

## NMO AUDIT COMMITTEE MEETING

2013 meeting number: 1 of 3

<b>DATE</b>	:	Tuesday 29 <sup>th</sup> January 2013	
<b>TIME</b>	:	10:30am	
<b>VENUE</b>	:	NMO, Room F12, Stanton Avenue, Teddington, TW11 0JZ	
<b>PRESENT</b>	:	Alan Proctor Peter Cowley	<b>[AP]</b> Chair, Non Executive Committee Member <b>[PC]</b> Non Executive Committee Member
<b>IN ATTENDANCE</b>	:	Isobel Pollock Peter Mason Thomas Brown Dean Parker Elizabeth Francis John Coubrough Paul Sherman James Clark <i>item 13</i> Sarah Glasspool Peter Sayce	<b>[IP]</b> NMO Steering Board Chair, (Non Executive) <b>[PEM]</b> Chief Executive, NMO <b>[TB]</b> Finance, BIS <b>[DP]</b> Director, NAO <b>[EF]</b> NAO <b>[JC]</b> Deputy Head, BIS Ia <b>[PS]</b> IA, BIS <b>[JWC]</b> NMO, Change & Development <b>[SMG]</b> Director of Finance, NMO <b>[PFHS]</b> Secretariat, NMO

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

- Apologies had been received from Lavina Hinz, IA BIS.
- Richard Frewin, Director of Enforcement, attended as an observer.
- Due to new attendees, everyone introduced themselves.

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

Agenda approved as presented. **AP** asked if there were any items for AOB [item 15]. **JC** said he would raise a couple of small issues - the Internal Audit transformation programme and Public Sector Internal Audit standards.

### **Item 3 - Declarations of conflicts of interest**

No conflicts of interest were declared.

### **Item 4 - Minutes of previous meeting of 25/09/12**

The AC minutes of the 25<sup>th</sup> September 2012 were approved by the committee.

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

- **Action 1** [PFHS - the organisation chart, to be included in the new AC member's Induction pack, to be revised]. The document had been previously agreed. **Closed**.
- **Action 2** [PEM – recruitment issues for large NMO contracts to be considered for inclusion in top level Risk Register]. **An agenda item**.
- **Action 3** [PEM – issues surrounding the recruitment of appropriately skilled staff to be discussed at strategic level meetings]. **AP** referred to comments column and asked what date the policy paper, on succession planning, would be available. **PEM** explained that, due to other priorities, the paper should be available by end March **[Action 1, SMG]**.
- **Action 5** [PFHS – Audit Progress/Tracking table: To include UKAS type recommendations as well as those from IA and NAO]. The document had been updated

- with BIS IA and NAO audits. The document had not been updated to reflect the UKAS audits **AP** asked for the document to be circulated once updated [**Action 3, PFHS**].
- **Action 6** [PEM – to ensure senior staff changes were included in the top level Risk Register]. **PEM** explained that it had been decided not to place this on the Agency Risk Register. This issue had been considered by the Management Board who took the view that NMO had recently demonstrated that it had the flexibility, at senior management level, to transfer responsibilities enabling us to cope with one person missing. There were contingency arrangements with BIS should too many Directors be unavailable.
  - **Action 7** [PEM – to ensure that IA formally reviewed the top level Risk Register more than once per year]. **AP** said action had been **closed**.
  - **Action 8** [PEM – IA to be involved in developing the content of the Strategic Options Plan]. **AP** said action had been **closed**.
  - **Action 9** [SMG - paper to be written to BIS requesting relaxation of certain procurement rules to ensure the BIS family obtains VFM]. **PEM** said that there were two issues. [1] The nature of delegations had been inflexible - should we purchase outside the framework it would be considered an 'irregular purchase'. [2] The Department needed flexible contracts in place to ensure that we were not locked into poor value arrangements. **AP** commented that these arrangements were unhelpful in times when Government Departments and their Agencies were expected to save money by making considered purchases.

