



# National Audit Office

## Board Minutes

Meeting held on 23 March 2023 from 14:30 to 17:00 hrs.  
157-197 Buckingham Palace Road, London SW1W 9SP

| Members              |      |                                                                 |
|----------------------|------|-----------------------------------------------------------------|
| Dame Fiona Reynolds  | FR   | Chair                                                           |
| Sir Martin Donnelly  | MD   | Non-Executive Member                                            |
| Gaenor Bagley        | GB   | Non-Executive Member                                            |
| Dame Clare Tickell   | CT   | Non-Executive Member                                            |
| Alistair Conner      | AC   | 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             |
| Steve Corbishley     | SC   | Director, Compliance and Quality Unit (item 5)                  |
| Chloe Forbes         | CF   | Head of Strategy (item 3)                                       |
| Adrian Jenner        | AJ   | Director Parliamentary Relations (item 5)                       |
| Hannah McNicholl     | HMcN | Director External Communications (item 5)                       |
| John McCann          | JMcC | Director HR (item 5)                                            |
| Anna Sydorak-Tomczyk | AST  | Lead on Annual Report and Accounts (item 5)                     |
| Nigel Terrington     | NT   | Director Strategy                                               |
| Baljinder Virk       | BV   | HR specialist (item 5)                                          |
| Helene Morpeth       | HM   | Head of Governance and Risk                                     |

### 1. Chair Welcome

#### Welcome

- 1.1 Dame Fiona Reynolds, NAO Chair, welcomed members and attendees to the meeting. She extended a special welcome to Alistair Conner who was attending his first Board meeting in his capacity as recently appointed non-executive member.

#### Apologies for absence

- 1.2 The Chair reported that there no apologies for absence.

#### Declaration of Interests

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

#### Appointment of Executive Members of the Board in 2023-24

- 1.4 The Chair reported that the non-executive members have approved the C&AG's recommendation that Abdool Kara, Daniel Lambauer and Rebecca Sheeran should be the executive members of the Board for the next financial year.

## 2. Regular items

### Approval of January Minutes

- 2.1 The Board approved the minutes of the meeting held on 24 January 2023 as an accurate record.

### Action Log

- 2.2 The Board noted that the log contained one action which was in hand for completion by its due date.

### Update from the C&AG

- 2.3 The C&AG provided his update on events since the last meeting of the Board. The C&AG's update led to a wide-ranging discussion covering amongst other things progress on the negotiations with the Trade Union on the implementation of the pay review for audit grades. The Board also discussed the Machinery of Government Change (MOG) announced on 7 February 2023, including the creation of a new government department focused on energy security. The MOG would most likely require a supplementary estimate as the costs of the associated additional audit work had not been factored into the 2023-24 Estimate due the timing of the announcement.
- 2.4 The Board noted the briefing note on 2021-22 qualifications which the C&AG had appended to his update, for information. The Board agreed that a future briefing which explained in more detail the role and place of qualifications would be very helpful.

**Action: Helene Morpeth to arrange a briefing for the Board on the role and place of qualifications.**

## 3. Strategic Discussion

### Ideal State for the NAO (Part 1)

- 3.1 The Board took part in a strategic brainstorm exercise. Members were divided into two groups to consider what our 'ideal' external environment would be at the end of the C&AG's ten-year term if the NAO successfully delivered its strategy. The first group covered financial audit and the second group covered value for money.
- 3.2 Main points from the VFM group were:
- Services are orientated around users / citizens / communities with seamless, integrated journeys
  - There is a learning culture in government
  - Intended outcomes are clear and the costs of meeting those outcomes are understood
  - MPs accommodate the practical realities of service delivery and implementation, and civil servants can 'speak truth to power'
  - Correspondingly to bring about this 'ideal', the NAO would need to: have a wider set of influencing activities; enhance the quality of recommendations and insights; continue to share our insights from our body of work; and second staff to develop their experience within the public sector
- 3.3 Main points from the financial audit group were:
- Government's operations, including back-office operations, are efficient and deliver value for money, with no legacy financial systems
  - There is quicker, high-quality assurance for Parliament about public spending
  - MPs and Permanent Secretaries use information in accounts to understand performance

- Having a better audited public sector has a positive effect on the quality and timeliness of auditing in local government
- There is an evolution in the Financial Reporting Council's (FRC) thinking around use of controls-based auditing, so substantive testing can dramatically reduce
- Sustainability accounting through ESG helps public bodies to report on wider issues
- Correspondingly to bring about this 'ideal', the NAO would: routinely summarise accounts for Parliament; work to assist Permanent Secretaries and MPs to use the information in audited accounts to further judge performance; produce a report at the start of each Parliament summarising issues to date across public sector; and produce a suite of effective VFM studies with impactful recommendations and lessons learnt on Shared Service Centres

#### **4. Substantial approvals**

##### Review of the NAO's internal Whistleblowing Policy.

- 4.1 The Board received the proposed update to the NAO's internal whistleblowing policy which reflected the comments made by the Executive Team and the Audit and Risk Assurance Committee (ARAC) as part of their respective reviews of the framing document. Clare Tickell commented that the proposed updated policy took into account lessons learnt from the investigation she had carried out in 2022. Helene Morpeth reported that the policy would be launched to the office in mid-April, after the Easter break.
- 4.2 The Board approved the updated internal whistleblowing policy.

