

NMO AUDIT COMMITTEE MEETING

2012 meeting number: 2 of 3

DATE : Monday 21st May 2012

TIME : 10:20am

VENUE : NMO, Room F16, Stanton Avenue, Teddington, TW11 0JZ

PRESENT : Alan Proctor [AP] Chair, Non Executive Committee Member
Peter Cowley [PC] Non Executive Committee Member

IN ATTENDANCE : Peter Mason [PEM] Chief Executive, NMO
Bob Carter [BC] Finance, BIS
Dean Parker [DP] Director, NAO
Bernard Muscat [BM] NAO
Paul Sherman [PS] IA, BIS
Lavina Hinz [LH] IA, BIS
Paul Dixon [PD] Director of Certification Services, NMO
Martin Gainey [MG] Certification Services, NMO
Sarah Glasspool [SMG] Director of Finance, NMO
Peter Sayce [PFHS] Secretariat, NMO

APOLOGIES : Thomas Brown, Finance, BIS

Item 1 - Apologies for Absences/Substitutions/Introductions

Apologies had been received from Thomas Brown, BIS finance. Bob Carter had attended in his place.

Item 2 - Approval of today's agenda

Agenda approved as presented.

Item 3 - Declarations of conflicts of interest

No conflicts of interest were declared.

Item 4 - Minutes of previous meeting of 11/01/12

The AC minutes of the 11th January 2012 were approved by the committee.

Item 5 - Table of Actions arising from minutes of the last meeting

- **Action 1** [SMG, to identify alternative course and advise AP and PC]. **Actioned**. **AP** and **PC** said they found the course very beneficial for their work on the AC.
- **Action 2** [PFHS, to create sample induction pack for new AC appointees]. **An agenda item**.
- **Action 3** [AP/PFHS, to arrange bilaterals for AP]. **AP** asked for the position on this. **PFHS** explained that he understood AP's pa was handling. **PEM** asked who the bilaterals were to be with. **PFHS** said Head of IA, John Coubrough and Director of NAO.
- **Action 4** [SMG, to produce definition as to what was actually meant by 'impact' and 'probability']. **SMG** confirmed that this had been **actioned** and the amendment to the documentation had been cleared with Peter Mason.
- **Action 5** [PFHS, to obtain from BIS fraud policy department a generic fraud policy document]. **Actioned**.

- **Action 6** [PFHS/PS, NMO's revised fraud policy document to be reviewed by BIS IA]. **Actioned. An agenda item.**
- **Action 7** [BM, NAO to provide NMO with a copy of their fraud policy document]. **Actioned.**
- **Action 8** [SMG, NMO Security Manual should contain a paragraph on how to handle overseas confidential information]. **Actioned.**
- **Action 9** [SMG, due to size of the NMO Security Manual, it should have an Executive Summary, attached to the front of the manual, which signposted staff to key/priority security issues within the manual]. **An agenda item.**
- **Action 10** [LH, to produce a risks and action/progress table of audits being tracked (to include NAO audits)]. **An agenda item.**
- **Action 12** [PS, IA to arrange meetings with NMO to agree work programme for 12/13]. **Actioned. SMG**, meeting took place and audit work programme agreed.
- **Action 13** [SMG, paper to be produced for NAO setting out the rationale for the proposed indices]. **Actioned.**
- **Action 14** [PFHS, to arrange 'Corporate Governance' challenge session]. **Actioned. AP** said that he found it a very positive experience chairing the challenge session.

Item 6 – Draft induction pack for new AC members

AP and **PC** thought the draft induction pack was comprehensive but suggested that the inclusion of an organogram would assist in helping new appointees to gain a quick understand of the reporting structure [**Action 1, PFHS**].

Item 7 - Update on key risks

SMG referred to the Risk Register and explained it was last reviewed by the Management Board on 17 May 2012 and commented as follows:

