



Government
Internal Audit
Agency

Government Internal Audit Agency

Annual Report and Accounts 2017-18

Government Internal Audit Agency

Annual Report and Accounts 2017-18

Presented to the House of Commons pursuant to section 7 of the
Government Resources and Accounts Act 2000.

Annual Report presented to the House of Commons by Command of Her Majesty

Ordered by the House of Commons to be printed on 19 July 2018.



© Crown copyright 2018

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit nationalarchives.gov.uk/doc/open-government-licence/version/3

Where we have identified any third party copyright information you will need to obtain permission from the copyright holders concerned.

This publication is available at www.gov.uk/government/publications

Any enquiries regarding this publication should be sent to us at:

The Government Internal Audit Agency
1 Horse Guards Road
London
SW1A 2HQ

Or by email at: GIAAGovernanceTeam@giaa.gov.uk

ISBN 978-1-5286-0365-2

CCS0418538678 07/18

Printed on paper containing 75% recycled fibre content minimum

Printed in the UK by the APS Group on behalf of the Controller of Her Majesty's Stationery Office

Table of contents

| | |
|---|----------|
| Chief Executive's foreword | 5 |
|---|----------|

Performance report

| | |
|---|-----------|
| 1 Who we are | 9 |
| Our services..... | 10 |
| Our vision..... | 11 |
| Our values..... | 11 |
| How we fit into the bigger picture..... | 12 |
| 2 How we have performed | 13 |
| Key achievements 2017-18 | 13 |
| Measuring our performance..... | 14 |
| Delivering our priorities..... | 19 |
| Other corporate reporting | 34 |

Accountability Report

| | |
|--|-----------|
| 1 Directors' Report | 39 |
| Governance framework..... | 39 |
| Register of Interests | 42 |
| Information and Data Security | 42 |
| Auditors | 42 |
| Statement of Accounting Officer's Responsibilities | 42 |
| 2 Governance Statement | 44 |
| Operation of Governance Structure..... | 44 |
| Annual Effectiveness Reviews | 45 |
| Risk management | 48 |
| System of Internal Control | 50 |
| Review of Corporate Governance..... | 50 |
| Review of Effectiveness..... | 51 |
| Conclusion..... | 53 |
| 3 Remuneration and staff report | 54 |
| Service Contracts | 54 |
| Remuneration Policy | 54 |
| Remuneration (including salary) and pension entitlements | 55 |
| Civil Service Pensions | 57 |
| Reporting of Civil Service and other compensation schemes – exit packages.. | 59 |
| Agency Composition..... | 60 |
| Consultants and Contingent Labour..... | 61 |

| | |
|---|-----------|
| 4 Parliamentary accountability and audit report..... | 63 |
|---|-----------|

| | |
|--|----|
| Financial Performance..... | 63 |
| Parliamentary Accountability Disclosures .. | 65 |
| The Certificate and Report of the Comptroller and Auditor General to the House of Commons..... | 66 |

Annual Accounts 2017-18

| | |
|---|----|
| Statement of comprehensive net expenditure for the year ended 31 March 2018..... | 71 |
| Statement of financial position as at 31 March 2018..... | 72 |
| Statement of cash flows for the year ended 31 March 2018..... | 73 |
| Statement of changes in taxpayers' equity | 74 |
| Notes to the accounts..... | 75 |

Chief Executive's foreword



Welcome to the Government Internal Audit Agency (GIAA) Annual Report and Accounts for 2017-18.

We have come a long way since we were established in April 2015. In our first 2 years, we expanded rapidly from a team of some 150 auditors covering 8 government departments to the stage we are at now, with around 475 people covering 14 departments and 120 arm's length bodies. This last year we've focused on consolidation and we have made great progress towards achieving our vision of a single audit practice. We've introduced a common audit methodology and systems for flexible resourcing across our customer base. We've also continued to develop our specialist services.

We have achieved much in 2017-18. Among our many successes, I am proud that we have:

- Delivered over 1500 audit engagements and advisory pieces of work across our customer portfolio. These have ranged from adding value to our customers' financial and operational delivery processes to providing independent assurance to complex projects and programmes;
- Increased customer satisfaction with our services, both in terms of our audit work (now up to 80%) and our work on internal audit policy and the profession (now at 87%);
- Achieved public recognition for the quality and value of our work by winning 6 awards;
- Supported our customers to safeguard the public purse; we conducted over 200 investigations leading to 9 criminal convictions and the detection of £776k of fraud;
- Collaborated with 8 overseas partners, sharing good practice and learning from each other; and
- Invested in the quality of our future service by establishing a cohort of talented trainees.

I retire from the Civil Service at the end of July, this is therefore my last Annual Report and Accounts as chief executive of the Agency. I would like to thank; the Board for supporting me in my role, my team who have delivered such a great service to our customers, and of course our customers for working collaboratively with us in our development. In the year ahead, the Agency will be building on its priorities to provide an even better service for customers, strengthen our foundations and prepare ourselves for future challenges in the risk landscape. I hope you enjoy reading this year's Annual Report and Accounts.

Jon Whitfield

Chief Executive Officer and Head of Government Internal Audit Profession

Performance report

How we have performed and what we have achieved during 2017-18



1 Who we are



75%

Government internal auditors employed by the Agency



1500+

Audits per year



30

Organisations provided with counter fraud services



64

Locations across Great Britain



80%

Customer satisfaction



14

Main government departments are customers



120

Associated government bodies are customers



475

People are employed by the Agency



6

Specialist services

We are an executive agency of Her Majesty's Treasury (HM Treasury), established in April 2015 to improve the quality of internal audit provided to central government.

Most of the Agency's people are professionally qualified internal auditors and accountants, as well as specialists in areas including counter fraud and investigation, project management, digital, and commercial. We also lead the government internal audit profession and function.

Our workforce brings with it a unique depth of experience gained in a wide range of government departments and related bodies. This enables us to offer a high-quality service based on cross-government insight and a strong and deep understanding of our customers' business.

We want to make GIAA a great place to work and ensure that we have the capability and capacity to make a significant contribution to the Civil Service over the coming years.

As we mature as an organisation, our shared expertise, skills and technology will enable us to become a single audit practice for the whole of central government.

Our services

Through our work in audit and counter fraud and investigation we help our customers improve how they deliver public services and provide value for money for the taxpayer.

We look at the bigger picture, considering the wider government context, as well as looking at an organisation's specific risks and management challenges.

We are primarily funded by fees charged to our customers. We want to give our customers excellent value for money, and we're focused on making the most effective and efficient use of the time our people spend on customer-facing activities.

We're also working to reduce our use of commercial partners for generalist support. If our customers require specialist services that our people cannot provide, we have ready access, through our framework contract, to the best skills in the private sector at competitive rates.

We follow and are subject to Public Sector Internal Audit Standards (PSIAS).

The services we offer can be grouped into five broad categories:

Assurance services

Our audits provide an independent and objective evaluation of management activities. This enables us to give an evidence based, professional opinion on an organisation's effectiveness in relation to governance, risk management and controls. Our work is often referred to as third line assurance, with operational management providing the first line of assurance and internal governance (including subject matter experts) providing the second line.



Advisory services

Our advisory work supports the design of enhanced governance, risk management and control activities. The scope of our reviews is wide-ranging, from advice on business process re-engineering to support on delivering successful projects and programmes.



Counter fraud and investigation services

Our award-winning team provides advice and support to customers on counter fraud strategies, fraud risk assessments, and measures to prevent, deter and detect fraud. Where commissioned, our professionally trained teams investigate suspicions of internal or supplier fraud or malpractice.



Government internal audit policy and profession



HM Government

Overall responsibility for internal audit policy in government rests with HM Treasury. We maintain a small team, funded by HM Treasury, to deliver this role on its behalf and lead the profession.

EU Audit Authority

The Agency is the audit authority for several European Union (EU) structural fund schemes, such as the European Regional Development Fund and the European Social Fund. These functions will cease after the UK exits the EU, although the timing of this will not be known until negotiations are complete. We will work with our customers to complete work on structural fund schemes in the United Kingdom.



Our vision

Our vision is to be a flexible and responsive internal audit service, with a reputation among top management within government as:

- Making a real difference.
- Providing excellent value for money; and
- Being a great place to work.

Our values

We are guided by our 5 Agency values which we agreed in consultation with our people. Our core value of trust anchors our other 4 values of customer focus, professionalism, continuing development, and respect.



Our vision and values complement and help to build the wider vision for a *brilliant Civil Service*.



How we fit into the bigger picture

As the government's primary provider of internal audit services, we lead the internal audit profession and function across government. We also support other government finance professionals in their role as stewards of public money.

- The **government internal audit profession** refers to everyone who works in central government who maintains an internal audit qualification, even if they do not work in internal audit. We work closely with the heads of internal audit for the devolved administrations to lead the profession across all of the UK and jointly maintain PSIAS and other standards.
- The **government internal audit function** refers to everyone who works in internal audit in central government, including those without audit qualifications. We also form part of the wider government finance function to support increased opportunities for sharing skills and facilitating secondments.
- The **Government Internal Audit Agency** refers to all our colleagues directly employed by GIAA.

We already collaborate with experts from some of the core government functions, including commercial, digital, data and technology, and project delivery. This helps us align our internal audit coverage with their priorities and risks. Over the coming year, we

will strengthen and extend our relationships with the core government functions and functional leads.

We also collaborate with other assurers, including the Infrastructure and Projects Authority (IPA) and the National Audit Office (NAO), together with independent monitoring bodies, inspectorates and regulatory authorities. This helps us provide a comprehensive assurance picture for our customers.

We contribute to the objectives of our sponsor, HM Treasury, and the aims of its [Single Departmental Plan](#), particularly its objective to control public spending.

The Agency's role in the UK's exit from the European Union

Through our work, we support customers as they adjust their policy objectives and structures to deliver the government's agenda for the UK's exit from the EU.

We work collaboratively across the profession and with other assurance providers to share insight and best practice to assist government in making the most of any opportunities arising from Brexit.

We also provide the internal audit service to the Department for Exiting the European Union (DExEU).

2 How we have performed

Key achievements 2017-18



New audit methodology and management system developed



6

Awards for our people



£160m

Projected savings for Student Loans Company



£776k

Fraud detected



8

Countries collaborated with us



12

New government bodies using our service



100%

On-time delivery of annual assurance package of the 2014-20 suite of European programmes

Measuring our performance

Our customers are at the centre of everything we do, so we set ourselves challenging targets to measure our performance in delivering to them. Here we summarise how we have performed against these. Details of revised 2018-19 performance measures can be found in the Agency's 2018-19 Corporate Plan.



Deliver 90% of planned audits to at least draft report stage by 31 March 2018



We delivered 89% of planned audits to at least draft report stage. Outstanding work was completed during Quarter 1 of 2018-19.



Achieve an average score of 7 out of 10 on our individual pieces of audit work, as measured by assignment feedback from our customers



85% of engagements scored 7 out of 10 or higher. Our average customer engagement satisfaction score was 8 out of 10.



Seek feedback on overall Agency performance from at least one key stakeholder (accounting officers, directors general, Audit Committee Chairs) from each customer every 6 months – to enable us to establish a benchmark



In 2017-18, we sought formal feedback on overall GIAA performance from key stakeholders in 6 customer departments. Responsiveness and reducing the cost of our service were cited as the most important areas for development. This year, we're developing a new customer and stakeholder strategy and improving our approach to gathering, analysing and sharing customer feedback.



Aim for 75% of the higher importance recommendations we make to be actioned on time by customers.



It proved difficult to gather consistent data across the whole Agency for this metric. The new audit methodology and management system implemented in May 2018 will make it easier to do this in 2018-19. Available data, for 2017-18 shows that 62% of higher importance recommendations were actioned on time.



Achieved on time



Achieved later than planned



Partially achieved



not achieved



Meet internal audit standards in 97% of reviews undertaken as part of our quality assurance monitoring of individual pieces of audit work



Our Professional Practice Directorate (PPD) supervises and reports on our current arrangements for second-line assurance of internal audit activities.

We reviewed 167 assignments across 74 customers and found no instances where the work undertaken did not generally conform with relevant Public Sector Internal Audit Standards.

To continuously improve the quality of our service we will implement a new quality assurance framework in 2018-19.



Achieve an average of 80% satisfaction in our annual stakeholder survey on the quality of our internal audit policy and profession work



Our annual policy and profession stakeholder survey for 2017-18 gave an overall satisfaction score of 87% (2016-17:80%).



Increase the proportion of time our people spend on customer-facing activities (utilisation rate) by 2 percentage points compared to 2016-17 (from 76% to 78%)



The Agency's utilisation rate for 2017-18 was 74%.

There are several reasons for the decrease from 76%, including increased time spent on corporate activities such as recruitment, specialisms development and the development of our New Audit Methodology and Management System (NAMMS).

In 2018-19 our new systems will enable us to monitor utilisation on a consistent basis and to drive performance improvements.



