



# National Audit Office

## Board Minutes

Meeting held on 12 December 2024 from 09:00 to 11:30

157-197 Buckingham Palace Road, London SW1W 9SP

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
Hetan Shah	HS	Non-Executive Member
Gareth Davies	GD	Comptroller and Auditor General
Catherine Hope-MacLellan	CHM	Chief People Officer
Kate Mathers	KM	Executive Director of Financial Audit
Rebecca Sheeran	RS	Chief Operating Officer
Attendees		
Abdool Kara	AK	Executive Director Local Services
Max Tse	MT	Executive Director Knowledge
David Betteley	DB	Senior Analyst (item 3)
Jenny Brown	JB	Parliamentary Relations Manager (item 5)
Katie Clifford	KC	Director HR Operations (item 4)
Steve Corbishley	SC	Director Quality Compliance (item 5)
Adrian Jenner	AJ	Director Parliamentary Relations (item 5)
James Osborne	JO	Director Audit Quality (item 5)
Susan Ronaldson	SR	Director Change and Audit Transformation (item 5)
Sandeep Shah	SS	Senior Communications Manager (item 3)
Nigel Terrington	NT	Director Strategy (item 3)
Tim Valentine	TV	Director Finance (item 3)
Helene Morpeth	HM	Head of Governance and Risk

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

#### Welcome

1.1 Dame Fiona Reynolds (FR), NAO Chair, welcomed members and attendees to the Board meeting.

#### Apologies for absence

1.2 FR reported that there were no apologies for absence.

#### Declaration of Interests

1.3 There were no changes or updates to declarations of interest.

## **2. Regular items**

### **Approval of the November Minutes**

- 2.1 The Board approved the minutes of the meeting held on 5 November 2024 as an accurate record of the meeting.

### **Board action Log**

- 2.2 Helene Morpeth reported that there were three actions on the log. The first action has been completed, the second is on track for completion by its due date and the third action is partially completed. The Board agreed the deletion of the first two actions.

### **Update from the Comptroller and Auditor General (C&AG)**

- 2.3 The C&AG provided his update on events since the last Board meeting. The C&AG's update led to a wide-ranging discussion covering amongst other things the likely implications for the NAO of the Devolution White Paper being published next week, in particular implications for our current role in maintaining the Code of Audit Practice for local audit. He referred to his disclaimed opinion on the 2022-23 Whole of Government Accounts, the first time this has happened for those accounts. This focused attention on one of the significant consequences of the crisis in local government accounting and audit which we have been reporting on for several years.
- 2.4 He reported on the positive feedback received from his engagement with external stakeholders on the outcome focused draft five-year strategy for 2025-2030. The C&AG reported that the Executive Director vacancy will be filled by two externally appointed candidates on a job-sharing basis from February 2025.

## **3. Strategic Discussion / briefing**

### **Implications of the Autumn Budget on the NAO**

- 3.1 Nigel Terrington (NT) presented a short paper summarising the implications of the Autumn Budget of most relevance to the NAO. He added that the paper is aimed at informing the Board's consideration of the draft 2025-26 Estimate Memorandum.

### **Update on the in-year financial position**

- 3.2 Rebecca Sheeran (RS) presented the latest in-year financial position which has improved since the last Board meeting. She set out the actions taken in respect of salary costs, external costs and income recognition to reduce in-year spend. The non-executives welcomed the steps taken to address the cost pressures and endorsed management's view that we do not need to seek additional budgetary cover through the supplementary estimate process.

### **Draft 2025-26 Estimate Memorandum**

- 3.3 RS and NT presented the draft 2025-26 Estimate Memorandum. They summarized the strategic case for funding in 2025-26 which takes into account an increase of around 10% in the number of organisations we will audit over the three years from 2025-26 in response to the creation of new government bodies and other changes. They also highlighted the steps the Office is taking to increase productivity, harness opportunities from technology and build resilience.
- 3.4 The non-executives supported the overall narrative and arguments supporting the case for funding. They commented that the case for funding is largely demand driven and this point should be more

clearly emphasized. They added that the proposed pay award should be reviewed nearer the time against the latest economic data including the Office's retention figures.

- 3.5 FR invited non-executives to provide comments of detail via correspondence. She added that the performance framework will require a more comprehensive overhaul to take into account how we measure our impact against the outcome focused objectives of the next five-year strategy. The Board noted the timeline for review of subsequent iterations of the draft Estimate ahead of formal approval of the document at the Board meeting on 29 January 2025.

#### **New NAO stakeholder feedback programme for the next strategy period**

- 3.6 RS presented a proposed new approach to seek stakeholder feedback consisting of two connected feedback programmes. The connected programmes will seek more granular feedback on financial audit and separately on strategic impact. She added that given the strategic significance of the programme she would welcome the non-executives' views on the approach ahead of going to market.
- 3.7 The non-executives endorsed the strategic intent and broad structure of the proposed stakeholder feedback programmes for the new strategy period. They noted that a more detailed paper setting out the content of the programmes, budget, proposed route to market and timeline would be sent via correspondence, to inform the approval required by the non-executives.

