



National Audit Office

## Board Minutes

Meeting held on 25 July 2023 from 11:00 to 13:00 hrs.

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

| Board members       |    |                                                                 |
|---------------------|----|-----------------------------------------------------------------|
| Dame Fiona Reynolds | FR | Chair                                                           |
| Gaenor Bagley       | GB | Non-Executive Member                                            |
| Alistair Conner     | AC | Non-Executive Member                                            |
| Sir Martin Donnelly | MD | Non-Executive Member                                            |
| Dame Clare Tickell  | CT | Non-Executive Member                                            |
| Gareth Davies       | GD | Comptroller and Auditor General                                 |
| Abdool Kara         | AK | Executive Director Local Services                               |
| Daniel Lambauer     | DL | Executive Director Strategy and Resources                       |
| Rebecca Sheeran     | RS | Executive Director VFM service line                             |
| Attendees           |    |                                                                 |
| Elaine Lewis        | EL | Executive Director responsible for Financial Audit Quality      |
| Kate Mathers        | KM | Executive Director Financial Audit service line                 |
| Max Tse             | MT | Executive Director Knowledge                                    |
| Vicky Cox           | VC | Head of Facilities (item 4)                                     |
| Susan Ronaldson     | SR | Director Audit Transformation Programme and Engagement (item 4) |
| Claire Blackburn    | CB | Lead on Net Zero project (item 4)                               |
| Steven Corbishley   | SC | Director Compliance Quality Unit (item 3)                       |
| Will Sharp          | WS | Head of Internal Communications (item 4)                        |
| Helene Morpeth      | HM | Head of Governance and Risk                                     |

### 1. Welcome and Chair's opening remarks

#### Welcome

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

#### Apologies for absence

- 1.2 The Chair reported that apologies for absence had been received from Alistair Conner and Sir Martin Donnelly. Catherine Hope-MacLellan had sent her apologies in attendee capacity.

#### Declaration of Interests

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

### 2. Regular items

#### Approval of June Minutes

- 2.1 The Board approved the minutes of the meeting held on 9 June 2023 as an accurate record of the meeting.

#### Matters arising

- 2.2 There were no matters arising.

#### Action Log

- 2.3 Helene Morpeth reported that there were six actions on the log of which three would be completed as a result of today's meeting. The remaining three actions were on track for delivery by their respective due dates. The Board agreed the deletion of the completed actions.

#### C&AG Update

- 2.4 The C&AG provided his update on events since the last meeting of the Board. He reported that 60% of 2022-23 audits have been certified by the Parliamentary summer recess date of 20 July, compared to 53% achieved last year. At the same time the Office has implemented a new audit risk assessment methodology; dealt with the first year of IFRS 16 implementation by many of the NAO's audited entities; and provided extended auditor reports on departmental accounts. The C&AG added that alongside the completed audits, the Office has also brought forward the work on many other entities, so that they can be completed earlier than last year after the recess date. The non-executives congratulated the C&AG and the Executive Team on the excellent work carried out by teams to achieve this positive result.
- 2.5 The C&AG and Chair reflected on the recent accountability session on the NAO's 2022-23 Annual Report and Accounts during which the Public Accounts Commission had probed the Office's performance against targets with a focus on financial impacts, audit quality and staff engagement. The C&AG and Chair reported that they had signaled that we expect to request a supplementary estimate for the current financial year to cover the cost of implementing the final pay framework review; auditing one more government department as a result of the machinery of government changes and higher than expected spending on specialist advice in response to emerging audit risks. The C&AG also reported that the Office will carry out an independent assessment of the modelling behind the long-term workforce plan for the NHS and consider whether NHSE's current approach to workforce modelling – and the models themselves – are a reasonable basis for regular strategic workforce planning. He added that the assessment would not compromise the NAO's independence to carry out future audit work in the health area.
- 2.6 The Board discussed the implications of the latest developments on the negotiations with the Trade Union on the pay review for audit grades and were encouraged to hear that positive progress had taken place since the last meeting.
- 2.7 The C&AG reported that he has been appointed to the Board of the INTOSAI Development Initiative (IDI) which oversees IDI's work in supporting national audit offices globally in capacity building, professional development, and independence challenges. The Office has also indicated its willingness to increase its engagement on financial audit standard setting within the INTOSAI framework. He added that the IDI appointment coupled with the targeted INTOSAI engagement are in line with our ambition to place the Office in a favorable position to seek appointment to the UN Board of Auditors when the next vacancy arises. The non-executives expressed their support for these recent international developments and commented that they constitute an attractive employee proposition to future recruits. The Board agreed to hold a further discussion on the NAO's international strategy later in the year.

