



National Audit Office

## Board Minutes

Meeting held on 14 December 2021 from 14:00 to 17:15 hrs

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

<b>Members</b>		
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
<b>Attendees:</b>		
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
Katie Clifford	KC	Head of HR Policy and Services (item 3)
Adrian Jenner	AJ	Director Parliamentary relations (item 1.9)
John McCann	JMcC	Director Human Resources (item 3)
Susan Ronaldson	SR	Director ATP (item 2)
Nigel Terrington	NT	Director Strategy (items 4-6)
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 4-6 )
Rebecca Webb	RW	Lead on risk management (item 5)
Helene Morpeth	HM	Head of Governance and Risk

## **Transactional Business**

### Welcome

- 1.1 Dame Fiona Reynolds, Chair, welcomed members and attendees to the virtual meeting of the Board. She commented on the uplifting virtual carol service held earlier in the day and passed on her thanks to the organising Committee.

### 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 2 November 2021 as an accurate record, including the publication of the minutes on the NAO's external website.
- 1.5 Nigel Terrington provided a verbal update on follow up action since the Board strategy day on 1 October 2021 including work underway by line directors and NAO's knowledge hubs to explore methodologies and analytical tools for deepening NAO's assessment of the two strategic themes considered at the strategy day: land use and challenges for future workforce. He added NAO teams would also cover cyber resilience, infrastructure, and supply chains through a series of workshops planned for next January-February.

### Matters arising

- 1.6 The Board noted the matters arising including the approval of the Board's recommendation, by the Public Accounts Commission, to extend the NAO's external audit contract to 31 March 2024 to cover the audit of the 2023-24 financial statements and the 2024 external value for money review. In addition the Board noted that Board Excellence have been appointed to conduct the independent external evaluation of the Board following an open competition.

### Action Log

- 1.7 The Board noted there were nine actions on the action log of which six were complete with the remainder of actions on track for completion by their respective due dates.

### General (C&AG) Update

- 1.8 The Board received the C&AG's update since the last meeting covering internal and external developments. The C&AG reported he had certified a further 46 2020-21 accounts since his last update including the audits of HMRC, BEIS and DEFRA. He expected to certify the remaining outstanding departmental accounts early next year and added teams are planning that all departmental 2021-22 audits (with the exception of one department) should be certified by the 2022 summer recess deadline. The Board discussed the potentially negative consequences for Parliamentary accountability arising from the late certification of certain 2020-21 accounts and endorsed the robust line taken by C&AG on this matter.
- 1.9 Informed by the C&AG's update, the Board discussed the feedback from recent Committee of Public Accounts sessions held on NHS backlogs and waiting times in England and, separately, backlogs in the criminal justice system. In addition, the Board discussed the positive outcome of the two recent accountability sessions with the Public Accounts Commission covering Financial Audit Quality and the performance on the NAO in 2020-21. The Board concluded that taken together these two sessions had provided the Commission with a more detailed assessment of progress against the NAO's Strategy.
- 1.10 The C&AG reported on the measures taken by the office following the government's latest Covid related guidance. He reported a Christmas party had taken place on 9 December funded by the NAO Sports and Social Activities (NAOSSA) group at which all government guidelines had been

followed. The C&AC concluded his update by reporting that the planned for inaugural annual perspective event in January 2022 may have to move to an online event.

### Parliamentary Update

- 1.11 Adrian Jenner updated the Board on recent developments in Parliament including progress on his team's current engagement with MPs and medium to longer term plans to further reach out to Peers, researchers in the House of Commons Library and staff working for MPs. He added the team's interventions were tailored to the interests of MPs to the extent possible and informed by the results of the latest Ipsos MORI MP survey results. The update led to a wide-ranging discussion on the relative merit of the various interventions in a highly unpredictable environment. Members welcomed progress to date on the engagement plan.

