

## NMO AUDIT COMMITTEE MEETING

2012 meeting number: 1 of 3

- DATE** : Wednesday 11<sup>th</sup> January 2012
- 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  
Lavina Hinz [LH] IA, BIS  
Sarah Glasspool [SMG] Director of Finance, NMO  
Peter Sayce [PFHS] Secretariat, NMO
- APOLOGIES** : Thomas Brown, Finance, BIS

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

None received. Peter Mason had arrived later during the meeting.

### 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 20/09/11

The AC minutes of the 20<sup>th</sup> September 2011 were approved by the committee.

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

- **Action 1** [SMG to identify alternative course and advise AP and PC]. **SMG** still to do as original course cancelled.  
**[Action 1, SMG]**
- **Action 2** [SMG to discuss with IT manager if frequency of IT systems backup was appropriate]. **AP** said that the attached (item 6) paper showed good backup arrangements were in place and asked about insurance cover. **SMG** explained that NMO were self insured and such expenditure would be handled within NMO's budget.
- **Action 3** [PFHS to update risk register control strategies]. **AP** noted this had been actioned.
- **Action 4** [BC to further investigate guidance on self insurance for Teddington Estate]. This had been completed and BIS agreed to move to self insurance.
- **Action 5** [PS to arrange for John Coubrough to brief NMO on new Corporate Governance code]. **SMG** said that this meeting had taken place. To be discussed later as an agenda item.

- **Action 6** [SMG to include Directors' names in report]. This will be actioned when report written later in the year.
- **Action 7** [PS to provide NAO with IA's work plan]. This had been actioned.
- **Action 8** [AP, PC & SMG to discuss induction pack]. A pack containing the following: ToR, contacts, skills, basic info on NMO and NPL [plus key people] with any marketing literature and website links. **AP** suggested a sample pack should be produced over the next four months.  
**[Action 2, SMG/PFHS]**
- **Action 9** [AP & PC to discuss offline how well governance was embedded in NMO]. **AP** confirmed this had been actioned.
- **Action 10** [SMG to review planning of the Annual Report and Accounts]. **SMG** noted this was to be discussed later on agenda.
- **Action 11** [PFHS to arrange bilateral for AP] **AP** holding discussions with PFHS.  
**[Action 3, AP/PFHS]**
- **Action 12** [PFHS to update ToR]. **AP** noted this had been actioned.

#### **Item 6 - NMO backup tape arrangements**

**AP** referred to SMG's paper and asked the AC for any comments. None received.

#### **Item 7 - Update on key risks**

**SMG** referred to the Risk Register and explained it was last reviewed by the Management Board on 23 December 2011:

- **1) CE 11** [Failure to recruit staff into frontline or business critical posts means we fail to deliver out objectives]. **AP** asked if NMO could get an exemption to the recruitment ban. **SMG** explained that the Agency had been allowed to recruit from outside the Civil Service into front line post. **PC** wondered if the risk rating should go down as matters were in hand. **SMG** explained that, as new work was imminent, it would be best to leave the rating as it currently stood.
- **2) SER 13** [Risk of not meeting increased commercial income targets]. This was now rated as a low risk as work had picked up.
- **3) C&D 1 + CE 14**
- **4) CE 15** [Low staff moral, due to possible structural changes to the Agency, may impact on productivity]. **AP** asked how NMO handled difficult situations, eg, feedback/position report. **SMG** said that PEM had an 'open door' policy. He also held all staff meetings and Q & A sessions. PEM also held tea parties, with a small number of staff, to discuss any issues or matters of concern. **AP** asked when PEM held all staff meetings was he on his own or were the Management Board visibly in support, ie, to show a collective approach and field questions. **SMG** all members of the Management Board were visible.
- **AP** asked PFHS to run through the Risk Register's logs of changes. **PFHS** explained that the log of changes covered all amendments to the Risk Register since it was reviewed by the AC meeting on 20<sup>th</sup> September 2011.

#### **Item 8 - Review risk management strategy and processes**

**SMG** explained that the only change this year was that the reference to 'risk appetite' was now contained within RM1 [NMO Risk Policy Statement, para 5]. **AP** suggested that as there were different interpretations of what was meant by 'impact' and 'probability' i.e. levels before or after the control strategy had been implemented, the relevant definitions needed to be set out in the Risk Register to avoid any misunderstandings **[Action 4, SMG]**.

