



Government
Internal Audit
Agency

Government Internal Audit Agency Annual Report and Accounts 2016-17

Government Internal Audit Agency

Annual Report and Accounts 2016-17

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

The Government Internal Audit Agency

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London

SW1A 2HQ

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Chief Executive's Introduction



I am pleased to introduce you to our Government Internal Audit Agency (GIAA) Annual Report and Accounts for 2016-17. Over the past year the Agency continued to grow and we now

employ 75% of the internal auditors working in government. Having welcomed teams at the start of the year from the Department for Work and Pensions and the Home Office, we further expanded in the autumn with the arrival of the Ministry of Justice, Department of Health and the Research Councils UK's internal audit teams; and at the beginning of April 2017 the Department of the Environment, Food and Rural Affairs and their arm's length bodies. Amongst the many successes the Agency has achieved in 2016-17, I am proud that we have:

- significantly increased the level of satisfaction with our work – 76% of customers who responded to the customer satisfaction survey that is issued after each audit rated their satisfaction as 8 out of 10 or higher – an increase from 68% on the previous year;
- concluded 247 investigations and 21 prosecutions, resulting in 14 criminal convictions and 2 custodial sentences;
- increased productivity by 3 percentage points – our auditors now spend more of their time focused on delivering services to customers;

- reduced in real terms the cost of services provided by our people, and made good progress in recruitment in order to reduce our reliance on the private sector and drive down costs;
- delivered a high quality internal audit policy service, achieving 80% satisfaction from our policy and profession stakeholders; and
- received accredited employer status from the main professional bodies – a strong endorsement of GIAA's professional status and supports our professional development.

I also want to pay tribute to all our people who have worked tirelessly to deliver for our customers whilst carrying significant gaps in the workforce. Looking forward, we will continue to support our customers by providing a flexible and responsive internal audit service, which supports them in managing the risks associated with the challenges ahead, including the UK's exit from the European Union, cyber security, and sustained pressure on the public purse. I hope you enjoy reading how the audit practice we are developing is transforming internal audit in central government.

A handwritten signature in black ink, appearing to read 'Jon Whitfield', written in a cursive style.

Jon Whitfield
Chief Executive Officer and Head of
Government Internal Audit Profession

Performance Report

1 Overview

1.1 About GIAA

Our Purpose

The Government Internal Audit Agency ('GIAA' or 'the Agency') provides internal audit and assurance services across a wide range of central government customers. The Agency's strategic intent is to develop a leading edge, comprehensive audit service for government. By bringing previously separate audit functions together, the Agency is able to offer our customers an increasingly responsive, flexible and resilient service that builds more effective relationships, provides deep insights to inform improvement, and positively influences behaviours.

Vision

The Agency's vision is to deliver a flexible and responsive internal audit service which

has a reputation among top management as making a real difference to the management of risk and delivery of positive outcomes, provides excellent value for money and that is regarded as a great place to work, learn and develop. The Agency will achieve this by delivering stronger and more integrated assurance and value for money for our customers; as well as encouraging our people to develop as individuals to reach their full potential. GIAA will celebrate success and diversity, recognise talent and provide an environment with a focus on building skills and competence to provide an excellent, professional service. The Agency's vision is underpinned by our values of respect, professionalism, continuing development, customer focus and trust. These values were developed in consultation with our people and provide focus and direction at the core of our organisational culture.



Core Internal Audit and Assurance Services

The Agency's services mainly involve delivering a risk-based programme of work that culminates in an annual report and opinion on the adequacy and effectiveness of the organisation's framework of governance, risk management and control. To provide that opinion, the Agency undertakes internal audit and advisory work, the aim of both being to help our customers improve the effectiveness of public service delivery. The Agency takes account of its wider understanding of the government environment as well as the specific risks and management challenges of the customer organisation. For some customers GIAA might provide audit and advisory engagements, but not a full annual opinion. All of the Agency's work is undertaken in accordance with the Public Sector Internal Audit Standards and the Cross Government Internal Audit Manual. European Union audits also comply with relevant European Commission regulations.

The Agency offers three broad categories of service:

- assurance work designed to provide an independent, objective and unrestricted evaluation of management activities to give Accounting Officers advice on the effectiveness of controls in their areas of responsibility;
- advisory work (also referred to as 'consulting') adds value by helping our customers identify system control weaknesses and provide advice on how to address them, before the systems become operational; and
- Counter fraud and investigation activity. We provide advice and support to customers on counter fraud strategies, fraud risk assessments and measures to

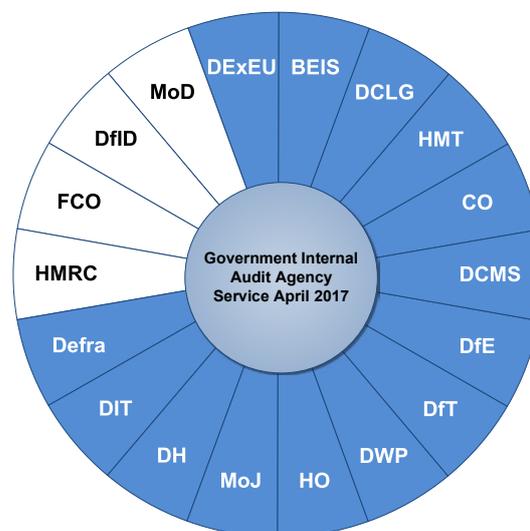
prevent, deter and detect fraud. Where commissioned, our professionally trained staff investigate suspicions of internal or supplier fraud or malpractice.

The objective in all three areas is to advise customers on how to improve public service delivery.

Service Delivery

By the end of 2016-17, the Agency provided services to 13 Government Departments and many of their arm's length bodies.

The Department of Environment, Food and Rural Affairs also joined the Agency on 1 April 2017.



In addition to expanding our customer base, we have continued to provide the responsive, flexible and impactful services that our customers demand.

This has included:

- aligning reviews to customers' key challenges and risks to **support understanding and insights** that inform decision making and deepen working relationships;

- supporting customer Departments as they continued to progress ambitious programmes of policy reform, internal transformation, and improvements in public services;
- delivering assignments across a range of high profile, challenging, fast-moving and sensitive areas; and
- bringing informative and influential findings and recommendations to senior leaders and governance forums.

Responding to in-year requests, reviewing and adapting plans to reflect changing risk profiles and assurance needs. For example,

- Providing internal audit services to the new Departments created during the year: Department for Exiting the European Union (DExEU), Department for International Trade (DIT), and the Department for Business, Energy and Industrial Strategy (BEIS);
- Taking on the role of internal auditors to the National Infrastructure Commission, a new arm's length body of HM Treasury, designed to provide independent advice to government on infrastructure needs; and
- Urgently delivering the internal audit service to a new BEIS arm's length body, South Tees Site Company Ltd. The Agency mobilised a team and delivered a complete programme of work in four months.

Working with **other assurance providers** to maximise insights provided and support cross-fertilisation of ideas and experiences. For example:

- Working with DWP Operations' Quality Assurance Teams to support the review and revision of compliance frameworks and learning route-ways aligned with the causes of official error;

- Undertaking joint reviews with the Infrastructure and Projects Authority aligned with key decision points;
- Building a close working relationship with the Government Actuary's Department to strengthen the assurance that GIAA can provide over complex business models; and
- Trialling an assurance approach which combines GIAA's Internal Audit knowledge with legal expertise from the Government Legal Department to provide insightful assurance over large and complex infrastructure programmes and projects.

"We were grateful for the constructive, thoughtful and iterative approach to the question of accountability and reporting on Departmental transformation. The work addressed complex questions without ready precedent." Director, Home Office

"Your assistance in driving forward this work has been really helpful in making the risks visible whilst at the same time making value added suggestions for improvement – your team has been a great ally." Policy Lead, Department of Work & Pensions

"Since transitioning our Internal Audit services to the GIAA there has been an improvement in the focus and quality of this important work, better and more confident audit team engagement with senior executive and non-executive stakeholders, and increased interest in the insights that the team provide." Chief Finance Officer, Ministry of Justice

"I was really impressed by the team, and their willingness to drop everything and put in long hours to get this report done to a virtually impossible timescale." Senior Manager, Department for Transport

"I found the experience of dealing with Home Office internal audit colleagues one of the highlights of my time as programme director. When I arrived, Internal Audit had limited involvement in scrutinising the programme and the interaction we did have tended to risk being formulaic, duplicative and not focused on the areas we worried about the most. The team responded very well to feedback, which they encouraged, and developed an intelligent, tailored approach which was valuable, more challenging than it had been before and, most importantly, drew on their experience elsewhere so that we could put in place practices that actively helped to de-risk delivery." Programme Director, Digital Services at the Border

Blending and developing capabilities

to better serve our customers and deliver efficiently. For example:

- Seconding an audit manager to a Department for Transport customer team to allow us the opportunity to provide technical support focusing on governance, risk and controls, whilst gaining invaluable insight into the operations of the Department;
- Successfully trailing a secondment arrangement between Companies House, Driver and Vehicle Licensing Agency and the Wales Audit Office to give their people wider experience in the public sector. This

is likely to pave the way for further inter-Agency secondments in the South Wales region;

- Piloting an estate hub in Bristol to bring four teams together within 1½ miles of each other to deliver significant savings on our estate and ICT budgets; as well as deliver more joined up team working; and
- Gaining NS&I as a new customer allowing GIAA to bring to bear the range of public and private sector skills and experience at its disposal to meet the assurance needs of a unique organisation.

European Audit

The Agency is the Audit Authority (AA) for the European Structural and Investment Funds Growth Programme for England.

The AA's role is defined in EU regulation; we provide an independent and impartial assurance to the European Commission (EC) concerning the management and control of European Structural and Investment Funds and the legality and regularity of the expenditure certified. The EC takes its core assurances from the work of the AA. Consequently, the AA comes under close scrutiny by the EC and the European Court of Auditors.

2016-17 has been an important year for the European Team. The key highlights included:

- Establishment of an integrated audit function for a range of EU funding streams, most notably bringing together the audit teams for European Regional Development Fund (ERDF) and the European Social Fund (ESF);
- Conclusion of the 2007-13 ERDF and ESF audit programmes, and submission of the Final Control Reports and Closure Declarations to the EC;

- Delivering the audit function for the Asylum, Migration and Integration Fund, a service that was outsourced under previous arrangements. The European Team have successfully leveraged and applied its expertise on other EU programmes to increase efficiency and effectiveness;
- Successfully progressing assurance activities to support the designation of the Department for Communities and Local Government and the Department for Work & Pensions as Managing Authorities for the 2014-20 ERDF and ESF operational programmes respectively; and
- Submission of the second Annual Control Report and Opinion for the ERDF and ESF 2014-20 operational programmes.

