



National Audit Office

Board Minutes

Meeting held on 2nd November 2021 from 14:45 to 17:00 hrs.

157-197 Buckingham Palace Road, London SW1W 9SP and via MS Teams and

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 VFM service line
Max Tse	MT	Executive Director responsible for Knowledge
Steve Corbishley	SC	Director CQU (item 4)
Andy Fisher	AF	Head of International Relations (item 3)
Adrian Jenner	AJ	Director of Parliamentary relations (item 1.9)
John McCann	JMcC	Director Human Resources (item 2 and 6)
Nigel Terrington	NT	Director of Strategy (item 5)
Sade Phillips	SP	Head of Finance and Procurement (item 5)
Saria Usman	SU	Head of Reporting, Finance team (item 4,5)
Rebecca Webb	RW	Lead on risk management (item 5)
Helene Morpeth	HM	Head of Governance and Risk (entire meeting)

Transactional Business

Welcome

- 1.1 Dame Fiona Reynolds, Chair, welcomed members and attendees and commented how pleasant it was to hold the Board meeting in person at the NAO's offices. She referred to the helpful briefing on communications held immediately prior to the start of the Board 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 July 2021 subject to one factual correction to audit quality scores.
- 1.5 The Board approved the summary note from the Board strategy day held on 1 October. It was agreed Daniel Lambauer and Nigel Terrington would provide a verbal update on next steps at the meeting of the Board in December.

Action: Daniel Lambauer and Nigel Terrington to provide verbal update in December on next steps following the Board strategy day.

Matters arising

- 1.6 The Chair reported that four suppliers had tendered for the external Board evaluation. The moderation meeting held earlier in the morning had selected a preferred supplier whose name would be announced to the Board following successful completion of baseline security checks.

Action Log

- 1.7 The Board noted there were seven actions on the Board action log of which one was complete with the remainder on track for completion by their respective due dates. Helene Morpeth reported that the review of the Code of Practice between the C&AG and the NAO would take place at the Board's meeting on 14 December with formal approval sought at the Board meeting on 1 February 2022, ahead of submission of the updated Code to the Public Accounts Commission in early spring 2022.

General (C&AG) Update

- 1.8 The Board received the C&AG's update covering internal and external developments since the last meeting, including his summary of key issues discussed with senior external stakeholders in Whitehall and Parliament. The C&AG provided his thoughts on the impact of the spending review on government departments, including the government's net-zero strategy, which opened up a wide-ranging discussion on potential implications for the NAO including the NAO's work programme. The C&AG also reported on his recent engagement with the Chairs of government departments' audit and risk assurance committees where themes emerging from NAO's financial audit and VFM work were discussed, including restoring the timely preparation and certification of the 2022-23 cycle of accounts.
- 1.9 The C&AG reported on the launch of the office's new ways of working on 1 October 2021 following extensive staff consultation on the proposed principles-based approach. The Board discussed the gradual and positive increase in the number of people working in the office following the easing of restrictions. The Board agreed it was too early to draw any meaningful conclusions from some of the early patchiness and inconsistencies in how teams were interpreting the new principles-based guidance.

- 1.10 The Chair reported on the positive feed-back she had received on the NAO's performance from two recent external engagements with senior stakeholders.

Parliamentary Update

- 1.11 Adrian Jenner provided a verbal update on recent Parliamentary developments including Caroline Nokes MP, Chair of the Women and Equalities Select Committee, presentation to NAO staff on Menopause at work and, separately, on Dame Meg Hillier's attendance at the senior leaders' conference where she had shared her reflections on the Committee of Public Accounts' agenda. The Board noted NAO's current engagement activities with Parliament and that further reporting on this would be provided at the December meeting.

People

2. Pay Award

- 2.1 The Board discussed the external and internal factors impacting the consideration of the 2022-23 pay award including the recent announcement of the lifting of the public sector pay freeze. Informed by the prior consideration of the pay award by the Executive Team and, separately the Remuneration and Nominations Committee, the Board endorsed the planning assumption for a 2% pay award on the basis that data pointed to strong retention levels despite an increase in recent months of resignation levels for qualified audit staff and analysts. The Board commented that a lower pay award was likely to impact motivation.
- 2.2 The Board agreed to keep the pay award figure under review in light of the highly volatile environment and pending final decision in early 2022 in conjunction with the preparation of the NAO Estimate for submission to the Public Accounts Commission. The Board also agreed the office should retain the approach of previous years of focussing on higher increases to those lower in their pay ranges to help reduce pay gaps caused by austerity.