#### **Substantial operational matters**

##### Corporate 2022-23 Annual Reports

- 5.1 Anna Sydorak-Tomczyk presented the outline structure for the 2022-23 Annual Report and Accounts (ARA) including the proposed design concept. The Board endorsed the overall tone, style and approach for the ARA however commented that the C&AC's introduction could focus more on impact. There was a suggestion that the ARA could be launched in Newcastle.
- 5.2 Baljinder Virk presented the outline structure for the 2022-23 Diversity and Inclusion Annual Report and reported that we have made progress in many key areas however there has been less progress in the retention and progression of our ethnic minority colleagues and in the representation of women recruited to our graduate programme. The Board agreed that we should provide an open and honest account of this including the proposed actions to address this. In addition, the Board recommended that we should provide more contextual analysis on these issues as they relate to both wider societal trends and trends within the accountancy profession.
- 5.3 Steven Corbishley (SC) presented the outline structure for the 2022-23 Transparency Report. He reported that the content would be similar to last year except for two additional areas: firstly, commentary on our progress on implementing the new ISQM 1 standard and secondly, as part of our Audit Quality Indicators (AQI) initiative, to deliver the first phase of this work with an annex of publishable AQIs. In addition, SC added that we are looking to reinstate the July publication timeline from which we departed last year due to not having an interim view from the FRC.
- 5.4 Members suggested that the Transparency Report should also focus on culture and the behavioural changes that we are already seeing, and seeking to embed, from the Audit Transformation Programme and the change to risk assessment and planning. In response to a question on progress on audit quality scores, the C&AG reported that there is a modest improvement compared to last year however the AQIs will provide a wider and much richer account of quality.

**Action: Annual report teams to consider the views of the Board when progressing their respective reports.**

### Annual MP feedback

- 5.5 Adrian Jenner presented the findings from the 2022 Ipsos MORI survey of MPs reporting that survey results overall continue to be very positive: MPs familiarity with the NAO is at its highest level and the NAO continues to have one of the strongest reputations amongst organisations that participate in the survey. Members discussed the difference in results depending on party affiliation and observed that MPs of the party in opposition tended, historically, to view the NAO more favourably.
- 5.6 The Board were pleased and encouraged by the positive results of the survey and commented that the Parliamentary engagement plan is delivering strong outcomes. Members noted that the MPs current familiarity with the NAO will diminish with the new intake of MPs at the next general election. In this context, the Chair recommended that as part of the ongoing strategic discussion on the ideal state for the NAO, we should look at ways in which we can tailor the findings from our work to MPs constituencies.

### Annual Client feedback

- 5.7 Hannah McNicholl presented the findings from the 2022 client feed-back survey. She reported that financial audit scores remained high compared to last year, though there were differences in scores between the audits conducted in-house and the contracted-out audits. She added that VFM questions were restricted this year to those bodies which have been subject to a study in the last 12 months. Results from VFM rose significantly. Furthermore, insights work scored very positively though there was strong feedback that we should provide more tailored, concise insights.
- 5.8 Members discussed the reasons for the difference in results between audits performed in-house vs contracted-out audits and the C&AG explained that last year represented the first year of the implementation of the new audit framework contract. He added that we are conducting a lesson learned exercise to determine best way of allocating audits to audit firms for the next audit cycle. We are also looking at ways in which we can improve project management and client communications for audits conducted in-house.

### Update on the Audit Transformation Programme (ATP)

- 5.9 Kate Mathers (KM) provided the regular progress update on the ATP. She reported that phase 1 is now substantially complete with the new methodology and tooling, including the risk assessment and planning tool (RAPT). She added that we are starting to see early evidence of efficiencies from the implementation of the RAPT which is very encouraging with teams now able to share data instantaneously, in a way that was not possible beforehand. Phase 2 is underway, and the release of associated pilots is now expected at the end of March. Members asked questions of detail on the timing of pilot releases which KM responded to.