#### **Item 9 – Review anti-fraud & whistle blowing policies**

**SMG** stated that the contacts in the documents had been updated and will be circulated to staff after they had been approved by NMO's Management Board. **AP** asked if there were any questions. None received. **AP** enquired about how they rolled out updated fraud policy documents, ie, to ensure key staff awareness. **SMG** mentioned key areas of potential fraud

related to payments to suppliers. The procedure for taking on new or amended supplier bank details had been tightened and we now telephone the supplier contact to ensure any amendments were genuine. **PS** remarked that the 'Risk of Financial Loss' project should have picked this up. **AP** remarked that he presumed that any fraud document would have been subjected to audit and legal review. **PC** commented that although NMO had its own fraud policy statement, it should follow BIS's standard format. **PS** said that NMO should ask BIS's fraud policy if there were a generic document NMO could review [**Action 5, PFHS**]. **PS** suggested that IA should be shown NMO's revised Fraud Policy document [**Action 6,PFHS**].

**Item 10 - Review Agency security policies and incidents [includes information and physical security]**

**SMG** said that the Agency's security policy document was new to the AC. IA had reviewed the document and thought it would be appropriate for the AC to have sight of it and that it should be included in NMO's quality system. The security manual was based on BIS's guide and security policy along with the IT policy. **PC** suggested that the 'NMO Security Manual' should contain a paragraph on how to handle overseas Government confidential information [**Action 8, SMG**]. **AP** suggested that as the 'NMO Security Manual' was a bulky tome, the Agency would benefit from an Executive Overview which would sign post staff to key/priority security issues, which were specific to NMO's reputational and commercial risks [**Action 9, SMG**]. **PS** mentioned that NMO were required to carry out a security self assessment once a year and this work had been reviewed independently by BIS IA. **AP** asked how security was handled with NMO. **SMG** replied that the Estate team handled site security while David Williams and Dan Shipp looked after information security.

**Item 11 - Consider Internal Audit progress report and review IA plans [annual & medium term]**

**PS** explained that three reviews had been completed. Risk management within the Certification Services team was rated Green. Risk audits were conducted on a yearly basis, on different Business Teams. The fraud and whistle blowing audit assessed staff awareness of the documents and their contents. Currently IA were reviewing NMO's 'Risk of Financial Loss' returns.

Follow up action related to the Estate Management audit. **AP** suggested that IA should include time scales for completion of actions in the follow-up documentation. It was suggested that IA could provide a list of recommendations coupled with implementation dates with a progress indicator. [**Action 10, LH**]. **LH** said that Estates had progressed on the recommendations. **PS** IA will be holding a meeting with NMO to discuss and agree the new work programme which would be available for review at the May AC meeting. [**Action 12, PS**].

**Item 12 - Review NAO progress report and strategy paper**

**BM** explained that the report set out what NAO had achieved to date. Page 5 covered significant risks (2.1). This section was shorter than previously as NMO had resolved the various accounting issues, eg, the transfer of NMS and transferring the estate's assets from BIS to NMO's balance sheet. The only issue was the potential for management to override financial controls; NAO would be looking for any contentious transactions. With regard to other audit issues (2.2), only two had been highlighted. NAO would review the indices for appropriateness as they could have a material impact on the accounts. **PC** commented that NMO should use the same indices for consistency from year to year. **AP** mentioned that NAO would need to agree the appropriate indices, on a timely basis, to allow SMG sufficient time to make any necessary adjustments to the accounts. **BM** said SMG would need to propose indices in a paper to NAO [**Action 13, SMG**]. **BM** mentioned that the second area was accounts preparation. Non-current assets were difficult to audit. In the past they tended to be a moving target as they had not been finalised by the time NAO came in to audit. NAO only had a two week window and therefore required a fully completed set of accounts to

work on. **SMG** explained this was achievable as she now had a better understanding of what NAO's requirements were. **SMG** said that lack of resources was a generic problem across BIS and its agencies. BIS had confirmed that they would provide accountancy staff should there be the likelihood of NMO failing to complete its accounts on time. It was within BIS's interests to ensure their agencies completed their accounts on time as failure to do so could result in BIS's accounts being delayed or qualified.

#### **Item 13 – Annual Report accounting policy & other financial issues**

**SMG** said that a timetable had been created to align with NAO's timetable. Also agreed with NAO was how to apply ISA 260 requirements. NMO intended to lay its Annual Report on Thursday 28 June 2012 while BIS was expected to lay their Annual Report on Monday 2 July 2012. **PEM** expressed concern about the short deadline and asked why it was not possible for NMO to lay its document on Friday 29 June. **SMG** said the Journal Office were expected to provide new guidance on laying procedures. **AP** commented as to whether or not a day really made a difference and whether NAO, who represented Parliament, could influence the administration procedure. **DP** explained that although the NAO represented Parliament, it did not have influence on Parliament's administrative processes. However, documents were laid on Fridays, but, as Parliament did not always sit on Fridays, it was not recommended as a planned date.

