



NAO Board Minutes

Meeting held on 24 November 2020 from 13:00 to 16:00
Via Conference Call

| Members | | |
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| Michael Bichard | MB | Chair |
| Janet Eilbeck | JE | Non-Executive Member |
| Ray Shostak | RSh | Non-Executive Member |
| Rob Sykes | RS | Non-Executive Member |
| Dame Clare Tickell | CT | Non-Executive Member |
| Gareth Davies | GD | Comptroller and Auditor General |
| Daniel Lambauer | DL | Executive Director responsible for Strategy and Resources |
| Kate Mathers | KM | Executive Director responsible for Financial Audit service line |
| Rebecca Sheeran | RS | Executive Director responsible for Value for Money service line |
| Attendees | | |
| Abdool Kara | AK | Executive Director responsible for People |
| Elaine Lewis | EL | Executive Director responsible for Financial Audit Quality Assurance |
| Max Tse | MT | Executive Director responsible for Knowledge |
| Elaine Lewis | EL | Executive Director responsible for |
| George Crockford | GC | Head of Reporting (item 5) |
| Chloe Forbes | CF | Head of Strategy and Corporate Affairs |
| Sade Phillips | SF | Head of Finance and Procurement (items 3-5) |
| Nick Todd | NT | Director of Financial Audit Development and Operations (item 3) |
| Tim Valentine | TV | Director Finance (items 3-5) |
| Helene Morpeth | HM | Head of Governance and Risk |
| Nigel Terrington | NT | Director of Strategy |

Transactional Business

Welcome

1.1 Michael Bichard (MB) welcomed members and attendees to the meeting.

Apologies for absence

1.2 There were no apologies for absence.

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 27 October 2020 as an accurate record including their publication on the NAO's external website.

Action Log

1.5 The Board noted there were eight actions on the log of which three were complete and the Board agreed their deletion from the log. The Board noted the remaining five actions were in progress. Daniel Lambauer (DL) reported the digital plan had been updated to align in the right places with updated information security plan. Ray Shostak (RS) reported on the helpful discussions with (DL) and the reporting team on the performance metrics and encouraged the remaining non-executives to keep coaching management in this area. Helene Morpeth (HM) reported she would liaise with the incoming Chair on the action associated with the Board's engagement plan and the timeline for the update to the Code of Practice between the C&AG and the NAO.

C&AG update

1.6 The C&AG reported:

- Audit Certifications: All certifications are expected to be completed by end of November with the final ones due over the line before the Christmas recess. The aim is to return to pre-pandemic delivery timetables for 2021-22 financial audits as far as possible acknowledging that some departments will need more than one year to return to that timetable.
- Covid-19 Work Programme: The office has continued to deliver a substantial programme of work on key elements of the government's response to the pandemic, including publication of the report on implementing the employment support schemes. The report and subsequent Committee of Public Accounts (PAC) hearing received a strong media response ensuring important messages were shared widely. The Board discussed issues arising including balance of the work programme noting there was a good coverage of non-Covid related topics such as the report on the government's long-term environmental goals and the UK border: preparedness for the end of the transition period.
- The Public Accounts Commission: The recent hearing with the Public Accounts Commission (TPAC) in October had enabled a discussion on the impact of the pandemic on NAO's operations including the way in which the office is reshaping the work programme to respond to public spending. The TPAC chair extended his thanks to the NAO for the work being done during these challenging circumstances.
- Diversity and Inclusion: The Race at Work Charter was signed on 23 November. This signifies the commitment the NAO is making to improve the retention, progression and lived experience of our Black, Asian and Minority Ethnic (BAME) colleagues. The Race Equality Action Plan will be launched in the coming weeks. In October a group of ten Access Accountancy students joined remotely from London and Newcastle. This programme is part of an ongoing commitment to create a diverse and inclusive workplace to improve social mobility across the accountancy profession.

- Learning and Development Audit Skills (ASK) the portal for all financial audit training has been launched.
- International engagement The (C&AG) chaired a (SAIs) Supreme Audit Institutions meeting at the end of October to discuss the benefits of auditing machine learning. This was attended by five other SAIs (Brazil, Finland, Germany, Norway and Netherlands). The NAO continues to build influence internationally and will soon be participating in a series of roundtables with 32 other SAIs to share knowledge on the impact of the pandemic.

