

NMO AUDIT COMMITTEE MEETING

2013 meeting number: 3 of 3

DATE	:	Monday 16 th September 2013		
TIME	:	10:00am		
VENUE	:	BIS, Room 3J, 1, Victoria Street, London, SW1H 0ET		
PRESENT	:	Alan Proctor	[AP]	Chair, Non Executive Committee Member
		Peter Cowley	[PC]	Non Executive Committee Member
IN ATTENDANCE	:	Peter Mason	[PM]	Chief Executive, NMO
		Dean Parker	[DP]	NAO
		Sadaf Masood	[SM]	Finance, BIS
		Paul Sherman	[PS]	IA, BIS
		Sarah Glasspool	[SMG]	Director of Finance, NMO
		Peter Sayce	[PFHS]	Secretariat, NMO
APOLOGIES	:	Lavina Hinz	[LH]	IA, BIS
		Elizabeth Francis	[EF]	NAO
		George Smiles	[GS]	NAO

Item 1 - Apologies for Absences/Substitutions/Introductions

- Apologies had been received from:
 - Lavina Hinz, IA, BIS.
 - Elizabeth Francis, NAO.
 - George Smiles, NAO.
- Sadaf Masood was a temporary replacement for Thomas Brown [Finance, BIS].

Item 2 - Approval of today's agenda

Agenda approved as presented.

Item 3 - Declarations of conflicts of interest

PC explained that he had £10k investment in a.

Item 4 - Minutes of previous meeting of 29/01/13

The AC minutes of the 20th May 2013 were approved by the committee on condition that 2 alterations were made to items 10 and 11. **Action completed.**

- **Action 2** [SMG - to circulate to staff fraud and whistle blowing policy papers before next AC meeting]. **SMG** circulated on 17 August. **Action completed.**
- **Action 3** [PEM - to arrange offline meeting about NPL Project's impact on business activities of NMO & NPL]. **PEM** explained that he did not believe that a meeting had been required at this stage. There were 3 areas to consider: 1) Impact on the NMS Programmes Team, where an intern had since been recruited for this role, 2) Impact on Finance Team, where a temporary accountant had been used over the period of the Annual Accounts and 3) Impact on NMO Senior Management, where it had been decided that Richard Sanders would take over the day to day running of parts of NMO as Deputy CE. **PC** commented that he wondered if the NPL Project had been properly

resourced to avoid impact on NMO's business. **PEM** stated that the impact had been highlighted via the Agency Risk Register. Two NPLML staff had been seconded to work with our team on this project. In view of this, NMO had been considered sufficiently resourced to this stage. **AP** explained that his interest had been to do with NMO's business perspective. **AP** was concerned that the SB were limited to one hour on the project which may have curtailed valuable input. This could be considered a risk as it could have affected the effectiveness of the SB's role. **AP** further commented that although NMO were "coping well" with the project, one needed to be careful to avoid damage to the Agency. **Action completed.**

- **Action 4** [SMG - AML Project: to circulate assessment of likely risks before next AC meeting]. **SMG** said that documents had been circulated to **AP** and **PC** for review. **Action completed.**
- **Action 5** [PFHS - AC's annual report to Steering Board to be updated to reflect missed target and control issue]. **PFHS** updated and circulated on 30 May. **Action completed.**
- **Action 6** [PFHS - Audit Progress/Tracking table to be updated and circulated to AC before each AC meeting] **PFHS** circulated. **Action completed.**
- **Action 7** [SMG - To discuss with **PEM** the proposal to present a Quality item to the AC for discussion, eg, policy paper on succession planning] **SMG** noted this was an agenda item. **Action completed.**

Item 6 - Update on key risks

SMG talked through the logs. **PEM** commented that with respect to CE 14 [NPL future package takes a form which inadvertently damages the financial viability of rest of the Agency's activities] the 'Impact' rating could have been reduced to 4, but would keep the 'Probability' rating at 2. **PS** commented that he would have thought that the AML project would have had a similar impact on NMO. **AP** asked if NMO would be able to manage overspend in this area ensuring that the AML had been built to specification. Otherwise the AML would cause reputational damage to NMO. **PEM** explained that they were not able to spend on the project as planned due to changes to the project's delivery schedule. There had been an issue concerning the contractor who had subsequently reduced the size of its London office. Discussions were held between NMO and its contractor to ensure adequate resourcing. **AP** suggested these concerns be included in the Agency Risk Register. **PEM** explained that he would report to the Project Board if he had any concerns about the level or resource made available by the contractor to support the project. **PEM** then discussed UTILS 1 [Inability to adequately support OFGEM or administer regulations, due to inadequate staff resource, leads to damaged reputation]. There had been difficulties in resourcing teams with appropriately skilled staff. However, the recent recruitment meant this risk had started to reduce.