### **Quality**

#### 2. Audit Transformation Programme

- 2.1 Kate Mathers reported on the latest developments in relation to the Audit Transformation Programme (ATP). The Board noted the programme has an amber delivery status due to initial delays in the release of the planning risk assessment tool which is now planned to be available for pilot teams to use in early January 2022. Furthermore Kate Mathers reported on the selection of a preferred bidder to be the office's strategic supplier subject to finalising the contract ahead of submission of the business case to the Board, for approval, on 1 February 2022. The Non-Executives sought further clarification on a number of points including reasons for the delays in the risk assessment tool; profile of the bidders; outcome of the evaluation process, including costs; and whether the upcoming business case would take into account ongoing maintenance and training costs. The C&AG commented that he is challenging the team on these very questions and is content with the assurances the team has provided. The Non-Executives endorsed the direction of travel so far.
- 2.2 Janet Eilbeck reported that the Audit and Risk Assurance Committee (ARAC), at its meeting on 8 December, had noted key management judgements regarding elements of the ATP and criteria which may need to be met to determine whether some of the expenditure relating to the ATP should be accounted for as capital or revenue. Janet Eilbeck added the NAO's external auditor is currently considering the matter.

### **People**

#### 3. Code of Conduct

- 3.1 Abdool Kara presented the draft 2022 Code of Conduct explaining that a number of revisions had been made to last year's Code including a concept refresh to shorten content, to make more use of graphics and case studies, and to make the Code more digestible. The Board suggested a few improvements for example including more information on the disclosure of personal relationship/friendship with audited entities and adding a photograph of the C&AG in the preface. In response to a question of detail, it was confirmed that human resources track data on cases of misconduct linked directly to breaches of the Code. The Board suggested communicating this linkage when promoting the Code to the office in the New Year and also whether data on misconduct should be disclosed in the annual report and accounts. The Board approved the 2022 Code of Conduct and encouraged the HR team to make the 2023 Code even shorter.

**Action: Abdool Kara to reflect the comments of the Board in the 2022 Code of Conduct and consider whether data on misconduct should be disclosed in the NAO annual report and accounts.**

#### Diversity pay gap report

- 3.2 Abdool Kara presented the 2021 diversity gap providing context on the office's progress to date to reduce gender and ethnic minority pay gaps. The Board discussed historic barriers and positive actions taken to address pay gaps but recognised the office has further to go. It was agreed to add a short reference to NAO's committed understanding of context and then provide

further detail in the 2021-22 NAO diversity report. The Board endorsed the publication of the NAO's 2021 diversity report on the external website and relevant government websites.

**Action: Abdool Kara to reflect the comments of the Board in the final version of the 2021 diversity pay gap report.**

## **Finance and Natural Resources**

### **4. 2022-23 draft Strategy update and Estimate**

- 4.1 Nigel Terrington updated the Board on the progress of the draft Strategy and Estimate document following initial consideration of key messages at the Board strategy day in October. He reported the proposed financial position included a higher request of resources in 2022-23 than previously anticipated due to the prolonged effect of the pandemic; ATP supplier costs; and additional cash costs required for technical IT audit advice to ensure compliance with the forthcoming ISA 315. He added that the expectation is the office will end the strategy period with more people prior to the pandemic however the associated additional salary costs will be met through increased income and reduced expenditure in other areas, for example travel and subsistence.
- 4.2 The Board discussed the assumptions on pay; impact of inflation; projections on rental income and likely reaction of the Public Accounts Commission to the proposed increase in demand for resources. The Board agreed the proposed increase in resource but advised the supporting argument should be watertight. The Board noted it would receive the updated Strategy and Estimate document sometime after 18 January 2022, ahead of formal approval at the Board meeting on 1 February 2022.

### External VFM review in 2022

- 4.3 Daniel Lambauer presented the scope of the external auditor's proposed review in 2022 on NAO's human resources function (including learning and development) based on the rolling programme of reviews of NAO's corporate functions. He reminded the Board of the prior year reviews on NAO's finance function and NAO's contract management. The Board noted the objective of the review is to provide assurance that the on-going investment in human resources and learning and development is being undertaken in line with VFM principles.
- 4.4 Janet Eilbeck reported that ARAC's view, following consideration of the scope at its meeting on 8 December, was that the review should be expanded to examine whether the NAO has the human resources function it requires to deliver the people objectives in the Strategy. The Board commented the scope should be auditable and suggested it should cover whether the NAO has the human resources 'structure and systems' it requires to deliver the people objectives in the Strategy. The Board noted the proposed fee for the review and timeline for completion of the review ahead of its submission to the Public Accounts Commission in time for the accountability session next autumn.

## **Business Reports/Strategic Risk Register**

### **5. Performance Framework**

- 5.1 The Board received the results of the balanced scorecard to end October 2021 and discussed the projected underspend for the year following management action to manage the position. The Non-Executives sought assurance on the actions being taken to address the current shortfall in the financial impacts target and noted the service management project had moved from a rating of green to amber-green to reflect some risks in delays in the procurement process.

