



Government  
Internal Audit  
Agency

# Government Internal Audit Agency Annual Report and Accounts 2015/16

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## Annual Report and Accounts 2015/16

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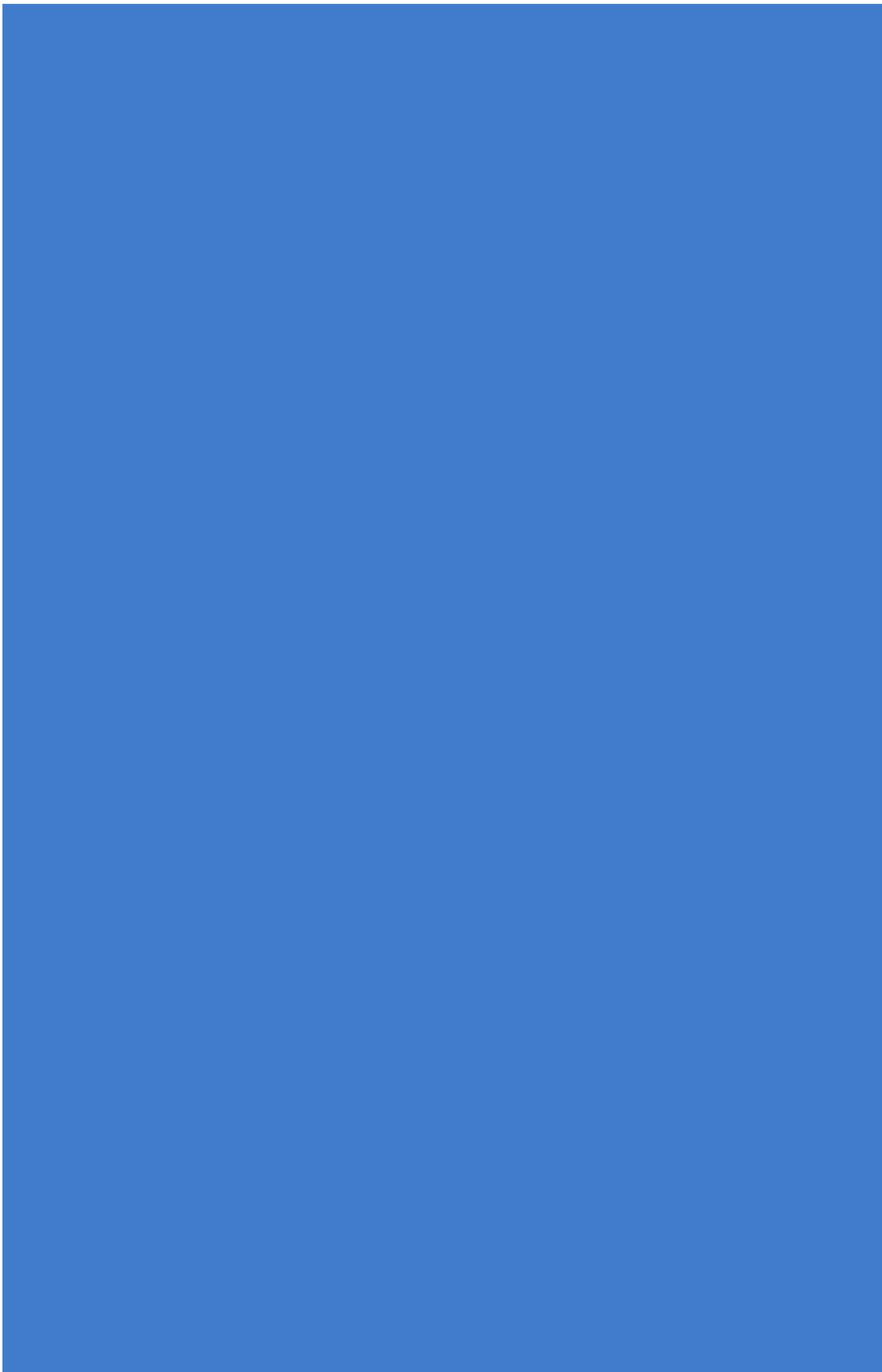
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# Chief Executive's Introduction



It is with the greatest of pleasure that I introduce to you the first Annual Report & Accounts of the Government Internal Audit Agency (GIAA). It has been a year in which the Agency began

life with fewer than one hundred and fifty employees and ends on the verge of doubling in size when we welcome the audit teams from DWP and Home Office on 1 April 2016. We have brought together teams of talented and committed professionals from across government who are now working together, utilising their collective knowledge, experience and skills to provide enhanced services to more than sixty central government customers.

Highlights of the year have included the introduction of bulletins that are issued to all Accounting Officers. These draw upon the work we do right across our customer base to provide either early warning of risks encountered in one or more parts of government, so that others might be better prepared, or examples of good practice that might be adopted or adapted for elsewhere.

To ensure that the right expertise are brought to bear in all aspects of our work, and to

provide the best possible value for money to our customers, we have redefined our relationship with the private sector from where we source expert support. Individual customers no longer have a monopolistic relationship with a single supplier of such expertise, which has been the norm in the past. Instead, we have established a framework contract that allows GIAA to choose from a range of suppliers without further competition and at more competitive commercial rates.

The audit planning that we have conducted in the past year has enabled the brigading of work across multiple customers that will enable more efficient delivery of work and the provision of greater insights during 2016/17.

The report that follows provides many other examples of what we have achieved and how we are now building on our first year of success. I hope you enjoy reading it.

A handwritten signature in black ink, appearing to read 'Jon Whitfield'. The signature is stylized and cursive.

**Jon Whitfield**  
**Chief Executive & Head of Government**  
**Internal Audit Profession**

**27 June 2016**

# Part 1: Performance Report

# 1. Overview

## 1.1 About GIAA

### Purpose

The Government Internal Audit Agency ('GIAA' or 'the Agency') provides internal audit and assurance services across a wide range of central government customers. Our strategic intent is to develop a leading edge, comprehensive audit service for government. We bring individual audit functions together to deliver an increasingly responsive, flexible and resilient service to Accounting Officers that supports effective relationships, provides deep insights and positively influences behaviours and improvements.

### Vision

Our vision is to be a flexible and responsive internal audit service, which has a

reputation among top management within government as:

- making a real difference;
- providing excellent value for money;
- being a great place to work.

We achieve this by:

- delivering improved assurance outcomes for our customers;
- delivering value for money for our customers and the taxpayer; and
- encouraging our staff to develop as individuals to fulfil their potential.

### Core Audit & Assurance Services

Our services typically involve the delivery of a risk-based programme of work that culminates in an annual report and opinion



Figure 1: Our vision is underpinned by our values, which are fundamental to what we do

on the adequacy and effectiveness of the organisation's framework of governance, risk management and control. To provide that opinion, we undertake audit and advisory engagements, the aim of both being to help our clients improve the effectiveness of public service delivery. We take account of our wider understanding of the government environment as well as the specific risks and management challenges of the customer organisation. For some clients, we may provide audit and advisory engagements but not a full annual opinion.



Figure 2: Our work in 2015/2016

All our work is undertaken in accordance with the Public Sector Internal Audit Standards, and the Cross Government Internal Audit Manual. EU audits also comply with relevant European Commission regulations. We deploy our staff to where their skills can have the greatest impact. As we work towards becoming a single audit practice for government, we will have common methodologies and tools that will facilitate greater cross government working and allow our high quality assurance processes to be applied with consistency across all of the work we do.

GIAA offers two broad categories of service:

- Assurance work designed to provide an independent, objective and unrestricted evaluation of management activities to give the Accounting Officer advice on the effectiveness of controls in their area of responsibility.
- Advisory work (also referred to as 'consulting') is also designed to add value by identifying where the control framework should be improved, but the work tends to be on developing programmes and frameworks rather than those already in place.

GIAA also assists with counter-fraud activity and undertakes a number of investigations where suspected internal or supplier fraud or malpractice is identified. This service will be developed over the course of the next year as our coverage of government increases.

The objective in all three areas is to advise the client on how to improve its public service delivery going forward. All of our reports are the property of the customers they are written for and cannot be shared, even within government, without the agreement of the Accounting Officer concerned.

We managed these services from three 'clusters', which we established to facilitate more flexible use of our resources while retaining our expert knowledge of our customers:

- *Cluster 1* provides services to the following departments and their associated arm's length bodies: Cabinet Office, DCLG, DCMS, DECC, DfT and HM Treasury.
- *Cluster 2* provides services to the following departments and their associated arm's length bodies: BIS and DfE.

- *Cluster 3* provides European audit services (in 2015/16, this was solely the ‘Audit Authority’ for the European Regional Development Fund (ERDF) operational programmes in England). The Audit Authority’s role is defined in EU regulation; in summary, it is to provide an independent and impartial assurance to the European Commission (EC) in respect of DCLG’s management and control of ERDF funds and the legality and regularity of the expenditure certified. The EC takes its core assurances from the work of the Audit Authority.

Audit engagements draw on specialist skills and knowledge beyond typical core controls. The Agency is growing and developing its specialist audit services to supplement the skills we draw on from our private sector partners.

We have a range of specialist skills we can call on internally – in three areas, we have started the development of dedicated teams to help develop the service to our customers. These areas are:

- European Audit
- Counter-fraud and Internal Investigations
- Information Technology Audit

Over the course of the next year, we will develop ‘communities of practice’ in the following areas to share best practice and help us optimise use of our internal talent:

- Project and Programme Management Audit
- Commercial Audit
- Finance Audit
- Human Resources Audit

We will continue to draw on our private sector framework partners to help us develop our own specialists and cover specialist areas that are less frequently required.

