

NMO AUDIT COMMITTEE MEETING

2011 meeting number: 1 of 3

DATE : Tuesday 13th January 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
Charu Gorasia [CG] Finance, BIS
George Sabaratnam [GS] Finance, BIS
Sophie du Sautoy [SdS] Audit Manager, NAO
Bernard Muscat [BM] NAO
Graeme Ralph [GR] IA, BIS
Sarah Glasspool [SMG] Director of Finance, NMO
Peter Sayce [PFHS] Secretariat, NMO

APOLOGIES : Sid Sidhu [SS] Director, NAO
Lavina Hinz [LH] IA, 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 LH [IA]. BM [NAO] attended in support of SdS [NAO].

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 14/09/10

The AC minutes of the 14th September 2010 were approved by the committee.

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

AP asked about Action 1. **GR** explained that the report on the peer review had been received, but too late for circulation to the AC. **AP** said the report should be reviewed at the next AC meeting [Action PFHS]. **AP** asked **SMG** to comment on Actions 4 and 6. **SMG** said that she had not heard anything in respect of Action 4, BIS balance sheet risk project, and wondered if the project still existed. **CG** explained that the project was still running and that BIS guidance had been in early draft form and should be circulated in February 2011 [Action CG]. **SMG** commented that for Action 6, to obtain payroll exception reports, but nothing had been forthcoming. This had been considered a low risk to the organisation due to its small size. **PEM** mentioned that was one of the areas which would be considered in the 'Risk of Financial Loss' project. This should lead to improvements. **SMG** explained that the finance team's work on payroll was very time consuming and it was hoped the work on 'Risk

of Financial Loss' should result in this burden being reduced. **AP** said that Action 6 should remain on the table of actions **[Action SMG]**.

Item 6 – Update on key risks

AP asked SMG to present this item. **SMG** referred the AC to the risk register's summary and detailed breakdown, and explained that the logs showed what changes had taken place since the last AC meeting. The main areas to consider were those that did not align with the desired risk. One was **CE11**, which covered the difficulties of recruiting staff, SMG also reminded the AC that NMO were subject to a recruitment freeze. **SMG** said **PROG2** related to the contractor being concerned about their liability for NPL's pensions. **PEM** said that the contractor continued to be committed to the science contract and this should result in the risk rating being reduced. **SMG** explained that **CE12** and **CE13** covered reductions in Admin budgets which could result in resource issues. **AP** suggested that the Risk Register [RR] should be reviewed against the current business environment and NMO should look at growth to offset contractions. **AP** went on to say that the AC should revisit the RR in light of the current climate. **PEM** explained that NMO's strategy had been drawn up with assumptions of growth and the delivery of the Corporate Plan could also be at risk due to lack of growth. Another area NMO were concerned with related to NPL post 2014. **PEM** went on to say that RRs were useful where risks and plans were fairly concrete in order to make constructive analysis. **CG** agreed with **PEM**'s comments but thought that the AC should consider the 'Horizon Scanning' approach and utilise RR type ratings. **PEM** stated that this had been NMO's approach, drawing on feedback from the Business Teams. **AP** asked if there were any comments. None received. **AP** then enquired how H&S risks were analysed. **SMG** said that BSI had audited this area and a few issues had been raised. **AP** enquired if H&S in the laboratories fell within the scope of the AC. **PEM** thought not, since the responsibility rested with NMO's MB. It had been on the RR to enable NMO to keep a close eye on this topic. **PEM** then asked if other Departments agreed with this approach. **GS** thought that as NMO had an AC and MB, they were considered well equipped. **PEM** mentioned that H&S was a monthly standing item for the MB. **AP** stated that he had been comfortable with this approach.

Item 7 – Review risk management strategy & processes

AP asked for an update on this item. **PEM** gave an overview of the Risk Management [RM] process within NMO and explained that it had been adopted from a DTI model but refined to suit NMO's needs. The NMO MB ensured RM had been adopted throughout the agency. This had been a standing item and new staff were involved in the process and therefore became familiarised with it. **PEM** also explained that, with NMO's involvement in the 'Risk of Financial Loss' project, a new tool kit would be provided. Once these were fully understood, the RR guidance would be updated. **AP** said he felt that NMO's RM processes were robust.

