

## NMO AUDIT COMMITTEE MEETING

2014 meeting number: 2 of 3

**DATE** : Friday 27<sup>th</sup> June 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  
Steven Pantling [SP] NAO  
Ben Szejka [BS] NAO  
John Coubrough [JC] Deputy Head, BIS IA  
Stuart Brown [SB] BIS IA  
Robert Gunn [RG] Estate, NMO  
Sarah Glasspool [SMG] Director of Finance, NMO  
Tan Wah Ip [TWI] Finance, NMO  
Peter Sayce [PFHS] Secretariat, NMO

**APOLOGIES** : n/a

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

- Ben Szejka and Tan Wah Ip attended the meeting as observers.
- 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 29/01/14**

The AC minutes of the 29<sup>th</sup> January 2014 were approved as presented.

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

**SMG** explained that the two actions would be dealt with later in the agenda. One related to succession planning and the other about the AML project.

### **Item 6 - Update on key risks**

**SMG** talked through the risks that did not align with the desired risk rating. **CorpServ8 [Insufficient staff means we fail to deliver our Agency expectations]** – no change.

However, we were aware of the impact caused by UKSBS, on the Agency finance team, due to their failure to deliver their HR and Payroll responsibilities to the required standard.

**CorpServ 3 [Loss of IT System/Failure of IT System or support business]** – during 2014/15 there were a number of IT contracts coming to an end, so will need to be re-

tendered and improvements incorporated **C&D 1 and 3** related to the NPL project, remained a high risk for the Agency.. SMG read through the change logs since the last committee meeting. **AP** then referred to the May log and in particular **CorpServ 5 [Failure of financial management and internal controls]** reference to the IT upgrade and asked if this applied to the whole Agency. **SMG** explained that it was specific to the finance team's software upgrade. **AP** asked if the apprentice was the best solution for the skill shortage issue. **RS** explained that the reason for the apprentice had been due to the uncertainty of the future shape of NMO. An additional member of the finance team had started their professional accountancy training and was progressing well. **AP** referred to **CorpServ 3 [Loss of IT System/Failure of IT System or support business]** – the EDRM [Electronic Document and Records Management] system. **SMG** explained that NMO were considering a replacement to our current system and a review would take place in about 18 months time which would consider the system that is used within core BIS. **AP** asked what had been removed from **C&D1's [Handling partner selection process for proposed joint venture to run NPL which results in loss of confidence in NMO]** control strategy. **SMG** explained it was para 3, "Adapt the process in light of first stage responses", which had now been completed. With regard **C&D3 [The price we pay to buy back NPLML from SERCO is too high]**, negotiations were continuing and the transfer to BIS was expected to be completed by the end of December 2014. An engagement letter had been issued to the purchaser's accountants. . **AP** stated that there would need to be considerations for the for the management structure of NMO. **SB** suggested that the logs of changes were really useful to understand what had changed, and suggested that the key changes could be included next the risks on the main sheet, this was agreed by the AC as it would provide greater clarity **[Action 2 PFHS]**.

#### **Item 7 – Update on AML project**

**AP** commented that he considered the paper to be of good quality. **RG** said it had taken a long time to obtain a decision for the go ahead for this project. At Stage C NMO had a good design for the AML, however, BIS were not able to afford the additional funding for its specification. . . **RG** stated that NPL's potential partners had been involved in the project. **PC** explained that we had been involved in this project since 2009 and we should start the project from scratch if we were to use new partners. **RG** Some qualities of the proposed work had changed, eg, we could only support teams who did not need the highest standards of low vibration capabilities.. **PC** thought that the project needed a more strategic review. **AP** Asked for any further comments. **JC** asked what was the difference between what you wanted and what you will get. Was there not the risk of slipping behind the competition.. **RS** remarked that in order to achieve this, it would be necessary to get the £25m funding profile right and funding was only guaranteed for 2015/16 due to the Government's fiscal timetable.

#### **Item 8 – Approve Audit Committee's annual report to the Steering Board**

**AP** referred to the report. It covered topics like strong control environment, risk register, governance, shared services - an issue to be discussed later. The support provided by IA and NAO were proficient and carried out to a high standard. As there were no further comments, the report was approved.

#### **Item 9 – Updated policy paper on succession planning**

**SMG** explained that there had been concern that the original paper had not been detailed enough with respect to Management Board and finance succession planning. This had now been rectified. BIS had taken on more finance work with regard the NPL project and this had freed up time to concentrate on core NMO activities. **AP** asked SMG if other people within finance had her knowledge and understanding of NMO's finances. **SMG** explained that the finance team worked closely together and shared knowledge to ensure business continuity, however it is a small finance team. Dave Barrett, HR, was co-ordinating a people plan for NMO. **AP** commented that the paper was good on leadership training. However, it was important that senior management participated in the development of this important skill. **RS**

explained that in the PMR [Performance Management Report] there were specific references to leadership. **AP** asked if it was necessary for all Directors to attend the Accounting Officer Certificate training course. **RS** explained that he had attended the course and found it very beneficial. One of the scenarios had been to show ‘what’ and ‘how’ things can go wrong and had taken the view that all Directors would benefit from this detailed training. **AP** said that it appeared that NMO were considering the development of a talent pool and asked about the selection process – technical, project management. **RS** explained that HR had been developing this and the MB would take ownership of the initiative.