- **1) FIN 5** [Failure of Financial Management or Internal Controls]. No change, met desired risk.
- **2) CE 11** [Failure to recruit staff into frontline or business critical posts means we fail to deliver an objective]. Currently not at desired risk level. New staff were joining NMO that day. Regulation and Enforcement directorates were short of one person each.
- **3) EST 1** [NMO fails to respond adequately following a significant event or disaster affecting the physical assets on site]. The documentation which provided advice to staff was currently being updated.
- **4) FIN 3** [Loss of IT system/Failure of IT System to support Business]. Annual IT disaster recovery test performed in April 2012 and the outcome had been successful.
- **5) FIN 4** [Loss of sensitive equipment or information under our control]. Met desired risk level. Annual penetration test performed and no issues raised.
- **6) Prog 3** [The relationship between NPLML and NMO deteriorates such that a partnership approach to operating the laboratory becomes impossible]. This was rated 'High' and therefore above the desired risk level. **6) C&D 1** [Handling of NPL options process which results in loss of confidence in NMO]. This involved sensitive issues about how to take the science programme forward after the current contract came to an end. **PEM** explained that it was essential to get the policy approach correct, otherwise the Agency could suffer reputational damage.
- **7) EST 2** [Failure of NPL Building Management System or any Business Critical Plant and Machinery or restricts NPL's ability to deliver science]. This was a new risk recently added to the Risk Register. Failure in this area could impact on the delivery of science. A programme of updating equipment had been put in place to mitigate systems failure, eg, power surges which could damage sensitive scientific equipment.

AP referred to the Risk Register log dated 16-02-12 and asked what had been the change to FIN 3. **PEM** explained that Certification Services had been using proprietary software from a very small company. This meant two issues came to light. Firstly, had the company been

prepared for succession planning. Secondly, were there other similar risks of this type in NMO. We held discussions with the company and were satisfied that other people were in place to take the company forward and provide effective IT support for CAMS [Certification and Audit Management System]. Secondly, NMO's IT unit carried out a review and confirmed that the CAMS arrangement was a one off, but will keep a watching brief when it comes to teams wanting to install specialised software. **AP** said he was pleased to hear that effective IT back-up support was in place. **AP** asked about log 15-03-12, SER 13 and what the impact would be on business if income targets were not met and the consequential impact regarding failure to achieve a Ministerial targets. **PEM** said that discussions were held with Certification Service managers in order ascertain the reason why they may miss the target and to have provided help where possible. The problem with this type of target was that it was reliant on market conditions. Fortunately, as was indicated in log 19-04-12, a late contract resulted in the Certification team hitting their target. **PC** enquired as to how targets were managed. **PEM** explained that we had set ambitious targets and income type targets provided best evidence of teams which worked well. Also, monthly meetings were held by the finance team with business teams to discuss progress and these were subsequently discussed at Management Board level. **AP** referred to C&D 1, and stated that while Ministerial guidance was good, it was not the solution. **PEM** said AP's view was correct. The key was stakeholder involvement as they had a better understanding of what the market needed and a businesslike approach. **AP** remarked that it had been good to see CE 15 [Low staff morale, due to possible structural changes to the Agency, may impact on productivity] removed, but wondered if there were any lessons learned. **PEM** stated that the delay in arriving at a conclusion for the Calibration project had caused problems. The communication with staff involved in the possible transfer had been effective. However, communication should have been better for the Agency as a whole.

Item 8 – Consider Internal Audit progress report and review IA plans [annual & medium term]

PS said that audit follow up activity was now complete, including the outstanding audit from 10/11. Discussions were held with **PEM** and **SMG** to finalise the forth coming work schedule. It was also agreed that the new programme should contain stronger links to the Agency Risk Register. **AP** and **PC** commented that they thought the paper was a good report and had been well constructed. **AP** asked if there would be any value if IA reviewed NPL project process. **PEM** explained that too many reviews tended to cause confusion as they tended to look at matters from different perspectives. **AP** concurred with **PEM**'s position, but wondered if we had understood the HR type issues. **PS** explained that IA did not get involved in contractual type issues, apart from contract compliance. **PEM** said that the level of competence of the people involved had been considered and they had a sound understanding and approach to Governance. The project Steering Board needed to consider and advise on our approach to the project. This project relied heavily on lots of external stakeholder input and support to provide advice and direction. **PS** mentioned that HR matters were part of the formal Gateway Review process.

Item 9 – Audit progress/tracking table

LH explained that the idea of the tracking table had been to help management keep track of audits which had not been closed and to take action should there be a delay in implementation. **PS** said that the table needed to be amended to make it clear which audits were covered and closed [**Action 2, LH**]. Also, the NAO should consider the inclusion of their audits in the tracking table [**Action 3, BM**].

Item 10 - Review NAO progress report and strategy paper

BM explained that this was an interim audit report as the strategy paper had not been finalised. The main area of concern related to the pensions' liability - the 'general' inflator was used in error rather than the 'salary' inflator. It resulted in a reduced increased liability of £2m at financial year end. NAO's technical team were satisfied that the data available at the time had been correct and that a restatement of the 2010/11 accounts were not required.

