

The Board
16 May 2013

Minutes

Present

Members

Andrew Likierman	AL	Chair - Non-Executive Member
Amyas Morse	AM	Comptroller and Auditor General (C&AG)
Gabrielle Cohen	GC	Executive Leader
Naaz Coker	NC	Non-executive Member
Gillian Guy	GG	Non-executive Member
Paula Hay-Plumb	PHP	Non-executive Member
Ed Humpherson	EH	Executive Leader
Mary Keegan	MK	Non-Executive Member
Michael Whitehouse	MW	Chief Operating Officer

Attendees

Ruth Brutnall	RB	Head of Governance
Marcial Boo	MB	Director, Strategy, Knowledge and Communications (Items 2-4)
Jim Rickleton	JR	Director General, Finance and Commerce (Items 2-4)
Martin Sinclair	MS	Executive Leader (Item 7)

The Minutes record the business of the Board in Agenda order.

Item 1

Good Governance: Minutes, Matters Arising and the C&AG's report

Welcome & apologies for absence

- 1.1 There were none.

Declarations of interest

- 1.2 There were none.

Minutes of meetings and action points

- 1.3 The minutes of the meeting held on 27 March 2013 were approved. No sensitive items were identified which would affect their public disclosure, and the Board agreed to their publication on the NAO website.
- 1.4 Progress on the action points was noted and the Board agreed that those items marked as closed should be deleted. The Board noted that following an informal discussion on the NAO approved services programme, members wanted a further discussion of this matter before formally approving the programme at the Board meeting in July. The Board noted that it was content for current work on the planned activities to continue pending formal approval following the discussion in July.

Matters arising

- 1.5 RB noted that the Board's visit to the NAO's Newcastle office would take place in November, due to a potential relocation during September, which meant it had not been possible to reschedule the trip.

C&AG's update

- 1.6 The C&AG presented his written update, and highlighted three key areas; the Local Audit and Accountability Bill, which had been published the previous week, noting that the draft clauses contained the expected responsibilities for the NAO under the new arrangements; the Transformation Programme and the progress made in engaging with directors and clusters and in defining the role of the Leadership Team in the new model; and his recent engagement with key stakeholders, including Jeremy Heywood, Bernard Jenkin (Chair of the Public Administration Select Committee) and the Director General of the BBC.

- 1.7 The Board enquired how the work in the lead up to the peak audit season was progressing, and the C&AG confirmed that so far work was proceeding as planned. This was helped by recent engagement by the NAO with Accounting Officers, and an increase in departmental capability, which had supported a greater focus on the importance of planning the resource accounts process in departments. He noted that it was also the case that 2012-13 was the first financial year without a significant change in financial reporting, following a number of years of change which had seen the introduction of IFRS and Clear Line of Sight reporting.

Update on Audit Committee

- 1.8 This was covered under Item 3.

Item 2

Good Governance: Business Report, Risk Report and Performance Review

Business Report

- 2.1 MW presented the business report, noting that the NAO had met its targets for 2012-13, and that the Leadership Team was pleased with the overall performance. PHP welcomed the report, highlighting that she had found the covering note particularly useful. She raised a query regarding the audit fee deficit and what action the NAO was taking to address this for the coming year. The C&AG explained that fee deficits traditionally arose for three reasons: poor initial planning, an inefficient staff grade mix (using staff of a higher grade than necessary to cover shortages) or delays in the preparation of accounts by clients. For 2013-14 the NAO was taking action to improve the forward planning of its work to identify any changes it can make, for example to the timing of professional training, which would address staffing issues, and reduce budget pressure. Members of the Leadership Team had also challenged the proposed staff mix in considering audit plans, to ensure that staff at the appropriate grade were used.
- 2.2 GC highlighted that overall the NAO had demonstrated a strong performance, but that performance against agreed targets for responding to correspondence was not at the expected level. Following recent concerns from the Board and the Chair of the Committee of Public Accounts about the time taken to respond to specific items of correspondence, she had undertaken a review which had identified areas for improvement, and recommended two key changes. The first was to require teams to respond immediately to correspondents, setting out how they would look into any points raised and the timescale for a full response. The second was to encourage directors to

be more discerning regarding what matters it was appropriate for the NAO to consider, and to be more willing to refer correspondents to other bodies where they would be more suited to respond. A new policy would be circulated introducing these changes for 2013-14.

Risk Report

- 2.3 RB presented the risk report. EH highlighted that the Amber-Green ratings applied to two risks under 'Holding to Account' reflected a precautionary approach; there was no evidence of a current issue or threat but that given the changes to the NAO's audit framework which would come about under the Transformation Programme, the rating reflected the need to ensure that these changes were implemented within a coherent and appropriate quality framework.

