

Accountability

Members of the UKEF Board and its sub-committees



Noël Harwerth
Non-executive Chair of the UKEF
Board, member of the Remuneration
Committee



Louis Taylor
Chief Executive Officer



Cameron Fox
Chief Finance and Operating Officer



David Havelock CBE
Chief Risk Officer



Shalini Khemka
Non-executive Board member
and Member of the Audit Committee
Joined the Board on 1 March 2018



Justin Manson
Ex-officio Board member,
UK Government Investments
and Member of the Audit, Risk
and Remuneration Committees



Amin Mawji OBE

Non-executive Board member, Chair of the Audit Committee and member of the Remuneration Committee



Oliver Peterken

Non-executive Board member, Chair of the Risk Committee and member of the Audit and Remuneration Committees



Lawrence M. Weiss

Non-executive Board member and Member of the Audit, Risk and Remuneration Committees

Eric Peacock CMG was a non-executive director and member of the Audit and Risk Committees until 31 December 2017.

Dr Catherine Raines was an ex-officio Board member until 30 September 2017 in her capacity as Director General at the Department for International Trade (DIT). Following her departure from DIT, 3 DIT representatives, Susan Caldwell, (Managing Director, Strategic Relationships & Performance), Michael Charlton (Managing Director & Chief Investment Officer) and John Hill (Managing Director, International Trade & Investment) attended on a rotational basis.

Governance statement

Introduction

As Accounting Officer for UKEF, I am responsible to ministers and Parliament for the management of UKEF's operations, including the stewardship of financial resources and assets. This Governance Statement sets out how I have discharged this responsibility for the period 1 April 2017 to 31 March 2018.

The areas covered are:

- the organisational arrangements for managing operations, constituting our corporate governance framework
- my statement on the nature of UKEF's business and its vulnerabilities and resilience to challenges, requiring risk management and controls



Louis Taylor
Chief Executive
Officer

Background

Our mission is to ensure that no viable UK export fails for lack of finance or insurance from the private sector, while operating at no net cost to the taxpayer. We work with a wide range of private credit insurers and lenders to help UK companies access export finance (the loans, insurance policies or bank guarantees that enable international trade to take place). We complement the provision of support from the private market, taking account of wider government export strategy and policies.

In providing support, we seek to:

- provide value for money to the taxpayer
- engage with exporters, buyers and delivery partners such as banks, without displacing private providers
- provide a quality of service that is responsive to new business, with a focus on solutions within the bounds of acceptable risk and in accordance with our statute
- maintain the confidence of ministers, Parliament and customers
- effectively communicate what we do to interested parties

We have completed the first year of our 3-year 2017-20 Business Plan which sets out the scale of our ambition, and how we plan to meet it.

Realising the objectives in the plan will ensure we are better equipped to manage risk while more fully meeting the needs of our customers. A priority during this period of transformation and growth is to ensure we maintain an appropriate and effective control environment.

Corporate governance framework

UKEF was set up under statute in 1919 with the legal name of the Export Credits Guarantee Department. It is a legally distinct organisation under the Export and Investments Guarantees Act 1991 (EIGA), and is a Ministerial Department of State.

UKEF is operationally and strategically aligned with the Department for International Trade and reports to the Secretary of State for International Trade. I am the Chief Executive and Principal Accounting Officer of UKEF.

Statutory powers

UKEF's statutory powers are derived from the EIGA which provides that the powers may only be exercised with the consent of HM Treasury ('the Consent') including a financial framework comprising financial objectives and reporting requirements.

Department for International Trade

The Department for International Trade promotes UK exports, maximises opportunities for foreign direct investment and outward direct investment, and develops trade policy. I am one of DIT's Directors General. Other UKEF officials and I attend the DIT Board, DIT's Executive Committee and other DIT subcommittees.

Ministers

Through the year, Ministers have been provided with regular written and verbal advice and briefings on a range of issues concerning UKEF's operations including business planning, partnership with high street banks, development of business opportunities, anti-bribery and corruption due diligence, and new and prospective support for UK exporters.

Baroness (Rona) Fairhead, in her role as Minister for Trade and Export Promotion, is the lead minister for UK Export Finance, having taken up the post in October 2017. Prior to this, Rt Hon. Greg Hands MP held the role. Rt Hon. Dr Liam Fox MP is the department's Secretary of State.

HM Treasury

Along with other UKEF officials, I regularly meet with officials from HM Treasury to advise them on matters related to the Consent and our operations and performance. Throughout the year, and at least monthly, we supply HM Treasury with reports on key business metrics including our financial performance. HM Treasury also attends UKEF Board meetings as an observer.

HM Treasury seeks to protect the taxpayer from excessive loss resulting from our lending or our contingent liabilities, and the UK economy from economic disbenefit. It exercises this role primarily by monitoring our performance against ministerially-agreed financial objectives and policy restrictions.

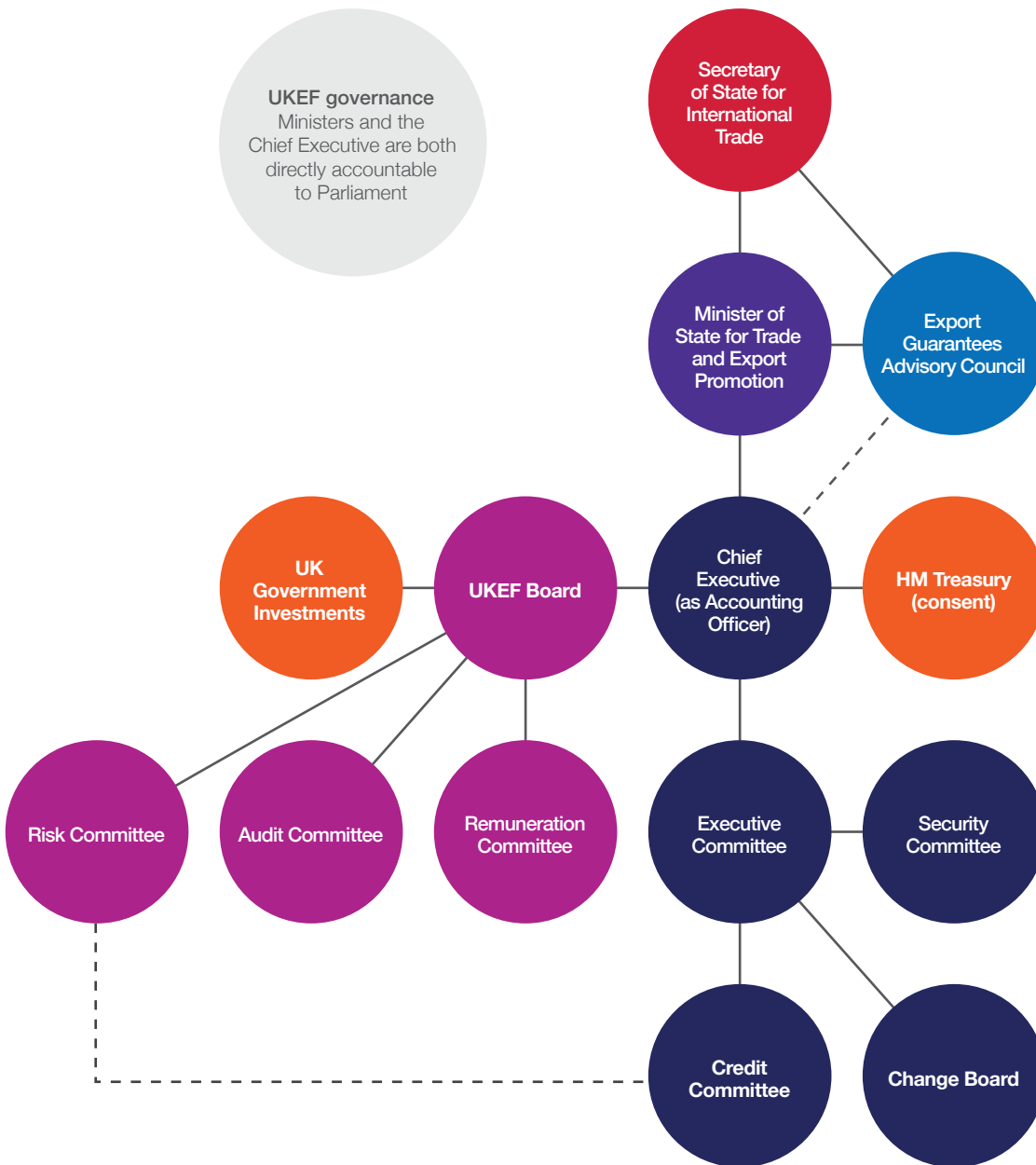
UK Government Investments

UK Government Investments (UKGI) is responsible for providing independent advice to the Secretary of State for International Trade in the exercise of his or her responsibilities for UKEF. A UKGI representative is an ex-officio member of UKEF's Board, and UKGI monitors UKEF's ongoing performance in relation to the HM Treasury Consent. Particular areas of focus are:

- corporate governance matters such as the appointment and remuneration of UKEF's Chair, non-executive Board members and Chief Executive Officer
- financial and operating performance, and key performance indicators, for which HM Treasury has delegated performance management responsibility
- risk management and assurance functions and processes
- business planning and strategic direction
- alignment of policy objectives with other government departments

UKEF's governance structure

This figure should be read in conjunction with the full corporate governance framework section.



