

OFFICIAL – SENSITIVE: COMMERCIAL

AUDIT COMMITTEE MEETING MINUTES – NOVEMBER 2014

NMO AUDIT COMMITTEE MEETING

2014 meeting number: 3 of 3

DATE : Friday 3rd November 2014

TIME : 10:00 am

VENUE : BIS, Conference Centre, Room C33, 1, Victoria Street, London, SW1H 0ET

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

IN ATTENDANCE : Richard Sanders [RS] Acting Chief Executive, NMO
Sadaf Masood [SM] Finance, BIS
George Smiles [GS] Director, NAO
Beverley Thorne [BT] NAO
John Coubrough [JC] Head of Internal Audit,, GIAA
Nigel Parke [NP] Senior Auditor, GIAA
Sarah Glasspool [SMG] Director of Finance, NMO
Peter Sayce [PFHS] Secretariat, NMO

APOLOGIES : n/a

Item 1 - Apologies for Absences/Substitutions/Introductions

All attendees introduced themselves.

Item 2 - Approval of today's agenda

Agenda approved as presented.

Item 3 - Declarations of conflicts of interest

None.

Item 4 - Minutes of previous meeting of 27/06/14

The AC minutes of the 27th June 2014 were approved with a minor amendment at item 10.

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

SMG explained that actions **1** [, to consider what risks should be applied to NMO], **2** [Update the risk register to reflect changes on the main sheet for greater clarity of changes] and **4** [To update the Annual Report and the Governance Statement in light of the comments made] had been completed. Action **3** had changed and would be discussed later in the meeting [Problems concerning UKSBS service delivery should be included in GIAA's work plan for 2014/15].

Item 6 - Update on key risks

SMG explained that the updated summary page now included the log of changes. **SMG** went through the risks which did not align with the desired risk rating. **CorpServ5** [Failure of Financial Management or Internal Controls] A long term member of the finance team would be leaving NMO in December 2014. The post in question was our Sales Ledger Clerk. **AP** asked if NMO had enough time to recruit a replacement before the position became vacant.

AUDIT COMMITTEE MEETING MINUTES – NOVEMBER 2014

SMG explained that the position would need to be covered and this could be achieved on a temporary basis internally or employ a temp. **CE19** [Insufficient staff means we fail to deliver or Agency expectations] Although NMO's ability to recruit had been improving, there was a significant amount of recruitment taking place across the Agency. **CorpServ3** [Loss of IT system/Failure of IT System to support business] This related to the introduction of an upgraded EDRM [Electronic Documents and Records Management] system which would come live in December 2014. **AP** asked when the disaster recovery test was due. **SMG** said that it was now set for January 2015. The delay had been due to the roll out of new IT hardware and upgrading from Windows XP to Windows 7. **AP** stated that these changes amounted to two risks, transition plus new kit, which could equal failure. **SMG** referred to **C&D3** [The price we pay to buy back NPLML from SERCO is too high] BIS had taken the lead on this and the cost would not be going through NMO's books. **CorpServ11** [Outsourcers, UKSBS and MyCSP, fails to deliver sufficient standards of service. Impacts on staff morale and our ability to deliver our Corporate Plan targets] the pensions statements arrived last Friday. However, there were still concerns as they contained errors. **EST7** [Due to budgetary constraints, the Teddington Estate is not optimal] a new risk. **AP** asked what was meant by 'optimal'. **RS** said this related to NPLML's ability to deliver science. **AP** suggested that the wording for EST7 needed to be more specific as the current wording was too vague [Action 1, SMG]. **SMG** in addition, the building of the AQML had an issue with the funding which did not match the project's plan. **SMG CE21** [NMO is not able to deliver its objectives as a result of Government funding cuts due to next Spending Review] Directors had been asked to consider planning, taking this into account this risk.. Directors needed to consider how best to mitigate potential impact by considering how to reorganise resources to enable NMO to meet its objectives. **AP** expressed concern about **CorpServ3** [Loss of IT System/Failure of IT System to support business] in that the disaster recovery test had been delayed due to IT upgrade. It was important to realise that 'Disaster Recovery' does not recognise restructuring. **SMG** remarked that the EDRM upgrade role out should be completed in December 2014 and would be included in the January 2015 disaster recovery test.

Item 8 – Review internal financial control framework

SMG outlined the current control framework. The only key changes related to **RS** as Acting Chief Executive and **Lynnette Falk** as Acting Director of Regulation. **RS** explained that the international role was important for influencing other countries in the importance of legal metrology and to encourage them to follow the UK model. This would allow for effective governance and responsibility. **AP** asked for any further comments. None received.

Item 9 – Accounting policy & other financial issues

SMG said there were no issues with regard programme and administration budgets. However, with regard capital there was underspend related to the AQML project. The difficulty was to get the spend profile aligned with the budget profile. **AP** explained that NMO were currently the custodian of the project which meant the responsibility rested with NMO. **SMG** would give an update on the funding issue to the AC [Action 2, SMG]. **SMG** referred to the CIPFA FM review which she suggested would be better to delay until 2015/16, due to the significant changes at NMO, this had been agreed by the BIS sponsors. The AC agreed to delay until 2015/16. **AP** enquired if the apprentice was doing well. **SMG** confirmed that he was making a valuable contribution to NMO's work. The sales ledger clerk however required someone with the necessary experience. Problems still persisted with HR and payroll which were administered by UKSBS. There were still concerns with MyCSP [pensions], **AP** enquired about corrective action. **SMG** explained that the Head of HR was attending meetings with UKSBS and MyCSP to help resolve the issues. The difficulty was making our voice heard due to our small size. **JC** asked where the source of the problem rested. **SMG** said that this was difficult to determine due to issues being bounced between the two organisations **JC** stated that an audit was going ahead that had been commissioned by BIS

