



United Kingdom
Debt Management
Office

Commissioners for the Reduction of the National Debt

National Insurance Fund Investment Account

Report and Accounts for the year ended 31 March 2020

Presented to Parliament pursuant to Section 161(4) of the Social Security Administration Act 1992

Ordered by the House of Commons to be printed on 22 October 2020

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Contents

Performance report	4
Overview	4
Purpose and principal activities of the National Insurance Fund Investment Account	4
Performance summary	5
Performance analysis	5
Accountability report	6
Corporate governance report	6
Parliamentary accountability and audit report	18
Accounts of the National Insurance Fund Investment Account	22
Accounts Direction given by HM Treasury	29

PERFORMANCE REPORT

Overview

The purpose of the overview is to provide sufficient information to understand the National Insurance Fund Investment Account (NIFIA), its purpose, the key risks to the achievement of its objectives and how it has performed during the year. These accounts have been prepared by the Commissioners for the Reduction of the National Debt (CRND) under a direction issued by HM Treasury in accordance with section 161(4) of the Social Security Administration Act 1992 (the Act).

Section 161(4) of the Act requires the National Debt Commissioners to present to Parliament annually an account of the securities in which money in the National Insurance Fund (NIF) is for the time being invested.

Purpose and principal activities of the National Insurance Fund Investment Account

Section 161(3) of the Act established that any money held in the NIF may, from time to time, be paid over to CRND for investment in accordance with such directions as may be given by HM Treasury. The NIFIA is used to hold monies paid over and invested in this way.

Section 2 of the Social Security Act 1993 provides for sums not exceeding $\frac{1}{6}$ th of the estimated benefit expenditure in any tax year be provided by Parliament and paid by HM Treasury from the Consolidated Fund into the NIF (a "Treasury Grant"). The payment of a Treasury Grant is based on whether the balance of the NIF is expected to fall below $\frac{1}{6}$ th of estimated annual benefit expenditure, as recommended by the Government Actuary. During the year, no Treasury Grants were paid from the Consolidated Fund to the NIF (2018-2019: none).

HM Treasury has directed that CRND's investments in respect of the NIFIA shall be confined to those securities specified in paragraphs 1, 2, 3, 8, 9 and 9A of Part II of Schedule 1 to the Trustee Investments Act 1961.

The resources used to deliver CRND's objectives are accounted for within the United Kingdom Debt Management Office's (DMO) agency vote and reported in the DMO Annual Report and Accounts 2019-2020. The CRND's cost of managing the NIFIA is recharged to Her Majesty's Revenue & Customs (HMRC); in 2019-2020, this was £73,000 (2018-2019: £73,000). The National Audit Office's fee for the audit of the NIFIA in 2019-2020 was £4,440 (2018-2019: £4,170), which included £740 of irrecoverable VAT. The audit fee cost is charged to CRND and is recovered from HMRC as a component of the charge made by CRND for management of the NIFIA. Both the cost and the corresponding income are reported within the DMO Annual Report and Accounts 2019-2020. There was no auditor remuneration for non-audit work.

Commissioners for the Reduction of the National Debt

CRND's main function is the investment and management of major government funds. The investment powers differ from fund to fund.

The Secretary and Comptroller General and Assistant Comptroller, who are appointed by and act on behalf of the Commissioners, make the day-to-day decisions. There is no legislation that determines the specific responsibilities of the Secretary and Comptroller General and the Assistant Comptroller. However, in practice the role of the Secretary and Comptroller General is considered analogous to acting as the Accounting Officer for CRND. Therefore, the Secretary and Comptroller General takes responsibility for preparing and signing the accounts on behalf of the Commissioners.

The arrangements made between CRND and HMRC in respect of the investment service provided by CRND are set out in a Memorandum of Understanding, which describes how CRND intend to achieve the agreed investment objectives.

Performance summary

CRND's strategy of investing in the Debt Management Account was maintained throughout 2019-2020. This strategy enabled the NIFIA to earn a rate of interest very closely correlated with prevailing short-term sterling interest rates, whilst protecting its capital position and access to liquidity at all times.

Performance analysis

During the year, the NIFIA generated a total comprehensive income of £222 million (2018-2019: £187million). The increase was due to a rise in average interest rates on the NIFIA's investments as well as a higher average balance of funds available for investment in the NIFIA during the year.

As at 31 March 2020, the total value of investments held by the NIFIA had increased to £38,253 million (31 March 2019: £29,506 million). This increase was due to a net deposit of funds by the NIF during the year.

Jo Whelan

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

30 September 2020

ACCOUNTABILITY REPORT

The accountability report comprises two sections: a corporate governance report and a parliamentary accountability and audit report. The corporate governance report includes the following information: the responsibilities of the Secretary and Comptroller General; the composition, responsibilities and actions of the Managing Board and Audit Committee and how they have supported the Secretary and Comptroller General and enabled the objectives of the NIFIA; the key risks faced by the NIFIA and how it seeks to manage them. The parliamentary accountability and audit report includes a formal opinion by the NIFIA's external auditor to certify that the financial statements give a true and fair view of the state of the NIFIA's affairs for the year and that they have been prepared in accordance with all relevant rules.