**Action: Helene Morpeth to arrange a discussion on progress on the international strategy including next steps at a Board meeting later in the year.**

### **3. Substantial approvals**

#### 2022-23 Transparency Report

- 3.1 Elaine Lewis (EL) presented the draft 2022-23 Transparency Report which takes into account comments received from the Board previously and the Audit Quality Board at their meeting earlier in July. EL reported that as at today's date we are still awaiting the individual scores for six out of the nine reviews selected by Financial Reporting Council (FRC) as part of their sample. In addition we are also awaiting the FRC's overall conclusion from its inspection. It is clear from the emerging picture that that this year's results will be short of where we need to be which is disappointing; however we are confident that the investments in audit quality will sustain our

delivery of consistently strong audits. Against this background the Board discussed the option of publishing an interim report to meet the end of July deadline or wait to publish in September when we have received the full outcome of the FRC inspection. The Board expressed its disappointment in the delay to the process caused by FRC's late reporting, but agreed to publish in September so that we can provide a complete response on progress and findings from the inspection.

**Action: Helene Morpeth to circulate the finalised 2022-23 Transparency to the Board for endorsement via correspondence ahead of publication in September.**

#### **4. Substantial operational matters**

##### Leading in practice (review by the Committee on Standards in Public Life): 20 questions for leaders to discuss

- 4.1 The Board received the results of the self-assessment against the 20 questions for leaders published by the Committee on Standards in Public Life (CSPL) in January 2023. The Board noted that whilst we do not specifically refer to the Nolan Principles in our values, we are very closely aligned to these principles as demonstrated by the mapping of the Office's values to the principles. The Board agreed that a discussion on how we bring our values to life should form a key part of the upcoming conversations on culture and it should also incorporate behaviours.
- 4.2 The non-executives provided comments of detail on question seven of the self-assessment and it was agreed that Helene Morpeth should update the response for completeness by including reference to the Office's numerous grade forums.

**Action: Helene Morpeth to update question seven of the self-assessment.**

##### Net Zero update/annual report

- 4.3 Daniel Lambauer (DL) presented the 2022-23 Net Zero Carbon Annual Report which presents progress against the Office's aim to achieve net zero carbon emissions by 2029. Highlights of the year include the move to a sustainable office in Newcastle and the retention of our ISO 14001:2015 certification for our environmental management system. He added that our focus will now switch to completing a feasibility study for the installation of heat pumps in our London office, and based on the results we will review our existing financial plans.
- 4.4 DL added that overall our carbon footprint has increased during the year as a result of increases from our supply chain (Scope 3). The picture is complicated by the fact that suppliers do not have accurate data on their carbon emissions and by the absence of a structured reporting and assurance framework. Against this backdrop the Executive Team recommends that we should amend our aim to be net zero carbon by 2029 for carbon from our Estate (Scope 1 and 2) and that we aim to be net zero carbon for our operation carbon (Scope 3) as soon as possible after this.
- 4.5 The Board endorsed the Executive Team's recommendation informed by the many unknown variables outside of our control, which prevent us from giving a hard target for operational carbon despite our best endeavours. The non-executives encouraged the Executive Team to lead the debate on the need for a standardized carbon measurement framework. The non-executives congratulated the Net Zero project team on an excellent report which had highlighted key deficiencies in matters outside of the NAO's control and the NAO's determination to lead by example.