## **4 Approvals**

### **2025 Code of Conduct**

- 4.1 Catherine Hope-MacLellan (CHM) and Katie Clifford (KC) presented the Code of Conduct which requires approval by the Board annually, before it is launched to the Office. They explained that the 2025 Code contains one material change compared to the prior year which relates to the provision of more explicit instructions on the rules around outside employment / financial interests whilst working at the NAO. They highlighted other minor changes to reflect existing processes that the executive and non-executive directors already adhere to and do not represent a policy change.
- 4.2 The Board agreed to add a paragraph to the Code to cover the presentation of official gifts recognising that this is rare but may be justified in certain limited circumstances.
- 4.3 The Board agreed that the coverage of handling data and information in the Code was sufficient however recommended that the Office's guidance on Information Security should be reissued in light of the heightened threat presented by cyber-attacks.

**Action: CHM and KC to add a paragraph to the Code of Conduct to cover the policy on presentation of official gifts.**

### **2024 Diversity Pay Gap report**

- 4.4 KC presented the 2024 diversity pay gap report for approval by the Board ahead of its publication on the NAO's website. She highlighted the key messages from the report which are that we are on target to fully reduce our gender pay gap by 2027 and overall there has been a slight reduction in the mean ethnicity pay gap. However more progress is required to reduce the latter. The non-executives welcomed the positive structural actions that the Office is taking which, over time, will lead to a further proportion of staff from ethnically diverse backgrounds represented in more senior grades.
- 4.5 The Board approved the publication of the 2024 Diversity Pay Gap report.

## **5 Substantial operational matters**

### **Engaging the new Parliament**

- 5.1 Adrian Jenner (AJ) updated the Board on progress against the engagement plan with the new Parliament following the 2024 General Election. He reported on the positive progress made in developing relationships with up to 350 new MPs including with chairs of select committees. So far the feedback from MPs has been positive. The priorities to April 2025 are to establish and maintain excellent relations with the chair and members of the Committee of Public Accounts (PAC). By next Spring, the PAC and other select committees will be well established and we will have received the results of the Ipsos survey of MPs. This will inform a new engagement plan which we will present to the Board for consideration and review.
- 5.2 The Board congratulated AJ and the wider Parliamentary relations team for the positive progress made to date with the new Parliament.

### **Update on the Quality First Plan**

- 5.3 Kate Mathers (KM) presented progress on Financial Audit Quality. She reported that since the last update to the Board in November, we are now ready to release our new journals approach and app. Good progress continues to be made on internal and external reviews with timetables on track and well ahead of last year. We are coming to the end of the two-month learning activities designed to prepare auditors for the 2024-25 audit cycle and address key quality risk areas. We have met with our supervisor from the Financial Reporting Council for the first time and are arranging induction activities in the new year. There are no significant changes in RAG status of the Audit Quality Indicators (AQIs) since the previous report to the Board.
- 5.4 James Osborne provided a verbal update on the status of the annual evaluation of our system of quality management (ISQM) during 2024 building on the review we concluded in 2023 but informed by findings and recommendations from the Audit Quality Review team. He reported that we are making improvements; there are some deficiencies, but they are not pervasive.
- 5.5 Gaenor Bagley provided a verbal update on the Audit Quality Board (AQB) meeting held on 19 November. She reported that the next AQB will carry out a deep dive on hot reviews and examine in more detail the status of AQIs.
- 5.6 FR thanked KM and her team for the significant progress being made in raising financial audit quality to meet our ambitions.

### **Performance and Risk updates to end November 2024**

- 5.7 The Board received the performance and risk updates to end November 2024. Rebecca Sheeran reported that sickness absence has decreased in probability due to absence levels remaining below the previous year's levels despite the winter flu season. The risk remains in the of concern category but is now below its critical threshold and has moved to amber.

## **6. Board approval by exception / update from Committees**

### **Approval of variation of contract**

- 6.1 The Board approved the proposed variation in contract to the Financial Instruments Framework to allow for the contracting out of the UKEF Audit from 2025-26.

### **Update from the Audit and Risk Assurance Committee (ARAC)**

- 6.2 Gaenor Bagley provided a verbal update from the ARAC meeting held on 4 December covering:

- Approval of the audit planning memorandum for 2024-25.
- Emerging findings from the external review on Hubs and Insights.
- An update on internal audit programme consisting of five reviews all of which have received overall positive assurance ratings.
- An update on risk management including risk briefing on lessons learned from the British Library Cyberattack.

## **7. Any other business**

### **AOB**

7.1 FR invited feedback on the meeting. The Board commented on the quality of papers which has led to an informed discussion on important strategic issues.

### **Date and time of next Board meeting**

7.2 The Board noted the next meeting will take place on 29 January 2025 at the NAO's London office.