These two sections contribute to the NIFIA's accountability to Parliament and comply with best practice in relation to corporate governance norms and codes. In particular, the corporate governance report seeks to do so by describing the key mechanisms the NIFIA employs to ensure it maintains high standards of conduct and performance. This includes the statement of Secretary and Comptroller General's responsibilities which describes her accountability to Parliament for the NIFIA's use of resources and compliance with rules set by HM Treasury to ensure best practice in financial management. The governance statement reflects the applicable principles of the Corporate Governance Code for Central Government Departments. The parliamentary accountability and audit report confirms that expenditure and income of the NIFIA have been applied to the purposes intended by Parliament and confirms that information in the parliamentary accountability disclosures has been audited and approved by external auditors.

Corporate governance report

Directors' report

Operationally, the CRND is part of the DMO and its staff are employees of the DMO. The CRND therefore has no staff of its own. The structure of the CRND is described on page 4.

Directors' conflicts of interest

In 2019-2020, no material conflicts of interest were declared by DMO Managing Board members.

Reporting of personal data related incidents

The NIFIA had no protected personal data related incidents during 2019-2020.

Jo Whelan

Secretary and Comptroller General to the Commissioners for the Reduction of the National Debt
30 September 2020

Statement of Secretary and Comptroller General's responsibilities

Section 161(4) of the Act requires the Commissioners 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 state of affairs of the NIFIA, its income and expenditure, statement of financial position and cash flows for the financial year.

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

In preparing the accounts, the Secretary and Comptroller General is required to observe the applicable accounting standards and be consistent with the relevant requirements of the Government Financial Reporting Manual (FReM), and in particular to:

- observe the accounts direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed, and disclose and explain any material departures in the accounts;
- prepare the accounts on a going-concern basis; and
- confirm that the annual report and accounts as a whole are fair, balanced and understandable, and take personal responsibility for the annual report and accounts and the judgements required for determining they are fair, balanced and understandable.

As the role of the Secretary and Comptroller General is analogous to acting as an Accounting Officer, it is considered that the responsibilities of an Accounting Officer, as set out in Managing Public Money published by HM Treasury, apply to the Secretary and Comptroller General. These include responsibility for the propriety and regularity of the public finances for which the Secretary and Comptroller General is answerable, for keeping proper records, and for safeguarding the NIFIA's assets.

Disclosure to auditors

The NIFIA is audited by agreement with the Comptroller and Auditor General. The Comptroller and Auditor General audits these accounts and provides opinions to CRND on whether the financial statements provide a true and fair view in accordance with the Social Security Administration Act 1992.

As the Secretary and Comptroller General, I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the NIFIA's auditors are aware of that information. So far as I am aware, there is no relevant audit information of which the auditors are unaware.

Governance statement

Scope of responsibility

As Secretary and Comptroller General to the Commissioners for the Reduction of the National Debt (CRND), I am responsible for ensuring the operation of a sound system of internal control that supports the achievement of CRND's targets, policies and objectives in managing client investment portfolios whilst safeguarding the public funds for which I am accountable, in accordance with the responsibilities assigned to me.

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

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

CRND is committed to the highest standards of corporate governance and is guided by the Corporate Governance Code for central government departments (the Code) and the following principles laid down in that Code:

- Parliamentary accountability;
- The role of the Board;
- Board composition;
- Board effectiveness; and
- Risk management.

CRND does not conduct any part of its business with or through arm's length bodies (ALBs) and therefore has not applied principle six which covers departmental governance arrangements with ALBs.

Managing Board

The Secretary and Comptroller General was supported during 2019-2020 by the DMO Managing Board (the Board) which, in addition to the Secretary and Comptroller General, is comprised of:

Sir Robert Stheeman

DMO Chief Executive and Accounting Officer

Jim Juffs

Chief Operating Officer

Jessica Pulay

Co-Head of Policy and Markets

Richard Hughes (until 30 April 2019)

Non-executive HM Treasury representative

Tom Josephs (from 2 September 2019)

Non-executive HM Treasury representative

Brian Duffin (until 31 December 2019)

Non-executive director – Brian Duffin was Chief Executive of Scottish Life from 1999 to 2007 and Executive Director of Royal London Mutual from 2001 to 2007.

Paul Fisher

Non-executive director - During a 26 year career at the Bank of England, Paul Fisher served as a member of the Monetary Policy Committee from 2009 to 2014, the interim Financial Policy Committee from 2011 to 2013 and the PRA Board from 2015 to 2016. He has a number of current roles including Chair of the London Bullion Market Association.

Paul Richards (from 13 May 2019)

Non-executive director - During a 29 year career at Bank of America Merrill Lynch, Paul was MD of business in fixed income trading, Debt Capital Markets and Corporate Banking across Europe, the Americas and Asia Pacific. Following his retirement from banking, he spent 18 months as a senior consultant to the FCA. He is currently Chairman of Insignis, a FinTech company he launched in 2015.