### Internal Audit Policy

Responsibility for internal audit policy in government rests with HM Treasury and we maintain a small team to deliver this role on their behalf, which the Treasury funds. The policy team is responsible for the following:

- supporting the Head of Profession – providing leadership to the profession in government and beyond;
- setting and maintaining professional internal audit standards for central government, delivered through the Public Sector Internal Audit Standards;
- liaison with the relevant accounting and internal audit professional bodies;
- European engagement on relevant EU auditing matters; and
- engagement with other interested stakeholders such as overseas delegations, the National Audit Office etc.



Figure 3: Highlights from the IA Policy Team

## Funding Arrangements

Our core business is 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. We separately agree the level of audit services required by each of our customers, supporting these through appropriate memorandums of understanding.

We receive a small amount of supply funding from HM Treasury for the Internal Audit policy work that the Agency undertakes on their behalf and for the development of the Agency.

## 1.2 Performance Summary: Our First Year in Focus

Our specific objectives for 2015/16 were to:

- expand the Agency while not interrupting the quality of service to existing customers;
- develop our organisational identity – building on our engagement with our people, leadership capability, learning and development strategy and providing an opportunity for everyone to contribute their views before decisions are made that affect them;
- develop our people by providing meaningful and rewarding career propositions;
- develop our services to customers in response to their needs; and
- continue to play our part in implementing key actions from the Civil Service Reform Plan.

## Establishing the Agency and Delivering the Government's 'Financial Management Review of Government'

We have made strong progress since launching the Agency on 1 April 2015 as part of the implementation of the December 2013 'Financial Management Review of Government'. At launch, the Agency brought together six internal audit teams that previously formed the Cross Departmental Internal Audit Service.

Four more audit teams (Companies House, Crown Commercial Service, Driver & Vehicle Licensing Agency, and Skills Funding Agency) joined the Agency on 1 November 2015, so that by the end of 2015/16, we provided services to eight departments and 47 other bodies associated with these departments. As of March 2016, we had a complement of 171 people working flexibly across our customers and in various locations across the country. Most of the client-facing staff are qualified internal auditors and/or accountants. A further 27 people support the Agency in corporate, professional practice and project roles, giving the Agency a total complement of 198 people at the end of March 2016.

Work had also been completed to add a further 176 people from the DWP and Home Office Internal Audit teams who formally joined the Agency on 1 April 2016. This increases our coverage to over half of the major government departments and over half of the professional internal auditors working in government, as indicated in Figure 4. A further three major departments (Ministry of



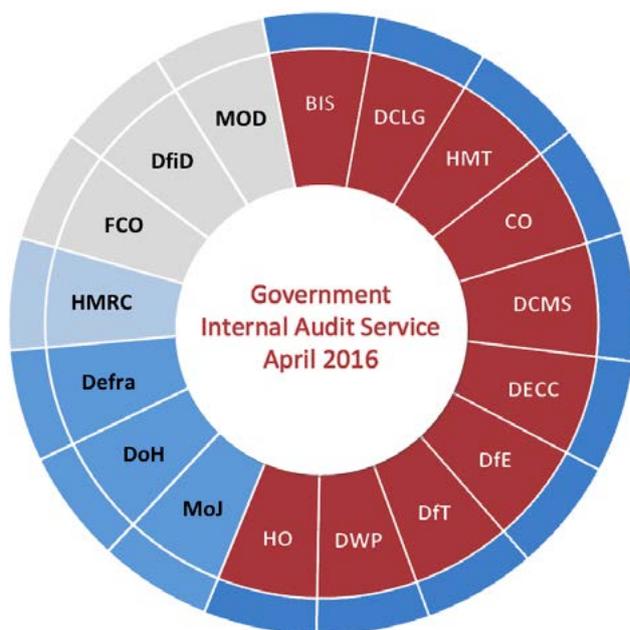


Figure 4: Growth of the Agency

Justice, Defra and the Department of Health) are committed to joining at agreed points in future and a fourth (HMRC) is in negotiation on dates.

In addition to the customer organisations that are using the Agency as a result of the transfer of their service teams, a further three organisations have chosen to move their service to us from April 2016.

The Agency continues to contribute to the government's reform agenda through the ongoing programme to consolidate government internal audit into a single shared service provider. We are also providing advice and lessons learned to the other professions across government as they implement their own reform initiatives.

### Maintaining Quality

It was important to us that, during a period of significant change for the Agency, we maintained the quality of our work, and the standards of service that our customers experienced.

We have continued to monitor customer satisfaction through two key mechanisms:

- an annual Accounting Officer survey in summer 2015, achieving an average score of 7.3 out of 10.
- an ongoing programme of surveying our customers after each audit assignment, achieving an average score of 7.97 out of 10 for the year.

#### Customer Feedback December 2015:

*"The governance arrangements here are quite complicated in a number of respects and I was impressed with [the auditor's] swift grasp of what we are trying to achieve. She tested the latter and recommended a couple of findings, which prompted the team to think more deeply and develop a broader action plan to improve governance and how we engage with staff and managers about it."*

In late 2015, we commissioned the Chartered Institute of Internal Auditors (CIIA) to conduct an External Quality Assessment. This placed GIAA well into the second quartile of audit services in both the private and public sector, concluding that the Agency 'Generally Conforms' to the Public Sector Internal Audit Standards. The CIIA helpfully made a number of recommendations that we are currently implementing, the most significant of which are:

- the introduction of a new approach to audit planning for the 2016/17 year, which introduces greater rigour to our assessment of risk and assurance priorities, from both a customer and cross-government perspective;
- placing greater reliance, where appropriate, on other assurance providers – this will be a focus of the assurance strategies we are

developing with the professions across government; and

- greater emphasis on the quality of audit evidence through improvements to our audit methodology and increased emphasis on hot and cold quality reviews, which will be led by the new Professional Practice Directorate.

### Delivering Value to our Customers

We have made good progress against our target to improve the cost effectiveness of our service by 15% by the end of the Agency’s first three years of operation through the implementation of the new contractor framework and reductions in our average customer fees.

Customer Feedback September 2015:

*“I think [the auditor] grasped the issues very quickly, and was quick to respond in a positive way when one of the recommendations he proposed proved to be unattainable. He took a strategic and flexible approach to the issues raised by the audit, and gave some positive and welcome feedback. This whole audit felt like a collaborative process, which resulted in a better outcome for us in terms of future action.”*

We have achieved this through a combination of economy and efficiency measures (i.e. by reducing costs and raising productivity), including:

- the new pan-government framework for internal audit services has replaced what was commonly a single provider for each department with a panel of firms, delivering a wider range of skills and rate cards than previously available. As a result, just by reallocating work between firms on the framework, we believe there is potential for

up to a 40% reduction in the cost of such work; and

- reducing our average day rates for in-house resources between 1.3% and 1.5% in 2016/17, and absorbing the planned 1% civil service pay budget increase, changes to employer national insurance, and other inflationary pressures.

The precise benefit that individual customers will achieve will vary depending on the scope and delivery model for their existing services, with larger customers expected to derive greatest benefit as we deliver more innovative assurance services and substitute private sector for in-house specialisms. The boxed text gives an example of how we delivered a 15% reduction to one medium-sized customer from the 2016/17 year.

We achieved a 15% reduction in the average day rate one medium-sized customer will incur for its 2016/17 programme. This was delivered through a combination of:

- the reduction in GIAA day rates;
- transferring delivery of core controls work from the previous private sector provider to more cost-effective GIAA resources;
- transferring the specialist audit work to an alternative private sector provider; and
- requiring the new private sector provider to deliver the service without passing on additional travel expenses.

### Investing in our People

Our aim is to ensure that we do the best for our people, both longstanding civil servants, those that have joined us more recently and/or are due to join in the future. We want our people to say that we are a great place to work.

During 2015/16, we strengthened our learning and development opportunities by providing a comprehensive package of guidance, information on websites and dedicated resource to focus on this area for all staff within GIAA. The programme covers professional training, including non-internal audit development, core foundation skills and the initiation of focused CPD activities, alongside the introduction of networks to promote improved communication and diversity.

GIAA is committed to supporting the professional development of all its staff, irrespective of grade or role. We have created a range of opportunities for staff to initiate, engage and participate in to enable them to take control of their career development. The new scheme covers a range of qualifications including IIA, CCAB/CIMA, CISA, CIPD and APM. The Agency has also worked closer with the CIIA, ACCA, ICAEW and other professional practices.

We have developed a talent scheme for all grades within the Agency, which ensures the full talent pipeline is supported and managed to allow for succession planning of business critical posts at all levels. For example, we have funded six places on the Positive Action Pathway scheme for grades HEO/SEO – this scheme aims to support staff in under-represented groups with the potential to progress to at least the next grade.

We have also introduced a structured fast stream training scheme to recruit and develop the next generation of government internal auditors, increasing links with the Government Finance Profession.

### Staff Engagement

Against a backdrop of growth and change, we were pleased with the results of the 2015 Civil Service People Survey. Our overall response rate was 84% and our staff

engagement index was 55%. The survey helps us understand what is necessary to reinforce and maintain what people value about working for GIAA and enables us to take action on the challenges identified.

During the year, we targeted three action areas with a view to establishing a 'one organisation' ethos by engaging staff in developing a culture for the new organisation:

- leadership and managing change – the actions related to creating clear meeting structures, increasing senior management visibility and increasing understanding of the agency development programme;
- learning and development – the actions related to the development of a clear strategy which was understandable and accessible to all staff; and
- pay and benefits – the actions related to clearly communicate the total reward package available to staff and to increase uptake in voluntary benefits such as childcare vouchers.