Export Guarantees Advisory Council (EGAC)

EGAC is an Expert Committee under the Export and Investment Guarantees Act 1991. Its role is to advise the Secretary of State for International Trade on the policies that UKEF applies when doing business, particularly those related to:

- environmental, social and human rights
- anti-bribery and corruption
- sustainable lending
- disclosure, in line with information legislation

The Council independently publishes a report of its business in the year, which is available on page 70 and also from the Council's webpages at www.gov.uk/government/organisations/export-guarantees-advisory-council. Council members serve on a voluntary basis. The Council does not hold any independent budget or spending authority. See page 70 for the Council's report.

UKEF Board

In discharging my responsibilities, I am advised by the UKEF Board, of which I am a member. The Board is led by a non-executive Chair. Its membership consists of 3 senior executive directors (the Chief Executive, the Chief Risk Officer and the Chief Financial Officer) and 7 non-executive Board members including ex-officio representatives from the Department for International Trade and UKGI. There is also an observer from HM Treasury. The terms of reference require there to be a majority of non-executive and ex-officio members.

The Board's role is an advisory one, supporting the Accounting Officer in the management of UKEF through operational oversight and by providing advice, challenge and assurance.

The non-executive members are appointed by the Secretary of State through open competition on the basis of relevant expertise and merit. They provide me with an independent source of scrutiny and guidance on strategic and operational issues, on UKEF's financial performance, and on the arrangements for risk management and control.

In line with the Corporate Governance in Central Government Departments Code of Good Practice, an internal board effectiveness evaluation is carried out each year, with an independent external review at least once every 3 years. An external review was started during 2017-18.

UK Export Finance maintains a register of Board members' interests to ensure that any potential or actual conflicts of interest are identified and addressed in advance of the Board's discussions. Where conflicts exist, they are recorded in the Board minutes, along with any appropriate action taken to address them. During 2017-18, no issues relating to conflicts of interest arose that impacted on the Board's ability to conduct its work effectively. Non-executive directorships and substantial shareholdings are published on our website.

The minutes of UKEF Board meetings are published on UKEF's website.

The Board has 3 sub-committees: the Audit Committee, the Risk Committee and the Remuneration Committee. Membership of these sub-committees comprises non-executive Board members and other independent representatives agreed by the UKEF Board.

Audit Committee

At the start of 2017-18, the Audit and Risk Committee was replaced by an Audit Committee and a Risk Committee, to better manage the areas of oversight of each committee. The Audit Committee annual report can be found on page 86. The Committee Chair reports on the Committee's activities to the Board.

Risk Committee

The Risk Committee annual report can be found on page 87. The Committee Chair formally reports the outcome of Risk Committee meetings to the Board. The Risk Committee has oversight of the Credit Committee.

Remuneration Committee

The Remuneration Committee comprises at least 3 non-executive directors and is chaired by the Chair of the UKEF Board. This committee considers and agrees proposals from the Chief Executive on individual pay decisions as per the criteria outlined in guidance from the Cabinet Office about the remuneration of its Senior Civil Service (SCS) members. It also ensures that these recommendations take into account any requirements or guidance from the Cabinet Office, including that the average increase to the SCS pay bill is within any centrally determined budget.

Executive Committee

I am supported in the management of UKEF by the Executive Committee, which I chair. Its membership is composed of senior executive directors who are all members of the SCS:

- David Havelock CBE, Chief Risk Officer (to 31 March 2018)
- Gordon Welsh, Business Group Director
- Bhaskar Dasgupta, Chief Operating Officer (to 31 March 2018)
- Cameron Fox, Chief Financial Officer (Chief Finance and Operating Officer from 1 April 2018)
- Shane Lynch, Director of Human Resources (Director of Resources from 1 April 2018)
- Davinder Mann, Head of Legal Division

The minutes of Executive Committee meetings are published on UKEF's website.

There are 3 sub-committees of the Executive Committee, each of which is chaired by a member of the Executive Committee and whose membership is drawn from senior staff in UKEF:

- Credit Committee, chaired by the Chief Risk Officer, advises on the effective management of UKEF's credit risk exposures at the transaction and portfolio level, and on compliance with credit risk policies.
- Change Board, chaired by the Chief Operating Officer (the Chief Finance and Operating Officer from April 2018), advises on whether UKEF's investment in maintaining and improving its infrastructure, systems and processes is appropriate and effectively targeted and managed, and represents value for money.
- Security Committee, chaired by the Chief Operating Officer (until 28 February 2018) and the Director of Resources (from 1 March 2018), advises on the security of the assets required for UKEF's business operations, systems and processes, ensuring that they are appropriately secured in accordance with legal, regulatory and government requirements.

A register of interests is kept up to date to identify any potential conflicts of interest involving the senior executive directors and, if necessary, address them. No conflicts of interest or potential conflicts of interest have been identified this year.

Governance in 2017-18

As Accounting Officer, I state that:

- all instructions given to me by ministers were in accordance with the EIGA, the Consent and applicable international agreements
- it was not necessary in the financial year to seek a written direction from the minister
- UKEF met all its financial objectives in the financial year
- I met UKGI, HM Treasury and Department for International Trade officials as necessary to brief them on issues related to UKEF, so that they could provide informed advice to ministers if and when required
- the appropriate balance of non-executive directors and ex-officio members on the UKEF Board was maintained
- the Executive Committee met at least twice a month throughout the year

The UKEF Board met 8 times in the year, the Audit Committee met 5 times, the Risk Committee met 4 times and the Remuneration Committee met twice, consistent with their terms of reference.

Senior executive directors and their roles

As at 31 March, the roles of the senior executive directors were as follows:

- **Business Group Director:** responsible for our support for exporters and business development
- **Chief Financial Officer:** responsible for finance and accounting
- **Head of Legal Division:** responsible for core legal matters, supporting the department in managing legal risk; and responsible for compliance matters temporarily, until a final decision is made on where within the department this responsibility should permanently reside
- **Chief Risk Officer:** responsible for financial risk, operational risk, and related management systems and practices

- **Director of Resources:** responsible for all people-related issues, staff administrative functions, strategic workforce planning, commercial and security
- **Chief Operating Officer:** responsible for business insight and analytics; operational insight, change management and information technology

Name of Board member	Role	UKEF Board	Audit Committee	Risk Committee	Remuneration Committee
Noël Harwerth	Non-executive Chair	8/8	4/5 ¹⁹	3/4 ¹⁹	2/2
Louis Taylor	Executive Board member	8/8	5/5 ¹⁹	4/4 ¹⁹	2/2 ¹⁹
Cameron Fox	Executive Board member	8/8	5/5 ¹⁹	4/4 ¹⁹	-
David Havelock CBE	Executive Board member	8/8	5/5 ¹⁹	4/4 ¹⁹	-
Shalini Khemka (from 1 March 2018)	Non-executive Board member	1/1	0/0 ²⁰	-	-
Justin Manson	Ex-officio Board member, UK Government Investments	6/8	4/5	3/4	2/2
Amin Mawji	Non-executive Board member and Chair of Audit Committee	8/8	5/5	-	2/2
Oliver Peterken	Non-executive Board member and Chair of Risk Committee	6/8	4/5	4/4	1/2
Lawrence M. Weiss	Non-executive Board member	8/8	5/5	4/4	2/2
Eric Peacock CMG (until 31 December 2017)	Non-executive Board member	6/6	2/4	2/3	2/2
Catherine Raines (until 30 September 2017) ²¹	Ex-officio Board member, Department for International Trade	1/4	-	-	-

Third party delivery partners

UKEF works with a network of partners, including commercial finance lenders, commercial insurance brokers, other export credit agencies, other government departments, industry bodies and intermediaries. More information about our partners and operations can be found on pages 38-39.

We work with around 20 financial institutions who act as delivery partners in the provision of the department's Direct Lending product. The terms of these partnerships are governed by a panel memorandum agreement to ensure agreed levels of service are maintained and subject to periodic assurance work undertaken by the UKEF compliance function.

Looking forward, UKEF will continue to extend its delivery partner relationships and keep the terms of the underlying contractual arrangements current in order to improve levels of support to its customers.

¹⁹ Not a member of the committee but attends its meetings

²⁰ Meetings took place before appointees joined the organisation

²¹ After September 2017, Susan Caldwell, (Managing Director, Strategic Relationships & Performance) Michael Charlton (Managing Director & Chief Investment Officer) and John Hill (Managing Director, International Trade & Investment) attended on a rotational basis. Susan Caldwell and Michael Charlton attended once, and John Hill attended twice.

Risk management and control

Our risk management is described in detail in the Credit risk, portfolio overview and pricing report on pages 40 to 59.

Strategic and operational risk

The department has a strategic risk register in place that identifies named individuals from among UKEF's senior leadership who are responsible for UKEF's response to each recorded strategic risk. Strategic risks are reviewed by the Executive Committee, the Board and the Risk Committee.

UKEF's operational risks primarily arise from our business activities. These risks typically involve the possibility of error or oversight leading to a financial loss (other than as a result of properly managed exposure to credit risk) or a failure to properly discharge our obligations, both of which could lead to reputational damage.