Non-executive directors are appointed by the DMO Accounting Officer following a formal process and have fixed terms defined in their contracts of service. All non-executive Board members receive an induction on joining and have access to additional information and training where it is considered necessary for the effective discharge of their duties.

One of the roles of the Board is to advise the Secretary and Comptroller General on any key decisions affecting CRND.

An executive sub-committee of the Board generally meets weekly and supports the Secretary and Comptroller General on operational decisions.

The Board last undertook a self-evaluation of its performance led by a non-executive director in December 2017 and concluded that it has operated effectively in delivering the objectives set out in its Terms of Reference, and that the information used by the Board was accurate and relevant. Between formal reviews the Board considers its effectiveness on an ongoing basis. The Terms of Reference underwent a review by the Board in 2020.

2019-2020 Managing Board activities

Board meetings were held throughout 2019-2020 and covered regular agenda items, including risk management, staffing and progress against the operational business plan.

Board and Audit Committee attendance is outlined in the table below:

Managing Board				
	Possible	Actual		
Sir Robert Stheeman	8	8		
Jo Whelan	8	8		
Jim Juffs	8	8		
Jessica Pulay	8	8		
Richard Hughes	1	0		
Tom Josephs	5	5		
Brian Duffin	6	6		
Paul Fisher	8	8		
Paul Richards	7	7		
Caroline Mawhood	n/a	n/a		
Rodney Norman	n/a	n/a		
			Audit Committee	
			Possible	Actual
			3	3
			4	4
			3	3
			2	2
			2	2

Audit Committee

The Secretary and Comptroller General was supported during 2019-2020 by the Audit Committee on matters relating to risk, internal control and governance. The members of the Audit Committee during 2019-2020 were:

Paul Fisher (Chairman from 1 January 2020)

Brian Duffin (Chairman and Audit Committee member until 31 December 2019)

Paul Richards (from 13 May 2019)

Caroline Mawhood (until 30 June 2019) – Caroline Mawhood was an Assistant Auditor General at the National Audit Office until 2009 and President of the Chartered Institute of Public Finance and Accountancy for 2008-2009. She is a non-executive member of Audit Committee of the Corporation of London and its Performance and Resource Management Sub (Police) Committee and one of three external members of the Audit Progress Committee of the European Commission. She is also a trustee of the Wimbledon Guild charity.

Rodney Norman (from 1 July 2019) - Rodney Norman was Finance Director of NS&I until 2018. Prior to that he was the Treasury Accountant at HM Treasury. This was preceded by a career in the City where he qualified as a Chartered Accountant with PWC and was Finance Director of the Banking Division of Close Brothers. He is currently a non-executive director of the Pension Protection Fund, a non-executive member of the Audit and Risk Committee of the Office of Rail and Road and is a senior advisor to the Bank of England.

Audit Committee meetings are typically attended by the DMO Accounting Officer, the Secretary and Comptroller General, the Co-Heads of Policy & Markets, the Chief Operating Officer, the Head of Internal Audit, the Head of Finance and the National Audit Office.

One of the Audit Committee's objectives is to give advice to the Secretary and Comptroller General on:

- The overall processes for risk, control and governance and the governance statement;
- Management assurances and appropriate actions to follow from internal and external audit findings, risk analysis and reporting undertaken;
- The financial control framework and supporting compliance culture;
- Accounting policies and material judgements, the accounts and the annual report and management's letter of representation to the external auditors;
- Whistleblowing arrangements for confidentially raising and investigating concerns over possible improprieties in the conduct of the DMO's business;
- Processes to protect against money laundering, fraud and corruption; and
- The planned activity and results of both internal and external audit.

During the period under review the Audit Committee paid particular attention to the following areas:

- Trading Systems Replacement Project;
- DMO Accommodation and Data Centres review;
- Reform to the governance of the PWLB;
- Cyber Security;

- Disclosure of Market Sensitive Information;
- Data Governance, Protection and Reporting;
- Processes and Controls to Mitigate Internal and External Fraud;
- Follow up on Management Actions arising from previous Internal Audit Reports;
- Security Clearance Requirements and Adherence;
- Governance and Remit over Contractors;
- Health and Safety;
- Anti-Money Laundering Arrangements;
- Reporting Requirements to the Information Commissioner's Office (ICO);
- Risk Management Framework; and
- International Financial Reporting Standards (IFRS) 9, 15 and 16.

The Audit Committee covers a regular programme of agenda items, together with other current topics, and met four times during the year.

The Secretary and Comptroller General has also been informed by the following operational committees throughout the period under review:

Fund Management Review Committee

The Fund Management Review Committee monitors CRND activity relating to the performance of the government funds under management, including any reporting on compliance activities undertaken in relation to the funds.

The Fund Management Review Committee met four times in 2019-2020.

Business Delivery Committee

The Business Delivery Committee reviews the status of the delivery of DMO's business and work plan as a collective cross-functional body, resolving emerging issues in a timely way, and agreeing priorities to ensure the plan stays on track. The most significant initiative monitored by the Business Delivery Committee during the year was the project to implement a trading systems replacement including those used to process CRND transactions.

