



National Audit Office

Board Minutes

Meeting held on 26 July from 10:00 to 12:30 hrs.

157-197 Buckingham Palace Road, London SW1W 9SP, Blue Mezz 1 & MS Teams

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 & Auditor General
Daniel Lambauer	DL	Executive Director responsible for Strategy and Resources
Kate Mathers	KM	Executive Director responsible for Financial Audit Service Line
Max Tse	MT	Executive Director response for Knowledge
Attendees		
Abdool Kara	AK	Executive Director responsible for People
Elaine Lewis	EL	Executive Director responsible for Financial Audit Quality
Rebecca Sheeran	RS	Executive Director responsible for VFM service line
Claire Blackburn	CB	Project Manager, Net Zero Project (item 5)
Jenny Brown	JB	Parliamentary Relations Manager (item 3)
Katie Clifford	KC	Head of HR policy and services (item 4)
Vicky Cox	VC	Head of Facilities (item 5)
Adrian Jenner	AJ	Director, Parliamentary Relations (item 2)
John McCann	JMcC	Director HR (item 4)
Susan Ronaldson	SR	Director of ATP (item 5)
Nigel Terrington	NT	Director Strategy (items 3 & 5)
Helene Morpeth	HM	Head of Governance and Risk

1. Welcome and Chair's opening remarks

Welcome

- 1.1 Dame Fiona Reynolds, Chair, welcomed members and attendees to the meeting.

Apologies for absence

- 1.2 The Chair reported that Max Tse was delayed due to a broken down train and would join the meeting remotely as soon as practicable.

Declaration of Interests

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

2. Regular items

Approval of Minutes

- 2.1 The Board approved the minutes of the meeting held on 17 June 2022 as an accurate record, including the publication of the minutes on the NAO's external website.

Action Log

- 2.2 Helene Morpeth reported that there were five actions on the log of which two were complete and three were in hand for completion by their respective due dates. She reported that one of the open actions, regarding the request for a demonstration of the roll out of the new laptops to the Non-Executive, had been raised at a time when there were teething problems with the Non-Executives' iPads. However the technical issues have now been resolved and therefore it may be preferable for the Non-Executives to stick to their iPads, supported as necessary by the Digital Services team when required. It was agreed this was a sensible way forward. The Board agreed the deletion of the completed actions.

General (C&AG) Update

- 2.3 The C&AG provided his update since the last meeting of the Board. He reported that his priority over the coming months will be to clear the higher than expected number of audits that have missed their planned pre-recess slot. He commented that there were several reasons for this, including delays on the part of audited bodies in dealing with audit queries; disruption to ministerial sign off caused by the recent political turbulence; late emerging technical issues; and the office's own resource gaps exacerbated by Covid.
- 2.4 Turning to the draft Transparency Report, for which he thanked the Non-Executives for their comments, he reported that the office has not yet received the final results from the Financial Reporting Council's (FRC) external review of a sample of NAO financial audit files. As a result the draft Transparency Report is drafted on the likely assumption that we will not receive final results before publication. He reported that the results of the FRC's review are likely to show a drop in quality scores which is disappointing. He added that once we receive the final scores from the FRC the report will be finalised, giving the Non-Executive Directors an opportunity to review the commentary.
- 2.5 The Non-Executives advised that the C&AG's foreword to the Transparency Report would be a good place to reflect on the NAO's overall trajectory on quality including the emphasis the office is placing on continuous improvement. It would also be helpful to point to the robust assurance framework underpinning our controls. Janet Eilbeck, in her capacity as Chair of the Audit Quality Board (AQB), commented that the implications of the new FRC scoring system would be discussed at the next AQB. Separately the Non-Executives commented that they have found all of the recent VFM reports to be excellent and well timed.

Action: Helene Morpeth to circulate the updated Transparency Report ahead of publication on the NAO's external website.