### Strengthening the Profession

We have used our combined weight to increase the investment in the internal audit profession across government – in particular:

- working with the Home Office audit function, we launched a Cross Government Internal Audit Manual for internal audit across central government – for the first time, this provides a single approach to auditing consistent with Public Sector Internal Audit Standards;
- working with the finance profession to launch a single annual conference for finance and internal audit professionals across central government;
- launching the inaugural internal audit awards, with the contributions of three

teams and individuals across the profession being formally recognised:

- Internal audit team excellence award: Defra facilities management contract audit team.
- Internal audit outstanding contribution award: Julie Mills, Training Liaison Officer at DWP.
- Internal audit unsung hero award: Karen Donachie, GIAA Central Services.

**Cluster 3 (Europe): Key achievements:**

- concluded its annual audit programme for the 2007-13 operational programme, delivering its Annual Control Report and Opinion to the EC. This was delivered on time for the 5th consecutive year, with the EC accepting the quality of GIAA’s work and judgements;
- submitted to the EC, on time, the first Annual Control Report and Opinion on ERDF for the 2014-20 operational programme; and
- begun work to integrate similar audit functions, located in other government departments, into a single European audit function with the GIAA, to deliver the audit strategy for multiple 2014-20 European programmes in England.

**Launched our New Internal Audit Framework Contract**

In September 2015, we established an Internal Audit Framework Contract that utilises our collective buying power to secure access to multiple high quality private sector resources in a manner that provides value for money for the Agency and our customers. In particular, these arrangements enable us to leverage our good working partnerships with the private sector to give us the flexibility

to meet peaks in demand and to deploy more specialist skills when needed to work alongside our own people. We do recognise that specialist audit services will always need to be bought in and that this continuing private sector involvement will be a long-term feature of our service.

There are now seven private sector firms (Deloitte, Grant Thornton, KPMG, Mazars, Moore Stephens, PwC and RSM) across three lots for core internal audit services, forensic work and regulatory work. Prior to this, departments had individual agreements with firms.

**Customer Feedback January 2016:**

*“The audit objectives were very clear and well laid out. The audit had multiple functions and covered a wide remit, but [the auditor] was able to guide us in what we wanted to achieve in order to get clear and concise objectives.”*

The framework has been let for an initial three year period during which we expect to realise economies of scale as we grow our skills in-house. The framework is also available across central government to organisations outside the Agency, and we have already seen an uptake in the use of it by external parties, demonstrating the value for money in procuring a single contract for internal audit services across central government.

**1.3 Key Issues and Risks**

As a new agency, we have faced a number of risks associated both with ‘change’ and with ‘business as usual’. The Agency established its risk management framework early on, drawing on our knowledge of good practice from across government. As the Agency established its governance structures, risk management was extended down through the organisation from Board/SMT level to

clusters and corporate functions. This has resulted in the Agency having a ‘bottom-up’ approach to risk identification, with a ‘top-down’ validation process from the Board and SMT.

Our Corporate Plan for 2015/16 identified a number of strategic risks and opportunities, which we have managed during the year:

Strategic Risk	Outcome
Delivering a consistent, quality service to our customers	We are confident we have successfully maintained our service to customers during this period of transition, which is borne out by feedback from Accounting Officers and audit customers.
Attracting, developing and retaining the range of skills and expertise	We have set out our People Strategy during the year, and our approach to growing our specialisms. There is further to go in 2016/17 to further attract, develop and retain the best people.
Greater cross-government assurance	With the recent expansion of the Agency, we now have a foundation to deliver greater cross-government assurance. Our strategy to achieve this is set out in our Corporate Plan 2016/17.
New financial and commercial operating models	The financial model was set at the start of the 2015/16 year, and has successfully allowed us to report a small surplus on our customer services for the year. However, this new commercial approach is yet to become fully embedded in the organisation, and further work is required in 2016/17 to put the Agency’s finances onto a more secure footing.
Migrating further internal audit functions into the single service	We have successfully migrated two government departments and four smaller bodies during the year, and set plans for further expansion in 2016/17.

Strategic Risk	Outcome
Procurement of a new framework for the use of the private sector	We successfully launched the new framework in September 2015, which is already delivering benefits to the Agency and wider government.
Further developing our corporate functions	We have established our core corporate functions. Its limited resources necessitated a focus on core functions. Consequently, there is potential for further investment in corporate functions to better support the wider Agency – this initial investment occurred in April 2016 to support the enlarged Agency.

Supporting the strategic risks in our Corporate Plan, the Agency also identified the following significant operational risks during the year:

Strategic Risk	Outcome
The loss of a major customer or other reductions in demand for our services that would expose GIAA to financial risk	This risk was primarily associated with the 2015 Spending Review and the potential for machinery of government changes. While we undertook some contingency planning, this risk did not eventuate.
Serious damage to GIAA’s reputation as a result of a loss and/or leak of confidential or sensitive information/ data	In addition to our system controls, all staff and contractors are required to comply with GIAA and customer information security policies, and receive appropriate training. No incidents of data loss arose during the year.
The level of organisation change and capacity/ capability to deliver it all	Through robust management of our change programme, and securing of additional temporary resource, we have successfully delivered our 2015/16 goals.

Strategic Risk	Outcome
Insufficient professional leadership, impacting on the culture/ morale of the Agency and/ or reducing the quality of audits carried out	We have rolled out new common methodology during the year, and undertaken an EQA to assure our quality. We have established a new Professional Practice Directorate from April 2016 to advance our professional leadership further.
Lack of resource capability to deliver audit work for customers	We have successfully managed this through recruitment exercises and flexible use of our new framework contracts.
Unforeseen events (e.g. industrial action, pandemic outbreak) that would have an adverse impact on our ability to deliver services	We have put in place business continuity plans, and established flexible ICT and other working arrangements. We will strengthen these arrangements in 2016.

During all the above change, we are also committed to not being distracted from our main purpose – to deliver high quality audit and assurance services.

The Agency has ongoing memoranda of understanding to provide audit services to our customers into 2016/17, and has agreed supply funding with the Treasury for our ongoing expansion and internal audit policy work. From the start of 2016/17, 13 customers moved their service to GIAA as part of the Home Office/DWP migration and a further three customers (NS&I, UK Government Investments, and the Office for Fair Access) agreed to take a service from April 2016. Taken together with firm commitments from a number of other bodies to migrate to the Agency during 2016/17 and beyond, we are satisfied that the Agency’s future is strong and we are a going concern.

Our specific objectives for 2016/17 are in our Corporate Plan, which is published on our website.<sup>1</sup>

## 1.4 Looking to the Future

2016/17 will be a challenging year as we continue to work to deliver a rapid pace of change as part of the continued growth of an enhanced audit service across government.

As well as welcoming new teams to the organisation, there will be a new leadership team. Our key focus will be on completing the agency development programme, embedding the structure, and making the benefits of the new shared service a reality for our people, our customers and government as a whole, and the public purse.

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1. <https://www.gov.uk/government/publications/government-internal-audit-agency-corporate-plan-2016-17>

## 2. Performance Analysis

The Agency's financial and non-financial performance for our first year of operation in 2015/16 is set out in the following sections.

### 2.1 Our Financial Performance

#### Income

Total operating income for the year was £13,161k arising from fees for audit services to our central government customers.

#### Expenditure

Our administration costs this year were £14,273k, consisting of staff costs of £9,217k and non-staff costs of £5,056k.

Permanent staff costs of £8,730k 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.

We engaged a number of 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 £3,299k. The Agency additionally employed contingent labour totalling £487k outside the core framework to provide further audit resources and to fill temporary gaps in our corporate teams.

The Agency incurred £244k in travel and subsistence costs, the bulk 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 (such as for finance, HR and ICT services received from our parent body, HM Treasury) of £895k; accommodation costs of £262k, learning and development for our staff of £90k, and other HR-related costs of £90k. 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 £257k, as explained in Note 3.2 to the accounts.

On its customer-facing activities, the Agency has recorded a small surplus of £231k, generating revenue of £13,161k from customers, against a cost of service delivery of £12,930k. As a result, the Agency met its financial objective of breaking even across its customer-facing activity, as explained in Note 5 to the accounts.

When authorised spending of £1,343k on the Internal Audit policy function and the Agency development programme is taken into account, the Agency recorded net operating expenditure of £1,369k. 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 £39k represents the surplus on our operating activities less the unfunded accrued annual leave that transferred to the Agency.

## Financial Position

The Agency's balance sheet consists of receivables of £5,725k and payables of £5,686k. 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 £2,531k relating to amounts invoiced but not paid at 31 March, and £3,140k relating to services delivered in 2015/16 but not invoiced until the new financial year.

Payables consist of amounts invoiced but not paid at 31 March to our internal audit framework suppliers of £1,025k, £354k of advance receipts from customers and £1,297k other accruals. 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 £2,622k, which is the difference between the cash received from customers and expenditure funded by HM Treasury during the year. The Agency also owed £388k in taxation, social security and pension payments relating to the March 2016 payroll.

## 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 80.5% of all undisputed invoices within 5 days of receipt and 95.5% within 30 days.

## Events after the Reporting Period

No events have occurred after the reporting period that materially impact on the financial year or the results reported in this document.

## Financial Performance Targets

Our financial performance against the objectives we set ourselves for the year (as documented in our Corporate Plan 2015/16) is as follows:

Top level objective	Metric	Performance
1. The Agency continues to expand and increase its coverage of delivery across more of Government	Agency delivers expansion within agreed funding from HM Treasury	Achieved

The Agency development programme for 2015/16 was successfully delivered at a cost of £1,062k against a budget set by HM Treasury of £1,300k. The budget was increased by £300k during the year in order to accelerate the migration of the Home Office audit service from its original target date of June 2016 to 1 April 2016.