The Business Delivery Committee met regularly (typically weekly) throughout 2019-2020.

Risk Committees

The Secretary and Comptroller General is informed by three risk committees covering credit and market risk, operational risk and risk control. More detail on the roles, responsibilities and activities of these committees can be found in the sections below.

Risk management and internal control

The Secretary and Comptroller General is responsible for maintaining a sound system of internal control that supports the achievement of CRND's targets, policies and objectives in managing client investment portfolios whilst safeguarding the public funds for which she is accountable, in accordance with the responsibilities assigned to her.

CRND is managed within the wider DMO system of internal control which is based upon what the DMO Accounting Officer, with the support of the Board, considers to be appropriate,

taking account of the DMO's activities, the materiality of risks inherent in those activities and the relative costs and benefits of implementing specific controls to mitigate those risks. The DMO's position differs to that of a commercial organisation in that it must always be in a position to transact the underlying business required to meet its remit. As a result the risks associated with this activity cannot be avoided and the system of internal control can only provide reasonable assurance against failure to achieve aims and objectives.

The Risk and Control Framework

The Board has designed and put in place a formal risk management framework covering all the activities conducted and overseen by the DMO. This Framework helps ensure that the DMO Accounting Officer is appropriately informed and advised of any identified risks and also allows the management of risks to be monitored. The risk management framework covers both regular operations and new business initiatives, and evolves as the range and nature of the DMO's activities change. The Framework is supported by a clear 'three lines of defence' model:

First line of defence:

Day-to-day management of risk is the responsibility of management staff within business areas. The DMO considers effective risk management to be central to its operations and fosters a risk aware culture in which all members of staff, including Board members, are encouraged to understand and own the risks that are inherent in those operations. In particular the DMO seeks to promote an environment in which staff feel comfortable to identify new risks and changes in previously identified risks, as well as weaknesses so that these may be assessed and appropriate mitigating actions put in place.

Mitigating actions typically include segregation of duties, staff training, clear lines of management delegation and robust business continuity arrangements.

Second line of defence:

Oversight of risk is provided by the Board and risk committees, whose role is to provide regular and systematic scrutiny of risk issues which lie within their remit and to support the DMO Accounting Officer in exercising his overall responsibility for risk management.

The DMO considers that the principal risks it faces arise in three broad areas: credit risk, market risk and operational risk. It has established committees to meet regularly to review the changing risk pattern for each of these areas and to set up appropriate responses. The work of these committees is described in more detail below.

Credit and Market Risk Committee

The Credit and Market Risk Committee (CMRC) meets on a regular basis, with more frequent meetings held when required, for example during times of market stress. The CMRC monitors and reviews the management of market, credit, and liquidity risk. It sets limits across a range of exposures including counterparties, countries, and instruments held as collateral as well as setting absolute limits on net daily flows across the DMA. The CMRC met six times during 2019-2020.

Operational Risk Committee

The Operational Risk Committee (ORC) meets regularly to monitor operational risks and to review significant risk issues. The ORC is responsible for reviewing risk incidents identified through the DMO's risk incident reporting process, and considering whether planned mitigating action is appropriate. The ORC also reviews and tracks the progress of actions identified by Internal Audit. The ORC's scope includes issues relating to information risk, IT security, business continuity, anti-fraud and key supplier risks.

The ORC has advised the DMO Accounting Officer and the Board, during the year, on significant operational risk concerns, significant risk issues and trends as well as actions to mitigate such risks. The ORC has focused this year on supplier risk, data protection

awareness, cyber security and business continuity planning. The ORC met six times during 2019-2020.

Controls Group

The Controls Group meets periodically to review issues affecting the DMO's system of internal control and to analyse material changes to the control environment. The Controls Group recommends actions to management to implement changes where appropriate. The Controls Group consists of representatives from Finance, Risk, Compliance and Internal Audit.

The Controls Group has advised the DMO Accounting Officer, the Board and senior management on any significant risk concerns stemming from the introduction of new business activities as well as risks relating to other change management activities. The Controls Group has also advised the DMO Accounting Officer on suitable mitigating action where appropriate.

During the year the Controls Group review work has covered process and control changes as a result of the DMO's trading system replacement, including access control of permissions for CRND.

Risk Management Unit

The risk committees are supported by the DMO's Risk Management Unit (RMU) which ensures key risk issues arising from these committees are communicated to the DMO Accounting Officer and senior management on a regular basis, with additional ad hoc reporting if an emerging issue requires it. The RMU also supports the formal risk reporting processes with defined outputs, including regular detailed risk reports which are reviewed by the Board and senior management.

As well as supporting the risk committee structure, the RMU provides control advice on risks. As part of the second line of defence the RMU is separate from, and independent of, the DMO's trading operations. The RMU conducts risk analysis and provides market, credit and operational risk capability for the DMO.

