

**Board Minutes**

Meeting held on 8th June 2021 from 09:30 to 12:00 hrs.

Via MS Teams

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| **Members** | | |
| Dame Fiona Reynolds | FR | Chair |
| Sir Martin Donnelly | MD | Non-Executive Member |
| Janet Eilbeck | JE | Non-Executive Member |
| Gaenor Bagley | GB | 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 |
| Abdool Kara | AK | Executive Director responsible for People |
| Elaine Lewis | EL | Executive Director responsible for Financial Audit Quality Assurance |
| **Attendees** | | |
| Kate Mathers | KM | Executive Director responsible for Financial Audit service line |
| Rebecca Sheeran | RS | Executive Director responsible for Value for Money service line |
| Max Tse | MT | Executive Director responsible for Knowledge |
| Steven Corbishley | SC | Director, Compliance Quality Unit (item 4) |
| Maria-Christina Eskioglou | MCE | Audit Manager (item 3) |
| Abigail Marshall-Bailey | AB | Lead on Annual Report (item 2) |
| Susan Ronaldson | SR | Director Change and Engagement (item 3) |
| Nigel Terrington | NT | Director of Strategy (items 2 & 5-6) |
| Sade Philipps | SP | Head of Finance and Procurement (item 5) |
| Saria Usman | SU | Head of Reporting, Finance team (item 5) |
| Tim Valentine | TV | Director Finance (items 2 & 5-6) |
| Rebecca Webb | RW | Lead on risk management (item 5) |
| Helen Morpeth | HM | Head of Governance and Risk (entire meeting) |

**Transactional Business**

Welcome

* 1. The NAO Chair, Dame Fiona Reynolds, welcomed members and attendees to the meeting.

Apologies for absence

* 1. There were no apologies for absence.

Declaration of Interests

* 1. There were no additions or changes to declarations of interest.

Minutes of the last meeting

* 1. The Board approved the minutes of the meeting held on 23 March 2021.

Matters arising

1.5 The Board noted the Diversity and Inclusion strategy would be launched on 17 June and, separately, that the Diversity and Inclusion annual report would be sent to the Board via correspondence once the design element had been completed.

Action Log

1.6 The Board noted there were twelve actions on the log of which six were complete and the remainder were on track for completion by their due dates. In discussion it was confirmed the follow up paper on strategic foresight would be circulated to the Board later in June to be supplemented by a collective discussion at the Board in July.

**Action: Helene Morpeth to circulate the paper on strategic foresight to facilitate a collective discussion on emerging themes at the July Board.**

C&AG Update

1.7 The Board received the C&AG’s update since the last meeting covering future working; external impact of NAO’s work; financial audit work programme; Parliamentary Committee attendance; progress on local government audit arrangements and propriety. The C&AG drew the Board’s attention to MHCLG’s response to the Redmond Review. He reported the Department plans to strengthen system leadership for local government audit by requiring the new audit regulator, ARGA, to carry out this function when it replaces the Financial Reporting Council which is expected to be in 2023, following primary legislation. The C&AG added that, at this point, the NAO’s role in preparing the Code of Audit Practice for local audit would transfer to ARGA which he judged to be a natural evolution of events. The C&AG commented he was pleased to see the Department restate the government’s commitment to the value for money element of local government audit which was an important part of the updated Code of Audit Practice which the NAO re-issued last year. He added the NAO would continue to support local audit firms with guidance as they apply the new Code, until the eventual transfer of functions to ARGA. The C&AG reported the NAO’s role in assessing sector-wide value for money in local government would continue unchanged. The Board discussed the implications of the Redmond Review with particular focus on the volume and quality of suppliers of audit services to local government.

1.8 The Board also engaged in a discussion on propriety, including NAO’s remit in this area, following the latest attention on the issue in the conduct of government and in public spending. The C&AG reported more guidance on this important issue was being prepared for audit teams.