Looking forward, we need to clarify how the UK's exit from the EU may impact on the future remit and role of the European Team, which we expect to be determined through Article 50 negotiations.

Since the outcome of the referendum, the Agency has been in discussion with a number of government departments, particularly BEIS and HM Treasury, as to the possible implications for Structural and Investment Funds and for the audit function more generally.

“Working with the Audit Authority has been key in establishing the 14-20 programme in delivery. The AA have been key partners in helping us achieve designation and ensuring our programme controls are good. Closing the 7-13 programme has been a highly efficient process this year: the audit team played a key role in concluding assurance actions well and to timetable.” Director, Department for Communities and Local Government

Counter Fraud and Investigation

The Agency's Counter Fraud and Investigation specialism was created in April 2016.

The three main principles for the specialism are to play a lead role in setting standards; to support consistent delivery of services; and to raise the quality of counter fraud services in government.

Throughout the year the team continued to play an active role supporting the development of counter fraud standards for government and in setting the foundation for the creation of a Counter Fraud Profession in 2017-18.

During the first year, customers have benefited from a blended approach of different skills to deliver a highly professional service, a criminal investigation and a review of controls in parallel. Counter Fraud activities also include support with the creation of counter fraud strategies, fraud risk assessments and the delivery of focused awareness training.

In 2016-17, the team received 556 commissions for investigations or counter fraud activities from across the GIAA customer group, resulting in the completion of 247 investigations and the detection of over £9 million of fraud.

Prosecutions resulted in 14 criminal convictions and 2 custodial sentences (totalling 44 months).

“Counter Fraud and Investigation have provided excellent support. The team has provided high quality advice and services on all aspects of counter fraud – from prevention to prosecution and recovery. The team have built strong links between us and law enforcement colleagues helping to build cases

which have resulted in the successful prosecution of fraudsters. They have made a great start to helping us improve the effectiveness of counter fraud". Senior Manager, BEIS

"I am running a very sensitive and high-profile project, and the way in which [the investigator] has been able to hit the ground running using their experience from the civil service and their expertise in investigations has been very impressive and a great support to the project ... I have found their judgement and decision making to be excellent. They have also worked at great pace, and delivered in line with all project timescales". GIAA Customer

"The investigator was really helpful ensuring everything ran smoothly throughout the investigation. The assistance they provided was invaluable and much appreciated. They are a credit to the organisation, without their assistance we wouldn't have been able to get such a positive result and 7 prosecutions on this case". GIAA Customer

Professional Practice and Corporate Services Directorates

The Professional Practice Directorate supports the wider profession, development of the new audit methodology and software, internal audit policy, quality assurance and learning and development within the Agency.

The Agency also maintains corporate services functions to provide support on Communications, Estates, Finance,

Governance, HR, ICT and Agency Development. The Corporate Services Directorate is committed to driving down costs to focus resources on our audit and assurance services.

Correspondence Performance

The Agency received two separate complaints in 2016-17. However, because both complaints were thoroughly and independently investigated, none of them were processed within the Agency's 10 working days correspondence target. The Agency has not been made aware of any complaints to the Parliamentary and Health Ombudsman in 2016-17. GIAA also received 32 Freedom of Information and two Data Protection Act requests in 2016-17; all of which were processed within the agreed targets.

Internal Audit Framework Contract

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

Funding Arrangements

The Agency is primarily funded through the fees we charge our customers for internal audit and assurance services. The Agency's fees are set in accordance with Managing Public Money to recover the full costs of service provision. GIAA separately agrees the level of audit services required by each of our customers, supporting these through appropriate Memorandums of Understanding. GIAA also received funding from HM Treasury for the Internal Audit policy work that it undertakes on their behalf and for the development of the Agency.

Looking to the Future

GIAA recognises that 2017-18 will again be a challenging year as we continue to embed new teams into the Agency as part

of the continued growth of an enhanced internal audit and advisory service across government. The UK's decision to leave the European Union will also bring fresh challenges for the European Team in particular. However, with the continued commitment of our people and the support from our stakeholders we are well placed to overcome them. In addition, the roll out of the new single audit platform and methodology at the end of 2017-18 will deliver a step change in both quality and efficiency in 2018/19 and beyond. During all of these challenges, GIAA remains committed to remaining focussed on our primary purpose, which is to provide high quality audit and assurance services.

The Agency's objectives for 2017-18 are set out in our Corporate Plan, which is published on the GIAA website.

1.2 Performance Summary: Moving Forward Together

The Agency's four objectives as set out in the 2016-17 Corporate Plan were to:



Provide an enhanced internal audit service to our customers



Invest in developing our people, methodology, systems and corporate functions



Deliver high quality and timely internal audit policy advice to HM Treasury and the wider central government internal audit profession



Deliver the agency development programme to plan and budget and report on benefits realisation

Highlights

 <p>100%</p>	<p>Audits conformed to Public Sector Internal Auditing Standards</p>	 <p>Up 8% Points</p>	<p>Customer Satisfaction</p>
 <p>Up 3% Points</p>	<p>Staff Productivity</p>	 <p>90%</p>	<p>Audit plan delivered in current year and the remainder completed by June 2017</p>
 <p>Up 25%</p>	<p>Gender mix of Senior Civil Service improved.</p>	 <p>75%</p>	<p>GIAA coverage across Government</p>
 <p>1546</p>	<p>Audits completed</p>	 <p>80%</p>	<p>GIAA stakeholders felt Government Internal Audit Policy met expectations</p>

An Enhanced Internal Audit Service

The Agency is passionate about delivering a consistent, high quality assurance and advisory service in compliance with the Public Sector Internal Audit Standards and overseen by the ethical requirements of the relevant professional bodies. Quality remains paramount to our customers and their opinion is vital to ensuring the Agency continues to support the delivery of their objectives and services.

Customer Satisfaction

It is important to the Agency that it continues to seek our customers' opinion on its performance through the Customer Satisfaction Questionnaire after every engagement.

76% Of customers who responded scored us 8 out of 10 or higher for satisfaction – with 10 equalling “extremely satisfied” based on the wider cross-government metric scale.

Up 8% Points

Whilst the Agency has delivered continued improvement in quality since its inception, we are committed to a programme of continuous improvement. The Agency's priority for 2017-18 is to develop a leading edge audit methodology, which builds on the traditional three lines of defence model to deliver a high quality, cost effective and holistic approach to assurance.

Customer Feedback

"GIAA have an excellent understanding of the business."

"Best audit experience I have ever had."

"The service we received was excellent."

"A very good experience from start to finish. Thorough, professional non-intrusive and fast."

"The Auditor really understood the control regime and our key risks."

"It was clear that the Auditor had listened and assimilated the information well, understood the challenges and considered these in making their recommendations."

"The Auditor had a very good understanding of the policy, delivery and commercial aspects of the subject."

"The lead auditor's knowledge, skills and professionalism are in no doubt whatsoever."

Specialisms

The provision of specialist internal audit assurance and advice is at the heart of the Agency's ability to provide high quality and influential insight to our customers over complex areas of risk. Uniquely the Agency is in a position to join up our perspectives to provide cross-governmental insights and assessments. For GIAA people, it provides increased opportunities to bring groups of specialists together to work across organisational boundaries, or to support teams in delivering reviews to their customers. Building on the success of the European audit and Counter Fraud & Investigations teams, we will bring specialisms together under clear leadership to become the 'go to' people on the subjects that matter most to our customers.

In 2016-17 the Agency identified three specialist areas that are the most critical in delivering high quality, consistent services to our customers. They are:

- ICT and Cyber Security Audit;
- Programme and Project Management Audit; and
- Commercial Audit.

For each specialism, GIAA have developed and communicated strategies setting out the scope of activities across the Agency. These plans include progressing engagement with existing practitioners within these areas and sharing good practice across the Agency, with support from the private sector and governmental functional standard setters.

Developing our people, methodology, systems and corporate functions.

Our People

The Agency's People Strategy has evolved over 2016-17, with a new People Committee in place to oversee the strategic direction and delivery of people priorities. At the heart of the People Strategy is the need to ensure the Agency has the right people, in the right place, at the right time, meeting our customer requirements and ensuring enhanced delivery of the services we provide. The People Strategy outlines the design and implementation of a Recruitment Strategy to underpin our workforce planning and to provide a structure for our people in considering their career aspirations and development needs.

450+

People applied for 25 places on the first Higher Executive Officer Trainee Auditor programme. 19 appointed.

130

Applications were received for 25 Grade 7 Audit Manager posts. 24 appointed.

The Agency plans to build on this success, taking forward learning into the Senior Executive Officer recruitment exercise early in 2017-18 and subsequent campaigns. The Agency will continue with its ambitious recruitment programme, planning to fill up to 100 posts across all audit grades into 2017-18.

Building a culture of continuous development

The People Strategy is not just about recruiting the brightest and the best. The GIAA is passionate about making the Agency "a great place to work" able to attract, retain, engage and motivate a diverse range of talented people. GIAA also want to create an Agency where customers will wish to engage with us, due to the strong reputation and services we are known for. Key to achieving both objectives is to ensure that the Agency has a professional, appropriately skilled and experienced workforce delivering quality audit, specialist advisory and consulting services to its customer and client organisations.

The Agency is committed to creating and embedding a culture of continuous development for all our people, helping individuals and teams achieve their full potential through:

- professional qualifications suitable for their grade and role;
- continued professional development following qualification;
- membership of their professional body;
- participation in professional events, workshops and conferences;
- development programmes to enhance commercial awareness and to develop the skills, capability and performance of the Corporate Team;
- supporting the Civil Service fast-stream development scheme; and
- mentoring schemes, networking groups, team coaching programmes and individual career coaching.

In 2016-17 the Agency established new schemes to integrate our existing professional training, including:

- The development of the Trainee Internal Auditor Scheme which was launched in December 2016. The first tranche of 19 trainees started in February and March 2017 and will undertake an accountancy qualification to increase the commercial and financial expertise across the Agency;
- Reviewed and relaunched a Trainee Network which offers support, training, networking and sharing of best practice to trainees across the whole of the Civil Service;
- Development of a group membership scheme with the Chartered Institute of Internal Auditors to offer better value for money, business specific tailored professional learning, and mutual benefits and support between the two organisations for both trainees and current professionals;
- Professionalisation of the Fraud and Investigations Team. Working with the Cabinet Office and Civil Service Learning to develop a profession, standards, and supporting career pathways and qualification routes;

- Development of the Corporate Services Team through a tailored programme delivered by the Chartered Institute of Public Finance & Accountancy to build skills, enhance capability, and improve performance. Individuals have also been offered the opportunity to study towards professional qualifications to support their role; and
- Development of a new Internal Audit professional qualification has commenced to offer a more business specific, flexible and cost effective means of developing new auditors.