### Strategic risks

- 5.2 The Board focussed their consideration of the strategic risk register on the ATP seeking assurance from management on the actions being taken to reduce the level of risk over time. The Board noted that it was not unusual for major projects of the scale and size of the ATP to be amber-red at the start of their project life in view of the number of inherent uncertainties and interdependencies at this stage. Management assured the Non-Executives that the aggregate number of risks should decrease following successful completion of a number of significant milestones such as the appointment of the strategic supplier and completion of pilot audits from January 2022.

- 5.3 The Board noted ARAC's views that the risk register contained a preponderance of amber and amber-red ratings which did not match their assessment of the NAO as an organisation where risks were well managed. In this context, Helene Morpeth reported that the work currently underway on incorporating an accepted level of risk should help address this point. It was agreed that Gaenor Bagley, as incoming Chair of ARAC, should attend a future monthly meeting of the Executive Team when risks are discussed to get a better understanding of NAO's risk landscape. The Board also noted the outcome of ARAC's deep dive on cyber security and that it would receive the Information Security plan and Digital plan at their meeting next March.

**Action: Gaenor Bagley to attend the next Executive Team meeting when risks are discussed to better understand the NAO risk landscape.**

## Governance

### 6. Code of Practice between the C&AG and NAO

- 6.1 Nigel Terrington presented the draft update to the Code of Practice between the NAO and the C&AG and summarised proposed changes and improvements from the current 2012 version of the Code, covering the following areas:

- procedures for when the Code should be revised and reviewed
- procedures to reflect how the Strategy is currently prepared, the period it covers, and how this fits with the annual update and Estimate presented to TPAC
- procedures to align the approval of NAO-approved services with current business practices
- Guidance on the steps to take in respect of C&AG incapacity
- Guidance on how to resolve disagreement between the NAO and the C&AG
- Removal of optional aspects that are contained elsewhere in the NAO's governance structure, for example procedures in respect of audit and remuneration committees

- 6.2 The Board noted the proposed changes were in line with the requirements of the Code as set out in Budget Responsibility and National Audit Act, (BRANA) 2011. The Board endorsed the proposed changes to the Code commenting the revisions provided greater clarity all round. The Board noted the next steps included consultation with the Treasury, as set out in BRANA. The Board would be invited to formally approve the updated Code at its meeting on 1 February 2022 informed by any views from the Treasury. The Code would then be submitted to the Public Accounts Commission for their approval at the Strategy hearing on 1 March 2022.

### Board engagement plan with the office

- 6.3 The Board discussed the proposed engagement plan for the Board with the wider office the objective of which is to increase awareness of the Board's role and leverage of Non-Executive skills and experience in a more structured way. The Non-Executives welcomed the initiatives in the plan and offered to help shape content. The Board concluded the plan was a good starting point which should be evolved over time informed by feed-back from NAO people.

**Action: Helene Morpeth and Will Sharp to take forward content in the plan engaging the Non-Executives as necessary.**

### Audit and Risk Assurance Committee (ARAC) update

- 6.4 Janet Eilbeck gave a brief verbal update on the outcome of the ARAC meeting held on 8 December (not already reported to the Board) including the agreement to commission the quinquennial review of the Internal Audit function. She also commented on the helpful insight and assurance provided by the annual review of the NAO's compliance against its legal obligations.

### Independent external member of the ARAC

- 6.5 The Board agreed to extend the independent external member's appointment to ARAC to 31 December 2023 based on the strong performance of the current incumbent.

#### External Board evaluation

- 6.6 The Board noted the next steps in relation to the Board's external evaluation.

#### **Any other Business**

##### 7. Feedback and reflections

- 7.1 The C&AG commented that the discussions on the ATP had added helpful insight and good advice to shape next steps.
- 7.2 The Chair thanked Janet Eilbeck for her outstanding contribution as Chair of ARAC over the last five years.

##### Contracts awarded by the office during January-December 2021

- 7.3 Helene Morpeth reported she would be circulating a paper for information, via email, summarising contracts awarded during 2021 and contracts in the pipeline in 2022 which would require Board approval.

##### Date and time of next meeting

- 7.4 The Board noted the next meeting would be held on 1 February 2022.