3. Strategic Discussion

Preparing for the next Parliament

- 3.1 The Board engaged in a strategic discussion on the topic of “Preparing for the next Parliament” and contributed their views and perspectives on the following questions:
- What kind of relationship do we want to establish with a new Parliament?
 - How should the NAO best engage with a new PAC and TPAC in a new Parliament?
 - How the NAO operates during a general election and the NAO’s engagement with Parliament post-election.
 - How Select Committees are established after an election.
 - The NAO’s relationship with the Chair of the Committee of Public Accounts and TPAC.
- 3.2 The Board concluded that the office’s parliamentary engagement strategy is working well and delivering excellent results in terms of reach to MPs; MP researchers; and engagement with Select Committees over and above the Committee of Public Accounts. The Board commented that the office benefits from a Parliamentary Relations Team that is highly skilled and has deep expertise in Parliamentary matters and makes full use of networking possibilities in the House. The Non-Executives advised that the office should carry on with the current engagement plan and wherever possible seek a more proactive approach with currently disengaged MPs, more face to face engagement, more tailored (e.g. constituency-based services and also explore a deeper engagement with the House of Lords.
- 3.3 The suggestion of a CRM system was raised as a way to complement current knowledge of MP’s interests. It would also enable us to capture the full breadth of engagement with MPs across the office.

Next steps

- 3.4 It was agreed that the next topic for strategic discussion should be informed by the outcome of the Board strategy day.

4. Substantial approvals

Pay framework review

- 4.1 Daniel Lambauer presented the updated proposals on the pay framework review informed by discussions with Janet Eilbeck and Gaenor Bagley following the June Board meeting. The Board endorsed the new pay framework structure as presented covering the introduction of a new grade in the financial audit service line; changes to pay ranges; changes to grade titles; introduction of a specialist grade to reflect market premium; the principle of pay progression; and regional pay. The Board noted there were some additional elements to be included in the proposals which currently contribute to unnecessary pay complexities.
- 4.2 The Non-Executives requested that the implementation costs associated with the new pay framework should be presented at a separate meeting to inform the Board’s ultimate approval of the pay framework. It was agreed that RemCo should be consulted as a starting point so that it can advise the Board accordingly.

Action: Helene Morpeth to arrange an additional meeting of RemCo to consider the implementation costs of the new pay framework, followed by a meeting of the Board to seek approval informed by RemCo’s advice.

5. Substantial operational matters

Planning for a potential Supplementary 2022-23 Estimate

- 5.1 The Board received a paper summarising the process requirements for a supplementary estimate request from the Public Accounts Commission (TPAC) noting that the two potential components for such a bid consisted of the Newcastle office lease and a potential in-year review of the 2022-23 pay award. Daniel Lambauer explained that the lease to the NAO’s current

property in Newcastle ends in August 2023 however the landlords of the new office space have proposed a lease commencement date of 1 January 2023 which has technical budgetary consequences for the current financial year under IFRS 16 Leases. In addition there will be resource costs associated with entering into the new lease which will fall between 1 January 2023 and the end of the financial year which have not been budgeted for. There will also be costs associated with fitting a new space which we have not budgeted for.

- 5.2 The Board agreed that there was a robust rationale for entering into an earlier than anticipated lease arrangement with the new landlord and commented that the requirement for a supplementary estimate was largely driven by technical accounting considerations. The Non-Executives requested that full costings for the move to the new office space should be provided to inform the Board's formal agreement to seek a supplementary estimate from TPAC on this particular question.
- 5.3 Daniel Lambauer sought the Board's initial views on the case for a pay related supplementary request to cover the impacts of the April award on: the net take home of pay following increases in employee pension contributions; increased resignation rates which are above target; recruitment levels which are below target; and responses from our people survey. Daniel Lambauer also referred to the external economic factors, in particular the rising levels of inflation, and the civil service pay remit guidance for 2022-23.
- 5.4 The Board debated the pros and cons of a potential pay supplementary request taking into account the impact on the NAO's capacity to deliver the work programme; staff engagement; and reputational considerations. On balance the Non-Executives did not feel that the current proposal sufficiently took into account the fact that the NAO is not part of the civil service and competes, to a large extent, with the private sector. The Non-Executives also commented that the proposal did not fully take into account the impact of the pay review framework due to be implemented from 1 April 2023. The Chair recommended that the Board should have a further consideration of the arguments for a potential in-year pay supplementary request, in September, informed by the costings associated with the pay framework review.