Finally, in recognition of our commitment to grow and develop our people, GIAA was delighted to be awarded employer accreditation from the Chartered Institute of Public Finance & Accountancy, Association of Chartered Certified Accountants, Chartered Institute of Management Accountants and the Chartered Institute of Internal Auditors.



Celebrating Success Together

During the year we have enhanced our communication capability to inform our people and acknowledge their contribution to the success of GIAA. Through a variety of communication channels we share good news, highlight individual and team achievements and demonstrate our gratitude for our people's hard work and commitment.

The Agency is proud of all its colleagues' successful outcomes, professional qualifications and the positive feedback they generate from our customers, stakeholders and partners. Their success reflects well on the Agency and strengthens its organisational reputation. The impact is even greater when the work is recognised and rewarded in a wider arena, such as the 2017 Government Finance and Internal Audit Event where the Agency picked up three of the four government wide Internal Audit Awards.

Internal Audit had a total of 41 nominations and the panel selected nine finalists and two highly commended entries.

**IMPROVED
OUTCOMES**

Internal Audit Team Excellence Award

The GIAA Driver & Vehicle Licensing Agency (DVLA) Technical Team won the team award for their ability to adapt to meet the assurance requirements as they implemented a major change to their IT services. Outsourced services were brought back in-house, presenting significant challenges for the audit team. They completed high-profile reviews, identifying significant areas of risk and generating assurance and added value across the Information Technology risk landscape.

Andrew Bagley, Head of Internal Audit at DVLA said: "Real teamwork is not defined by role, function, department or geography... It is all about how we pull together to deliver and add real value".

Internal Audit Outstanding Contribution Award

Kay Pate was described as everything you would look for and more in a Senior Audit Manager. She has fantastic drive, great motivation and an incredible work ethic. Kay uses these attributes to really make a difference, across GIAA, the Department for Work and Pensions and other government departments.

**Skilled
people**

Internal Audit Unsung Hero Award:

Christina Gladwell excels in a demanding, multifaceted, and multi-organisational support role. Her positive attitude means she regularly goes above and beyond the regular day job. Christina maintains her Internal Audit Unit and broader GIAA community through excellent networking, communication and people skills. Christina's professional and inclusive approach manages to open doors that have previously been shut.

Reflecting on her success, Christina shared the following thoughts: “I was honoured to receive an award at the Government Finance and Internal Audit conference in Birmingham. I’m delighted to be recognised for the years of hard work and dedication that I put into ensuring that the work lives of my manager, my fabulous team at the Home Office, my Directorate and colleagues in the wider Agency run as smoothly as I can make possible.”

The Awards were a great success for all of us at GIAA and we look forward to sharing more of our successes in 2017-18, both internally, in the wider Civil Service community and beyond.



Single Audit Methodology and Audit Management System

During the year as part of our investment in the Agency we established a Professional Practice Directorate and commenced a project to consolidate the variety of tools and processes that we had inherited for planning, managing and recording our work. The significant expansion of the Agency throughout the year has added complexity to the project and progress has not been rapid as expected. However, by the end of the year we had selected the Audit Management System (AMS) platform for the Agency and developed the methodology that will be hosted on it to outline stage.

As the Agency has expanded, the benefits that a single AMS and methodology will bring have become even more apparent. These benefits include:

- increased efficiency of operations;
- consistency of approach;
- standardised management information to support effective decision making;
- increasing the ease in which staff can work across our client base; and
- a single time-recording system across the Agency.

Rollout of the AMS and associated methodology has therefore been recognised as a priority for the Agency during 2017-18.

Deliver high quality and timely internal audit policy advice to HM Treasury and the wider central government internal audit profession.

In April 2016, GIAA established a Professional Practice Directorate. Its main responsibilities

are internal audit policy, technical matters including methodology, quality assurance and learning and development. The remit covers the whole of the profession in central government, not just within the Agency.

Technical Advice

Design and implementation of a common audit methodology and Audit Management System (AMS) (see previous section), is the Directorates key technical project for developing the Audit Practice. During the year technical advice provided has included issue of an updated Audit and Risk Assurance Committee Handbook and a series of good practice Bulletins.

The Agency's work with the wider profession includes running the Internal Audit Leadership Group, sitting on the Internal Audit Standards Advisory Board and representing the profession on key functional leadership working groups. GIAA also worked with the Cabinet Office Civil Service Strategy team to support the central Government Departments' Audit and Risk Assurance Committee Network. The Agency represented HM Treasury at the EU Public Internal Control Network and further afield, we are working with the UK Commonwealth Parliamentary Association and the National Audit Office as part of a three-year Foreign and Commonwealth Office funded initiative to improve the capability and capacity of the UK Overseas' Territories.

Quality Assurance

The Agency's work on quality assurance has focused on the creation of interim arrangements around second-line assurance of our internal audit activities until a new Quality Assurance Framework is developed as part of our new methodology. Audit work completed in the second half of 2016-17 is the first subject to a uniform set of second-line checks across the Agency.

GIAA Learning and Development

During the year, our learning and development activities included establishing a training panel to consider requests for professional and technical training, supporting the relaunch of the Agency’s Trainee Network, obtaining approved employer status from Institute of Internal Auditors UK & Ireland, Chartered Institute of Public Finance and Accountancy, Chartered Institute of Management Accountants and the Association of Chartered Certified Accountants, launching a mentoring scheme and working with HR to establish a new trainee auditor scheme.

Events

The Professional Practice Directorate staged several events to build capability. These included separate day conferences for Government Audit and Risk Assurance Committees and Internal Audit practitioners. GIAA has collaborated with the Government Finance Profession to deliver the 2017 Government Finance and Internal Audit Conference and also had a presence at the London Civil Service Live event.

Feedback

The feedback from the Agency’s customers and stakeholders has been positive. A survey of participants in March 2017 indicated that:

- 80% of respondents said that the Heads of Internal Audit event mostly or fully met their expectations;
- 78% of respondents said that the Government Finance and Internal Audit Conference 2017 mostly or fully met their expectations; and
- 73% of respondents said that the Audit and Risk Assurance Chairs event most mostly or fully met their expectations.

Deliver the Agency Development Programme to plan and budget and report on benefits realisation.

On 1 April 2016 the Agency doubled in size, by 172 posts, as the teams from the Department for Work and Pensions and the Home Office joined GIAA. Working out of 31 locations, these teams also brought a wider geographical spread to the Agency.

The Ministry of Justice, Department of Health and the Research Councils UK internal audit teams joined as planned in October 2016, bringing an additional 88 posts into the Agency. As a result, we added another six locations to our estate together with a number of homeworkers.

As of 31 March 2017 we provide internal audit services to 13 Government Departments and a further 108 associated organisations. GIAA now represent 75% of the internal auditors working in government.

2017-18 Migrations

Thirty-two staff across two teams from the Department of the Environment, Food and Rural Affairs (Defra) network of organisations also joined the Agency on 1 April 2017. In addition to these two teams, the Agency also now provides services to the Forestry Commission and four other Defra arm’s length bodies. The Agency continues to work with the Environment Agency on the transfer of their team and service during 2017-18.

The Agency will continue to work with the remaining Departments to agree the timing of their service transitions.

Benefits Realisation

GIAA are tracking the strategic benefits as part of our monitoring against the Corporate Plan; and this is supported by a detailed benefits strategy on which we will report over the summer of 2017-18.

1.3 Key Issues and Risks

GIAA Corporate Plan for 2016-17 identified a number of strategic risks which we have managed during the year:

Strategic Risk	Outcome
A failure to set a robust charging model with realistic performance assumptions.	A review was commissioned in 2016-17 to consider what improvement can be made to the charging model and supporting financial processes. This review is ongoing and is due to conclude by summer 2017.
The loss of a major customer or other reductions in demand for our services.	This risk was primarily associated with the 2015 Spending Review and the potential for Machinery of Government changes. This risk did not materialise. Instead, changes lead to an increase in demand for services, e.g. from the new Department for Exiting the EU.
Damage to GIAA reputation as a result of a loss of confidential or sensitive information/data.	In addition to the Agency's system of controls, all staff and contractors are required to comply with GIAA and customer information security policies, and receive appropriate training. Two incidents of data loss occurred in 2016-17 and raised to HM Treasury. Neither incident met the Information Commissioner's Office triggers for reporting of personal data/information loss. However, internal investigation action was undertaken resulting in disciplinary action.
Damage to GIAA's reputation as a result of serious failings in a customer that calls into question coverage or quality of the Agency's work.	There have not been any serious customer failings crystallising this risk in year. This is an ongoing risk this is being overseen by the Agency's Professional Directorate.
Insufficient professional leadership (including policies, guidance, training and quality assurance), impacting the culture of the Agency and/or reducing the quality of audits carried out.	<p>The Agency's Professional Practice Directorate was established to integrate our methodology, learning and quality assurance arrangements; and to procure and implement a single audit management software. Progress on implementation and next steps is outlined in section 1.2 of the Annual Report and Accounts.</p> <p>The Agency's work on quality assurance has focused on the creation of interim arrangements around second-line assurance of our internal audit activities. Audit work completed in the second half of 2016-17 is the first subject these uniform checks.</p>

Strategic Risk	Outcome
An inability to recruit/retain sufficient high calibre staff.	We attracted high levels of interest in our first Higher Executive Officer Trainee Auditor programme and 19 people were appointed in the first cohort. We continued to recruit across our senior grades, with 24 people recently appointed at Grade 7. The recruitment programme will continue into 2017-18, planning to fill up to 100 posts across all audit grades.
Capacity/capability of senior leadership to deliver the level of organisation change, including addressing historical diversity demographics at the most senior level.	Organisational change is ongoing and the Senior Leadership Team have agreed the key priorities for 2017-18, with accountability for these being embedded into senior leaders' objectives. Recent changes in governance will involve the wider Senior Civil Service team in the management of the 'Single Audit Practice Programme'. Improvements have been made to gender diversity with the appointment of three women to the Senior Leadership Team during the year.
Unforeseen events (e.g.: industrial action, pandemic outbreak).	Business continuity plans are in place, alongside flexible ICT and other working arrangements. These contingency plans were reviewed and strengthened in 2016-17.

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

Operational Risk	Outcome
Failure to achieve the objectives and targets in GIAA's Corporate Plan 2016-17.	Details of performance against the non-financial objectives and targets in GIAA's Corporate Plan 2016-17 are set out in section 2.2 of the Annual Report and Accounts.
The UK's decision to leave the European Union results in inability to recruit/retain staff within the European Team.	The Agency is engaged with other Government Departments in assessing the likely impact of the UK's decision to leave the European Union on Structural Funds and provides regular update briefings to staff. The European Team is reorganising to meet those forthcoming challenges and the Agency is developing redeployment plans for affected people in the future.
The Agency fails to deliver audit work on time and to planned budgets.	90% of audit programmes were delivered in year. This risk is ongoing and managed by regular monitoring of the audit programmes.
GIAA fails to adapt quickly to changes in demand for audit services resulting from the UK's decision to leave the European Union.	This risk is ongoing. The Agency is currently identifying future European Union exit related audit activity planned for 2017-18 and the impact it has on demand for audit services. The flexibility inherent in the Agency to redeploy staff and/or flex the use of contractors to meet increased/decreased demand puts GIAA in a good position to manage this risk.