IMPACT

2 Engagement with Parliament

- 2.1 The Board received an update on NAO's engagement with Parliament and key issues arising. Daniel Lambauer (DL) reported good progress had been made against the implementation plan and referred to the NAO newsletters now being widely distributed to all MPs; the House of Lords; select committee Clerks and House of Commons Library staff. He added that select committees which the NAO had not traditionally engaged with had expressed interest in stronger links with the NAO. In response to questions on scope for additional support for select committees, (DL) cautioned the NAO needed to manage demand on resources carefully, bearing in mind our support for the Committee of Public Accounts (PAC) is our priority. The Board commented they were content with the positive progress being made.

Client feedback

- 2.2 (DL) and Hannah McNicholl (HMcN) presented proposals for a new approach to client feed-back in 2021 informed by evaluation of the client feed-back process to-date, including feed-back on methodologies used in the past. They reported their recommendation was to procure a research agency to run the feed-back programme on a 1+1-year contract basis. In addition to refreshing the client feedback process for 2021, they reported the aim was also to bring more structure and cohesiveness to our overall framework for stakeholders' engagements. A discussion took place on the pros and cons of the proposed contract duration with emphasis on the flexibility provided by a 1+1 duration. The C&AG reported the new Group structure had enabled valuable informal feed-back. The Board endorsed the proposed approach to client feed-back in 2021.

Quality

3. Audit Quality

- 3.1 The Board received an update on NAO's 'Financial Audit Quality Plan 2020-21 and beyond' from Elaine Lewis (EL). (EL) explored the factors that have led to our recent internal and external financial audit quality scores and reported on the office's immediate and longer term plans to support the Financial Audit service line to deliver the quality of work that meets the ambitions set out in the strategy and expected by Parliament. (EL) reported on aspects of the Plan that have already been announced internally, such as the forthcoming winter training programme, ahead of the launch of the Plan in December. The Board discussed the importance of getting the culture right, in particular setting the tone from the top. The C&AG reported his intention to set up an Audit Quality Board, with non-executive membership, to ensure continuous improvement of the financial audit practice as gained from greater external insight and challenge. The Board also discussed measures being implemented to ensure greater consistency in quality across the financial audit portfolio. The C&AG commented the Audit Transformation Programme (ATP) presented an important vehicle for achieving consistency across the practice using a system-wide approach.
- 3.2 The Board received an update on progress on the ATP business case from Kate Mathers (KM). This included findings from the recent external assurance reviews commissioned by the practice; the structure of the economic and commercial cases which will form the structure of an outline business case for submission to the Board in January 2021; and the range of elements within the transformation scope. (KM) also provided an update on progress on the review of NAO's audit methodology to comply with upcoming changes to professional requirements.

- 3.3 The Board provided their continued support for the rationale for the ATP whilst acknowledging risks to capacity including the scale of change involved which could challenge audit quality in the short term. To mitigate against the known pitfalls in such large-scale transformation programmes the Board endorsed the proposed incremental approach to change; continued internal communication with teams and continued learning from providers of external assurance. (KM) reported that the outline business case would set out the approach for de-risking the ATP roll out which was earmarked for September 2021. The Board recommended keeping the narrative for the ATP business case as clear as possible using as little jargon as possible.

Delivery

4 Information Security

- 4.1 The Board received and noted the Information Security Plan for 2021-22 presented by Daniel Lambauer (DL) and Peter Wood (PW) who reported one of the key drivers of the Plan was to go beyond a mere assurance function and enable all areas of the business to better understand, identify and manage the threats and risks that impact the NAO's ability to deliver on its vision and strategy. They explained that in this way the information security function can assist the office to reach an optimised level of maturity which will ensure we build in security at the design stage of change projects and secure continuous improvement. The Board discussed the implications of the recent spear phishing attack which had been successfully defended; the change in behaviours required to optimize security and the impact of the increasingly high public profile of the NAO which made it an attractive organization for saboteurs to target. The Board received assurance that the office had sufficient resource and capability to keep ahead of the curve in this important area. The Board endorsed the Information Security Plan.

