

**Company No. 9774296**

**UK Government Investments Limited**

**(the “Company”)**

**27-28 Eastcastle Street, London W1W 8DH**

Agenda for a meeting of the Audit and Risk Committee

held at

Room 3K, 1 Victoria Street, London, SW1H 03T

On 27 January 2016 at 2.00 p.m.

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Present:           Jane Guyett (in the Chair)  
                  Robin Lawther  
                  Mark Russell  
                  James Leigh-Pemberton

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In attendance:    Nike Kojakovic  
                  Rachel James  
                  Dominic Hastings  
                  Jeremy Ankers  
                  Others as required

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1. Declaration of interest

**Items for Approval**

2. UKGI Audit and Risk Committee Terms of Reference (UKGI – ARCP- 1)

**Items for Discussion**

3. NAO introduction (NAO to come in person) (UKGI-ARCP-2, 2a, 2b, 2c)
4. UKGI approach to risk management (UKGI – ARCP-3, 3a, 3b, 3c, 3d)
5. Internal audit update – KIM (UKGI- ARCP-4, 4a)

**UK Government Investments Limited (the “Company”)****Terms of reference for the Company’s audit and risk committee (the “Committee”)**

Chair	<ul style="list-style-type: none"><li>• A suitably qualified director of the Company will be appointed by the Company’s Board as chair for Committee (“Chair”). Once appointed the Chair will act as the chair for all meetings, or, in his or her absence, the deputy chair of the Company will chair the meeting.</li></ul>
Members	<ul style="list-style-type: none"><li>• The Committee will comprise of three directors which will be independent non-executive directors of the Company. At least one member of the committee shall be determined by the Board to have recent and relevant financial experience as recommended by the UK Corporate Governance Code.</li></ul>
Appointment of members	<ul style="list-style-type: none"><li>• Appointments to the Committee are made by the Board for a period of up to three years, which may be extended for further periods of up to three years, provided the director still meets the criteria for the membership of the Committee.</li></ul>
Attendees	<ul style="list-style-type: none"><li>• The chief financial officer and chief operating officer will be expected to attend all meetings.</li><li>• Other members of the UKGI team will attend Committee meetings as appropriate.</li></ul>
Additional invitees	<ul style="list-style-type: none"><li>• Specialists may be requested to attend for specific items or to make presentations to the Committee, in particular, internal audit (Government Internal Audit Agency) and external auditors from the National Audit Office (the “NAO”).</li></ul>
Quorum	<ul style="list-style-type: none"><li>• The quorum may be fixed by the Directors and unless so fixed at any other number shall be at least one non-executive Director and the Chair of the Committee.</li></ul>
Meeting frequency	<ul style="list-style-type: none"><li>• At least twice a year and otherwise as required. In the normal course of business, meetings will be held in January when the NAO will present their audit plan and in June when the NAO will present their audit completion report, following which the Committee will be asked to sign off the annual report and accounts.</li><li>• The Chair will be responsible for reporting to the Board on the Committee’s activities after each meeting of the Committee or otherwise as requested by the Board.</li></ul>
Notice of meetings	<ul style="list-style-type: none"><li>• Meetings of the Committee must be called by the Committee secretary as the request of the Chair.</li><li>• Notice of meetings will be given as soon as is practically possible.</li></ul>
Secretary	<ul style="list-style-type: none"><li>• The Board secretary will be the Committee secretary.</li></ul>
This Committee receives its authority from	<ul style="list-style-type: none"><li>• The Committee receives authority from the UKGI Board.</li><li>• The Committee may engage with independent counsel or other advisors, the expenses for which, if above £10,000 (excluding VAT) be approved by the Board.</li></ul>
Purpose of the Committee	<ul style="list-style-type: none"><li>• To provide oversight and advice to the Board for financial reporting, external and internal audit, internal control and risk, and compliance in relation to the Company.</li></ul>

Scope of the Committee oversight and responsibility	<p>The Committee is responsible for:</p> <p><b><u>Financial reporting</u></b></p> <ul style="list-style-type: none"><li>• Establishing and maintaining appropriate accounting policies, implementing and monitoring the maintenance of adequate accounting and other records and systems of planning and internal control in respect of the Company.</li><li>• Considering the Company's going concern statement and determine whether the Company is a going concern.</li><li>• Reviewing the annual report and accounts for the Company prior to recommending sign off by the Board.</li></ul> <p><b><u>Internal control and risk</u></b></p> <ul style="list-style-type: none"><li>• Ensuring that the Company's management establish and maintain appropriate controls and associated risk management frameworks.</li><li>• Identifying and mitigating the Company's operating, strategic and project risks.</li></ul> <p><b><u>External audit</u></b></p> <ul style="list-style-type: none"><li>• Approving the nature and scope of the Company's audit proposed by the NAO.</li><li>• Reviewing management representation letters required by the external auditor and other management representations.</li><li>• Monitoring the effectiveness of the relationship between the Company's internal and external auditors.</li><li>• Resolving disagreements between the Company's management and the external auditor regarding the Company's financial reporting.</li></ul> <p><b><u>Internal audit</u></b></p> <ul style="list-style-type: none"><li>• Approving the Company's internal audit programme, requesting where appropriate that internal audit undertake specific work and monitoring the significant findings from major investigations.</li><li>• Reviewing the effectiveness and performance of the service provided to the Company by the Government Internal Audit Agency, approving the budget.</li></ul> <p><b><u>Compliance</u></b></p> <ul style="list-style-type: none"><li>• Approving the Company's compliance policies, in particular the compliance manual.</li><li>• Ensuring that the Company has appropriate whistleblowing procedures in place and for the Committee members to act as escalation points.</li></ul> <p><b><u>Self-review</u></b></p> <ul style="list-style-type: none"><li>• Ensuring that suitably rigorous appraisals are made of the effectiveness of the Committee and its Chair, including reviewing the Committee's constitution and terms of reference to ensure the Committee is operating at maximum effectiveness and recommend any changes it considers necessary for Board approval.</li></ul>
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Delegation of Authority	<ul style="list-style-type: none"><li>• The Committee members may delegate any of their powers (with power to sub-delegate) to committees consisting of such person or persons (whether Company directors or not) as they think fit.</li></ul>
Support	<ul style="list-style-type: none"><li>• Refer to section "Secretary".</li><li>• The Committee will be provided with appropriate and timely training both in the form of an induction programme for new members and on an ongoing basis for all members.</li><li>• The Committee will have access to sufficient resources in order to carry out its duties.</li></ul>
ToR last approved on	<ul style="list-style-type: none"><li>• [ ] January 2016</li></ul>

\*To be reviewed [ ] January 2017

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**27-28 Eastcastle Street, London W1W 8DH**

Paper for the Audit and Risk Committee

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**Topic:** Introduction to the National Audit Office – cover note

**Date:** 20<sup>th</sup> January 2016

**Author:** Nike Kojakovic

**Ref:** UKGI-ARCP-2

**Category:** Paper circulated for discussion

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The Board has been asked to approve the appointment of the National Audit Office as the Company's external auditors (ref: UKGI-BP-5).

This committee was scheduled to meet prior to the board formally appointing the NAO as external auditors. We felt it was appropriate to ask the NAO to come and introduce their work to the committee as the next time the committee meets on 19<sup>th</sup> May 2016, the NAO will present their audit plan for approval after which they will commence their audit. The draft completion audit report scheduled for presentation at the 16<sup>th</sup> June 2016 Audit and Risk committee, at which the committee, all being well, will be asked to recommend the approval of the annual report and accounts to the Board.

Papers provided by the NAO to be presented by Peter Morland (Audit Director) and Amy Manning (Audit Manager).

- Introduction to the National Audit Office (UKGI-ARCP-2a)
- UKFI Letter of Engagement (UKGI-ARCP-2a)
- UKFI NAO audit planning report 2015-16 (UKGI-ARCP-2c)



National Audit Office

# Introduction to the National Audit Office

UKGI Audit and Risk Committee

January 2016

# Our Role

- The National Audit Office (NAO) **scrutinises public spending** for Parliament.
- We help to **hold government departments** and the bodies we audit to account for how they use public money.
- Our work helps public service managers to **improve performance and service delivery**, national and locally.

# Our work

Our work is produced for:

- The committee of Public Accounts (PAC)
- Other select committees, including the Public Administration Select Committee, Environment, Health, Transport etc
- All MPs and peers
- Senior Officials in government departments
- Members of the Public and groups interested in aspects of our work

# There are five dimensions to our work

## Financial Audit

We certified 442 accounts in 344 organisations in 2014-15.

Bodies we audit include government departments, charities and some companies.

## Value for Money

We published 49 value for money reports and 3 financial reports in 2014-15.

We highlight important lessons for the bodies we audit and for government more widely.

## Investigations

We published 13 investigations in 2014-15. This work enables us to respond quickly to important issues that public bodies face.

Our work focuses on robust financial management, using information better and areas where MPs and others have concerns.

## Support for Parliament

We help the Committee of Public Accounts (PAC), other Select Committees and individual MPs in their scrutiny of public spending and service delivery.

The PAC held 60 hearings based on our work in 2014-15. We also supported 24 other Parliamentary committees.

## International

We are on the UN Board of Auditors for a six-year term and audit a range of other international organisations.

We report on EU spending in the UK.

We are a member of the INTOSAI\* Board.

\* International Organisation of Supreme Audit Institutions

# Comptroller and Auditor General

- The Comptroller and Auditor General (C&AG), Amyas Morse, leads the NAO and is an Officer of the House of Commons, appointed by the Queen. He and the staff of the NAO (about 800 people) are independent of government. They are not civil servants and do not report to a minister.
- The C&AG certifies the accounts of all government departments and many other public sector bodies. He has statutory authority to examine and report to Parliament on whether departments and the bodies they fund have used their resources efficiently, effectively, and with economy.

# Comptroller and Auditor General

## Government owned companies

- The provisions of Section 1226 of the Companies Act 2006 enable the NAO to audit the financial statements of Government owned companies.
- There are separate provisions for profit making and non-profit making companies. Since 2008-09 the C&AG has been eligible for appointment as auditor of profit making companies.
- The C&AG has designated Peter Morland as the senior statutory auditor and he will sign the audit report on behalf of the C&AG for UKGI.

# Financial Audit

- Our audit of financial statements is carried out in accordance with International Standards on Auditing (UK & Ireland) issued by the Auditing Practices Board (APB).
- Our approach to the audit of financial statements uses a range of techniques to obtain audit evidence and assurance and is based on a thorough understanding of the client's business.
- This understanding allows us to develop an audit strategy which focuses on addressing specific risks whilst providing an acceptable level of assurance across the financial statements as a whole.
- We are able to tailor our work to meet the needs of, and risks faced by, individual clients and the approach will be designed to add value to the client.

# Financial audit

## C&AG's audit opinion on the financial statements

### 1) True and fair view

- The C&AG is required to form an opinion as to whether the accounts of audited bodies are free from material misstatement and comply with the relevant reporting requirements.
- With the support of the NAO, he provides assurance that the financial statements present a “true and fair” view of the financial position and performance of the body in accordance with the statute, charter or other regulatory framework which underpins it.