Performance Review

- 2.4 MB presented the year-end Performance Review, noting that the review exercise was undertaken three times during the year, and was intended to supplement the operational reporting undertaken in the monthly business report. He noted that overall the NAO had performed well against its six performance measures, three were reported as green, and potential improvements for future years had been identified in all areas. The Board raised a number of points regarding the report, including the value of including a trend analysis in future reports, and the ways in which the report was used by the NAO's executive management in managing performance in-year.

Year-End Management Accounts

- 2.5 JR introduced the year-end management accounts, and invited the Board's comment. The Chairman noted that there would be a substantive discussion of the NAO's approach to financial management and the management of its cost base at the July Board meeting. MK welcomed the accounts, noting the clarity of the presentation. She suggested that in future it might be useful to separate out the HR costs shown into training and other costs, recognising the implications for the NAO's costs of its role as a training organisation. The Chairman invited Board members to provide any further comment on the format of the management accounts, including any areas or information they would find useful to include in future versions, to the Board Secretary before the Board next met in July.

Action: To reflect the Board's comments in future versions of the management accounts (JR)

Action: Board members to provide any further comments on the Management Accounts to the Board Secretary.(all).

Item 3

Good Governance: Annual Report of the Audit Committee

- 3.1 Mary Keegan presented the Annual Report of the Audit Committee to the Board, noting that the Committee's detailed comments on the Annual Report would be covered under Item 4. The Committee had met five times during the year and had considered 11 reports from the Director of Internal Audit and Assurance. Informed by these reports, and the opinion of the NAO's external auditor, the annual report of the Committee provided the NAO's Accounting Officer (the C&AG) with positive assurance on the NAO Resource Accounts for 2012-13, the disclosures made in the governance statement, and the quality of both internal and external audit.
- 3.2 The Board noted the report.

Item 4

Good Governance: Annual Report and Accounts

- 4.1 MB presented the Annual Report for the Board's consideration and approval. The Chairman noted the Board's congratulations to those involved for producing the report and accounts so quickly after the end of the financial year. The Board discussed a number of aspects of the report, and requested final drafting amendments, including to the reference to NAO approved services on page 48, and a proposed revision to the wording in the governance statement. The NAO's executive management agreed to review these sections and circulate the proposed changes.
- 4.2 The Board also discussed the presentation of the NAO's work on Client Insight and Investigations, noting that given the increase in focus on this area of work in the coming year, it would be important to clearly articulate what is meant by client insight and the types of work which would be undertaken in this area. The C&AG agreed that the presentation of this area of work could be clearer, and that executive management would give further consideration to ways in which greater clarity could be provided in the annual report. He also emphasised that although the presentation in the Annual Report

could perhaps be clearer, it should not be assumed that this indicated a wider lack of control regarding the budget or outcomes which would be delivered. The Board would discuss this further in July, as part of a wider discussion on the NAO's financial management and cost base.

- 4.3 The Board approved the Annual Report and Accounts for publication, subject to these changes being made.

Action: To amend the annual report to reflect the comments of the Board. (MB)

Item 5

Management and Use of Resources: External Audit Report

- 5.1 The Chairman introduced a discussion of the external auditor's value for money assessment of the NAO, which this year had focussed on management information, noting that the report had been considered previous by the Audit Committee. The Board focussed on two elements.
- 5.2 The first was the action that could be taken in the coming year to improve management information. The C&AG remarked that current management information was sufficient to ensure oversight and control, but that, as the report had highlighted, there was potential to improve the flow and transparency of information within the NAO. MW remarked that the Transformation Programme would support improvements in management information, primarily through the review of corporate services, which would address issues of silo working and duplication. The ambition is for the clusters to take on more responsibility for certain aspects of corporate delivery and management, but with the Leadership Team exercising strong oversight, and improved management information will be essential in supporting this.
- 5.3 The Board also discussed how it would be informed of progress in implementing the recommendations of the report. MW noted that he was the executive member of the Board responsible, and undertook to report back to the Board on progress in September 2013.