UKEF's operational risk management framework is designed to:

- identify risks
- assess the likelihood of risks materialising and the severity of their impacts
- evaluate and provide assurance in respect of controls already in place
- identify and prioritise any further mitigating actions required
- agree whether residual levels of risk are acceptable

It is not possible to eliminate all risk, so risks are managed and mitigated to an acceptable level. Operational Risk Division (ORD) is part of the 'second line' within UKEF's '3 lines of defence' structure (see figure below). ORD owns the policy through which the operational risk management framework is implemented and maintains our operational risk register. It works with the other second-line and third-line assurance functions and the heads of functional areas across UKEF to reinforce ownership and accountability for risks and the application of effective controls. The 'second line' of defence continues to be developed.



The '3 lines of defence' framework²²

Operational risks are reviewed by the Executive Committee, the Risk Committee and the Audit Committee. ORD's activities and the operational risk management framework were overseen by the Risk Committee during 2017-18.

Governance assurance exercise

Every quarter I meet with selected risk owners to review their operational risk registers and discuss matters of concern and proposed remedial action.

²² Prior to 2017-18 the Audit and Risk Committees were a single committee, the Audit and Risk Committee

I meet regularly with the Head of Internal Audit, the Head of Operational Risk, the Compliance Manager, and the departmental Security Officer.

At year-end, heads of functional areas complete a Letter of Assurance (LoA) in which they provide me with an assessment of the effectiveness of governance, risk management and control within their area of responsibility. These are reviewed by the assurance functions: Internal Audit, Operational Risk, Compliance, and Security.

At year-end, to provide further assurance, and supported by a non-executive member of the Board, I chair a panel which challenges Directors on their control and assurance responsibilities, including operational risk registers, incidents, and LoAs within their remit.

Cyber and information security risk

Cyber and information security risk in UKEF is reviewed on a regular basis. The Senior Information Risk Owner (SIRO) is the Committee-level representative responsible for all cyber and information risk, and chairs the Security Committee. At 31 March, the SIRO was the Director of Resources.

Our security policy and procedures are managed by the Head of Security, who reports to the SIRO. We measure ourselves against government security and industry information security standards every year. The last full annual review, in May 2017, found that information security risk was being appropriately managed. A subsequent Internal Audit report found some areas for improvement and made a number of recommendations which are being implemented.

However, due to both the evolution of cyber risks and the development of digital services in UKEF, the threat and risk of security events has increased. The Audit and Executive Committees approved a multi-year security strategy to re-align the security controls so that they are more proactive and mitigate against any attack, especially in relation to the trade finance digital service which supports information exchange with our counterparty banks. The Security Committee makes regular independent assessment of prevailing and emerging security risk, and has improved its security incident response and introduced greater rigour into its internal security processes.

The programme of work has also included regular communications and briefings to the Board, Senior Leadership Team and all staff. An enhanced security risk register, which includes information security risks along with incidents and events, is reviewed as a standing item at each meeting of the Security Committee.

Individual staff members are responsible for identifying information assets and their location, use and protection. An information asset register is in place to record these assets and this is regularly reviewed through sample testing.

Procedures are in place to administer responses to requests for information from the public under information legislation that gives the public rights of access. Procedures and training are in place to ensure compliance with relevant legislation, such as the Data Protection Act and its replacement in May 2018, the General Data Protection Regulations (GDPR) and with central government requirements, such as the Security Policy Framework (SPF) and the National Cyber Security Strategy.

Information and data management

The department's information and data management approach has continued to develop to meet the transformational challenges and opportunities presented by digitalisation. UKEF completed the implementation of an improved storage tool that is intended to be the single repository for all transaction information documents.

The controls framework has been enhanced to ensure regulatory requirements arising from the GDPR are met.

The department has also invested in forming a Data Quality Council to provide a focal point for definition, oversight and control of all data and metadata. As a cross-divisional group, the Council ensures data asset controls and management are appropriate, complete and proportionate to the business needs and requirements.

Whistleblowing policy

We have a whistleblowing and raising-a-concern policy in place. The policy is based on guidance provided by the Civil Service employee policy, one of the expert services for the Civil Service, and was last updated in November 2017. Awareness of how to raise a concern under the Civil Service Code is very high among staff, with 95% affirming this in the annual staff engagement survey.

No disclosures were made under the policy in 2017–18.

Internal audit and assurance

The internal audit charter is the policy document that defines the purpose, authority, and responsibility of the Internal Audit and Assurance Division (IAAD).

The charter establishes IAAD's position within UKEF; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities during 2017–18. Final approval of the internal audit charter resides with the Audit Committee acting on behalf of the UKEF Board.

On the basis of IAAD's continued engagement throughout 2017–18, the Head of Internal Audit's opinion was 'Limited'. This means that enhancements are recommended in the framework of governance, risk management and control in significant or important areas; action plans are in place and progress is being made against them. This reflects the continued demands on the control environment of a sustained period of internal transformation while ensuring continued compliance with laws, regulations and other obligations, including financial crime legislation.

Audit information

Our financial statements are prepared in accordance with the Accounts Direction issued under Section 5(2) of the Government Resources and Accounts Act 2000.

Our accounts are audited by the Comptroller and Auditor General.

Compliance

UKEF is committed to following high public sector standards in areas of governance, accountability, transparency and risk management to achieve its objectives. As part of its business operations, UKEF faces risks of financial loss and damage to its integrity and reputation from any failure to comply with applicable laws and regulations. UKEF has a separate compliance function, which reported directly to the Chief Operating Officer (from 1 April 2018 to the Head of Legal Division), which is responsible for ensuring these risks are appropriately managed.

The compliance function has established an assurance process for the newly launched bank partnership distribution model. It is a key component of UKEF's '3 lines of defence' framework, working closely with operational risk and internal audit functions. As a relatively new division, work continues to improve its maturity.

Significant risks and mitigating measures

Financial crime control framework

During 2017-18, UKEF identified a potential gap in the department's financial crime control framework, specifically in checks relating to post-issue management activity. No breaches have been identified to date. An internal exercise was undertaken to identify the population affected by the potential gap and remedial action was taken as necessary. After discussion at the Audit Committee, a review of UKEF's policies and procedures relating to financial crime was commissioned, with a view to the further strengthening of current compliance policies, procedures and processes. This review is ongoing.

Fraud, bribery and corruption

UKEF takes issues of fraud, bribery and corruption extremely seriously, and reports all suspicious circumstances to law enforcement authorities responsible for investigation of criminal offences, including the Serious Fraud Office (SFO). Where there is an ongoing investigation, we implement an extended due diligence framework for considering future support in order to assure ourselves on compliance issues.

In April 2017, we announced that 'Special Handling Arrangements' would no longer be available to applicants for UKEF support. The removal of these arrangements, under which an applicant for UKEF support could request that knowledge of an agent's identity be restricted to three members of UKEF staff, is part of UKEF's commitment to high standards and good practice in matters relating to compliance and transparency.

Support for Airbus

In 2018, alongside Germany and France, UKEF provided export credit support for the refinancing of two Airbus A330s which were exported to Rwanda.

UKEF has worked with the French and German export credit agencies to develop an extended due diligence framework under which it will assess all applications for export credit support from Airbus. This support follows a thorough assessment of the export transaction in line with UKEF's framework on fraud, bribery and corruption to provide assurance on compliance.

This was the first time that UKEF has provided support for an Airbus transaction since April 2016, when UKEF received information from Airbus relating to its historical use of overseas agents that we referred to the SFO.

Organisational restructuring

During 2017-18 the pace of organisational change increased markedly. As a result of restructuring, as staff moved positions, prior roles and responsibilities were not always clarified, leaving limited oversight in some areas. At this stage in our transformation we must acknowledge that we need better to balance the achievement of longer term gains with control of current risks. I have been grateful to our Internal Audit team for identifying potential control weaknesses in this respect and for their follow up work on agreed audit recommendations.

Resources

This year, UKEF has increased the capability and capacity of the recruitment team which has resulted in three times as many new hires in-year compared with 2016-17, and UKEF's vacancy levels are running at 8%, compared to over 20% in prior years. However, UKEF salary levels lag behind financial services comparators. This inability to offer competitive salary packages has had an impact on recruitment and retention in key business areas.

Strategically, the Executive Committee has identified a number of areas where key skills are required, particularly in information security, and knowledge and information management. While our talent management and succession planning has been embedded, a number of tactical solutions, including consultancy and secondment, were required to plug the hard-to-fill gaps, particularly where specialist experience was required.

Corporate Governance Code for Central Government Departments

In preparing this statement, I have taken into account the Corporate Governance in Central Government Departments Code of Practice, 2017. I am satisfied that UKEF is able to demonstrate compliance with this code where it applies to UKEF for the relevant period.



Louis Taylor
Chief Executive and Accounting Officer
12 June 2018

Audit Committee report

The Audit Committee report should be read alongside the Governance Statement which can be found on page 76.