# Financial Audit

## 2) Regularity

- When certifying accounts the C&AG is also required to provide assurance that the transactions recorded in the financial statements are in accordance with Parliamentary or other authority. (There are a small number of exceptions to this where bodies do not provide a public function or are not funded from public monies).
- This “regularity” objective is a central feature of our work and is one of its distinguishing characteristics.
- A transaction is regular when it is made in accordance with:
  - authorising legislation;
  - regulations issued under governing legislation;
  - Parliamentary authorities; and
  - Treasury authorities.
- Each audit contains specific steps and procedures to address the risk of irregularity and to identify instances of material breach.

# NAO engagement with Audit committees

## Initial appointment

- The Directors need to formally request the C&AG to act as the UKGI auditor
- The NAO will then issue a **Letter of Engagement**. This sets out the scope of the audit and both the C&AG's and the Directors' responsibilities in relation to the engagement.
- The letter of engagement is signed at the beginning of the appointment and then only re-issued when circumstances determine it necessary e.g. significant change in the Directors
- See attached UKFI Letter of Engagement as an example

# NAO engagement with Audit Committees

## Ongoing engagement

- **Audit planning report** - each year we will issue an audit planning report at the beginning of the audit cycle setting out our plan for the forthcoming year. We will present this and consult with the Audit Committee to ensure that we have identified all the risks of material misstatement and our proposed approach will address these
- See attached UKFI audit planning report as an example
- **Audit completion report** – at the end of the audit cycle in advance of Board approval and signing of the accounts we present the Audit Committee with our audit completion report setting out our findings from the audit, the proposed audit opinion that the C&AG will issue and highlight any areas of control weaknesses found
- We will also provide regular updates as required and can provide other services e.g. audit committee effectiveness workshop



National Audit Office

Helping the nation spend wisely

Bryan Ingleby  
Senior Statutory Auditor

Telephone  GRO  
Email  bryan.ingleby@  
GRO

James Leigh-Pemberton  
Executive Chairman  
UK Financial Investments Ltd  
100 Parliament Street  
London SW1A 2BQ

Our Reference K53114  
Date 21 January 2014

*Dear James*

## AUDIT OF UK FINANCIAL INVESTMENTS LTD: LETTER OF ENGAGEMENT

### 1. INTRODUCTION

1.1. The purpose of this letter is to set out the basis on which the Comptroller and Auditor General (C&AG) audits the financial statements of the UK Financial Investments Ltd for the year ended 31 March 2014; and the respective responsibilities of the Directors of UK Financial Investments Ltd, and the National Audit Office (NAO), acting on behalf of the C&AG. This engagement will be conducted with the sole objective of our expressing an opinion on the financial statements.

### 2. SCOPE OF THE AUDIT

2.1. The financial audit will be conducted in accordance with International Standards on Auditing (UK & Ireland) and will cover the financial statements for the financial year 2013-14. We will also audit the consolidation schedules for the consolidated financial statements of HM Treasury.

2.2. Once the C&AG has issued his report we have no further direct responsibility in relation to the financial statements for that financial year. However, we expect that you will inform us of any material event occurring between the date of the C&AG's report and the date that the financial statements are considered for approval by the Board, which may affect those statements.

### 3. RESPONSIBILITIES OF AUDITORS

3.1. The C&AG has a statutory responsibility to report to UK Financial Investments Ltd's shareholders whether in his opinion the financial statements give a true and fair view and whether they have been properly prepared in accordance with the Companies Act 2006. He is required to report whether, in his opinion, the information included in the Directors' Report is consistent with the financial statements. He will also report on whether, in his opinion, in all material respects, the expenditure and income presented in the financial statements have been applied to the purposes intended by Parliament and whether the financial transactions conform to the authorities which govern them.

3.2. In arriving at this opinion, we are required to consider the following matters, which the C&AG will report on if he is not satisfied:

- whether proper accounting records have been kept by UK Financial Investments Ltd, and proper returns adequate for the audit have been received from any third parties;
- whether we have obtained all the information and explanations which we consider necessary for the purposes of our audit; or



- whether the information given in the Directors' Report is consistent with the financial statements

3.3. There are certain other matters that, according to circumstances, the C&AG has a responsibility to report on. For example, where the financial statements do not give details of directors' remuneration or of their transactions with UK Financial Investments Ltd, the Companies Act requires him to disclose such matters in his report.

#### **4. THE FINANCIAL AUDIT PROCESS**

4.1. The audit will be conducted in accordance with International Standards on Auditing (UK and Ireland). These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance over whether the financial statements are free from material misstatement. We are also required to report whether, in our opinion, that the transactions of the entity are, in all material respects, in accordance with parliamentary intention and the authorities which govern them.

4.2. We shall obtain an understanding of the accounting and internal control systems to assess their adequacy as a basis for the preparation of the financial statements; ensuring income and expenditure is incurred in accordance with parliamentary intention (regularity) and to establish whether proper accounting records have been maintained by UK Financial Investments Ltd. We shall expect to obtain such appropriate evidence as we consider sufficient to enable us to draw reasonable conclusions therefrom.

4.3. The nature and extent of our procedures will vary according to our assessment of the UK Financial Investments Ltd's accounting and internal control systems and, where we wish to place reliance on it, the internal control system, and may cover any aspect of the operations that we consider appropriate.

4.4. To assist us with the examination of your financial statements, we shall request timely sight of all documents or statements which are due to be issued with the financial statements. We shall review accompanying information for consistency with the financial statements and with our knowledge of your business. We will bring such inconsistencies to your attention so that they may be resolved prior to signature of the audit report.

#### **Limitations of a financial audit**

4.5. We will plan our audit so that we have a reasonable expectation of detecting material misstatements in the financial statements or accounting records (including those resulting from fraud, error or non-compliance with laws or regulations) but our examination should not be relied upon to disclose all such material misstatements as may exist. Due to the test nature and other inherent limitations of a financial audit there is an unavoidable risk that some material misstatement may remain undiscovered.

4.6. Our work on internal control will not be sufficient to enable us to express any assurance on whether or not UK Financial Investments Ltd's internal controls are effective. Our financial statement audit cannot be relied upon to draw to your attention all matters that may be relevant to your consideration as to whether or not the system of internal control is effective.

#### **Management representations**

4.7. As part of our audit process we will request from management written representations on matters material to the financial statements where other sufficient appropriate evidence cannot reasonably be expected to exist, and where management may have made certain oral representations (Letter of Representation).

#### **Reliance on third parties**

##### ***Internal Audit***

4.8. We shall obtain an understanding of internal audit to identify and assess the risks of material misstatement of the financial statements. We will assess the internal audit function when this is relevant to the risk assessment and, where we intend to use specific audit work, we will

evaluate and perform audit procedures on that work to confirm its adequacy for our purposes. Reliance on the work of internal audit may not always be appropriate for the purposes of the audit of the financial statements.

#### **Another auditor**

4.9. Where we place reliance on another auditor, we will consider how the work of the other auditor will affect the audit. We shall consider the professional competence of the other auditor in the context of this engagement and perform procedures to obtain sufficient evidence that the work of the other auditor is adequate for our purposes.

#### **Use of Experts**

4.10. Where we judge that it is appropriate to use the work of an expert we will:

- obtain sufficient appropriate audit evidence that such work is adequate for the purposes of the audit;
- evaluate the professional competence of the expert;
- evaluate the objectivity of the expert;
- ensure that the scope of the work of the expert is adequate for our purposes; and
- evaluate the appropriateness of the expert's work as audit evidence regarding the assertions being considered.

#### **Communications**

4.11. At the start of our audit each year, we will issue an audit planning report, which should be presented to the Audit Committee, containing details of identified risks and planned financial audit work on UK Financial Investments Ltd for the coming year. This will detail where the audit team intends to make use of the work of internal audit, other auditors or experts.

4.12. On behalf of the C&AG the NAO would normally expect to be invited to attend the UK Financial Investments Ltd's audit committee meetings.

4.13. At the end of each audit we will report formally to you on:

- any significant weaknesses in, or observations on, the accounting and internal control system for presentation to those charged with governance;
- errors and irregularities identified in the course of the audit (unless deemed clearly trivial);
- uncorrected misstatements;
- expected modifications to the audit report;
- matters specifically required to be reported under other International Standards on Auditing (other than that which governs the "Communications of Audit Matters With Those Charged With Governance"); and
- any other matters of interest to those charged with governance.

### **5. CLIENT RESPONSIBILITIES**

5.1. As UK Financial Investments Ltd's Directors, you are responsible for:

- maintaining proper accounting records;
- ensuring such internal controls are in place as deemed necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- preparing financial statements, which give a true and fair view, in accordance with the Companies Act 2006; and
- preparing the Directors' Report, which is consistent with the financial statements.

5.2. The responsibility for safeguarding the assets of UK Financial Investments Ltd and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with the directors. You must draw to our attention instances of actual or suspected fraud, error and irregularities when you become aware of them.

5.3. You are responsible for making available to us, as and when required, all UK Financial Investments Ltd's accounting records and all other relevant records and related information,

including minutes of all management meetings and access to any documents held by third parties. We are entitled to require from your staff such other information and explanations as we consider necessary for the performance of our duties as auditors.

## **6. AUDIT ARRANGEMENTS**

### **HM Treasury**

- 6.1. UK Financial Investments Ltd has been designated for inclusion in the consolidated financial statements of HM Treasury. As such, UK Financial Investments Ltd is required to prepare information for inclusion in the consolidated financial statements in the form and to the timetable directed by HM Treasury.
- 6.2. As part of our audit of HM Treasury we will perform any necessary audit procedures on the consolidation schedules submitted by UK Financial Investments Ltd to HM Treasury. The extent of our work on these schedules will be determined by the NAO engagement team responsible for the group audit of HM Treasury. UK Financial Investments Ltd will not be charged for any costs we incur performing this work which are additional to the costs of performing the audit of UK Financial Investments Ltd.

### **Access to Data and Personal Data**

- 6.3. As part of our audit work we may need access to personal data which you hold. We will manage any personal data in accordance with the Statement on the Management of Personal Data at the NAO (Annex 1). Specifically, we will agree with you the personal data which we require access to, and how we will request it from you and include these arrangements within our formal audit planning report.

### **Health and Safety**

- 6.4. Members of the audit team will be in touch with relevant UK Financial Investments Ltd officers to discuss practical arrangements and the timing of audit visits. However, we would appreciate your co-operation in relation to the provision of support for our employees covering health, safety and emergency arrangements applicable to your premises. In particular, as our staff need to use a computer for a significant part of their time on your premises, we seek your assistance to provide a compliant workstation in accordance with the Display Screen Equipment Regulations.

### **Electronic Publication of Accounts**

- 6.5. UK Financial Investments Ltd may wish to publish the financial statements, including our audit opinion, on its website. It is the responsibility of UK Financial Investments Ltd to ensure that any such publication properly presents the financial information and audit opinion.
- 6.6. UK Financial Investments Ltd must advise us of any intended publication and should seek our consent for the electronic presentation of our audit opinion. We reserve the right to withhold consent to the electronic publication of our opinion if the audited financial statements or audit opinion are to be published in an inappropriate manner.
- 6.7. UK Financial Investments Ltd is also responsible for the controls over, and the security of their website. The examination of the controls over the maintenance and integrity of UK Financial Investments Ltd's website is beyond the scope of our audit of the financial statements.