2 Performance Analysis

The Agency's financial and non-financial performance for our second year of operation in 2016-17 is set out in the following sections.

2.1 Financial Performance

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

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

Income

Total operating income for the year was £30,031k (2015-16: £13,161k) arising from fees for audit services to our central government customers. The increase reflects the expansion of the Agency with five Departmental customers and their teams joining in the year.

Expenditure

Our administration costs this year were £32,631k (2015-16: £14,273), consisting of staff costs of £22,452k (2015-16: £9,217k) and non-staff costs of £10,179k (2015-16:

£5,056k). Increases in our administration costs year on year reflect the expansion of the Agency.

Permanent staff costs of £21,611k (2015-16: £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. More information on our staff numbers and costs can be found in the Remuneration and Staff Report.

The Agency 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 £6,104k (2015-16: £3,299k). The Agency additionally employed contingent labour totalling £841k (2015-16: £487k) outside the core framework to provide further audit resources and to fill temporary gaps primarily in our corporate teams.

The Agency incurred £869k (2015-16: £244k) in travel and subsistence costs, the majority of which were directly related to audit services delivered to our customers, and reimbursed through our audit fees.

The Agency also incurred a number of administrative costs, which primarily consisted of recharges from other governmental bodies of £2,195k (2015-16: £1,157k) for services including finance, HR and ICT services received from our parent body, HM Treasury and legal advice from Government Legal Department. In order to support the strategic

objective of recruiting and retaining high calibre staff, we invested £237k (2015-16: £43k) and £148k (2015-16: £47k) in recruitment and staff support and related costs respectively. The Agency also assumed the liabilities for the cost of untaken annual leave for staff transferred from other government departments as part of their continuous employment in the Civil Service – this resulted in a charge of £369k (2015-16: £257k), as explained in Note 3.2 to the accounts.

On its customer facing activities, the Agency generated revenue of £30,031k (2015-16: £13,161k) from customers against expenditure of £29,791k (2015-16: £12,930k), generating a surplus of £240k (2015-16: £231k) before the cost of unfunded accrued annual leave relating to those employees who transferred in to the Agency during the year of £369k (2015-16: £257k). Further information is provided in note 5 to the accounts.

When authorised spending of £2,840k (2015-16: £1,343k) on the Internal Audit policy function and the Agency development programme is taken into account, the Agency recorded net operating expenditure of £2,969k (2015-16: £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 £(33k) (2015-16 £30k) represents a cumulative deficit arising from the unfunded accrued annual leave relating to those employees who transferred in to the Agency since its inception.

Financial Position

The Agency's balance sheet consists of receivables of £11,582k (2015-16: £5,725k) and payables of £11,615k (2015-16: £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 £7,804k (2015-16: £2,531k) relating to amounts invoiced but not paid at 31 March, and £3,704k (2015-16: £3,140k) relating to services delivered in 2016-17 but not invoiced until the new financial year.

Included in trade & other payables and accruals, totalling £2,822k (2015-16: £2,048k), are amounts due to Framework suppliers of £1,886k (2015-16: £1,025k). Advance receipts from customers were £713k (2015-16: £354k). The Agency owed £939k (2015-16: £388k) in taxation, social security and pension payments relating to the March 2017 payroll. The value of untaken holiday leave at 31 March 2017 was £818k (2015-16: £274k).

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 £6,323k (2015-16: £2,622k) which is the difference between the cash received from customers and expenditure funded by HM Treasury during the year.

Payment of Suppliers

We are committed to paying all invoices not in dispute within agreed contracted provisions or 30 days of presentation of a valid invoice. During the year, the Agency paid 68.64% of all undisputed invoices within 5 days of receipt and 97.68% within 30 days (2015-16: 80.5% and 95.5% respectively).

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

The Agency's financial performance against the objectives we set ourselves for the year (as documented in the Corporate Plan 2016-17) is as follows:

Top Level Objective 1	Sub-Objective 1.1
To deliver for our customers an enhanced internal audit service that supports the delivery of their objectives and services.	Deliver a cost effective service to our customers
Metric	
Continue to 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.	
Performance	Partly Achieved
<p>During the year we have reduced in real terms the cost of service to our customers by absorbing the 1% civil service pay increase, changes to employer national insurance, and other inflationary pressures. We have also increased the proportion of time auditors spend on customer-facing activities by 3%. These efficiencies are additional to those reported last year, which included the establishment of a framework for the call-off of contractor support. This provides our customers with access to specialist audit resources at reduced rates of up to 40% compared to those available before the framework was established.</p> <p>However, the significant expansion of the Agency during 2016-17 and further growth planned for 2017-18 means that there is no reliable way to measure the cumulative efficiency gains over the first three years of the Agency's operation, so this metric will be revised. We will continue to pursue efficiencies as part of our aim to provide customers with an excellent value for money service, and to measure and report progress where this can be reliably demonstrated.</p>	
Metric	
Recovery of our operating costs from our customers, resulting in the Agency breaking even across its customer-facing activity.	
Performance	Achieved
Fees charged to our customers cover our operating costs.	
Metric	
Increase the proportion of time our assurance staff spend on customer-facing activities by three percentage points.	
Performance	Achieved
The Agency has increased the proportion of time our auditors spend on customer-facing activities by more than three percentage points from 72.85% in 2015-16 to 76.38%.	
Metric	
Reduce our use of the private sector for core controls work by at least 10%, and reduce the average unit costs across all private sector work on a like for like basis.	

Performance	Not achieved
<p>The Agency's use of the private sector increased during 2016-17 driven by two main factors.</p> <ol style="list-style-type: none"> 1. The Agency has on-boarded a number of teams that have a long history of using a high proportion of private sector resources to deliver their audit programmes. 2. To provide cover for 10%-20% audit staff vacancies across the Agency during the year. 	

Our use of the private sector has been through a Framework Contract established last year. This provides access to a range of firms offering us choice in who we partner with and our customers, and the taxpayer, better value for money. By the end of the year, recruitment campaigns were reducing the numbers of vacant posts.

2.2 Non-Financial Performance

The Agency's non-financial performance against the individual metrics we set ourselves for the year (as documented in the Corporate Plan 2016-17) is as follows:

Top Level Objective 1	Sub-Objective 1.2
To deliver for our customers an enhanced internal audit service that supports the delivery of their objectives and services.	Add value to customers and government as a whole.
Metric	
Develop functional cross-government assurance strategies by September 2016.	
Performance	Achieved
Functional audit plans were completed for the following Functions: HR: Commercial: Fraud, Error, & Debt; Infrastructure and Projects Authority; and, Property. In addition to the established Counter Fraud and Investigations capability in the Agency, Senior Civil Service leads have been given responsibility for further developing audit specialist capability in the areas of: Project and Programme Management; Commercial; and, IT/Cyber assurance.	
Metric	
Publish six or more assurance insight bulletins for Accounting Officers.	
Performance	Partly achieved
The Agency published three Bulletins for Accounting Officers covering Business Continuity, Executive Impersonation Fraud and Contract Management. We have used case studies to bring these Bulletins to life and had support from a number of Government Departments in developing them. Bulletins have been informed by our cross government audit work and the identification of trends, issues and risks by auditors.	
Metric	
Annual Accounting Officer and Audit Committee Chair satisfaction score (% of Accounting Officers rating GIAA as 7 or above, out of 10 – with 10 equalling “extremely satisfied”).	
Performance	Not measured. Metric removed
The Accounting Officer survey was conducted for the first time in 2015-16 but achieved a response rate of less than 20%. The survey was not repeated in 2016-17.	
Top Level Objective 1	Sub-Objective 1.3
To deliver for our customers an enhanced internal audit service that supports the delivery of their objectives and services.	Deliver a quality internal audit service to achieve improved assurance outcomes and realise the expected benefits of one Agency.
Metric	
Assignment feedback (% of assignments being rated 7 or above, out of 10 – with 10 equalling “extremely satisfied” based on the wider cross-government metric scale).	

Performance	Achieved
The Agency is committed to delivering a consistent, high quality assurance service and our customers' views are essential in order to maintain quality. 76% of customers who responded to our customer satisfaction survey rated their satisfaction as 8 out of 10 or higher. This is an increase from 68% on the previous year.	
Metric	
100% of audits subject to internal quality review are found to “generally conform” to the Public Sector Internal Audit Standards.	
Performance	Achieved
All audits subject to internal quality review during the year were found to have “generally conformed” to Public Sector Internal Audit Standards.	
Metric	
NAO review of GIAA confirms quality standards have been met, and increases the reliance NAO places on our work.	
Performance	Not applicable
During 2016-17 testing by the National Audit Office (NAO) was limited to a pilot exercise.	
Metric	
As part of our annual service to customers, deliver an average of 90% of the agreed audit programmes in the financial year to which they relate (with the remainder completed by the end of the following June).	
Performance	Achieved
The Agency has delivered an average of 90% of the agreed audit programme in the financial year to which they relate (with the remainder expected to be completed by the end of the following June).	

Top Level Objective 2	Sub-Objective 2.1
Invest in the Agency to develop further our people, methodology, systems and corporate functions to enable the Agency.	Attract, develop and retain the range of skills and expertise needed to deliver a consistent, quality service to our customers.
Metric	
Implement the new People Strategy by 30 June to attract new talent, with capacity created through workforce management and general staff turnover.	
Performance	Partly achieved
A key priority of the People Strategy is recruitment to address a significant shortfall in delivery capacity. Constraints on our freedom to recruit were addressed by obtaining Ministerial sign-off of a recruitment strategy. Further information on the implementation of the People Strategy is set out in Part 1, Section 1.2 Performance Summary.	
Metric	
Improve overall staff engagement Index by at least five percentage points (from 55%) in the 2016 Civil Service People Survey.	

