

The Board

24 September 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
Paula Hay-Plumb	PHP	Non-executive Member
Ed Humpherson	EH	Executive Leader
Mary Keegan	MK	Non-Executive Member
Michael Whitehouse	MW	Chief Operating Officer

Apologies

Gillian Guy	GG	Non-executive Member (Apologies)
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Attendees

Ruth Brutnall	RB	Head of Governance
John McCann	JMcC	Director, Human Resources (Item 5)
Jim Rickleton	JR	Director General, Finance and Commerce (Item 2)
Nigel Terrington	NT	Head of Strategy and Performance (Item 3)
John Thorpe	JT	Lead Director (Item 3)

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 The Chair noted that apologies had been received from GG. To ensure the quoracy of the meeting, the Chairman asked that GC attend as an observer, should the meeting require a vote.

Declarations of interest

- 1.2 There were none.

Minutes of meetings and action points

- 1.3 The minutes of the meeting held on 12 July 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. MW provided a brief update on progress in implementing the recommendations arising from this year's external value for money review, noting that good progress had been made, but that the Leadership Team was considering its management information needs more widely as part of Transformation, and would making further improvements in the second half of 2013-14, to implement a revised reporting approach for the new financial year.

Matters arising

- 1.5 The Chair provided an update on his recent meeting with the Head of the Home Civil Service, who had provided feedback on the NAO and recent work, which he had shared with the C&AG. He noted that this meeting would take place annually, and that non-executive members would be welcome to join him at any future meeting.

C&AG's update

- 1.6 The C&AG presented his written report to the Board, noting that he had discussed the key issues with the non-executive members prior to the meeting. The Board raised two points. The first was to congratulate all those involved in the pre-recess financial audit 'peak' noting that the process in 2013 had been smoother than in previous years, a reflection of the efforts to undertake work earlier in the year. Members also raised

queries regarding those large departments which had not yet laid audited accounts and the implications for the NAO's own resourcing and work programme. The C&AG commented that three main departments were yet to lay their accounts, the Department for Work and Pensions, the Department for Culture, Media and Sport and the Department for Education. He confirmed that the NAO has resource planned to undertake the work required to audit these accounts.

- 1.7 The Board also reflected on the recent meeting between the Board and members of the Public Accounts Commission, noting that it had been positive, and valuable for Board members to understand more of the thoughts and issues of interest to the Commission, as they prepared to consider the NAO's strategy in the coming months.

Item 2

Good Governance: Business Report, Risk Report and Transformation Update

Business Report

- 2.1 MW introduced the business report and invited the Board's comments or questions. The Board raised two queries. The first related to the number of staff who had completed their second progress review, suggesting that a reminder from the NAO's Leadership Team, rather than the HR team, may be more effective in prompting further action in this area, providing a clear signal that this was something that the Leadership Team viewed as important. MW agreed to consider this, noting that since the report was compiled 86% of staff had now completed at least two reviews, as required.
- 2.2 The Board also queried the possibility of using upward feedback provided via the performance reviews to inform consideration of issues identified in the staff survey.

Action: To consider how best to use any trends of themes emerging from upward feedback to inform considerations of wider issues. (JMcC)

- 2.3 The Board also raised a query regarding the NAO's work on investigations, where progress seemed to be lagging. MW noted that this was an issue which the Leadership Team had identified and was taken action to address. He commented that investigative work could be both responsive (for example exploring issues raised by whistleblowers or correspondents) or planned. The Leadership Team was focussing on working with clusters to identify further opportunities for planned investigations, and the presentations of cluster work plans at the Senior Management Conference would support this.

Quarter 1 Risk Report

- 2.4 RB presented the risk report. The Board queried the amber rating applied to risk area 1 (Holding to Account through high quality assurance), in the light of the generally positive tone of the quality reports presented for consideration under Item 4. EH commented that the quality reports were retrospective, while the risk rating reflected a forward looking assessment, reflecting caution regarding the potential risks arising from changes in the NAO's approach to audit, and the development of a wider range of assurance products. The Board also noted that the NAO has a 'zero' appetite for risk in this area, which meant that even a slight increase in risk could elevate the overall assessment.