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

**SMG** referred to the Risk Register's log of changes and Summary. **PC** commented that he had been pleased that the NPL Project's risks had been given greater recognition. **IP** asked if, in view of the announcement of the AML, it should be placed on the RR. **PEM** said it should and explained that the funding profile provided by BIS did not align with our construction profile. We planned to see if we could marry the two together. **AP** remarked that this project would have a significant bearing on NMO's high risk activities.

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

**SMG** said that there had been no change to the policy statement or assessment of risk documentation. **PEM** explained that the Management Board had reviewed the documentation and decided not to make any changes. **JC** advised that the Orange Book had been due to be updated and may have had an impact in this area. **JC** stated that it had been Treasury who had suggested the revisions and drafts would be circulated to stakeholders for comment. **JC** indicated that IA would attend the group if required to do so. **JC** advised that he would ensure that the executive had input at the drafting stages [**Action 4, PS**].

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

**SMG** explained that the above documentation, particularly the fraud document, had been extensively reviewed last year. These documents would be circulated to staff after the AC meeting [**Action 5, SMG**]. **AP** said that although the Chief Executive had been content, the Whistle Blowing process had been more of a question for staff on the shop floor. In other words, were staff confident to apply the Whistle Blowing process. **SMG** commented that NMO had attained a 100% response rate for 'Protecting Information' and 'Fraud Awareness' surveys. **PEM** said that he had been conscious that the 'Staff' survey response rate had fallen from 100% to 94%. The anonymity of the staff survey had been discussed with union officials.

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

**SMG** explained that this item covered four policy areas. The policies had been amended with non material administrative updates. We had also received a letter from the Cabinet Office which notified us about impending changes to document security classifications where they were being reduced to three headings. **PEM** said this had been a positive move, but the new system could impact on NMO's marking policy. Unfortunately, NMO were not given an opportunity to comment on what had been proposed. Although the new proposals may allow greater access to Whitehall systems, we had limited connectivity due to NMO not being on the GSI [Government Secure Intranet]. **PC** asked if the non-executives receive documents that comply with the Govt security requirements. **PEM** said all official documents were considered under the Govt security requirements which meant you would receive documents which were either marked or not marked; both types needed to be handled in accordance with security policy. **SMG** explained that with respect to the IT Policy and IT Acceptable Use Policy, they were simply tidied up, eg, improved wording and added references to social media. With regard to the bomb threats document, the only change was that Peter Sayce was the new Deputy Bomb Officer. **IP** said that cyber security attacks had been a topic with greater prominence these days and had wondered what action NMO took regarding such incidents. **SMG** explained that NMO performed an annual penetration test and any recommendations were considered and implemented if necessary. **IP** asked if we knew who would be likely to want to infiltrate NMO's IT system. **PEM** said that would likely to be our competitors for our clients in the market place, or possibly companies who were interested in our intensions for the NPL Science contract.

#### **Item 10 – Accounting issues**

**SMG** said that the interim accounts had been completed and were sent to BIS by 7 January. There had been a concern about consultancy costs for the 'NPL Future' project where NMO had been given additional funding, but it looked likely not to be required. BIS had also been provided with funding to pay for the building of the AML [Advanced Metrology Laboratory]. A problem related to the profile of the funding which appeared not to align with the current project profile plan. There had also been a deficit in Certification Services. This related to a drop in income and increased overhead costs. **AP** mentioned that in business, with regard Certification Services' deficit, increasing the fees would not necessarily help. **SMG** explained the best way to restructure his team with a view to reducing costs. It had been understood that increasing fees in a highly competitive market could work against the agency's competitiveness. It needed to be remembered that NMO were required to achieve full cost recovery and were not allowed to cross subsidise. **AP** enquired if the forecast income had been over optimistic. **PEM** explained that, like our competitors, we were dependent on the financial wellbeing of our clients. The delay in recruiting new staff for the Enforcement team had also made an overall impact on the allocation of the Agency's overheads.