The identification, monitoring and mitigation of operational risk is facilitated by the RMU via quarterly consultations with heads of business units and functional teams. Significant risk issues are assessed for materiality and probability of occurrence. New risks, and risks to which exposure is increasing, are highlighted and actions are taken to ensure effective management of all risks. The DMO has Senior Risk Owners (SROs) who undertake a cross-functional moderation process to promote better prioritisation of operational risks across the organisation. The RMU maintains a central exception log to record all risk incidents raised, in order to identify control weaknesses and assign actions to improve controls.

Third line of defence:

The DMO's Internal Audit function provides the DMO Accounting Officer with independent and objective assurance on the overall effectiveness of the Agency's system of internal control. It does this through a risk based work programme which is presented to the Audit Committee at the start of each year and approved by the Audit Committee at the start of each quarter. All audits make a series of findings relating to control weaknesses. Progress against agreed management actions is monitored on a regular basis to ensure issues highlighted by internal and external audit, and other identified actions to improve the control environment, are managed and progressed within agreed deadlines. The function is independent of the DMO's trading activities and operations and has a direct reporting line to the DMO Accounting Officer. The work of Internal Audit includes assessing the effectiveness of both control design and control performance. With its independence and overall remit, Internal Audit provides a third line of defence against the risks that might prevent the DMO delivering its objectives.

Risk policies and procedures

The DMO's risk policies reflect the high standards and robust requirements which determine the way in which risks are managed and controlled. The DMO Accounting Officer, with the support of the Board, ensures that policies are regularly reviewed to reflect any changes in

the DMO's operations and/or best practice. In 2019-2020, this included policies relating to anti-fraud, telephony and voice recording, remote access, clear desk, health & safety and spreadsheet controls.

Staff are required to signify that they have read and accepted the DMO's rules on personal dealing and the DMO's policy on the use of information systems and technology, and that they are aware of, and will continue to keep up to date with, the DMO's policies on whistleblowing, anti-fraud and anti-money laundering. The DMO ensures that this exercise is undertaken on an annual basis allowing staff to maintain a good level of awareness of the DMO's policies in these areas. All members of staff have job descriptions which include reference to the specific key risks they are expected to manage.

Managers in each business function are responsible for ensuring that the operations within their area are compliant with plans, policies, procedures and legislation.

During 2019-2020 no concerns were raised by staff under the DMO's whistleblowing policy relating to CRND.

Key Developments

UK leaving the EU

During the year the DMO has continued to work with HM Treasury and other stakeholders to identify, assess and raise awareness of potential indirect impacts on CRND activities resulting from delays to the United Kingdom's expected exit from the European Union and take mitigating actions where possible.

Trading Systems Replacement Project

The Trading Systems Replacement Project has been a significant multi-year project for the DMO which aims to update its IT systems for deal input, settlement, risk management and accounting, as well as to simplify the current transaction processing architecture. During 2019-2020 focus of the implementation stage of the project has been on the design, build and testing of the new systems and processes. The project has been overseen through an established governance framework in order to maintain the strength and resilience of all operational processes and to make improvements where appropriate. Following the successful implementation, the Controls Group have been tracking the resolution of areas that were subject to workarounds, as well as the benefits realisation of streamlined processes. Automated processes will continue to be monitored and system performance has also been a key oversight control.

COVID-19

The DMO has been actively reviewing and strengthening its contingency arrangements in order to minimise the impact of the COVID-19 outbreak on its core activities. A robust assurance framework has been implemented to ensure the maintenance of control standards for critical operations in an environment where the majority of staff are working remotely.

Risk Profile

The Secretary and Comptroller General and the DMO Board believe that the principal risks and uncertainties facing CRND are outlined in the table below together with the key actions taken to manage and mitigate them:

Principal risks and uncertainties**IT systems and infrastructure**

CRND relies on a number of IT and communications systems to conduct its operations effectively and efficiently.

IT and data security

Through its activities the DMO gathers, disseminates and maintains sensitive information including market sensitive information and personal data about staff and market participants. The DMO seeks to ensure the highest standards of data protection and information management.

The DMO could be the subject of an external attack on its IT systems and infrastructure.

Reliance on third parties

A number of the operational systems and services on which CRND relies are provided or supported by third party suppliers.

Transaction processing

CRND relies on its operational processes to successfully execute a significant number of high value transactions on a daily basis. Reliance on the accurate execution of processes exposes CRND to operational risk arising from process breakdown and human error.

Mitigation and management

During the year the DMO has progressed initiatives to further strengthen the resilience and security of its IT network. The trading systems replacement went live in August 2019 in which operational efficiencies and improved resilience were achieved. The Public Service Network (PSN) accreditation was reconfirmed as a result of an IT health check.

The DMO has put in place structured business continuity arrangements to ensure it is able to continue market operations in the event of an internal or external incident that threatens business operations.

The DMO, including CRND, continues to work to maintain the required level of protective security covering physical, personnel and information security and is particularly aware of the growing threat posed by cyber security risk. IT and data security risks continued to be a specific area of focus in 2019-2020 and the DMO's IT team have been enhancing the security environment and appropriateness of transaction systems and processes.

