

NMO AUDIT COMMITTEE MEETING

2011 meeting number: 3 of 3

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|----------------------|---|---|---------------|---|
| DATE | : | Tuesday 20 th September 2011 | | |
| TIME | : | 10:00am | | |
| VENUE | : | NMO, Room F12, 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 |
| | | Jo Symons [for item 13] | [JS] | Director of Change and Development, NMO |
| | | Sarah Glasspool | [SMG] | Director of Finance, NMO |
| | | Peter Sayce | [PFHS] | Secretariat, NMO |
| APOLOGIES | : | George Sabaratnam | [GS] | Finance, BIS |
| | | Lavina Hinz | [LH] | IA, BIS |

Item 1 - Apologies for Absences/Substitutions/Introductions

Apologies from Lavina Hinz [IA, BIS]. Introductions from Bob Carter who was standing in for George Sabaratnam, Dean Parker who had replaced Sid Sidhu and Paul Sherman who had replaced Graeme Ralph. These replacements are on a permanent basis.

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 9/05/11

The AC minutes of the 9th May 2011 were approved by the committee.

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

- **Action 1** [Guidance on the 'BIS Balance Sheet Risk' project to be circulated]. **BC** stated that BIS had decided not to take this initiative forward. Therefore action removed.
- **Action 2** [Impact of current marketing restrictions on service delivery to be raised at a more senior level within BIS if not satisfactorily resolved]. **PEM** said that it was not required to be raised at senior level as it had been largely resolved by additional delegations and clarifications.
- **Action 3** [BIS IA and NMO in-house Audit to discuss harmonising their functions]. **AP** an agenda item to be discussed later.
- **Action 4** [To submit AC Annual Report to Steering Board]. **AP** said that this had been submitted to Steering Board and considered satisfactory.

- **Action 5** [Re SIC: IA to review **NMO's** Corporate Governance submission for 2010/11]. **PEM** confirmed that IA had been content with the return; he noted that new rules were to be applied next year.
- **Action 6** [NAO and IA to comment directly to SMG on draft Annual Report and Accounts if appropriate]. **SMG** confirmed that comments had been received and actioned where appropriate.
- **Action 7** [Review to be completed with respect to ACs review of own performance]. **AP** an agenda item to be discussed later.
- **Action 8** [AC work plan to be updated to incorporate SMG's suggested amendments]. **SMG** confirmed that an updated Work Plan issued.
- **Action 9** [SMG to provide details of training events to AP and PC]. **SMG** said that information had been provided and PC was to attend a course. **AP** diary changes may enable attendance at course and would contact SMG to take forward. **[Action 1, AP]**

Item 6 - Update on key risks

SMG noted that new strategic risks were to be discussed at Steering Board that afternoon. The risk summary highlighted two key risks as not aligned to their desired risk rating:

- **1) CE 11** [failure to recruit staff into frontline or business critical posts means we fail to deliver out objectives].
- **2) SER 13** [risk of not meeting increased commercial income targets]. This will be discussed at the Steering Board this afternoon
- **SMG** referred to change logs which highlighted **changes to** the RR which the AC would not have seen since the last AC meeting. **PEM** felt that staff morale was still an issue, although funding uncertainty had gone.
- **PS** asked how often was the disaster recovery test in relation to **FIN 3** [loss of IT systems/failure of IT system to support business] was performed. **SMG** stated that a full IT recovery was done on an annual basis. **AP** asked about the IT backup process - had the frequency of backup been reviewed in the light of current business needs? **SMG** said that differential backups took place daily, and full back up took place on a weekly basis which were taken off site on the day of the backup. The frequency of backup had not been reviewed in recent times and she would contact our IT Manager about this. **[Action 2, SMG]**

Item 7 - Review NAO progress report

BM to focus on the 4 observations on page 19 of report. Although these points were important, they were not considered material:-