Reduce expenditure on general resource support from private sector audit firms by 20%, compared to 2016-17



Spend on generalist contractors remained at 27% of total spend due to continued use of private sector firms to cover some vacancies. Recruitment is now progressing faster and a new approvals processes for use of private sector firms has been implemented to ensure our 25% reduction target is met in 2018-19.



Achieved on time



Achieved later than planned



Partially achieved



not achieved

Assignment Feedback

Throughout the year, we seek feedback on individual audit assignments. Here is a sample of the comments provided to us:

"The audit process was well managed and the lead auditor demonstrated a clear understanding of the team's status and transition, recognising the most pertinent areas to focus on".

"This was an urgent and high-profile piece of work that was carried out professionally and in a timely manner, it is a very useful audit that will help with policy development as well as addressing process and performance issues".

"The auditor had a clear understanding of the issues surrounding the area in question and has been supportive since the report was issued".

"Very clear and took the time to work with the business to ensure all were clear on scope".

"I was very happy with the output of the review and feel the actions required will help improve our process and increase stakeholder confidence".

"The auditors' findings have added real value to processes thus ensuring the organisations control environment is stronger going forward. Excellent work".

"The 'critical friend' approach was valuable and strengthened my work".

"GIAA are always thorough, challenging and reflect a true and unbiased account of findings and actions".

Senior stakeholder feedback

We regularly receive comments direct from our senior stakeholders. Here are some of their comments:

“As well as providing an assurance opinion to the organisation as a whole and to myself, the Internal Audit team has worked closely with the Universal Credit Programme, providing real time advice and guidance and being a valued, critical friend. This is a very useful and enduring relationship”.

Director General, Universal Credit

“The relationship between the Ministry of Housing, Communities and Local Government and GIAA has never been more collaborative and robust than it is now

A key reason that the relationship is valued by the department is that the GIAA team are enthusiastic and energised when it comes to the service they deliver, and actively seek out improvements and opportunities on our behalf, or to achieve mutual aims more efficiently.

Since Jane’s team was incorporated, the department has noted a steep increase in engagement, departmental and stakeholder knowledge and appreciates for the first time in years that the audit plan was closed down on time and without overhanging issues. We would like to thank the GIAA team for the quality work this year”.

Finance Director, Ministry of Housing, Communities and Local Government

Government internal audit policy and profession

During 2017-18 we delivered the following for the wider profession:

- Facilitated the Internal Audit Leadership Group;
- Represented UK central government on the Internal Audit Standards Advisory Board;
- Represented the profession on key functional leadership working groups;
- Continued to support the central government departments' Audit and Risk Assurance Committee Network;
- Represented HM Treasury at the EU Public Internal Control Network;
- Played a prominent role in the launch of the Organisation for Economic Co-operation and Development's Auditors' Alliance initiative.
- Worked with the UK Commonwealth Parliamentary Association and the National Audit Office to improve the capability and capacity of the UK Overseas Territories, resulting in several successful inward and outward secondments and the development of a successful internal quality assessment programme;
- Staged several events to build capability. These included conferences for Government Audit and Risk Assurance Committees and Internal Audit practitioners;
- Collaborated with the government Finance function to deliver the 2018 Government Finance Conference; and
- Hosted information stands and presented at most regional Civil Service Live events held in summer 2017, helping to promote audit as a career and supporting our talent pipeline.

Delivering our priorities

Last year we set ourselves 4 key priorities to enable us to continue to improve the service we provide to our customers, develop our capability, and empower our people. Below we explain how we have delivered against our priorities and milestones.

Development of specialisms

Objective: To provide high quality and influential insight to our customers over complex, specialist areas of risk.

- During the year, we made progress in developing 4 new specialisms.
- Digital, Data and Technology (DDaT)
- Programme and Project Management (PPM)
- Commercial, and
- Shared services

This was in addition to our existing specialist teams; European (grant funding), and Counter Fraud and Investigation.

Developing our capability to provide specialist internal audit assurance continues as a priority for 2018-19.

Milestones



Specialisms intranet sites – launch July 2017



We launched our specialisms intranet pages in August 2017 and frequently updated them throughout the year to share relevant guidance and products.



Internal communications about specialist developments and customer-facing activities – quarterly



We published blogs, run 'lunch n learn' sessions and webinars as well as including regular items in our weekly internal newsletter. Our CF&I team hosted an awareness week using multiple channels. The PPM specialism has prepared several resources for use by Group Chiefs of Internal Audit (GCIA's) including standardised terms of reference templates and test packs.



Engagement meetings of each specialist team or community of practice – quarterly



All specialisms held engagement meetings throughout the year.



Achieved on time



Achieved later than planned



Partially achieved



not achieved



Summary reports for relevant cross-government and departmental functional leads – 6-monthly



We issued 4 specialism bulletins to customers and stakeholders:

- DDaT on cyber security (Sep 2017)
- PPM on delivering digital transformation using Agile (Oct 2017)
- Commercial on IR35 (Nov 2017)
- CF&I on effective whistleblowing (February 2018)

European team

2017-18 was an important year for the European team. The key highlights included:

- Delivery of the European Regional Development Fund, European Social Fund and Asylum, Migration and Integration Fund audit programmes to time and budget; submission of annual control report and audit opinions to the European Commission in line with regulatory requirements;
- Delivery of the first annual assurance package of the 2014-20 suite of European programmes, including new requirements relating to audits of accounts and the management declaration and annual summary;
- Contribution to Brexit developments, including advising government policy makers across on; their development of exit scenarios, negotiations with the EC, transition planning, and a suitable control environment for new domestic programmes;
- The provision of specialist services for several EU funded initiatives beyond the main programmes under “shared management”. This has included forging new relationships across the Agency’s customer base;
- Increased flexible working across GIAA. In 2017-18, 85% of the Europe team worked on more than one customer audit programme (43% of total time with non-Europe customers). This has enriched the roles for our people and equipped them with wider audit experience and skillsets for the future;
- Development and implementation of new audit procedures and standards that govern EU audit activity, ensuring compliance with EU regulation, as verified by an external review of the European team. Alignment of these procedures, as far as possible, with wider Agency audit methodologies;
- Since the outcome of the referendum, the Agency has been in discussion with several government departments, particularly BEIS and HM Treasury, as to the possible implications for Structural and Investment Funds, and future assurance requirements for any domestic replacement programmes.



Achieved on time



Achieved later than planned



Partially achieved



not achieved

Counter Fraud and Investigation

We continue to support departments, agencies and public bodies in strengthening their understanding of and response to fraud risks. As a recognised centre of excellence for counter fraud and investigation across government, we also support departments, agencies and public bodies in meeting standards set in the Government Counter Fraud Framework.

With the launch of the Government Counter Fraud Functional Standards at the start of the year, the GIAA CF&I specialism has seen increased demand from customers for input and expertise in supporting their readiness for, and assessment against, the standards.



776k Fraud detected

553k Prevented loss



481 Commissions for investigations or counter fraud activities from 14 organisations. This resulted in 221 completed investigations



9 Criminal convictions



30 Departments and Arm's-length bodies provided with counter fraud services.

A single audit methodology

Objective: To adopt a single audit methodology to improve the delivery of professionally robust and high impact audits and advice to our customers

Delivering the New Audit Methodology and Management System (NAMMS) project has been a critical step in the development of the Agency and in achieving our vision of becoming a single audit practice.

During 2017-18 we have taken the opportunity to look at how we currently deliver our services to customers – everything from our audit planning and fieldwork to our report writing and evaluation.

NAMMS brings consistency to how we capture our time and allocate our resources. It has also laid the foundations for smarter management information, supporting our leaders to make more pro-active and informed decisions.

NAMMS creates the environment that enables our people to move flexibly between teams and deliver higher quality audit reports, based on better analysis and more cross-government insight.

This will enable new career opportunities and skills development for our people, skills development and reduce our use of external contractors. In 2018-19, we will also look to realise further IT savings as we transition off legacy audit management and time recording systems.

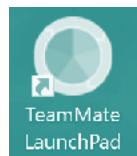
Milestones



Audit methodology
– roll out August to
December 2017



In November 2017, we successfully launched a new Agency-wide audit manual and guidance to support the common audit methodology, involving our people throughout its development and launch. The 2018-19 Audit plan was developed using the new methodology.



Audit management
software (AMS) – roll out
January to March 2018

We successfully launched the Agency's new audit management software between January and May 2018 and this was ready for use for 2018-19 audit engagements.



Achieved on time



Achieved later than planned



Partially achieved



not achieved

NAMMS project

In developing our new tools, we used the skills and experience within our diverse teams, and combined it with industry best practice to introduce ways of working that deliver great results for everyone and ensure we have the foundations in place to react more quickly to future developments.

The key highlights included:



500

Upgraded laptops deployed, bringing all our people together onto the same system for the first time



38

Pilot testers quality assured the new AMS during the final stages of development



1144

NAMMS Academy e-learning courses completed during roll-out within state of art package



7

Workshops held at key stages in the methodology development to create our audit manual in consultation with our diverse audit community



8

Skills for change workshops



133

Webinars

Recruitment and development of our people

Objective: To ensure that we have the right people in the right place at the right time to provide a high-quality service to our customers, while supporting our people to fulfil their potential

Our approach to people development has evolved over 2017-18, culminating with a restructuring of the People Committee in March 2018. This now comprises a diverse group representing the Agency's people and networks. The Committee is better placed to advise our Executive Management Team (EMT) regarding strategic direction and the delivery of people priorities, and it has decision making responsibility.

Milestones



Workforce strategy – launch summer 2017 with regular progress updates to our people



We resolved barriers to accessing accurate management information which had delayed our strategy launch. The Executive Management Team agreed the outline workforce strategy in April 2018. This includes a recruitment strategy with several planned campaigns and the adoption of skills/ experience recruitment processes akin to the external recruitment market. This area of work will progress throughout 2018-19.



Alumni network – establish autumn 2017



The Associates Network policy, principles and guidance were agreed and the network was launched in May 2018. The scheme is aimed at retaining links with our people who have retired or left the Agency, with a view to utilising their skills and experience as required in the future.



Civil Service workforce plan – implement throughout 2017-18



We have embedded the key elements of the Civil Service workforce plan and will continue to embed the remainder over the next year. Key achievements include increasing our workforce diversity and establishing a more structured approach to short and long term strategic workforce planning, resourcing and recruitment.



Achieved on time



Achieved later than planned



Partially achieved



not achieved



Policies for our people at different stages of their careers – develop throughout 2017-18



The first career pathway tool for generalist internal auditors was launched in February 2018. Further pathways for 3 specialisms are being developed.

A trainee and apprenticeship (non-graduates) policy was agreed by the People Committee in February 2018.



Pay strategy – launch autumn 2017



Having failed to progress our long-term pay strategy this year, we now have a dedicated team taking this work forward in 2018-19. We will submit an initial business case to Cabinet Office in July 2018.

We delivered our 2017-18 pay award, honouring legacy pay arrangements for our people.



Internal audit functional plan aimed at improving capability across government – develop by March 2018



Completed and submitted to government functions on time.

People performance measures



Increase the number of people who are mentored or who participate in development activities by 10% (compared to 2016-17)



Highlights include:

- 65 mentees (up from 31 in 2016-17)
- 81 colleagues studying for qualifications (up from 56 in 2016-17)
- 20 graduate trainees (up from 13 in 2016-17)
- 3 people accepted on the Future Leaders Scheme or Senior Leaders Scheme (up from 2 in 2016-17)
- 76 people participated in personal resilience workshops



Achieved on time









Achieved later than planned



Partially achieved



not achieved

| | | | |
|---|--|---|--|
|  | <p>Increase the diversity of our workforce through recruitment exercises undertaken during the year</p> |  | <p>The proportion of SCS women has increased during the year from 21% to 27%.</p> <p>As a proportion of overall Agency workers there has been a:</p> <ul style="list-style-type: none"> • 1%-point increase in BAME workers to 10%; • 8%-point increase in part-time workers to 16% • 1%-point increase in workers aged under 30 years to 4% • no overall change in disability and LGBT representation |
|  | <p>Increase engagement, as measured by the People Survey 2017, by 5 percentage points compared to 2016 (from 48% to 53%) – with the aspiration to meet the Civil Service average in 2018</p> |  | <p>Our score remained low at 49% however we achieved significant increases against:</p> <ul style="list-style-type: none"> • leadership and managing change (+7pp to 42%) • Learning and Development (+6pp to 44%) • my team (+4pp to 72%) <p>People Survey results showed a significant decrease (-7 points) in satisfaction with pay and benefits, with only 22% of people positive about their pay and benefits.</p> |
|  | <p>Reduce our scores for bullying, harassment and discrimination to below Civil Service averages</p> |  | <p>There has been no change since last year in our scores for discrimination (17%) and bullying and harassment (11%), so we remain above Civil Service average for discrimination (12%) and equal to Civil Service average for bullying and harassment (11%). However, more people than last year (+7pp to 41%) have reported bullying and harassment, and of those who reported the incident, many more (+17pp to 29%) felt the issue was resolved.</p> |



Achieved on time



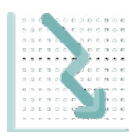
Achieved later than planned



Partially achieved



not achieved



Reduce vacancy levels by 25% (compared to 2016-17)



We had several successful recruitment campaigns during the year, reducing our baseline vacancy figure as at 1 April 2017 from 17% to 11% of total posts by 31 March 2018.