Top level objective	Metric	Performance
2. Use our resources effectively to deliver value for money for our customers and the taxpayer	We will improve the cost effectiveness of our service by 15% by the end of the Agency's first three years of operation. This will be achieved through a combination of economy and efficiency measures i.e. by reducing our costs and raising our productivity.	On track

We have made good progress against our target to improve the cost effectiveness of our service by 15% by the end of the Agency's first three years of operation through the implementation of the new contractor framework and reductions in our average customer fees.

We have achieved this through a combination of economy and efficiency measures (i.e. by reducing costs and raising productivity), including:

- the new pan-government framework for internal audit services has replaced what was commonly a single provider for each department with a panel of firms, delivering a wider range of skills and rate cards than previously available. As a result, just by reallocating work between firms on the framework, we believe there is potential for up to a 40% reduction in the cost of such work; and

- reducing our average day rates for in-house resources between 1.3% and 1.5% in 2016/17, and absorbing the planned 1% civil service pay budget increase, changes to employer national insurance, and other inflationary pressures.

The precise benefit that individual customers will achieve will vary depending on the scope and delivery model for their existing services, with larger customers expected to derive greatest benefit as we deliver more innovative assurance services and substitute private sector for in-house specialisms.

Top level objective	Metric	Performance
3. Embed our new financial and commercial operating models	Recovery of our operating costs from our customers, resulting in the Agency breaking even across its customer-facing activity	Achieved

The Agency generated revenue of £13,161k from customers, against a cost of service delivery of £12,930k.

## 2.2 Our Non-Financial Performance

Our non-financial performance against the objectives we set ourselves for the year (as documented in our Corporate Plan 2015/16) is as follows:

Top level objective	Metric	Performance
1. Deliver a quality internal audit service to achieve improved assurance outcomes and realise the expected benefits of one Agency	Assignment feedback (% of assignments being rated as “good” or “excellent”)	Achieved average score of 7.97 out of 10 (from 176 responses) <sup>2</sup>
	Annual Accounting Officer satisfaction score (% of Accounting Officers rating GIAA as “good” or “excellent”)	Achieved average score of 7.3 out of 10 (from 10 responses, summer 2015) <sup>3</sup>

During a period of significant change for both our people and our customers, it is pleasing that our satisfaction levels have remained broadly consistent with 2014/15 (average assignment feedback in 2014/15 was 8 out of 10).

2. To be consistent with the method the government internal audit profession uses, we amended our KPI to ask the following question: *“On a scale from 1 to 10, where “1” represents “Extremely Dissatisfied” and “10” is “Extremely Satisfied”, My level of satisfaction of the service provided by internal audit is ...”*
3. In response to the question: *“How would you rate our overall services (on the scale of 1-2 = Poor; 3-4 = Fair; 5-6 = Good; 7-8 = Very Good; 9-10 = Excellent)?”*

In addition to our annual Accounting Officer survey, the Chartered Institute of Internal Auditors undertook a survey of Accounting Officers as part of the External Quality Review of GIAA in late 2015. The overall results of this survey were:

- 80% of respondents felt IA focused on the appropriate risk areas and had the appropriate skills at their disposal;
- 87% of respondents stated that top level management trust and value the advice of IA;
- 80% of respondents felt IA provide practical and commercial recommendations.

Top level objective	Metric	Performance
2. The Agency continues to expand and increase its coverage of delivery across more of Government	An increase in the proportion of government internal audit operating under the Agency	Achieved

We delivered two phases of migration during the year:

- 1 November 2015 – 38 people, delivering services to four customers (Companies House, Crown Commercial Service, DVLA and Skills Funding Agency).
- 1 April 2016 – 176 people, delivering services to Home Office, DWP and their arms length bodies.

1 April 2016 was a major milestone as it signified over half of internal auditors in government have become part of the GIAA.

Top level objective	Metric	Performance
3. Use our resources effectively to deliver value for money for our customers and the taxpayer	Reduce our dependency on private sector resources for generalist audits	Not achieved

Our use of the private sector increased during the year, spending £3,299k against an initial budget of £2,234k. This increase was driven by difficulties in recruiting quality professionals into our generalist and specialist audit roles, and by a need to manage peaks of work in the latter half of the year. We also saw an increase in demand for more specialist work (which is a positive), but where the Agency has not reached a maturity level yet to resource these in-house, and therefore still relies on the private sector. Our plans for 2016/17 will start to see our dependency on the private sector reduce for generalist audits, while maintaining a need for specialist support.

Top level objective	Metric	Performance
4. Attract, develop and retain the range of skills and expertise needed to deliver a consistent, quality service to our customers	Improve our overall staff engagement index in our People Survey	Not achieved

Our overall Engagement Index in the annual People Survey remained steady at 55% (with an 84% response rate), which compares reasonably with the overall civil service score of 58%, and is comparable with non-GIAA internal audit functions (which range from 44% to 58%). While we are disappointed that we did not improve our score, this is understandable given the significant amount of change our people have been through in moving to the Agency and delays in fully establishing our corporate centre. A particular focus for the Agency in 2016 will be the two lowest component scores in the survey – Learning & Development (44%) and Pay & Rewards (30%).

Top level objective	Metric	Performance
5. Provide an internal audit policy service which creates a pace for changing the shape of the profession across government	HM Treasury (as owner of IA Policy) is “Satisfied” or “Very Satisfied” with the quality of the internal audit policy work delivered	Achieved

HM Treasury has confirmed that the Agency has achieved its objectives in the delivery of the Agency development programme; the on-boarding of Home Office, DWP and the four smaller bodies during the year; and the quality of the internal audit policy work delivered.

## 2.3 Other Disclosures

### Greening Government Commitments

The Agency has received an exemption from the Department for Environment, Food and Rural Affairs for reporting on the Greening Government Commitments in 2015/16 as we fall below the reporting threshold. The expansion of the Agency in April 2016 moves us over the threshold, and we will publish our first year's performance in our 2016/17 annual report.



**Jon Whitfield**  
**Chief Executive & Accounting Officer**  
27 June 2016

# Part 2: Accountability Report

# 1. Corporate Governance Report

## 1.1 Directors' Report

### Governance Framework

The Government Internal Audit Agency is an Executive Agency of HM Treasury, established on 1 April 2015. The Treasury has appointed Jon Whitfield as the Agency's first Chief Executive, who is also the Head of the Internal Audit Profession for Government. The Chief Executive is accountable to the Permanent Secretary, HM Treasury, who has delegated day to day responsibility to the Director General Public Finance & Spending. The Minister who had responsibility for the Agency during the year is the Economic Secretary to the Treasury (Andrea Leadsom MP held this post until 11 May 2015, with Harriett Baldwin MP appointed from that date).

We published our inaugural 'Framework Document' in April 2015, which defines the relationship between the Agency and our sponsoring department, HM Treasury, including the arrangements for the governance, accountability, financing, staffing and operation of the Agency. Our Framework document can be viewed on our website.<sup>4</sup>

The Agency's governance structures consist of an Agency Board, Audit Committee, and Strategy Board, supported by an operational senior management team, as represented in the following diagram:

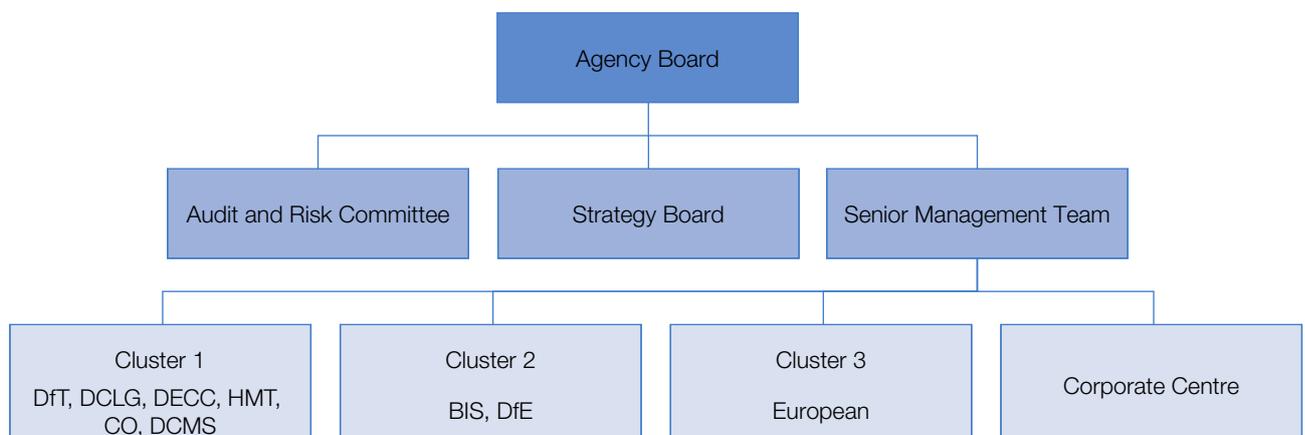


Figure 5: Agency Organisational Structure 2015/16

4. [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/499408/GIAA\\_Framework\\_Document\\_-\\_1\\_April\\_2015.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/499408/GIAA_Framework_Document_-_1_April_2015.pdf)



Figure 6: Agency Decision & Responsibilities flow

### Agency Board

The GIAA Agency Board is the overarching decision making body and supports the Chief Executive in providing leadership of the Agency. Its remit is to frame the overall strategic direction of the Agency and oversee its implementation. Membership of the GIAA Agency Board throughout the year was as follows:

- Jon Whitfield, Chief Executive
- Ian Coates, Chief Operating Officer
- Mike Ashley, Chairman/Non-Executive Director
- Steve Burnett, Non-Executive Director
- Margaret Edwards, Non-Executive Director
- Julian Kelly, Director General Public Spending & Finance, HM Treasury

The three non-executive directors were appointed in October 2014 upon launch of the Agency in shadow form for an initial period of up to 3 years, with an option to extend for a further 3 years. Short biographies for the Chief Executive, Chief Operating Officer and the non-executive directors are available on our website. Following an information session on 29 October 2014, the Board first met in shadow form on 4 February 2015, and became fully constituted upon the Agency’s launch in April 2015.