Retendering of professional accountancy training contract

- 2.3 The Board noted the contract with the current provider for the provision of all professional training to prepare NAO's trainees for the ICAEW qualification expires in August 2022 and requires re-tendering, and approval by the Board to go to market is sought as the value of the existing contract is worth £500,000 per annum and c£2.7m over the period of the full contract. The Board discussed the opportunities presented by the retender to explore different models for how training can be delivered and in this context Gaenor Bagley offered to share insights from her prior experience in this area. In response to a question from Sir Martin Donnelly, the Board also engaged in a discussion on the office's apprenticeship strategy including the school level programme. The Board approved the retendering of the ACA training delivery.

Action: Helene Morpeth to take forward Gaenor Bagley's offer to provide advice on the tender documentation.

Impact

3. International Plan

- 3.1 Daniel Lambauer and Andy Fisher presented an update on NAO's international work which is classified as 'NAO-approved services' including how this work fits in with the NAO Strategy. The Board welcomed the priorities as set out for the next three years consisting of demonstrating the value that NAO's international engagement brings to our domestic work and the challenging work opportunities international work presents for NAO people. The Board endorsed the proposed approach of focusing engagement within the EUROSAI network of Supreme Audit Institutions (SAIs) in light, in particular, of NAO's recent election to serve on the EUROSAI Governing Board. The non-executives commented the NAO should also proactively reach out to SAIs in other regions where there was value in learning from each other.

Delivery

4. Financial Audit Quality Plan

- 4.1 Elaine Lewis and Steve Corbishley presented the draft annual Financial Audit Quality Plan – Year 2 for Board comment on progress since the publication of the Year 1 plan in January, including the measures being put in place to support the 2021-2022 audit cycle and beyond. The Board commented that more explicit commentary on root cause analysis and lessons learnt to-date would be helpful additions, including bringing in a stronger focus on culture and expected behaviours for improving audit quality. Janet Eilbeck commented that the Audit Quality Board (AQB) would review the Plan at its meeting next week, looking in particular at tone and messaging.

Action: Elaine Lewis to incorporate the Board's comments in the updated Plan.

Business Reports/Strategic Risk Register

5. Performance Framework

- 5.1 The Board received the results of the balance scorecard to end September and discussed the performance against the key indicators and major change initiatives in light of changes in the rating on the wedges under progress against Strategy and some movement in rag ratings of the major change initiatives, for example the Audit Transformation Programme (ATP) which had been moved to amber/red from amber. The Chair asked at what point the rating was likely to move back, and Kate Mathers reported the next key milestone for risk review would be in early 2022 at which point she expected to have clarity on preferred provider and platform and emerging outcomes from the early pilots of the phase 1 minimum viable product.

Strategic risks

- 5.2 The Board noted the proposed changes to two risks since the Board's last review of the strategic risk register: diversity of talent risk criteria had decreased to reflect progress made to date including being ahead of the majority to targets, and ATP risk criteria had been increased to better reflect the potential impact of any problems arising in early stages of delivery of such large projects. The Board commented it would be helpful to illustrate the main changes in the register highlights note, in a more visually friendly way.

Action: Helene Morpeth to look visual improvements to the highlights note.

Risk appetite

- 5.3 Janet Eilbeck reported the ARAC had endorsed the Executive Team's proposal to use the current target risk rating as a proxy for risk appetite, and introduce a new 'critical threshold' rating, as proxy for risk tolerance. The Board agreed the proposed way forward commenting it would help focus the Board's discussions on risk.

Governance

6. ARAC

- 6.1 The Board agreed to the Committee's programme of work for 2022-23 and noted Janet's Eilbeck verbal update of key issues discussed at the Committee meeting in October including the proposed topic for the external VFM review in 2022 on NAO's Human Resources which would be subject to Board approval at its December meeting.

RemCo

- 6.2 The Board agreed the Committee's programme of work in 2022-23 and received a verbal update by Clare Tickell on the key issues discussed at the Committee's October meeting including enhanced reporting derived from the office's new people survey tool and proposed scope for the review of the office's pay framework for implementation from April 2023.

Committee composition

- 6.3 The Chair reported that Gaenor Bagley would succeed Janet Eilbeck as Chair of ARAC from January 2022. The C&AG reported he was delighted that Janet Eilbeck had agreed to continue chairing AQB following her retirement from the Board next October 2022.

Any other Business

7. Annual perspective event

- 7.1 The Chair and C&AG updated members on the outline programme for the inaugural annual perspective event aimed at encouraging an open discussion amongst key decision makers within Whitehall on public sector improvement.

Feedback and reflections

- 7.2 The Board commented on the good quality of papers which had informed a constructive discussion on key strategic issues such as the pay award and audit quality.

Date and time of next meeting

- 7.3 The Board noted the next meeting would be held on 14 December 2021. Helene Morpeth reported volunteers were sought to participate in the Christmas Carol concert to be held in the auditorium prior to the start of the Board meeting.