### **Freedom of Information Act 2000**

- 6.8. The Freedom of Information Act 2000 introduced a statutory right of access to all types of "recorded" information held by most public bodies (known as "public authorities" in the Act). All individuals and organisations, regardless of citizenship or residence, have had this right of access from 1 January 2005. The Act requires public authorities to reply in writing to any request for access, stating whether they hold the information requested, and providing a copy of the information if required, subject to certain exemptions. The Act is retrospective giving access to existing information whenever it was created. As a result, any NAO information held either by the NAO or by an audited body, including unpublished outputs such as reports to those charged with governance (as required by ISA (UK and Ireland) 260), management letters, audit

completion memoranda and other audit reports, are potentially disclosable, either by the NAO, or the audited body. Any requests for disclosure should be discussed with us as and when they are received. Similarly, you will be consulted about any Freedom of Information Act request received by the NAO for information that has been generated by UK Financial Investments Ltd.

#### **Proceeds of Crime reporting**

- 6.9. The C&AG is a relevant person within the meaning of the Money Laundering Regulations 2007. As such all NAO staff are required to report all knowledge or suspicion, or reasonable grounds to know or suspect, that a criminal offence giving rise to any direct or indirect benefit from criminal conduct has been committed, regardless of whether that offence has been committed by their client or by a third party.
- 6.10. If as part of our work we have knowledge or suspicion, or have reasonable grounds to know or suspect, that such offences have been committed we are required to make a report to the Serious and Organised Crime Agency (SOCA). In such circumstances it is not our practice to discuss such reports with you because of the restrictions imposed by the "tipping off" provisions of the anti-money laundering legislation.

#### **The Bribery Act**

- 6.11. The National Audit Office has implemented procedures to ensure compliance by all staff with obligations under the Bribery Act 2010. These procedures require all staff to report any breaches of this Act which would give rise to the creation of criminal proceeds, or the suspicion of criminal proceeds being created in accordance with the Proceeds of Crime Reporting requirements above.

### **7. OTHER SERVICES**

- 7.1. The C&AG may undertake further work outside the scope of a financial audit engagement at the request of UK Financial Investments Ltd. Such work may include, for example, investigations designed to examine key issues of propriety, governance or financial management. For the duration of this letter of engagement, each such assignment will be subject to separate terms of reference issued in advance of work commencing.
- 7.2. The C&AG is the statutory auditor of both HMRC and Companies House. Therefore, if the NAO, on behalf of the C&AG, were to act in an advisory capacity for taxation or secretarial matters, the C&AG would face a conflict of interest. The NAO is therefore unable to carry out any work of this kind.
- 7.3. The C&AG, and by extension the NAO, does not meet the criteria under the terms of the Financial Services and Markets Act 2000 to perform "Investment Business" work, and so cannot carry out any work that could be construed as such, including the provision of advice or management services relating to the Company's investments.

### **8. PROFESSIONAL RULES AND PRACTICE GUIDELINES**

- 8.1. The C&AG is eligible for appointment as statutory auditor under section 1226 of the Companies Act 2006. The C&AG and NAO observe the ethical guidelines as set out in The C&AG Audit Regulations 2008 and accept instructions to act for you on the basis that we will act in accordance with those guidelines. These guidelines are available on the internet at:

<http://www.frc.org.uk/documents/pagemanager/pob/Statement%20Document.pdf>.

### **9. OTHER MATTERS**

#### **Use of Report & Confidentiality**

- 9.1. Any formal report or other unpublished reports from us may not be provided to third parties without our prior written consent. Such consent will be granted only on the basis that such reports are not prepared with the interests of anyone other than UK Financial Investments Ltd in mind and that we accept no duty or responsibility to any other party as concerns the reports.

#### **Electronic communication**

- 9.2. During the audit we may from time to time communicate electronically with each other. However, the electronic transmission of information cannot be guaranteed to be secure or virus or error free and such information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete or otherwise be adversely affected or unsafe to use. We recognise that systems and procedures cannot be a guarantee that transmissions will be unaffected by such hazard.
- 9.3. We confirm that we each accept the risks of any authorised electronic communications between us. We each agree to use commercially reasonable procedures to check for the then most commonly known viruses before sending information electronically. We shall each be responsible for protecting our own systems and interests in relation to electronic communications and (in each case including our respective employees, agents or servants) we shall have no liability to each other on any basis, whether in contract, tort (including negligence) or otherwise, in respect of any error, damage, loss or omission arising from or in connection with the electronic communication of information between us and our reliance on such information.
- 9.4. The exclusion of liability in the previous clause shall not apply to the extent that any liability arises out of acts, omissions or misrepresentations which are in any case criminal, dishonest or fraudulent on the part of our respective employees, agents or servants.

#### **Quality of service**

- 9.5. It is our desire to provide you at all times with a high quality service to meet your needs. If at any time you would like to discuss with us how our service to you could be improved or if you are dissatisfied with any aspect of our services, please raise the matter immediately with me. If, for any reason, you would prefer to discuss these matters with someone other than me, please contact the Director General, Financial Audit at the NAO.
- 9.6. We undertake to consider any comments carefully and promptly and to do all we can to explain the position to you. We undertake to do everything reasonable to resolve any problems and if you are still not satisfied you may, of course, take up matters with the Professional Oversight Board (<http://www.frc.org.uk/pob/index.cfm>), the Independent Supervisor of the C&AG under The C&AG Audit Regulations 2008.

### **10. CONFLICTS OF INTEREST, INDEPENDENCE AND CONFIDENTIALITY**

- 10.1. You agree that we may reserve the right to act during this engagement for other clients whose interests are or may be adverse to yours. We confirm that we will notify you immediately should we become aware of any conflict of interest to which we are subject in relation to you.
- 10.2. We confirm that where you give us confidential information we shall at all times keep it confidential, except as required by law or as provided for in regulatory, ethical or other professional pronouncements applicable to our engagement.
- 10.3. You agree that it will be sufficient compliance with our duty of confidence for us to take such steps as we in good faith think fit to preserve confidential information both during and after the termination of this engagement.

### **11. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999**

- 11.1. A person who is not party to this Agreement shall have no rights under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Agreement. This clause does not affect any right or remedy of any person, which exists or is available otherwise than pursuant to that Act.
- 11.2. The advice, which we give you, is for your sole use and does not constitute advice to any third party to whom you may communicate it. We accept no responsibility to third parties for any aspect of our professional services or work that is made available to them.

### **12. RETENTION OF AND ACCESS TO RECORDS**

- 12.1. During the course of our work we will collect information from you and we will return any original documents to you following the completion of the assignment.
- 12.2. Whilst certain documents may legally belong to you, we intend to destroy correspondence and other papers that we store, which are more than six years old (starting with the end of the accounting period to which the papers relate), other than documents which we consider to be of continued significant. If you require retention of any documents you must notify us of that fact in writing.

#### **13. APPLICABLE LAW**

- 13.1. This Letter of Engagement shall be governed by, and construed in accordance with, English law. The Courts of England shall have exclusive jurisdiction in relation to any claim, dispute or difference concerning the letter of engagement and any matter arising from it. Each party irrevocably waives any right it may have to object to an action being brought in those Courts, to claim that the action has been brought in an inconvenient forum, or to claim that those Courts do not have jurisdiction.

#### **14. FEES**

- 14.1. Fees are calculated on the basis of the time we spend on UK Financial Investments Ltd's affairs, and on the levels of skill and responsibility involved. At the beginning of each year's audit we shall estimate the cost of the work to be undertaken and record this in writing for UK Financial Investments Ltd.
- 14.2. We may present invoices for work done at appropriate intervals during the course of the year or following the completion of the annual audit. The amount of work undertaken will not be increased beyond that covered by the estimated fee without our giving prior warning to UK Financial Investments Ltd, together with the reasons for the increase.

#### **15. ACCEPTANCE**

- 15.1. Once agreed, this arrangement will remain effective for future years unless it is terminated, amended or superseded. Should you wish to discuss any aspects of this before signing at the foot of this letter and returning a copy, please do not hesitate to contact me.
- 15.2. I should be grateful if you would bring this letter to the attention of UK Financial Investments Ltd's Directors and its Audit Committee.

**GRO**

Bryan Ingleby  
Senior Statutory Auditor  
For and on behalf of the Comptroller and Auditor General

21 January 2014

**GRO**

James Leigh-Pemberton  
Executive Chairman  
For and on behalf of the Directors of the UK Financial Investments Ltd

23 January 2014

## ANNEX 1: Statement on the Management of Personal Data at the NAO

1. The C&AG and the National Audit Office have privileged and wide-ranging access to data and information to support the discharge of the audit function and ensure that the C&AG's reports to Parliament are factual, accurate and complete. This data relates both to public servants and individual citizens. We have a duty to respect this privileged access and to ensure that the personal information entrusted to us is safeguarded properly.
2. We take our obligations under the Data Protection Act 1998 seriously. We have a body of data policies and IT standards, guidelines and procedures designed to ensure compliance with the Act. We keep our requests for personal data to the minimum necessary to complete our work and retain any personal information we obtain only for as long as we need it. We take appropriate measures to safeguard the integrity and confidentiality of data we hold from unauthorised access. All of our staff and contractors have an obligation to comply with our data protection policies.
3. In addition to those items specifically identified in the Act, our definition of sensitive personal data includes data which, when held alone or in combination, could cause embarrassment, harm or financial loss to the data subject if disclosed to or tampered with by an unauthorised third party. We have separate arrangements in place for classified data.
4. To help you understand our commitment, we have developed a series of Personal Data Statements, which all our staff subscribe to:
  - **We will only request personal data for use in discharging our statutory and other audit functions and for lawful purposes.** These requests are kept to the minimum necessary to carry out our work.
  - **Our requests for personal data will be authorised by a senior employee.** Each of our audits is led by a Director who is personally responsible for authorising any request for personal data in connection with that audit; maintaining records of the data held; ensuring it is securely and appropriately processed; ensuring it is securely and appropriately retained; and for certifying its destruction.
  - **We will agree with you in advance how we will use, secure, destroy and account for the personal data you provide to us.** We have a series of protocols which specify the measures for protecting personal data during transfer from the information provider, whilst we retain the information for audit purposes, for secure destruction of the data and for long term storage where this is required by law and professional standards.
  - **We will notify you when we destroy personal data you have provided to us.**
  - **We ensure our contractors operate suitable procedures for personal data protection before we pass such data to them.** From time to time we contract with third parties who support us in discharging our statutory and other audit responsibilities. Access to personal information will only be given to organisations which can show that they are capable of maintaining the standards defined in these statements.
  - **We audit our compliance with our data protection policies,** in order to be assured that protection is in accordance with the terms of this Code. These include checks on compliance carried out independently of the NAO Directors responsible for the security of data on their audits.
  - **Where information identifying individuals must be given up by law, it will be released only to those legally entitled to receive it following the approval of the data controller.**



**UK Financial Investments Limited (UKFI)**

# **Audit planning report on the 2015-16 financial statement audit**

REPORT TO THE AUDIT AND RISK COMMITTEE

January 2016

<http://www.nao.org.uk/>

# Contents

We have pleasure in setting out details of our proposed financial statement audit approach for UK Financial Investments Limited (UKFI) for the year ending 31 March 2016.

<b>Financial statement audit plan</b>	<b>3</b>
<b>How are we going to conduct the audit?</b>	<b>4</b>
<b>Significant financial statement risks</b>	<b>5</b>
<b>When do we plan to complete this work?</b>	<b>8</b>
<b>Appendix 1 Our audit approach</b>	<b>9</b>

We have prepared this report for UKFI's sole use although you may also share it with HM Treasury. You must not disclose it to any other third party, quote or refer to it, without our written consent and we assume no responsibility to any other person.