Attendance at the Agency Board and Audit & Risk Assurance Committee for 2015/16 was as follows:

Members	Role	Meetings Attended	
		Board	Audit Committee
Jon Whitfield	Chief Executive	5 out of 5	3 out of 3
Ian Coates	Chief Operating Officer	4 out of 5	3 out of 3
Mike Ashley	Non-Executive Director	5 out of 5	3 out of 3
Steve Burnett	Non-Executive Director	5 out of 5	3 out of 3
Margaret Edwards	Non-Executive Director	5 out of 5	3 out of 3
Julian Kelly	Sponsor Representative	3 out of 5	n/a

Table 1: Agency Board Attendance 2015/16

### Audit Committee

The Agency has an Audit & Risk Committee with an independent non-executive Chair, Margaret Edwards. The Committee, whose membership includes both the other non-executive directors, supports the Accounting Officer by monitoring and reviewing the Agency’s risk, control and governance processes (including associated assurance processes). The Chief Executive, the Chief Operating Officer and representatives from the Agency’s internal audit function and the National Audit Office also attend each meeting.

## GIAA Strategy Board

The Agency established a Strategy Board in April 2015 to set the strategy for the future Agency growth and successfully integrate internal audit services to one point of delivery from the GIAA.

Recognising the need to ensure the Agency developed structures and processes that were suitable for both the existing agency and our future, membership of the Strategy Board comprises the Chief Executive, the Chief Operating Officer, a Group Chief Internal Auditor (GCIA) from within GIAA, and the Group Chief Internal Auditors of the five departments committed to join the Agency in 2016 and 2017 (DWP, Home Office, MOJ, Defra and HMRC). The four smaller bodies that joined GIAA in November 2015 were represented by the Chief Internal Auditor (CIA) for the DVLA until her retirement in September 2015. It is the decision-making body with respect to the Agency Development programme, supporting the Chief Executive in the successful migration of internal audit services to the Agency.

The Strategy Board met nine times in 2015/16 with attendance as follows:

Members	Role	Meetings Attended
Jon Whitfield	Chief Executive	8 out of 9
Ian Coates	Chief Operating Officer	9 out of 9
Tim LeMare	DfT GCIA, GIAA	8 out of 9
Mark Ripley	DWP GCIA	8 out of 9
Nathan Paget	Defra GCIA	9 out of 9
Tim Watkinson	MoJ GCIA	6 out of 9
Chris Westwood	Home Office GCIA	8 out of 9
Ian Haldenby <sup>5</sup>	HMRC GCIA	1 out of 3
Richard Parkinson <sup>6</sup>	HMRC GCIA	4 out of 4
Teri Morgan <sup>7</sup>	DVLA CIA	4 out of 4

**Table 2: Strategy Board Attendance 2015/16**

To support its work, the Strategy Board established nine workstreams, each led by an SCS member of the Strategy Board:

5. Stepped down from the GIAA Strategy Board upon resignation from HMRC in August 2015.
6. Joined GIAA Strategy Board upon appointment to HMRC in October 2015.
7. Stepped down from the GIAA Strategy Board upon retirement from DVLA in September 2015.



### Other Committees & Structures

Operationally, the Chief Executive chairs the fortnightly Senior Management Team (SMT) meeting, attended by the Chief Operating Officer and each of the Group Chief Internal Auditors within the Agency. The SMT meetings have responsibility for the operational management of the GIAA, implementing strategic decisions taken by the Agency Board, and making any decisions relating to the day-to-day running of the GIAA.

Below senior management, the Agency is divided into three operational clusters around the service delivery to groups of customers:

- *Cluster 1:* Cabinet Office; Communities & Local Government; Culture, Media & Sport; Energy & Climate Change; HM Treasury; Transport.
- *Cluster 2:* Business, Innovation & Skills; Education.
- *Cluster 3:* European Audit.

The Agency is supported by a Corporate Centre, led by the Chief Operating Officer, supported by additional back-office services provided by HM Treasury under a Service Level Agreement.

### Governance Review 2016/17

The Organisational Design workstream undertook work to formulate new governance structures to support the Agency from April 2016, and accommodate its expansion and senior management structure to enable capability to deliver the Agency priorities. This will see a new executive group established to manage the operations of the Agency, and consists of the Chief Executive, two Operational Directors, the Corporate Services Director and the Professional Practice Director.

Further details of the changes and our plans for 2016/17 are set out in our Corporate Plan, available on our website.

## 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.

Margaret Edwards is a member of the Senior Salaries Review Body (SSRB), which provides independent advice to the Prime Minister on the pay of senior civil servants across government, including those employed by the Agency. The SSRB has no direct influence over senior salaries in the Agency.

Mike Ashley sits on the Board, and chairs the Audit Committee, of the Charity Commission, which is one of the Agency's customers. He was also a member of the Audit Committee of HM Treasury (a customer and our sponsoring department) until he stepped down in July 2015.

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 interests of the non-executive directors, the Chief Executive and the Chief Operating Officer are published on our website.

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

## Information & Data Security

The Agency holds personal data relating to its employees and some data owned by its customers in relation to its role as internal audit services provider to government. We work with HM Treasury and third parties on robust data management and security. Our primary contractors may also access GIAA and/or customer data on our behalf, and are contractually required to comply with government, GIAA and customer policies.

During 2015/16, the framework for handling data and to provide assurance over the management of information included:

- continued review and production of data handling and information management policy.
- completion by all Agency staff of the *Responsible for Information* e-learning course.
- continuing review of information management and associated risks, with assurance provided by the HM Treasury Knowledge Management team.
- each supplier has provided the Agency with an assurance letter for the year confirming their adherence to these policies and disclosure of any relevant incidents.

In 2015/16, there were no personal data incidents formally reported to the Information Commissioner's Office or to HM Treasury. However, there have been three cases of ICT equipment being lost (two by GIAA employees and one by a contractor). All equipment was encrypted to government standards, and through investigation we are satisfied that no data breaches occurred.

Security policies, including incident management and reporting, are subject to regular reviews to ensure they remain fit for purpose. Employees undertake security training on joining the Agency and periodically thereafter. Where human error is identified, disciplinary action may result.

## Whistleblowing arrangements

The Agency has established a Whistleblowing policy, which was considered by the Audit Committee at its July 2015 meeting, and has been published to our people via the Agency intranet. Two connected concerns were raised in 2015/16 regarding the outcome of an individual audit assignment, which we are still investigating.

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 2015/16.
- where an allegation relates to an organisation that is not a customer or is outside our remit, we will advise the relevant parties and agree an appropriate way forward. The Agency received one case that fell into this category during the year.

The Agency will review its Whistleblowing policy and procedures during 2016/17 in light of its first year of operation to ensure it is effective.

### Audit

The Agency is audited by the Comptroller & Auditor General, with a notional audit fee of £65,000. The external auditors did not undertake any non-audit work during the year.

## 1.2 Statement of Accounting Officer's Responsibilities

Under section 7(2) of the Government Resources and Accounts Act 2000, HM Treasury has directed the Government Internal Audit Agency 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 in particular 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 of Her Majesty's Treasury designated the Chief Executive of the Government Internal Audit Agency, 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 GIAA's assets, are set out in *Managing Public Money* published by the 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;

- 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.

### 1.3 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, and describes the Agency governance arrangements and provides an assessment of how we have balanced risk, assurance and control during 2015/16.

#### a) Operation of Governance Structures

The Agency has put in place a number of formal governance structures, as outlined in the Director's Report. The work of the senior boards and committees has been as follows:

##### **GIAA Board**

The Board has focused on the strategic development of the Agency since launch, and in preparation of its first major expansion in April 2016. The non-executive directors have been instrumental in challenging the Agency's management to:

- deliver the expansion of the Agency, and migration of audit functions, with sufficient pace and vigour;
- designing the future structure and governance arrangements for the Agency;
- improve its financial and non-financial management information and reporting;
- respond to the 2015 People Survey, including growing an Agency-wide culture and inclusive environment for all our people, especially those located outside of London;
- agree a new approach and associated guidance and policy for the learning and development offer of the Agency; and
- develop plans to improve the diversity of the Agency, particularly at senior grades.

The Board intends to formally review its performance in summer 2016, following the conclusion of the Agency's first year of operation.

##### **Audit & Risk Committee**

The Audit & Risk Committee has considered the following issues:

- the arrangements and independence safeguards for the internal audit service, including agreeing the audit charter and annual audit plan;
- the outcomes of work by the internal and external auditors;
- reviewing key governance related policies, including the whistleblowing policy, the counter fraud policy, and the risk management framework;
- reviewing the Agency's accounting policies and the results of its six month trial-run financial statements; and
- reviewing the draft annual report and accounts at its April 2016 meeting.

## Strategy Board

Its work during the year has covered:

- strategic leadership and oversight over the Agency Development Programme to deliver the agreed benefits;
- design of Agency governance, operational and geographic organisational structures;
- delivery of specific workstreams, including the ICT project to identify a single audit system, the People and Pay projects; and
- strategic consideration of key metrics and insights from the annual Accounting Officer Survey and Civil Service People Survey.