- 1. Controls over capitalisation of non assets – other:** **SMG** felt that this was a training issue. Estate team had the appropriate knowledge of work done, but less of an understanding on the detail from an accounting perspective which could result in coding errors. Finance staff were encouraged to challenge codes where descriptions were not clear. A paper had been issued explaining the correct treatment to address the training issue.
- 2. Draw down of Grant in Aid – other:** **SMG** stated that the finance team had started to build a better understanding with managers, mainly Estates and Programme.
- 3. Insurance costs – other:** **PEM** explained that if we did not pay these premiums and the building burnt down, NMO would have to find the money from its existing funds.
- 4. Finalisation of noncurrent assets figures – other:** NAO were concerned that the noncurrent assets data had not been reconciled to the General Ledger until late into audit. This in turn put pressure on auditors. **AP** asked if this was a resource or skills matter and how did we intend to resolve it. **SMG** said that resource was an issue, as there was a considerable amount of work at that time of year, but suggested that she delegated more and discussed with NAO to improve planning for 2011/12 **DP** suggested that NMO could prepare figures for 11 months and update the figures for month 12. This would reduce end year build up of work.

Item 8 – Review Internal Audit progress report

PS Stated that the following progress had been made:

- IA had provided comment on NMO's draft Balanced Scorecard which was thought to be an improvement over the previous scorecard.
- The Audit Scoping Contract on fraud and whistle blowing was yet to be agreed.
- There would be a Risk Register review on Technical Services,
- There was to be an additional audit to provide assurance for the single Admin budget.
- Discussions were held with NMO's audit function to ensure a joined up approach to auditing NMO.
- Follow-up activity was up to date.

PEM asked about the nature and support IA could provide for the changes to the Corporate Governance exercise. **PS** said he would talk to John Coubrough and would report back with advice and guidance. **[Action 5, PS]**

DP was not clear at this stage what would be covered, but thought that there would not be a substantial amount of extra work for a small agency. **PEM** suggested that the Steering Board should be asked to provide a steer on how we should respond to the new Corporate Governance code.

Item 9 – Review internal financial control framework

SMG said the key changes and issues were a new Directorate entitled 'Change and Development' had been created to oversee HR and the new NPL future project. Business Team management accounts had been updated to show more detailed variances and explanations in monthly reports. Time recording reporting had been enhanced to obtain better management information on staff activity. NMO's Annual Accounts would be modified to separate out Admin and Programme and last year's would need to be restated. **AP** asked that in future Directors names were included in the report against each Directorate. **[Action 6, SMG]** **BM** asked IA to provide NAO with work programme. **[Action 7, PS]**

Item 10 – Accounting issues

SMG reported on the following developments and issues:

- Valuation of estate will continue to be problematic and discussions with NAO will need to be held.
- BIS had engaged partner organisations well in the Shared Services project and BIS was aware of what NMO's requirements were. BIS preferred option was to join Research Councils' shared service arrangement. BIS had agreed to exclude NMO's fixed assets from project.
- The treatment of Admin and Programme expenditure for NMO needed to be confirmed by BIS. NMO had proposed that overhead be spread over income/business teams, but awaiting completion of the BIS audit.

Item 11 – Review Internal Audit expertise, independence, effectiveness & resourcing

Item 12 – Review NAO expertise, independence, effectiveness & resourcing

AP suggested that items 11 and 12 be taken together. It was assumed that IA and NMO had the required expertise and it was not for the AC to pass judgement. The reports issued by BIS IA and NAO are of good quality and provided the AC with a steer as to what worked well and not so well. **PC** asked how NAO viewed the independence of the relationship between NMO and BIS IA. **DP** said that NAO assessed that BIS IA were independent of local management. If this had not been the case, it would have been reported to the Audit Committee.

Item 13 – NMO Auditing Systems Paper – progress report

JS said that her written report reflected discussions between both audit teams with respect to their work plans. This had resulted in man-day savings, better co-ordination of activities and better understanding of the aims of both audit teams. **BM** asked if the NMO audits were based on compliance and wondered if the scope had been broadened. **JS** replied that they were compliance audits for ISO 9001 and the scope had not widened. Auditing issues were raised initially as both audit teams appeared to cover similar areas which raised concern about duplication. However, the outcome of discussions showed they were complementary and avoided duplication. In the future the annual audit programme planning would be carried out jointly between audit teams and the plans agreed with PEM.