For 2017-18 this equates to a reduction of 32% in vacancies against total chargeable posts.

- Over 140 people applied for 20 places on the Agency's Higher Executive Officer Trainee Auditor campaign
- Over 500 applications were received for large scale and specialist campaigns throughout 2017-18



Establish a baseline in 2017-18 for the proportion of people who work on more than one department's or group's audit programme in the year



35% of audit delivery staff have spent time working across multiple customers throughout the year. In 2018-19 our OD resource forums will help us increase the number of our people working cross-Agency as well as the frequency in which they do so.



Achieved on time



Achieved later than planned



Partially achieved



not achieved

Celebrating our people's success

We are proud of all our people's successes, professional qualifications and the positive feedback we receive from our customers, stakeholders and partners. Our success helps make GIAA a great place to work and strengthens our organisational reputation. The impact is even greater when the work is recognised and rewarded in a wider arena.

In 2017-18 we collected 6 awards.

Government Counter Fraud AWARDS 2017

September 2017

Government Counter Fraud Team of the Year

Chartered Institute of Public Finance and Accounting (CIPFA) – GIAA Counter Fraud and Investigation Team



The judges commented that:

"Client feedback and the impact they've already made point to a team working efficiently and to the highest quality standards. Not only are they detecting fraud and undertaking investigations, they're proactively educating their diverse client base and working to identify emerging threats and vulnerabilities."



Chartered Institute of Internal Auditors

November 2017
CIIA Audit & Risk Awards

Highly Commended Best Newcomer

Michelle Worthing – GIAA Auditor, Department for Work and Pensions (DWP) Team



Michelle was commended for the immediate impact she made after joining the Agency as a trainee auditor. She was recognised as both a self-starter and a real team player who isn't afraid to take the initiative, question how and why things are done, or to suggest where improvements can be made. On top of her day job and commencing professional study, Michelle also found time to take a leading role in organising the Agency's first trainee conference in May 2017.



November 2017
CIAA Audit & Risk
Awards

**Outstanding Team,
Public Sector**

GIAA's DWP Internal
Audit team



The award recognised the way in which the entire GIAA DWP Internal Audit team had come together to respond to the unprecedented challenges faced by the scale and complexity of the Welfare Reform Act. The team were praised for their high levels of customer engagement and their willingness to face the challenge head-on through their professional dedication, personal attitudes and sheer determination, making a real difference to the control framework and outcomes of the Departments change programmes.

**GOVERNMENT FINANCE
FUNCTION EVENT 2018**

January 2018

**Internal Audit Team
Excellence Award**

GIAA's DWP Change and
Strategy Team.

Our team were recognised for the expert service they provided to DWP as the department delivered a large and complex portfolio of major change programmes.

The team played a pivotal role in promoting best practice and driving improvement through relevant and timely assurance that was aligned to programme lifecycles. The improvements were recognised by the Infrastructure and Projects Authority, which increased its level of delivery confidence across much of the department's major change portfolio.

**GOVERNMENT FINANCE
FUNCTION EVENT 2018**

January 2018

**Iain Rolland –
Outstanding
Contribution to
Government Internal
Audit Award**

Amy Aldis – Senior
Internal Audit Manager



Amy was recognised for the important work that she led on the Independent Inquiry into Child Sex Abuse

Amy led a high-profile, sensitive and new audit territory area with multiple stakeholders. Her work focused on key areas to maximise impact and received excellent customer satisfaction. This resulted in large-scale change leading to a stronger governance, risk management and internal control environment.



Tracey Woodward



March 2018

**Innovation in Internal
Audit Award**

Tracey won the Innovation in Internal Audit award. She and her colleagues from our GIAA DVLA team, based in Swansea, were recognised for their audit programme of Vehicle Excise Duty which provided insight on key risks for the Driver and Vehicle Licensing Authority.

Building a culture of continuous development

We are committed to making GIAA a great place to work. We want to be able to attract, retain and motivate a diverse range of talented people. We also want to create a strong reputation with customers for delivering high quality services.

Key to achieving both objectives is to ensure we have a professional, skilled and experienced workforce.

During the year, we continued to build the foundations for a successful future, by offering our people structured and targeted development activities.

We developed:

- the first career pathway for internal auditors, and
- an improved talent strategy to support both recruitment and development and the development of specialisms.
- Bespoke learning has been provided for Commercial and Programme and Project Management specialisms. We have gathered detailed information on the in-house skills and capability available to the GIAA Digital, Data and Technology specialism to enable targeted workforce planning and developmental activities.
- Access to relevant learning opportunities is pro-actively and regularly communicated through our intranet

and internal newsletter. We've also used webinars to create networking opportunities to share knowledge and experiences across geographical sites.

- We actively support our GIAA Trainee Network, which was created by trainees, for trainees. This offers knowledge, skills sharing and networking opportunities to our people who are studying for professional qualifications in their respective professions. The Trainee Network held an inaugural conference in May 2017, and has raised keen interest from the Chartered Institute of Internal Audit, culminating in a detailed article in their 'Audit & Risk' publication, raising the profile of the network beyond GIAA and highlighting the benefits it has had for its members.

- The Trainee Network held an inaugural conference in May 2017, and has raised keen interest from the Chartered Institute of Internal Audit, culminating in a detailed article in their 'Audit & Risk' publication, raising the profile of the network beyond GIAA and highlighting the benefits it has had for its members.
- New trainee auditors are part of our updated programme of learning, with regular learning and development (L&D) led conversations to provide timely and targeted support.
- Our more experienced people are pro-actively engaging with our trainees, to mentor them on the journey to professional qualification. Mentoring has more than doubled since last year, with mentors matched to mentees who are eager to draw on their knowledge, skills and practical experience.
- Although we recognise we have more to do, we achieved a 6-percentage point increase in our 2017 People Survey score for L&D.



Leadership and communications

Objective: To ensure our people have a strong sense of identity and feel part of a ‘single audit practice’; are inspired to become engaged in delivering our vision; and are empowered to act flexibly and professionally.

Milestones



Visible Leadership strategy – launch May 2017 with regular progress updates to our people



Our visible leadership strategy was launched in May 2017. We sought ideas from colleagues on how to improve leadership in the Agency, and this will continue to be a priority area for 2018-19.

Our people Survey results show some positive findings relating to leadership:

- +7 points to 42% for leadership and managing change
- +17 points to 59% for senior management visibility
- +14 points to 49% for senior managers acting consistently with GIAA values (respect, trust, professionalism etc.)
- +7 points to 58% for people feeling well informed about the matters that affect them

But they also show:

- -5 points to 32% of our people say they feel part of GIAA as a single organisation
- -10 points to 20% for people feeling that change is well managed



Achieved on time



Achieved later than planned



Partially achieved



not achieved



Internal communications strategy – implement throughout 2017-18 with initial focus on the area network review (complete June 2017) and new intranet (launch June 2017)



In August 2017, we launched our new intranet, *GI AANT*. This provides a single interactive platform through which we can keep our people informed and engaged and acknowledge their contribution to the success of GI AA. We also refreshed our area network events, bringing people together across 64 locations at 14 events. Through these and a maturing range of other communication channels, we consult and share key messages, highlight individual and team achievements and recognise our people's hard work and commitment.

Bringing people together through good leadership and effective communication

Another key part of creating “a great place to work” is embedding a culture of visible leadership and effective communication; and this supports all our other milestones and measures.

In 2017-18, we started to seek ideas from people across the Agency on how to improve leadership in the Agency in line with our visible leadership strategy. Our 2017 People Survey results showed an encouraging increase of 7 percentage points for the ‘leadership and managing change’ theme, which will translate into a better-aligned, more cohesive organisation with highly engaged people.

Our internal communications strategy has leveraged the benefits of a new intranet platform, and a review of our current communications channels early in 2018 means that we are well placed to build on that strategy. Our CEO forums and the area network events gave everyone in GI AA an opportunity to receive an update from senior leaders, and a chance to pose questions directly to them in person; and greater use of digital channels including webinars and Agency-wide teleconferences have given more and more opportunities to engage across geographical and organisational boundaries.



Achieved on time



Achieved later than planned



Partially achieved



not achieved

Other corporate reporting

The Agency's Charity Committee

We were delighted to launch our GIAA Charity Committee in October 2017 and now have members representing each area where GIAA operates.

The committee co-ordinates charity and volunteering activity in the Agency by:

- overseeing, promoting and coordinating a range of fundraising, outreach and awareness work
- raising the profile of the Agency's volunteering policy which includes a generous 8 paid volunteering days, enabling our people to support wider volunteering initiatives all over the country
- driving engagement through creative and fun challenges to raise money for good causes; and
- developing pride in the Agency as a socially responsible employer.

2017-18 Highlights



Charity
Committee



Charities who benefitted from our activities in 2017-18 included:

- The Polycystic Kidney Disease Charity,
- Autism Awareness,
- Children in need,
- Save the Children, and
- Harrison's Fund.



Teams from across the Agency raised money through Christmas Jumper Day 2017, including our Swansea team who raised over £150.



Over £700 was raised through a "Snazzy Socks" day in support of the Polycystic Kidney Disease Charity in memory of our colleague Iain Rolland.

Correspondence performance

GIAA received 10 Freedom of Information (FOI) requests, 2 Data Protection Act requests and 1 complaint in 2017-18. Two FOIs were processed up to 2 days late and the rest were processed to the target of 20 working days.

Internal Audit Framework Contract

In September 2015, the Agency established an Internal Audit Framework Contract that utilises its collective buying power to secure access to multiple high-quality private sector resources in a manner that provides value for money for the Agency, our customers and the taxpayer. The Framework gives the Agency and its customers the flexibility to meet peaks in demand and allows us to deploy more specialist skills when needed to work alongside our own people. There are 7 private sector firms on the Framework providing internal audit and advice services. The Framework is also available across central government to organisations outside the Agency, demonstrating the value for money in procuring a single contract for internal audit services across central government.

In February 2018, we exercised the right to extend the current Framework by one year, with the extension period running from August 2018 – August 2019. During 2018-19 the Agency will commence planning and the development of options for its future

requirements, including potential framework arrangements to support the long-term strategy of GIAA.

Funding arrangements

The Agency is primarily funded through the fees we charge our customers for internal audit and assurance services. GIAA agrees the level of audit services required by each of our customers, setting these out in Memorandums of Understanding and agreeing an appropriate fee. GIAA also received funding from HM Treasury for the Internal Audit policy work that it undertakes on its behalf and for the development costs of the Agency.

Greening government commitments

As an executive agency of HM Treasury, GIAA data will be included as part of their Annual Report and Accounts.

We do not have our own estate. Agency teams are based in customer buildings and we continue to support wider government greening commitments. Audit teams utilise services in customer locations under Memorandums of Understanding arrangements, including services such as printer consumables (paper etc.), waste services, water. We are committed to supporting our customers in meeting Greening Government Commitments 2016-20 targets whilst not owning or managing our own estate. Examples of where we support our customers are:

- recyclable waste and utensils –e.g. within HM Treasury London, GIAA are supporting the Facilities Management provider in moving away from disposable plates and cups. New schemes such as ‘permanent/reusable drinks cups’ and food containers are driving down the reliance on polystyrene materials.

- paper consumption – work has been undertaken to deliver more digital service options, including information sharing and webinars, thereby mitigating reliance on paper based communications and overall paper consumption.
- development of new ways of working, including enabling flexible working, ensuring that audit teams have the right resources and accommodation to fulfil their duties and obligations, whilst recognising the consolidation of wider government estate
- Travel – as an Agency, in 2017-18 we spent £1,249k on all forms of travel and subsistence (2016-17: £869K), travelling 2.42m km and using an equivalent of 161k CO²/KG carbon footprint for rail, air and motor vehicle travel (2016-17: 1.3m km and 136k CO²/KG carbon). Travel costs are incurred during the provision of audit and other services and are recovered through our audit fees.
- The annual increase in travel reflects the full year impact of the new teams who joined the Agency during 2016-17 as well as a smaller number of additional migrations this year.



Jon Whitfield

Chief Executive and Accounting Officer
and Head of Government Internal Audit
Profession

11 July 2018

Accountability Report

Key statements and reports that enable us to meet accountability requirements and demonstrate compliance with good corporate governance



1 Directors' Report

Governance framework

GIAA is an executive agency of HM Treasury, established on 1 April 2015. HM Treasury appointed Jon Whitfield as the Agency's first Chief Executive Officer (CEO) and Accounting Officer. Jon is also the Head of the Internal Audit Profession and the Internal Audit Functional Lead for Government. The CEO is accountable to the Permanent Secretary in HM Treasury, who has delegated day-to-day responsibility to the Director General, Public Spending. The minister who has responsibility for the Agency is the Exchequer Secretary to the Treasury.