### b) Risk Management

Risk management is carried out in accordance with HM Treasury risk management guidance. Risk management is embedded at every level of the business by encouraging each operational cluster and the development programme to proactively own and address their risks as the local knowledge experts. The process is to identify and evaluate a risk, determine an appropriate response and actively manage it to ensure the Agency's exposure is limited to an acceptable level.

The resulting bottom-up risk registers are presented to the Senior Management Team and Agency Board to identify, monitor and manage key strategic risks from a top-down perspective. Risks specific to the Agency development programme are presented to and discussed at each Strategy Board meeting.

The Audit & Risk Committee provides a challenge function to the risk management arrangements and internal audit assures the processes.

Strategic Board-level risks are assigned a senior civil servant owner. The highest strategic risks are escalated to HM Treasury

Risk Group as part of their oversight and management of HM Treasury group risk.

The key risks the Agency managed during the year are shown in Section 1.3 of the Performance Report.

### c) 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 HM Treasury's *Managing Public Money*.

As a new Agency, the process of designing and implementing our system of internal control commenced in advance of the Agency launching on 1 April 2015. Wherever possible, we implemented the existing systems, processes and controls of our parent department, HM Treasury, on whose back-office systems we rely. Where necessary, we have built on or adapted those systems and processes to suit our requirements.

The Agency has experienced delays attracting good calibre people to fill key corporate roles during the year with the consequence that we have not had the capacity to invest in our corporate services beyond establishing core services. As a result, the Agency was not well placed to provide operational managers, senior management and the Board with the robust and timely financial information necessary to confidently move the Agency onto a more commercial basis of operation. Back-office services provided by HM Treasury have ensured we have maintained appropriate internal controls over the finance and payments systems.

The establishment of the Agency brought about a shift in emphasis in how our operational auditors go about their business and the more commercial relationships we now have with our customers. It has taken time for the Agency to embed these commercial behaviours, which affected our ability to accurately monitor our financial and non-financial performance during the year.

#### d) Review of Corporate Governance

The Agency seeks to comply with HM Treasury's *Corporate Governance in Central Government Departments: Code of Good Practice* (2011) 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, with the following exceptions, it meets the Code's requirements:

- for 2015/16, the Agency Board established an executive Strategy Board to help set the strategic leadership and oversight over the Agency Development Programme. The Agency Board and the Strategy Board held two joint sessions during the year, with regular reporting by the Strategy Board to the Agency Board in-between;
- as noted below, further maturity is needed in the Agency's financial and non-financial reporting to ensure the Board is able to effectively monitor the Agency's performance;
- given the size of the Agency, the Board has chosen not to establish a 'Nominations & Governance Committee';
- the Board agreed to review its effectiveness during 2016 following the completion of its first year of operation; and
- it was deemed not necessary for the Head of Internal Audit to attend the Agency Board, although there is a standing invite for specific items of interest.

#### e) Review of Effectiveness

I have responsibility for conducting an annual review of the effectiveness of the systems of the organisation's governance, risk management and internal control. This review has been informed by the Agency Audit Committee, the oversight and review work of operational managers, and the Agency's internal and external auditors all of whom have a role in ensuring the Agency's governance structures and internal control framework are appropriately designed and operating effectively. The Governance Statement represents the end product of the review of the effectiveness of the governance framework, risk management and internal control.

#### Management Assurance

The Agency has implemented an annual Management Assurance exercise to review all facets of management assurance, policy and practice. The 2015/16 exercise asked all senior civil servants in the Agency to provide performance commentary and evidence on a range of assurance aspects.

The Agency receives back-office Finance, HR and ICT services from HM Treasury, and received written assurance on the operation of and control over these services.

Responses were reviewed and agreed by subject matter experts, internal audit and the Audit & Risk Committee, with the following specific control issues reported:

- the Agency has yet to fully embed the necessary commercial culture across its operational teams;
- the financial and management reporting arrangements, while maintaining the required level of control, were not at full maturity throughout the year as a result of the commercial behaviours referred

above, and delays in fully resourcing the Finance team; and

- a number of other core corporate processes, while meeting the minimum standards of internal control, need further investment to achieve the level of maturity needed to support the Agency going forward.

These control weaknesses affected our ability to have complete oversight of the Agency's performance during the year. Incremental improvements were made throughout the year, with a particular emphasis on ensuring our year-end performance and position are accurately stated. We will continue to make further improvements to our corporate processes and the commercial behaviours in 2016/17, particular as we expand and take on new teams.

### Internal Audit

The Agency has established an internal audit function that operates to prescribed Public Sector Internal Audit Standards, appointing a Head of Internal Audit from within the Agency. The Agency recognises the potential conflict of interest inherent in this arrangement, and the Chief Executive and the Head of Internal Audit have agreed with the Audit Committee a set of protocols and safeguards to ensure that internal audit operates independently, and is free to express its views.

The Head of Internal Audit has provided the Accounting Officer with an annual opinion, which states that there is limited assurance on the framework of governance, risk management and control. This opinion recognises the provision of back-office services by HM Treasury using established processes that have been independently assured. It has also considered the continued evolution and development of the framework of governance, risk management and control within GIAA. Significant weaknesses have

been identified and not yet fully remediated, which could lead to the framework being inadequate and ineffective.

The work of internal audit has primarily covered two key aspects of Agency operation, reflecting the risks associated with a newly established organisation:

- *Accounting Officer Responsibilities (Limited Assurance)* – the report found that GIAA launched with a fledgling control environment based on the controls used by GIAA parent organisation, HM Treasury, and as expected for a new agency the control environment has continued to develop post launch. The pace of these developments has been slowed by a lack of sufficient resource, most significantly within Finance.
- *Charging Model (Unsatisfactory Assurance)* – the report found that the Agency would have benefited from further development and quality assurance around its charging model for 2015/16 (which was developed in winter 2014/15), which is used to cost all customer-facing activity. It also found that commercial behaviours within the Agency have not been consistently practiced by operational auditors, which hindered the Agency's ability to manage its financial position during the year.

### Quality Assurance

Responsibility for quality assurance currently rests with individual chief internal auditors, who ensure that all work delivered to our customers complies with Public Sector Internal Audit Standards and Agency methodology and policies.

To support this, in late 2015, we commissioned the Chartered Institute of Internal Auditors to conduct an External Quality Assessment of the Agency. This placed GIAA well into the second quartile of

audit services in both the private and public sector, concluding that the Agency 'Generally Conforms' to the Public Sector Internal Audit Standards. The action plan to address the recommendations of the EQA was approved by the Agency Board.

The Agency will strengthen its commitment to quality in 2016/17 with the establishment of a new Professional Practice directorate, which will consolidate our methodology, training and quality assurance efforts. As part of this, we will introduce enhanced hot and cold quality reviews of work to ensure the Agency meets the required standards and consistency in our work.

The Agency has invited the National Audit Office to undertake an annual review of the quality of audit reports issued by the Agency, which will be piloted during 2016, to give an additional independent view of the quality and consistency of work as the organisation expands.

### **Physical, Information & Data Security Assurance**

Customer data security remains critical and is secured by adherence to Agency and HM Treasury requirements, and in accord with the Cabinet Office Security Standards.

The Agency conducted a self-assessment exercise using the Cabinet Office's Departmental Security Health Check / Security Policy Framework Compliance Return. This concluded that the Agency's processes and training, and the ICT systems and controls provided by HM Treasury, provided an adequate level of assurance to mitigate the Agency's risk exposure.

The self-assessment did identify some areas for improvement:

- more regular Board reporting and training;
- increased reporting from our seven delivery partners on the internal audit framework contract; and
- increased local induction and ongoing training events, recognising our geographically dispersed nature.

While the Agency has not conducted a full test of its business continuity plan, we successfully managed a low-level incident in 2015 when the HM Treasury ICT network (which the Agency uses) suffered a prolonged period of performance degradation. The Agency was able to provide alternative working solutions to enable continuing service delivery with no impact on our customers.

### **f) 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 and internal control structures are largely in place and meet the required minimum standards. However, I recognise the need to improve our controls and processes around the production of financial and non-financial management information, and to foster a wider culture of commercial awareness, in order to inform decision making and monitoring of business performance.



## 2. Remuneration and Staff Report

### 2.1 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](http://www.gov.uk/government/organisations/office-of-manpower-economics).

#### 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 stated below, the officials covered by this report hold appointments that 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](http://www.civilservicecommission.org.uk).

### 2.2 Staff costs

The information provided in Section 2.2 is subject to audit by the Comptroller & Auditor General.

	Permanent Staff (£000)	Other Staff (£000)	Total (£000)
Salaries including allowances	6,734	474	7,208
Social security costs	598	4	602
Other pension costs	1,398	9	1,407
<b>Total staff costs</b>	<b>8,730</b>	<b>487</b>	<b>9,217</b>

Table 3: Staff Costs

The average number of full-time equivalent persons employed during the year was 148.1.

#### Pension Costs

The Principal Civil Service Pension Scheme (PCSPS) and the Civil Servant and Other Pension Scheme (CSOPS) – known as ‘alpha’ – are unfunded multi-employer defined benefit schemes but the Government Internal Audit Agency is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2012. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation.<sup>8</sup>

8. <http://www.civilservicepensionscheme.org.uk/about-us/resource-accounts/>

For 2015/16, employers' contributions of £1,392,036 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. 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 2015/16 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 £6,517 were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable earnings up to 30 September 2015 and from 8% to 14.75% of pensionable earnings from 1 October 2015. Employers also match employee contributions up to 3% of pensionable earnings. In addition, employer contributions of £333 (0.8% of pensionable pay up to 30 September 2015 and 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.

