

## NMO AUDIT COMMITTEE MEETING

2011 meeting number: 2 of 3

<b>DATE</b>	:	Monday 9 <sup>th</sup> May 2011		
<b>TIME</b>	:	11:00am		
<b>VENUE</b>	:	NMO, Room F12, Stanton Avenue, Teddington, TW11 0JZ		
<b>PRESENT</b>	:	Alan Proctor	<b>[AP]</b>	Chair, Non Executive Committee Member
		Peter Cowley	<b>[PC]</b>	Non Executive Committee Member
<b>IN ATTENDANCE</b>	:	Peter Mason	<b>[PEM]</b>	Chief Executive, NMO
		George Sabaratnam	<b>[GS]</b>	Finance, BIS
		Bernard Muscat	<b>[BM]</b>	NAO
		Graeme Ralph	<b>[GR]</b>	IA, BIS
		Lavina Hinz	<b>[LH]</b>	IA, BIS
		Jo Symons [for 8 & 9]	<b>[JS]</b>	Director of Technical Services, NMO
		Martin Gainey [for 8 & 9]	<b>[MG]</b>	Quality & ACB Manager, NMO
		Sarah Glasspool	<b>[SMG]</b>	Director of Finance, NMO
		Peter Sayce	<b>[PFHS]</b>	Secretariat, NMO
<b>APOLOGIES</b>	:	Sid Sidhu	<b>[SS]</b>	Director, NAO
		Charu Gorasia	<b>[CG]</b>	Finance, BIS

### **Item 1 - Apologies for Absences/Substitutions/Introductions**

**AP** welcomed everyone to the meeting and requested that all participants introduced themselves. Apologies had been received from SS [NAO] and CG [Finance, BIS].

### **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 13/01/11**

The AC minutes of the 13<sup>th</sup> January 2011 were approved by the committee.

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

**AP** said that Action 1 [Home Office peer review of BIS IA] was an agenda item. **AP** said that Action 3 [Guidance on 'BIS Balance Sheet Risk'] would be covered when CG arrived at the meeting [after the meeting it had been discovered that CG had sent her apologies and would not attend any further AC meetings as this had been delegated to GS **[Action 1, GS]**. **SMG** said that nothing had been obtained with respect to Action 4 [Payroll exception reports]. As BIS was the process owner of NMO's pay process it had been expected that this would be covered in the 'Risk of Financial Loss Project'. **AP** said that Action 7 [review frequency of agenda items] and Action 10 [AC to review own performance] were to be considered later as they were agenda items.

**Item 6 - Update on key risks**

**AP** asked **SMG** to present this item. **SMG** referred to the Risk Register's summary page. CE11, failure to recruit. **PEM** explained that we were subjected to restrictions on recruitment, and NMO had only been allowed to recruit to "front line" posts. **SMG** referred to CE12 which related to negative impact on staff morale. **PEM** stated that the MOU [Memorandum of Understanding] for funding part of Enforcement work was the main area of concern. Although the Agency position had been improved, it could be better. **AP** asked if NMO had increased marketing spend, since in the private sector marketing had been increased in difficult times – not reduced. **PEM** explained that generating new business remained a priority - his recent trip highlighted an opportunity for increased income and he intended to continue to pursue this. **SMG** referred to PROG 4, reputational damage due to failure to achieve programme objectives. There had been restrictions on marketing and communication spend which affected NMO's knowledge transfer of science work. There were signs that this was now being better understood, but is necessary he would raise the issue at a more senior level [Action 2, PEM]. **PEM** went on to say that the marketing thresholds were not commensurate with the high value required for the nature of our work. **AP** said that he wished to improve the Risk Register with more on business type risks, and less emphasis on control risks where NMO's processes were an exemplar. Business type risks, such as where the organisation would be in 5 years time would be useful, and he would be happy to contribute to a future debate.

**Item 7 - Review NAO progress report and strategy paper**

**AP** asked **BM** to present NAO's paper. **BM** said the first item related to the building assets where the interim audit in January identified actions relating to heritage assets, impairment review and the appropriate selection of indices. IFRS 16 set out changes in how assets were to be treated with increased disclosure requirements. Choosing the correct indices for land was problematic as there were few comparable indices. NAO suggested **SMG** contact Research Councils, who had a similar estate to NMO, to ascertain their approach. **SMG** explained that she had contacted several Research Councils with similar land, but only received one reply and they had used similar indices to NMO. **SMG** said that BIS Finance had suggested NMO contacted BIS legal about the outstanding pension deficit which related to NPL. Legal took the view that the deficit would fall to BIS/NMO. **SMG** said this it was listed as a Contingent Liability in the accounts for 2009/10. **PEM** commented that maybe a 'Provision' should be made, not a 'Contingent Liability'. **BM** explained that the accounts should reflect substance over legal form. **BM** went on to say that the final audit started today and that the completion of the accounts should follow the same time table as last year.