Item 8 – Review anti-fraud & whistle blowing policies

AP asked SMG to present this item. **SMG** explained that nothing had changed since the last update, apart from the IA contact **[Action GR/PFHS]**. These documents were made available to staff via the intranet. This made staff aware of the current position. The policy part of the guidance had been kept up to date in line with BIS. **SMG** went on to say that the guidance would be re-circulated to staff. **[Action SMG]**.

Item 9 – Consider Internal Audit progress report and review IA plans [annual & medium term]

AP asked **GR** for a position report. **GR** explained that 5 of the 6 audits had been completed. The 6th related to advice on the procurement quality procedures which should be finalised shortly. No serious issues had come to light during the audit and NMO had good strong controls in place. **AP** remarked that NMO showed good diligence and strong controls. **PEM** stated that NMO had accepted all findings.

AP asked for comments about the timing of some of the AC agenda items. **PEM** commented that the AC should consider standing items which should either be bi-annual or annual. **SdS** made it clear that it would not be possible to review the SIC less than once a year as the accounts were issued on an annual basis and therefore needed to be considered once a year. **AP** asked the AC to consider/review the frequency of items and provide PFHS with comments [**Action AC**] and to ensure the frequency were relevant and proportionate.

Item 10 – Review NAO progress report and strategy paper

AP asked SdS to present her paper. **SdS** explained that an audit planning meeting had taken place and that NAO had produced the Audit Planning Report. **SdS** asked BM to talk through the main areas of the Audit Planning document. **BM** referred the AC to page 5 which covered NAO's assessment of areas of significant risk. For example: financial targets – areas of particular risk were accrued expenditure and income, provisions movement and non-current asset revaluation. With regard to fraud – budgetary cuts created an incentive for fraudulent reporting and cost cutting could result in weakening of management controls. **GS** remarked that he thought that NMO's provisions had been disposed of. **SMG** explained that the estates team still had a couple of buildings to be demolished. **BM** stated that risks 3 and 4, management of NPL contract and expenditure monitoring controls, were derived from last year's management letter. With regard to expenditure monitoring, this was to assess what improvements had taken place. **BM** then referred the AC to the key risks section. For item 6, valuation of land and buildings, NAO would need to review NMO's depreciation process each year as these assets were disproportionately large on NMO's balance sheet. **AP** enquired if NMO had the resource to carry out this exercise. **SMG** made it clear that it does not all fall to the Finance Team as the Estates Team were also involved in the process. The head of the Estates Team was a fully qualified valuer. **PC** noted that under the current financial climate there was a need for greater rigour in management of resources. **BM** commented that there had been a significant value in the estate and it therefore needed up to date revaluations. **GS** said it was very commendable for NMO to have had a complete stock listing of the estates assets on the balance sheet. **BM** drew the AC's attention to risk 7, valuation of provisions for the 10/11 audit, in that management must provide reliable evidenced based estimates [**Action Robert Gunn**]. **BM** referred to risk 8, financial implications of NPL's assets and liabilities in 2014. **AP** stated that it would be difficult to review until NMO had a strategy covering this period. **PEM** commented that with the introduction of the distinction between Admin and Programme, there may be an impact on how NMO's accounts were produced in the future. **BM** stated that HMT were not clear on this. **PEM** said that he was flagging up the difficulties in producing the accounts as NMO may need to restate the 09/10 accounts for the Admin and Programme split. NMO would like to avoid such an exercise as it was likely to be highly resource intensive. **CG** commented that she had not been aware that HMT had changed the rules and said that she had spoken to NAO about restating prior years. **AP** stated that clarity was needed and to agree the parameters for future years [**Action SMG**].

Item 11 – Review reporting timetable/process

AP asked for any comments. None received.

