

## Board minutes

**Meeting held on 26 March 2020 from 11:00 to 13:45**

Meeting held via video conference due to lockdown

Present		
Michael Bichard	MB	Chair
Janet Eilbeck	JE	Non-Executive Member
Rob Sykes	RSy	Non-Executive Member
Ray Shostak	RShk	Non-Executive Member
Gareth Davies	C&AG	Comptroller and Auditor General (C&AG)
Daniel Lambauer	DL	Executive Director with responsibility for Strategy and Resources
Max Tse	MT	Executive Director with responsibility for Knowledge
Attendees		
Abdool Kara	AK	Executive Director with responsibility for People
Kate Mathers	KM	Executive Director with responsibility for Financial Audit Service Line
Rebecca Sheeran	RS	Executive Director with responsibility for Value for Money Service Line
Chloe Forbes	CF	Head of Strategy & Corporate Affairs
Adrian Jenner	AJ	Director Parliamentary Relations (items 1 & 2)
Jonny Mood	JM	Director Strategy (items 1 & 2)
Tim Valentine	TV	Director Finance (items 1-3 & 5)
Ann Green	AG	Audit Principal, External Relations (item 4)
John McCann	JMcC	Director HR (items 5 & 6)
Angus Waugh	AW	Director Digital Services (item 5)
Helene Morpeth	HM	Head of Governance and Risk

### Transactional Business

#### Welcome and Apologies for absence

- 1.1 Michael Bichard (MB) welcomed members and attendees to the virtual meeting of the Board. He thanked Digital Services for their support in facilitating the smooth running of the meeting.
- 1.2 MB reported apologies for absence had been received from Stephen Smith.

#### Declarations of Interest

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

#### Minutes of the last meeting

- 1.4 The Board noted the minutes of the additional meeting held on 2 March would be circulated separately.

## Matters arising

- 1.5 MB confirmed the Board's approval of the NAO strategy via written procedure following consideration of the document at the Board meeting on 2 March. He reported that the strategy had been approved by the Public Accounts Commission (TPAC) at their hearing on 24 March which Gareth Davies had attended as chief witness. He added the date for the Estimate hearing was yet to be confirmed.

## Action Log

- 1.6 The Board noted there were eight actions on the action log. The Board confirmed two actions (in relation to non-executive succession) were complete and approved their deletion from the log. The remaining six actions were in hand.

## C&AG update

- 1.7 The C&AG provided his update on key events since the last Board as follows:
- Covid-19: this has been the dominant management issue for the NAO in recent days in particular responding to government advice on the Covid-19 outbreak. A more detailed discussion to be provided at agenda item 2.
  - Strategic review: the office is embarking on phase 3 of the strategic review which is focused on communicating the emergent external strategy and organisational development plan to colleagues ahead of their respective launch. The move to groups and hubs has also been outlined to colleagues.
  - Programme of work: publication of 23 reports since the last Board meeting including six Departmental Overviews.
  - External engagement: the cycle of the 2020 annual review meetings with departmental Accounting Officers (AO) has begun and so far there have been meetings with the AOs from the Cabinet Office, FCO, DFID, MHCLG, BEIS, DFT and DEFRA. The C&AG also reported on his visit in late January to meet the President of the Austrian Audit Office and Secretary-General of INTOSAI (the international organization of supreme audit institutions) to discuss respective experiences and challenges including the agenda facing the wider international audit community.

## Parliamentary update

- 1.8 Adrian Jenner (AJ) reported that a temporary change to House of Commons standing orders meant select committees, including the Committee of Public Accounts (PAC), would be able to continue their work via video conferencing. He added that PAC would reconvene after the Easter recess.

## **Business Continuity**

### Covid-19

- 2.1 Daniel Lambauer (DL) presented a paper updating the Board on the latest executive team actions and thinking with respect of the lockdown. He outlined the guiding principles for the NAO's response which were:
- The well-being of NAO people comes first.
  - NAO will follow government advice and is ready to respond asap should the advice change.
  - In terms of work, the NAO will prioritise its statutory functions wherever possible, considering what it can do on financial audits, VFM and the C&AG's wider duty to Parliament in light of the new external circumstances.

- On the operational side, the executive team has focused on business-critical functions in the first instance i.e. those functions that are vital to keep the business running under all scenarios.
- 2.2 The Board engaged in a detailed discussion informed by interventions from the executive directors covering the risks to the financial audit certification timetable, impact on existing VFM and wider assurance work including changes to the forward programme to reflect Parliament's desire for independent assurance from the NAO to enable it to hold government to account for their interventions; impacts on NAO resources including the strategy and organisational development plan. The consensus to emerge from the discussion was that NAO was living and breathing the new values ahead of their launch and NAO people were demonstrating strong resilience and flexibility in the face of these unprecedented circumstances. In relation to the work programme the Board agreed a firm but sensitive approach was needed.

