



NAO Board Minutes

Meeting held on 21 November 2019 from 14:00 to 16:30
157-197 Buckingham Palace Road, London SW1W 9SP

Present		
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		
Elaine Lewis	EL	Executive Leader, Financial Audit
Kate Mathers	KM	Executive Leader, Financial Audit
Rebecca Sheeran	RS	Executive Leader, VFM
Steve Corbishley	SC	Director, CQU (item 3)
Vicky Cox	VC	Head of Facilities (items 5 and 8)
George Crockford	GC	Head of Reporting (via VC)
Chloe Forbes	CF	Head of Strategy and Corporate Affairs
Catherine Hepburn	CH	Director (item 2)
Ruth Kelly	RH	Chief Analyst
John McCann	JMcC	Director HR
Peter Smithson	PS	Director FAPQ (item 2)
Colin Ross	CR	Director VFMPQ (item 3)
Nigel Terrington	NT	Director Strategy and Performance (item 1.8)
Tim Valentine	TV	Director Finance
Angus Waugh	AW	Director Digital (item 2)
Helene Morpeth	HM	Board Secretary and interim Head of Governance

Transactional Business

Welcome and Apologies for absence

- 1.1 Michael Bichard (MB) welcomed members and attendees to the meeting. He extended a special welcome to Elaine Lewis who was attending the Board for the first time in her capacity as recently appointed Executive Leader in succession to John Thorpe following his retirement in October. MB paid tribute to John Thorpe's outstanding service to the NAO, and the Board, during his long and distinguished career.
- 1.2 There were no apologies for absence.
- 1.3 MB reported on the helpful non-executive briefing / 'teach in' on NAO's digital journey held during the lunch time slot immediately preceding the start of the Board meeting.

Declaration of Interests

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

Minutes of the last meeting

- 1.5 The Board approved the minutes of the meeting held on 24 October 2019 including their publication on the NAO's external website.

Matters arising

- 1.6 The Board noted the strategy hearing with the Public Accounts Commission (TPAC) scheduled for 17 December had been cancelled due to the general election. A new hearing date will be confirmed once Parliament has returned with likely timing to be end January 2020. The Board noted the estimate hearing which normally takes place in early March was likely to take place in early May.
- 1.7 The Board noted the management response to the four recommendations for improvement arising from the external review of NAO's impact reporting and its reporting framework. All four recommendations have been approved by management and have an implementation date of September 2020. After this point, the external auditor will be invited to validate progress and provide an update report to the Board.

Action Log

- 1.8 The Board noted the log contained seven actions, five of which had been completed and they were approved for deletion from the log. The two remaining actions were in hand.

C&AG update

- 1.9 The C&AG provided his update on key events since the last Board in October covering, amongst other things, his discussion with the Financial Reporting Council on the consultation on proposed changes to the UK Ethical and Auditing Standards. The C&AG also reported on the successful conclusion of the Young EUROSAI conference which the NAO had hosted earlier in the month for junior delegates from audit institutions across Europe and further afield. He had also had the pleasure of congratulating two NAO trainees for their exceptional exam performance at ACA professional level at the graduation ceremony at Chartered Accountants' Hall at which he had been invited to be a speaker. He also reported on published outputs before the announcement of the general election. He added that since the announcement of the general election, NAO had not published any outputs in line with the convention of not publishing outputs during the pre-election period unless there is a statutory requirement to do so.
- 1.10 The C&A also reported on latest developments on Parliamentary relations covering several events the NAO is hosting with House of Commons and Lords clerks and officials to share experience and learning, for example on NAO's approach to value for money studies and financial audit and how these NAO outputs can be used by MPs in select committees to enhance their scrutiny role.

Update on the Strategic Review

- 1.11 Nigel Terrington (NT) provided an update on the strategic review, including outcome of the consultation phase, reporting the office is now entering the refining stage of the review. The next major event would be the whole of office event on 26 November.
- 1.12 NT reported on the consistency of key themes emerging from the consultation phase namely that NAO should have a more open organizational culture, we should make most of our knowledge and realizing the potential of our people. In terms of strategic purpose there was a broad consensus that accountability and public service improvement were central to NAO's purpose. NAO's current strategic objectives are broadly in the right place but should be better joined up and the strategy should be easy and link up to everyone's day-to-day work. He added that the office was now engaged in the early stage of the organizational development plan and progress on this, including the wider strategic review would be reported at the Board strategy day in January. Janet Eilbeck (JE) reported on her involvement in the workstream to develop a new performance framework and said the Board would be invited to share their views on the proposed framework in due course.
- 1.13 MB emphasized the importance of responding openly to messages from staff at the forthcoming whole of office event.

Strategic insight

Digital Plan 2020-2022

- 2.1 Angus Waugh (AW) presented the NAO digital plan 2020-2022 which replaces the digital strategy 2017-2020. He reported the vision of the plan is to offer a secure, well-integrated digital environment which enables the NAO to deliver its strategic objectives. The plan is articulated around three pillars: digital audit, digital workplace and digital assurance and is supported by key guiding principles that all digital services must be secure, simple and agile, user oriented and of long-term value. He added the NAO's digital journey is predicated on the migration of all IT systems into a secure cloud and the associated management of these cloud systems. He referred to five individual business cases contained within the plan namely the Financial Audit Development Plan; Modernizing Value for Money Audit; Audit Information Management System (AIMS), Audit Software Review (ASF) and an updated Information Security Plan. AW invited the Board to review the digital plan and provide comment.
- 2.2 The non-executives referred to the helpful briefing they had received prior to the Board meeting at which they had challenged management to seek greater technological leverage from the financial audit and value for money development plans. In discussion the Board agreed this was a good aim provided it did not act as a constraint given the different technological needs of the two practices. The Board commented the current plan was somewhat light on the people side which, it was agreed, should be at the centre of the plan. The Board agreed increase in quality should be the main focus of the financial audit and value for money development plans.
- 2.3 In conclusion, the Board welcomed the overall plan and the progress to date on the digital journey. The Board agreed the plan would benefit from external challenge to provide additional assurance on some of the points raised in discussion.