Our Framework Document (available on www.gov.uk/giaa) was updated in March 2018 and defines the relationship between

the Agency and HM Treasury, including the arrangements for the governance, accountability, financing, staffing and operation of the Agency.

The Agency's top-level governance structure consists of an Agency Board, Audit and Risk Assurance Committee (ARAC), Nominations and Remuneration Committee (NRC), and Executive Management Team (EMT). These are supported by several second-level governance groups. As part of a governance review in September 2017, the EMT became the project board for the New Audit Methodology and Management System (NAMMS) project.



Agency Board

The Board supports the CEO and EMT in their direction of the business of the Agency, with a view to the long-term health and success of the Agency. The Board also supports the Accounting Officer in the discharge of obligations set out in *Managing Public Money* for the proper conduct of business and maintenance of ethical standards.

The Board draws on the experience of its members to provide advice, support and challenge on the Agency's performance and risk management, including progress against delivery of its objectives and priorities.

As at 31 March 2018, membership of the Agency Board was as follows. In-year and post year-end changes are also detailed:

| | | |
|---|---|---|
|  Mike Ashley Non-executive Chair ¹ |  Steve Burnett Non-executive ² |  Margaret Edwards Non-executive ³ |
|  Jo Clift Non-executive ⁴ |  James Bowler HMT Sponsor ⁵ |  Mike Driver Head of Finance Function ⁶ |
|  Jon Whitfield Chief Executive Officer ⁷ |  Mark Ripley Operational Director ⁸ |  Chris Westwood Operational Director |
|  Matt Armstrong Chief Operating Officer ⁹ |  Jo Rowley Professional Practice Director |  Liz Corrin Corporate Services Director |

¹ Mike Ashley was appointed in October 2014 for 3 years and his term was extended to 30 September 2018.

² Steve Burnett was appointed in October 2014 for 3 years and his term was extended to 30 September 2019. Following a recent recruitment exercise Steve has been appointed as Chair from 1 October 2018 for a three-year term.

³ Margaret Edwards was appointed in October 2014 for 3 years. Her term was extended until 31 March 2018.

⁴ Jo Clift was appointed in January 2018, succeeding Margaret Edwards.

⁵ James Bowler, HM Treasury Director General Public Spending succeeded Julian Kelly as the HMT sponsor in May 2017.

⁶ Mike Driver joined the Board in May 2017.

⁷ Jon Whitfield will retire at the end of July 2018.

⁸ Mark Ripley took up a temporary secondment to the Ministry of Justice in March 2018. Linda Costello has assumed Mark's responsibilities and was appointed to the Board from 1 April 18.

⁹ Matt Armstrong was appointed to a new post of Chief Operating Officer (COO) in January 2018.

Short biographies of the non-executives, CEO and other executive directors are available on our website.

Audit and Risk Assurance Committee

The ARAC is chaired by a non-executive (who is also a non-executive member of the Agency Board). Margaret Edwards chaired the committee during 2017-18. In February 2018, the Board approved the appointment of Steve Burnett as the new chair of the

committee. When Steve takes up his role as Chair on 1 October 2018, the Board will appoint a new ARAC Chair.

The ARAC, whose membership includes all the Agency's other non-executive Board members, supports the Accounting Officer in ensuring the Agency has a control framework in place that enables it to deliver its objectives and manage risks effectively. The CEO, COO, Corporate Services Director, Agency's Head of Internal Audit (HIA) and representatives of the National Audit Office (NAO) also attend each meeting.

Nominations and Remuneration Committee

The Agency set up a nominations and remuneration committee in June 2017 to maintain oversight of succession planning for senior level appointments and the Board; review Senior Civil Servants (SCS) pay and incentives; and agree nominations within the Agency. Its membership includes two of the non-executive Board members (one is the Chair) and the CEO (who is not present when his pay is being discussed), and is supported by HR. The HMT senior sponsor, COO and Operational Directors attend some meetings as needed. Steve Burnett chaired the committee from April 2017 to March 2018. In February 2018, the Board approved the appointment of Jo Clift as the new Chair of the NRC from April 2018, when Steve moved over to become Chair of the ARAC.

Executive Management Team

EMT is the primary top-level decision-making group in the Agency. It has executive responsibility for the overall management of the Agency. It agrees new strategies and policies, monitors the Agency's performance, risks and resources, and oversees operational delivery. It also acts as the project board for the NAMMS project.

The CEO (Chair), COO, Operational Directors, Corporate Services Director, Professional Practice Director and NAMMS Delivery Director are members.

People Committee

The People Committee reports to EMT and provides strategic oversight of the Agency's People Plan and HR policies. The Committee also helps HR formulate and implement policies, and provides a forum for consultation with our people. A member of the SCS chairs the meetings which are attended by the COO, Head of HR and representatives of operational directorates. In February 2018, the EMT approved changes to the Committee's terms of reference so that it has decision-making authority in some areas, but still reports to EMT.

Senior Leadership Team (SLT)

The SLT brings together all our SCS leaders in the Agency. It has collective responsibility for developing and delivering the Agency's corporate plan. It has a specific focus on customer delivery, leadership of the Agency, and engagement with the Agency's people.

Directorate Senior Management Teams (SMTs)

Directorate SMTs are the primary decision-making bodies below the EMT, in addition to the People Committee. Directorate SMTs make decisions about the implementation of policies agreed by EMT. Key areas include: resourcing directorate business; local budget management; defining recruitment needs; and local learning and development consistent with Agency policy and guidelines.

Register of Interests

The Agency maintains a register of interests for non-executive directors and SCS members of the Agency, which is updated at least annually.

- Mike Ashley sits on the Board of the Charity Commission, which is one of the Agency's customers.
- Margaret Edwards is a member of the Senior Salaries Review Body (SSRB), which provides independent advice to the Prime Minister on SCS pay across government, including those employed by the Agency. The SSRB has no direct influence over senior salaries in the Agency. Margaret Edwards is also Chair of the Civil Service Pensions Board, which is one of the Agency's customers.
- Jon Whitfield is a member of the CIIA Council of Directors.

No other directorships or other significant interests that may have caused a conflict with their management responsibilities were held by the board members or SCS staff.

The Agency also maintains a gifts and hospitality register, which covers all employees.

Information and Data Security

Personal data is held within the Agency where it pertains to its employees. In the context of audit services, the Agency holds some additional data owned by our customers. Continual work with HM Treasury and our suppliers is improving the way we transmit, store and manage our information, as well as improving overall data management and security.

With the introduction of the General Data Protection Regulation (GDPR) significant work to prepare for and assess ourselves against the requirement has taken place and will continue into 2018.

Significant work has also been undertaken to identify and implement the most viable methods of transmitting information and data securely between our customers, framework suppliers and the Agency.

In 2017-18, there were four personal data incidents raised to HM Treasury. However, no incidents were raised to the Information Commissioner's Office as they did not meet its reporting criteria. Investigatory action for all incidents resulted in a review of existing processes and disciplinary action, in line with Agency policies.

Auditors

The Agency is audited by the Comptroller and Auditor General, with a notional audit fee of £55k (2016-17: £57k).

Statement of Accounting Officer's Responsibilities

Under section 7(2) of the Government Resources and Accounts Act 2000, HM Treasury has directed the GIAA to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the Agency's state of affairs and of the income and expenditure, changes in taxpayers' equity, and cash flows of the Agency for the financial year.

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

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and 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 Financial Statements;
- prepare the Financial Statements on a going concern basis; and
- provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.
- the Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the Agency's auditors are aware of that information;
- the Annual Report and Accounts as a whole is fair, balanced and understandable; and
- he takes personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

The Accounting Officer of HM Treasury designated the CEO of the GlAA, Jon Whitfield, as Accounting Officer from 1 April 2015. 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 GlAA's assets, are set out in *Managing Public Money* published by HM Treasury.

The Accounting Officer has confirmed that:

- as far as he is aware, there is no relevant audit information of which the Agency's auditors are unaware;

2 Governance Statement

As the Accounting Officer for the Government Internal Audit Agency, I acknowledge my responsibilities for ensuring that there is a sound system of governance, risk management and internal control that achieves the Agency's aims and objectives, acting in accordance with the responsibilities laid out by HM Treasury in *Managing Public Money*. The Governance Statement explains how I have discharged these responsibilities, describes the Agency's governance arrangements, and provides an assessment of how we have balanced risk, assurance and control during 2017-18.

Operation of Governance Structure

The Agency has put in place several formal governance structures, as outlined in the Directors' Report. The work of the Board and committees is set out below.

Agency Board

The Board has ensured oversight and governance of the Agency's strategy, plans, performance and risks. The non-executive board members have continued to play a crucial role in advising and challenging EMT. The Board met six times in 2017-18 and considered a range of issues. Each meeting included an update by the CEO, covering management information, progress

on delivery of the Agency's objectives, and feedback from any meetings with key stakeholders.

The Board continued to support the Agency's ambition to become more than the sum of its parts and to work across organisational boundaries. At the beginning of the year, it oversaw the successful migration of two new internal audit teams from the Department for Environment, Food and Rural Affairs and the Rural Payments Agency. The Board also regularly reviewed progress on the NAMMS project and agreed that its implementation should remain a priority for 2018-19.

Throughout the year, the Board discussed significant changes to the Agency's strategic risks and completed deep-dive risk reviews on recruitment, retention and audit quality.

The Board also considered a range of engagement and leadership issues, including the results of the 2017 People Survey, Agency networking events, and senior staff changes.

The Chair produced his own annual report, summarising the activities of the Board, as outlined above, and confirming that he considered that the Board had fully discharged its responsibilities over the year based on the work it carried out.

Audit and Risk Assurance Committee

The ARAC supported the Board and Accounting Officer by reviewing the comprehensiveness and reliability

of assurances on governance, risk management, the control environment, and the integrity of financial statements and the annual report. Throughout the year, they considered the following:

- agreement and regular review of the annual audit plan;
- the outcomes of work by the internal and external auditors;
- reviewing risk management policy;
- reviewing the Agency's accounting policies and the results of its six-month financial statements; and
- reviewing the 2016-17 draft Annual Report and Accounts at its June 2017 meeting. The Committee discussed the Annual Report & Accounts and were content to delegate final approval to the CEO, subject to there not being any significant further changes.

The Chair produced her own annual report, summarising the activities of the ARAC, as outlined above, and confirming that she considered that the ARAC had fully discharged its responsibilities over the year based on the work it carried out.

Nominations and Remuneration Committee

The NRC primary focus this year was on SCS pay and incentives. It also agreed one nomination within the Agency.

The Chair produced his own annual report, summarising the activities of the NRC and confirming that he considered that the ARAC had fully discharged its responsibilities over the year based on the work it carried out.

Executive Management Team

The EMT discussed all key strategic issues ahead of the Board, and therefore the range of issues it covered closely mirrored that of the Board listed above. Its work during the year has also included:

- detailed management information (finance and HR), performance updated and risk appetites;
- proposals for a new workforce planning strategy;
- proposals for a long-term pay strategy;
- overseeing a schedule of quality assurance undertaken throughout the year; and
- as the NAMMS project board it approved all key decisions ahead of deployment.

Annual Effectiveness Reviews

In line with good corporate governance practice, the Agency carried out annual effectiveness reviews of its board and sub-committees. The reviews were self-assessment exercises, using the NAO's board evaluation questionnaire. Members and regular attendees of the board and sub-committees were asked to complete the questionnaire.

Agency Board

The Board review highlighted that the appointment of the Chief Operating Officer had strengthened the Board, and there had been gradual improvement of the management information provided to the Board. The review also identified several areas for further improvement. In particular, the Board should have a greater focus on the strategic direction of the Agency; clarify the role of the Board and its non-executives;

continue to focus on enhanced performance and financial reporting; and dedicate more time to understanding the operational business of the Agency. The Chair has accepted the recommendations of the review. He and the incoming Chair will work together to present their plans, at the Board meeting in July 2018, for ensuring that the review's findings are taken forward.

Audit and Risk Assurance Committee

Overall there was positive feedback on the effectiveness of the ARAC, with consensus that it was working well. The new ARAC Chair has agreed to take forward recommendations from the review, including a refresh of the forward look of meetings to ensure that sufficient time and focus are given to; challenging the completion of outstanding audit recommendations; risk management and counter fraud arrangements; and consideration of the internal audit function.

Nominations and Remuneration Committee

Overall there was mixed feedback on the effectiveness of the NRC, which reflected the relative immaturity of the committee which was set up under a year ago. The new Chair has agreed to take forward recommendations from the review, including a refresh of the terms of reference and the forward look of meetings to ensure that sufficient time and focus are given to the right issues (e.g. non-executive recruitment) with appropriate information and attendees at each meeting.

