
Commissioners for the Reduction of the National Debt

**Government Annuities Investment Fund
Accounts for the year 2011**

United Kingdom Debt Management Office

Commissioners for the Reduction of the National Debt

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Accounts for the year 2011**

Presented to Parliament pursuant to Section 67(4)
of the Government Annuities Act 1929

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Commissioners for the Reduction of the National Debt

Government Annuities Investment Fund

Foreword

The Government Annuities Act 1929 (the Act) consolidated a number of government annuity and insurance funds into the Government Annuities Investment Fund (GAIF), to be operated by the Commissioners for the Reduction of the National Debt (CRND). The Act authorised CRND to grant term annuities, immediate life annuities, deferred annuities, and insurances.

The grant of deferred annuities was discontinued in 1912 and the grant of term annuities in 1918. The grant of insurances was discontinued in 1929 and the grant of immediate life annuities in 1962. New insurance contracts since 1929 are variations of contracts existing in 1929.

The investments of GAIF were exhausted in 1936. National Savings and Investments (NS&I) pays out insurance claims and applies yearly to CRND for reimbursement of these amounts by GAIF, which also pays any management expenses. All payments made by GAIF are met by receipts from the Consolidated Fund. The only transaction during the year was a payment of £144 in relation to audit expenses.

Currently 183 life insurance contracts with an aggregate value payable on the deaths of the insured of £3,929, remain open in the records of NS&I, who administer the contracts for CRND.

The account is audited by the Comptroller and Auditor General under agreement with HM Treasury.

Date of authorisation for issue

The Secretary and Comptroller General authorised these financial statements for issue on 13 March 2012.

Jo Whelan

Secretary and Comptroller General to the Commissioners for the Reduction of the National Debt

8 March 2012

Statement of Secretary and Comptroller General's responsibilities

Section 67 (4) of the Government Annuities Act 1929 requires the Commissioners to prepare an account of all monies paid into the Government Annuities Investment Fund and of the disposal thereof, and of all contracts for the grant of deferred annuities and insurances charged on the fund made in any calendar year.

The Government Annuities Investment Fund account is prepared on a cash basis and must properly present the receipts and payments for the year and balances held on 31 December.

The Commissioners have appointed the Comptroller General to discharge their statutory responsibilities, a role that is analogous to acting as an Accounting Officer. Therefore the Comptroller General has responsibility for preparing the annual accounts and for transmitting these to the Comptroller and Auditor General.

In preparing accounts an Accounting Officer is required to observe the applicable accounting standards and generally accepted accounting practice in so far as they are relevant to the Account, and apply suitable accounting policies on a consistent basis.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, and for the keeping of proper accounting records, are set out in the Accounting Officers' Memorandum issued by HM Treasury and published in 'Managing Public Money'.

Statement on Internal Control

Scope of responsibility

The Commissioners for the Reduction of the National Debt (CRND) are responsible for preparing the accounts. They have appointed me as Secretary and Comptroller General of CRND to discharge their responsibilities in this regard. As Secretary and Comptroller General, I also have responsibility for ensuring the operation of a sound system of internal control that supports the achievement of CRND's targets, policies and objectives in managing client investment portfolios whilst safeguarding the public funds for which I am accountable, in accordance with the responsibilities assigned to me.

CRND is a separate business entity managed within the control framework of the DMO. While I am responsible for CRND's system of internal control, the Accounting Officer of the DMO is responsible for the wider control framework within which CRND is managed. In discharging my own control responsibilities I take assurance on the continued sound maintenance of the wider control framework from the Statement on Internal Control for the DMO, although I understand that only reasonable and not absolute assurance can be given that risks have been controlled.

It is also my responsibility to ensure that all CRND fund management activities are conducted with due regard to value for money and operated in line with client instructions. I have put arrangements in place to ensure that there is a proper evaluation of the balance of cost and risk in our operations.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level, rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide a reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify and prioritise risks to the achievement of DMO policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. Relevant elements of the DMO's system of internal control have been implemented for CRND. The system of internal control has been in place for the year ended 31 December 2011 and up to the date of approval of this account, and accords with HM Treasury guidance.