Performance	Not achieved
The overall engagement score in our People Survey fell from the 55% benchmark set for the Agency in 2016 to 48% in the 2016 Survey. The Board and Senior Leadership Team of the Agency recognise these results as being at odds with the aim of making GIAA “a great place to work”. Actions to address the messages from the People Survey have been incorporated into the Agency’s 2017-18 Corporate Plan.	
Metric	
Deliver initiatives to promote diversity, with an aspiration that by 31 March 2017:	
<ul style="list-style-type: none"> • At least 25% of the Senior Civil Service cadre and 45% of Senior Civil Service and Grade 6 staff are female. • At least 10% of Senior Civil Service and Grade 6 staff and 15% of all staff identify as non-white. • At least 35% of staff are aged below 40. 	
Performance	Partly achieved
Actions taken included mandating all GIAA staff to undertake unconscious bias training, the recruitment of trainees, apprentices and staff from outside the civil service. Three members of the Senior Leadership Team (25%) are female, compared to none last year.	

Top Level Objective 2	Sub-Objective 2.2
Invest in the Agency to develop further our people, methodology, systems and corporate functions to enable the Agency....	Invest in the skills of our existing people, and in the next generation of auditors
Metric	
Protect and refocus Learning and Development budgets in face of budgetary pressures to invest in professional learning and development.	
Performance	Achieved
To enable all staff to develop their careers in audit, specialist areas, corporate roles and the wider Civil Service, the Agency protected budgets in face of financial pressures to invest in professional learning and development.	
Metric	
Establish and recruit into new specialisms, starting with ICT.	
Performance	Achieved
During 2016-17 the Agency established and recruited senior specialists into ICT roles and will continue to build in-house specialisms. A career pathway and recommended learning has been developed, and the Agency has agreed further professional training for the team.	
Metric	
Establish new schemes to integrate our existing professional training and introduce apprenticeships.	

Performance	Achieved
<p>We have developed a new Internal Audit professional qualification and Trainee Internal Auditor Scheme. We have also reviewed and relaunched our Trainee Network and taken steps to professionalise our Fraud and Investigations Team.</p> <p>The Agency is committed to playing its part to support the government’s commitment to deliver 3 million apprenticeships by 2020. For 2016-17, GIAA’s pay bill did not meet the criteria to be included in the Apprenticeship Levy Scheme and so the Agency was included as part of HM Treasury. Nevertheless, the Agency recruited four business administration apprentices to support the migration of internal audit teams into GIAA, supporting our strategic ICT and estates objectives, and enhance our management information and governance capabilities. Work is currently underway to develop our apprentice programme further in 2017-18 to include professional audit level apprenticeships in order to meet our target of 2.3% of the workforce.</p>	

Top Level Objective 2	Sub-Objective 2.3
Invest in the Agency to develop further our people, methodology, systems and corporate functions to enable the Agency	Invest in professional development

Metric
Launch Professional Practice Directorate in April 2016 to integrate our methodology, learning and quality assurance arrangements.

Performance	Achieved
The Professional Practice Directorate was successfully launched in April 2016.	

Metric
Procure and implement common audit management software by March 2017.

Performance	In progress
<p>The significant expansion of the Agency through-out the year has added complexity and delayed the project to procure and implement audit management software. However, by the end of the year we had selected the Audit Management System (AMS) platform for the Agency and developed the methodology that will be hosted on it to outline stage.</p>	

Top Level Objective 3	Sub-Objective 3.1
Deliver high quality and timely internal audit policy advice to HM Treasury and the wider internal audit profession across central government.	Provide an internal audit policy service, which creates a pace for changing the shape of the profession across Government.

Metric
A sample of stakeholders across HM Treasury (as owner of Internal Audit policy), Chief Internal Auditors from outside of GIAA, and the professional institutes rate the Agency as 7 or above out of 10 (with 10 equalling “extremely satisfied”) with the quality of the internal audit policy work delivered.

Performance	Achieved
A survey of stakeholders in March 2017 indicated that 80% of respondents said that the internal audit policy work mostly or fully met expectations.	
Top Level Objective 4	Sub-Objective 4.1
Deliver the Agency Development Programme to plan and budget and report on benefits realisation.	The Agency continues to expand and increase its coverage of delivery across more of Government.
Metric	
Secure at least two thirds of government internal audit operating under the Agency.	
Performance	Achieved
As at 31 March 2017, 13 out of 18 major Government Departments and many of their arm's length bodies took their internal audit service from the Agency. 75% of Internal Auditor in central government now work for the Agency.	
Metric	
Agency delivers expansion within agreed funding from HM Treasury:	
<ul style="list-style-type: none"> • Tranche 4 delivered by October 2016 • Tranche 5 on course to deliver by April 2017 (subject to HM Treasury Oracle upgrade project timetable). 	
Performance	Achieved
Two significant expansions to the Agency were delivered on time and to budget on 1 April and 1 October 2016. All of the preparatory work necessary to enable a further expansion on 1 April 2017 was also successfully completed.	

2.3 Other Disclosures

Greening Government Commitments

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

Due to the organisational and geographical dispersion of Agency staff, we do not have, or own, our own estate. Agency teams are co-located within their customer locations and buildings and continue to support wider requirements. Audit teams utilise existing services from customers under Memorandum of Understanding arrangements where services such as printer consumables (paper), waste services, estate water and electricity continue to be provided to Agency staff. We are committed to supporting our customers in meeting Greening Government Commitments 2016 – 2020 targets whilst not owning or managing our own estate. Examples of where we support our customers are:

- paper waste – for the Agency's Corporate Services team and co-located teams within HM Treasury in 1 Horse Guards Road London, 100% of printing paper is recycled as opposed to being sent to landfill.
- paper consumption – work has been undertaken to deliver more digital service options, including information sharing, thereby mitigating reliance on paper based communications and overall paper consumption.
- development of new ways of working surrounding number of desks against number of staff, ensuring that audit teams have the right resources and accommodation to fulfil their duties and obligations, whilst recognising the consolidation of wider government estate.

- Travel – as an Agency, in 16/17 we spent £869k on all forms of travel and subsistence, travelling 1.3m km and 136k CO₂/KG carbon footprint for rail and air travel. This is the first year that the Agency has collated this information so no comparison information is available.



Jon Whitfield
Chief Executive and Accounting Officer

7 July 2017

Accountability Report

1 Corporate Governance Report

1.1 Directors’ Report

Governance Framework

The GIAA is an Executive Agency of HM Treasury, established on 1 April 2015. HM Treasury appointed Jon Whitfield as the Agency’s first Chief Executive Officer and Accounting Officer. Jon is also the Head of the Internal Audit Profession for Government. The Chief Executive Officer is accountable to the Permanent Secretary in 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 was the Economic Secretary to the Treasury (Harriett Baldwin MP held this post until July 2016, with Simon Kirby MP appointed from 16 July 2016). The Minister authorising the Annual Report and Accounts is the Exchequer Secretary.

Our Framework Document (April 2015) 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. The Framework document can be viewed on the GIAA website.

The Agency’s top level governance structure consists of an Agency Board, Audit and Risk Assurance Committee, and Executive Management Team (formerly known as the Strategy Board which met once in 2016-17), supported by a number of second level governance groups which were agreed as part of a governance review in 2015-16.

In January 2016-17, the Executive Management Team completed a further review of governance to help clarify and strengthen the key decision-making processes within the organisation, and the roles and responsibilities of each governance group. It also aimed to facilitate more robust programme management of the Agency’s business objectives, while ensuring that bureaucracy was minimised. This is represented in the following diagram:



Agency Board

The Agency Board ensures appropriate oversight and governance of the Agency's strategy, plans, performance and risks by providing advice and challenge to the Chief Executive (Accounting Officer) and Executive Management Team. Membership of the Agency Board for the year was as follows:



- Ian Coates – Former Chief Operating Officer (until May 2016)
- Julian Kelly – HMT Director General for Public Spending and Finance (Sponsor)¹

The three non-executives were appointed in October 2014 upon launch of the Agency in shadow form for an initial period of up to three years, with an option to extend for a further three years. Short biographies of the non-executives, Chief Executive and other executive directors are available on our website.

¹ James Bowler replaced Julian Kelly as HM Treasury Director General for Public Spending on 8 May 2017.

Attendance at the Agency Board for 2016-17 was as follows:

Member	Role	Total
Mike Ashley	Non-executive Chair	6/6
Margaret Edwards	Non-executive	5/6
Steve Burnett	Non-executive	6/6
Jon Whitfield	Chief Executive Officer	6/6
Ian Coates	Chief Operating Officer	2/2
Liz Corrin	Corporate Services Director	5/5
Jo Rowley	Professional Practice Director	5/5
Mark Ripley	Operational Director	4/6
Chris Westwood	Operational Director	4/5
Julian Kelly	HMT DG Public Spending & Finance	4/6

Audit and Risk Assurance Committee

The Agency has an Audit and Risk Assurance Committee with a non-executive chair, Margaret Edwards (who is also a non-executive member of the Agency Board). The Committee, whose membership includes both of the Agency's other non-executive board members, supports the Accounting Officer by monitoring and reviewing the Agency's risk, control and governance processes (including associated assurance processes). The Chief Executive Officer, the Corporate Services Director, the Agency's Head of Internal Audit and representative of the National Audit Office also attend each meeting.

Attendance at the Audit and Risk Assurance Committee for 2016-17 was as follows:

Member	Role	Total
Margaret Edwards	Non-executive chair	5/5
Mike Ashley	Non-executive	5/5
Steve Burnett	Non-executive	4/5

Remuneration and Nominations Committee

Following the review of governance in January 2017, a Remuneration and Nominations Committee was formally established to maintain oversight of succession planning for senior level appointments and the Board; review Senior Civil Service pay and incentives; and agree nominations within the Agency. Its membership will be two non-executives, the Chief Executive and Operational Directors (who will not be present when their pay is being discussed), supported by HR. It will meet twice a year to align with the timetables for pay

awards and nominations. The first meeting of the committee took place on 27 June 2017. The attendees were:

Member	Role
Steve Burnett	Non-executive (Chair)
Margaret Edwards	Non-executive
Jon Whitfield	Chief Executive Officer
Mark Ripley	Operational Director
Chris Westwood	Operational Director
James Bowler	HMT DG Public Spending

Executive Management Team

The Executive Management Team (previously the Strategy Board until May 2016) is the top-level 'all-executive' decision-making group in the Agency. It has executive responsibility for the overall management of the Agency; agrees and implements new strategy and policy; and has oversight of the operational delivery of the Agency. The Chief Executive Officer, Operational Directors, Corporate Services Director and Professional Practice Director are members.

Attendance at the Executive Management Team for 2016-17 was as follows:

Member	Role	Total
Jon Whitfield	Chief Executive Officer (Chair)	13/13
Liz Corrin	Corporate Services Director	11/12
Jo Rowley	Professional Practice Director	11/12
Mark Ripley	Operational Director	11/13
Chris Westwood	Operational Director	11/13*

*Chris Westwood attended two of these eleven meetings in his capacity at Group Chief Internal Auditor for Home Office before his formal appointment as Operational Director in June 2016.