Attendance

Table 1: Overview of Board and sub-committee members' attendance for 2017-18

| Member | Agency Board | Audit & Risk Assurance Committee | Nominations & Remuneration Committee | Executive Management Team |
|---|--------------|----------------------------------|--------------------------------------|---------------------------|
| Non-executives | | | | |
| Mike Ashley | 6/6 | 5/6 | | |
| Steve Burnett | 6/6 | 6/6 | 3/3 | |
| Jo Clift | 1/1 | 1/1 | 1/1 | |
| Margaret Edwards | 5/6 | 5/6 | 2/3 | |
| Others | | | | |
| Julian Kelly (HMT sponsor) | 1/1 | | | |
| James Bowler (HMT sponsor) | 4/5 | | | |
| Mike Driver (Head of Government Finance Function) | 2/3 | | | |
| Executives | | | | |
| Jon Whitfield | 6/6 | | 3/3 | 13/13 |
| Liz Corrin | 5/6 | | | 10/13 |
| Jo Rowley | 6/6 | | | 13/13 |
| Mark Ripley | 5/6 | | | 11/12 |
| Chris Westwood | 6/6 | | | 13/13 |
| Matt Armstrong | 1/1 | | | 3/3 |
| Linda Costello | | | | 1/2 |
| Tim LeMare | | | | 9/9 |

Risk management

Strategic risks were reviewed with senior management in March 2017, which re-confirmed our key risks going into 2017-18. No additional strategic risks were identified within year, although the information security risk was expanded to include the risk of non-compliance with GDPR which came into effect in May 2018.

Strategic risks are assigned an EMT owner. Regular risk and management information reports have been reviewed throughout the year by the EMT and Agency Board, with those risks outside tolerance levels individually reviewed in detail at least once during the year.

During 2017-18, GIAA's risk management procedures were revised to improve consistency in bottom-up risk management across the Agency by documenting risk impact assessment criteria and requiring regular assessment and reporting of the key operational risks relative to delivery, financial management, people and quality. Bottom-up risk assessments have been reviewed every two months at operational directorate level and once at an SLT meeting.

The ARAC provides a challenge function to the risk management arrangements. Internal Audit reviewed the risk management processes in December 2017, and provided a moderate opinion. Medium rated actions noted were:

- Document in the risk policy the respective roles of the Board and ARAC in relation to risk management;
- Include in the risk policy the requirement for GCIA's to consult with grade 6 and 7 team members when making risk assessments and to feedback bi-monthly operational directorate discussions to them;
- Keep a continuous record within the risk register of changes to current and target risk assessments and changes to target dates so that a record is maintained of what actions (strategies and policies) we found to be effective in mitigating the risk; and
- Include in the risk policy the requirement to review lessons learned from near misses and crystallised risks.

These have now been actioned.

Table 2: Outcome of GIAA's Strategic Risks 2017-18

| Risk | Mitigation / Outcome |
|--|---|
| Poor quality audit work or audit coverage is delivered or perceived to be delivered. | Quality assurance reviews undertaken in-year demonstrate good compliance with the quality controls built in at key stages in the engagement lifecycle. A more wide-ranging quality assurance framework will be developed and implemented in 2018-19 based on our new internal audit methodology. |
| GIAA fails to recruit staff with the right capability, location and diversity to meet the Agency resource requirements. | This risk has been significantly reduced in year with the appointment of a recruitment manager. Several successful recruitment campaigns have taken place and a schedule of further campaigns planned. |
| GIAA fails to develop a 'great place to work' for its people. | Staff retention continues to be an issue, particularly with an ageing workforce. Further actions are required in 2018-19. These include: <ul style="list-style-type: none"> • Developing a long-term pay strategy. • Implementation of a new performance management process. • Development of career pathways and career-stage policies. • Increasing opportunities for cross-Agency working. |
| GIAA fails to manage costs or deliver charging model assumptions around staff utilisation rates, assignment budgeted time/ grade mix and/or use of external resources. | <p>This risk materialised during the year and additional HMT supply funding was provided. Action has been taken, including the recruitment of finance business partners, regular income recognition statements and monthly reporting to ensure improved financial management.</p> <p>The implemented financial management controls are expected to reduce this risk in 2018-19.</p> |
| GIAA supplier contract does not meet our needs, not used efficiently or not complied with. | There is no evidence that this risk crystallised during the year. However, additional controls have recently been implemented to ensure suppliers are providing the best value for money. The GIAA supplier contract is to be renegotiated in 2018-19 and a Senior Executive Officer commercial specialist has been appointed to mitigate this risk in the future through the re-let process. |
| GIAA fails to deliver against 2017-18 priorities preventing the development of an effective operating model for the Agency. | Progress against our 2017-18 priorities are detailed in the Performance Report Section of this Annual Report and Accounts. |
| GIAA fails to adapt quickly to changes in demand (increases/ decreases) for audit services and new skills/capability resulting from Brexit. | <p>A Brexit Audit Co-ordination Group has operated throughout the year.</p> <p>Demand will decrease for audit authority services for EU structural fund schemes. Our people currently providing these services are developing new audit skills.</p> |
| GIAA fails to deliver audit work on time and to planned budgets. | 89% of the audit programme was delivered on time. Outstanding work was completed during April and May 2018. |
| GIAA fails to implement a single audit methodology and audit management system. | The new audit methodology and management system was implemented in all audit teams in April and May 2018. |

| Risk | Mitigation / Outcome |
|--|--|
| GIAA senior management do not work cohesively to lead the Agency in delivering its 2017-18 priorities and further migrations. | <p>We have made good progress on strengthening Agency leadership with 8 new members of SLT, including 4 who joined in early 2018-19. However, further work is needed in 2018-19 to address this risk.</p> <p>Improving leadership was one of our priorities for 2017-18. Progress against all our priorities are detailed in the Performance Report.</p> |
| A failure in GIAA internal controls, risk management or governance arrangements (e.g. fraud, data loss, inability to respond to business continuity events). | This risk increased within the year due to the need to ensure compliance with GDPR. To mitigate this risk back to tolerance levels we have a programme in place to ensure these additional requirements are met. |

System of Internal Control

The system of internal control is designed to manage risk to a reasonable level, rather than to eliminate all risk. It should provide reasonable and not absolute assurance of effectiveness. The system of internal control supports the achievement of GIAA's policies, aims and objectives, whilst safeguarding the funds and assets of the organisation, in accordance with the provisions of *Managing Public Money*.

Wherever possible, our system of internal control is based on the existing systems, processes and controls of our parent department, HM Treasury, on whose transactional services and systems we rely. Where necessary, we have sought to build on or adapted those systems and processes to suit our requirements.

We rely on the Treasury's Oracle accounting system and although the production of financial information in the format that we require has improved, there have been a number of issues as a result of the recent migration. In addition, the availability and accuracy of people information has hindered our ability to manage staff absences. Transactional services provided by HM Treasury have ensured that GIAA has maintained appropriate internal controls

over basic finance and payments systems. However, weaknesses remain in our systems for the timely production of management information to support decision-making and monitor Agency performance. Consequently, additional supply funding from HM Treasury was received to ensure that the Agency met its financial obligations.

Several legacy systems have continued to be used throughout 2017-18 to track the progress of work, which has hindered the production of consolidated data on performance. During the year, consistently styled income recognition reports were developed for Heads of Internal Audit and finance business partners were appointed to support them with financial management of their programmes. The single audit management system implemented in May 2018 will significantly improve our ability to track performance including audit progress and time utilisation.

Review of Corporate Governance

The Agency seeks to comply with HM Treasury and Cabinet Office's [Corporate Governance in Central Government Departments: Code of Good Practice](#) insofar as the provisions are relevant to the Agency.

The Agency has recently conducted a review of its compliance with the Code and concluded that it meets the Code's requirements except:

- It was not considered necessary for the Head of Internal Audit to attend the Agency Board, although he receives the papers for all Board meetings and there is a standing invitation for specific items of interest;
- There are no non-Board non-executives on the ARAC because the non-executive members of the Board are considered to have the appropriate level of skills and experience, as reflected in the annual effectiveness review of the ARAC; and
- We have not included a separate Non-Executives' Report in our Accountability Report. In line with corporate governance good practice, the Chairs of the Agency Board, ARAC and NRC have each produced an annual report. The key points of these reports have been included in the Governance Statement to avoid duplication.

Whistleblowing arrangements

The Agency has an established whistleblowing policy in place which has been published to our people via the Agency intranet.

There was one outstanding matter being investigated by the NAO at the 2016-17-year end. This was later closed with no wrongdoing identified.

One concern was raised in 2017-18 which was investigated through the Agency whistleblowing procedures and no wrongdoing was identified.

The Agency may also receive whistleblowing from outside the organisation:

- Where an allegation relates to a customer, we will respond in accordance with the customer's whistleblowing policy and the mandate that customer has given to the Agency as its internal audit service provider. No incidents of this type were raised in 2017-18; and
- Where an allegation relates to an organisation that is not a customer, or is outside our remit. No incidents of this type were raised in 2017-18.

Review of Effectiveness

Management Assurance

The Agency has implemented an annual management assurance exercise to review all facets of management assurance, policy and practice. The 2017-18 exercise asked all SCS in the Agency to provide performance commentary and evidence on a range of assurance aspects.

Management assurance responses were reviewed and agreed by Operational Directors, subject matter experts, internal audit and the ARAC.

Although the Agency has made progress in developing the necessary capacity, capabilities, systems, processes and reporting to support effective financial and delivery management, the management assurance responses noted these improvements were not operational for a significant part of the year and further improvements are still required, particularly in relation to monthly financial and delivery reporting.

Incremental improvements were made throughout the year and we will continue to make further improvements to ensure that all levels of the business manage work effectively.

Although not considered control weaknesses, other areas noted for improvements were: ensuring that the SLT operates at a strategic level and delivers consistent communications; our approach to diversity and inclusion and; the testing of business continuity plans.

Internal Audit

The Agency has an internal audit function that operates to Public Sector Internal Audit Standards, appointing a Head of Internal Audit (HIA) from within the Agency.

The HIA has provided me with an annual opinion, which provides 'Moderate Assurance' over the framework of governance, risk management and control.

This represents an advance on the opinion given in the previous financial year (2016-17), and reflects that the Agency has continued to develop, making progress in several areas crucial to the success of the Agency. These include the NAMMS project, the financial management of the Agency, and communications with staff and stakeholders.

Quality Assurance

Our Professional Practice Directorate (PPD), continues to consolidate our methodology and quality assurance efforts. During the year, PPD oversaw the creation of a new audit methodology, which will be used across the Agency for internal audit and consulting activity.

PPD continued to co-ordinate quality assurance in respect of our operational activity that follows the three lines of assurance model. GIAA's GCIAAs have

responsibility for ensuring that adequate first-line checking and review occurs as individual engagements progress. PPD co-ordinates second-line assurance activity, whereby nominated operational staff conduct periodic 'cold' reviews of samples of completed work, undertaking both compliance and qualitative checks.

PPD consolidates the feedback from customer survey questionnaires and key stakeholder engagement activity to build a picture of the customer view of the quality of our products and services. This information is fed back into our approach to engagements and account management activities.

Physical, Information and Data Security Assurance

With the implementation of a single audit methodology and planned changes to the government IT network, considerable work has gone into reviewing the adequacy of GIAA data systems and how they will operate in the future. A user awareness and understanding campaign has been conducted to ensure that our people are aware of the Agency's security policy and procedures, including their own responsibilities. The security of customer data remains of critical importance throughout audit and corporate operations.

The Agency aligns to HM Treasury for business continuity. However, it has not been able to undertake an Agency-wide test of its business continuity plan. We have reviewed local business continuity plans in all locations where the Agency operates.

The Agency underwent a technology refresh of its IT network in 2017, which provided our people with modern and flexible software to ensure that our IT systems meet the requirements of our customer work and our supplier engagement. In 2018, several

locations will receive stronger networks across the UK to enable them to utilise the GIAA centralised audit software and methodology.

Conclusion

I have considered the evidence provided regarding the production of the Annual Governance Statement. On the basis of this review, I am satisfied that the organisation's overall governance, risk management, and internal control are largely in place and meet the required minimum standards. The need to improve our controls and processes around the production of performance information will be addressed through the implementation of our new single audit management system.

3 Remuneration and Staff Report

Service Contracts

The Constitutional Reform and Governance Act 2010 requires Civil Service appointments to be made on merit on the basis of fair and open competition. The Recruitment Principles published by the Civil Service Commission specify the circumstances when appointments may be made otherwise.

Unless otherwise stated below, the officials covered by this report hold appointments which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme

Further information about the work of the Civil Service Commission can be found at www.civilservicecommission.org.uk.

Remuneration Policy

The remuneration of senior civil servants is set by the Prime Minister following independent advice from the Senior Salaries Review Body. The review body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations. Further information about the work of the review body can be found at www.gov.uk/government/organisations/office-of-manpower-economics.