##### Audit transformation Programme: update on progress

- 4.6 Kate Mathers (KM) and Susan Ronaldson (SR) presented the Audit Transformation Programme (ATP) update since the last meeting of the Board. They reported that subject to successful User Acceptance Testing (which had been well prepared for) we are on track for the roll out of the new system to the service line by the end of September 2023. The roll out will be accompanied by a programme of learning and development covering both the system and the wider programme learning objectives around quality and delivery. They also reported that they consider the benefits to be on target against the business case which focused on benefits to quality, efficiency, and insights.
- 4.7 The non-executives sought assurance on the status of the relationship with the supplier in light of the recent change in ownership. KM and SR responded that they continue to receive strong engagement from the suppliers' senior team and there are no issues of concern to bring to the

Board's attention. The Chair thanked SR for an excellent demonstration of the ATP software platform ahead of the start of the formal meeting of the Board.

#### Performance and risk reports to end June 2023

- 4.8 The Board received a deep-dive update on the performance indicator "*we make more effective use of technology, data and knowledge*". The non-executives were assured by the explanations provided to improve the scores towards target. The Board agreed that the next deep dive should be on the people KPI.

**Action: Helene Morpeth to arrange a deep dive on the people KPI for the Board meeting in October 2023.**

- 4.9 The Board noted the risk update to end June 2023.

#### Board engagement plan

- 4.10 Will Sharp presented the six-monthly update on progress on the Board engagement plan. The Board agreed that we should continue to implement the forward plan of scheduled events and communications for 2023-24 and endorsed the additional recommendations for the remainder of the year.

### **5. Matters for the Board to note/ to discuss by exception**

#### 2023 external VFM review – Financial Management of the NAO's financial audit work

- 5.1 The non-executives sought assurance from the Executive Team on the actions in place to respond to the recommendations for improvement arising from the 2023 external review by Crowe on the financial management of the NAO's financial audit work. In the context of the discussion on cost recovery, the C&AG reported that the Public Accounts Commission had reiterated, in the recent accountability session, the importance of the principle that the NAO's audit work on parliamentary funded audits should be funded by Parliament and not by the audited entities. The non-executives noted the overall positive findings from the external review and commented that they were satisfied that management action in response to the recommendations for improvement was robust.

#### Upcoming external audit tender: update on process and timeline

- 5.2 Gaenor Bagley provided an update on the process and timeline for the tender of the external audit contract following the expiry of the current contract at the conclusion of the audit of the financial statements for the year ended 31 March 2024. She reported that the Audit and Risk Assurance Committee (ARAC) had agreed that the award criteria should consist of a weighting ratio of 90% for quality and 10% for price. She added that ARAC will be invited to approve the invitation to tender document in late August including the distribution of weighting ratios between the service requirements on financial audit and value for money.
- 5.3 The Board noted that it would be invited to endorse a preferred supplier at its meeting in December ahead of submission of the preferred supplier for approval by the Public Accounts Commission in March 2024.

#### Upcoming non-executive vacancy

- 5.4 The Chair reported that the contract for the upcoming non-executive campaign had been awarded to Perrett Laver following a competitive tendering process. She reported that one of the priorities of the upcoming campaign was to ensure a strong shortlist of candidates from diverse backgrounds. The Board noted that the campaign would kick off in September to allow for an appointment hearing with the Public Accounts Commission in early December 2023.
- 5.5 The Chair reported that Martin Donnelly would succeed Clare Tickell as Chair of the Remuneration and Nominations Committee and as Senior Independent Director from the end of Clare's term on the Board in January 2024.

#### Audit Quality Board (AQB)

- 5.6 Gaenor Bagley provided a verbal update on the AQB meeting held on 13 July 2023. She reported that the focus of the meeting had been on financial audit root cause analysis and the draft 2022-23 Transparency Report.

#### Six monthly up-date on contracts awarded and tender pipeline

- 5.7 The Board noted the six-monthly update on contracts awarded from January to June 2023 and contracts in the pipeline which will require Board approval in 2023-24.

#### Board Strategy Day

- 5.8 The Board noted the outline agenda for the Board strategy day to be held on 28 September 2023.

### **6. Conclusion**

#### AOB

- 6.1 No other business was raised.

#### Feed-back on the meeting

- 6.2 The non-executives reported on the excellent and informative demonstration of the ATP software which had taken place in advance of the Board meeting.

#### Date and time of next meeting

- 6.3 The Board noted that the next meeting would be held on Tuesday 31 October 2023 at the NAO's London offices.