# Financial statement audit plan

## Purpose of the plan

You have appointed the Comptroller and Auditor General (C&AG) to be the external auditor of UK Financial Investments Limited (UKFI). The C&AG has appointed Peter Morland as the Senior Statutory Auditor and he will sign the audit report on behalf of the C&AG.

The purpose of this document is to explain to the Audit and Risk Committee (ARC) of UKFI:

- how we, on behalf of the C&AG, plan to audit the financial statements for the year ending 31 March 2016, including how we will be addressing significant risks of material misstatement to transaction streams and balances;
- the planned timetable, fees and audit team; and
- matters which we are required to communicate to you under International Standards on Auditing (UK and Ireland), including the scope of the audit, our respective responsibilities, and how we maintain independence and objectivity.

## Actions for the Audit and Risk Committee

The Audit and Risk Committee is invited to consider and discuss:

- whether our assessment of the risks of material misstatement to the financial statements is complete;
- whether management's responses to these risks are adequate;
- our proposed audit plan to address these risks; and
- whether the financial statements could be materially misstated due to fraud, and communicate any areas of concern to management and the audit team

The International Standards on Auditing (UK and Ireland) also require us to ask whether you have any knowledge of:

- any actual, suspected or alleged fraud;
- non-compliance with laws and regulations expected to have a fundamental effect on the operations of the entity; and
- actual, suspected or alleged irregularity.

# How are we going to conduct the audit?

## What work will we complete?

Our audit, which will be conducted in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK and Ireland)), will enable Peter Morland, Senior Statutory Auditor, on behalf of the C&AG to give an opinion on the financial statements.

Further details of the scope of the audit, as well as our respective responsibilities in relation to this engagement, have been set out in our Letter of Engagement dated January 2014.

## Risk based approach

We plan our audit of the financial statements to respond to the risks of material<sup>(1)</sup>:

- misstatement to transactions and balances; and
- irregular transactions.

Further details on our audit approach are set out at Appendix 1.

The significant financial statement risks, which we have identified, are:

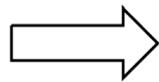
- Going concern risk and
- Presumed risk of management override of controls prescribed by ISA 240.

Further details of these risks and our response are set out in the significant risks section of this report on pages 5 and 6.

<sup>(1)</sup> A matter is material if its omission or misstatement would reasonably influence the decisions of users of the financial statements. The assessment of what is material is a matter of the auditor's professional judgement and includes consideration of both the amount and the nature of the misstatement. Further information on materiality is included on page 10.

# Significant financial statement risks

**UKFI's ability to continue as a Going Concern**



**Audit areas affected**

All audit areas

## Key features

- It is expected that the merger of UKFI and the Shareholder Executive into the newly formed UK Government Investments Ltd (UKGI) will take place in early 2016/17. In the short term UKFI will become a subsidiary company of UKGI and continue to function in its present form. Longer term it is anticipated that the functions of UKFI will transfer into UKGI and UKFI will be wound up. However as the exact timetable for this transition is unclear we have identified a potential risk that preparing the financial statements on a Going Concern (GC) basis may not be appropriate in 2015-16.
- Under *International Accounting Standard 1: Presentation of Financial Statements*, management are required to make an assessment of whether the entity will continue as a GC (this is at least but not limited to twelve months from the end of the reporting period). An entity shall prepare financial statements on a GC basis unless it is expected that the entity will liquidate or cease trading.
- When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a GC, the entity shall disclose those uncertainties.
- When an entity does not prepare financial statements on a GC, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a GC.

## Change from prior year

**New for 2015-16**

**Potential going concern risk**

## Audit response

### Controls

We will review the processes undertaken and the basis of the conclusions made by the Directors' in their formal assessment of the going concern status of UKFI.

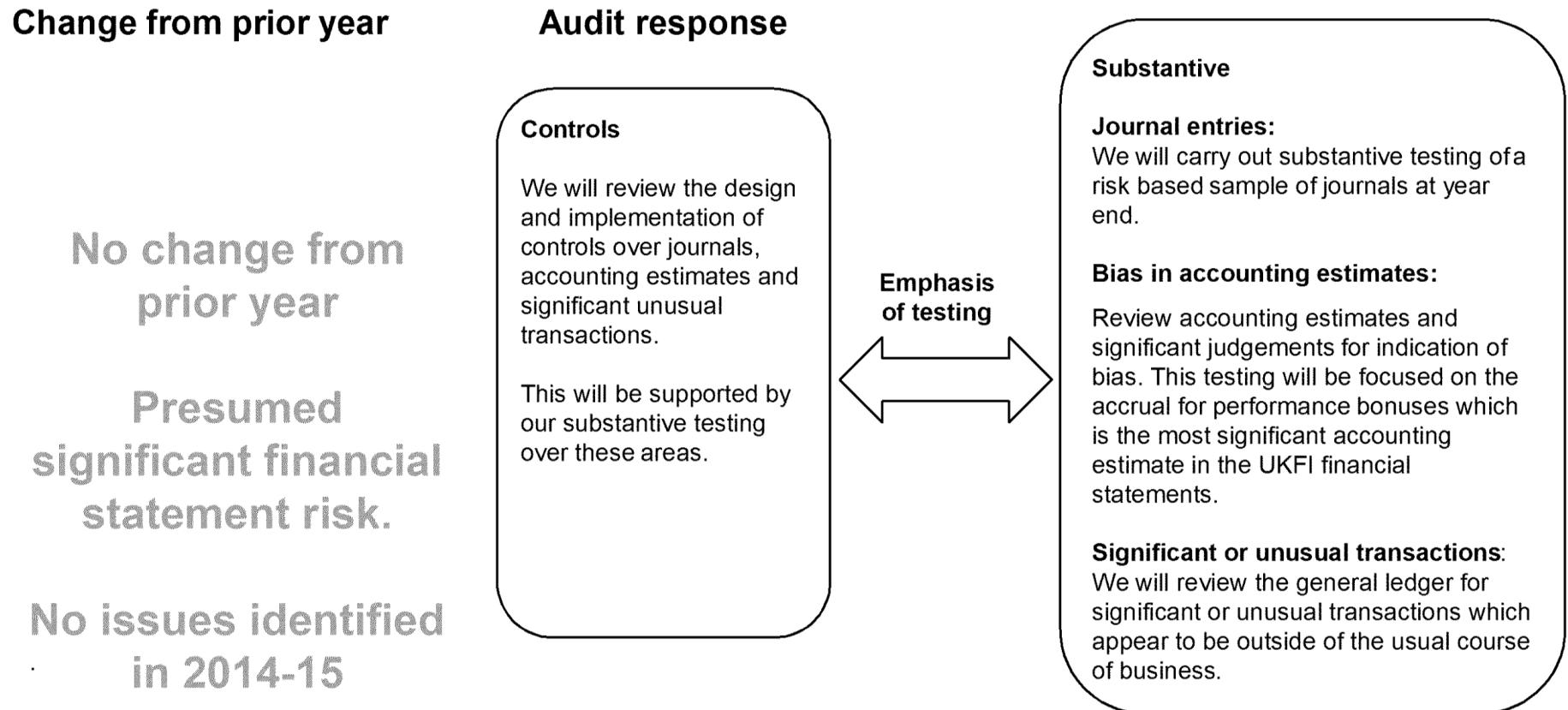
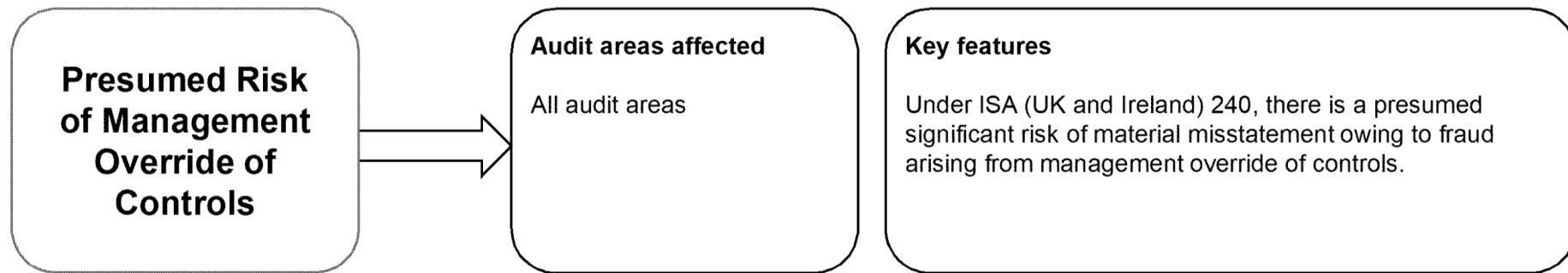
### Emphasis of testing

### Substantive

In addition to considering the Directors' assessment of going concern we will also perform our own tests of detail including considering future plans, business plans, financial projections etc to conclude on whether the going concern basis remains appropriate.

We will review the disclosures made in the financial statements to ensure they correctly reflect the situation and also consider the impact for Peter Morland's opinion on behalf of the C&AG if there is any fundamental uncertainty

# Significant financial statement risks



# When do we plan to complete this work?

The provisional timetable comprises a planning visit in December 2015 with a brief interim visit commencing in March 2016. A final visit will commence in May 2016 with completion planned for mid-June 2016.

Date	Activity
December 2015	<b>Planning:</b> review UKFI's operations, assess risk for our audit and evaluate the control framework.
March 2016	<b>Interim audit work:</b> initial fieldwork for income and expenditure and journal testing.
May 2016	<b>Receipt of 1<sup>st</sup> draft account</b>
May 2016	<b>Final audit work:</b> test expenditure and income and significant balances and disclosures.
June 2016	<b>Audit Completion Report and Audit Report :</b> present the results of our audit and C&AG issues audit report.

# When do we plan to complete this work?

## Fees

The proposed fee for the 2015-16 audit remains unchanged from the prior year at £12,000 plus VAT. Completion of our audit in line with the timetable and fee is dependent upon UKFI:

- delivering a complete Directors' Report and Governance Statement and set of financial statements of sufficient quality, subject to appropriate internal review on the date agreed;
- delivering good quality supporting evidence and explanations within the agreed timetable;
- making staff available during the audit

If significant issues arise and we are required to perform additional work which would result in a change in our fee, we will discuss this with you as soon as possible.