Capacity to handle risk

The DMO has a formal risk management framework document agreed by the Managing Board that summarises at a high level the principles which govern the DMO's approach to risk management, the different types of risk that the DMO manages, including CRND activities, and the various mechanisms that the DMO employs to ensure that risks are identified, assessed and managed at all levels within the organisation. The DMO also has more detailed risk management policies and has documented the risk management processes. Elements of these policies have been reviewed and adjusted during the year and have proved effective during a period of continued uncertainty in the financial markets.

The DMO's Managing Board is responsible for setting strategic direction and considering high-level operational issues. An executive sub-committee of the Managing Board (Sub MB) generally meets weekly. The terms of reference of Managing Board and those of the Fund Management, Operational Risk and Business Delivery Committees clearly set out their roles and responsibilities for providing the organisational capacity to consider issues and make relevant decisions at the appropriate level.

The Business Delivery Committee includes the executive members of the Managing Board and key business managers. The committee exists to progress and review the status of the delivery of DMO's business and work plan as a collective cross-functional body, resolving emerging issues together to ensure the business and work plan is delivered in a timely and cost effective manner.

Staff are required to signify that they have read and accepted the DMO's rules on personal dealing and the DMO's policy on the use of information systems and technology, and that they are aware of, and will continue to keep up to date with, the DMO's policies with respect to whistle blowing, fraud and anti-money laundering. The DMO ensures that the exercise is undertaken on an annual basis in order to maintain a good level of awareness of the DMO's policies in these areas. All members of staff have job descriptions which include reference to the specific key risks they are expected to manage. Managers in each business function are responsible for ensuring that the operations within their area are compliant with plans, policies, procedures and legislation.

During the year the Coalition Government has introduced measures that have altered the DMO's risk profile over current and future years. In response, the DMO has placed increased focus on financial control, staff planning and responding to additional transparency requirements.

The risk and control framework

The DMO's formal risk management framework document sets out the various mechanisms for managing its risks that are incorporated into its approach to both regular operations and new business initiatives. There are processes in place to ensure regular measurement and monitoring of key business risks including market, credit, operational and liquidity risk. A statement of the risk appetite for these risks is included within the risk management framework document.

The DMO's Risk Management Unit (RMU) provides control advice on risks throughout the DMO. In the DMO's management reporting structure, the RMU is separate and independent of the DMO's trading operations. The RMU conducts risk analysis and provides market, credit and operational risk capability for the DMO.

The identification, monitoring and mitigation of operational risks are facilitated by the RMU, via consultation with heads of business units and functional teams. Regular meetings are held with heads of business units and functional teams to assess whether risks to their operations are being managed effectively. Significant risk issues are assessed by likelihood and materiality of occurrence. New risks and risks with an increased risk profile are highlighted and actions are taken to ensure effective management of all risks. The DMO has Senior Risk Owners (SROs) who undertake a cross-functional moderation process to promote better prioritisation of operational risks across the organisation. The RMU maintains a central exception log to record all risk incidents raised, in order to identify control weaknesses and assign actions to improve controls. Progress against treatment actions is obtained on a regular basis to ensure issues highlighted by internal and external audit, and other identified actions to improve the control environment, are managed and progressed within agreed deadlines.

Risks to data and information held by the DMO are owned and managed by designated Information Asset Owners. There is a Senior Information Risk Owner (SIRO) for the DMO, responsible for the information risk policy and risk assessment relating to information, who provides assurance over information risks to the Managing Board.

The DMO has designated Information Technology (IT) Security Officers who are responsible for the DMO's electronic network, including access to information and GSI accreditation. During the year, the

DMO has continued a defined programme of work to deliver IT security and Information Management improvements.