Parliamentary Update

1.9 The C&AG reported on early discussion with Parliamentary officials to pave the way for the new accountability evidence session with the Public Accounts Commission in the autumn. He also updated the Board on progress with MP engagement.

**Impact**

2. Annual Report and Accounts

2.1 Daniel Lambauer presented the 2020-21 Annual Report and Accounts reporting the external auditors had provided a clean audit opinion and that the emphasis of matter from last year’s audit opinion had been lifted. Janet Eilbeck reported the Audit Risk and Assurance Committee (ARAC) had reviewed the report at their meeting in May and were pleased with the accounts and had noted no findings of substance had been reported by the external auditor. She congratulated the team for presenting a highly advanced designed version of the report which had greatly facilitated the Committee’s review of the document. The non-executives were pleased with the tone of the report, the use of graphics and the strong focus on people. In addition the non-executives commented the report provided an excellent anchor for future reporting and recommended a strong engagement strategy to distill key messages on a continuous basis.

2.2 The Board approved the Annual Report and Accounts for submission to the Public Accounts Commission. The Board extended their congratulations to the team on the delivery of a high quality and engaging report.

2.3 The Board received the annual assurance reports from ARAC, the Remuneration and Nominations Committee (RemCo) and Internal Audit noting there were no matters of substance to bring to the Board’s attention. Janet Eilbeck commented that ARAC had received fewer limited assurance reports from internal audit during the year which gave comfort, in particular in a COVID year, that NAO operates in a strong control environment. Clare Tickell commented RemCo had welcomed the new group structure, and associated accountabilities, introduced by the C&AG last year. The C&AG commented the internal audit function had delivered robust assurance to him throughout the year in his capacity as Accounting Officer.

**People**

3. Staff Survey

3.1 Daniel Lambauer presented headline results emerging from four months’ worth of data collected by the new provider to host and run NAO’s people survey, and Maria-Christina Eskioglou demonstrated the functionality of the survey dashboard illustrating the power of the data and commentary to flag up issues of concern. The Board held a wide-ranging discussion covering anonymity, complexity, trends, comparable data including how the office is planning to use the tool to communicate with staff. The Board concluded the new survey provided the office with a much more timely, versatile and powerful management tool to better understand, track and target action on issues raised by staff.

3.2 It was agreed the next meeting of RemCo should explore the best way for the Board to engage with the data in the survey.

**Action: Helene Morpeth to arrange a discussion on functionality of the staff survey at the next meeting of RemCo**.

**Quality**

4 Transparency Report

4.1 Elaine Lewis presented the outline structure for the 2020-21 Transparency Report which the NAO publishes annually to meet regulatory requirements. She reported the proposed structure builds on that developed last year, which was judged to provide a sound basis to work from, and which has been updated to take into account new developments, such as additional measures the office is taking to support financial audit quality. In addition the report will have a clear and accessible narrative for our stakeholders. The non-executives suggested the narrative should emphasize that transparency is germane to everything the NAO does and that it would be helpful to bring out propriety too where relevant. The Board noted final copy of the report would be circulated in July for approval via correspondence informed by the comments of the Audit Quality Board.

**Business Reports/Strategic Risk Register**

5Performance Framework

5.1 Daniel Lambauer presented the balanced scorecard to end April 2021. He reported data showed performance one month into the financial year consequently cumulative data to assess progress against some of the annual measures was not available at this point in time. He added management is currently carrying out a deep dive on utilization rates as part of the on-going efficiency agenda the results of which will be captured in the balanced scorecard going forward. The non-executives endorsed the changes to the presentation of the balanced scorecard, reporting the one-page Board performance report was particularly helpful. There followed a discussion on risks to the integrity of the financial reporting framework if certain major state departments let the certification timetable slip unduly. Kate Mathers assured the Board that the NAO is actively engaging with HM Treasury to ensure all audits are back on track for certification by summer recess 2022 commenting that timeliness of accounts was a critical feature of Parliamentary accountability. She added progress towards reaching this milestone was good. Where delays are occurring to 2020-21 audits this was down to highly complex COVID related expenditure affecting two departments.