Remuneration (including salary) and pension entitlements

The following sections provide details of the remuneration and pension interests of the most senior management (i.e. Board members) of the Agency.

Table 1: Single total figure of remuneration (Subject to audit)

| Name and Role | 2017-18 | | | | | 2016-17 | | | | |
|--|----------------------|---------------------------|------------------------------------|--------------------------|---------------|-----------------------|---------------------------|------------------------------------|--------------------------|---------------|
| | Salary (£000s) | Performance Bonus (£000s) | Benefits in kind (to nearest £100) | Pension Benefits (£000s) | Total (£000s) | Salary (£000s) | Performance Bonus (£000s) | Benefits in kind (to nearest £100) | Pension Benefits (£000s) | Total (£000s) |
| Jon Whitfield Chief Executive Officer | 95–100 | 10–15 | – | 29 | 135–140 | 95–100 | 10–15 | – | 12 | 120–125 |
| Liz Corrin Corporate Services Director | 80–85 | – | – | 12 | 90–95 | 75–80 (FYE 80–85) | – | – | 21 | 95–100 |
| Mark Ripley Operational Director | 90–95 | 5–10 | – | 18 | 110–115 | 90–95 | – | – | 28 | 120–125 |
| Jo Rowley Professional Practice Director | 70–75 | – | – | 28 | 100–105 | 60–65 (FYE 70–75) | – | – | 24 | 85–90 |
| Chris Westwood Operational Director* | 100–105 | 5–10 | – | –* | 105–110 | 80–85 (FYE 95–100) | – | – | –* | 90–95 |
| Matt Armstrong** Chief Operating Officer (from Jan 2018) | 20–25 (FYE 85–90) | – | – | 26 | 45–50 | – | – | – | – | – |

* Chris Westwood participates in a partnership pension.

** The Chief Operating Officer is a new post created in 2017-18.

Senior Civil Service (SCS) Pay

The Minister for the Civil Service has not delegated SCS pay and conditions to individual departments or Civil Service Agencies and organisations. The SCS is a corporate resource employed with a common framework of terms and conditions and central arrangement for career management and training. Departments and organisations operate the common SCS pay framework in line with the principles set out in guidance from the Cabinet Office.

Awards were calculated and awarded in line with the Cabinet Office framework and principles.

Salary

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

Benefits in kind

The monetary value of benefits in kind covers any benefit provided by the Agency and treated by HM Revenue and Customs as a taxable emolument. The estimated monetary value of benefits in kind which relate solely to the provision of interest free loans for the purchase of season tickets for home to office

is not included. Any involved are disclosed in the salary, allowances and taxable benefit table.

Performance Bonus

Bonuses are based on performance levels attained and are made as part of the appraisal process. Bonuses relate to the performance in the year in which they become payable to the individual. The bonuses reported in 2017-18 relate to performance in 2016-17 and the comparative bonuses reported for 2016-17 relate to the performance in 2015-16.

There were 5 non-consolidated performance-related pay awards for the SCS in the 2017 pay award (3 awards in 2016-17).

Pay multiples (subject to audit)

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the median remuneration of the organisation's workforce.

The banded remuneration of the highest-paid director in the Agency in the financial year 2017-18 was £105-110,000 (2016-17: £105-110,000). This was 2.65 times the median remuneration of the workforce, which was £41,428 (full time equivalent) (2016-17: 2.56 times and £42,141). In 2017-18, one employee received remuneration in excess of the highest paid director (2016-17: nil). Remuneration salaries in the Agency ranged from £21,779 to £120,000 (2016-17: £19,873 to £99,660).

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

Consolidated Awards

The 2017-18 SCS annual pay award was decided by the Agency's Remuneration and Nominations Committee which was attended by the HMT Director General Public Spending and representatives from the GIAA HR Team.

Table 2: Pension entitlements for Directors (Subject to audit)

| Name | Cash Equivalent Transfer Values (CETV) | | | | |
|----------------|---|---|-----------------------------|----------------------------|--|
| | Real increase in pension and related lump sum at pension age during year (£000) | Total accrued pension at pension age and lump sum at 31 March 2018 (£000) | As at 31 March 2018- (£000) | As at 31 March 2017 (£000) | Real increase in CETV as funded by employer in year (£000) |
| Jon Whitfield | 0 – 2.5 plus a lump sum of 2.5 – 5 | 45 – 50 plus a lump sum of 145 – 150 | 1,065 | 974 | 27 |
| Liz Corrin | 0 – 2.5 | 35 – 40 | 667 | 604 | 8 |
| Mark Ripley | 0 – 2.5 | 50 – 55 | 780 | 729 | 3 |
| Jo Rowley | 0 – 2.5 | 5 – 10 | 81 | 62 | 12 |
| Chris Westwood | * | * | * | * | * |
| Matt Armstrong | 0 – 2.5 plus a lump sum of 0 – 2.5 | 20 – 25 plus a lump sum of 50 – 55 | 321 | 303 | 14 |

* Chris Westwood participates in a partnership pension.

The Cash Equivalent Transfer Value (CETV)

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 a senior capacity to which disclosure 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.

The 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.

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015, a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or **alpha**, which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date, all 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.

These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under **classic**, **premium**, **classic plus**, **nuvos** and **alpha** are increased annually in line with Pensions Increase legislation. Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and 5 months from their normal pension age on 1 April 2012 will switch into **alpha** sometime between 1 June 2015 and 1 February 2022. All members who switch to **alpha** have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave **alpha**. (The pension figures quoted for officials

show pension earned in PCSPS or **alpha** – as appropriate. Where the official has benefits in both the PCSPS and **alpha** the figure quoted is the combined value of their benefits in the two schemes.) Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a ‘money purchase’ stakeholder pension with an employer contribution (**partnership** pension account).

Employee contributions are salary-related and range between 4.6% and 8.05% for members of **classic**, **premium**, **classic plus**, **nuvos** and **alpha**. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years’ initial pension is payable on retirement. For **premium**, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike **classic**, there is no automatic lump sum. **Classic plus** is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per **classic** and benefits for service from October 2002 worked out as in **premium**. In **nuvos** a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the members earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. Benefits in **alpha** build up in a similar way to **nuvos**, except that the accrual rate is 2.32%. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The **partnership** pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 8% and 14.75% (depending on the age of the member) into a stakeholder

pension product chosen by the employee from a panel of providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer’s basic contribution). Employers also contribute a further 0.5% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

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**, 65 for members of **nuvos**, and the higher of 65 or State Pension Age for members of **alpha**. (The pension figures quoted for officials show pension earned in PCSPS or **alpha** – as appropriate. Where the official has benefits in both the PCSPS and **alpha** the figure quoted is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages.)

Further details about the Civil Service pension arrangements can be found at the website www.civilservicepensionscheme.org.uk

For 2017-18, employers’ contributions of £4,010k were payable to the PCSPS at one of four rates in the range 20.0% to 24.5% of pensionable earnings, based on salary bands (2016-17: £3,455k). 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. Employers' contributions of £38k were paid to one or more of the panel of three appointed stakeholder pension providers (2016-17: £28k). Employer contributions are age-related and range from 8% to 14.75% of pensionable earnings. Employers also match employee contributions up to 3% of pensionable earnings. In addition, employer contributions

of £1k (0.5% of pensionable pay from 1 October 2015) 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 (2016-17: £0.5k).

Contributions due to the **partnership** pension providers at the balance sheet date were £nil (2016-17: £3k). Contributions pre-paid at that date were £nil (2016-17: £nil).

Table 3: Agency Board Non-Executive members' remuneration (Subject to audit)

| Name | Role | 2017-18 Total remuneration (£000) | 2016-17 Total remuneration (£000) |
|-----------------------------------|----------------------------|---|---|
| Mike Ashley | Chairman | 15–20 | 15–20 |
| Margaret Edwards | Non-executive Board member | 10–15 | 10–15 |
| Steve Burnett | Non-executive Board member | 10–15 | 10–15 |
| Jo Clift (Appointed January 2018) | Non-executive Board member | 0–5(FYE 10–15) | – |

Reporting of Civil Service and other compensation schemes – exit packages

Table 4: Exit Packages (Subject to audit)

| Exit package 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 by cost band |
| <£10,000 | – | – | – | – | – | – |
| £10,000 – £25,000 | – | 2 | 2 | – | – | – |
| £25,000 – £50,000 | – | 1 | 1 | – | 1 | 1 |
| £50,000 – £100,000 | – | 1 | 1 | – | 1 | 1 |
| Total number of exit packages | – | 4 | 4 | – | 2 | 2 |
| Total resource cost | | £137,000 | | | £138,000 | |

Agency Composition

The Agency's authorised headcount was set at the start of the year at 493 FTEs. GIAA has remained within headcount throughout the year, and as at 31 March 2018 employed the following staff:

**Table 5: Agency composition
(subject to audit)**

| Category | 2017-18 | | 2016-17 | |
|--|--------------|-------------|--------------|-------------|
| | Number (FTE) | Cost (£000) | Number (FTE) | Cost (£000) |
| Staff with a permanent UK employment contract | 441 | 25,993 | 407 | 21,611 |
| Other staff engaged on the objectives of the entity (consisting of interim and temporary workers) | 28 | 319 | 21 | 841 |
| Total | 469 | 26,312 | 428 | 22,452 |

Including the Chief Executive Officer, the Agency employs 19 SCS – six at Pay Band 2 (two of which are temporary promotions) and thirteen at Pay Band 1 (three of which are temporary promotions).

Our complement of SCS posts is primarily driven by the needs of our customers in delivering the agreed audit programmes and reflects the expansion that the organisation has undergone over the past three years.

Sickness absence

The average working days lost to sick absence during 2017-18 was 5.3 days (2016-17 4.2 days). The Agency continued to develop sickness absence management strategies, with a well-being plan in place, including Employee Assistance Programme support, resilience workshops, stress management training and monitoring of absence rates and the reasons behind them. Senior management will continue to monitor the success of this strategy and future trends in our sickness data to identify interventions required.

Diversity

We are committed to the principles of equality, diversity and inclusion, and aim to ensure that nobody receives less favourable treatment including on the basis of age, disability, gender, religion or belief, race, or sexual orientation. GIAA recognises the importance of compliance with anti-discrimination legislation, but more than that, we also recognise that having a diverse talent pool enables us to provide the best possible services to our customers.

The Agency encourages applications from disabled people and we guarantee to interview all disabled applicants who meet the minimum criteria of the role. We work with specialist recruiters to ensure that our roles are promoted in a way which appeals equally to people with different backgrounds and abilities.

We also make workplace adjustments to help when people join the Agency or to help people who become disabled stay in their current role or find a suitable alternative. We require our managers and interview panel members to complete unconscious bias training.

When promotion opportunities arise, everyone is equally encouraged to apply and to discuss any adjustments they require to the selection arrangements in order to remove any disadvantage resulting from disabilities or protected characteristics.

The following table summarises the composition of the Agency as at 31 March 2018.

Table 6: Diversity

| Grade | 2017-18 | | | | 2016-17 | | | |
|--------------|---------|--------|---------------|---------------|---------|--------|---------------|---------------|
| | Male | Female | BAME | Disabled | Male | Female | BAME | Disabled |
| SCS | 73% | 27% | None declared | None declared | 79% | 21% | None declared | None declared |
| SCS & G6 | 59% | 41% | 7% | 2% | 68% | 32% | 3% | 3% |
| Agency Total | 53% | 47% | 11% | 6% | 55% | 45% | 9% | 6% |

Table 7: Gender pay gap

| Gender pay gap | As at 31 March 2018 | | As at 31 March 2017 | |
|--|---------------------|-------------|---------------------|-------------|
| Mean gender pay gap –ordinary pay | | 11.4% | | 10.3% |
| Median gender pay gap –ordinary pay | | 11.4% | | 8.3% |
| Mean gender pay gap – bonus pay in 12 months ended 31 March | | 25.4% | | 32% |
| Median gender pay gap – bonus pay in 12 months ended 31 March | | 14.3% | | 4% |
| Proportion of male and female employees paid a bonus in the 12 months ended 31 March | Male | 65% | | 39% |
| | Female | 69% | | 42% |
| Proportion of male and female employees in each quartile | Female | Male | Female | Male |
| Lower quartile | 64.66% | 35.34% | 63.81% | 36.19% |
| Lower middle quartile | 43.97% | 56.03% | 42.86% | 57.14% |
| Upper middle quartile | 43.97% | 56.03% | 44.76% | 55.24% |
| Upper quartile | 33.91% | 66.09% | 34.58% | 65.42% |

The Agency is committed to transparent reporting and has for the second year disclosed its gender pay gap. While our gap remains lower than both the Civil Service and wider public sector average, we are disappointed that the gap has this year increased to 11.4%. The gap is largely explained by a fewer number of women in senior positions within the Agency. The Agency is determined to eliminate this gap and we have identified, and already acted upon, a number of actions to support women to progress their careers.

We will also continue to develop our business case to secure a long term pay strategy for the Agency that is fair for all our people.