Risks to data and information held by the DMO are owned and managed by designated Information Asset Owners. The DMO has a Senior Information Risk Owner (SIRO) who is responsible for the information risk policy and the assessment of information risks. The SIRO is a member of the Board and provides advice to Board members on the management of information risk.

The DMO has put in place several layers to defend against external attack and its infrastructure undergoes an annual penetration test. This year continued the embedding of the General Data Protection Regulation (GDPR) which came into force in May 2018. This included additional training and awareness for all staff and reviewing existing controls for data protection.

To mitigate the risk of failure of a key third party supplier the DMO undertakes regular corporate risk assessments of each key supplier in order to assess a range of factors including its financial strength and operational capacity and reliance on sub-contractors. The DMO has dedicated relationship managers who meet regularly with key suppliers and monitor performance against agreed Service Level Agreements where appropriate. The procurement manager and the vendor management group have been working to embed consistent standards of supplier management across account managers by improving visibility of key contracts, sharing best practice to ensure relationships start on a firm footing.

The supplier of the new trading system will become a key long-term partner. During the year more focus has been given to monitoring compliance with current policies and procedures.

A key component of CRND's control framework is the segregation of duties to ensure independent checking and reconciliation, and to avoid concentration of key activities or related controls in individuals or small groups of staff. In particular, segregation of duties takes place between front and back office activities.

All teams, including CRND, have documented procedures for their main activities and there are clearly defined authorisation levels for committing the DMO externally.

The RMU conducts regular control and compliance testing of CRND activities, providing the executive sub-committee of the Board with assurance on the effectiveness of operational controls and compliance with

relevant Financial Conduct Authority and Prudential Regulation Authority rules in the dealing and settlement areas.

The DMO also maintains a strong audit and control environment which includes a well embedded incident reporting procedure which extends to cover CRND. This promotes early identification and resolution of risk incidents and provides visibility to the DMO Accounting Officer and Board.

The main focus of improvements to transaction processing has been the trading system implementation which covers the full trade life-cycle.

People risk

The DMO, including CRND, relies on maintaining a sufficiently skilled workforce at all levels of the organisation in order to operate effectively and efficiently, and to deliver its strategic objectives.

The DMO is exposed to an increased risk of operational failure if it is unable to compete for, and retain, sufficiently skilled staff over time. Competition for skilled staff is generally against employers from the private financial services sector which is not subject to public sector remuneration policies and which have historically offered higher remuneration than either the private sector in general or the public sector.

DMO recruitment policies help ensure that individuals with the appropriate level of skill and experience are appointed at all levels within the organisation. This helps mitigate the level of human error resulting in process failures.

The DMO's Training and Development policy is designed to help ensure that staff have the right skills to meet it objectives.

The DMO has a formal recruitment and selection process to help ensure vacancies are filled quickly by appropriately skilled candidates.

The DMO has a formal performance appraisal process and all staff are given clear and achievable objectives. Where appropriate, staff are encouraged to engage in activities which promote development and the DMO provides regular training opportunities and support for professional studies to enhance the skills base of its employees. The DMO also provides cross-training for different roles to help improve staffing flexibility and reduce turnover pressure.

Salaries are reviewed annually, taking account of benchmarks derived from equivalent private sector pay levels. During the year particular consideration has been given to the issues faced by staff working increased hours and weekends on the programme to strengthen IT infrastructure. The DMO has a policy to recognise those staff who have performed well in their roles through the payment of one-off performance related awards. Any awards are assessed annually by the DMO Pay Committee, are determined by individual performance and criteria associated with the DMO's performance management process and are aligned to the policy for public sector pay.

A Staff Council has met regularly throughout the year and enabled an open exchange of ideas and views between management and staff representatives and has been an effective conduit for wider communication and consultation with all staff.

On an annual basis all DMO staff are encouraged to take part in the Civil Service employee engagement survey and any issues raised, including mitigating action if required, will be considered by the DMO Accounting Officer and Board.

The DMO was reaccredited as an Investor in People in 2017.

Review of effectiveness

I have reviewed the effectiveness of the system of internal control and confirm that an ongoing process designed to identify, evaluate and prioritise risks to the achievement of CRND's aims and objectives has been in place throughout 2019-2020. This review included an assessment of any material risk and control issues identified and reported during the relevant period.

My review has been informed by the advice of the risk committees and by the work of the internal auditors and the executive managers within the DMO, who have been delegated

responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports.

In my role as Secretary and Comptroller General I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and the Audit Committee.

In 2019-2020, no ministerial directions were given and no material conflicts of interest have been noted by the Board or Audit Committee members in the Register of Interests.

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

Jo Whelan

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

30 September 2020

Parliamentary accountability and audit report

Regularity of expenditure

The investments, income and expenditure of the NIFIA were applied to the purposes intended by Parliament.

The above statement has been audited.

Fees and charges

The NIFIA received no fees or charges during the year.

The above statement has been audited.