People

5. Pay Award

- 5.1 John McCann (JMcC) presented a paper setting out the remuneration landscape to inform the Board's views on the pay award from April 2022. The Board discussed the unique environment in which pay awards were currently being considered including the fact that the NAO and its people had been relatively immune to the economic impacts of the pandemic. The Board acknowledged recent months had seen the most depressed level of pay awards for a decade, rising unemployment, low levels of inflation and unprecedented public investment in employment support schemes. Against this backdrop, the office had seen strong levels of staff retention which has put pressure on the office's pay bill, particularly at newly qualified level, with a strong pipeline of trainees moving into the Audit Principal grade.
- 5.2 The Board agreed this was a rapidly moving environment and that it should keep the pay award under review, in particular in light of the incoming new Chair and non-executives from next January.

Finance and Natural Resources

6. Net zero carbon strategy

- 6.1 The Board received and discussed the NAO's net zero carbon strategy presented by Daniel Lambauer (DL) and Vicky Cox (VC). They commented that the project would be reliant on effective internal engagement and behavioural change. The Board endorsed the proposed approach and scope of the project. They also endorsed, in principle, the replacement of the office boilers with a net zero alternative at their end of life. The Board also agreed in principle that the office should explore off-setting for the residual carbon footprint it cannot reduce.

Outline TPAC strategy document

- 6.2 The Board received the outline TPAC strategy update document and NAO estimates for 2021-22 for initial consideration ahead of formal approval of the document by the Board in January 2021. The Board endorsed, in principle, the rationale for a 12% increase in headcount on the basis this felt proportionate to the significant complex risks arising from auditing very large amounts of additional public money spent in a weak control environment. The Board noted the Estimate

assumed increased income from renting out additional office space and savings on travel in 2021-22. The non-executives cautioned against too much emphasis placed on savings on travel. In addition, the non-executives recommended looking more carefully at the audit lag and impact of this on future budget assumptions.

- 6.3 The Board received the proposed topic for the external review in 2021 as advised by the Audit Risk and Assurance Committee. The Board approved the topic should be on the investments devoted to the implementation of the strategy.
- 6.4 The Board received the external auditor's positive validation of the implementation of the recommendations for improvement arising from the 2020 review on NAO's impact reporting.

Business reports / Good Governance

7. Balanced scorecard and risk register

- 7.1 The Board noted the balanced scorecard to end October 2020 including the refinement to the metrics within the performance framework following helpful insight received from Ray Shostak (RSh). Janet Eilbeck (JE) offered to speak to the reporting team on the continuing evolution of the balanced scorecard, outside the formal meeting of the Board.
- 7.2 The Board received the risk register to October 2020 in the new shortened format. (JE) recommended the Board risk report should be disconnected from the balanced scorecard report in future, and suggested further work was required on the format of the register to make it easier for non-executives to engage with the document. The C&AG commented that the reporting on performance and risk is enabling the Executive Team to have insightful discussions on actions arising informed by robust evidence. He acknowledged there was scope to improve the reporting of management and risk information to the Board.

Action: DL to consult with JE on further improvements to the reporting of performance and risk information to the Board.

Any other Business

8. NED Succession

- 8.1 Clare Tickell (CT) and Janet Eilbeck (JE) gave an update on the NED succession campaign ahead of the appointment hearing of the new non-executives with the Public Accounts Commission on 1st December. The shortlist had consisted of seven excellent candidates. The headhunters had done a good search job.
- 8.2 The Board noted Martin Smith would step down as independent external member of the ARAC in December. The Board approved the appointment of a new independent external member subject to confirmation of certain checks.

Feedback and reflections

- 8.3 Tributes and deep thanks were paid to the departing Chair and non-executives in recognition that this was their last meeting before the end of their respective tenures. The executives and remaining non-executives concluded it had been great fun and a privilege working with Michael, Ray and Rob and wished them all the best in the future. The C&AG extended his thanks to the departing non-executives for helping to challenge the directors and sharing their expert knowledge in key areas of NAO's remit.

Date and time of next meeting

- 8.4 The Board noted the next meeting would be held on Friday 29th January 2021.