SMG explained that NMO had identified the error and brought it to the attention of the NAO for advice.

BM said that the final audit would entail a full review of the accounts. There were no new issues and the accounts were well structured. With regard pensions, the informal valuation liability had increased from £30 to £43 million. The difference from the formal valuation was currently

shown as contingent liability. **AP** said that it would be best to have a separate meeting to discuss the pension's liability [**Action 4, SMG**] as this was a very technical issue. The Agency needed to consider the options as this could impact on the NPL options exercise.

BM stated that this issue did not impact on NMO staff. **PEM** explained that he was keen to establish a time table; if this was not a contingent liability then the deficit would impact on the accounts, ie, both NAO's and BIS's. **DP** asked if the pensions issue would be clear after 2014. **PEM** explained that it could affect liability of pensions for the next valuation – problem lay with gilt yields. **BM** said the accounts were easier to audit this time due to their high quality.

Item 11 – New Fraud Policy document

SMG explained that the new document had been the result of liaison between NMO, BIS IA and the BIS Fraud Policy Unit. The new Fraud Policy document had been presented to the NMO Management Board on 15 March 2012, who approved it. It was now for the AC to consider and approve the document if appropriate. **AP** asked for any comments. None received and the AC approved the new policy document as presented.

Item 12 – Review draft Annual Report and Accounts

SMG said that the new Annual Report included the new 'Governance Statement' which had replaced the 'Statement of Internal Control' of previous years. The remuneration report states the median remuneration of the work force. The main difference between this and last year's accounts was the split between Admin and Programme budgets. **PEM** had asked how the pensions' liability would affect the accounts. **SMG** explained it would not affect our Admin or Programme budgets as it would fall under HMT's AME [Annually Managed Expenditure] budget. The Annual Report and Accounts should be laid before Parliament, by 17 July 2012. It should be ready for **PEM**'s signature end June or early July. However, before this, the AC would need to review the final version of the document. A date would need to be agreed [**Action 5, SMG**]. **AP** asked if there were any questions, or perhaps we should wait for the second version of the draft.

Item 13 – Risk of Financial Loss paper

SMG said that the purpose of this exercise was to show what controls were in place to safeguard any financial loss. The 'tool kit' had been designed show this and identify any gaps. IA acted as the reviewer of the toolkit and also reviewed this paper. Corporate Services found this exercise beneficial. One outcome was that we needed to improve management of payroll. It had not been clear within NMO where responsibility lay. However, payroll payments were outsourced and NMO needed to ensure the contractor, LOGICA, provided a quality service. It had been decided that responsibility should be with the Finance team. **PEM** explained that a concern of the Agency was the cumbersome nature of the toolkit. **PEM** asked if anyone else was using the toolkit. **DP** stated that it had not been

superseded and had been taken forward by other Departments. **PS** explained that IA had been evaluating other BIS agencies' Risk of Financial Loss returns. Part of IA's role in this project had been to ensure that the toolkit had been followed through.

DP left the meeting.

Item 14 – Accounting Issues

SMG said that the early production of the draft accounts had helped NAO in their field work. The NPL pensions' deficit informal update had been treated in the accounts as a contingent liability. With regard the Teddington estate, indices were not currently available for the land and there were two major additions which resulted in impairments of existing assets. IA had provided assurance about the methodology employed by NMO to split Programme and Administration costs.

In early May there BIS wished to establish figures to feed into a draft business case for phase 2 of the Shared Services project NMO finance would to be included in phase 2. **PEM** explained that if NMO were properly costed, it was expected to show that we would be cheaper than a Shared Services offering. NMO also needed to consider savings in the light of the additional risks to the Agency. As an Accounting Officer, he needed to be able to justify the transfer as NMO operated in a commercial environment. NMO still needed to produce separate accounts and the proposal may disengage NMO finance staff from the detail. Taking into account the short deadlines for preparing the accounts, the new service could result in NMO failing to produce a set of accounts, on a timely basis, to be considered by NAO. **SMG** said that she had explained to PA Consulting the approval's process which would be required on any decision to move to shared services.