### Six monthly progress updates on the NAO's performance and risk management

- 5.10 The Board received the six-monthly progress reports on performance against the strategy and risk management. They sought assurance from management on the amber rated quadrant relating to effective use of technology, data, and knowledge. Daniel Lambauer explained that the rating reflected ongoing teething problems with the lap top refresh and questions around the upgrade to technology in meeting rooms and creation of more quiet spaces within the London office where people can work with less noise disruption. Max Tse reported that the amber rating on knowledge related to legacy issues that are being fixed as part of the continuous improvement of the Merlin intranet site.
- 5.11 The Board agreed that in future it should devote more time to discussing the actions being taken to address the quadrants in the strategy wheel that are rated amber.

**Action: Helene Morpeth to arrange for the Board to conduct deep dives on the amber rated quadrants in the strategy wheel.**

### Findings from the Board's self-assessment including proposed next steps

- 5.12 The Chair presented the findings from the Board's 2022-23 internal assessment focussed on progress made on the five actions arising from the external Board evaluation. She reported that the overwhelming view of executives and non-executives is that the Board has made positive progress over the year for example the Board feels more coherent, with a good set of complementary skills. The new agenda structure is working well and there have been some good examples of the non-executives constructively challenging proposals from management. Members feel that the Board should spend more time on operational issues, for example when segments of the strategy wheel go to amber or amber/ red. The Chair added that attendance at meetings still feels large and to counteract this she recommends that after every other Board meeting the non-executives should meet in private with the C&AG.
- 5.13 The Board discussed the issue of attendance and agreed that there was no simple solution. They recognised that for attendees there is value in hearing the views of the Board directly on specific issues. Members were concerned however that attendees may feel that their brief interaction with the Board could be sub-optimal. It was agreed that Helene Morpeth would seek feed-back from attendees on this question.
- 5.14 The Board also agreed that the appointment of a diverse candidate has not been achieved in the most recent campaign and that securing a strong short list of appointable diverse candidates was a priority for the forthcoming campaign. The Board also agreed that Helene Morpeth should look at ways in which Audit Quality Board could be more closely locked-in with the Board's assurance requirements.

**Action: Helene Morpeth to draw up an action plan to take forward the priorities for the Board in 2023-24, informed by the Board's internal review.**

## **6. Matters for Board to note/discussion by exception**

### Update on the Corporate Services Pay review

- 6.1 The Board noted the update on the Pay framework review for corporate services grades which had previously been discussed by the Remuneration and Nominations Committee (RemCo). The Board endorsed the desired aims and outcomes of the pay review. The Board noted that it would be invited to approve the pay review at its meeting in July.

### Findings from benchmark against NAO's Climate Change guidance for ARACs

- 6.2 The Board noted the outcome of the review of the NAO's management of climate change risk based on the guidance produced by the Financial and Risk Management hub. The Board noted that the outcome of the review had been discussed by the Audit and Risk Assurance Committee (ARAC) earlier in March, and that there were no issues or risks to bring to the Board's attention at this point in time.

### Committee update: minutes from latest RemCo and update from latest ARAC

- 6.3 Clare Tickell (CT) provided a brief update of the RemCo meeting held on 25 February which had discussed amongst other things the C&AG's recommendation for the remuneration of the Executive Directors from 1 April 2023, informed by the C&AG's assessment of their performance in 2022-23. The Committee also discussed progress on the Director curriculum which was launched in 2020 and advised the Chair on the approach for the forthcoming non-executive recruitment campaign. CT recommended that all non-executive members of the Board should be invited to attend the Committee's meeting in the February / March cycle.

**Action: Helene Morpeth to invite all the non-executives to attend the RemCo meeting in the early spring cycle.**

- 6.4 Gaenor Bagley reported that the ARAC meeting held on 1 March had approved the accounting policies for 2022-23 and the internal audit operational plan for 2023-24. The Committee also received assurances from management on the actions to bring the separate risks on sickness absence, mental health and wellbeing and people engagement closer to target. The Committee noted that the risk on Financial Impact was almost certain to miss the target for 2022 and

commented that there were understandable and explainable reasons for missing the target this year.

#### Audit Quality Board (AQB): verbal

- 6.5 Gaenor Bagley reported that the AQB meeting held on 2 March had discussed progress on financial audit and VFM quality; progress on the implementation of ISQM 1 standard and received an update on the Financial Instruments Centre of Expertise.

#### NED vacancy: verbal update from the Chair

- 6.6 The Chair reported that together with Helene Morpeth she would be meeting search firms over the coming weeks to discuss the approach to the forthcoming non-executive vacancy ahead of the launch of the campaign in September. She would make clear the priorities of the Board with this next appointment. She added that the Public Accounts Commission have agreed to hold the appointment hearing in December.

## **7. Conclusion**

#### AOB

- 7.1 No other business was raised.

#### Date and time of next meeting

- 7.2 The Board noted that the next meeting would take place on 9 June 2023 in the new offices in Newcastle. Members noted that they would be required to travel to Newcastle on 8 June.