

## NMO AUDIT COMMITTEE MEETING

2014 meeting number: 1 of 3

**DATE** : Tuesday 29<sup>th</sup> January 2014

**TIME** : 1:30pm

**VENUE** : BIS, Conference Centre, Room C20, 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  
Richard Sanders [RS] Deputy Chief Executive, NMO  
Sadaf Masood [SM] Finance, BIS  
George Smiles [GS] Director, NAO  
Elizabeth Francis [EF] NAO  
John Coubrough [JC] Deputy Head, BIS IA  
Lavina Hinz [LH] BIS IA  
Sarah Glasspool [SMG] Director of Finance, NMO  
Peter Sayce [PFHS] Secretariat, NMO

**APOLOGIES** : Paul Sherman [LH] BIS IA

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

- Apologies had been received from Paul Sherman, BIS IA.
- Introduction: John Coubrough, Deputy Head, BIS IA.

### Item 2 - Approval of today's agenda

Agenda approved as presented.

### Item 3 - Declarations of conflicts of interest

None declared.

### Item 4 - Minutes of previous meeting of 16/09/13

The AC minutes of the 16<sup>th</sup> September 2013 were approved as presented.

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

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

### Item 6 - Update on key risks

**SMG** talked through the risks that did not align with the desired risks. **CorpServ8** – recruitment had been going well for Enforcement, Utilities and Regulation. **AP** asked if this would have been sufficient to bring the risk into alignment. **SMG** explained that due to the varied nature of the recruitment programme for Enforcement, it was felt too early to align the risk. **PEM** said that it would have been premature to reduce the rating at this stage. **SMG** explained that **C&D1** was constantly changing due to the progress of the NPL project. **PEM** said that David Willetts had a good account of where we were on the project and with

regards to the bids, there were sufficient quality bids to take the project forward. **AP** asked for any comments. **AP** asked about EST3 & 5. **PEM** explained that the quality of laboratory NMO wanted to create had not been possible due to the funds available. NMO now had a better understanding of what was required for the AML, the initial report that had been relied upon was good, but had become out of date. **AP** commented that he had been pleased that the Risk Register process had picked this up and pleased that C&D2 had been elevated to the BIS Risk Register. NMO's system worked well. **SMG** referred to the Risk Register logs which showed changes to the Risk Register since the AC last reviewed the Agency Risk Register. **RS** commented that BIS had been looking for assistance to progress their review. **PEM** said that the review had lots of recommendations. We were aware that certain recommendations could have had a significant impact on NMO.

#### **Item 7 – Review of risk management strategy & processes**

**PEM** this review considered the current approach to risk management and whether or not it was still appropriate for NMO. We applied NMO's current risk management system to the NPL project and it worked and the consensus of the NPL project board was that it was helpful. **AP** said the current risk management system was very credible and robust for NMO's current business model. However, for a significantly large, and very different high value construction project like the AML, did the current methodology stand up to the robustness required for this particular project? **PC** commented that the Agency Risk Register was top level and would not contain the detail one would expect to see in a Directorate level risk register. **PC** asked if there had been a detailed risk register for the AML project. If not, this would have been a failure of project management. **PEM** said that it was too early to make a judgement on the AML project. **AP** said that the current risk register methodology was too simple for a major construction project like the AML. **GS** said that the norm would have been to invite the Project Manager to attend the AC to discuss the project. **[Action 1 – Robert Gunn to attend the next AC meeting]**.

#### **Item 8 – Review of anti-fraud & whistle blowing policies**

**SMG** said that an annual review of fraud and whistle blowing policies had taken place and had been distributed to staff. **AP** asked if someone had used the whistle blowing process, how would they know that the matter had been looked into? **PEM** explained that an account of the claim and findings would have been conveyed to the relevant part of the business. **JC** asked if NMO had a fraud action plan. **SMG** said that NMO reported back to BIS on this point. **PEM** explained that this goes back to the risk of financial loss project and the opportunities for fraud were low and therefore an action plan would not have been high on our priorities. **JC** said that a fraud risk assessment should have been carried out. **PC** thought that an action plan would have been too prescriptive. **AP** said that he was comfortable with existing arrangements. **PEM** commented that this area would have been assessed periodically, but not for the time being as it had been recently reviewed.

#### **Item 9 – Review of security incidents including information and physical security**

**SMG** explained that NMO had delayed reviewing NMO's security documentation due to the impending implementation of the new Government Security Classification system and the introduction of the new laptops. This would impact on both physical and digital information/IT. The Agency Security Officer carried out random office checks and had come across a few minor incidents which were not material, but brought to the attention of those concerned.