UK Export Finance's Audit Committee Terms of Reference require the Audit Committee to consist of at least 3 non-executive Board members or other independent representatives as agreed by the UKEF Board. Currently, Amin Mawji (Chair), Oliver Peterken, Lawrence M. Weiss and Shalini Khemka, all of whom meet the relevant requirements for independence, serve on this committee. Justin Manson is also a member of the Committee, representing UK Government Investments (UKGI). Eric Peacock CMG completed his term as a non-executive Board member for UK Export Finance in December 2017 and Shalini Khemka has replaced Eric as a member of the Audit Committee.



Amin Mawji
Chair, Audit
Committee

Although not members of the Audit Committee, the Board Chair, Accounting Officer, Chief Financial Officer, Chief Operating Officer, Chief Risk Officer, Head of Internal Audit and a representative of the National Audit Office, UKEF's external auditor, normally attend meetings. The Audit Committee may ask any or all of those who normally attend but who are not members to withdraw, so as to facilitate open and frank discussion of particular matters. The Audit Committee Terms of Reference also provide that at least one member of the Committee should have significant, recent and relevant financial experience and should be a member of the Risk Committee to help co-ordinate between the committees.

The attendees discuss auditors' reports, review and assess the auditing process and assess the activities of both external and internal auditors. Audit Committee can also hold private discussions with external and internal auditors, without management present, at Audit Committee meetings when necessary.

Primary tasks and responsibilities

The Audit Committee:

- acts as a focal point for communication and oversight regarding financial accounting and reporting, internal control, and financial and regulatory compliance
- reviews the Internal Audit and Assurance Department (IAAD) Charter; assesses the IAAD strategy and plan, and the adequacy of the resources available to fulfil it
- considers the adequacy of the policies for the prevention and detection of fraud, and the policies for ensuring compliance with relevant regulatory and legal requirements on whistleblowing
- reviews the draft Annual Report and Accounts

Activities during 2017-18

During 2017-18, the following topics were discussed:

- the effectiveness of the internal control framework
- IAAD work plans, IAAD findings and management implementation of remedial actions
- the work of the external auditors, the terms of their engagement and the external auditor's findings on key judgments and estimates in financial statements
- changes to accounting policies, details of the supplementary estimate, Audit Committee's view of the most significant financial statements risks and how these were addressed
- UKEF's operational risk register, and the year-end Letters of Assurance from heads of divisions

The Audit Committee meets at least 4 times in each year. In 2017-18 it met five times.

Risk Committee report

The Risk Committee report should be read alongside the Governance Statement which can be found on page 76.

UK Export Finance's Risk Committee Terms of Reference require the Committee to be made up of at least 3 non-executive Board members or other independent representatives agreed by the UKEF Board. Currently, Oliver Peterken (Chair), Lawrence M. Weiss and Shalini Khemka, all of whom meet the relevant requirements for independence, serve on this committee. Justin Manson is also a member of the Committee, representing UK Government Investments (UKGI). Eric Peacock CMG completed his term as a non-executive member for UK Export Finance in December 2017 and was replaced by Shalini Khemka.



Oliver Peterken
Chair, Risk
Committee

Although not members of the Risk Committee, the Chair of the Board, Accounting Officer, Chief Financial Officer, Chief Operating Officer, Chief Risk Officer, Head of Internal Audit, and a representative of External Audit normally attend meetings. The Risk Committee may ask any or all of those who normally attend but who are not members to withdraw, to facilitate open and frank discussion of particular matters.

The Risk Committee Terms of Reference also provide that at least one member of the Committee will also be a member of the Audit Committee to help facilitate coordination between the Risk and Audit Committees. I am therefore also a member of the Audit Committee.

Primary tasks and responsibilities

In general, the Risk Committee:

- examines and reviews any material changes to UKEF's key strategic, operational, compliance and reputational risks and considers the adequacy of the arrangements for effective risk management and control
- considers the completeness of the risk profile presented and identifies and evaluates potential emerging or new risk issues facing the organisation as a whole
- considers the Key Risk Indicators as set out by the Credit Risk Group Director
- considers credit risk reports from the Credit Risk Group Director
- considers management assurances from the Chief Operating Officer summarising operational risk, compliance, information assurance and project assurance
- reviews reports on the management of major incidents, "near misses" and lessons learned in areas relevant to the Committee's scope

Activities during 2017-18

During 2017-18, the Committee discussed the following areas:

- the Credit Risk Policy Statement
- revised strategic risk reporting
- UKEF's security strategy
- the Pricing Methodology Statement
- evidence-based provision rates and expected losses

The Risk Committee meets at least 4 times in each year. In 2017-18 it met four times.

UKEF staff from the Business Group, Environmental and Social Risk Management, and Pricing and Portfolio Management meet to discuss a project



Our people

Our people are essential to our ability to deliver our strategic objectives.

This has been a year of unprecedented change for UKEF. Following a significant increase in recruitment activity, designed to enable us to achieve the objectives set out in our Business Plan for 2017-20, our headcount is at its highest level in over a decade.

We have transformed our operating model and built on the creation of a single Business Group in 2016-17, in which staff work flexibly across all sectors, by reorganising our middle office functions, outlined in our partners and operations (page 38 to 39). This model will be further developed by bringing together business development, marketing and communications into a new origination function, which will work closely with the newly-established global network of export finance specialists, based in Brazil, Dubai, Ghana, Indonesia and Turkey. This network has been created in partnership with the Department for International Trade, which employs these staff, and is an example of the seamless approach to supporting UK exporters.

The increase in headcount has had a significant impact on learning and development requirements, with the need to induct and integrate a large number of new starters while continuing to deliver against our learning and development priorities. This led to a year-on-year increase in learning hours delivered of 55%.

We continue to strive to increase diversity within our workforce and 2017-18 saw us sign up to the HM Treasury Women in Finance Charter and attain Level 3 of the national Disability Confident Employer Scheme.

We were very proud to have achieved our highest ever staff engagement score of 66% in the annual Civil Service People Survey; this was a particular attainment against the backdrop of a wide-ranging change programme. For the second year running we achieved a 4% increase and are now considered a “high performing” government department.

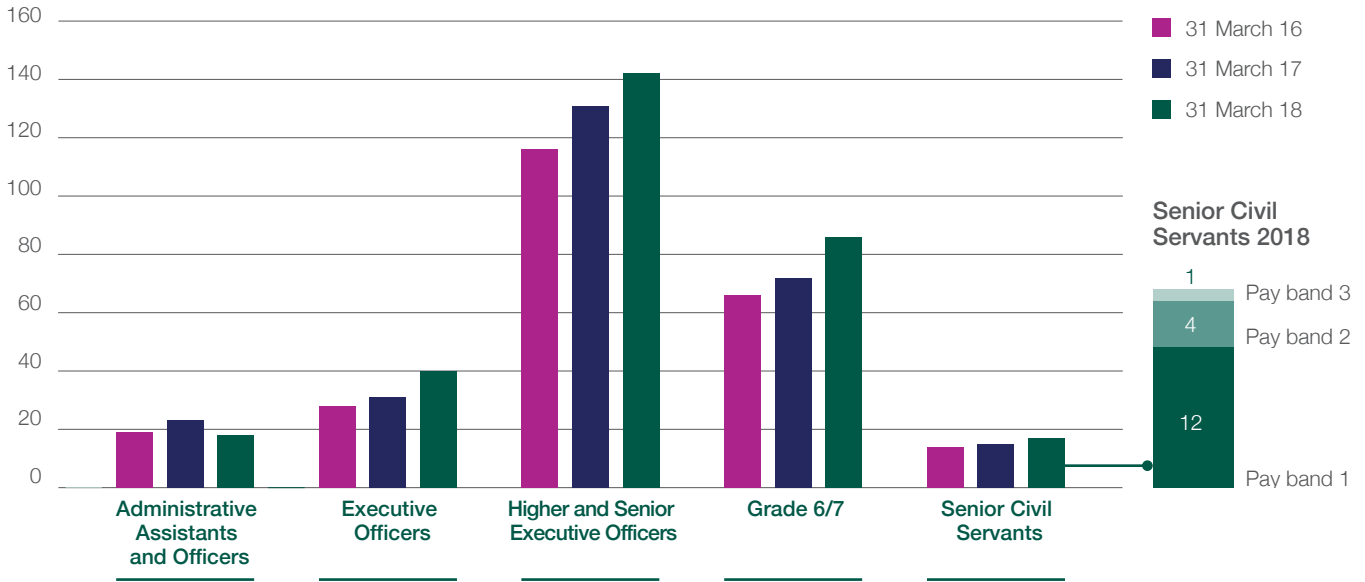
Our ambition does not stop here. We want to have the most engaged workforce in the Civil Service and believe our offer to our staff – a unique combination of commercial and central government experience in a supportive environment where their contributions are valued – will help us to achieve that aim.