Contributions due to the partnership pension providers at the balance sheet date were £1,198. Contributions prepaid at that date were £nil.

### Exit packages

During the year, one compensation payment of £29,886 was made in respect of a fair dismissal on the grounds of inefficiency in which the individual was entitled to compensation under the Civil Service Management Code. No other costs for exit packages in 2015/16 were incurred.

## 2.3 Salary and Pensions Entitlements

The following sections provide details of the remuneration and pension interests of the most senior management (i.e. Board level) of the Agency. This information has been subject to audit.

### Senior Civil Service (SCS) Pay

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

### 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.

### Consolidated Awards

For the 2015 annual pay award (which is based on performance during the preceding financial year), we honoured the arrangements made within the previous departments, this is due to the fact the SCS staff spent the period in those departments and the Agency was in shadow state. The award details were confirmed to us by departmental HR teams and then actioned by the Agency as specified.

### Performance bonuses/Non-consolidated performance-related pay awards

There were no non-consolidated performance-related pay awards for the SCS in the 2015 pay award.

### 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. The amounts involved are disclosed in the salary, allowances and taxable benefit table.

### Remuneration (including salary) and pension entitlements

The information provided in Tables 4, 5 and 6 is subject to audit by the Comptroller & Auditor General.

Name	Role	Salary (£000)	Performance Bonus (£000)	Benefits in Kind (to nearest £100)	Pension Benefits (to nearest £1,000) <sup>9</sup>	Total (£000)
Jon Whitfield	Chief Executive	90-95	–	–	100	190-195
Ian Coates	Chief Operating Officer	85-90	–	–	35	120-125

Table 4: Agency Board executive members – total remuneration including salary, bonus, benefits-in-kind and pension benefits

Name	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 2016 (£000)	Cash Equivalent Transfer Values (CETV)		Real increase in CETV as funded by employer in year (£000)
			As at 31 March 2015 (£000)	As at 31 March 2016 (£000)	
Jon Whitfield	pension: 2.5-5 lump sum: 12.5-15	40-45 plus lump sum 130-135	750	903	90
Ian Coates	pension: 0-2.5	10-15 (no lump sum)	88	117	10

Table 5: Agency Board executive members: pensions benefits

9. The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) less (the contributions made by the individual). The real increase excludes increases due to inflation or any increase or decrease due to a transfer of pension rights.

Name	Role	Total remuneration (£000)
Mike Ashley	Chairman	15-20
Margaret Edwards	Non-executive director	10-15
Steve Burnett	Non-executive director	10-15

**Table 6: Agency Board non-executive members: remuneration**

The Agency has not made any payments to past directors, or for compensation on early retirement, for loss of office or for exit packages during the year.

### Pay multiples (subject to audit by the Comptroller & Auditor General)

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 2015/16 was £90-95,000. This was 2.1 times the median remuneration of the workforce, which was £43,306 (full time equivalent). In 2015/16, no employees received remuneration in excess of the highest paid director. Remuneration salaries in the Agency ranged from £18,323 to £93,812.

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 pensions.

## 2.4 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 3% and 8.05% of pensionable earnings for members of classic (and members of alpha who were members of classic immediately before joining alpha) and between 4.6% and 8.05% for members of premium, classic plus, nuvos and all other members of 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 member's 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 3% and 12.5% up to 30 September 2015 and 8% and 14.75% from 1 October 2015 (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 0.8% of pensionable salary up to 30 September 2015 and 0.5% of pensionable salary from 1 October 2015 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](http://www.civilservicepensionscheme.org.uk)

### Cash Equivalent Transfer Values

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

**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.

**2.5 Agency Composition**

The Agency’s authorised headcount was set at the start of the year at 156.5 FTEs, which increased to 194.4 FTEs following the migration of the four entities in November 2015. GIAA has remained within headcount throughout the year, and as at 31 March 2016 employed the following staff:

Category	Number	Cost
Staff with a permanent UK employment contract	172	8,730
Other staff engaged on the objectives of the entity (consisting of interim and temporary workers)	13	487
<b>Total</b>	<b>185</b>	<b>9,217</b>

**Table 7: Staff Composition**

Including the Chief Executive and the Chief Operating Officer, the Agency employs six Senior Civil Servants (SCS) – one at Pay Band 2 (the Chief Executive) and five at Pay Band 1. Our complement of SCS posts is primarily driven by the needs of our customers in delivering the agreed audit programmes.

**Sickness absence**

The average working days lost to sick absence during 2015/16 was 4.2 days. The Agency put in place a strategy during last year to address sick absence, with a particular focus on wellbeing. Senior management will continue to monitor the success of this strategy and future trends in our sickness data to identify early what further interventions may be required.

**Diversity**

The following table summarises the composition of the Agency as at 31 March 2016:<sup>10</sup>

Grade	Male	Female
• Senior Civil Service	100%	0%
• SCS & G6	63%	37%
• Agency Total	57%	43%

**Table 8: Agency composition as at 31 March 2016**

In line with all Civil Service departments and agencies, we monitor our workforce in terms of gender, ethnic origin, age, disability, religion or belief, sexual orientation and working patterns. The Agency recognises the current make-up of its people, particularly at senior levels, does not fully reflect our customers, the wider civil service or society as a whole. The Agency is committed to beginning to address this during 2016/17 and our Corporate Plan for next year set out our

<sup>10</sup> Data drawn for GIAA HR system, which has a diversity self-declaration rate of around 70% by employees.

targets for improvement in the numbers in under-represented groups.

As a new Agency, we recognise that we have the opportunity to evolve policies and practices that support and develop all our people, and focus on abilities and potential and we will be working on this during 2016/17. Throughout 2015/16 and at present, the Agency operates a Guaranteed Interview Scheme, which guarantees an interview to anyone with a disability whose application meets the minimum criteria for the post. At interview stage, candidates are invited to notify the panel of any reasonable adjustments or requirements that they have in order to facilitate them to participate fully and at the best in the interview.

Some 2% of our staff have declared a disability or long term health condition. The disability status of approximately 40% of staff is unknown and we will therefore be working to improve our information base as a priority. To ensure continuing employment of those people who have become disabled persons while working in the Agency, we offer a range of support measures including advice from our Occupational Health Service, Employee Assistance Programme support, access to training and information services and support and coaching for line managers of staff working with a disability. Some examples of Reasonable Adjustments that managers have put in place include pairing staff with a buddy, mentoring, agreement on location and requirements to travel, support for counselling, variation of working hours and workplace adaptations such as tailored IT software and furniture.

## 2.6 Consultants and Contingent Labour

The Agency utilises contingent labour to provide generalist and specialist audit resources, and to temporarily fill gaps in our corporate teams, as follows:

Category	£000
Specialist Contractors: Internal Audit Framework Contract	3,299
Interim & Temporary Workers	487
Consultants	nil

**Table 9: Consultants and Contingent Labour**

As described in the Performance Report, as part of its operating model, the Agency has established 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 more 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 has not engaged any consultants during the year.

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 2016 where the individual is paid more than £220 per day and the engagement has lasted for longer than six months:

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Number of existing engagements as of 31 March 2016:	4
Of which...	
• Number that have existed for less than one year at time of reporting:	4
• Number that have existed for between one and two years at time of reporting:	–
• Number that have existed for between two and three years at time of reporting:	–
• Number that have existed for between three and four years at time of reporting:	–
• Number that have existed for four or more years at time of reporting:	–

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**Table 10: For all off-payroll engagements as of 31 March 2016, for more than £220 per day and that last for longer than six months**

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Number of new engagements, or those that reached six months in duration, between 1 April 2015 and 31 March 2016:	4
Number of the above which include contractual clauses giving the department the right to request assurance in relation to income tax and National Insurance obligations:	4
Number for whom assurance has been requested	4
Of which...	
• Number for whom assurance has been received:	4
• Number for whom assurance has not been received:	–
• Number that have been terminated as a result of assurance not being received:	–

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**Table 11: For all new off-payroll engagements, or those that reached six months in duration, between 1 April 2015 and 31 March 2016, for more than £220 per day and that last for longer than six months**

## 3. Parliamentary Accountability and Audit Report

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

### **Fees and Charges (subject to audit by the Comptroller & Auditor General)**

We are 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.

The Agency's activities do not fall within the scope of HM Treasury's fees and charges requirements; however, we have provided an analysis on our income and expenditure by type of work in Note 5 to the Financial Statements.

### **Remote Contingent Liabilities (subject to audit by the Comptroller & Auditor General)**

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 by the Comptroller & Auditor General)**

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**

2015/16 was the Agency's first year of operations, and as such has yet to establish any long term expenditure trends. We will report this information in future years.



**Jon Whitfield**  
Chief Executive & Accounting Officer  
27 June 2016



# The Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of the Government Internal Audit Agency for the year ended 31 March 2016 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. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration and Staff Report and Parliamentary Accountability Disclosures that is described in those reports and disclosures as having been audited.

## Respective Responsibilities of the Accounting Officer and Auditor

As explained more fully in the Statement of the 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. My responsibility is to audit, certify and report on the financial statements in accordance with International Standards on Auditing (UK and Ireland). Those standards require my staff and me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial

statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Government Internal Audit Agency's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Government Internal Audit Agency; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my certificate.

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.