## Our team

The details of the key audit staff who will complete this audit are:

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### Engagement team

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**Peter Morland**  
*Engagement Director*

T:   
E:   
**GRO**

**Amy Manning**  
*Engagement Manager*

T:   
E:   
**GRO**

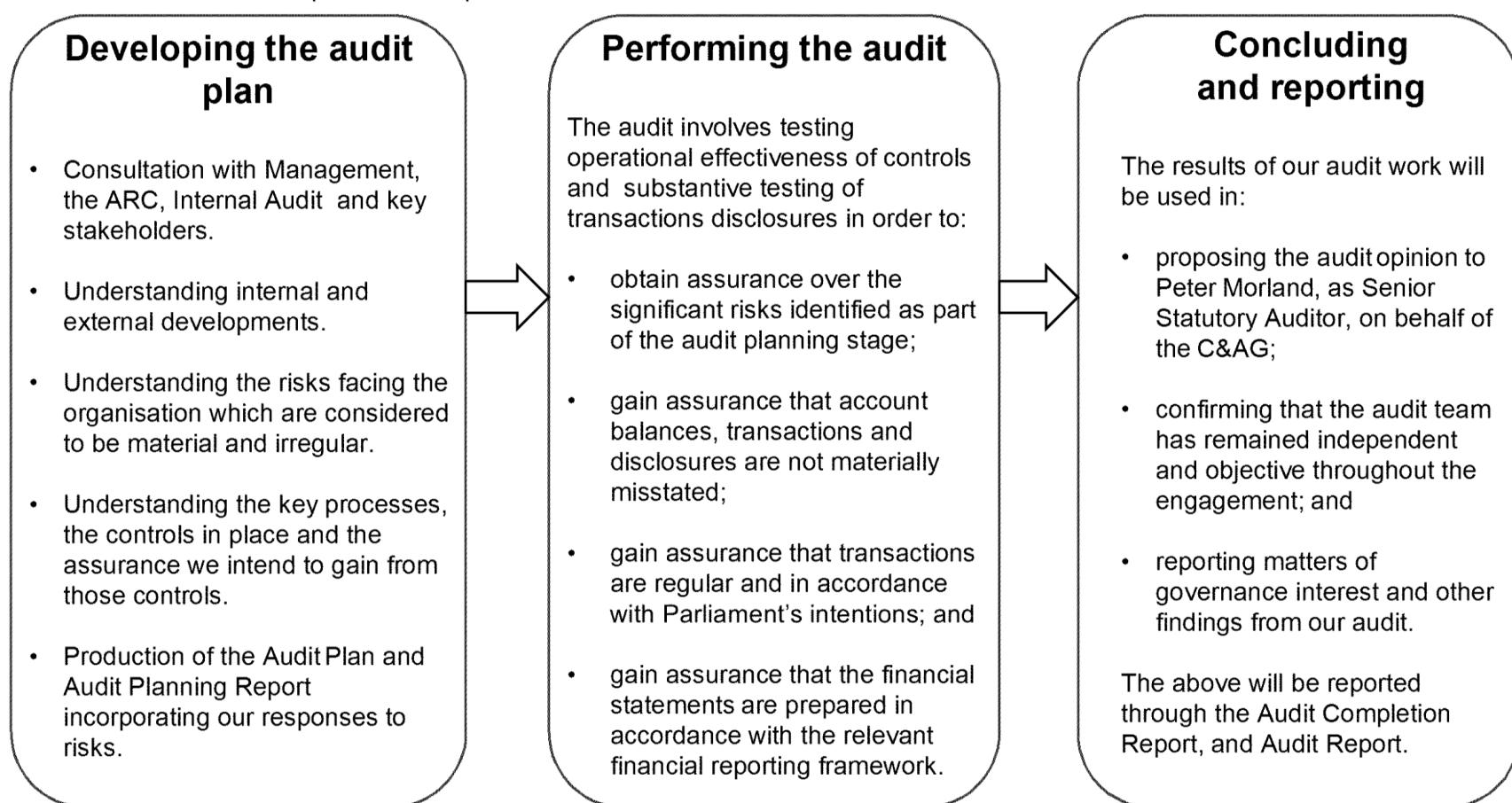
**Afnan Khokhar**  
*Engagement Lead*

T:   
E:   
**GRO**

# Appendix 1: Our audit approach

## Outline of our general audit approach

Our audit, which will be conducted in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK and Ireland)), will enable Peter Morland, as Senior Statutory Auditor, on behalf of the C&AG to give an opinion on the financial statements. Our audit of the financial statements can be split into three phases:



# Appendix 1: Our audit approach

## Our assessment of materiality

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<b>Materiality</b>	<p>The concept of materiality recognises that financial statements are rarely absolutely correct, and that an audit is designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement or irregularity. For the purposes of determining whether the financial statements are free from material misstatement or irregularity we consider whether:</p> <ol style="list-style-type: none"><li>1. the magnitude of misstatement; or</li><li>2. the nature and cause of misstatements (e.g. because of the sensitivity of specific disclosure or regularity requirements) would influence the users of the accounts.</li></ol> <p>We have set our quantitative materiality threshold at approximately 2% of forecast gross expenditure, which equates to £165,000.</p> <p>Other elements of the financial statements that we consider to be more sensitive to users of the accounts will be assessed using a lower qualitative materiality threshold. These elements include: the remuneration report disclosures; our audit fee and related party transactions.</p> <p>We apply the concept of materiality in planning and performing our audit and in evaluating the effect of misstatements on our audit and on the financial statements. As the audit progresses our assessment of both quantitative and qualitative materiality may change.</p>
<b>Error reporting threshold</b>	<p>For reporting purposes, we will treat any misstatements below £1,000 as “trivial” and therefore not requiring consideration by the Audit and Risk Committee.</p> <p>Please note that this is a separate threshold to our consideration of materiality as described above. It is materiality, not the error reporting threshold, which is used in forming our audit opinion.</p>

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# Appendix 1: Our audit approach

## Other matters

**Independence** We comply with relevant ethical requirements regarding independence and have developed important safeguards and procedures in order to ensure our independence and objectivity.

Information on NAO quality standards and independence can be found on the NAO website:<http://www.nao.org.uk/about-us/role-2/what-we-do/audit-quality/audit-quality/>

We will reconfirm our independence and objectivity to the Audit and Risk Committee following the completion of the audit.

**Management of personal data** During the course of our audit we have access to personal data to support our audit testing.

We have established processes to hold this data securely within encrypted files and to destroy it where relevant at the conclusion of our audit. We confirm that we have discharged those responsibilities communicated to you in the NAO's Statement on Management of Personal Data at the NAO.

The statement on the Management of Personal Data is available on the NAO website:

<http://www.nao.org.uk/freedom-of-information/publication-scheme/how-we-make-decisions/our-policies-and-procedures/policies-and-procedures-for-conducting-our-business/>

**Company No. 9774296**

**UK Government Investments Limited**

**(the “Company”)**

**27-28 Eastcastle Street, London W1W 8DH**

Paper for the Audit and Risk Committee

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**Topic:** UKGI approach to risk management

**Date:** 19<sup>th</sup> January 2016

**Author:** Dominic Hastings

**Ref:** UKGI-ARCP-3

**Category:** Paper circulated for discussion

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**Purpose**

This paper seeks to:

- update the UKGI Audit & Risk Committee (“A&RC”) on initial thinking and progress that has been done to develop a suitable and effective framework for risk reporting and mitigation & assurance activities within UKGI; and
- facilitate the team gathering the feedback and steers of the A&RC on the UKGI risk register proposal to facilitate further progress before UKGI go-live on 1<sup>st</sup> April.

**Summary**

Initially, the day-to-day operations of both UKFI and ShEx will continue to be carried out and managed largely separately and the questions therefore to ask are:

- what is the correct framework to provide the UKGI Board (and its relevant committee) the correct amount of integrated risk reporting and oversight at the top corporate level?; and
- what existing UKFI and ShEx documents, procedures and committees should be maintained going forward and report in to the UKGI Board on an *“as needed/requested”* basis?

Importantly, UKFI operations will continue to be carried out in a distinct corporate entity retaining its governance structures, with the exception of resources being shared at the corporate service level (the COO and CFO teams), a 100% subsidiary of UKGI.

There are a number of areas of both UKFI and ShEx risk reporting where the need for consolidated UKGI level reporting is reasonably clear:

- Risks relating to the key overall operational objectives of UKGI (being objectives 1-4);
- Staff and people risks: including resourcing, hiring and retention and performance;
- UKGI set-up and transition risks;
- UKGI IT and infrastructure risks;
- UKGI reputational and relationship risks (HMT Ministers, Whitehall customer departments, wider public perception etc).

What will also be a focus at the UKGI on the key activities of UKGI, being the three major investments managed by UKFI and the high-profile transactions, projects and shareholdings of ShEx.

#### UKGI A&R Committee - Risk Register Proposal

For its review and approval ("sign-off") the UKGI A&RC would receive the following quarterly documents:

- RR1: UKGI combined operational & strategic risk register covering:, people, UKGI transition, IT & infrastructure and UKGI objectives reputational/relationship risks; and
- RR2: UKGI asset sales, corporate finance and governance risk register being: the 3 major UKFI activities and the key risks attaching to major ShEx transactions, projects and shareholdings.

It will be critical that the correct "filter" is applied to the ShEx activities such that the quarterly UKGI RR reflects those which are of sufficient significant to impact UKGI as a whole. The filters proposed to apply to the ShEx activities are the following:

- Asset sales featuring in either the OBR forecasts, the UKGI business plan and/or the UKGI KPIs;
- The key risk and sub-risks attaching to UKGI successfully advising on all major government interventions and corporate negotiations; and
- The key risk and sub-risks attaching to UKGI successfully acting as shareholder for all arms length bodies where the function is meaningful (or the ALB is complex and/or facing transformation).

These UKGI RRs will form part of overall UKGI Board reporting pack also including the KPIs tracker and dashboard documents.

In addition to the above, ARC would consider (and sign-off) on an annual basis the full ShEx risk register, with any supporting project or asset level risk registers as needed in this regard. On a quarterly basis, ARC would consider those ShEx projects or assets which are either moving from, or moving to, a red RAG rating versus the previous quarters risk register with a written summary supporting the change in rating. The Risk Registers - basis

When re-designing the template for the two UKGI level risk registers the following key principles were followed:

- Maintaining the UKFI template which is well understood and preferred by UKGI A&RC Chair;
- RR1 - Linking corporate objectives (strategic risks), the company's operations (operational risks) and the company's relationships and reputation (rel&rep risks) to risks.

- RR2 – Escalating the risks to the key projects of UKFI and ShEx (project risks) and the risks relating to the key ShEx shareholdings and shareholder issues (shareholder risks) to one integrated top level risk register. The aim is to focus only risks where UKGI itself has a direct influence and that we keep to a manageable number on both the UKFI and ShEx side.
- Separation of business as usual risks from project and shareholding risks. Business-as-usual risks arise from UKGI aiming to fulfil its objectives, UKGI KPIs (designed for internal reporting and to feed into the first chapter of the annual report) and UKGI's ongoing operations including people and systems.
- Projects have been defined as being temporary work streams which UKFI has a direct influence over with clear time, cost and quality outputs.
- Shareholdings are those key assets for which ShEx/UKGI is clearly understood to be "the shareholder" on behalf of the relevant SoFs.
- Assigning risk owners to risks to ensure responsibility is taken for each risk and managing the risk going forward.
- To simplify the risk scoring using only a numeric ranking so that calculation of the total score attributed to each risk is transparent and easy to understand.
- To ensure the RAG rating is based on 'forward look and future actions'.

To ensure that there is regular review, risk owners will be commissioned to update their forward look and future update sections and rank their risks on a quarterly basis. Overall responsibility for the UKGI risk register will rest with the Chief Executive supported by the Chief Operating Officer.

#### UKFI – what will be maintained?

UKFI will retain its governance structures, most relevant to this committee, the UKFI Audit and Risk committee which will continue to focus on the UKFIs;

- Financial reporting,
- Internal control and risk,
- External audit,
- Internal audit,
- Compliance.

We propose for the committee to be provided with the UKFI risk registers as for information items and for comments to be fed back through the company secretary or the chair of the committee to UKFI where necessary.