The DMO continues to work to maintain the required level of protective security, covering physical, personnel and information security. An annual assessment is made against the policies and standards set out in the Government's Security Policy Framework and, when necessary, controls are strengthened to manage identified risks. During the year, physical security arrangements were reviewed and work began on developing a revised physical security policy. IT security is subject to annual reviews, including tests by external specialists and assessment against the CESSG requirements for continuing connection to the Government Secure Intranet (GSI).

The RMU communicates key risk issues to management on a regular basis within a number of forums, to enable management to take informed decisions on risk issues. Key forums are as follows:

- The Fund Management Committee, comprising CRND managers, other senior managers and DMO specialist staff, meets regularly to review CRND operational issues.
- The Operational Risk Committee meets regularly to monitor operational risks and to review significant risk issues, risk incidents and exceptions and progress against treatment actions. This review is supported by regular operational risk reporting produced by the RMU. The scope of this meeting covers issues relating to information risk, IT security, business continuity, anti-fraud issues and key supplier risks.
- A Controls Group meets periodically to review issues affecting the DMO's system of internal control (including CRND) and to analyse material changes to the control environment. The group recommends actions to management to implement changes where appropriate. The Controls Group consisted of representatives of the DMO teams responsible for finance, risk, compliance and internal audit.
- The DMO Audit Committee supports me as Secretary and Comptroller General of CRND on matters relating to risk, internal control and governance and associated assurance.

A high level strategic risk report is published to promote awareness of all high level issues and risks that the DMO faces at an organisational level. The report is based on a High Level Risk Register maintained by RMU, and is presented to the Managing Board on a regular basis.

A key component of the CRND's control framework is the segregation of duties to ensure independent checking and reconciliation, and to avoid concentration of key activities or related controls in individuals or small groups of staff. In particular, segregation of duties takes place between front and back office activities. All teams have documented procedures for their main activities and there are clearly defined authorisation levels for committing the DMO externally.

The DMO's Business Continuity Plan (BCP) including Disaster Recovery (DR) and other arrangements is subject to continual review and update. The DMO ensured a programme of DR testing was carried out. Assessment of business continuity requirements is a specific requirement for new projects and major business initiatives.

CRND has established effective communication channels with each of its clients. Where relevant, an up-to-date memorandum of understanding is in place with each body responsible for the fund, outlining their respective responsibilities.

Improvements and changes were implemented during the year, including improved controls surrounding Information Management and IT Security; additional controls to improve the CRND payment process; and improved budgeting and forecasting processes.

Review of effectiveness

As Secretary and Comptroller General, my review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers in the DMO who have been delegated responsibility for the development and maintenance of the internal control framework, and by the reports and comments made by the external auditors.

I have been supported by the DMO Audit Committee and risk owners in addressing weaknesses and ensuring continuous improvement of the system is in place. The DMO Audit Committee met four times during the year to 31 December 2011.

The Fund Management Committee has monitored and advised me on development of CRND governance mechanisms. The Fund Management Committee met four times during the year.

The DMO's RMU has conducted regular controls and compliance testing providing the executive sub-committee of the Managing Board with assurance on the effectiveness of operational controls and compliance with relevant FSA rules in the dealing and settlements areas.

The Operational Risk Committee and Senior Risk Owners have advised me during the year on significant operational risk concerns, significant risk issues and trends, as well as actions to mitigate such risks. The Operational Risk Committee met eight times during the year.

The Controls Group has advised me on any significant risk concerns relating to the introduction of new business activities into the DMO as well as risks relating to other change management activities, and has made me aware of actions taken to mitigate identified risks.

The combined activities of the Fund Management Committee, RMU, Operational Risk Committee and the Controls Group have given me assurance that all risk, control and governance issues relevant to CRND have been dealt with effectively during the year.

The DMO Audit Committee considered the 2011 accounts in draft and provided me with its views before I formally signed the accounts.

During the period of this Statement on Internal Control, Internal Audit has provided reports on the effectiveness of the risk management, control and governance processes for the DMO, including aspects relevant to CRND, to the DMO Audit Committee throughout the period. The audits make a series of recommendations that are addressed as part of our focus on continuous improvement in this area. The audits identified no serious breaches of risk or control systems. The Internal Audit work programme is approved by the DMO Audit Committee at the start of the year.