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT

Opinion on financial statements

I certify that I have audited the financial statements of the National Insurance Fund Investment Account (NIFIA) for the year ended 31 March 2020 under the Social Security Administration Act 1992. The financial statements comprise: the Statements of Comprehensive Net Income, Financial Position, Cash Flows, Changes in Client Funds; 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 NIFIA's affairs as at 31 March 2020 and of the net income for the year then ended; and
- the financial statements have been properly prepared in accordance with the Social Security Administration Act 1992 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 Commissioners for the Reduction of the National Debt 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.

Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the NIFIA's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the NIFIA have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the NIFIA's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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

As explained more fully in the Statement of Secretary and Comptroller General's Responsibilities, the Commissioners are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

They have appointed the Secretary and Comptroller General to discharge these responsibilities.

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 Social Security Administration Act 1992.

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 Commissioners for the Reduction of the National Debt's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- conclude on the appropriateness of the NIFIA'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 NIFIA's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my 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 report. However, future events or conditions may cause NIFIA to cease to continue as a going concern.

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 Secretary and Comptroller General to the Commissioners for the Reduction of the National Debt is responsible for the other information. The other information comprises information included in the Annual Report, but does not include 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 Social Security Administration Act 1992;
- 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.

Gareth Davies
Comptroller and Auditor General

6 October 2020

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

National Insurance Fund Investment Account**Statement of comprehensive income**

For the year ended 31 March 2020

	2020	2019
	£000	£000
Interest income	222,105	186,718
Total comprehensive income	222,105	186,718

The notes on pages 26 to 28 form part of these accounts.

National Insurance Fund Investment Account

Statement of financial position

As at 31 March 2020

	2020	2019
	£000	£000
Assets		
Demand deposits with the Debt Management Account and the National Loans Fund	38,252,635	29,505,980
Total assets	<u>38,252,635</u>	<u>29,505,980</u>
Client funds		
NIF funds	38,252,635	29,505,980
Total client funds	<u>38,252,635</u>	<u>29,505,980</u>

The notes on pages 26 to 28 form part of these accounts.

Jo Whelan

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

30 September 2020

National Insurance Fund Investment Account

Statement of cash flows

For the year ended 31 March 2020

	2020	2019
	£000	£000
Operating activities		
Interest received on deposits with the Debt Management Account and the National Loans Fund	230,494	178,421
Increase in demand deposits with the Debt Management Account and the National Loans Fund	(8,755,044)	(2,970,847)
Net cash used in operating activities	(8,524,550)	(2,792,426)
Financing activities		
Funds received from NIF	66,885,950	60,323,270
Funds paid to NIF	(58,361,400)	(57,530,844)
Net cash from financing activities	8,524,550	2,792,426
Increase in cash	-	-
Cash at the beginning of the year	-	-
Cash at the end of the year	-	-

The notes on pages 26 to 28 form part of these accounts.

National Insurance Fund Investment Account

Statement of changes in client funds

For the year ended 31 March 2020

	Total NIF funds £000
At 31 March 2018	26,526,836
Total comprehensive income	186,718
Funds received from NIF	60,323,270
Funds paid to NIF	<u>(57,530,844)</u>
At 31 March 2019	29,505,980
Total comprehensive income	222,105
Funds received from NIF	66,885,950
Funds paid to NIF	<u>(58,361,400)</u>
At 31 March 2020	<u><u>38,252,635</u></u>

The notes on pages 26 to 28 form part of these accounts.

Notes to the accounts for the year ended 31 March 2020

1 Accounting policies

(i) Basis of preparation

These accounts have been prepared in accordance with a direction made by HM Treasury under section 161(4) of the Social Security Administration Act 1992 in accordance with applicable International Financial Reporting Standards (IFRS) and relevant requirements of the Government Financial Reporting Manual; and under the historical cost convention and on a going concern basis. In particular, the following standards have been applied:

- IFRS 7 Financial Instruments: Disclosures
- IFRS 9 Financial Instruments
- IFRS 13 Fair Value Measurement
- IAS 1 Presentation of Financial Statements (revised 2007)
- IAS 7 Statement of Cash Flows
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 10 Events After the Reporting Period
- IAS 24 Related Party Disclosures
- IAS 32 Financial Instruments: Presentation
- IAS 36 Impairment of Assets
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets

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:

- IAS 1 Presentation of Financial Statements, which has been revised as part of the IASB's 'Definition of Material (Amendments to IAS 1 and IAS 8)'. Application is required for reporting periods beginning on or after 1 January 2020. The NIFIA expects to apply these revisions to IAS 1 in 2020-2021. The application of these revisions, which relate to a revised definition of 'material', are not expected to materially alter the presentation of the financial statements of the NIFIA.
- IAS 1 Presentation of Financial Statements, which has been revised as part of the IASB's 'Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)'. Application is required for reporting periods beginning on or after 1 January 2022. The NIFIA expects to apply these revisions to IAS 1 in 2022-2023. The application of these revisions, which affect only the presentation of liabilities in the statement of financial position and relate to a clarification of the classification of current and non-current liabilities, are not expected to materially alter the presentation of the financial statements of the NIFIA.
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, which has been revised as part of the IASB's 'Definition of Material (Amendments to IAS 1 and IAS 8)'. Application is required for reporting periods beginning on or after 1 January 2020. The NIFIA expects to apply these revisions to IAS 8 in 2020-2021. The application of these revisions, which relate to a revised definition of 'material', are not expected to materially alter the presentation of the financial statements of the NIFIA.
- IFRS 7 – Financial Instruments: Disclosures, which has been revised as part of the IASB's 'Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)'. Application is required for reporting periods beginning on or after 1 January 2020. The NIFIA expects to apply these revisions to IFRS 7 in 2020-2021. The application of these revisions, which deal with issues affecting financial reporting for hedge accounting are not expected to materially alter the presentation of the financial statements of the NIFIA.