#### ShEx – what will be maintained?

ShEx will largely maintain its risk reporting and oversight functions, certainly in the initial period of the UKGI era. These are:

- 1) A monthly process in which:
  - Each project and shareholding team produces an updated risk register and this is independently reviewed and challenged by a member of the risk team;
  - The risk team then meets to discuss findings and updates and produce a draft ShEx summary risk register;
  - This is presented to ShEx ExCo and, based on any agreed amendments changes, finalised and circulated to the ShEx Advisory Board and BIS Centre.

- In the UKGI era, we would expect to circulate this document to the UKGI “informal” Board members for information and no longer to BIS centre. We would also no longer report on “corporate services” or UKGI transition risk as this would be covered off at the UKGI level.
- 2) Risk & Assurance Committee which:
  - Is comprised, at a minimum, of a project/shareholding team presenting a particular risk or risks to: a member of ShEx ExCo, two independent Executive Directors, one or more independent Assistant Directors and other attendees and observers;
  - Considers risks and associated matters which have either been requested by teams themselves, identified by ExCo or flagged by the risk team (process 1) as warranting discussion.
  - R&AC also performs the function of detailed reviews on new proposed pieces of work/assets for ShEx (on behalf of ExCo).

These two functions will serve as key risk reporting and mitigation activities of UKGI, but primarily managed at the “ShEx” level given the quantity of transactions, projects and shareholdings in existence. The direct link between UKGI A&RC and ShEx ExCo will be through the UKGI Chief Executive, Mark Russell.

#### UKGI A&RC – decisions and questions

- Does the UKGI A&R Committee agree with the proposed approach described in this paper?
- What amendments should be made to the UKGI Ops & Strategy and UKGI Asset Sales, Corporate Finance and Governance RRs
- Should the final templates of these be shared with Government Internal Audit for comment/sign-off? (and if so, when?)
- Does the UKGI A&RC want to see the detailed ShEx and UKFI risk registers and, if so, on what frequency? (monthly, quarterly, as requested etc)

#### Attachments

- Template UKGI Ops & Strategy RR (UKGI-ARCP-3a)
- Template UKGI Projects RR (UKGI-ARCP-3b)
- ShEx December 2015 Summary RR (UKGI-ARCP-3c)
- ShEx Risk & Assurance process (UKGI-ARCP-3d)

## UKGI-Operational &amp; Strategic Risk Register

						Risk Rankings Key based on UKFI's future actions						
						Impact score: 1 = low, 2 = low/ medium, 3 = medium/ high, 4 = high Likelihood score: 1 = low, 2 = low/ medium, 3 = medium/ high, 4 = high RAG score: Green= 1 to 4, Amber= 5 to 6, Red= 7 to 8						
Risk ID		Risk statement	Sub-risks	Controls in place	Risk Owner	Forward look and future actions		Impact	Likelihood	Risk score	Risk RAG rating	Change
Operational risks	O1	UKGI cannot deliver required objectives due to operational constraints.	Financial dependency on HMT for operating budget and financial systems to support operational requirements.	Maintaining a good working relationship with HMT finance and submitting a transparent budget ahead of the main HMT budgeting cycle.	Member of the UKGI team	Forward look and future actions		3	1	4	G	↔
			UKGI receives a qualified audit report, so that confidence in the financial management of the company is be questioned by its shareholder.	Having a professionally qualified individual in the head of finance role with sufficient resource to carry out the role required and ensuring there is a clear audit plan with the NAO.								
			Both- Inability to react within required timescales due to cabinet office approval requirements.	Where possible to plan activities requiring these approvals in advance and accepting slippage risk.								
Operational risks	O2	UKGI is unable to retain key members of staff, or recruit staff of the required quality or in the timescales needed.	Public sector pay restrictions restrict attractiveness of roles in UKGI.	Ensure remuneration committee maintains flexibility and maximises budget availability for pay.	Member of the UKGI team	Forward look and future actions		4	2	6	A	↓
			UKFI- The temporary nature of UKFI increases flight risk of staff.	Management to work with staff to find areas of development for which are unique to UKGI and widen staffs' skillset.								
			Key person dependencies in key roles.	Ensure active and open communication with staff about personal intentions to help with HR manager's HR plan for organisation.								
Operational risks	O3	UKGI's systems fail.	UKGI's ICT system fails.	UKGI - mitigation dependent on what IT systems and controls are in place for failure	Member of the UKGI team	Forward look and future actions		2	4	6	A	↔
			Business is interrupted by an external event	UKGI has a business continuity plan								
			Security breaches resulting in information leaks.	Staff induction, training and policies include guidance on handling corporate information								
Operational risks	O4.	UKGI's reputation suffers negatively for any reason	Public commentary on UKGI is not managed appropriately.	UKFI outsources its PR to Maitland who understand the organisation's requirements and are able to consult and advise management on appropriate strategies.	Member of the UKGI team	Forward look and future actions		1	3	4	G	↔
			Staff fail to conduct themselves with the professionalism and integrity required, damaging the company's reputation, resulting in negative stakeholder reaction, an inability to recruit staff and motivate existing staff.	UKGI has a stated compliance policy and HR staff handbook which staff are required to follow. NOT SAME AS HMT one? Expenses are signed off by the COO and Accounting Officer where appropriate. Any negative staff behaviour is addressed as and when it occurs.								
			UKGI is unable to respond to FOI or correspondence requests within required time frames, so that it is in breach of legal requirements.	UKGI has implemented a new enquiries system and is actively monitoring response times.								
Operational risks	O5.	UKGI transition- transition of ShEx and UKFI operations in to UKGI is sub optimal	UKGI is not seen as being arms length from government, leading to public criticism of, and loss of confidence in, UKGI.	The Directors of UKGI to consider and approve all material pieces of advice to Ministers and public statements by UKGI. Use programme of engagement with media, TSC appearances etc to explain UKGI's role and governance.	Member of the UKGI team	Forward look and future actions						
			Staff across both the civil servant and corporate finance cadres will choose not to move to the GovCo or leave UKGI once there, leaving the new organisation with an inadequate skills and expertise bank to deliver its objectives.	As far as possible, design GovCo model to meet the need to have flow of civil servants in and out i.e. through secondments and to attract good externals. And as GovCo develops, strong external comms needed to promote the model and attract external staff.								
			Necessary supporting IT hardware / software not identified in time to support go-live, and problems with location.	Hire of IT consultant to build on user needs information.								
Operational risks			Accommodation - Plans for co-location do not go to plan	Maintain close working links with BIS Estates and GPU to ensure UKGI remain on their radar	Member of the UKGI team	Forward look and future actions						
			Value for money not achieved on a disposal(s) resulting in negative public perception, and / or negative NAO report and / or criticism from HMT.	The accounting officers of HMT and UKGI have informed the Cx that a direction is likely to be required if an offer to retail investors is undertaken in the spring of 2016. The trading plan counterfactual means a retail with incentives will not deliver as good value for money as continuing with the trading plan.								
			External market event impacts bank results, share prices and value, (e.g. economic shock, such as Brexit)	To ensure UKGI is aware of, and takes advice on, external market conditions when developing disposal strategies.								

## UKGI-Operational &amp; Strategic Risk Register

The UKGI risk register is intended for quarterly Audit and Risk committee review for the top risks to be presented to the Board.		The risk statements are aligned to UKGI's objectives for 2016/17 and any activities required to support the objectives. Risk statements should be reviewed on an annual basis when objectives are set.	Sub risks which derive from the risk statement.	The controls which are currently in place and are managed by the risk owner.	Member of the UKGI team	<p>Risk Rankings Key based on UKFI's future actions</p> <p>Impact score: 1 = low, 2 = low/ medium, 3 = medium/ high, 4= high</p> <p>Likelihood score: 1 = low, 2 = low/ medium, 3 = medium/ high, 4= high</p> <p>RAG score: Green= 1 to 4, Amber= 5 to 6, Red= 7 to 8</p>				
Risk ID	S1	Risk statement	Sub-risks	Controls in place	Risk Owner	Forward look and future actions	Impact	Likelihood	Risk score	Risk RAG rating
		UKGI is unable to develop, maintain and execute value-realising disposal strategies.	Wider policy implications impact UKGI's ability to develop, maintain and execute value-realising disposal strategies.	To ensure UKGI is aware of how potential policies may impact value when developing disposal strategies and work with relevant experts in considering disposal strategies.			4	3	7	R
			HMT and Cabinet Office approvals mean that UKGI is unable to react in the needed timescale so that a sale opportunity is missed.	To plan ahead for approvals required where possible, and to ensure the team has a good working relationship with relevant experts in considering disposal strategies.						
			UKGI is unaware of all of the legal implications associated with a disposal, and commits legal or regulatory breaches.	For UKGI to have expert legal and professional advice where necessary to ensure compliance with relevant laws or and regulations.						
S2		UKGI does not maintain regular dialogue and communication with existing and prospective investors and the organisation relies too heavily on second hand information.	Time constraints due to other immediate priorities resulting in less active communication with investors.	To submit investor interaction reports to the Board on a quarterly basis and to monitor the intensity of investor interaction on a regular basis.			2	1	3	G
										↔

# IRRELEVANT

Strategic Risks	S4	UKGI does not maintain a positive relationship with HMT and Ministers.	UKGI's reputation may be jeopardised by a breakdown in relationships.	To have ongoing engagement with HMT and Ministers, providing value added information where appropriate.			4	4	8	R
			UKGI is unable to provide input and expertise where appropriate to support HM Treasury's wider policy interests when requested.	To be open with HMT when other priorities are more pressing and pick up on requests when possible. To ensure staff are up to date with regulatory developments through market knowledge and being updated by HMT.						
			UKGI is not able to convince Ministers that its recommendations are aligned with the organisation's mandate.	Ensuring high quality advice is prepared and presented to Ministers and that private offices are briefed in advance as well as working with HMT colleagues to ensure all objectives are appropriately represented where appropriate.						
			Ensuring that in answering ad hoc HMT/ other departmental queries, the response is taken as formal advice.	Regular communication with HMT and clarification of support required at all times.						
S5		UKGI does not maintain a positive relationship with DECC, BIS and DFT and its Ministers.	UKGI's reputation may be jeopardised by a breakdown in relationships.	Work with HMT and Ministers/Senior Officials in BIS and OGDs to understand their issues/concerns and provide updates on progress. Carefully drafted framework agreement and arrangement (MoUS) with Departments crucial.			4	4	8	R
			DECC appetite to use ShEx in new UKGI is diminished	Keep memorandum of Understanding under review and have regular KIP sessions						
			BIS' appetite to use ShEx in new UKGI is diminished	Keep memorandum of Understanding under review and have regular KIP sessions						
			DFT's appetite to use ShEx in new UKGI is diminished	Keep memorandum of Understanding under review and have regular KIP sessions						

UKGI- Project Risk Register - Asset sale, Projects and Governance								
						Risk Ratings Key based on UMF's future actions		
						Impact score: 1 = low, 2 = low/ medium, 3 = medium/ high, 4= high Likelihood score: 1 = low, 2 = low/ medium, 3 = medium/ high, 4= high RAG score: Green= 1 to 4, Amber= 5 to 6, Red= 7 to 8		
	Risk ID	Risk statement	Sub-risks	Controls in place	Risk Owner	Forward look and future actions	Impact	Likelihood
							Risk score	Risk RAG rating
							Change	
<b>IRRELEVANT</b>								