Senior Leadership Team

As the Senior Civil Service cadre of the Agency, the Senior Leadership Team has collective responsibility for the delivery of service to our customers and the priorities set out in the Agency's Corporate Plan. The Chief Executive Officer chairs the meetings which are attended by the Corporate Services Director, Professional Practice Director and each of the Group Chief Internal Auditors within the Agency, there are currently 16 members in total.

Single Audit Practice Programme Board

The Single Audit Practice Programme (SAPP) Board oversees the Agency's Single Audit Practice Programme (the Agency's top business priorities), it is made up of all members of

the SLT, and has executive responsibility for the migration of departments into the Agency. Until January 2017, membership of the SAPP Board consisted of the Executive Management Team and representatives of those departments considering future migration to the Agency. Following the review of governance in January 2017, membership has been extended to the Senior Civil Service leads for the Agency's SAPP priorities. The whole Senior Leadership Team is also invited to attend SAPP Board meetings.

Directorate Management Teams

The Directorate Management Teams are led by the Operational Directors, Corporate Services Director and Professional Practice Director. They manage the day-to-day work of their directorates with their Group Chief Internal Auditors and Team Leaders.

Annual Effectiveness Reviews 2016-17

In line with good corporate governance practice, the Agency carried out annual effectiveness reviews of both its Board and Audit and Risk Assurance Committee.

Agency Board

An experienced external management coach was appointed to conduct an evaluation of the Board. The evaluation included a mix of questionnaire (based on the National Audit Office board evaluation questionnaire), interviews and observation of Board meetings. The review concluded that overall the Board was functioning effectively for the stage in its development and in line with HM Treasury's Corporate Governance Code of Good Practice. It identified ways in which the Board could further develop its effectiveness, including a sharper focus by the Board on the key strategic and performance issues for the delivery of the Agency's objectives, and more time dedicated to monitoring progress on the 2017-18 corporate plan. The Chair will ensure that actions are taken to address these issues and the Board Terms of Reference are updated as appropriate.

Audit and Risk Assurance Committee

Margaret Edwards, Chair of the Agency's Audit and Risk Assurance Committee (ARAC), led the review supported by the GIAA Governance Team and an external management coach. The management coach sought input from members and regular attendees using a questionnaire (based on the relevant section of the National Audit Office board evaluation questionnaire), and also offered follow-up discussions. Overall there was positive feedback on the effectiveness of the ARAC with consensus that it was working well. The ARAC has agreed to take forward recommendations from the review, including a refresh of the Forward Look to ensure that sufficient and focus are given to risk management policy and advising the Board on strategic risks; assurance structures and functions; and the shaping of the annual audit programme. The ARAC Terms of Reference have also been updated.

Register of Interests

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

- Mike Ashley sits on the Board of the Charity Commission, which is one of the Agency's customers.
- Margaret Edwards is a member of the Senior Salaries Review Body, 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. Margaret Edwards is also Chair of the Civil Service Pensions Board, which is one of the Agency's customers.

No other directorships or other significant interests that may have caused a conflict with their management responsibilities were held by the Board members or Senior Civil Service staff.

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

Information & Data Security

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

During 2016-17, GIAA have developed the framework in which we handle and assure management of information. This work has included:

- identification and implementation of a robust, secure and viable data sharing tool for use across the Agency, our customers and suppliers.
- completion of the Responsible for Information e-learning course by Agency staff; and
- continued review of information management services and associated risks, with assurance provided by the HM Treasury Knowledge and Information Management team.

In 2016-17, there were two personal data incidents raised to HM Treasury. However, no incidents were raised to the Information Commissioner's Office as they did not meet their reporting criteria. Investigatory action for both incidents resulted in a change in policy on the use of existing services and disciplinary action, in line with Agency policies.

Whistleblowing arrangements

The Agency has an established Whistleblowing policy in place which was reviewed and updated following the Audit and Risk Assurance Committee meeting in September 2016. This has been published to our people via the Agency intranet. One concern was raised in 2016-17 regarding decisions taken during an individual audit assignment. It was investigated through the Agency whistleblowing procedures and no wrongdoing was identified. The decision has subsequently been appealed and referred to the National Audit Office. The Agency understands that the investigation is ongoing.

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 2016-17; and
- Where an allegation relates to an organisation that is not a customer, or is outside our remit. We had one such complaint in 2016-17.

Audit

The Agency is audited by the Comptroller and Auditor General, with a notional audit fee of £57k (2015-16:£65k). The external auditors also undertook a pilot quality assurance review at a cost of £30k (2015-16: nil).

1.2 Statement of Accounting Officer's Responsibilities

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

In preparing the accounts, the Accounting Officer is required to comply with requirements of the Government Financial Reporting Manual and 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 HM Treasury designated the Chief Executive Officer of GIAA, 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 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, describes the Agency governance arrangements and provides an assessment of how we have balanced risk, assurance and control during 2016-17.

a) Operation of Governance Structure

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

GIAA Agency Board

The Board has ensured oversight and governance of the Agency's strategy, plans, performance and risks. The non-executive board members have continued to play a crucial role in advising and challenging the Executive Management Team, during a year which saw the Agency's continued expansion. The Board met six times in 2016-17 and considered a number of issues relating to the Agency's four strategic business objectives:

- 1 Deliver for our customers an enhanced audit service
 - Review of progress against objectives in the 2016-17 Corporate Plan, including the Agency's cost-effectiveness target;
 - proposals for a strategic approach to cyber security, pushing for an accelerated timetable for the Agency to cover this high risk area as part of its service offer;
 - the Agency's approach to quality assurance, including the results of the external quality assurance pilot undertaken by the National Audit Office; and
 - the Agency's priorities for 2017-18. The non-executive board members also attended part of a Senior Leadership Team (SLT) awayday in January 2017 to act as a sounding board and challenge to the SLT's proposals.
- 2 Invest in the Agency to develop further our people, methodology, systems and corporate functions
 - Progress on the priority project to introduce a new audit methodology and management software, challenging the pace of delivery and resources;

- discussion of the Agency’s diversity targets;
- actions following the People Survey 2016;
- the Agency’s ability to recruit and retain staff; and
- improvements to management information, which remain a work in progress and are kept under regular review by the Board.

3 Deliver high quality and timely internal audit policy advice to HMT and the wider Internal Audit profession across central government

The Board received regular and comprehensive updates from the Chief Executive Officer, which included feedback from his meetings with key stakeholders. These supported discussions about delivery of the Agency’s objectives and performance. In addition, a survey in April 2017 targeting the Government Internal Audit Profession returned an 80% satisfaction rating for capability building events and policy advice/guidance provided to stakeholders.

4 Deliver the Agency Development Programme to plan and budget and report on benefits realisation

Throughout the year the Board supported the Agency’s ambition to become more than the sum of its parts and to work across organisational boundaries. It oversaw the successful migration of the Internal Audit teams from Department of Work and Pensions, Home Office, Department of Health, Ministry of Justice, Research Councils UK, and the work to support the migration of the Department of the Environment, Food and Rural Affairs on 1 April 2017. These migrations increased the percentage of government Internal Audit staff employed by the Agency to over 75%.

The Chair commissioned an external review of the Board’s effectiveness. As set out in the Directors’ Report above, the Board has agreed improvements to address the review’s findings and updated the Board’s Terms of Reference.

The Chair also produced an annual report, summarising the activities of the Board, as outlined above, and confirming that he considers that the Board has fully discharged its responsibilities over the year based on the work it carried out.

Audit and Risk Assurance Committee

The Audit and Risk Assurance Committee (ARAC) has considered the following issues:

- agreement and regular review of the annual audit plan;
- the outcomes of work by the internal and external auditors, including the National Audit Office’s audits of income, payroll and expenditure;
- reviewing key governance related policies, including the whistleblowing policy and risk management policy;
- reviewing the Agency’s accounting policies and the results of its six-month financial statements; and
- reviewing the draft annual report and accounts at its May 2017 meeting.

The Chair led a self-assessment review of the ARAC's effectiveness, seeking input from members and regular attendees. As set out in the Directors' Report above, the Board and ARAC have agreed actions to address the review's findings and updated the ARAC's Terms of Reference.

The Chair also produced an annual report, summarising the activities of the ARAC and confirming that she considers that the ARAC has fully discharged its responsibilities over the year based on the work it carried out.

Executive Management Team

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

- proposals for a new workforce planning strategy;
- governance of the Agency Development Programme to manage the expansion of the Agency;
- proposals for a long-term pay strategy;
- development of an effective learning and development strategy; and
- overseeing a schedule of Quality Assurance undertaken throughout the year.

b) Risk Management

During 2016-17 GIAA's risk management procedures were revised to reflect the expanded Agency and revised governance arrangements. The strategic risk register was reviewed in July 2016. Key risks identified included those relating to the workforce strategy, corporate plan delivery and the consistency and quality of audit work. Details of key risks managed by the Agency during the year are shown in Section 1.3 of the Performance Report.

A further risk review was undertaken with senior management in March 2017, which re-confirmed our key risks going into 2017-18. Regular risk and management information reports have been reviewed throughout the year by the Executive Management Team and Agency Board. Strategic Board-level risks are assigned an Executive Management Team owner. The highest strategic risks are escalated to HM Treasury Risk Group as part of their oversight and management of group risk.

Bottom-up risks from individual audit programmes and change programmes have been reviewed at monthly meetings of the Agency's Risk Co-ordinators. A revised risk policy has been prepared for implementation in 2017-18. This policy will improve consistency in bottom-up risk management by including consistent risk impact assessment criteria and regular reporting of the key operational risks to delivery, financial, people and quality. Bottom-up risks will be reviewed regularly at Operational Director level and quarterly at Senior Leadership Team meetings with the aim of sharing knowledge and ideas on how to respond to these risks. Any additional risks to the Agency's objectives identified within the operational areas will be escalated by Operational Directors to the Executive Management Team.

The Audit and Risk Assurance Committee provides a challenge function to the risk management arrangements and Internal Audit assures the processes.

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 the provisions of Managing Public Money.