#### **Item 10 – now after item 11**

##### **Item 11 – Internal Audit progress report**

**JC** stated that IA’s opinion was that NMO’s system of internal control had achieved a ‘Satisfactory’ rating. This was the highest rating possible. With regard the Corporate Governance exercise, IA thought this had been very beneficial as it demonstrated that NMO’s Directorates had good autonomy while remaining focussed on risk. **AP** thanked IA for their valuable contribution to the Corporate Governance exercise.. **JC** referred to IA’s work plan for 2014/15 and explained it would be revisited with SMG. **AP** referred to IA’s work programme, pages 14 and 15, and suggested that the AML project could be transferred to BIS. It had always been a potentially high risk, however, the risk had now become greater. UKSBS had not done well in service delivery with regard HR and pay and advised that IA should look into this and questioned if UKSBS had their own internal audit function. **AP** requested that this be included in IA’s work plan. **[Action 3, SMG]**. **JC** stated that IA were fully aware of the issues surrounding performance delivery of UKSBS. **GS** asked how NMO would obtain assurance from UKSBS that service delivery would be improved. **SMG** explained that a letter of assurance had been received by UKSBS. **JC** explained that work plans were not set in stone and that IA would include this. **AP** asked if there were any other comments..

##### **Item 10 – NAO progress report**

**GS** referred to their paper and in particular page 2 where the actions for the AC had been set out which were to review and consider the report’s findings, plus any mis- statements. With regard NAO’s work on non-current assets, the final audit time table was challenging and although there were minor issues/amendments, NMO had carried out its duties properly. NAO had taken the view that there had not been any attempt by management to override financial controls. The key recommendations were: Non-current assets, more clarity in this area would have made the financial reporting task easier. **SMG** explained that a professional valuation had taken place and therefore the work involved had been different this year as 5 years of assets needed to be consolidated. This had made it particularly difficult for auditors to follow the trail due to the complexity of the issues concerned. **AP** asked if it had been a non valuation year, would it have been easier. **SMG** explained that it would have been easier. The misstatements concerned a small amount due to the discount rate applied. NAO would recommend to the AC that, as the misstatements were not material, they should be left unadjusted. This was agreed. **PC** enquired as to what would happen to the assets after the NPLML transition had taken place. **SMG** thought that they would be transferred to BIS. **PC** commented that, in view of this, the work on NMO’s accounts may have some complexities next year. **SMG** agreed and explained that the valuations had not simply been transactional, but required work with the Estate Team to help understand asset movement. **GS** referred to page 12 which sets out NAO’s independence and that no fraud had come to NAO’s attention. An unqualified certificate would be issued with a reference to unadjusted misstatements.

##### **Item 12 – Review of Annual Report & Accounts + Governance Statement**

**AP** made it clear that the report was in draft form. With regard the Chief Executive’s introduction, he thought that stating that the CE was looking for 100% achievement on

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targets was unwise, as this was a given. **RS** explained that in practice the audience was mainly staff. **AP** said he was not sure that this was the case and thought it had a wider audience. **AP** commented that it was best that CEs avoided personal views. Overall, a very good introduction and report. **PC** thought that the report read well and that the statements were clear. However, suggested a few minor changes **RS** said that he wanted to give a positive view. **PC** praised the report for being very clear on what NMO's Directorates do, which was particularly important in view of the current review the Agency was undergoing. **AP** agreed that it was very clear on what NMO did and achieved. **GS** referred to page 26 and thought it was unusual that the organisational chart reflected vacancies and thought this would give the wrong impression. Also, **RS** might like to consider additional wording for the Governance Statement which reflected when he took over from Peter Mason. **JC** thought it might be useful if the Governance Statement made a reference to the year's work carried out by the AC and MB **[Action 4, RS]**. **AP** asked for any further comments. None received.

### **Item 13 - AOB**

**JC** provided an update on the 'Cross Departments Internal Audit Service' initiative. BIS IA were one of the first strands in the creation of XDIAS. At present, XDIAS was not fully formed as other Departments needed to join the group, eg, MoD. The intention was for XDIAS to become an Agency in September 2014 and to be known as 'The Government Internal Audit Agency'. However, there were issues surrounding payroll. Therefore, it had been decided that XDIAS would become a 'shadow agency' from September 2014. One of the initial tasks would be to work out and agree a charging model across Government Departments. NMO should not be concerned about these changes as there would be no impact on the provision of service. Nigel Parke would be taking over from Paul Sherman. **AP** asked for any comments. **SMG** explained that it had been a very busy year and thanked IA and NAO for their support and for carrying out non planned work. **AP** commented that IA had made a valuable contribution to the Corporate Governance exercise.

### **Item 14 – Date of next meeting**

Date, time and venue: 20<sup>th</sup> October 2014, at 10:00am, at 1, Victoria Street, London SW1H 0ET [in room C?? located in BIS Conference Centre].

### **Table of actions:**

ACTION	ASSIGNED TO	DUE BY	DATE COMPLETED
<b>Action 2 – item 6</b> Update the risk register to reflect changes on the main sheet for greater clarity of changes	PFHS	Before next AC meeting	
<b>Action 3 – item 11</b> Problems concerning UKSBS service delivery should be included in IA's work plan for 2014/15.	SMG	Before next AC meeting	
<b>Action 4 – item 12</b> To update the Annual Report and the Governance Statement in light of the comments made.	RS	Before laying of accounts	