Internal Audit attended each meeting of the DMO Audit Committee to report the results of audit work and the results of follow-up work to confirm that appropriate management action had been taken to address audit recommendations.

On the basis of Internal Audit work during the year, the Head of Internal Audit has provided assurance to me on the adequacy and effectiveness of the risk management, control and governance arrangements

relevant to the accounts, and has confirmed that there were no matters arising from the work of Internal Audit in the period that would give rise to separate comment in the Statement on Internal Control.

Significant Internal Control Issues in 2011

In my opinion, the overall system of internal control relating to CRND was effective throughout the financial year 2011 and remains so on the date I sign this statement.

Jo Whelan
Secretary and Comptroller General to the Commissioners for the Reduction of the National Debt

8 March 2012

INDEPENDENT AUDITOR'S REPORT TO THE COMMISSIONERS FOR THE REDUCTION OF THE NATIONAL DEBT

I have audited the financial statements of Government Annuities Investment Fund Account for the year ended 31 December 2011. These comprise the Receipts and Payments Account, the Statement of Balances and the related notes. These financial statements have been prepared under the Government Annuities Act 1929.

Respective responsibilities of the Commissioners for the Reduction of the National Debt, the Secretary and Comptroller General to the Commissioners for the Reduction of the National Debt and the Auditor

As explained more fully in the Statement of the Secretary and Comptroller General's Responsibilities, the Commissioners for the Reduction of the National Debt have a statutory duty to present a Receipts and Payments Account and a Statement of Balances in accordance with the Government Annuities Act 1929. They have appointed the Secretary and Comptroller General to the Commissioners for the Reduction of National Debt to discharge their responsibilities for the preparation of the financial statements and for ensuring the regularity of transactions. My responsibility is to audit the financial statements. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Government Annuities Investment Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Secretary and Comptroller General; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the: Foreword; Statement of Secretary and Comptroller General's responsibilities; and the Statement on Internal Control, to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the receipts and payments reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on Regularity

In my opinion, in all material respects, the receipts and payments have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements properly present the receipts and payments of the Government Annuities Investment Fund for the year ended 31 December 2011 and of the balances held at that date; and
- the financial statements have been properly prepared in accordance with the Government Annuities Act 1929.

Opinion on other matters

In my opinion the information given in the Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

STEVEN CORBISHLEY

For and on behalf of the Comptroller and Auditor General

13 March 2012

National Audit Office
157-197 Buckingham Palace Road
Victoria
London, SW1W 9SP

Government Annuities Investment Fund Receipts and Payments

For the year ended 31 December 2011

	2011 £	2010 £
Cash receipts		
From the Consolidated Fund	144	144
Cash payments		
Expenses	144	144
	0	0
	0	0

Statement of Balances

There were no assets or liabilities at 31 December 2011 or 31 December 2010.

Statement of Activity

For the year ended 31 December 2011

	Number	Amount £
Payments made on contracts	0	0
Deferred annuities	0	0
Insurances	0	0
New contracts entered into	0	0
Deferred annuities	0	0
Insurances	0	0
Current contracts at the end of the year		
Deferred annuities	0	0
Insurances	183	3,929
	183	3,929
	183	3,929

The following information is given in accordance with the Act.

The premiums charged for annuities and insurances were calculated on the under mentioned basis:

Interest	2 ½ % per annum, except for deferred annuities granted by the Commissioners for the Reduction of the National Debt under the Government Annuities Act 1929, in which case the rate depended upon the price of the public funds on the date the annuity was purchased.
Mortality:	
Deferred annuities	Table as set out in Parliamentary Paper No. 8 of 1884.
Insurances	Mortality of healthy males insured with life insurance companies as shown in the table published by the Institute of Actuaries in 1872.

Jo Whelan
Secretary and Comptroller General to the Commissioners for the Reduction of the National Debt

8 March 2012



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