced by more dynamic reporting in future. The Board agreed the C&AG's proposal.

Update from the Audit Committee

- 8.1 JE provided a verbal update on the key items considered by the Audit Committee at its meeting on 9 October including approval of the audit planning memorandum for 2019-20 and the regular update from the director of internal audit and assurance. She reported there were no internal audit reports presented in October with limited assurance opinions though 3 audits had received limited assurance on the compliance element of the internal audit opinion. JE also reported the Committee had carried out a self-assessment of its performance the findings of which would be reported in the Committee's annual report to the Board.
- 8.2 The Board approved the Committee programme of work in 2019-20.

Update from the Remuneration and Nominations Committee

- 9.1 Clare Tickell (CT) provided a verbal update on items covered by the Remuneration and Nominations Committee earlier in the day covering: reflections from the recent Executive Leader recruitment campaign, findings from the benchmark of Executive Leader remuneration, overview of the remuneration landscape for 2020-21, Board succession planning, including initial discussion on skills, and outcome of the Committee's self-assessment of performance.

Succession planning

- 9.2 The Board received a paper on succession planning in light of the end of terms of the Chair in January 2021 and Rob Sykes and Ray Shostak's respective end of terms at the end of December 2020. The Board noted the Chair campaign would be led by Parliament in line with requirements of the Budget Responsibility and National Act and the campaign for Rob and Ray's replacement would be led by the Chair. The Board noted the timelines for the separate recruitment campaigns including their dependencies. The Board agreed it should hold a discussion on Board skills in January 2020, to inform the upcoming recruitment campaign.

Action: HM to schedule a discussion on Board skills at its meeting in January 2020.

Feed-back

- 10.1 The Chair sought feed-back on the conduct of meeting. The Board agreed all papers had been of high quality supporting an excellent discussion and constructive challenge.

Date of the next meeting

- 11.1 The Board noted 21 November 2019 at BRP.