Item 15 – Report on 'Governance Statement'

PEM stated that this document replaced the 'Statement on Internal Control' and it had been prepared to fit in with a timetable set by BIS. This document needed to be synchronised with BIS as they were required to produce their own version of the 'Governance Statement'. It was possible for the content to change between now and its signing, but that would be minor drafting changes. **PEM** asked for comments. None received. **PS** commented that he thought the challenge process conducted by NMO was very good and it helped to produce a reliable 'Governance Statement'. **DP** and **BM** commented that they were happy with the document and that it struck the right balance between content and key detail. **AP** asked for further comments. None received and the AC approved the 'Governance Statement' as presented.

Item 16 – Approve Audit Committee's Annual Report to the Steering Board

AP commented that no major issues had come to light. At each AC meeting the committee reviewed the Agency Risk Register and considered progress reports provided by IA and NAO. The NPL options project had been subjected to effective stewardship. The Corporate Governance process coupled with the challenge session, were instrumental in producing an accurate 'Governance Statement'. **AP** explained that this report was a summary of work done and asked for any comments. **PEM** referred to the text relating to IA, in that it stated 3 of the 4 audits had been completed. **PEM** suggested amending the text to indicate that the outstanding audit had since been completed [**Action, 6 PFHS**]. **AP** asked for further comments. None received and the document was approved along with the agreed amendment.

Item 17 – Extract from NMO Security Manual – Executive Summary added

AP commented that the new Executive Summary had been well devised and asked for comments. None were received and the AC approved the document as presented.

Item 18 – Paper on proposal to combine ‘Impartiality Committee’ and ‘Audit Committee’

MG explained that the agency provided an accreditation service for product ‘Certification’. A standard required for running the accreditation service was that NMO ran an in-house ‘Impartiality Committee’ [IC]. This committee would consist of representatives from industry. It was thought it would be a good time to reconsider the constitution of the Impartiality Committee. **MG** asked the AC to consider the contents of his paper and if the AC would feel comfortable about incorporating the IC’s role into the AC. **AP** asked for views. **PEM** explained that if we did take the proposed route the AC would need to take on additional members with the required skills. Also, it should be noted that the IC meetings only took place once a year, plus the additional issues of an extended agenda which would need to be incorporated into the AC’s agenda. **AP** stated that the paper was a good report on what the IC was about, but it did not provide a case for incorporating the work of the IC into the AC’s work plan. It was more a statement without any cost and benefits indicators. **PEM** said that detailed proposals would need to be provided, but asked if there were any fundamental objections to the proposal. **BM** mentioned that he had not come across such a set up before. **PS** commented that some AC’s had taken on additional assurance risks type roles. However, the paper needed to clarify what was required.. **PC** asked if there was much overlap between the IC and AC, if not significant, then it would not be a constructive use of our time to take on the IC. **AP** stated that as the IC only met once a year, asked why the various reviews had not raised this issue before. The AC would like to see a proper business case. If matters were very technical, it indicated a sub-committee. Also, it was important that the AC was not diluted by additional burdens as this would make it ineffective. **PC** asked if the Measurement Board had been considered as it would have the technical expertise in place. **PEM** commented that it would be possible to bring people in to the meeting for specific items. NMO also needed to consider additional costs and consequence to the AC’s secretariat function. **AP** asked the Certification team to provide a proper business case **[Action 7, MG]**.

Item 19 - AOB

None.

Item 20 – Date of next meeting

Confirmed date: Tuesday 25th September 2012, at NMO, at 10 am.

Table of actions:

ACTION	ASSIGNED TO	DUE BY	DATE COMPLETED
Action 1 – item 6 Add an organisation chart to the induction pack for new members of the AC.	PFHS	31/07/12	With AP & PC
Action 2 – item 9 Audit progress Tracking table - make clear which audits were monitored/closed.	LH	31/08/12	
Action 3 – item 9 NAO to consider including their audits in table at Action 2 above.	BM	31/08/12	
Action 4 – item 10	SMG	18/05/12	17/05/12

AUDIT COMMITTEE MEETING MINUTES – 21 MAY 2012

To arrange a meeting to discuss the technical issues of the pension's liability.			
Action 5 - item 12 To arrange a meeting for the AC non-execs to review NMO's final draft Annual Report and Accounts.	SMG	28/06/12	28/06/12
Action 6 – item 16 Amend text of AC's Annual Report to Steering Board – to indicate that outstanding audit now completed.	PFHS	31/05/12	25/05/12
Action 7 – item 18 Certification Services to redraft their paper setting out a proper business case for the AC to absorb the role of the Impartiality Committee.	MG	31/08/12	