**Item 8 - Consider Internal Audit report for 2010/11 and plans for 2011/12**

**AP** asked **GR** to present his paper. Section 2, annual opinion on internal controls, gave a 'green' – satisfactory – which confirmed that there were no significant control issues. Section 3, current year's internal audit plan, summarised work carried out in 2010/11 which had been discussed at the last AC meeting. **IA** wished to identify new areas of assurance, such as NMO's in-house audit work. This should help to provide a more rounded view of NMO's auditing capabilities. **AP** asked about the NMS Science Contract follow-up relating to issues raised by NAO. **LH** explained that **IA** had intended to revisit this area to assess how NMO had taken matters forward. **LH** said that it was normal practice to undertake follow-up action if the report had been given a green rating but there were still actions to be resolved. This would take place alongside the Estates Management follow up work. **GR** referred to Annex C which was the draft work audit programme for 2011/12. This had been discussed initially with **SMG/PPHS** and agreed with **PEM**. Part of this process was to ascertain any areas of concern the client may have had. **SMG** explained that **IA** had already performed much of the security audit. The **IA** plans for 2011/12 were approved.

**Item 9 - NMO Auditing Systems Paper**

**AP** asked **JS** to present her paper. **JS** introduced herself and mentioned that she took on this additional responsibility in January 2011. NMO's in-house internal audit team carried out internal audits to help ensure that NMO was compliant with ISO 9001 which was a requirement for NMO's laboratory and certification work. In order to gain accreditation and certification NMO was also subjected to external audits from BSI and UKAS. There were two audit approaches within NMO; the standards based system aimed to ensure compliance and the BIS IA system aimed at providing assurance to BIS about our operations. **JS** explained that she wanted the AC to consider how both the NMO IA and BIS IA audit systems were run as they were independent of each other and would like a steer from the AC as it was believed they could collaborate more, with a view to reduced costs. **MG** introduced himself and handed out hard copies of his slides. He explained that the type of audit they carried out was part of the 'Quality Management System' which was a requirement for NMO to achieve UKAS accreditation and BSI certification. NMO was subject to a number of accreditation standards. These were now integrated with the core of the ISO 9001- based management system. By adopting an integrated management system it had reduced the amount of duplication across the ISO standards areas. This approach had also helped to reduce the cost to our clients. The scope of these audits were wide and when he had looked at BIS's IA work plan, it showed overlap. **AP** asked BIS IA for their views. **GR** explained that they had held a meeting with **MG** and **JS** about this. There appeared to be a lot of important work covered by the NMO programme. In order for BIS IA to take assurance from NMO's in-house auditors, it would be necessary for BIS IA to review their work. Looking at this year's work plans there may not be as much duplication as suggested. For example, the whistle blowing audits were not the same. BIS IA were not looking at policies as the NMO in-house team were, but at staff awareness. BIS IA had shared its work plan for 2011/12 at the meeting with **MG**. **AP** mentioned that there was a Government review of the various Government Departments' audit functions to streamline the service and reduce duplication, while maintaining quality and allowing Departments to concentrate on their core functions. **BM** commented that NMO's in-house team covered finance and estates and thought that they should be concentrating on certification work and other core business. **GR** stated that the audit function supporting the Accounting Officer of NMO and BIS must meet the requirements set by HM Treasury, in order to deliver an appropriate level of assurance. **JS** explained that NMO were also subject to a number of external audits including UKAS and BSI which looked at the general management of NMO. **GR** said that these audits could be used by BIS IA for providing an overall assurance. **JS** thought that it would be useful for us to share information. **PEM** remarked that UKAS and BIS audits were optional. NMO consciously went for UKAS accreditation and BIS certification. The AC should be involved in the entire assurance process. **AP** stated that AC had an interest with commercial business related issues and this had been a good item to be raised at the AC. **AP** went on to say that BIS IA and NMO in-house audit should discuss this issue in more detail. Duplication should be avoided in order to make savings. This would show a pragmatic approach [**Action 3, BIS IA and JS**]. **PC** asked if it had been normal for UKAS to audit quarterly. **MG** said these audits were annual but covered different parts of NMO on each visit.

**Item 10 - AC's 2010/11 annual report to Steering Board**

**AP** said that the draft report could be taken as read as it had been previously discussed. Any comments to modify text/style should be sent to **SMG**. **SMG** asked if report could be submitted to the Steering Board. **AP** said yes [**Action 4, SMG**] and asked for any comments. None received.

**Item 11 - 'Statement on Internal Control'(SIC) for 2010/11 and consider new format for 2011/12**

**PEM** said that each year he had been required to produce a 'SIC' for NMO's Annual Report and Accounts. For this year NMO employed a paper challenge process. This involved Directors' providing a Statements of Assertion for their areas. These documents were initially discussed with the AC Chair prior to bilaterals with each Director and himself. They were then updated to reflect what had been agreed. The finalised documents fed into the SIC which in turn reflected the current position within NMO. The draft SIC, along with supporting documents, had been forwarded to IA for consideration. **LH** said that after a quick scan of the SIC she thought it covered the areas she had expected to be included; in particular, the Managing Risk of Financial Loss Project and the work relating to the Security Policy Framework were both detailed in the document. Both GR and LH were content with the SIC as it stood. GR and LH would review the SIC and provide any further comments if any to management. LH said that she would provide management with a paper which detailed the results of a review she would undertake on the Corporate Governance submissions in the next couple of weeks **[Action 5, LH]**.