Shane Lynch
Human Resources
Director

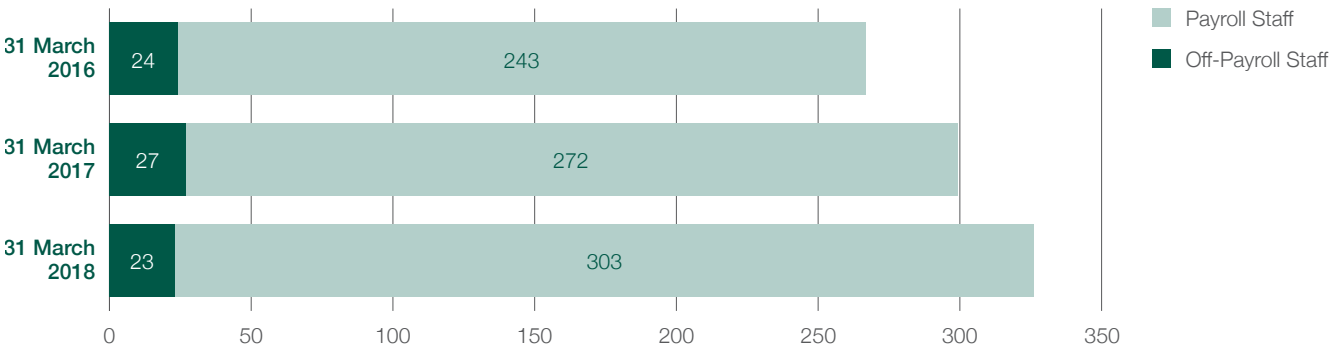
Workforce snapshot²³

As at 31 March 2018, the directly-employed workforce stood at 303 (298.2 FTE). This represents an increase of 11.4% over the previous 12 months and 23.2% over the last four years.

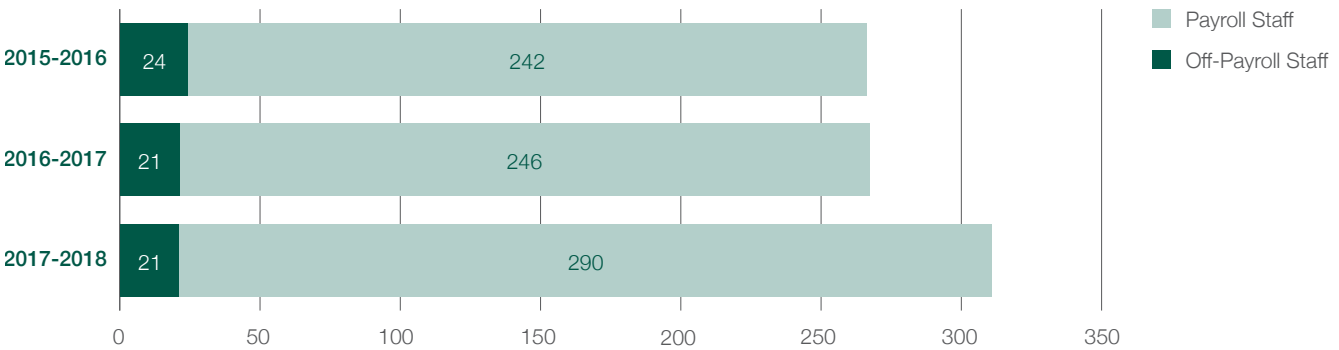


A further 23 off-payroll staff were engaged, predominately supporting our IT and Change & Innovation divisions. UKEF has reduced its reliance on contingent labour significantly since 2015 and has delivered over £1 million in cost savings.

Headcount



Average FTE



Our recognised trade union is the Public and Commercial Services Union (PCS). Union representatives meet HR colleagues formally on a monthly basis. There are also bi-annual meetings between trade union representatives and senior management, led by the Chief Executive Officer. HR tracks attendance at these meetings and they equated to 32.5 hours of facility time for 3 staff (less than 1% of their time), with an estimated cost of £888, during 2017-18.

²³ These disclosures have been subject to external audit.

Recruitment

The recruitment market remained relatively challenging during 2017-18. Over 60% of our hires came from the private sector and the UKEF's Civil Service pay offering compared to external comparators, coupled with the relative buoyancy of the UK job market, continued to have an impact on attracting staff. Despite these constraints, there was an 80% increase in new hires compared to the previous financial year. Increased capacity and expertise within the human resources team, coupled with a more innovative "digital first" approach to sourcing candidates, were pivotal in driving this improved performance. This included an award-nominated campaign to recruit IT and change specialists. UKEF has also seconded professionals from private sector and government partners to enhance our mix of skills.

Over 40% of new hires were female, improving the gender balance within the department.

All UKEF recruitment is carried out in accordance with the relevant employment legislation and the recruitment principles issued by the Civil Service Commission.

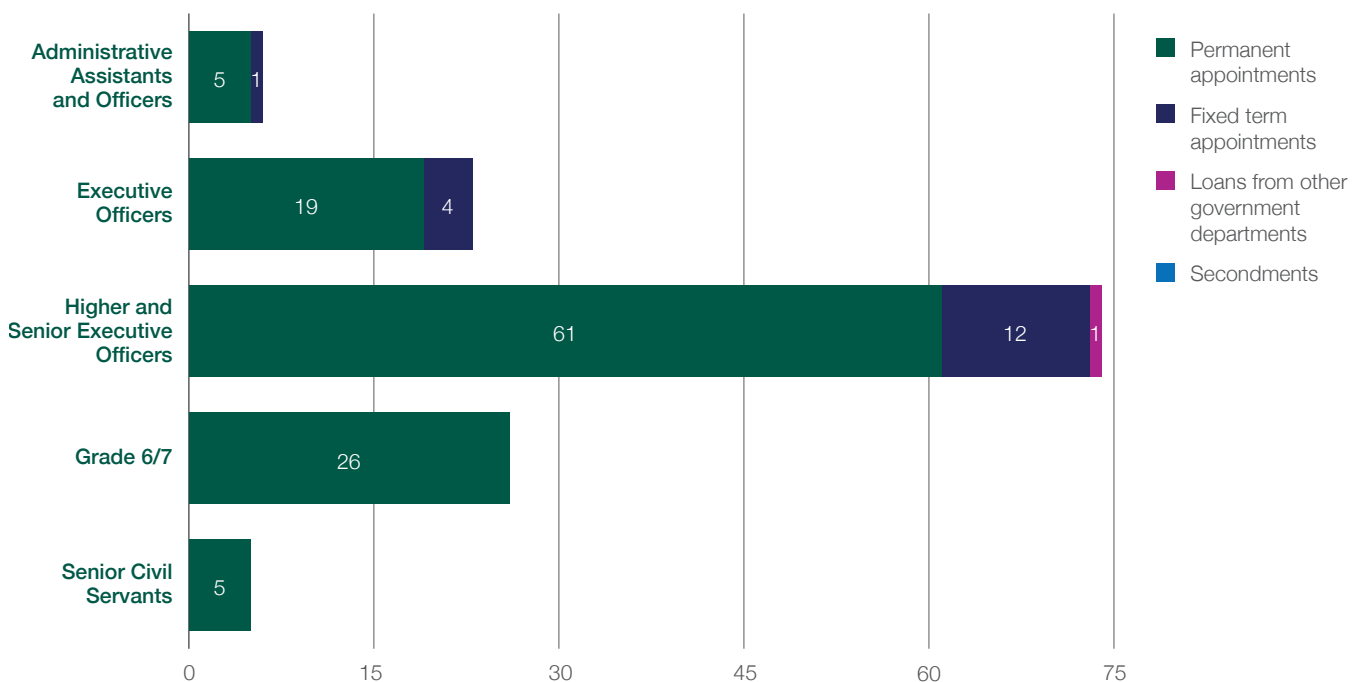
40%

of new hires were women, improving the gender balance within the department



UKEF's award-nominated campaign dedicated to recruiting IT and change specialists

Appointments in 2017-18 by grade



Diversity & Inclusion

The Civil Service Diversity & Inclusion Strategy was launched in November 2017 and sets out an ambition that the Civil Service becomes the most inclusive employer in the UK.

We share this ambition and want to ensure that we are supporting all our employees to realise their full potential. We strive to create an environment that is inclusive while valuing and embracing diversity, building a great place to work.

Our recruitment process is a key enabler for a more diverse workforce. The application process is anonymous to protect against bias, and we offer a Guaranteed Interview Scheme to disabled applicants. All UKEF staff are required to complete training on diversity, inclusion and unconscious bias.

The proportion of female staff and of those from BAME groups increased during 2017-18 and we plan to build on this by continuing to recruit staff from across all protected characteristics.

We recognise that we need to improve the gender balance within the department, particularly at senior levels, and have signed up to HM Treasury's Women in Finance Charter. The Charter commits us to a number of actions that will improve gender equality at UKEF. We have also attained Level 3 of the national Disability Confident Employer scheme.

Our staff have an essential role to play in creating an inclusive work environment and, working with colleagues from across the Department for International Trade, our staff networks have become important agents for change.

Diversity as of 31 March 2018



Learning and development

The increase in headcount over the year had a significant impact on learning and development at UKEF. We had to balance the need to induct a large number of new staff in to the department with continuing to meet the developmental requirements of our existing staff group.

We assessed the key skills and capabilities collectively required to deliver against the ambitions set out in our 2017-2020 Business Plan and our Executive Committee agreed the Department’s learning and development priorities. Our top five priorities for 2017-18 were:

- Management and leadership skills
- Building relationships
- Projects & programme management
- Customer focus
- Commercial awareness

In addition, we also continue to develop technical training programmes to develop skills that are unique within government to UKEF, including credit risk analysis, project finance and an accredited training programme on trade finance for UKEF and Department for International Trade staff.