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

**PS** said that the Records Management Audit had been completed and achieved a 'Green' assurance rating. This meant that a strong control environment had been in place. IA had started work on the Procurement audit. With regard follow up audits, nothing was outstanding. IA were now in the planning stage for 2013/14. BIS's IA overall work load would expand as they had taken on additional work from other Government Departments. Also their approach to audits would be more focussed on key risks. However, IA stressed that the new work streams would not impact on the delivery and quality of work provided to NMO. IA reviewed NMO's Agency level risk register and planned to review three important areas: 1] the NPL project. 2] The Certification Services' deficit. 3] The demand from the Centre [Cabinet Office/BIS] for data. **AP** explained that he considered audit as an extension of management's resources and wanted to know if NMO were content that they got the level of input required. **PEM** said that to date he had been happy with the work of IA. **SMG** explained that IA also provided an advisory/consultancy function and helped to develop the business continuity plan. This approach meant we got it right at the outset. **SMG** asked if the Corporate Governance challenge session should be physical or paper. **AP** remarked that he

would be content with either approach. **PEM** explained that little had changed in the control environment and it had been suggested that for this year we could conduct a paper exercise. It was agreed that a paper exercise would be employed for 2012/13. **PS** commented that the Annual Report's Governance Statement needed to cover assurance for the NPL project.

#### **Item 12 – Review NAO Planning report**

**DP** said that the report followed last year's approach and the risks were listed on pages 8 and 9. On page 9, other risk factors, the NPL contract renewal and revaluation of assets were covered. The outcome on this project could have an impact on the accounts which would necessitate disclosure in the 2012/13 Annual Accounts. **AP** asked for any comments about the indices used for asset revaluation. **SMG** explained that we had consulted widely and concluded that the indices used were the best available. In 2014 a professional valuation would take place. The guidance on this process would be provided by our Estate Manager who was a qualified valuer. **AP** remarked that although the NAO had queried the indices, NMO's workings had been consistent in the past 3 years. **DP** referred to fraud and confirmed that no incidents of fraud had been detected. **SMG** explained that the practice at NMO would be to follow up any bank account changes with a 'phone call to our contact at the company to confirm that the requested change to bank detail were genuine. **PEM** said that the Treasury had previously circulated examples of actual incidents of fraud. This had been useful as it enabled us to check our controls.

#### **Item 13 – NPL Project Assurance papers**

**JWC** referred to the set of papers distributed for this meeting. The key papers to consider were the 'Project Governance Framework' and 'Project Plan'. To ensure that only key decisions were made at the appropriate level, proposed decisions were submitted via our DG in BIS. NMO had flexibility at the lower level, but key decisions were handled by the Minister. The team's handling this project were made up as follows: 4 staff from NMO, a Shareholder Executive representative and finance colleagues from BIS. NPL now provided input. Due to potential conflict of interests, NPL had not been involved prior to when the Minister made the decision about the direction of the project. The document also covered a broad range of stakeholders. **PC** commented that it had been good that NMO sought as broad a base as possible for stakeholder involvement. **JWC** explained that they would produce an 'information booklet' which would be issued to a wide range of interested partners. It was planned that interested parties should register their interests in the project by end of February 2013. **JWC** stated that although the Cabinet Office [CO] had taken a relatively low profile position with regard to the process in developing the project, they had now taken a more active role. We were now required to comply with their controls and they would expect to formally approve the final version of our business case. These were new elements of Governance the team had not expected. The **PEM** explained that it had been a requirement to ensure CO's involvement in new business ventures. **AP** commented that CO process had not been in the documentation. **JWC** explained that clarity of the CO's involvement only surfaced last week. **JWC** also commented that this project needed different types of assurance and it had been important on how they interacted with each other to ensure good control. **AP** asked what assurances were considered appropriate. **AP** commented that he thought CO's interest in the project had come late in the day. **JWC** explained that this issue related only to the business case. **AP** stated that assurance issues were appropriate for the AC. When he considered team support, SMG's small finance team were required to address a lot of substantial work and should there be sufficient resource. **AP** enquired if this should be in the risk register. **PEM** said that what might, or could, go wrong, at corporate level, would be captured by the agency risk register. The project's risk register did not have the high level exposure required at project level meeting and would now be a first agenda item. Project risks would be escalated to Agency risk register after review by the Project's Steering Group. **PS** said that it had not been clear to IA what their role should be in this project. **AP** explained that the various reviews the project had been subjected to should cover this. **JWC** said that we were considering greater involvement of