## Opinion on Regularity

In my opinion, in all material respects, the expenditure and income recorded in the financial statements have been applied to

the purpose intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

### Opinion on Financial Statements

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 2016 and of the comprehensive net 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 Other Matters

In my opinion:

- the part of the Remuneration and Staff Report and the Parliamentary Accountability Disclosures to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Performance Report and the Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which I report by exception

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

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or

- the financial statements and the part of the Remuneration and Staff Report and Parliamentary Accountability Disclosures 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**  
**29 June 2016**  
**Comptroller and Auditor General**  
**National Audit Office**  
**157-197 Buckingham Palace Road**  
**Victoria**  
**London SW1W 9SP**

# Part 3: Annual Accounts Report 2015/16

## Statement of Comprehensive Net Expenditure for the year ended 31 March 2016

	Note	Year to 31 March (£000)
Income from sales of services	4,5	(13,161)
<b>Total operating income</b>		<b>(13,161)</b>
Staff costs	2	9,217
Purchase of goods and services	3.1	5,056
<b>Total operating expenditure</b>		<b>14,273</b>
<b>Net expenditure for the year</b>		<b>1,112</b>
<b>Other comprehensive net expenditure</b>		
Cost of annual leave balances of staff transferred to GIAA	3.2	257
<b>Comprehensive net expenditure for the year</b>		<b>1,369</b>

The notes on pages 51 to 58 form part of these accounts.

## Statement of Financial Position as at 31 March 2016

	Note	2015 2016 (£000)
<b>Current assets</b>		
Trade & other receivables	7	5,725
<b>Total current assets</b>		<b>5,725</b>
<b>Current liabilities</b>		
Trade and other payables	8	(5,686)
<b>Total current liabilities</b>		<b>(5,686)</b>
<b>Total assets less total liabilities</b>		<b>39</b>
<b>Taxpayers' equity</b>		
General Fund		39

The notes on pages 51 to 58 form part of these accounts.

The Accounting Officer authorised these financial statements for issue on 27 June 2016.



**Jon Whitfield**  
Chief Executive & Accounting Officer  
27 June 2016

## Statement of Cash Flows for the year ended 31 March 2016

	Note	2015 2016 (£000)
<b>Cash flows from operating activities</b>		
Comprehensive net expenditure		(1,369)
(Increase)/Decrease in trade and other receivables		(5,725)
Increase/(Decrease) in trade and other payables		5,686
<b>Adjustment for non-cash transactions:</b>		
Notional expenditure: auditor remuneration		65
<b>Net cash outflow from operating activities</b>		<b>(1,343)</b>
<b>Cash flows from financing activities</b>		
From the Consolidated Fund (Supply) – current year		<b>1,343</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>–</b>
<b>Cash and cash equivalents at the beginning of the year</b>		
		<b>–</b>
<b>Cash and cash equivalents at the end of the year</b>		
		<b>–</b>

## Statement of Changes in Taxpayers' Equity

	2015 16 (£000)
<b>Balance at 1 April 2015</b>	–
Comprehensive net expenditure for the year	(1,369)
Supply funding from HM Treasury	1,343
Notional Audit Fee	65
<b>Balance at 31 March 2016</b>	<b>39</b>

# 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 is likely to affect how the Agency recognises revenue from its customers. On an annualised basis, the impact on both the Statement of Comprehensive Net Expenditure and the Statement of Financial Position is not expected to be material.
- The International Accounting Standards Board (IASB) is currently developing a replacement to the existing leasing standard, which is expected to eliminate off-balance sheet leasing arrangements, and require recognition of a single right-of-use asset, measured at the present value of lease payments. As the Agency currently occupies many properties from other government departments, and receives an ICT service from HM Treasury, this is likely to have an effect on the Statement of Financial Position but the timing of any implementation remains unclear at this stage.
- Other changes due to come into effect after 2015/16 are considered to have no impact on the Agency.

The GIAA is an executive agency of HM 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 2015 and 1 November 2015, 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 2014-15 are not required. 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 2015/16.

## 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 Administration and programme expenditure

The Statement of Comprehensive Net Expenditure is analysed between administration and programme income and expenditure. The classification of expenditure and income as administration or as programme reflects the determination of administration costs in HM Treasury's *Consolidated Budgeting Guidance*. Administration costs reflect the costs of running the Agency including staff related costs, travel and subsistence, IT maintenance and office expenditure. Programme costs reflect the costs of programme delivery and may include staff and other costs where these relate to activities associated with frontline service delivery. The Agency only has administration costs.

## 1.7 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.

## 1.8 Employee benefits

### *Pension and superannuation costs*

On 1 April 2015, employees who were members of the Principal Civil Service Pension Scheme were transferred to a new pension scheme, Alpha. This remains a defined benefit scheme but retirement benefits will be determined based on a career average rather than a final salary basis. Liability for payment of future benefits is a

charge on Alpha. In respect of the defined contribution schemes, GIAA recognises the contributions payable for the year.

#### *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.

### **1.9 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.

### **1.10 Provisions, Contingent Liabilities and Contingent Assets**

Provisions are recognised when it is probable that GIAA will be required to settle a present obligation, of uncertain timing or amount, as a result of a past event; and a reliable estimate can be made of that obligation. The obligation is normally the best estimate of the expenditure required to settle the obligation. Where the impact is material, expected future cash flows are discounted using the applicable HM Treasury real discount rate of -0.8%.

Contingent assets and liabilities are not recognised as assets or liabilities in the statement of financial position. However, they are disclosed in the notes of the accounts. A contingent liability is a possible obligation arising from past events whose existence will be confirmed only by uncertain future events, or it is a present obligation arising from past events that are not recognised because either an outflow of economic benefit is not probable or the amount of the obligation cannot be reliably estimated.

A contingent asset is a possible asset whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of GIAA.

Where the time value of money is material, the contingent liabilities and assets are stated at discounted amounts.

### **1.11 Notional Charges**

Certain costs are charged on a notional basis and included in the accounts. The only notional cost in 2015/16 was the auditor remuneration. Notional costs are recorded in the Statement of Comprehensive Net Expenditure and recorded as a movement on the General Fund.

### 1.12 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.

### 1.13 Accounting estimates and judgements

#### *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 the recoverability of income, 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 related costs

	Year to 31 March (£000)
Salaries including allowances	7,208
Social security costs	602
Other pension costs	1,407
<b>Total staff costs</b>	<b>9,217</b>

Further analysis of the Agency's staff costs is contained in the Remuneration & Staff Report.

## Note 3 – Purchase of goods and services

### 3.1 Analysis of total goods and services purchased

	Year to 31 March (£000)
Contractors costs	3,299
Support services from other Government Depts.	895
Accommodation costs	262
Travel and Subsistence costs	244
IT and telecommunications costs	98
Training costs	90
Auditor's remuneration	65
Staff support and staff related costs	47
Recruitment costs	43
Office costs	13
<b>Total other goods and services</b>	<b>5,056</b>

The Agency did not purchase any non-audit services from its auditor, the National Audit Office, during the year.

### 3.2 Cost of annual leave balances of staff transferred to GIAA

	Year to 31 March (£000)
Cost of staff transferred on 1st April 2015	218
Cost of staff transferred on 1st November 2015	39
<b>Total cost of staff transferred</b>	<b>257</b>

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 £13,161k relates entirely to audit fee income.

## Note 5 – Income and expenditure by type of work

	Internal Audit Customers (£000)	Supply funded: Agency Expansion (£000)	Supply funded: IA Policy (£000)	Total Per SOCNE (£000)
Audit fee income	(13,161)	–	–	(13,161)
Expenditure	12,930	1,062	281	14,273
<b>Net expenditure for the year</b>	<b>(231)</b>	<b>1,062</b>	<b>281</b>	<b>1,112</b>
Cost of annual leave balances of staff transferred to GIAA	257	–	–	257
<b>Comprehensive net expenditure for the year</b>	<b>26</b>	<b>1,062</b>	<b>281</b>	<b>1,369</b>

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 net expenditure figure of £(231)k under ‘internal audit customers’ evidences our achievement of this objective in 2015/16.

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.

## Note 6 – Financial Instruments

As the cash requirements of the Government Internal Audit Agency 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 or market risk. Trade receivables are valued according to invoice values and a provision for doubtful debts has been considered. A review of the debtors outstanding at year-end has concluded that no provision for doubtful debts is required.

## Note 7 – Receivables

	31 March 2016 (£000)
<b>Amounts falling due within one year</b>	
Trade receivables	2,531
Accrued income	3,140
Prepayments	15
Staff loans	38
Other staff related receivables	1
<b>Total falling due within one year</b>	<b>5,725</b>

## Note 8 – Payables and other current liabilities

	31 March 2016 (£000)
<b>Amounts falling due within one year</b>	
Taxation and social security	388
Trade and other payables	1,025
Receipts in advance	354
Amounts owing to HMT	2,622
Accruals	1,297
<b>Total falling due within one year</b>	<b>5,686</b>

## Note 9 – Commitments and leases

The Government Internal Audit Agency has entered into neither any capital commitments nor any non-cancellable contracts.

The Government Internal Audit 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 2016, 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 operating leases.

## Note 10 – Related party transactions

HM Treasury is the sponsoring department of the Government Internal Audit Agency 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 Government Internal Audit 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.

Board member and senior staff remuneration is disclosed in the Remuneration & Staff Report. No board member or senior manager has undertaken any other material transactions with the Government Internal Audit Agency in the year to 31 March 2016.

## Note 11 – Contingent Liabilities

GIAA was notified about a claim for personal injury in the workplace, which is currently being considered. The claimant's solicitor has estimated the maximum liability to be less than £25,000.

## Note 12 – Events after the reporting period

The result of the referendum held on 23 June 2016 was in favour of the UK leaving the European Union. This is a non-adjusting event. A reasonable estimate of the financial effect of this event cannot be made, however, there is likely to be an impact on the Agency's future European work (which generated revenue of £2.8m in 2015/16) once the UK has formally completed its exit from the EU.

Other than this, there were no significant events occurring after the reporting period.

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