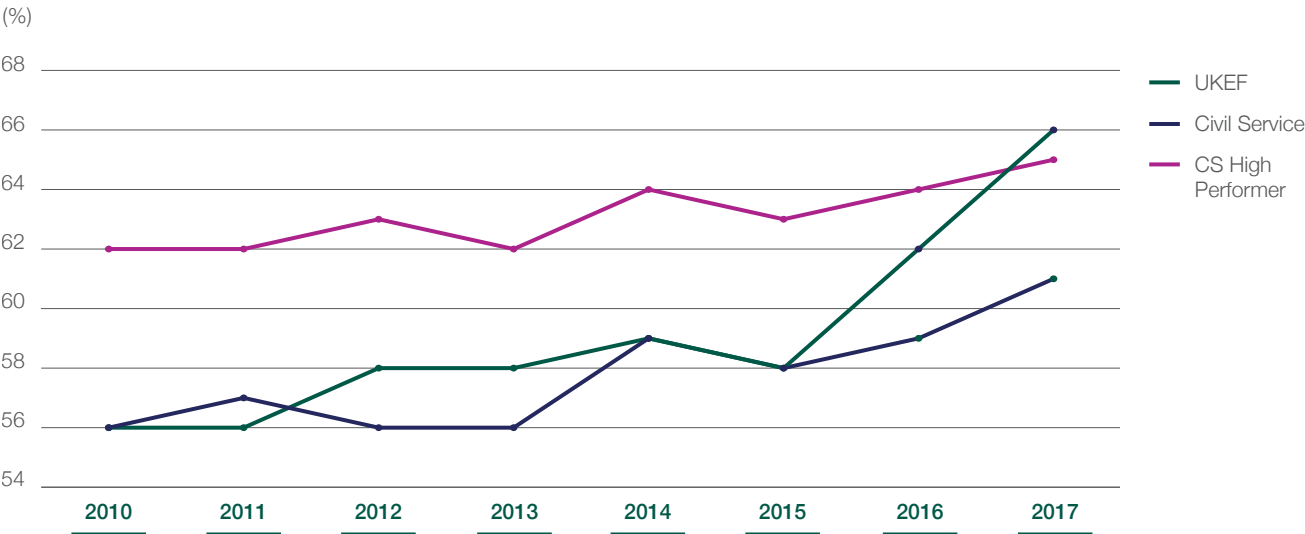
During 2017-18 the average number of days spent on formal learning and development activities per employee was 4.4 days (3.5 days in 2016-17) with 9,629 hours of learning delivered. This is an increase of 55% from 2016-17. The average spend per head was £1,002 (£840 in 2016-17). This year’s figures are a strong indicator of UKEF’s commitment to the continuous development of our workforce.

Engagement

The 4% increase in our engagement score in the 2017 People Survey results, bringing the score to 66%, was underpinned by significant increases in our scores for management skills (+8%) and leadership and managing change (+10%). It was clear that our staff are motivated by their work [“I am interested in my work” – 93%] and there is a strong understanding and connection with our goals [“I understand how my work contributes to UKEF’s objectives” – 90%]. Within the Civil Service, UKEF has risen from the 40th to the 80th percentile since 2015 and we are now considered a ‘high performer’. Our ambition, to have the most engaged workforce in the Civil Service, remains, and we will use the feedback from this year’s survey to further improve our performance.

93%

of UKEF staff feel motivated by their work



“Our staff demonstrate a genuine enthusiasm for their work and what UKEF does. Innovation is encouraged and valued.”

- Feedback from a UKEF staff member in the 2017 People Survey

Health, safety and wellbeing

During 2017, we embedded our Health & Wellbeing Strategy, which was created for the first time in 2016. Our ambition is to create an environment which allows our employees to achieve their full potential while supporting their physical and mental wellbeing.

UKEF has an employee assistance programme that supports employees in addressing challenges across their work, family and personal lives. We also have an occupational health service to ensure that we put in place any reasonable adjustments to support employees in the workplace. UKEF offers a range of benefits designed to support staff wellbeing, including a cycle to work scheme, eye tests, workstation assessments, flu vaccinations and annual health screening. Staff also participate in several sports societies including men’s and women’s football, rounders, cricket and athletics.

We have seen a significant reduction in our sickness levels from 7.2 days per employee in 2015-16 to 3.5 days in 2017-18. This is below average for both the Civil Service and private sector.

Reward and recognition

HM Treasury has overall responsibility for the government’s pay policy. This includes defining the overall parameters for Civil Service pay uplifts each year to ensure that pay awards are consistent with the government’s overall objectives.

Cabinet Office has responsibility for Civil Service management. It works with departments and agencies on workforce and reward strategies to cultivate consideration of workforce needs and properly tailored reward policies.

Departments have responsibility for implementing Civil Service pay policy for their workforce in a way that is consistent with Civil Service pay guidance and reflects the needs of their business and their labour market position.

All pay remits must be approved by a secretary of state or responsible minister, and each department, through its Accounting Officer, is responsible for the propriety and regularity of the pay award to staff. UKEF operated its 2017-18 pay award and performance awards within the guidance set by HM Treasury.

UKEF also operates an in-year reward scheme to recognise exceptional pieces of work, effort or activity that support UKEF in achieving its overall objectives. We made 174 awards to employees through this scheme in 2017-18.

The remuneration arrangements for senior civil servants (SCS) are set by the Prime Minister based on independent advice from the senior salaries review body.

The remuneration of the ministers responsible for UKEF is disclosed in the Department for International Trade’s annual report.

Remuneration Committee

The Remuneration Committee is constituted as a sub-committee of the UK Export Finance (UKEF) Board and its responsibilities are as follows:

- determine and publish the department's SCS pay strategy
- review the relative contribution of its SCS members
- consider and agree proposals from the Chief Executive on individual pay decisions in light of the criteria outlined in guidance from the Cabinet Office about the remuneration of its SCS members
- ensure that these recommendations take into account any requirements or guidance from the Cabinet Office
- monitor pay outcomes to ensure that any differences are justified
- monitor the identification of those SCS members needing extra help and support to improve their performance
- communicate pay outcomes to SCS staff
- ensure that line managers receive feedback on final pay decisions so that they can explain to individuals how these have been reached
- at the request of the UKEF Board, advise on the remuneration of new appointments of SCS members.

As at 31 March 2018, the membership was:

- **Noël Harwerth**, non-executive Chair
- **Amin Mawji OBE**, non-executive Board member
- **Lawrence M. Weiss**, non-executive Board member
- **Oliver Peterken**, non-executive Board member

Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Chief Executive and the Human Resources Director may be invited to attend all or part of any meeting as and when appropriate.



A Legal Division meeting

Salary and pension entitlements for directors

The salary and pension entitlements of the Directors (defined within the Civil Service as pay scale SCS2 or above) of UKEF are set out below. This table includes current Directors and former Directors who left the department during the financial year. These disclosures have been subject to external audit.

Officials	Salary £'000		Bonus payments £'000		Pension Benefits £'000		Total £'000	
	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17
Louis Taylor Chief Executive	250-255	250-255	10-15	0	96	96	315-320	345-350
Cameron Fox Chief Financial Officer	95-100	90-95	10-15	10-15	40	36	150-155	140-145
Gordon Welsh Business Group Director	140-145	140-145	0-2.5	0	46	221	190-195	360-365
David Havelock CBE Chief Risk Officer	135-140	135-140	15-20	0-5	73	28	225-230	165-170
Bhaskar Dasgupta Chief Operating Officer	135-140	65-70 (135-140 FTE)	0	0	53	26	185-190	90-95

Notes

'Salary' includes gross salary; overtime; reserved rights to London weighting or allowances; recruitment and retention allowances; private office allowances, and any other allowance to the extent that it is subject to UK taxation. This report is based on accrued payments made by the department and thus recorded in these accounts.

Bonuses are based on attained performance levels and are made as part of the appraisal process. The Cabinet Office set the parameters for SCS performance awards. Due to the nature of the performance appraisal cycle, bonuses are paid in the year following that for which the performance has been assessed; therefore, the bonuses reported in 2017-18 relate to performance in 2016-17.

None of the Directors received any benefits-in-kind during the year.

Pay multiples

Reporting bodies are required to disclose the relationship between the remuneration of the most highly paid director in their organisation and the median remuneration of the organisation's workforce. These disclosures have been subject to external audit.

	2017-18	2016-17
Band of highest paid director's remuneration £'000	250-255	250-255
Median total (£)	40,426	40,785
Remuneration ratio	6.2	6.1

The banded remuneration of the highest-paid director in UK Export Finance in the financial year 2017-18 was £250,000-£255,000 (£250,000-£255,000 in 2016-17). In 2017-18 this was 6.2 times (2016-17, 6.1) the median remuneration of the workforce, which was £40,426 (2016-17, £40,785).

The average ratio across the FTSE 100 has been calculated to be 150.

In both 2017-18 and the previous year, 0 employees received remuneration in excess of the highest-paid director. Remuneration ranged from £20,442-£265,000 (2016-17, £20,220-£250,000).