Transformation Update

- 2.5 MW introduced a brief update on the Transformation Programme, noting that a full, quarterly, report would be provided in October following the Senior Management Conference. The Board raised a query regarding the budget, noting that it primarily related to staff time, and seeking confirmation from executive management that they were content with how clusters were utilising these resources. MW confirmed that the focus of effort has been on refining the thinking regarding the strategic issues, and developing cluster strategies and work plans to respond to them. He noted that following the Senior Management Conference budgets would be reviewed and budgets to support the transition of cluster working into business as usual would be agreed. He undertook to provide a full report on the costs of transformation, including all staff, consultancy and restructuring costs in October.

Item 3

Support and Advice: Benefits Realisation

- 3.1 JT introduced a paper setting out draft proposals for the future performance reporting framework for the NAO. He highlighted that there were three elements to the paper: a 'logic path' which informed the development of the framework; a series of high level indicators building on the NAO's existing measures; and examples of how cluster specific outcome and impact measures might work. He noted that the key change envisaged as a result in this work were the cluster specific measures, which would be a combination of objective measures aligned with the corporate framework and narrative

expressions of value. The intention is that the measures will support NAO staff in thinking more widely about the impact and value of all of our audit work.

- 3.2 The Board queried whether the framework was sufficiently different from the existing performance measures to fully demonstrate the impact of transformation. The Board also queried whether the framework adequately articulated the benefit and outcomes achieved as a result of Client Insight. JT commented that the key change was the development of cluster level measures, linked to the strategic issues. The C&AG added that he expected there to be more imaginative thinking applied to these outcome measures, noting that it was evident now that change was made in public services in response to the NAO's work, but that the NAO was not yet capturing this. As the NAO achieved deeper influence, as a result of its insight work, it will need to become more sophisticated in how it measures and reported the outcomes achieved.
- 3.3 EH spoke in support of this, observing that currently the NAO reported against a single corporate financial impact target. In future the ambition was to articulate the change the NAO sought through its work in specific areas, and measure its success in achieving this.

Action: JT to reflect the Board's feedback in the development of the next phase of this work.

Item 4

Quality Reports

- 4.1 The Chair welcomed JL and MMcG to the meeting, and invited them to each provide an overview of the key issues from their respective areas. JL commented that the VFM practice had taken a wider view of quality, thinking more broadly about the impact alignment of work, in addition to compliance with technical measures which external reviewers noted had improved.
- 4.2 MMcG observed that a key measure of quality for financial audit was the Audit Quality Review, which had noted an overall improvement in quality. She added that internal cold reviews undertaken during the year had raised concerns regarding a specific issue on some files, but further work indicated that this was an issue of documentation, and did not represent a threat to the quality of the audit opinion. The focus in the coming year would be to adopt a wider view of quality, while maintaining compliance with the required professional standards.

- 4.3 The Board noted the AQR Report, and the overall findings, and queried whether in future it might be useful to provide a comparison of the issues identified by the review of the NAO with those in the Firms, whose reports are published, to allow the NAO to benchmark its own performance.

Keep In View: For 2014 could the findings and recommendations of the APQ reports on the firms be provided to inform consideration of the NAO's report in its wider context.

- 4.4 The Board also sought to understand the implications of the Transformation Programme on the NAO's approach to quality. JL commented that the focus of the programme on increasing the relevance and therefore impact of the NAO's work, and the focus on ensuring the NAO had the breadth of skills necessary, would support the efforts to apply a wider understanding of the quality of the NAO's work, including the impact it achieved. He also observed that the move towards undertaking more timely reviews which were completed more quickly had had a positive impact on staff, with most enjoying the increased pace of delivery.
- 4.5 The Board noted that this was the final time that there would be distinct VFM and Financial Audit reports, with the implementation of the integrated approach to quality assurance, and that this would be the final report of JL, pending his change in role. Members congratulated JL on his contribution to the development of the NAO's thinking in this area.
- 4.6 The Board also discussed the issue of ethics and in particular the NAO's compliance with the ethical standards applicable to financial auditors. The Board queried the reasons for the relatively slow response, seeking to understand the extent to which this arose from external factors. EH commented that to some extent the NAO had been naïve regarding the scale of the challenge which had led to some delays. In early 2013 it was recognised that approaching the FRC directly at a working level would not be sufficient, and the NAO sought at this point to establish a wider dialogue, with other public audit bodies in the UK.
- 4.7 EH also commented that this work had been put on hold pending the outcome of the 2013 AQR report, to allow the NAO to reflect on the extent of the concerns raised. He noted it was pleasing to see that the number of issues raised in the 2013 report had reduced, as a result of the discussions regarding the interpretation of footnotes to the standards.
- 4.8 The Board discussed a number of aspects of the issue, including the value of the NAO seeking wider international views and experiences of ethical standards from other SAIs.