#### **Item 10 – moved to end of agenda**

#### **Item 11 – Accounting issues**

**SMG** said that the EPM [Enterprise Performance Management] was a system introduced by BIS to help consolidate partner organisations accounts. However, the system had been slow and problematic and time consuming for the interim accounts. A new professional valuation of the Estate had been due end of March 2014. **PC** enquired if **SMG** still provided the

indices. **SMG** said these had been agreed with NAO. With respect to the NPL future project, we had received approval for £27m to guarantee the loan. Also, a performance bond of up to £2m had been put in place. With regard the NPLML DB Pension scheme, the deficit would have been treated as a liability on NPLML's balance sheet at the end of the contract with Serco... **PEM** said that he would be meeting the Chief Executive of UKSBS at the end of February. There had been a significant risk with the temporary manual system as it necessitated error checking which had been time consuming.

#### **Item 12 – Internal Audit progress report**

**JC** explained that IA were about to issue a management letter about the NPL project. The audit of the AML amounted to a critical support role. There were two audits carried over from last year; 'Procurement' which had been given an Amber/Green. The recommendations were that NMO needed to hold periodic reviews of their GPC cards and the procurement guidance on the intranet needed updating. NMO had accepted these findings. The second audit related to the 'Business Continuity' plan where phase one had now been completed. IA held an initial planning meeting with NMO to consider the content of the IA work plan for 2014/15 and a draft work plan had been drawn up. With regard the NPL future development review, IA's approach had been discussed with Amanda Brooks. **AP** explained that there needed to be a balance between VFM and control. Control was expensive and therefore needed to be proportionate. **PEM** agreed that we needed to consider the cost

#### **Item 13 – Working draft minutes of 'Integrated Management System' review meeting of 9/12/13**

**RS** said that the attached draft minutes were self-explanatory and were waiting for them to have been signed off. The purpose of the review had been to consider the appropriate level of quality management needed for NMO. **AP** noted.

#### **Item 14 – Review NAO Audit Planning report**

**EF** Referred to the planning report which was in a new style. Page 6, headed 'Risk Factor', set out the significant risks NMO needed to consider. With regard the NPL project, this should be disclosed in NMO's 13/14 accounts. With regard the production of the accounts, they should be in their final draft form in June and should then would have been considered by the AC before laying before Parliament. At page 20, it set out NAO's approach to reviewing fraud. This had been in compliance with ISA 240 [UK&I]. It was designed to help NAO identify areas of potential fraud. **AP** requested comments. **AP** asked what was behind the challenging time scale of 9<sup>th</sup> June. **EF** explained that this related to resource and best approach. **SMG** was required to provide figures to BIS by 24<sup>th</sup> April. NMO would have had 1 week, once NAO had completed their visit, to sort any issues. Small adjustments to NMO's accounts would not impact on BIS's accounts. **AP** thought that if the deadline had been set as too challenging, then one would be planning to fail. **PEM** stated that he was not too nervous about the deadline. The issues that surrounded the interpretation of certain rules needed to be sorted sooner rather than later. **EF** asked if there were any incidents of fraud NMO wished to disclose. **PEM** stated no, apart from what the AC/NAO were aware of. **GS** commented that the AC should have had at least 3 members, not two, and meet 4 times per year which was considered best practice. **AP** explained that both points had been considered whilst taking into account the size and nature of NMO's business. Therefore, it was a conscious decision for the existing arrangements to have been in place.

#### **Item 15 – Corporate Governance process: Challenge session – paper or one to one**

**PEM** explained that the issue on the table was to decide which process should have been adopted. Directors complete an assertion statement and these were the subject of a challenge session. This could take the form of paper or a face to face review. Last year NMO had adopted a paper session. The AC needed to decide which approach should be used for this year. It should have been noted that these statements underpinned the draft NMO Governance Statement which, in itself, would provide assurance for the BIS Governance

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Statement. Issues like the disposals audit would need to have been covered. **AP** and **PC** agreed that face to face sessions would be appropriate this year. **PEM** said these would take place in mid March to June.

### **Item 16 – AC review own performance, Terms of Reference and training**

**AP** explained that the AC understood the importance of such reviews and work had been in hand.

### **Item 17 - AOB**

None

### **Item 18 – Date of next meeting**

Date and venue confirmed: 27<sup>th</sup> June 2014, at 10:00am, at 1, Victoria Street, London SW1H 0ET [in room C33 located in BIS Conference Centre].

### **Item 10 – Succession Planning paper**

**AP** remarked that the paper had not been very detailed in view of the important nature of this document. **PEM** explained that that he had hoped that it was evident that NMO had looked at this area thoroughly, even though it was not detailed. However, in view of the small size of NMO, it had been easy to identify leavers and retirees. **AP** said that he would like to see a stronger planning paper on leadership development [**Action 2 – Sarah Glasspool**].

#### **Table of actions:**

<b>ACTION</b>	<b>ASSIGNED TO</b>	<b>DUE BY</b>	<b>DATE COMPLETED</b>
<b>Action 1: - item 7</b> Invite the AML project manager to attend or provide an update to the next meeting.	RG	Before June AC	20/6/14 An agenda item
<b>Action 2 – item 10</b> Succession planning – to provide stronger planning paper on leadership development.	SMG	Before June AC	20/6/14 An agenda item