## Strategic Insight

### Organisational Development Plan

- 2.3 Gareth Davies (GD) reported the current situation had demonstrated the change programme, as represented by the organisational development plan (ODP), was more relevant than ever. He explained the executive team had been through an initial process for reprioritising the work packages in the ODP and current thinking was that the following areas would be prioritised: new activities that support staff with home working; the people agenda; knowledge activity; financial audit methodology and software reviews; and VFM modernisation. GD added the ODP was currently being redrafted to reflect these changes and the updated ODP would be shared with the Board ahead of its launch to the office.
- 2.4 Daniel Lambauer (DL) reported that the performance framework to measure NAO's progress against the five-year strategy, and to make sure the office makes the best possible use of its resources, would be developed on an iterative basis during the year and he welcomed the Board's involvement in its future development.

**Action 1: DL and Chloe Forbes to present the performance framework for discussion at a future meeting of the Board with date to be agreed.**

### Estimate

- 3.1 Daniel Lambauer (DL) introduced the NAO Estimate Memorandum for 2020-21 explaining the document provided further information about the resource plans for year one of the five-year strategy. He added the Memorandum was entirely consistent with the five-year strategy which the Board had approved week ending 6 March however it had not been updated for recent events. He detailed the areas of planned work he anticipated would be affected by Covid-19 including likely delays to audit and assurance work; revision to NAO's work programme; assumed recruitment and retention patterns of staff; and income earned from audit work or other services which may not be earned at the planned rate if the work does not progress as planned.
- 3.2 DL reported that given the highly unusual circumstances, NAO could not budget with any certainty for the full effect of these factors at this time. The proposal was therefore to seek approval for NAO's current planned resource use on the assumption that NAO would need a supplementary Estimate hearing in the autumn to adjust budgets.
- 3.3 Against this background, the Board engaged in a detailed discussion on the Estimate including justification for the level of investment sought given the current situation. Ray Shostak (RS) expressed his reservation for the level of investment proposed on the Audit Software Review (ASR) adding that, from his perspective, the financial information contained in the Estimate did not justify the return on investment. The executives explained the detailed figures on the investment were available and would be provided separately. The justification for the level of investment was that NAO risked failing on audit quality. They added the Board

would have the opportunity to challenge the detailed ASR business case, including underpinning assumptions, in the early autumn.

- 3.4 The Board approved the Estimate Memorandum for submission to TPAC but requested the opportunity to review the Estimate later in the year when there would be more clarity on the impact of the current situation on NAO's spending plans.

**Action 2: More detailed information on the financial case underpinning the ASR to be presented to the Board outside the meeting.**

**Action 3: The Board to have the opportunity to review the Estimate later in the year – date to be confirmed.**

#### External VFM topic

- 3.5 Janet Eilbeck (JE) reported that the NAO's external auditor has proposed that the annual value for money study on the NAO for 2020 should focus on providing assurance on NAO's finance function covering its economic, effective and efficient use of resources. The rationale for the topic - given the NAO was in a period of change with the new strategy – was to test and challenge the NAO's own finance function against what is assessed across the public sector by the NAO's own audit teams. JE added the review would be slightly reduced in scope and remit from the 2019 study which would enable the external auditor to also undertake initial work on the Audit Software Review investment, to consider the status of the programme at the outset. This second piece of work would be reported internally to the Board and the Audit Committee, with the findings to be used to inform the thinking regarding a potential wider study in 2021.
- 3.6 The Board approved the approach to the 2020 external value for money review including the proposed budget.

### **Operational Insight**

#### Client feed-back

- 4.1 Ann Green (AG) presented the results of the 2019 client feedback survey reporting feedback in 2019 was broadly similar to that in 2018 with the majority of respondents expressing a positive opinion about the overall relationship with the NAO and the quality of the NAO's financial audit work. Improvements were observed in the quality of value for money recommendations. AG added that senior client engagement in the survey had declined compared to previous years indicating an element of survey fatigue. Against this backdrop, and in light of the current Covid-19 situation, AG reported that management had agreed to suspend the client feed-back in 2020. The non-executives endorsed this decision commenting there were more effective ways of gauging client feed-back.