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

As the Agency has increased in size we have strengthened our Corporate Services team to provide enhanced communications capability and stronger governance. The latter has included revision of the Agency's risk management procedures, improvements in the handling of information requests and complaints, and improved support to the Agency's Board and Audit and Risk Assurance Committee. Transactional Services provided by HM Treasury have ensured that GIAA has maintained appropriate internal controls over basic finance and payments systems. However, significant weaknesses remain in our systems for the timely production of management information to support decision making and monitor Agency performance. Development restrictions due to an upgrade of the Treasury's Oracle accounting system on which we rely, has hindered the production of financial information in the format we require. An increase in the number of legacy systems used to track the progress of work has hindered the production of consolidated data on performance and highlighted the importance of moving quickly to a single Audit Management System for the Agency. The development of our financial reporting, and the integration of financial information which relates to chargeable work done, is a priority for the year ahead. To provide the necessary expertise and accelerate this development we have commissioned design and implementation support for from the private sector.

d) Review of Corporate Governance

The Agency seeks to comply with HM Treasury's Corporate Governance in Central Government Departments: Code of Good Practice insofar as the provisions are relevant to the Agency. The Agency has recently conducted a review of its compliance with the Code and concluded that, with the following exceptions, it meets the Code's requirements:

- although some progress has been made in improving the quality and timeliness of management information, further work is needed to ensure the Board has all the necessary management information, including benchmarking data from other relevant organisations, to be able effectively to monitor the Agency's performance;
- the Board has chosen not to establish a Nominations and Governance Committee. In order to make the most effective use of its executive and non-executive directors' time and to minimise bureaucracy, the Remuneration Committee covers nominations, and the Executive Management Team will continue to cover governance;

- it was not deemed necessary for the Head of Internal Audit to attend the Agency Board, although he receives the papers for all Board meetings and there is a standing invite for specific items of interest; and
- the ARAC's Terms of Reference are not currently available on the Agency's website (www.gov.uk/giaa). We are reviewing all content on the website and will include the Terms of Reference as part of our website refresh.

e) Review of Effectiveness

Management Assurance

The Agency has implemented an annual Management Assurance exercise to review all facets of management assurance, policy and practice. The 2016-17 exercise asked all Senior Civil Servants in the Agency to provide performance commentary and evidence on a range of assurance aspects.

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

Management assurance responses were reviewed and agreed by subject matter experts, internal audit and the Audit and Risk Assurance Committee, with the following specific control issues reported:

- the Agency has yet to develop fully and implement the necessary capacity, capabilities, systems, processes and reporting to support effective financial management across its expanded operations;
- a number of other core corporate processes, whilst meeting the minimum standards of internal control, need further investment to achieve the level of maturity needed to support the Agency going forward; and
- a lack of awareness of the Agency's anti-fraud policy.

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 2017-18.

Internal Audit

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

The Head of Internal Audit has provided me with an annual opinion, which provides 'Limited Assurance' over the framework of governance, risk management and control. There is evidence of progress in the Agency, but the pace of that change has been slowed by the focus that has had to be given to migrating audit functions from other organisations into the Agency. This has meant the Agency has not had a stable base to build the organisation. This is reflected in our audit work where the Charging Model has improved, but issues still remain around the inputs and activities that helps support it. Resourcing issues have also slowed progress on the New Audit Methodology and Management Software project.

Quality Assurance

The Agency strengthened its commitment to quality in 2016-17 with the establishment of a new Professional Practice Directorate (PPD), which consolidates our methodology, training and quality assurance efforts. As part of this, we introduced an approach to quality assurance in respect of our operational activity that follows the three lines of assurance model.

The Agency's Group Chief Internal Auditors have responsibility for ensuring that adequate first-line checking and review occurs as individual assignments are in progress. Our PPD co-ordinates second-line assurance activity, whereby nominated operational staff conduct periodic 'cold' reviews of samples of completed work, undertaking both compliance and qualitative checks.

During 2016-17, testing by the NAO was limited to a pilot exercise on the quality of audit reports issued by the Agency.

Physical, Information & Data Security Assurance

The security of customer data remains of critical importance throughout audit and corporate operations. Significant work has been undertaken to identify and implement the most viable methods of transmitting information and data securely between our customers, audit framework suppliers and the Agency. This has enabled a higher level of assurance over the way the Agency handles information and enhanced reporting from our suppliers. An internal security campaign throughout the Agency to cover user awareness and understanding has been conducted to ensure that our people are aware of the Agency's security policy and procedures, including their own responsibilities. The Agency aligns to HM Treasury for business continuity, however it has not been able to undertake an Agency wide test of its Business Continuity Plan. In acknowledgement of the wide geographical distribution of Agency staff in more than sixty locations across the United Kingdom, work is under way to review local business continuity plans in all locations. The Agency has been successful in managing two low level incidents in 2016 where degraded IT service of the HM Treasury shared network was experienced. Agency staff were able to continue operating using alternative locations to work from and utilised the various different connections methods on the IT platform to access the GIAA network, with no negative impact on audit operations or our customers.

The London terrorist attack on 22 March 2017 tested our ability to operate and respond to changing events. To keep our people safe, our communications provided GIAA staff with updated advice immediately following its receipt from the Metropolitan Police and local managers ensured that all staff were accounted for.

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, risk management and internal control 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 related information and have commissioned support from the private sector to ensure that improvements are implemented in the first half of the next financial year.

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.

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.

2.2 Staff Costs

This information is subject to audit by the Comptroller & Auditor General.

	2016-17			2015-16		
	Permanent Staff (£000)	Other Staff (£000)	Total (£000)	Permanent Staff (£000)	Other Staff (£000)	Total (£000)
Salaries including allowances	16,650	841	17,491	6,734	474	7,208
Social security costs	1,854	–	1,854	598	4	602
Other pension costs	3,425	–	3,425	1,398	9	1,407
Total staff costs	21,929	841	22,770	8,730	487	9,217
Less recoveries from outward secondments	(318)	–	(318)			
Net cost	21,611	841	22,452	8,730	487	9,217

The average number of full-time equivalent persons employed during the year was 386.1 (2015-16: 148.1).

2.3 Civil Service Pensions

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. Further details can be found in the resource accounts of the Cabinet Office.

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).

For 2016-17, employers’ contributions of £3,396k 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 (2015-16: £1,392k). 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 2016-17 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 £28k were paid to one or more of the panel of three appointed stakeholder pension providers (2015-16: £6k). Employer contributions are age-related and range from 8% to 14.75% of pensionable earning from 1 October 2015. Employers also match employee contributions up to 3% of pensionable earnings. In addition, employer contributions of £1k (0.5% of pensionable pay from 1 October 2015) were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service or ill health retirement of these employees (2015-16: £0.5k).

Contributions due to the partnership pension providers at the balance sheet date were £3k (2015-16: £1k). Contributions pre-paid at that date were £nil (2015-16: £nil).

2.4 Exit Packages

During the year, two compensation payments totalling £138k (2015-16: one, £30k) were made in respect of fair dismissals on the grounds of inefficiency in which the individuals were entitled to compensation under the Civil Service Management Code. No other costs for exit packages in 2016-17 were incurred (2015-16: £nil).

2.5 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 or civil service Agencies and organisations. The SCS is a corporate resource employed with a common framework of terms and conditions and central arrangement for career management and training. Departments and organisations operate the common SCS pay framework in line with the principles set out in guidance from the Cabinet Office.

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 2016 SCS annual pay award we constituted the first Agency Pay Committee, comprising the Chief Executive Officer, 2 non-executive Board members and representatives from the HM Treasury SCS Pay Team. Awards were calculated and awarded in line with the Cabinet Office framework and principles.

Performance bonuses/Non-consolidated performance-related pay awards

There were three non-consolidated performance-related pay awards for the SCS in the 2016 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. Any involved are disclosed in the salary, allowances and taxable benefit table.

Table 3: Remuneration (including salary) and pension entitlements

The information provided in tables 3, 4 and 5 is subject to audit by the Comptroller & Auditor General.

Name and Role	2016-17 (£000s)					2015-16 (£000s)				
	Salary (FYE)	Performance Bonus	Benefits in kind	Pension Benefits	Total	Salary (FYE)	Performance Bonus	Benefits in kind	Pension Benefits	Total
Jon Whitfield Chief Executive Officer	95-100	10-15	–	12	120-125	90-95	–	–	115	205-210
Liz Corrin Corporate Services Director (from May 2016)	75-80 (FYE) 80-85	–	–	21	95-100	–	–	–	–	–
Mark Ripley Operational Director	90-95	–	–	28	120-125	–	–	–	–	–
Jo Rowley Professional Practice Director (from May 2016)	60-65 (FYE) 70-75	–	–	24	85-90	–	–	–	–	–
Chris Westwood Operational Director (from June 2016)	80-85 (FYE) 95-100	–	–	–*	80-85	–	–	–	–	–
Ian Coates Chief Operating Officer (to June 2016)	20-25 (FYE) 85-90	–	–	8	30-35	85-90	–	–	41	130-135

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

Name	Cash Equivalent Transfer Values (CETV)				Real increase in CETV as funded by employer in year (£000)
	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 2017 (£000)	As at 31 March 2017 (£000)	As at 31 March 2016 (£000)	
Jon Whitfield	0-2.5 plus a lump sum of 2.5-5	45-50 plus a lump sum of 135-140	974	916	10
Liz Corrin	0-2.5	35-40	604	553	15
Mark Ripley	0-2.5	45-50	729	686	10
Jo Rowley	0-2.5	5-10	62	48	10
Chris Westwood	*	–	*	*	*
Ian Coates	0-2.5	10-15	131	128	3

*Chris Westwood participates in a partnership pension.

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

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.

Table 5: Agency Board Non-executive members' remuneration

Name	Role	2016-17 Total remuneration (£000)	2015-16 Total remuneration (£000)
Mike Ashley	Chairman	15-20	15-20
Margaret Edwards	Non-executive director	10-15	10-15
Steve Burnett	Non-executive director	10-15	10-15

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 2016-17 was £105-110,000 (2015-16: £90-95,000). This was 2.56 times the median remuneration of the workforce, which was £42,141 (full time equivalent) (2015-16: 2.1 times and £43,306). In 2016-17, no employees received remuneration in excess of the highest paid director (2015-16: nil). Remuneration salaries in the Agency ranged from £19,873 to £99,660 (2015-16: £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 pension.

2.6 Agency Composition

The Agency's authorised headcount was set at the start of the year at 406 FTEs, which increased to 492 FTEs following the migration of further organisations in October 2016. GIAA has remained within headcount throughout the year, and as at 31 March 2017 employed the following staff:

Category	2016-17		2015-16	
	Number	Cost (£000)	Number	Cost (£000)
Staff with a permanent UK employment contract	407	21,611	172	8,730
Other staff engaged on the objectives of the entity (consisting of interim and temporary workers)	21	841	13	487
Total	428	22,452	185	9,217

The information in this table is subject to audit by the Comptroller and Auditor General.

Including the Chief Executive Officer and the Corporate Services Director, the Agency employs 14 SCS – three at Pay Band 2 and eleven at Pay Band 1. Our complement of SCS posts is primarily driven by the needs of our customers in delivering the agreed audit programmes and reflects the expansion that the organisation has undergone over the past two years.

Sickness absence

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

Diversity

The following table summarises the composition of the Agency as at 31 March 2017.