Action: To ensure that the Board receives a progress update on the implementation of the auditor's recommendations at its September meeting. (RB)

Item 6

Support and Advice: NAO Transformation Programme Update

- 6.1 MW introduced the Programme Update, noting that purpose of the paper was to provide the Board with an overview of progress against the implementation plan, which the Board considered in March. He noted that the programme was on budget and that the key achievements in the previous month included the review of the role of the Leadership team, the establishment of the clusters and the progress with the development of the skills strategy. The focus for the next period would be to address issues of grade drift by defining the role of directors and managers, and to take decisions regarding the restructuring of roles and the redundancy programme.
- 6.2 NC raised a query regarding clusters, which she highlighted as being critical to the success of the programme. She asked how the clusters were developing, and whether all six clusters were progressing or whether there remained some areas of reluctance. EH noted that all clusters were progressing, following some initial difficulties in those areas where the alignment of the departments concerned seemed less immediately obvious. He reported that he had recently been discussing the Transformation Programme with a government department, explaining the alignment of departments into clusters based on a shared strategic issue, and had been pleased to learn that the department recognised in their own work the alignment the NAO cluster suggested.
- 6.3 The Board challenged the NAO's executive management on the form of the report, noting that the report as presented was focused on the structural elements of change and did not convey the scale and ambition, which was reflected in the way the executive members of the Board discussed it. GC noted that the Board had previously considered the core narrative which set out the case for change, and agreed to re-circulate this to Board members.
- 6.4 The Board requested that the update be provided for every meeting, and requested that future reports include details of milestones and also the Programme budget, including the additional funding agreed by TPAC in respect of the costs of restructuring. MW highlighted that this additional money could only be used in respect of staff restructuring and would be budgeted and reported separately from the core-programme costs, which

were being met from within NAO's agreed budget. He agreed to incorporate information on both elements of the programme costs in future reports.

Action: Revise the format of the report to include financial and milestone information. (MW)

Item 7

Support and Advice: NAO's International Work

- 7.1 MS presented a paper which set out the outcome and recommendations of a recent review of the NAO's International work. He noted that the review had three objectives: to consider how our international work supported the aims of the transformation programme; whether it would be affordable under future budget constraints; and to address the recommendations of the recent internal audit and assurance report.
- 7.2 The Board asked the extent to which the recommendations in the report represented a continuation of the status quo. MS commented that this was not the case; in each of the three areas of activity there would be significant change, reducing the size of the work programme, ensuring greater alignment with the NAO's strategic objectives and reducing costs. He provided an overview of the key changes:
- Technical cooperation – the NAO's current approach is not financially sustainable, and the proposed approach would be for the NAO to undertake a managed decline in its activity in this area between now and 2015. The NOA would retain a limited capacity to respond to specific requests where there was a clear alignment with the NAO's strategic objectives,
 - International audit – the NAO's current contract with the UN would come to an end in 2016. The NAO may not remain competitive in terms of cost in the international market, and it was anticipated that this area of work would decline.
 - Engagement with other Supreme Audit Institutions (SAIs) – there was a strategic advantage to the NAO maintaining relationships with other SAIs in Europe and more widely, to ensure that it remained engaged with developments in the public audit approach and could draw on good practice in other countries.
- 7.3 The C&AG commented that there were advantages to the NAO in maintaining some international activity, but should the recommended approach be implemented the NAO would maintain a small central team (reducing from 4 staff to 2) to manage the NAO's

relationships with international organisations, and overall expenditure would decrease. He also noted that should the NAO identify an opportunity for further international audit work beyond the current UN contract it would consult the Board, such an opportunity would be assessed on its strategic importance to the NAO, and the Board would discuss any cost implications.

7.4 The Board also discussed how the review fitted within the wider Transformation programme. MS commented that in reducing the NAO's central team, the Office would identify opportunities to embed capability within clusters. GC commented that it was important to remember that the Committee of Public Accounts encouraged the NAO to provide international comparisons in its reports where appropriate, and building this ability within clusters would support this.

7.5 The Board endorsed the direction set out in the report.

Item 8

Any other business

8.1 The Chairman drew the Board's attention to the paper noting the change in Chair of the Audit Committee. He noted that today's meeting would be the last chaired by MK, before GG took on the role as Chair from June. He thanked MK for her contribution to the effective establishment of the Committee under the new arrangements since joining the Board in July 2009. MK asked that her formal thanks to Helene Morpeth the Committee Secretary be recorded, noting that Helene had provided invaluable support to her during her term as Chair.

8.2 MW raised three other items of business. The first was to update the Board on engagement with the NAO's Trade Union side on the changes in staff terms and conditions. He noted that the Union had sought a review of the changes, and that Caroline Walter, an external advisor, had been invited to lead this review.

8.3 Secondly he noted that the NAO planned to introduce a policy to make all 'special severance' payments made to staff visible to the Board, and to require the Chair and Senior Independent Member to approve any payment over £100,000. A copy of this policy would be circulated to Board members outside the meeting.

8.4 Finally he noted that the NAO was considering relocating its office accommodation in Newcastle, which had the potential to improve the quality of space while also achieving

a long term cost reduction. Should the NAO decide to relocate, this would be completed by September.

Ruth Brutnall

May 2013