NPL’s Executive Board. **PEM** commented that although it had been important to ensure sufficient assurance controls were in place, there could be the danger of having too many controls. IA could perhaps provide a service in bringing these together. **AP** said that the project team needed to consider the risk of its impact on NMO as well as NPL. This would be best discussed outside this forum. The people to be involved in this discussion should be IA, JWC’s team and PEM. AP said that he had been concerned about the risk this project may have on the business sides of NMO and NPL. **[Action 6, PEM]**. **IP** asked what information would be released to the public, eg, the selection criteria. This would help to understand how a prospective company would ‘fit in’ the project. **JWC** said that it had been a deliberate decision to set up the process in a flexible way as this would encourage innovation. **DP** enquired as to whether this was a BIS or NMO project as it was not clear why the NMO SB had been involved. It had been important to have had a clear understanding as to who had been responsible for the risks. **PEM** explained that this was essentially a BIS project, with NMO staff acting in their capacity as BIS officials. He also explained that the SB’s role would be to provide advice and guidance. Although the project had been progressing well, one had to consider possible impact on NMO’s business activities. **PEM** said the process would be factored into the Governance Statement.

**Item 14 – AC review of own performance, Terms of Reference and training**

**SMG** said that the document used for this year’s review, of the AC’s own performance, had been provided by the NAO and had been an updated version of last year’s form. We completed the form as much as possible on behalf of the committee and it was in draft form. **AP** requested that members of the committee should review the draft and forward comments to SMG **[ACTION 7, AP & PC]**.

**Item 15 – AOB**

**JC** referred to the ‘Dear Accounting Officer’ letter, dated 18 December 2012, which had been included in the papers. The issue surrounded the new ‘Public Sector Internal Audit Standards’ and what the changes meant from an audit perspective. JC confirmed that there would not be any material change and consequently would have little impact on the work IA carried out for BIS and its partners

**Item 16 – Date of next meeting**

Date confirmed: Monday 20 May 10:30am at NMO in Teddington.

**Table of actions:**

<b>ACTION</b>	<b>ASSIGNED TO</b>	<b>DUE BY</b>	<b>DATE COMPLETED</b>
<b>Action 1 – item 5</b> To produce a policy paper on succession planning [old Action 3]	SMG	31/3/13	
<b>Action 3 – item 5</b> Audit Progress/Tracking table. To be updated and circulated to AC before next AC meeting [old Action 5].	PFHS	3/5/13	
<b>Action 4 – item 7</b>	PS	3/5/13	

AUDIT COMMITTEE MEETING MINUTES – 29 JANUARY 2013

HMT are updating the Orange book. IA to ensure that NMO have Executive input at the drafting stages.			
<b>Action 5 – item 8</b> To circulate to staff fraud and whistle blowing policy papers.	SMG/David Barrett	3/5/13	
<b>Action 6 - item 13</b> To arrange offline meeting about NPL Project's impact on business activities of NMO & NPL. To attend: AP, PC, BIS IA JWC's team and PEM.	PEM	3/5/13	
<b>Action 7 – item 14</b> AC to review draft of own performance. Comments to SMG.	AP & PC	30/4/13	