#### Contract approvals

- 5.1 John McCann (JMCC) requested Board approval to commence a procurement process to identify appropriate providers for both temporary and permanent recruitment agencies over coming years, including those able to seek specialist skills. The principles underpinning the route to market would be rationalization, value for money, and ability to reach out to a diverse pool of candidates. He added the contract would be for a total of 4 years and the total value of services was estimated at approximately £2m gross per year. The Board endorsed management's proposed route to market and recommended close involvement with the front line on future specification of services required.
- 5.2 Angus Waugh (AW) presented the proposed approach for re-tendering the NAO's service desk contract, transitioning the service provided to a more proactive, data-driven service management model. The recommended route to market was to use the Crown Commercial Services (CCS) approved framework as advised by the NAO's procurement team. AW reported a maximum cost envelope of £2.3m over the 4-year lifespan of the contract. The

Board endorsed the proposed approach commenting that it would be important to consider future demand for homeworking arrangements within the specification.

- 5.3 The Board approved the re-tender for Microsoft software licences including Office 365 noting the three-year contract cost for this service was likely to be in the region of £1.67 million with costs included in digital services forecasts.

#### Business Reports and risk register

- 6.1 The Board received the business report to end February noting the NAO was on track to end the year within its budget of £71.0m – with forecast outturn of £69.5m. This variance of £1.5m was a result of staff costs being lower than budget and income being higher than budget. The Board noted teams had succeeded in achieving financial impacts of £1,135m (16:1). The impact target had been agreed by internal audit and was now awaiting external audit validation. The Board noted 9 departmental overviews were yet to be published with teams working to ensure the remaining overviews were published before the end of March though this remained a risk due to a challenging timetable. The Board commented on the positive feed-back received from external stakeholders, including select committee, on these overviews which provided a helpful integrated view of performance.
- 6.2 The Board received the risk register to end February noting the key changes to the register since the Board's review in January notably: the addition of a new risk on 'Covid-19' to reflect the rapidly moving position around the pandemic outbreak and the updated risk ratings to the following risks: 'Measuring Impact', 'People Development' and 'External Impact / Influence'. The Board congratulated management for the successful impact target for 2019. There followed a discussion on the desirability to move to a more rounded set of impacts including greater focus on wider impacts.

#### Board succession

- 7.1 The Board noted progress on the Chair succession campaign which was currently led by Parliament and discussed desired skills for the upcoming non-executive vacancies on the Board. The Board commented that future non-executives should have more than one skill set covering financial audit, change management, central government, local government and major projects. The Board noted the Remuneration and Nominations Committee had advised the Chair to use an executive search agency to attract potential candidates and that remuneration should be in line with current non-executive remuneration. It was noted the recruitment would commence during spring.

#### Updated from the Remuneration and Nominations Committee

- 8.1 Clare Tickell (CT) provided a verbal update on the Remuneration and Nominations Committee meeting which had been held earlier in the day. She reported the Committee had endorsed the C&AG's recommended framework for executive director remuneration and objective setting effective from 1 April 2020. The Committee had also endorsed the C&AG's recommendation that Daniel Lambauer, Kate Mathers and Rebecca Sheeran should be appointed as executive members of the Board with effect from 1 April 2020. The Committee also discussed the implications of the strategic review on the people agenda and executive director and director development. Furthermore the Committee had advised the Chair on the non-executive recruitment campaign as reported to the Board at the previous agenda item.

#### Update from the Audit Committee

- 8.2 JE reported on the Audit Committee's recommendation to the Board, following the Committee's meeting on 2 March, that its remit should be expanded to become an Audit and Risk Committee. The recommendation was based on the areas for improvement on NAO's risk management identified by the benchmark exercise against the Orange Book. JE referred to the paper setting out the results of the benchmark which the Board were invited to

comment on via email. The Board endorsed the expansion of the remit of the Audit Committee.

#### Feed-back on the meeting

- 9.1 The Board agreed to explore zoom as an alternative to Skype for business in advance of the next meeting.
- 9.2 MB advised that that the following papers would be dealt with via correspondence with the Board invited to provide their comments by 6 April:
- version 1 of the 2019-2020 Annual Report and Accounts.
  - briefing note on the 2019-20 Transparency Report.
  - high-level messages for the 2019-20 Diversity & Inclusion Annual Report.
  - actions arising from the outcome of the benchmark of NAO's risk management processes against HMT's Orange Book
  - review of the Board's 2019-20 self-assessment of performance and review of progress against actions for improvement from the 2019-20 self-assessment.
- 9.3 MB added the paper on the annual compliance exercise against the Board's terms of reference would follow as a separate paper / or considered at Board's meeting in June.

**Action: review of the Board's annual compliance against its terms of reference to be considered at the next Board / alternatively paper to be circulated separately.**

#### Date of next meeting

- 10.1 The Board noted the next meeting would take place on 9 June 2020.