Item 12 – AC to review own performance and Terms of Reference

PEM explained that previously this had been a very time consuming exercise and that there had been few changes since the last review. In view of this, should this exercise be carried out this year? **SdS** stated that the AC should be reviewed on an annual basis. **PC** suggested that the, non-execs, carried out review and looked for exceptions to last year's answers [**Action PEM**]. **SMG** mentioned that last year's form unlikely to be identical to the one provided by the NAO. **AP** suggested that both forms be reviewed by SMG and raise main points of relevance and change [**Action SMG**]. **PEM** suggested that the boxes on the new form should be completed on the same basis as last year's assessment then circulated

[Action PFHS]. **SdS** said that she would provide a word version of the NAO document which would enable easier editing **[Action SdS]**.

Item 13 – Corporate Governance exercise 2010/11

SMG said that the Corporate Governance process had started, but needed agreement regarding challenge meetings with Directors. **NMO** had the same Directors as last year and thought challenge meetings were an unnecessary extra layer of scrutiny because of this. **SdS** said there were benefits of an additional challenge session. **AP** stated that he believed such a session added value, but, as Directors had not changed, then the process needed to be proportionate and that he would be open-minded about the approach. **PEM** asked IA to give a view, bearing in mind their involvement in the process and **NMO** clearly needed an independent view for the SIC which could be carried out by way of correspondence instead of meetings. **PEM** went on to say that it would help if IA explained the approach taken by other partner organisations. **GR** stated that **BIS DGs** had a similar approach to **NMO** in that they were involved in challenge sessions which also involved the AC. Some other organisations had the involvement of the AC Chair but not IA. **PC** thought that it had been a good idea to expect someone from IA to be closer to the process and that independent input was useful. **PEM** indicated that IA should review the written statements and challenge as appropriate. **SdS** reminded the AC that IA were normally involved in this process and, if agreed, IA should challenge the written statements. **AP** suggested that a separate discussion should take place to review and consider options of approach **[Action PEM]**. **AP** also reminded the AC that although the approach should be proportionate, it must meet requirements.

Item 14 - AOB

None.

Item 15 - Date of next Audit Committee meeting

It had been agreed that the next meeting would take place on Monday 9th May 2011, with a later start time of 11am.

AUDIT COMMITTEE MEETING MINUTES – 13 JANUARY 2011

Table of actions:

ACTION	ASSIGNED TO	DUE BY	DATE COMPLETED
Action 1 – item 5 Home Office peer review of IA [BIS] now received. To be an agenda item for the next AC meeting.	PFHS	29/4/11	
Action 2 – item 5 Three financial delegations of authority to be issued to NMO's CEO.	SMG	31/3/11	
Action 3 – item 5 Guidance on the 'BIS Balance Sheet Risk' project to be circulated.	CG	1/3/11	
Action 4 – item 5 To obtain payroll exception reports and improve payroll monitoring.	SMG	31/3/11	
Action 5 - item 8 IA to provide NMO [PFHS] with new IA contact for NMO's Whistle Blowing guidance.	GR	1/3/11	
Action 6 – item 8 Anti-fraud and Whistle Blowing documents to be re-circulated to staff.	SMG	2/3/11	
Action 7 – item 9 AC to review frequency of agenda items [see AC annual cycle of agenda items doc]. Comments and nil returns to PFHS.	All members of Audit Committee	31/3/11	
Action 8 – item 10 Robust evidence to be made available to NAO in respect of the valuation of provisions.	Robert Gunn	When requested by NAO	
Action 9 – item 10 NMO are now required to make a distinction between administration and programme expenditure. Clarity is needed as to whether or not the accounts need to be restated for f/y 09/10.	SMG	31/3/11	
Action 10 – item 12 AC to review own performance. AC Chair and NMO CEO to carry out review	PEM	31/3/11	
Action 11 – item 12 Both forms to be compared; highlight main points of change and pass to AC Chair & NMO CEO for Action 10	SMG	11/3/11	
Action 12 – item 12 Outcome of Action 10 above to be an agenda item.	PFHS	29/4/11	
Action 13 – item 12 NAO to provide [SMG] word version of NAO self assessment form – minimalist version.	SdS	2/3/11	
Action 14 – item 13 CEO and AC non-execs to consider alternative to challenge sessions with Directors.	PEM	17/2/11	17/2/11