Action: Helene Morpeth to arrange an additional Board meeting in September to consider the question of a potential in year pay supplementary bid.

Audit Transformation Programme (ATP) Update

- 5.5 Susan Ronaldson and Kate Mathers provided a progress update on the ATP across the three key components of the programme following the Board's approval of the ATP business case earlier in the year. They reported that the overall programme delivery status has improved to amber (from amber/ red) since the last update to the Board due to the good progress being made on the launch of the Phase 1 Minimum Viable Produce (MVP) in autumn 2022. They explained that the amber rating reflects that the overall timetable for the delivery of Phase 2 pilots is tight and must be delivered in parallel with the MVP launch. Kate Mathers added that the feed-back on the pilots has been positive and the NAO's strategic partner has demonstrated that they can build quickly using low code technology and are providing assurance around expected system functionality.
- 5.6 Janet Eilbeck reported that she was content, overall, with progress to-date. The Chair thanked Janet for their helpful update and recommended that the Board should receive a further update at its next meeting.

Action: Kate Mathers and Susan Ronaldson to submit an updated paper on ATP progress to the next Board meeting.

Net zero Carbon Annual Report

- 5.7 Vicky Cox and Clare Blackburn presented the yearly Net Zero project report and reported that one of the key objectives during the year has been to create an initial carbon footprint data for all scopes of carbon for the last five financial years. The objective has been achieved thanks, in part, to the commuting and working from home carbon calculator tool published in last October. The focus for the year ahead will be the creation of a detailed carbon reduction pathway plan aimed at reducing carbon in all areas (both estate and operations). They concluded their update by reporting that the office is on track on the overall project timetable. The Chair thanked the team for an excellent report in a key strategic, and ambitious, area for the NAO.

6. Matters for Board to note/for Information

Performance and Risk reports to end of June

- 6.1 The Board received the performance report to 30 June noting an increase in amber ratings across a range of KPIs which they commented felt right in light of the discussion and issues raised in the course of the meeting. The Board also noted the green rating to four of the office's six strategic projects with two projects rated amber.
- 6.2 The Board received the summary of strategic risks to 30 June noting that two risks: Knowledge and Skills and Financial Impacts have increased from green to amber ratings however both remain within their critical thresholds. Janet Eilbeck commented that the earlier discussion on staff and pay may have an impact on the risks relating to operational delivery and operational resilience in the months ahead. She also reported that the AQB would be looking in depth at the FRC's report at their next meeting. Gaenor Bagley reported that the ARAC would continue to seek assurance on the controls and mitigating actions for the risks in the "of concern" category.

Outline agenda for Board strategy day

- 6.3 Nigel Terrington presented the key themes for the upcoming Board strategy day on 29 September which would include a session on the culture of government presented by an external guest speaker. The Board welcomed the outline programme for the strategy day.

7. Conclusion

Feedback on meeting

- 7.1 The Board commented that the meeting had covered important strategic and operational matters at the right time in the NAO's business cycle.

Any other business

- 7.2 The C&AG informed members of the upcoming event to be held at Portcullis House on 15 September, with the participation of the Chair of the Public Accounts Committee. The event will focus on sharing the NAO's insights from auditing public spending through the pandemic and highlighting the key risks to achieving value for taxpayers' money in the year ahead.

Date and time of next meeting

- 7.3 The Board noted that there will be an additional meeting in September (date TBC). This will be followed by the all-day strategy meeting on 29 September 2022.