Item 14 – Revised balanced Scorecard

PEM noted that the existing Balanced Scorecard had been restructured with the aim to monitor delivery of the Corporate Plan. BIS IA provided constructive input to draft. This was to be discussed in detail at Steering Board this afternoon.

Item 15 – AC review own performance and Terms of Reference

Following a telephone conversation between AP, PC, SMG and PFHS, a table of actions had been created:

Action 1 [PEM to issue a letter of appointment for the audit committee covering...]. **AP** NAO guidance asked if there was sufficient documentation which covered AC appointments. **AP** believed the original letter of appointment, plus the detailed advertisement, provided sufficient information as to what the role entailed and therefore a subsequent letter of appointment would not be required.

Action 2 [Is there a formal assessment criteria for the appointment of AC chair]. **AP** took the view that assessment had taken place to enable offer of appointment. Action complete.

Action 3 [Produce induction check list for new AC members]. **AP** AC to discuss with SMG.

[Action 8, AP/PC/SMG]

Action 4 [Request sight of audit fees at the next AC meeting]. **SMG** said these were provided to the AC when NAO produce their audit planning document.

Action 5 [AP/PC to speak offline regarding governance and how well it is embedded]. **AP** to discuss with PC this at the Steering Board this afternoon. **[Action 9, AP/PC]**

Action 6 [Revisit the mechanism of rigour for review of Annual Report & Accounts]. **SMG** to review the plan for the Annual Report and Accounts. **[Action 10, SMG]**

Action 7 [Request AOB input in advance of AC meeting]. **AP** actioned.

Action 8 [Chair to encourage members to have regular interface with the organisation]. **AP** to action

Action 9 [Arrange the Chair's bilateral meetings with the AO, head of IA and Director of NAO]. **AP** PFHS to arrange dates. **[Action 11, AP/PFHS]**

Action 10 [Maintain record of when members terms of appointment are due for termination or renewal. Ensure process was followed]. **AP** actioned.

AP requested comments on the Terms of Reference. **PS** ToR referred to 3 members when it should be 2. **[Action 12, PFHS]**

Item 16 – NAO, IA & Committee Members only discussion

n/a

Item 17 - AOB

AP to be discussed outside meeting.

Item 18 – Date of next meeting

Confirmed date: Wednesday 11 January 2012.

AUDIT COMMITTEE MEETING MINUTES – 20 SEPTEMBER 2011

Table of actions:

| ACTION | ASSIGNED TO | DUE BY | DATE COMPLETED |
|--|--------------------|-------------------------------|-----------------------|
| Action 1 – item 5 SMG to identify alternative course and advise PC and AP. | SMG | 30/11/11 | ? |
| Action 2 – item 6 To discuss with IT manager if frequency of IT systems backup is appropriate. | SMG | 11/01/12 (next AC meeting) | ? |
| Action 3 – item 6 Update Risk Register control strategies | PFHS | 31/10/11 2011 | 17/10/11 |
| Action 4 – item 7 To further investigate guidance on funding for self insurance. | BC | 30/11/11 | ? |
| Action 5 - item 8 To arrange for John Coubrough to brief NMO on new Corporate Governance code. | PS | 30/11/11 | 8/11/11 |
| Action 6 – item 9 Directors names to be included in report | SMG | 30/09/12 | ? |
| Action 7 – item 9 To provide NAO with IA's work plan. | PS | 31/10/11 | 21/09/11 |
| Action 8 – item 15 To discuss induction pack with AP and PC | AP + PC + SMG | 11/01/12 | |
| Action 9 – item 15 To discuss offline how well governance is embedded in NMO. | AP + PC | 20/09/11 | 20/09/11 tbc |
| Action 10 – item 15 To review the planning of the Annual Report and Accounts | SMG | 11/01/12 (next AC meeting) | ? |
| Action 11 – item 15 To arrange bilateral for AP | PFHS | ? | ? |
| Action 12 – item 15 To update ToR | PFHS | 31/10/11 | 17/10/11 |