Strategic risks

5.2 Janet Eilbeck presented the views of ARAC on the year-end strategic risk register highlighting the improvements made to NAO’s risk management during the year arising from the benchmark exercise to align NAO’s risk practice to HMT Orange Book. She also referred to the clearer accountabilities and responsibilities following the launch of the new group structure as positive contributing factors. She added that during the year, ARAC has also developed a new approach to seeking assurance on NAO's risk management framework which has consisted of looking at different aspects of risk at different meetings. For example, at the March meeting the Committee looked at the content of the register, emerging risks, ones that could be moved, the outputs of any horizon scanning etc. and whether the key controls looked right. At the May meeting, the Committee focused on drawing together the assurances it receives from internal audit and others and discussed how the Committee would like to report these to the Board to inform the approval of the Annual Report. At the Committee’s autumn and winter meetings, members will be carrying deep dives on specific risks as necessary to test the assurances it receives on the control framework. She proposed a similarly themed approach for reporting to the Board at the three meetings when it receives the full strategic risk register. The Board agreed the proposed reporting approach.

5.3 The Board discussed the risks around the delivery of the Audit Transformation Programme (ATP) given the complex nature of the project and the intricate dependencies covering finance, learning & development, communications etc. Kate Mathers provided an update on the programme to date including the early results of the tendering exercise. She assured the Board one of her key priorities, informed by helpful advice from the non-executives, is to keep the programme as simple as possible as a way of de-scaling risks but also maximizing opportunities to the NAO. The non-executives offered their support to help ensure a successful outcome. Kate Mathers commented being able to draw on non-executive experience and expertise in the forum of the Audit Quality Board was immensely helpful. The Board noted a further update on the ATP would be provided at the July meeting.

**Governance**

6. Code of Audit Practice between C&AG and NAO

6.1 The Chair introduced the Code of Practice which governs the relationship between the C&AG and the Board and reported the time had come to update the Code to reflect changes in NAO’s business practice since the Code was first approved in 2012. She reported the Board would be invited to engage in the update exercise, most likely at a separate meeting of the Board. The C&AG commented the Code has worked well so far and the update exercise provided an excellent opportunity to take stock of changes over time and also to future proof the Code to the extent possible, for example taking into account changes in the oversight arrangements for NAO’s audit quality. The Board noted the updated Code would require approval by the Public Accounts Commission.

**Action: Governance team to advise Board on key milestones for the update of the Code**.

Board Objectives

6.2 The Chair thanked the non-executives and executives for their input to the formulation of Board objectives for 2021-22. She added that some of the objectives could potentially lend themselves to quantitative measures which might be tested in the staff survey in the future. Janet Eilbeck commented the Code of Practice provided a good supporting framework for the Board objectives. It was agreed the next step should include an engagement plan to turn the objectives into reality.

**Action: Helene Morpeth to work with internal communications to draw up an engagement plan for the Board.**

External Audit Contract

6.3 The Board agreed the recommendation from ARAC to extend the contract for external audit services for a maximum two-year period to cover the audit of the 2023-24 financial statements. The Board noted the recommendation would require approval by the Public Accounts Commission.

**Any other Business**

7. Feedback and reflections

7.1 The Chair sought feed-back on the meeting. The C&AG commented on the helpful input from the Board’s committees in providing assurance on the disclosures and narrative in the Annual Report and Accounts. He also valued the non-executives’ support and critical challenge on progress on NAO’s important internal projects. The executives commented that the discussion on operational matters, such as the staff survey and the ATP, had also covered significant strategic content.

Any other business

7.2 Daniel Lambauer reported on the incoming news of a major shutdown of government websites, including news channels. He reported NAO’s website had not been affected by the outage and that the NAO uses a different Cloud computing provider to the one used by the affected organisations.

Date and time of next meeting

7.3 The Board noted the next meeting would take place on 27 July 2021. Subject to government guidelines in place at the time the Board expressed a preference for a meeting in person at NAO’s offices.