Item 7 – Review of Internal Audit progress report

PS said there had been significant changes to the plan agreed at a briefing meeting earlier this year. The current plan better reflected the key risks facing NMO. Ongoing audits covered NPL Project assurance, Business Continuity and the Advanced Metrology Laboratory. The audits which covered time spent on completing central requirements and certification had been cancelled

PC asked about the delay of the Disaster Recovery project and enquired about a delivery date. **SMG** explained that the team initially handling this project did not have the appropriate resource in place and the work had been subsequently transferred to another team which had the required skills and looked after NMO's Quality System. **AP** remarked that business continuity and disaster recovery was important for business and he did not want to see any more slippage. **PEM** stated that the project would be delivered on time. **AP** remarked that business continuity is dependent on staff, not the documentation.

Item 8 – Review of NAO progress report

DP referred to page 6 of their report. Item 1 covered financial statements and referred to the risk of inadequate review prior to being audited. **SMG** explained that due to the small size of the finance team that it was difficult to find the correct resource for review. **AP** commented that **SMG** had stated that the work on the assets was complicated and therefore should be considered an area of risk. **AP** remarked that the Annual Report had been thorough and to the point and not a lot to contend with. **PEM** commented that he had been confident that his in-house teams would deliver. The NPL pension's provision had been recognised and **NMO** had been involved with this issue over a period of time. **NMO**'s involvement would be greater in the future due to changed responsibility and we had a number of people with the required pension skills.

Item 9 – Review of internal financial control framework

SMG explained that not much had changed since last September, but **NMO**'s Records Manager had left in June and the process had begun to hire an apprentice. **AP** thought that was a Risk Register issue and there was not any significant accounting issues apart from the Director of Finance's input into the NPL Project. **DP** stated that the liability of this project rested with **BIS** and not **NMO**.

Item 10 – Accounting issues

SMG said discussions were held regarding the guarantees required by **NPLML** for its loan, performance guarantees and supplier guarantees. **SMG** explained that these guarantees would be disclosed in **NMO**'s accounts and the loan requirements were performed through agreement to **NPLML**'s capital plan. **AP** asked if there were any further comments. None received.

Item 11 – Succession planning update

SMG referred to the paper and explained that each team would produce their own succession planning document. This had been important because **NMO**'s teams were significantly diverse in their nature. These documents would feed into **NMO**'s overarching policy. An interim report had been produced covering progress to date. **PC** asked about training. **SMG** said they would produce a new section for this [Action 1, **SMG**]. **AP** remarked that the paper was good, but told him what he already knew. Succession planning was to do with career development and filling skills gaps. The document also needed to be developed from a risk management perspective [Action 2, **SMG**].

Item 12 – Review Internal Audit expertise, effectiveness, independence and resourcing

PEM said that he had been pleased with how **IA** had conducted the audit. It had been well executed and **IA** had responded swiftly. They were able to reprioritise their work schedule at short notice. Although there had been changes to **IA**'s personnel over the years, they had maintained good continuity and understood **NMO**'s business. This proved beneficial to this audit. **AP** asked if **IA** needed additional resource for their rapid response. **PEM** felt they did not - **IA** were tightly resourced but maintained flexibility.

Item 13 – Review NAO expertise, effectiveness, independence and resourcing

SMG explained that she had been impressed with **NAO**'s audit. This year's approach had been less detailed, but well balanced. **NAO**'s staff were to a high standard. **PEM** expressed concern about the relatively high turnover of staff from one year to the next. **SMG** commented that staff changes had sometimes caused lack of continuity.

Item 14 – NAO, IA & Committee Members only discussion

NMO staff not present.

Item 15 - AOB

SMG said that a new 'fraud and error' mandate had been in the process of being developed. To tackle this, NMO had created a risk based action plan. **PS** stated that IA were happy to help NMO to develop this plan if need be.

Item 16 – Date of next meeting

Date confirmed: 28th January 2014 at 13:30 at BIS Conference Centre, room C20.

Table of actions:

ACTION	ASSIGNED TO	DUE BY	DATE COMPLETED
Action 1 – item 11 Succession planning – to include section on training.	SMG	Before May AC	?
Action 2 – item 11 Succession planning – to be developed from a risk management perspective.	SMG	Before May AC	?