Consultants and Contingent Labour

The Agency utilises contingent labour to provide project management support to supplement short term Agency development activities; for generalist and specialist audit resources and to temporarily fill resource gaps in our team. The Agency has an Internal Audit Framework Contract with multiple high quality private sector resources to give us the flexibility to meet peaks in demand and to deploy specialist skills when needed to work alongside our own people. The seven firms are Deloitte, Grant Thornton, KPMG, Mazars,

Moore Stephens, PwC and RSM. The Agency engaged specialist audit contractors during the year at a cost of £6,709k

Table 8: Consultants and Contingent labour

| Category | 2017-18 £000 | 2016-17 £000 |
|--|-----------------|-----------------|
| Specialist Contractors: Internal Audit | 6,709 | 6,093 |
| Framework Contract Interim and Temporary Workers | 319 | 841 |
| Consultants | 114 | 11 |

The ‘interim workers’ and ‘temporary workers’ categories include individuals who are not paid through the Agency’s payroll. In line with the Review of Tax Arrangements of Public Sector Appointees published by the Chief Secretary to the Treasury on 23 May

2012, we are required to publish the following details for all off-payroll arrangements as of 31 March 2018, where the individual is paid more than £245 per day and the engagement has lasted for longer than six months:

Table 9: Off payroll arrangements

| | 2017-18 | 2016-17 |
|---|---------|---------|
| Number of engagements at year end, and risk assessed | 1 | 6 |
| Of which: | | |
| number of engagements existing for less than a year at the time of reporting | – | – |
| number of engagements lasting for one to two years at the time of reporting | 1 | 2 |
| Number of engagements paying more than £245 per day or lasting longer than six months, all of which include contractual clauses giving the Agency the right to request assurance in relation to income tax and NI obligations, all of which have been contacted, and all of which have provided confirmation. | 5 | 9 |
| Number of off-payroll engagements of Board members, and/or, senior officials with significant financial responsibility, during the financial year. | – | – |
| Total number of individuals on the payroll and off-payroll that have been deemed “Board members and/or, senior officials with significant financial responsibility” during the financial year. | 7 | 6 |

4 Parliamentary accountability and audit report

Financial Performance

The Agency's income primarily comes from fixed fee contracts with customers. The financial strategy of the Agency is to break even on our customer facing operations, offsetting costs with income generated through our contracts. HM Treasury continues to provide funding for the Agency's Internal Audit policy work which supports the Chief Executive in his role as Head of the Internal Audit Profession.

Whilst the Agency is still undergoing development and bringing in new departmental customers and their teams, the Agency receives additional funding through the Supply Estimate.

Income

Total operating income for the year was £34,049k (2016-17: £30,031k) arising from fees for audit services to our central government customers. The increase reflects the full-year impact of the new teams who joined the Agency during 2016-17 as well as a smaller number of additional migrations this year.

Expenditure

Our total costs this year were £38,380k (2016-17: £32,631k), consisting of staff costs of £26,104k (2016-17: £22,452k) and non-staff costs of £12,276k (2016-17: £10,179k). Increases in our administration costs year on

year reflect the continued expansion of the Agency, as well as expenditure on our new audit methodology and management system.

Permanent staff costs of £25,993k (2016-17: £21,929k) directly relate to the employment of our auditors and other assurance professions, the Internal Audit policy function, as well as a small team providing corporate services and delivering the Agency development programme. More information on our staff numbers and costs can be found in the Remuneration and Staff Report.

The Agency engaged several firms under our internal audit framework to deliver additional specialist and general audit services to our customers on behalf of the Agency, incurring expenditure of £6,709k (2016-17: £6,093k). The Agency additionally employed contingent labour totalling £319k (2016-17: £841k) outside the core framework to provide further audit resources and to fill temporary gaps primarily in our corporate teams.

The Agency incurred £1,249k (2016-17: £869k) in travel and subsistence costs, the majority of which were directly related to audit services delivered to our customers, and reimbursed through our audit fees.

The Agency also incurred a number of administrative costs, which primarily consisted of recharges from other governmental bodies of £2,561k (2016-17: £2,195k) for services including finance, HR and ICT services received from our parent body, HM Treasury and legal advice from

Government Legal Department. In order to support the strategic objective of recruiting and retaining high calibre staff, we invested £205k (2016-17: £237k) and £466k (2016-17: £148k) in recruitment and staff support and related costs respectively. The Agency also assumed the liabilities for the cost of untaken annual leave for staff transferred from other government departments as part of their continuous employment in the Civil Service – this resulted in a charge of £66k (2016-17: £369k), as explained in Note 3.2 to the accounts.

On its customer-facing activities, the Agency generated revenue of £34,049k (2016-17: £30,031) from customers against total expenditure of £37,137k (2016-17: £29,791k). The net deficit was £3,088k (2016-17: surplus £240k) and was met by HMT supply funding as explained in Note 5 to the accounts.

When authorised spending of £1,243k (2016-17: £2,840k) on the Internal Audit policy function and the Agency development programme is taken into account, the Agency recorded net operating expenditure of £4,331k (2016-17: £2,600k). In accordance with government accounting rules, the corresponding funding for this work is recorded as a movement in the General Fund, rather than as income.

The balance on the General Fund of £25k (2016-17: £33k) represents the balance of our operating activities and HMT funding.

Financial Position

The Agency's balance sheet consists of receivables of £14,870k (2016-17: £11,582k) and payables of £14,895k (2016-17: £11,615k).

The Agency's strategy is to utilise existing arrangements with other parts of government for its accommodation and ICT requirements. As such, the Agency does not own any property, plant and equipment.

Receivables primarily consist of amounts due from our customers, with £12,087k (2016-17: £7,804k) relating to amounts invoiced but not paid at 31 March, and £2,738k (2016-17: £3,704k) relating to services delivered in 2017-18 but not invoiced until the new financial year.

Included in trade and other payables and accruals, totalling £14,895k (2016-17: £11,615k), are advance receipts from customers of £595k (2016-17: £713k). The Agency owed £1k (2016-17: £939k) in taxation, social security and pension payments relating to the March 2018 payroll. The value of untaken holiday leave at 31 March 2018 was £844k (2016-17: £818k).

The Agency does not hold its own bank account, but shares an account with our parent, HM Treasury – this mechanism provides the Agency with working capital to allow the Agency to pay its people and suppliers while waiting for customers to pay our invoices. As a result, we owed HM Treasury £8,543k (2016-17: £6,323k) which is the difference between the cash received from customers and expenditure funded by HM Treasury during the year.

Payment of Suppliers

We are committed to paying all invoices not in dispute within agreed contracted provisions or 30 days of presentation of a valid invoice. During the year, the Agency paid 81.42% of all undisputed invoices within 5 days of receipt and 95.71% within 30 days (2016-17: 68.64% and 97.68% respectively). We are committed to continuous improvement and will continue to review our internal processes until we fully achieve the payment targets.

Parliamentary Accountability Disclosures

The following Parliamentary Accountability disclosures are made in accordance with relevant guidance issued by HM Treasury.

Fees and Charges (subject to audit)

The Agency is largely funded through the fees we charge customers for internal audit and assurance services. Our fees are set in accordance with *Managing Public Money* to recover the full costs of service provision using a charging model that we have developed.

| Fees and charges | | | |
|--------------------------|------------------|-----------------------|------------------------------|
| | Income (£000) | Expenditure (£000) | Surplus/ (deficit) (£000) |
| 2017-18 | | | |
| Audit and assurance work | 34,049 | 37,137 | |
| Total | 34,049 | 37,137 | (3,088) |
| | Income (£000) | Expenditure (£000) | Surplus/ (deficit) (£000) |
| 2016-17 | | | |
| Audit and assurance work | 30,031 | 29,791 | 240 |
| Total | 30,031 | 29,791 | 240 |

Remote Contingent Liabilities (subject to audit)

The Agency does not have any remote contingent liabilities that are required to be disclosed under parliamentary reporting requirements. The Agency's contingent liabilities disclosed under IAS 37 are included in Note 11 to the Financial Statements.

Regularity of Expenditure (subject to audit)

The Agency's expenditure relates to routine administration costs such as employment costs and the purchase goods or services, and as such does not require any further specific legislation. The Agency does not undertake any specific policy or service that requires Parliamentary approval for bespoke legislation, and has no expenditure during the year that relies on the sole authority of a Supply and Appropriation Act.

There were no losses or special payments made during the year. The Agency has not made any gifts during the year.

Long-term Expenditure Trends (subject to audit)

2017-18 was the Agency's third year of operations. This was the first year in which we did not complete any major migrations and as such it is difficult to establish any steady state long-term expenditure trends with prior year performance. We will report this information in future years.



Jon Whitfield

Chief Executive and Accounting Officer

11 July 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 Government Internal Audit Agency for the year ended 31 March 2018 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Net Expenditure, 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 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 Government Internal Audit Agency's affairs as at 31 March 2018 and of the net operating expenditure 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.

Opinion on regularity

In my opinion, in all material respects 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 Government Internal Audit Agency 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 Chief Executive as 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 Government Internal Audit Agency'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 Government Internal Audit Agency'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 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 Chief Executive as 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 entity and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance Report and Accountability Report; and
- the information given in the Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements and have been prepared in accordance with the applicable legal requirements.

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

Date 13 July 2018

Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London, SW1W 9SP

Annual Accounts 2017-18

The financial statements for Government Internal Audit Agency, alongside supporting and explanatory notes



Statement of Comprehensive Net Expenditure for the year ended 31 March 2018

| | Note | Year to 31 March 2018 (£000) | Year to 31 March 2017 (£000) |
|--|------|------------------------------------|------------------------------------|
| Income from sales of services | 4,5 | (34,049) | (30,031) |
| Total operating income | | (34,049) | (30,031) |
| Staff costs | 2 | 26,104 | 22,452 |
| Purchase of goods and services | 3.1 | 12,276 | 10,179 |
| Total operating expenditure | | 38,380 | 32,631 |
| Net operating expenditure for the year | | 4,331 | 2,600 |
| Other comprehensive net expenditure | | | |
| Cost of annual leave balances of staff transferred to GIAA | 3.2 | 66 | 369 |
| Comprehensive net expenditure for the year | | 4,397 | 2,969 |

The notes on pages 75 to 82 form part of these accounts.

Statement of Financial Position as at 31 March 2018

| | Note | 2017-18 (£000) | 2016-17 (£000) |
|--|------|-------------------|-------------------|
| Current assets | | | |
| Trade and other receivables | 7 | 14,870 | 11,582 |
| Total current assets | | 14,870 | 11,582 |
| Current liabilities | | | |
| Trade and other payables | 8 | (14,895) | (11,615) |
| Total current liabilities | | (14,895) | (11,615) |
| Total assets less total liabilities | | (25) | (33) |
| Taxpayers' equity | | | |
| General Fund | | (25) | (33) |

The notes on pages 75 to 82 form part of these accounts.

The Accounting Officer authorised these financial statements for issue on 13 July 2018



Jon Whitfield
Chief Executive and Accounting Officer

11 July 2018

Statement of Cash Flows for the year ended 31 March 2018

| | Note | 2017-18 (£000) | 2016-17 (£000) |
|---|------|-------------------|-------------------|
| Cash flows from operating activities | | | |
| Comprehensive net expenditure | | (4,397) | (2,969) |
| (Increase)/Decrease in trade and other receivables | 7 | (3,288) | (5,857) |
| Increase/(Decrease) in trade and other payables | 8 | 3,280 | 5,929 |
| Adjustment for non-cash transactions: | | | |
| Notional expenditure: auditor remuneration | | 55 | 57 |
| Net cash outflow from operating activities | | (4,350) | (2,840) |
| Cash flows from financing activities | | | |
| From the Consolidated Fund (Supply) – current year | | 4,350 | 2,840 |
| Net increase/(decrease) in cash and cash equivalents | | - | - |
| Cash and cash equivalents at the beginning of the year | | - | - |
| Cash and cash equivalents at the end of the year | | - | - |

Statement of Changes in Taxpayers' Equity

| | Note | Taxpayers' Equity 2017-18 (£000) | Taxpayers' Equity 2016-17 (£000) |
|--|-------|--|--|
| General fund at 1 April 2017 | | (33) | 39 |
| Comprehensive net expenditure for the year | SoCNE | (4,397) | (2,969) |
| Supply funding from HM Treasury | SoCF | 4,350 | 2,840 |
| Notional Audit Fee | | 55 | 57 |
| General fund at 31 March 2018 | | (25) | (33) |

Notes to the Accounts

Note 1 – Accounting Policies

1.1 Basis of Preparation

The annual set of financial statements for the Government Internal Audit Agency (GIAA) is prepared in accordance with the Government's *Financial Reporting Manual* (FReM) and is prepared under the Accounts Direction issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public-sector context.

Where the FReM permits a choice of accounting policies, those that are judged the most appropriate to the particular circumstances of the GIAA, for the purpose of giving a true and fair view, have been selected. The particular accounting policies adopted by the GIAA are applied consistently in dealing with items that are considered material to the accounts and they are described below.