MMcG commented that while the inspection regimes in other jurisdictions varied, there was an ISAI 30 working party which the NAO would use as an opportunity to seek the views of other SAls. MK highlighted that other European countries, in particular France and Denmark, have similar ethical regimes could provide a valuable source of insight.

- 4.9 The Board also discussed what the 'worst case' scenario would be for the NAO in terms of a breach of the standards and the extent to which it would pose an entity risk to the NAO. EH observed the main risk arose from the NAO's position on secondments, and the potential for a situation to arise where there was an issue regarding the quality of the audit opinion applied to a body where the NAO had a secondment.
- 4.10 The Board discussed a number of issues in response to this, including whether it therefore was appropriate to undertake secondments. AM commented that in order to comply with the standards, the NAO would have to cease all secondments to audited bodies. While this would remove the risk described, secondments offered genuine benefits to both to the NAO and government bodies and the impact of ceasing them would be a reduction in the NAO's ability to offer staff development opportunities, and for audited bodies' ability to access those with genuine specialisms in public finances. He added that the majority of secondments undertaken were at a relatively junior level, and the NAO would not in future undertake secondments similar in nature to the previous secondment of a Director General to a central government department.
- 4.11 EH observed that the FRC's stand on secondments had changed slightly, from a blanket view of non-compliance over all audit opinions to viewing only those audits where secondees were in place as being in breach of the standards. In these cases the NAO will put in place additional controls regarding the role of secondees and the review of the audit.
- 4.12 The Chairman sought confirmation that the Board was content with the proposed approach to engaging with the FRC to resolve the outstanding issues. This was agreed, and MK offered to support the NAO's executive management in taking forward their work in this area, if they felt it would be of use.

Item 5

Management and Use of Resources: Managing and Developing our Staff

- 5.1 The board received a suite of annual reports on the NAO's staff, acknowledging that these reports had been delayed by the Board's decision to defer consideration of the report from July.

- 5.2 The Board reflected that while the 'People Report' was an accurate reflection of the NAO's achievements and issues in 2012-13, the positive tone of the report seemed incongruent with the feedback from the Staff Survey. The Board discussed options to address this, including the potential to issue an 18 month report, which would address the concern but require considerable effort. GC noted that it would be preferable at this stage to focus effort on looking forward and addressing the issues raised by the survey, rather than amending a retrospective report.
- 5.3 The Board also considered the possibility of not publishing the report at all for 2012-13, noting that the circumstances of the NAO and the context for the report had changed, reducing its value. It was agreed that the NAO would consider this option, publishing instead a short summary of key data and statistics, explaining to staff the reasons for this. The Board noted however that there was a legal obligation to provide reports on Health and Safety and Diversity annually, and that these reports should be published as planned, following some revisions to the Diversity Report in response to the issues identified via the staff survey.

Action: To review the Diversity Report and identify any amendments required prior to publication.

Action: To develop a short publication in place of the annual 'People Report'.

Item 6

Any other business

- 6.1 EH raised one issue of business, commenting that he had received an offer of a role with the UK Statistics Authority. The role was subject to confirmation, but assuming he was successful he would leave the NAO at the end of the year. He took the opportunity to explain his reasons for leaving and to record his support for the future of the NAO. The Board formally recorded its thanks to EH for his contribution to the NAO, and its good wishes for the future.

Ruth Brutnall

September 2013