Action 1: AW to commission external challenge of the digital plan and report feed-back to the Board in due course.

Audit Software Review

- 3.1 Catherine Hepburn (CH) reported that the NAO is in the process of transforming its financial audit approach and methodology, with greater emphasis on controls-based auditing and data analytics. Given these changes the Audit Software Review (ASR) will consider how NAO's existing financial audit management / audit documentation tools need to evolve to provide the technology required to support NAO's plans for financial audit to deliver high quality audits on a consistent and well documented basis. The in-house market research carried out to-date

indicates there is a strong correlation between the publicly recorded scores of audit firms and those firms' audit methodologies and documentation systems. Against this background, she reported that the Leadership Team had given the go ahead for the review to consider whether commercially available options or an in-house built system would best meet NAO needs. She reported that for these initial investments to be valuable the team would be making a commitment to a longer-term project which would require significant internal and external investment which cannot be clearly assessed until there is a clear agreement on the preferred route. She added that the Board will receive a more detailed plan when the initial review has been concluded.

- 3.2 The Board endorsed the approach as set out but challenged whether timescales could be reduced to arrive at an optimal solution at the earliest possible juncture. CB responded that two years was about as fast as the NAO could move given the complexity of the project and the linkage to the audit cycle which is predicated on one single year-end. CB assured the Board there would be interim wins as certain functions of the current audit documentation system would be upgraded for the current audit cycle.

Operational insight

Annual Audit Quality Report 2018-19

- 4.1 Steve Corbishley (SC) and Colin Ross (CR) presented a summary overview of NAO's financial audit and value for money quality scores and quality assurance arrangements which supplemented the information and arrangements contained in the annual NAO Transparency Report agreed by the Board in June and published on NAO's external website.
- 4.2 Following a detailed discussion on audit scores, the Board agreed improved performance management was a key driver to enhancing audit quality. The C&AG explained the steps that have been initiated to improve performance management across the office in the lead up to the annual appraisal round. In addition it was agreed the Board should receive updates on monitoring activity on financial audit at more regular intervals.
- 4.3 The Board commented that a new office performance framework provided the opportunity to better judge the impact derived from NAO's financial audit and value for money audits.

Action 2: HM to arrange for the Board to receive updates on monitoring activity on financial audit at more regular intervals.

Introduction to MESH

- 5.1 Ruth Kelly (RK) presented a paper introducing the NAO's community of practice for analysis and methods. The paper was intended to outline the key areas the strategy review should address in relation to analytical capability at the NAO and the way it is organised.
- 5.2 In discussion the Board agreed the non-executives would benefit from a separate briefing / teach in in the margins of the next Board on MESH strategy and capability, including a demonstration of the application of analysis in NAO reports. This would enable the Board to better evaluate whether the office should take a more data-driven approach to support study selection, scoping and findings in order to better exploit the rich data sets the office holds.

Action 3: HM to arrange a teach in on MESH in the margins of the Board meeting in January 2020.

Good governance

Business Reports

- 6.1 The Board received the monthly business report and focused its discussion on the considerably lower financial impact figure recorded on the system compared to this time last year. The Board requested that management take strong action to redress the situation before the close of the

deadline for the 2019 financial impacts. The Board noted the impact risk had been increased on the risk register and noted the mitigating actions that were being pursued.

Action 4: management to take strong action to improve the 2019 financial impacts target.

2018-19 Health and Safety Annual Report

- 7.1 The Board received the 2018-19 Health & Safety annual report and requested that in future years the report should be presented to the Board at a much earlier stage following the year-end. The Board also commented that in future years the annual report should more clearly demarcate the actions taken in respect of statutory health & safety responsibilities vs those relating to staff wellbeing. The Board noted the actions in progress to bring health & safety within risk appetite including the appointment of a Health, Safety and Environmental Manager.

Action 5: 2019-20 Health & Safety annual report to be presented to the Board at the earliest opportunity following the year-end.

2018-19 Environmental Annual Report

- 8.1 The Board received the Environmental Annual Report and endorsed the office's action to include the government's Net Zero 2030 commitment within the Sustainable Office Group's ambitions (SOG). The Board noted that Daniel Lambauer had taken over the responsibility of Chair to SOG.

Facilities Contract

- 9.1 The Board approved the extension of the NAO's facilities contract noting the current contract was approved in April 2015 for a duration of five years with the possibility of a two-year extension. The Board based its decision on management's recommendation that the overall performance of the facilities company was of enough quality in relation to all the significant components not to warrant a full procurement exercise at this point in time.

Remuneration and Nomination Committee

- 10.1 The Board received the work programme for the Remuneration and Nominations Committee for 2020 which it approved.

Audit Committee

- 10.2 The Board received the minutes of the Audit Committee meeting held on held on 9 October 2019.

Board calendar

- 10.3 Helene Morpeth (HM) reported that the Board calendar for 2020-21 was nearing completion and confirmed dates would be circulated via email as soon as possible.

Feed-back

- 10.4 The Chair sought feed-back on the conduct of meeting. The Board re-iterated the helpfulness of the pre-meeting briefing. The Board agreed the new strategy would provide a helpful framework to shape future Board discussions.

Date of the next meeting

- 10.5 The Board noted two meetings in January 2020: the Board strategy day on 16th and 23rd for the next regular Board meeting.