Certain IFRS have been issued or revised, but are not yet effective. Those issues or revisions expected to be relevant in subsequent reporting periods are:

- *IFRS 9 Financial Instruments* (effective from 1 January 2018) – the impact of initial application of IFRS 9 is not expected to be significant; the classification of financial assets and liabilities will change. GIAA expects that existing measurement approaches will continue to be appropriate.
- *IFRS 15 Revenue from Contracts with Customers* (effective from 1 January 2018) – this standard will be applied to how the Agency recognises revenue from its customers. The impact of recognising income on a 'work done' basis on both the Statement of Comprehensive Net Expenditure and the Statement of Financial Position is not expected to be material.
- *IFRS 16 Leases* (effective from 1 January 2019) – this standard will require lessees to account for all leases on their balance sheets, including those which had previously been treated as operating leases and accounted for in the P&L account as an "in-year" expense. As the Agency currently occupies many properties under quasi-operating leases arrangements with other government departments, and receives an ICT service from HM Treasury under a quasi-operating lease, the changes in the accounting for leases is likely to have an effect on the Statement of Financial Position for 2019-20 onwards.
- Other changes due to come into effect after 2017-18 are considered to have no impact on the Agency.

The GIAA is an executive agency of Her Majesty's Treasury; all estimates and forward plans include provision for its continuation. It has therefore been considered appropriate to prepare these accounts on a going concern basis.

1.2 Accounting Convention

These accounts have been prepared on an accruals basis, under the historical cost convention, modified to account for certain financial instruments to fair value, as determined by the relevant accounting standards.

1.3 Transfer of Functions

On 1 April 2017, 1 April 2016 and 1 October 2016, Internal Audit teams from other Government Departments were transferred to the GIAA. This has been treated as a transfer by absorption and, accordingly comparative figures for 2016-17 for the transferring functions are not adjusted. The net expenditure of those transferred has been accounted for from the date of transfer.

1.4 Property, Plant and Equipment and Intangible Fixed Assets

GIAA follows HM Treasury Accounting Group Policy in respect of the recognition of Property, Plant and Equipment and Intangible Fixed Assets. Under this policy, Property, Plant and Equipment and Intangible Fixed Assets are initially recognised at cost. The threshold used by HM Treasury for capitalising these assets is £5,000. No such assets were held by GIAA during 2017-18.

1.5 Income

All income is accounted for in line with IAS 18 Revenue Recognition. Operating income relates directly to the operating activities of the Agency. It principally comprises fees and charges for audit and assurance services

provided during the year on a full-cost basis to customers external to the Agency (central government departments, agencies and arms' length bodies), and recovery of disbursements incurred in delivering services to them. Charge-out rates are set in accordance with HM Treasury's guidance on fees and charges set out in *Managing Public Money* to achieve full cost recovery of chargeable services.

1.6 Value Added Tax

The Agency is not separately registered for Value Added Tax (VAT) and VAT collected or paid is accounted for centrally by HM Treasury as our parent department. Irrecoverable VAT is charged to the relevant expenditure category in the statements of comprehensive net expenditure. Where output tax is charged or input tax is recoverable, the amounts are stated net of VAT.

1.7 Employee Benefits

Pension and superannuation costs

Pension benefits are provided through Civil Service pension arrangements as detailed from page 55 of the Remuneration Report

GIAA recognises the expected cost of future pension liabilities in a systematic and rational basis over the period during which it benefits from employees' service by payment to Civil Service pension schemes of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the scheme.

Early retirement costs

No early retirement costs were paid during the accounting period.

Other employee benefits

This includes the value of untaken holiday leave at the financial year-end, which is recognised on an accrual basis.

1.8 Financial instruments

GIAA is party to many contracts in the course of its operation that give rise to assets and liabilities in its statement of financial position. Where such financial instruments are deemed to have a significant impact on the medium- to long-term financial risk profile of GIAA, they are recognised in the financial statements in accordance with IAS 39 and details are disclosed in accordance with the provisions of IFRS 7.

Trade and other receivables

Trade and other receivables have fixed or determinable payments that are not quoted on an active market. Trade and other receivables do not carry any interest and GIAA recognises them initially at their face value then subsequently measured at amortised cost using the effective interest method. GIAA recognises appropriate allowances (provisions or write-offs) for estimated irrecoverable sums (bad debts) in the statement of comprehensive net expenditure when there is objective evidence that the asset is impaired. GIAA measures the allowance recognised as the difference between the assets' carrying value and the estimated future recoverable value. The carrying amount of the asset is reduced in the Statement of Financial Position and the loss is recognised in the Statement of Comprehensive Net Expenditure.

1.9 Notional Charges

Certain costs are charged on a notional basis and included in the accounts. The only notional cost in 2017-18 was the auditor remuneration. Notional costs are recorded

in the Statement of Comprehensive Net Expenditure and recorded as a movement on the General Fund.

1.10 Segmental Reporting

Under HM Treasury guidance in the FReM, the GIAA is expected to meet the requirements of IFRS 8 to report information concerning operating segments where the criteria under IFRS 8 are met. GIAA audit work for customers is classified in one operating segment. GIAA manages its assets and liabilities at the entity level and therefore the distribution of assets and liabilities to programmes and administration is not disclosed.

1.11 Accounting Estimates and Judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions about the reported amounts of assets, liabilities, income and expenditure that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected.

Income Recognition

In calculating accrued income and deferred income (income in advance) for audit services, the Agency makes judgements as to the stage of completion of our services and/or work:

- for fixed fee customers, we evaluate the services delivered and where this materially differs from the expected

delivery pattern, we defer the recognition of a proportion of income (reflecting the incomplete services) into the subsequent year

- for time and material customers, we evaluate the stage of completion of individual reviews to determine the proportion of work completed in the year, recognising the remainder in the subsequent year

In doing so, estimates are made on the remaining costs to be incurred in completing contracts, and includes a provision for foreseen unrecoverable amounts. These estimates are included in trade receivables, accrued income and deferred income at the year end.

Note 2 – Staff costs

| | 2017-18 | | | 2016-17 | | |
|--|------------------------|--------------------|--------------|------------------------|--------------------|--------------|
| | Permanent Staff (£000) | Other Staff (£000) | Total (£000) | Permanent Staff (£000) | Other Staff (£000) | Total (£000) |
| Salaries including allowances | 19,739 | 319 | 20,058 | 16,650 | 841 | 17,491 |
| Social security costs | 2,199 | - | 2,199 | 1,854 | - | 1,854 |
| Other pension costs | 4,055 | - | 4,055 | 3,425 | - | 3,425 |
| Total staff costs | 25,993 | 319 | 26,312 | 21,929 | 841 | 22,770 |
| Less recoveries from outward secondments | (208) | - | (208) | (318) | - | (318) |
| Net cost | 25,785 | 319 | 26,104 | 21,611 | 841 | 22,452 |

The average number of full-time equivalent persons employed during the year was 431 (2016-17: 386.1).

Note 3 – Purchase of Goods and Services

3.1 Analysis of total goods and services purchased

| | 2017-18 (£000) | 2016-17 (£000) |
|---|-------------------|-------------------|
| Contractors costs | 6,823 | 6,104 |
| Support services from other Government Depts. | 2,561 | 2,195 |
| Travel and Subsistence costs | 1,249 | 869 |
| IT and telecommunications costs | 564 | 265 |
| Training costs | 304 | 240 |
| Auditor's remuneration | 55 | 57 |
| Auditor's remuneration – non audit services | – | 30 |
| Staff support and staff related costs | 466 | 148 |
| Recruitment costs | 205 | 237 |
| Office costs | 49 | 34 |
| Total other goods and services | 12,276 | 10,179 |

3.2 Analysis of annual leave accrual

| | 2017-18 (£000) | 2016-17 (£000) |
|---|-------------------|-------------------|
| Cost of staff transferred on 1 April 2017 | 66 | – |
| Cost of staff transferred on 1 April 2016 | – | 258 |
| Cost of staff transferred on 1 October 2016 | – | 111 |
| Total cost of staff transferred | 66 | 369 |

The Agency has assumed the liabilities for the cost of untaken annual leave for staff transferred from other Government Departments as part of their continuous employment in the Civil Service.

Note 4 – Income

The income for the year of £34,049k (2016-17: £30,031k) relates to audit and related advisory or investigation fees.

Note 5 – Income and expenditure by type of work

| | 2017-18 | | | | 2016-17 | | | |
|--|--|--|--|------------------------------|--|--|--|------------------------------|
| | Internal Audit Customers (£000) | Supply funded: Agency Expansion (£000) | Supply funded: IA Policy (£000) | Total Per SOCNE (£000) | Internal Audit Customers (£000) | Supply funded: Agency Expansion (£000) | Supply funded: IA Policy (£000) | Total Per SOCNE (£000) |
| Audit fee income | (34,049) | – | – | (34,049) | (30,031) | – | – | (30,031) |
| Expenditure | 37,137 | 793 | 450 | 38,380 | 29,791 | 2,548 | 292 | 32,631 |
| Net expenditure for the year | 3,088 | 793 | 450 | 4,331 | (240) | 2,548 | 292 | 2,600 |
| Cost of annual leave balances of staff transferred to GIAA | 66 | – | – | 66 | 369 | – | – | 369 |
| Comprehensive net expenditure for the year | 3,154 | 793 | 450 | 4,397 | 129 | 2,548 | 292 | 2,969 |

GIAA has a performance objective to break even on its customer facing operations, and has developed a financial model to recover the full cost of delivering the services to customers through audit fees. The cost of staff transferred to GIAA is deemed to be a non-operating cost as the annual leave was earned by staff in previous employments. In addition to the income from audit fees, the GIAA receives supply funding for two areas; the expansion of the Agency to take on more Government departments and agencies and provision of the Government's Internal Audit Policy function. This analysis is not intended to comply with IFRS 8.

The net expenditure for the year of £4,331k has been offset by HM Treasury funding of £4,350k, resulting in a net operating surplus of £19k. After accounting for the cost of untaken annual leave for staff transferred from other government departments, the Agency had a deficit of £47k.

Note 6 – Financial Instruments

As the cash requirements of the GIAA are met through the Parliamentary Estimate process, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body. The majority of financial instruments relate to contracts to buy non-financial items in line with the Agency's expected purchase and usage requirements and the Agency is therefore exposed to little credit, liquidity of market risk. Trade receivables are valued according to invoice values and a provision for doubtful debts will be reviewed each year. At the year end, there is a nil provision for doubtful debts.

Note 7 – Receivables

| | 2017-18 (£000) | 2016-17 (£000) |
|--|-------------------|-------------------|
| Amounts falling due within one year | | |
| Trade receivables | 12,087 | 7,804 |
| Accrued Income | 2,738 | 3,704 |
| Prepayments | 17 | 44 |
| Staff loans | 28 | 28 |
| Other staff receivables | — | 2 |
| Total falling due within one year | 14,870 | 11,582 |

Note 8 – Payables and other current liabilities

| | 2017-18 (£000) | 2016-17 (£000) |
|--|-------------------|-------------------|
| Amounts falling due within one year | | |
| Taxation and social security | 1 | 939 |
| Trade and other payables | 1,863 | 110 |
| Receipts in advance | 595 | 713 |
| Amounts due to HMT | 8,543 | 6,323 |
| Accruals for untaken holiday leave | 844 | 818 |
| Accruals | 3,049 | 2,712 |
| Total falling due within one year | 14,895 | 11,615 |

Note 9 – Commitments and leases

GIAA has neither entered into any capital commitments nor any non-cancellable contracts. The Agency has a recharge arrangement with HM Treasury for a number of support services including ICT running costs and transactional services for HR and finance. As at 31 March 2018, these arrangements were based on an annual recharge to the Agency from HM Treasury. The arrangements are subject to an annual review and as the Agency expands longer term arrangements will be sought which may result in operational leases.

Note 10 – Related party transactions

HM Treasury is the sponsoring department of the GIAA and as such is regarded as a related party due to various material transactions during the period, including the provision of ICT support, accommodation and other support services. Additionally, the Agency provides internal audit services to HM Treasury and its other agencies.

The Agency has had a number of transactions with a number of other government departments and other central government bodies associated with its provision of internal audit services. The largest of these in terms of income earned are:

- Department for Work and Pensions
- Home Office
- Department for Education
- Ministry of Justice

- Ministry of Housing, Communities and Local Government
- Department for Transport
- Department for Business, Energy and Industrial Strategy

Board member and senior staff remuneration are disclosed in the Remuneration Report

No Board member or senior manager has undertaken any material transactions with the GIAA in the year to 31 March 2018.

Note 11 – Contingent Liabilities

There are no contingent liabilities as at 31 March 2018.

Note 12 – Events after the reporting period

There were no significant events occurring after the reporting period. The Accounting Officer authorised these financial statements for issue on 13 July 2018.