Asset Sale

## UKGI- Project Risk Register - Asset sale, Projects and Governance

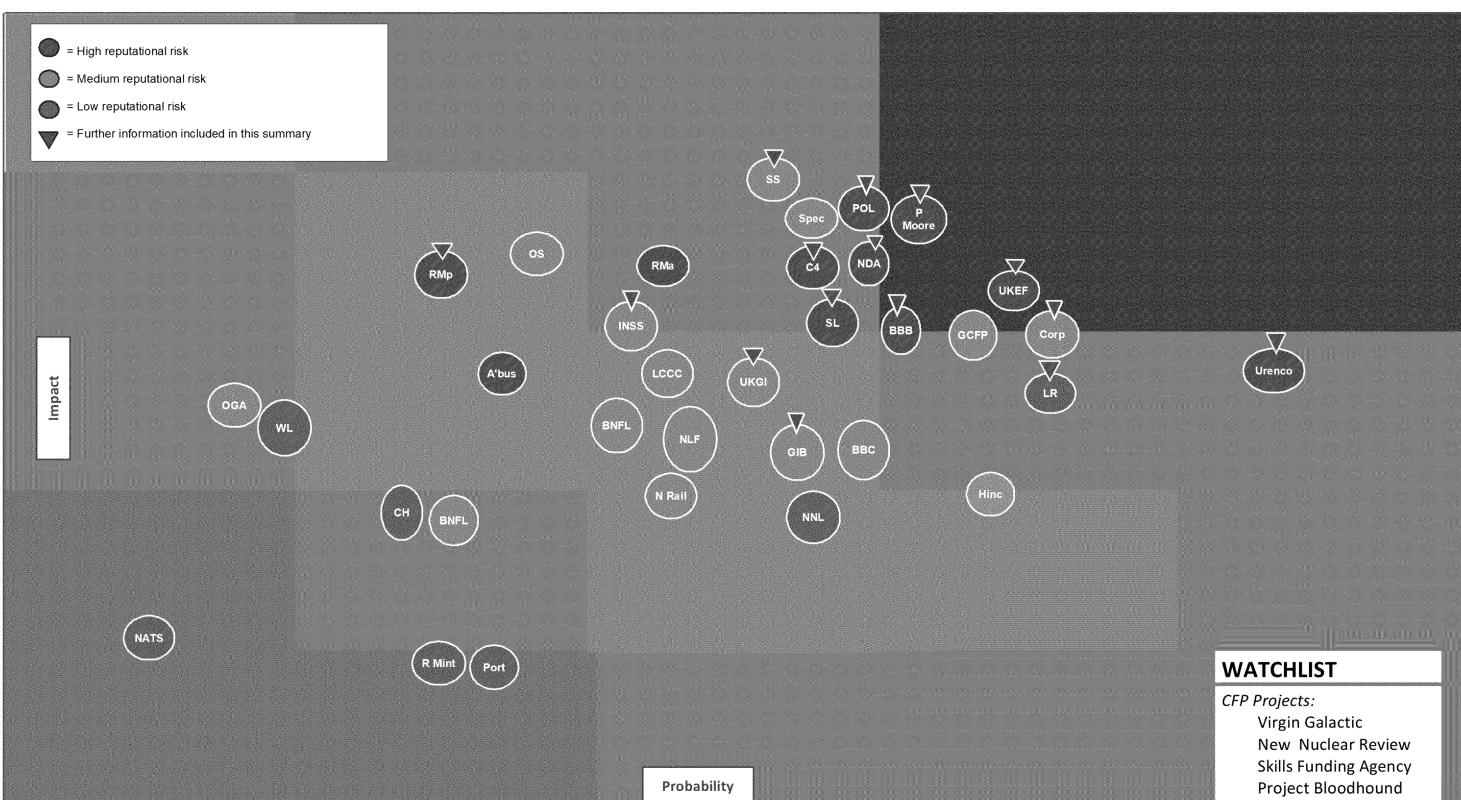
The UKGI risk register is intended for Internal Audit and Risk Committee review for the top risks to be presented to the Board.		The risk statements are aligned to UKGI's objectives for 2016/17 and any activities required to support the objectives. Risk statements should be reviewed on an annual basis when objectives are set.	Sub risks which derive from the risk statement.	The controls which are currently in place and are managed by the risk owner.	Member of the UKGI team	<b>Risk Rankings Key based on UKGI's future actions</b> Impact score: 1 = low, 2 = low/ medium, 3 = medium/ high, 4= high Likelihood score: 1 = low, 2 = low/ medium, 3 = medium/ high, 4= high RAG score: Green= 1 to 4, Amber= 5 to 6, Red= 7 to 8					
	Risk ID	Risk statement	Sub-risks	Controls in place	Risk Owner	Forward look and future actions	Impact	Likelihood	Risk score	Risk RAG rating	Change

# IRRELEVANT

Governance	G1 - ShEx	UKGI Shareholder role of arm's length bodies of UK Government not able to be executed effectively	No defined shareholder role	to be developed and agreed							
			lack of implementation of shareholder model	as above							
			lack of strategy	as above							
			Ineffective board and management team, and inappropriate succession	as above							

# IRRELEVANT

Business Bank (BBB)	Overall Risk Profile	RA
<b>IRRELEVANT</b>		
Reputational Risk Profile		High
<b>IRRELEVANT</b>		
Special Situations (SS)	Overall Risk Profile	RA
<b>IRRELEVANT</b>		
Reputational Risk Profile		Medium
<b>IRRELEVANT</b>		
Corporate Services (Corp)	Overall Risk Profile	RA
<b>IRRELEVANT</b>		
Reputational Risk Profile		Medium
<b>IRRELEVANT</b>		
Student Loans (SL)	Overall Risk Profile	RA
<b>IRRELEVANT</b>		
Reputational Risk Profile		High
<b>IRRELEVANT</b>		
Project Moore	Overall Risk Profile	RA
<b>IRRELEVANT</b>		
Reputational Risk Profile		High
<b>IRRELEVANT</b>		
Land Registry (LR)	Overall Risk Profile	RA
<b>IRRELEVANT</b>		
Reputational Risk Profile		Low
<b>IRRELEVANT</b>		
NDA (NDA)	Overall Risk Profile	RA
<b>IRRELEVANT</b>		
Reputational Risk Profile		High
<b>IRRELEVANT</b>		



POL (POL)	Overall Risk Profile	RA
<b>IRRELEVANT</b>		
Reputational Risk Profile		High
<b>IRRELEVANT</b>		
Channel 4 (C4)	Overall Risk Profile	RA
<b>IRRELEVANT</b>		
Reputational Risk Profile		High
<b>IRRELEVANT</b>		

Royal Mail Pensions (RMP)	Overall Risk Profile	A
<b>IRRELEVANT</b>		
Reputational Risk Profile		High
<b>IRRELEVANT</b>		
ShEx has full responsibility for project implementation. Potential for balance sheet losses relatively high given c £1bn assets. Criticism could arise if, e.g., market movement meant the assets fell in value esp. if there was an earlier opportunity to dispose of the assets. Potential negative public perception could also arise around fees incurred (£42m last year).		

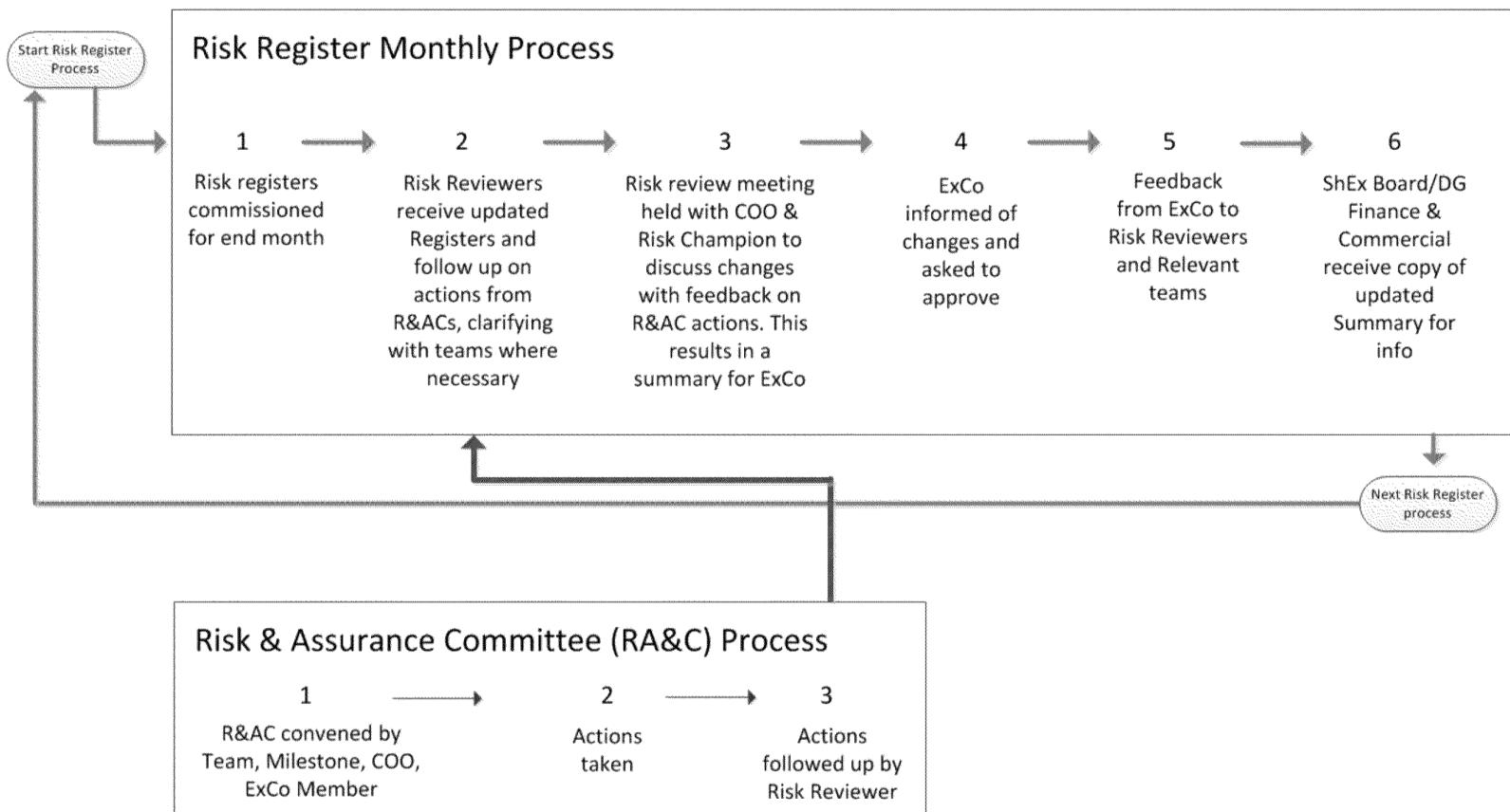
UKEF (UKEF)	Overall Risk Profile	RA
<b>IRRELEVANT</b>		
Reputational Risk Profile		High
<b>IRRELEVANT</b>		
Urenco (Urenco)	Overall Risk Profile	R
<b>IRRELEVANT</b>		
Reputational Risk Profile		High
<b>IRRELEVANT</b>		