Total remuneration includes salary, non-consolidated performance-related pay and benefits in kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

The ratio is calculated by taking the mid-point of the total remuneration of the highest paid executive director divided by the midpoint of the remuneration (median) of the organisation's workforce. This is based on the remuneration of the highest paid executive director and remuneration of the full-time equivalent staff of other staff at the reporting period end date on an annualised basis. The purpose of this calculation is to allow some comparability over time and across the public and private sector, where similar disclosures are made. However, the comparison should be treated with caution given the different services provided, workforce skills, geographical locations and organisational structures.

Civil Service pensions

Pension benefits are provided through the Civil Service pension arrangements. Civil servants may be in one of five defined benefit schemes; either a final salary scheme (classic, premium or classic plus); or a whole career scheme (nuvos, or alpha which was introduced on 1 April 2015). The normal pension age for staff in alpha is equal to the member's state pension age. Since 1 April 2015, newly appointed civil servants and the majority of those already in service joined alpha. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections: 3 providing benefits on a final salary basis (classic, premium or classic plus) with a normal pension age of 60; and one providing benefits on a whole career basis (nuvos) with a normal pension age of 65.

Further details about the Civil Service pension arrangements can be found at:

www.civilservicepensionscheme.org.uk

Pension Benefits	Accrued pension at pension age as at 31 March 2018 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31 March 2018	CETV at 31 March 2017	Real increase in CETV	Employer contribution to partnership pension account
Officials	£'000	£'000	£'000	£'000	£'000	Nearest £100
Louis Taylor Chief Executive	50-55	5-7.5	614	530	45	0
Cameron Fox Chief Financial Officer	5-10	0-2.5	82	57	15	0
Gordon Welsh Business Group Director	45-50 <i>plus a lump sum of 20-25</i>	2.5-5 <i>plus a lump sum of 0-2.5</i>	944	841	44	0
David Havelock CBE Chief Risk Officer	25-30	2.5-5	458	391	57	0
Bhaskar Dasgupta Chief Operating Officer	50-55	2.5-5	576	523	24	0

Accrued pension

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus and 65 for members of nuvos; for alpha, the higher of 65 or state pension age.

Cash equivalent transfer values

A cash equivalent transfer value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in the senior capacity to which the disclosure requirement applies.

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from lifetime allowance tax which may be due when pension benefits are taken.

Real increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Staff pension costs

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme and UK Export Finance is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2012. More information can be found in the Civil Superannuation accounts, which are prepared by the Cabinet Office and published on the Civil Service Pensions website: www.civilservice.gov.uk/pensions

For 2017-18, employers' contributions of £2,762,612 were payable to the PCSPS (2016-17 £2,317,532) at 1 of 4 rates in the range 20.0% to 24.5% of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2017-18 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer's contributions of £113,128 (2016-17: £66,360) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay (adjusted to between 8% and 14.75% from October 2015). The employer also matches employees' contributions of up to 3% of pensionable pay. In addition, employer contributions of £3,637 (2016-17: £1,968), 0.5% of pensionable pay (adjusted from 0.8% last year), were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service or ill health retirement of these employees.

Fees paid to non-executive directors

Non-executive directors are paid a fee for their attendance at UKEF Board, Audit Committee, Risk Committee, Remuneration Committee and other ad hoc meetings, and the performance of other duties as required. They are also paid travel and subsistence expenses.

The total payments to non-executive directors for the year were in the following ranges. These disclosures have been subject to external audit.

Non-executive member	Fees for 2017-18 £000	Fees for 2016-17 £000
Noël Harwerth Chair of UKEF Board Member of Remuneration Committee	45-50	10-15 (45-50 FTE)
Lawrence M. Weiss Member of UKEF Board Member of Audit, Risk and Remuneration Committees	10-15	5-10 (10-15 FTE)
Amin Mawji OBE Member of UKEF Board Chair of Audit Committee Member of Remuneration Committee	15-20	15-20
Eric Peacock CMG Member of UKEF Board Member of Audit and Risk Committees	10-15	10-15
Oliver Peterken Member of UKEF Board Chair of Risk Committee Member of Audit and Remuneration Committees	15-20	0-5 (10-15 FTE)
Shalini Khemka Member of UKEF Board Member of Audit Committee <i>Started 1 March 2018</i>	0-5 (10-15 FTE)	N/A

Civil servants employed by other departments do not receive fees for their attendance at UKEF Board meetings.

**WHO MADE SURE
THE SHOW WENT ON
FOR A THEATRE COMPANY
IN THE MIDDLE EAST?**

Without our support White Light wouldn't have been able to take on a major contract for a theme park in the Middle East. Working with their bank we were able to provide a government-backed guarantee. This freed up White Light's working capital to take on the contract, which in turn boosted their revenues by over 20%. To find out more, search UKEF and discover 'The Exporters' Edge'.

**EXPORTING
IS
GREAT**
BRITAIN & NORTHERN IRELAND

UK Export Finance

UKEF secured funding from the GREAT campaign to upscale its marketing activities and developed new advertising materials showcasing UKEF as the 'Exporters' Edge'

Off-payroll engagements

Following the review of tax arrangements of public sector appointees published by the Chief Secretary to the Treasury in 2012, departments now publish annual information on their highly paid and/or senior off-payroll engagements. The tables below provide information on those off-payroll engagements paid more than £245 per day during 2017-18.

Off-payroll engagements that had lasted longer than 6 months as at 31 March 2018:

Number of existing engagements at 31 March 2018	11
of which, had existed for	
less than 1 year	1
between 1 and 2 years	6
between 2 and 3 years	3
between 3 and 4 years	0
4 years or more at the time of reporting	1
Total	11

Tax assurance for new off-payroll engagements:

Number of new engagements, plus those that reached six months duration, between 1 April 2017 and 31 March 2018	22
Number of these engagements that include, or included, contractual clauses giving the department the right to request assurance in relation to income tax and national insurance obligations	22
Number for whom assurance has been requested	22
of which	
assurance has been received	22
assurance has not been received	0
have been terminated as a result of assurance not being received	0

Off-payroll engagements of Board members and/or senior officials with significant financial responsibility:

No. of off-payroll engagements of Board members, and/or senior officials with significant financial responsibility during the year	0
No. of individuals who have been 'deemed' Board members and or senior officials with significant financial responsibility during the year.	13

Cost of off-payroll engagements

The total cost for 2017-18 including engagements of individuals whose daily cost was less than £245 per day was £2,798,440 (2016-17: £2,392,686).

Expenditure on consultancy

Total expenditure on consultancy in 2017-18 amounted to £369,255 (2016-17: £24,885).

Compensation for loss of office

2 members of staff left under voluntary exit terms during 2017-18.

Exit package and cost band	2017-18			2016-17		
	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages
<£10,000	0	1	1	0	0	0
£10,000 - £25,000	0	1	1	0	2	2
£25,000 - £50,000	0	0	0	0	2	2
£50,000 - £100,000	0	0	0	1	0	1
£100,000 - £150,000	0	0	0	0	0	0
£150,000 - £200,000	0	0	0	0	0	0
Total no. of exit packages	0	2	2	1	4	5
Total cost/£000	0	30	30	79 ²⁴	92	171 ²⁴

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme (CSCS) unless specified as otherwise below. The CSCS is a statutory scheme under the Superannuation Act 1972 and exit costs are accounted for in full in the year of departure. Where the department has agreed early retirements, the additional costs are met by the department and not by the Civil Service pension scheme.

Ill health retirement costs are met by the pension scheme and are not included in the table above. During 2017-18 no individuals retired early on ill-health grounds (2016-17: nil); the total additional accrued pension liabilities in the year amounted to £0 for 2017-18 (2016-17: £0).

²⁴ The cost of redundancies in 2016-17 has increased since reported in last year's annual report and accounts due to a review of legislation on exit terms.

Parliamentary Accountability and Audit

Statement of Accounting Officer's responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed UKEF to prepare for each financial year accounts detailing the resources acquired, held or disposed of during the year and the use of resources by UKEF during the year. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of UKEF and of its net resource outturn, changes in taxpayers' equity and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- make judgements and estimates on a reasonable basis
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the accounts
- prepare the accounts on a going concern basis

HM Treasury has appointed the Chief Executive as the Accounting Officer of UKEF.

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

The Accounting Officer confirms that, so far as he is aware, there is no relevant audit information of which UKEF's auditor is unaware, and that he has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that UKEF's auditor is aware of that information.

The Accounting Officer also confirms that the annual report and accounts as a whole is fair, balanced and understandable and that he takes personal responsibility for it and the judgments required for determining that it is fair, balanced and understandable.

Statement of Parliamentary Supply

For the year ended 31 March 2018

The Government Financial Reporting Manual (FReM) requires UK Export Finance to prepare a Statement of Parliamentary Supply (SoPS) and supporting Notes to show resource outturn against the Supply Estimate presented to Parliament, in respect of each budgetary control limit. The SoPs and related Notes are subject to audit.