PEM went on to explain that a new format for the SIC had been proposed for 2011/12 called a Governance Statement, but he would prefer to keep to the existing format and asked GR for any views. **GR** said that he had been unsighted on this as he worked in a different team. From what he had read, from the AC papers, he did not envisage a problem.

**Item 12 - Review draft Annual Report & Accounts 2010/11**

**AP** said that it was not necessary for SMG to go through the draft accounts, but any comments from NAO and or IA should be sent to SMG after the meeting **[Action 6, BM and GR]**.

**Item 13 - BIS IA Peer Review Report**

**AP** asked GR to present the Home Office Peer Review of BIS IA. **GR** explained that the review took place before he joined IA. The review process followed the 'Internal Audit Quality Assessment' process and these reviews were carried out every 5 years. The assessment framework ratings were level 1, emerging, to level 5, exemplar. Level 3 and above were considered good. BIS IA achieved level 4, maturing. The purpose of these reviews was to ensure that standards were maintained with regard to compliance with auditing standards and to share best practice between Departments. The action plan on page 16 was to ensure improvements to our service delivery. BIS IA intended to adopt the CLG [Central and Local Government] Internal Audit processes, rather than extend the licence for the software package currently in use, as this would prove too costly. **PEM** asked for clarity on changes to IA's organisation. **GR** explained that IA still consisted of two units, one in each Department, but the intention was to have just one fully integrated audit unit. It was not clear at this stage which Department IA would reside in. The purpose was to try and obtain VFM. **AP** asked for comments and congratulated IA on the scores achieved. No comments received.

**Item 14 - AC review own performance and Terms of Reference**

**AP** stated that the details of the review were in the pack and partially completed. The exercise would be completed over the telephone between AP, PC and PEM **[Action 7, AP, PC and PEM]**.

**Item 15 - Review work plan**

**AP** asked SMG to talk through her suggested amendments to the work plan. **SMG** explained that she reviewed the document to see what could be added or removed. Suggestions had been made in track changes. For example, a line had been added for 'security policy and incident reporting', as it was felt that the AC should be aware of this. Other changes made the document read better. **AP** asked for any comments. As none were received, SMG's draft was approved **[Action 8, PFHS]**.

**Item 16 - BIS partner organisation performance management**

PEM explained that a couple of new initiatives were in train. The first exercise, 'Performance Assessment', looked at NMO's risks and capability with levels of green to red. The second exercise, 'Leadership Challenge', weighted the Agency in terms of complexity, decision making, impact and workforce and placed NMO in a band relative to other partners. Both exercises were self assessment which would be considered by BIS. AP asked for any comments. None were received.

**Item 17 - AOB**

AP asked if there were AOB. SMG said that she had received details of CIPFA training opportunities which had been specifically designed for members of ACs. SMG asked if any members believed they needed additional training or refreshers to help them in their role. AP stated that he believed such courses were valuable, as they helped to keep members abreast of developments. Also, networking at these events improved understanding of challenges effecting other organisations. AP and PC said they would be happy to consider training but would be aware of the budgetary constraints facing NMO. SMG to provide details [Action 9, SMG].

**Item 18 – Date of next meeting**

It had been agreed that the next meeting will take place at NMO on Tuesday 11<sup>th</sup> October 2011 at 10am.

**Table of actions:**

ACTION	ASSIGNED TO	DUE BY	DATE COMPLETED
<b>Action 1 – item 5</b> Guidance on the 'BIS Balance Sheet Risk' project to be circulated.	GS	30/06/11	
<b>Action 2 – item 6</b> Impact of current marketing restrictions on service delivery to be raised at a more senior level within BIS if not satisfactorily resolved	PEM	29/07/11	
<b>Action 3 – item 9</b> BIS IA and NMO in-house Audit to discuss harmonising their functions.	GR + JS	29/07/11	
<b>Action 4 - item 10</b> To submit AC Annual Report to Steering Board.	SMG	30/05/11	11/05/11
<b>Action 5 – item 11</b> RE SIC: IA to review NMO's Corporate Governance submission.	LH	31/05/11	17/05/11
<b>Action 6 – item 12</b> NAO and IA to comment directly to SMG on draft Annual Report and Accounts if appropriate.	BM + GR	30/06/11	
<b>Action 7 – item 14</b> Review to be completed with respect to AC's review of own performance.	AP + PC + PEM	29/07/11	
<b>Action 8 – item 15</b> AC work plan to be updated to incorporate SMG's suggested amendments.	PFHS	30/06/11	
<b>Action 9 – item 17</b> SMG to provide details of training events to AP and PC.	SMG	30/06/11	