- IFRS 9 – Financial Instruments, which has been revised as part of the IASB’s ‘Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)’. Application is required for reporting periods beginning on or after 1 January 2020. The NIFIA expects to apply these revisions to IFRS 9 in 2020-2021. The application of these revisions, which deal with issues affecting financial reporting for hedge accounting are not expected to materially alter the presentation of the financial statements of the NIFIA.

A separate income statement, as required by the accounts direction, has not been presented as the content would be identical to the statement of comprehensive income. A statement of comprehensive income is required by IAS 1.

(ii) Assets

Demand deposits

Deposits with the Debt Management Account and the National Loans Fund are financial assets held by the NIFIA in order to collect contractual cash flows of principal and interest on specified dates. Therefore these deposits are treated as financial assets measured at amortised cost.

(iii) Income recognition

Interest income is recognised using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the instrument.

(iv) Administrative costs

Administrative costs are accounted for in the DMO Annual Report and Accounts 2019-2020 and a recovery is made from HMRC.

2 Risk

(i) Credit risk

Credit risk is the risk that a counterparty, or security issuer, will fail to discharge a contractual obligation resulting in financial loss to the NIFIA.

The investments of the NIFIA comprised deposits with the Debt Management Account. These deposits were considered to have no exposure to credit risk because they are obligations of HM Government.

There were no renegotiated assets or assets considered impaired at 31 March 2020 (31 March 2019: no renegotiated or impaired assets).

(ii) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk for the NIFIA was considered to comprise interest rate risk.

The interest returns on deposits were closely linked to the official Bank Rate.

CRND monitored interest rate movements to help inform the NIF of potential issues and events. The NIFIA was not subject to active management and thus no formal market risk parameters were in place.

(iv) Liquidity risk

Liquidity risk is the risk that the NIFIA will encounter difficulty in meeting obligations associated with client withdrawal requests.

Assets held by the NIFIA were highly liquid to enable all client obligations to be met as they fell due.

3 Related party transactions

CRND is a separate entity within the DMO. CRND client mandates are kept distinct from other DMO business.

During the year, the NIFIA had a significant number of material transactions with the Debt Management Account, which is operated by the DMO. CRND's client mandates required the bulk of the funds to be invested in gilts or deposited with the Debt Management Account.

During the year, the NIFIA had a significant number of material transactions with the NIF due to monies advanced and withdrawn in respect of investments. During the year, the NIF advanced £8,525 million (net of withdrawals) into the NIFIA (2018-2019: £2,792 million net advance).

4 Events after the reporting date

In accordance with the requirements of IAS 10, events after the reporting period are considered up to the date on which the Secretary and Comptroller General authorises the accounts for issue. This is interpreted as the date of the Certificate and Report of the Comptroller and Auditor General.

ACCOUNTS DIRECTION GIVEN BY THE TREASURY IN ACCORDANCE WITH SECTION 161 (4) OF THE SOCIAL SECURITY ADMINISTRATION ACT 1992

1. This direction applies to the National Insurance Fund Investment Account.
2. The Commissioners for the Reduction of the National Debt shall prepare accounts for the financial year ended 31 March 2012 and subsequent financial years which give a true and fair view of the state of affairs of the Account at the reporting date, and of its income and cash flows for the year then ended.
3. The accounts shall be prepared in accordance with applicable accounting standards, and shall be consistent with relevant requirements of the extant Government Financial Reporting Manual.
4. The accounts shall present an income statement, a statement of comprehensive income, a statement of financial position, a statement of cash flows, and a statement of changes in client funds. The statement of financial position shall present assets and liabilities in order of liquidity.
5. The notes to the accounts shall include disclosure of assets and liabilities, and of income and expenditure, relating to other central government funds including the National Loans Fund.
6. The report shall include:
 - a brief history of the Account, and its statutory background;
 - an outline of the scope of the Account, its relationship to HM Treasury and other central funds, and its management arrangements;
 - a management commentary, including information on financial performance and financial position, which reflects the relationship between the Account and other central funds; and
 - a governance statement.
7. This accounts direction shall be reproduced as an appendix to the accounts

This accounts direction supersedes all previous Directions issued by HM Treasury.

Chris Wobschall

Head, Assurance and Financial Reporting Policy
Her Majesty's Treasury
23 March 2012