Summary of Resource and Capital Outturn 2017-18

	Note	2017-18						2016-17	
		Estimate			Outturn			Outturn	
		Voted	Non-Voted	Total	Voted	Non-Voted	Total	Voted outturn compared with Estimate: savings/ (excess)	
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Departmental Expenditure Limit									
- Resource	SOPS1(a)	(499)	-	(499)	(499)	-	(499)	-	-
- Capital	SOPS1(b)	800	-	800	671	-	671	129	64
Annually Managed Expenditure									
- Resource	SOPS1(a)	148,402	-	148,402	(4,619)	-	(4,619)	153,021	(149,382)
- Capital	SOPS1(b)	524,959	-	524,959	167,736	-	167,736	357,223	250,724
Total Budget		673,662	-	673,662	163,289	-	163,289	510,373	101,406
Total Resource		147,903	-	147,903	(5,118)	-	(5,118)	153,021	(149,382)
Total Capital		525,759	-	525,759	168,407	-	168,407	357,352	250,788
Total		673,662	-	673,662	163,289	-	163,289	510,373	101,406

Net cash requirement 2017-18

	Note	2017-18		2017-18		2016-17
		Estimate	£'000	Outturn	Outturn compared with Estimate: savings/ (excess)	Outturn
			£'000	£'000	£'000	£'000
Total	SOPS2		339,463	(56,660)	396,123	(21,465)

Administration Costs 2017-18

	2017-18	2017-18	2016-17
	Estimate	Outturn	Outturn
	£'000	£'000	£'000
Total	(499)	(499)	-

Figures in the areas outlined in bold are voted totals subject to Parliamentary control. In addition, although not a separate voted limit, any breach of the administration budget will also result in an excess vote.

Explanations of variances between the Estimate and the Outturn are given in the management commentary within the Chief Financial Officer's Report and within SoPS1 below.

The Notes on pages 104 to 106 form part of the Statement of Parliamentary Supply.

SoPS1 Analysis of net outturn by section

SoPS1(a) Resource

	2017-18										2016-17
				Outturn			Estimate	Outturn		Outturn	
	Administration			Programme			Total	Total	compared with Estimate: savings/ (excess)	compared with Estimate, adjusted for virements	Total
	Gross	Income	Net	Gross	Income	Net	Net	Net			Net
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Voted spending in Departmental Expenditure Limit (DEL)											
A Export Credit Guarantees and Investments	33,628	(34,127)	(499)	-	-	-	(499)	(499)	-	-	-
Total	33,628	(34,127)	(499)	-	-	-	(499)	(499)	-	-	-
Voted spending in Annually Managed Expenditure (AME)											
B Export Credits	-	-	-	94,899	(119,418)	(24,519)	(24,519)	59,437	83,956	83,956	(130,031)
C Fixed Rate Export Finance Assistance	-	-	-	2,078	(2,699)	(621)	(621)	1,962	2,583	2,318	(1,435)
D Loans and interest equalisation	-	-	-	-	(1,694)	(1,694)	(1,694)	(1,959)	(265)	-	(2,819)
E Direct Lending	-	-	-	38,302	(16,087)	22,215	22,215	88,962	66,747	66,747	(15,097)
Total	-	-	-	135,279	(139,898)	(4,619)	(4,619)	148,402	153,021	153,021	(149,382)
Total Resource	33,628	(34,127)	(499)	135,279	(139,898)	(4,619)	(5,118)	147,903	153,021	153,021	(149,382)

Explanation of variances between Estimate and outturn:

A Voted spending in RDEL – UKEF operates (with HM Treasury approval) a zero net RDEL regime for administration costs whereby a proportion of UKEF's trading income is treated as negative RDEL to fund administration costs. As part of the Spending Review 2015 SR(15) UKEF has a maximum amount of income (agreed per year over the 4 years) which can be used to fully offset expenditure. Also annually (as part of the Supply Estimates process) HM Treasury then approve the maximum amount of UKEF's trading income that can be treated as negative RDEL based on its expected level of activity and affordability. This arrangement is in place as it reflects the fact that UKEF prices premium written to cover risk and administration costs. A net RDEL outturn of zero shows UKEF is covering its administration costs from the premium that was written. In 2017-18 the department increased the annual CDEL budget by £0.5m (at Supplementary Estimate) by switching spend from RDEL to CDEL. The impact of the switch meant that the net RDEL changed to £(0.5)m.

B Export Credits £84 million – the variance largely relates to a change in economic outlook with regard to the recoverability of insurance assets as well as foreign exchange movements that were significant in 2017-18 due to a 12% strengthening of the Sterling against the US Dollar.

C Fixed Rate Export Finance Assistance £3 million – this relates to changes in fair value of financial instruments.

E Direct Lending £67 million – this variance relates to foreign exchange movements on expected lending activity which cannot be forecast with certainty and which is unhedged. A more detailed explanation of UKEF's foreign exchange risk can be found in the credit risk, portfolio overview and pricing report in the Performance section of the Annual Report and Note 20 of the financial statements.

SoPS1(b) Capital

			2017-18		2016-17
			Outturn	Estimate	Outturn
				Net total compared with Estimate	
Gross	Income	Net	Net		Net
£'000	£'000	£'000	£'000	£'000	£'000
Voted spending in Departmental Expenditure Limit (DEL)					
A Export Credit Guarantees and Investments					
	671	-	671	800	129
Total	671	-	671	800	129
Voted spending in Annually Managed Expenditure (AME)					
D Loans and interest equalisation					
	-	(17,334)	(17,334)	(10,718)	6,616
E Direct Lending	213,178	(28,108)	185,070	535,677	350,607
Total	213,178	(45,442)	167,736	524,959	357,223
Total Capital	213,849	(45,442)	168,407	525,759	357,352

Explanation of variances between Estimate and outturn:

D Loans and interest equalisation £7 million – this reflects timing differences with regards settlement.

E Direct Lending £351 million – this variance relates to the fact the Direct Lending facility had a lower take up than the headroom provided (to meet possible demand) in the Estimate. More details of UKEF's risks including foreign currency and liquidity risk can be found in the Credit Risk, Portfolio Overview and Pricing Report in the Performance section of the Annual Report and Note 20 of the financial statements.

SoPS2 Reconciliation of Net Resource Outturn to Net Cash Requirement

	SOPS Note	2017-18 Estimate £'000	2017-18 Outturn £'000	2017-18 Variance £'000
Resource Outturn	SOPS1(a)	147,903	(5,118)	153,021
Capital Outturn	SOPS1(b)	525,759	168,407	357,352
Accruals to cash adjustments:				
<i>Adjustments to remove non-cash items:</i>				
Depreciation & amortisation of Equipment and Intangible Assets		(100)	(127)	27
Net foreign exchange differences & other non cash items		(140,451)	(44,564)	(95,887)
New provisions and adjustments to previous provisions		(74,088)	(55,179)	(18,909)
<i>Adjustments to reflect movements in working balances:</i>				
Increase/(Decrease) in receivables		(129,554)	(49,625)	(79,929)
(Increase)/Decrease in payables		9,912	(70,402)	80,314
Use of provisions		82	(52)	134
Net cash requirement		339,463	(56,660)	396,123

Parliamentary Accountability Disclosures

These disclosures are subject to audit.

Losses

In 2017-18 UKEF made realised and unrealised foreign exchange losses totalling £65m (as disclosed in Note 6 of the financial statements). These were incurred as part of business as usual activities but are required to be disclosed in this report.

Other Parliamentary Accountability Disclosures

In 2017-18 UKEF has not made any special payments or gifts, and does not have any remote contingent liabilities.



Louis Taylor
Chief Executive and Accounting Officer
12 June 2018

The certificate and report of the comptroller and auditor general to the House of Commons

Opinion on financial statements

I certify that I have audited the financial statements of the Exports Credits Guarantee Department (trading as UK Export Finance) for the year ended 31 March 2018 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statement of Comprehensive Net Income, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them.

I have also audited the Statement of Parliamentary Supply and the related notes, and the information in the Accountability Report that is described in that report as having been audited.

In my opinion:

- the financial statements give a true and fair view of the state of the Department's affairs as at 31 March 2018 and of the Department's net operating income for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Emphasis of Matter – Significant Uncertainty

Without qualifying my opinion, I draw your attention to the disclosures made in Note 1(B) to the financial statements concerning the significant uncertainty attached to the final outcome of the underwriting activities. The long-term nature of the risk underwritten means that the ultimate outcome will vary as a result of subsequent information and events and may result in significant adjustments to the amounts included in the accounts in future years. Details of the impact of this on the financial statements are provided in Note 1(B) to the financial statements.

Opinion on regularity

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2018 and shows that those totals have not been exceeded; and
- the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Department in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000.

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Department's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals and that those totals have not been exceeded. The voted Parliamentary control totals are Departmental Expenditure Limits (Resource and Capital), Annually Managed Expenditure (Resource and Capital), Non-Budget (Resource) and Net Cash Requirement. I am also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Other Information

The Accounting Officer is responsible for the other information. The other information comprises information included in the annual report, other than the parts of the Accountability Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- the parts of the Accountability Report to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000;
- in the light of the knowledge and understanding of the Department and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance Report or the Accountability Report; and
- the information given in the Performance and Accountability Reports 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 returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Accountability Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse

Comptroller and Auditor General
18 June 2018

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UKEF supported the sale of two
Rolls Royce-powered Boeing
787 aircraft to Polish airline LOT
Airlines