#### **Item 14 – Corporate Governance**

**PEM** explained that the 'Statement on Internal Control' was to become known as the 'Governance Statement' for the period under review. However, there were two issues for this year -, the difference in content and the timetable as presented to NMO. The draft Governance Statement and Directors' supporting assertion statements would be submitted to BIS by their deadline of 31 January 2012. The question for the AC was whether or not they wished to challenge/probe the submissions. **PC** expressed concern about governance as this issue was being rushed. **AP** said he recognised the unfortunate timescales imposed on NMO's Management Board, but reviewing these documents were a function of the AC. **PS** explained that In effect, NMO and the AC had three and half months to amend the documentation after the initial submission of 31 January 2012. **AC and PEM** agreed to a challenge session which may be paper based, either in February or March 2012 [**Action 14, PFHS**].

#### **Item 15 – AC review own performance, Terms of Reference and training**

**AP** explained that non-execs had worked through the NAO guidance the year previously and action had been noted:

**Action 1** – **PEM** to issue a letter of appointment for the audit committee covering the bullet points listed:

- Appointment/purpose.
- Support & training to be provided.
- Commitment required.
- Duration of appointment and how often it may be renewed.
- How personal performance will be appraised.
- What is considered unsatisfactory performance.
- Termination conditions.

**PC** remarked that there was no point in issuing a letter now, but would like to see all the information in one place for future appointees. **PEM** agreed and said that this would be discussed at the SB this afternoon.

**Action 2** – Was there a formal assessment criteria for the appointment of AC chair?

**YES**

**Action 3** – Produce induction check list for new AC members.

**ACTION IN PROGRESS** [included in main action list at **Action 2, SMG/PFHS**]

**Action 4** – Request sight of the audit fees at the next audit committee meeting.

*ACTION COMPLETE*

**Action 5** – AP/PC to speak off line regarding governance and how well it was embedded.

*ACTION COMPLETE*

**Action 6** – Revisit the mechanism and rigour for review of the Annual Report and Accounts.

*ACTION COMPLETE*

**Action 7** – Request AOB input in advance of AC meeting.

*ACTION COMPLETE*

**Action 8** - Chair to encourage members to have regular interface with the organisation.

*ACTION IN PROGRESS*

**Action 9** - Arrange the Chair's bilateral meetings with the AO, Head of IA and Director of NAO.

*ACTION IN PROGRESS* [included in main action list at **Action 3, AP/PFHS**]

**Action 10** – maintain record of when members terms of appointment were due for termination or renewal and ensure process followed.

*ACTION COMPLETE*

**Item 16 - AOB**

None.

**Item 17 – Date of next meeting**

Confirmed date: Monday 21<sup>st</sup> May 2012.

AUDIT COMMITTEE MEETING MINUTES – 11 JANUARY 2012

**Table of actions:**

ACTION	ASSIGNED TO	DUE BY	DATE COMPLETED
<b>Action 1 – item 5</b> SMG to identify alternative course and advise PC and AP.	SMG	21/5/12	12/03/12
<b>Action 2 – item 5</b> Create sample induction pack for new AC appointees.	SMG/PFHS	21/05/12 (next AC meeting)	
<b>Action 3 – item 5</b> To arrange bilateral for AP.	AP/PFHS		
<b>Action 4 – item 8</b> To produce definition as to what is actually meant by 'impact' and 'probability' [to be included on RR].	PFHS	31/3/12	6/03/12
<b>Action 5 - item 9</b> Obtain from BIS fraud policy department a generic fraud policy document.	PFHS	31/01/12	30/01/12
<b>Action 6 – item 9</b> NMO's revised fraud policy document to be reviewed by BIS IA.	PFHS/PS	30/03/12	5/03/12
<b>Action 7 – item 9</b> NAO to provide NMO with a copy of their fraud policy document.	BM	31/01/12	27/01/12
<b>Action 8 – item 10</b> The NMO Security Manual should contain a paragraph on how to handle overseas confidential information.	SMG	31/3/12	
<b>Action 9 – item 10</b> Due to size of the NMO Security Manual, it should have an Executive Summary, attached to the front of the manual, which signposted staff to key/priority security issues within the manual.	SMG	31/3/12	
<b>Action 10 – item 11</b> To produce an action/progress time table of audits [to include NAO audits].	LH	21/05/12 (next AC meeting)	
<b>Action 11 – item 11</b> implementing the Estate Management audit.	PEM	29/02/12	8/02/12
<b>Action 12 – item 11</b> IA to arrange meetings with NMO to agree work programme for 12/13.	PS	8/2/12	8/02/12
<b>Action 13 – item 12</b> Paper to be produced for NAO setting out the rationale for the proposed indices.	SMG	20/2/12	
<b>Action 14 – item 14</b> To arrange Corporate Governance challenge session.	PFHS	31/01/12	30/01/12