Grade	2016-17				2015-16			
	Male	Female	BAME	Disabled	Male	Female	BAME	Disabled
SCS	79%	25%	0%	n/a	100%	0%	0%	0%
SCS & G6	68%	32%	3%	3%	63%	37%	0%	0%
Agency Total	55%	45%	9%	6%	57%	43%	10%	5%

As at 31 March 2017

Gender pay gap		Proportion of male and female employees in each quartile	Female	Male
Mean gender pay gap – ordinary pay	10.3%	Lower quartile	63.81%	36.19%
Median gender pay gap – ordinary pay	8.3%	Lower middle quartile	42.86%	57.14%
Mean gender pay gap – bonus pay in 12m ended 31 March 2017	32%	Upper middle quartile	44.76%	55.24%
Median gender pay gap – bonus pay in 12m ended 31 March 2017	4%	Upper quartile	34.58%	65.42%
Proportion of male and female employees paid a bonus in the 12m ended 31 March 2017				
	Male	39%		
	Female	42%		

2.7 Consultants and Contingent Labour

The Agency utilises contingent labour to provide project management support or to supplement short term Agency Development activities; or for generalist and specialist audit resources and to temporarily fill resource gaps in our teams, as follows:

Category	2016-17 £000	2015-16 £000
Specialist Contractors: Internal Audit	6,093	3,299
Framework Contract Interim & Temporary Workers	841	487
Consultants	11	nil

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 specialist skills when needed to work alongside our own people. The seven firms are Deloitte, Grant Thornton, KPMG, Mazars, Moore Stephens, PwC and RSM. The Agency engaged specialist consultants during the year at a cost of £10,500.

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 2017 where the individual is paid more than £220 per day and the engagement has lasted for longer than six months:

	2016-17	2015-16
Number of engagements at year end, and risk assessed	6	4
Of which: number of engagements existing for less than a year at the time of reporting	4	4
number of engagements lasting for one to two years at the time of reporting	2	–
Number of engagements paying more than £220 per day or lasting longer than six months, all of which include contractual clauses giving the Agency the right to request assurance in relation to income tax and NI obligations, all of which have been contacted, and all of which have provided confirmation (TBC)	9	4
Number of off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, during the financial year.	–	–
Total number of individuals on the payroll and off-payroll that have been deemed “Board members and/or, senior officials with significant financial responsibility” during the financial year.	6	2

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)

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

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

2016-17 was the Agency's second 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 and Accounting Officer
7 July 2017

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 2017 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 the 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 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 the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Government 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 purposes 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 Government Internal Audit Agency's affairs as at 31 March 2017 and of the net operating cost 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 parts 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 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 parts of the Remuneration and Staff Report and the 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
7 July 2017

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

Annual Accounts 2016-17

Statement of Comprehensive Net Expenditure for the year ended 31 March 2017

	Note	Year to 31 March 2017 (£000)	Year to 31 March 2016 (£000)
Income from sales of services	4,5	(30,031)	(13,161)
Total operating income		(30,031)	(13,161)
Staff costs	2	22,452	9,217
Purchase of goods and services	3.1	10,179	5,056
Total operating expenditure		32,631	14,273
Net expenditure for the year		2,600	1,112
Other comprehensive net expenditure			
Cost of annual leave balances of staff transferred to GIAA	3.2	369	257
Comprehensive net expenditure for the year		2,969	1,369

The notes on pages 65 to 73 form part of these accounts.

Statement of Financial Position as at 31 March 2017

	Note	2016-2017 (£000)	2015-2016 (£000)
Current assets			
Trade & other receivables	7	11,582	5,725
Total current assets		11,582	5,725
Current liabilities			
Trade and other payables	8	(11,615)	(5,686)
Total current liabilities		(11,615)	(5,686)
Total assets less total liabilities		(33)	39
Taxpayers' equity			
General Fund		(33)	39

The notes on pages 65 to 73 form part of these accounts.



Jon Whitfield
Chief Executive and Accounting Officer
7 July 2017

Statement of Cash Flows for the year ended 31 March 2017

Note	2016-2017 (£000)	2015-2016 (£000)
Cash flows from operating activities		
Comprehensive net expenditure	(2,969)	(1,369)
(Increase)/Decrease in trade and other receivables	(5,857)	(5,725)
Increase/(Decrease) in trade and other payables	5,929	5,686
Adjustment for non-cash transactions:		
Notional expenditure: auditor remuneration	57	65
Net cash outflow from operating activities	(2,840)	(1,343)
Cash flows from financing activities		
From the Consolidated Fund (Supply) – current year	2,840	1,343
Net increase/(decrease) in cash and cash equivalents	–	–
Cash and cash equivalents at the beginning of the year	–	–
Cash and cash equivalents at the end of the year	–	–

Statement of Changes in Taxpayers' Equity

	2016-2017 (£000)	2015-2016 (£000)
Balance at 1 April 2016	39	–
Comprehensive net expenditure for the year	(2,969)	(1,369)
Supply funding from HM Treasury	2,840	1,343
Notional Audit Fee	57	65
Balance at 31 March 2017	(33)	39

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.
- *IFRS16 Leases* (effective from 1 January 2019) – this standard will require lessees to account for all leases on their balance sheets, including those which had previously been treated as operating leases and accounted for in the P&L account as an “in-year” expense. As the Agency currently occupies many properties under quasi-operating leases arrangements with other government departments, and receives an ICT service from HM Treasury under a quasi-operating lease, the changes in the accounting for leases is likely to have an effect on the Statement of Financial Position but the timing of the adoption of this standard by the EU remains unclear at this stage.
- Other changes due to come into effect after 2016-17 are considered to have no impact on the Agency.

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

1.2 Accounting Convention

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

1.3 Transfer of Functions

On 1 April 2016 and 1 October 2016, Internal Audit teams from other Government Departments were transferred to the GIAA. This has been treated as a transfer by absorption and, accordingly comparative figures for 2015-16 for the transferring functions are not adjusted. The net expenditure of those transferred has been accounted for from the date of transfer.

1.4 Property, Plant and Equipment and Intangible Fixed Assets

GIAA follows HM Treasury Accounting Group Policy in respect of the recognition of Property, Plant and Equipment and Intangible Fixed Assets. Under this policy Property, Plant and Equipment and Intangible Fixed Assets are initially recognised at cost. The threshold used by HM Treasury for capitalising these assets is £5,000. No such assets were held by GIAA during 2016-17.

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

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). 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, therefore a number of employees within the Agency remain covered by the provisions of the Principal Civil Service Pension Schemes (PCSPS). 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 2016-17 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 includes a provision for foreseen unrecoverable amounts. These estimates are included in trade receivables, accrued income and deferred income at the year end.

Note 2 – Staff costs

	2016-17			2015-16		
	Permanent Staff (£000)	Other Staff (£000)	Total (£000)	Permanent Staff (£000)	Other Staff (£000)	Total (£000)
Salaries including allowances	16,650	841	17,491	6,734	474	7,208
Social security costs	1,854	–	1,854	598	4	602
Other pension costs	3,425	–	3,425	1,398	9	1,407
Total staff costs	21,929	841	22,770	8,730	487	9,217
Less recoveries from outward secondments	(318)	–	(318)	–	–	–
Net cost	21,611	841	22,452	8,730	487	9,217

The average number of full-time equivalent persons employed during the year was 386.1 (2015-16: 148.1).

Note 3 – Purchase of Goods and Services

3.1 Analysis of total goods and services purchased

	2016-17 (£000)	2015-16 (£000)
Contractors costs	6,104	3,299
Support services from other Government Depts.	2,195	1,157
Travel and Subsistence costs	869	244
IT and telecommunications costs	265	98
Training costs	240	90
Auditor's remuneration	57	65
Auditor's remuneration – non audit services	30	0
Staff support and staff related costs	148	47
Recruitment costs	237	43
Office costs	34	13
Total other goods and services	10,179	5,056

3.2 Analysis of annual leave accrual

	2016-17 (£000)	2015-16 (£000)
Cost of staff transferred on 1 April 2016 (1 April 2015)	258	218
Cost of staff transferred on 1 October 2016	111	–
Cost of staff transferred on 1 November 2015	–	39
Total cost of staff transferred	369	257

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 £30,031k (2015-16:£13,161k) relates to audit fees.

Note 5 – Income and expenditure by type of work

	2016-17				2015-16			
	Internal Audit Customers (£000)	Supply funded: Agency Expansion (£000)	Supply funded: IA Policy (£000)	Total Per SOCNE (£000)	Internal Audit Customers (£000)	Supply funded: Agency Expansion (£000)	Supply funded: IA Policy (£000)	Total Per SOCNE (£000)
Audit fee income	(30,031)	–	–	(30,031)	(13,161)	–	–	(13,161)
Expenditure	29,791	2,548	292	32,631	12,930	1,062	281	14,273
Net expenditure for the year	(240)	2,548	292	2,600	(231)	1,062	281	1,112
Cost of annual leave balances of staff transferred to GIAA	369	–	–	369	257	–	–	257
Comprehensive net expenditure for the year	129	2,548	292	2,969	26	1,062	281	1,369

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

Note 6 – Financial Instruments

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

Note 7 – Receivables

	2016-17 (£000)	2015-16 (£000)
Amounts falling due within one year		
Trade receivables	7,804	2,531
Accrued Income	3,704	3,140
Prepayments	44	15
Staff loans	28	38
Other staff receivables	2	1
Total falling due within one year	11,582	5,725

Note 8 – Payables and other current liabilities

	2016-17 (£000)	2015-16 (£000)
Amounts falling due within one year		
Taxation and social security	939	388
Trade and other payables	110	1,025
Receipts in advance	713	354
Amounts due to HMT	6,323	2,622
Accruals for untaken holiday leave	818	274
Accruals	2,712	1,023
Total falling due within one year	11,615	5,686

Note 9 – Commitments and leases

GIAA has neither entered into any capital commitments nor any non-cancellable contracts. The Agency has a recharge arrangement with HM Treasury for a number of support services including ICT running costs and transactional services for HR and finance. As at 31 March 2017, these arrangements were based on an annual recharge to the Agency from HM Treasury. The arrangements are subject to an annual review and as the Agency expands longer term arrangements will be sought which may result in operational leases.

Note 10 – Related party transactions

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

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

- Department for Work and Pensions
- Home Office
- Department for Education
- Department for Communities and Local Government
- Department for Transport
- Department for Business, Energy and Industrial Strategy

Board member and senior staff remuneration will be disclosed in the Remuneration Report which will form part of the annual statement of accounts. No board member or senior manager has undertaken any material transactions with the GIAA in the year to 31 March 2017.

Note 11 – Contingent Liabilities

There are no contingent liabilities as at 31 March 2017.

Note 12 – Events after the reporting period

There were no significant events occurring after the reporting period. The Accounting Officer authorised these financial statements for issue on 7 July 2017.

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