OFFICIAL – SENSITIVE: COMMERCIAL

AUDIT COMMITTEE MEETING MINUTES – NOVEMBER 2014

and that similar problems were being experienced by other partner organisations as well as BIS. **AP** thought that these issues still remained a worry until we knew the outcome of the audit. The main concern was that UKSBS were taking far too long to resolve these issues which may impact on staff morale and consequently the business. With regard to the NPL's pension deficit, **AP** asked when it would be transferred to BIS's accounts. **SMG** explained that NMO would continue to pay the science programmes until the end of March 2015, so the deficit would no longer be recorded in NMO from then. However the change in ownership from Serco to BIS on the 1 January is likely to move the deficit to BIS.

Item 10 – Review Internal Audit expertise, independence, effectiveness & resourcing

AP requested comments. **PC** stated that looking at Internal Audit's activities, there seemed to be lots of work yet to be started. This suggested resource implications.. **AP** stated that the committee had concluded that GIAA had provided good quality work which had provided effective support for NMO.

Item 11 – Internal Audit progress report

JC explained that the original work programme had undergone a number of changes in consultation with NMO. The UKSBS matter turned out not to be isolated to NMO, but impacted on other BIS partner organisations. This is now being handled separately by a BIS audit due to the size of the task. Instead, IA will review how NMO assess payroll data internally... **AP** asked for any comments. None received.

Item 12 – NAO Audit Planning Report

BT presented the NAO planning report outlining how the NAO intend to audit NMO's 2014-15 Accounts. She highlighted that the team had not identified any significant risks, however they are required by auditing standards to address a risk of management override of controls. She also noted a risk factor in respect of the changes to NPL ownership. **SMG** explained that the change of responsibility for NPLML, from NMO to BIS, would take place from 1 January 2015. However, NMO would continue to pay for science up to the end of March 2015. From this point, the Teddington estate would also be transferred back into BIS's accounts. **PC** commented that the valuation of the estate would need to be known at the point of transfer. **GS** stated that the accounting treatment of the transfer would be driven by the method of transfer eg whether or not it is considered to be a machinery of government change. **SMG** reported that BIS and NMO were considering this. **GS** asked if the AC had any concerns about fraud. **AP** said no. **AP** commented that there had been concerns in the past, about the timetable of the audit. **SMG** commented that it worked well last year and the estate had been revalued. In theory, there should be less work next year.

Item 13 – NAO, IA & Committee Members only discussion

Did not take place.

Item 14 - Review NAO expertise, independence, effectiveness & resourcing

AP stated that the committee had considered the audit work to offer good VFM and effective in providing support for NMO. **GS** said there is always a concern when key team members change but he was happy that the new manager and the new lead had both being involved with the NMO audit in recent years. NAO believed the NMO finance team to be stretched.

Item 15 –NMO Quality Management System/update

RS said that NMO had decided not to renew external certification of ISO9000. The MB had taken the view that it had not provided value with regard business improvement. NMO's UKAS accreditation had been maintained and extended in some areas. The Certification team now had a deputy Quality Manager in place which had resulted in improvements. Also, NMO had maintained ISO18001 certification which was helpful for NMO's H&S responsibilities in particular its laboratories. **SMG** asked the AC if they were still interested in

OFFICIAL – SENSITIVE: COMMERCIAL

AUDIT COMMITTEE MEETING MINUTES – NOVEMBER 2014

the areas covered by ISO9000, and the AC confirmed that they were. **PC** enquired if it was resource intensive to maintain this accreditation. **RS** explained that ISO9000 was imbedded and straight forward. **PC** asked if the new Integrated Management system had been useful in maintaining the various accreditations required for NMO's business. **RS** explained that UKAS auditors would bring to the attention of the MB any areas of concern. The Integrated Management system was not considered burdensome and the requirements were common, eg, audit schedule and documentation. NMO understood what to look for with regards to accreditation. This was due to its experience as an accredited certification/notified body in its own right. **AP** commented that the AC was responsible for H&S and had an interest in changes in this area. NMO's H&S representative was due to retire and asked if this issue was on the Risk Register. Should anything go wrong in this area it could have a reputational impact on the business. Does the MB consider this area by default or only when H&S reports were made available. **RS** explained that H&S was considered by default, ie, it had always been discussed at each monthly MB meeting, Risk Register, along with monthly meetings covering NMO's Balanced Scorecard. NMO had always taken this issue very seriously. **AP** commented that it was positive that this area was considered by default and not passive. NMO's approach had been correct and it was important to have a monthly audit trail which demonstrated NMO's commitment to this important topic. **AP** asked for any other comments. None received.

Item 16 – AOB

AP asked for AOB. Nothing put forward.

Item 17 – Date of next meeting

AP said that a date would be fixed outside the meeting [**Action 3, PFHS**].

Table of actions:

ACTION	ASSIGNED TO	DUE BY	DATE COMPLETED
Action 1 - item 6 To revise wording of description of key risk – EST7	SMG/RG		
Action 2 - item 9 To provide an update of the spend profile and budget.	SMG		
Action 3 – item 17 Agree new date for January 2015 AC meeting.	PFHS		