BNFL (BNFL) Overall Risk Profile	A
<b>IRRELEVANT</b>	
Corporate Finance Profession (CFP) Overall Risk Profile	RA
<b>IRRELEVANT</b>	
Hinckley Point (Hinc) Overall Risk Profile	 RA
<b>IRRELEVANT</b>	
Network Rail (N Rail) Overall Risk Profile	A
<b>IRRELEVANT</b>	
Oil & Gas Authority (OGA) Overall Risk Profile	GA
<b>IRRELEVANT</b>	
<b>IRRELEVANT</b>	

<p>Green Investment Bank (GIB)</p> <p>Overall Risk Profile</p> <p>A</p>	
<h1>IRRELEVANT</h1>	
<p>Royal Mail (RMa)</p> <p>Overall Risk Profile</p> <p>A</p>	
<p>The intention at this stage is to gift the shares on the same basis as the previous gift which was completed on 5 October. Royal Mail has suggested alternative, less optimal approach, which Ministers have rejected.</p>	
<p>Reputational Risk Profile</p> <p>High</p>	
<p>There is a reputational risk if the employee share allocation is not completed in a reasonable time frame that the recent sales are criticised in terms of value for money and full disposal of HMG's shareholding.</p>	
<p>LCCC &amp; ESC(LCCC)</p> <p>Overall Risk Profile</p> <p>A</p>	
<h1>IRRELEVANT</h1>	
<p>NLF (NLF)</p> <p>Overall Risk Profile</p> <p>A</p>	
<h1>IRRELEVANT</h1>	
<p>Ordnance Survey (Ord Survey)</p> <p>Overall Risk Profile</p> <p>A</p>	
<h1>IRRELEVANT</h1>	
<p>Project Holly</p> <p>Overall Risk Profile</p> <p>RA</p>	
<h1>IRRELEVANT</h1>	

Companies House (CH)	Overall Risk Profile	GA
<h1>IRRELEVANT</h1>		
Overall Risk Profile		
<h1>IRRELEVANT</h1>		
Reputational Risk Profile		
INSS (INSS)	Overall Risk Profile	RA
<h1>IRRELEVANT</h1>		
NNL (NNL)	Overall Risk Profile	A
<h1>IRRELEVANT</h1>		
Overall Risk Profile		
Reputational Risk Profile		
Working Links (WL)	Overall Risk Profile	GA
<h1>IRRELEVANT</h1>		

## ShEx Risk & Assurance Process



**Company No. 9774296**

**UK Government Investments Limited**

**(the “Company”)**

**27-28 Eastcastle Street, London W1W 8DH**

Paper for the Audit and Risk Committee

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**Topic:** Internal Audit Update – Knowledge & Information Management

**Date:** 12<sup>th</sup> January 2016

**Author:** Jeremy Ankers

**Ref:** UKGI-ARCP-4

**Category:** Paper circulated for information

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**Purpose**

1. The purpose of this paper is to introduce the UKGI audit and risk committee to the Shareholder Executive’s approach to Knowledge and Information Management (“KIM”) in preparation for the transition to UKGI.

**Background**

2. Knowledge and information are among the most important business assets held by the Shareholder Executive (ShEx). A decision was therefore made in November by ShEx ExCo to engage the Government Internal Audit Agency’s (GIAA) services to provide assurance and guidance for the knowledge management transfer workstream of the transition project. The goal was to ensure we mitigate the risk of not being equipped with the information we need to operate from 1<sup>st</sup> April in UKGI. .
3. A policy has been in place in ShEx since May 2015 to promote retention and dissemination of knowledge (i.e. ‘what is in people’s heads’). However, a comprehensive review to how ShEx manages information (i.e. documents, databases etc.) had been deliberately on hold since March 2014, pending delays to the introduction of a new file management system in BIS.
4. The migration to a new ICT system, as part of the move to UKGI, has provided the impetus to design and implement a more disciplined approach to information management. As a minimum, the migration requires ShEx to identify the information it needs to transfer, and to consolidate it into a suitable, readily accessible form. Over the longer-term, the migration has also provided us with an opportunity to set our ambitions in terms of information management in the new UKGI.

### **The Information Management project**

5. Roger Lowe has been appointed as Senior Information Owner for ShEx. As such, he is the responsible person for implementing a more disciplined approach to information management. The aim of the implementation project is to ensure:
  - That good information management practice is embedded; and
  - That all information is identified and ready for transfer to the new ICT system; currently expected to take place in March.
6. Detailed guidance on how to manage information has been worked up and disseminated to staff, following consultation with experts in BIS and UKFI. Staff have been set the following specific objectives as part of the project:
  - To ensure that all documentation, emails and other files are stored on the central filing system, rather than on personal accounts or emails;
  - To ensure that each project and portfolio asset has one folder on the central filing system which is appropriately structured, containing clearly named files;
  - To ensure that personal mailboxes do not exceed 2GB of data and that personal accounts do not exceed 300MB.
7. To support staff, a network of Information Champions has been identified from across the business. The Champions contributed to the development of the guidance and are available to answer specific queries from staff as the project progresses. Each project and portfolio asset has been required to identify an individual team member to be the Information Owner to provide leadership at the working level.

### **Internal Audit**

8. A deadline of the end of January has been set for completion of the project. We have asked the Government Internal Audit Agency (GIAA) to conduct an audit of the results, to report in February. The committee will be provided with a copy of this report. This timetable will allow us to implement any immediate actions ahead of the transfer of data to our new IT system, currently expected to begin at the start of March at the earliest.
9. The objective of the audit is to provide assurance to ShEx that its approach to knowledge and information management is fit for purpose – minimising the risk of the loss of information, and providing a reliable audit trail to support its decisions and comply with our obligations to keep records. The GIAA have also been asked to make recommendations about any further steps we could take to improve our knowledge and information management in UKGI.
10. We propose that these recommendations form part of the 2016/17 internal audit plan for UKGI, where we will also consider whether there are synergies with UKFI.
11. The full Terms of Reference for the audit are included at annex A.

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## **INTERNAL AUDIT ENGAGEMENT**

**Ref: ShEx/UKGI 2015/16 - 001**

### **DRAFT TERMS OF REFERENCE**

#### **Review of Knowledge and Information Management**

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**To:** Roger Lowe, Director of Portfolio. Senior Information Owner on behalf of ShEx Executive Committee

**From:** Chris Wobschall – Group Chief Internal Auditor - GIAA

**Neil Chapman – Deputy Head of Internal Audit - GIAA**

**Cc:** Hannah Collins, ShEx  
Jeremy Ankers, ShEx  
Nike Kojakovic, UKFI  
Chief Financial Officer  
Kirstin Baker, HMT  
Finance and Commercial  
Director

**Date:** 14 December 2015

#### **Background**

On 20<sup>th</sup> May 2015 the Prime Minister announced a machinery of government change that affects the Shareholder Executive and UK Financial Investments. Responsibility for the Shareholder Executive (ShEx) will transfer from the Secretary of State for Business, Innovation and Skills (BIS) to the Chancellor of the Exchequer upon creation of the new vehicle. A new government-owned company ("GovCo" - (UK Government Investments Limited)), wholly owned by HM Treasury, will be formed to oversee the activities of both the Shareholder Executive and UK Financial Investments.

It will operate through two divisions; the UKFI division will be the existing UKFI Company (with its current board, articles and framework agreement) and made a subsidiary of UKGI from 1<sup>st</sup> April 2016. It will continue to operate at arm's length. ShEx will not be incorporated into a separate company but instead will operate as a division of UKGI, overseen by a fiduciary board and will be the UK Government's centre of excellence in corporate finance and corporate governance. Its principal objectives will be to:

- Prepare and execute all significant corporate asset sales by the UK Government;
- Advise on all major UK Government financial interventions into corporate structures;
- Act as shareholder for those arm's length bodies of the UK Government that are structured to allow a meaningful shareholder function and for other UK Government assets facing complex transformations (especially if governance is at the heart of a model change); and
- Advise on major UK Government negotiations with corporates.

ShEx will operate under the name of UKGI and UKFI will retain its existing brand and operating model whilst it is still a legal entity. The ambition is, as soon as possible, to have common IT and other operating platforms supported by HMT, as well as being co-located, in order to save money and increase efficiency.

Knowledge and information management encompasses all the systems and processes within an organisation for the creation and use of corporate information. It includes systematic administration of records and documented information for their entire life cycle, from creation/receipt, classification, security, use, filing, retention, storage, and re-use to final disposition. Records and information are the basis on which decisions are made, and policies developed and communicated.

The implementation of a comprehensive approach to how ShEx manages its information had been deliberately on hold since March 2014, pending the delayed introduction of the 'Alfresco' file management system to BIS. Alfresco was rolled out to central BIS in Q4 2015. However, to avoid a situation where ShEx must go through two migrations within six months, ShEx will not move to Alfresco, but instead migrate directly to a new ICT system.

ShEx have therefore developed a:

- ShEx Knowledge Management Policy; and
- ShEx Information Management Guide.

ShEx initiated a project in December 2015 to implement this new approach, in order to

- Ensure all information is identified and ready for transfer to the new ICT system by March 2016
- Embed long-term cultural change and move towards best practice in knowledge and information management

### **Audit Objective and Key Risks**

The objective of this review is to:

- provide assurance to ShEx that its processes, procedures and KM Policy / IM Guide are effective, adequate, appropriate and minimise the risk of loss of information (for example when people leave or move to a different project); and
- ensure that ShExs system to manage records provides a comprehensive, reliable, and authentic audit trail to support its decisions, and that ShEx has knowledge of what records it holds and where they can be found.

The risks to the achievement of the objective, are:

- ShExs knowledge & information management and retention is not being maintained effectively or efficiently;
- Critical information could be lost or not readily accessible, wrongly destroyed, not kept, issued to incorrect people or cannot be found;
- Lack of consistent record keeping could compromise ShExs ability to support its decisions;
- Retrieving information could be resource intensive;
- Knowledge is not centralised, leading to inefficiencies in decision making.

### **Audit Scope and Approach**

The review will be carried out as follows:

- interviews will be held with a selection of key staff throughout ShEx;
- review of practices/behaviours/use of tools available;
- assessment of roles and responsibilities around information management including senior management support;
- relevant documents will be reviewed; and
- consideration of measures taken by management to mitigate risks in these areas.

Emerging findings will be discussed with management during the course of the audit. At the end of the fieldwork an exit meeting will be held to bring the main findings of the audit to management's attention and to agree an appropriate plan for implementing the agreed actions.

### **Budget and Resources**

We anticipate that 8 GIAA days will be required to complete this audit.

We will provide an audit team comprising the following people:

Team Member	Role
Neil Chapman	Senior Audit Manager
Heather Clifton	Audit Lead

### **Timetable**

We plan to work to the following timetable:

Audit Deliverables	Title
Terms of Reference Agreed	18 December 2015
Commence Fieldwork	5 January 2016
Draft Report	4 February 2016
Return of Report with Management Comments	11 February 2016
Final Report	18 February 2016

### **GIAA/Customer Agreement**

GIAA commits to:

- Complete all audits to published professional standards, which requires us to consider as appropriate the adequacy and effectiveness of governance, risk management and control, including propriety, regularity, and value for money.
- Consult with management throughout the review.
- Obtain feedback on our performance by issuing a Customer Feedback Form (CFF).
- Follow-up of agreed audit actions and reporting on progress to the Audit and Risk Committee.
- Handle data in accordance with relevant policies on data security and retention.

The audit customer commits to:

- Provide information and make staff available to enable the audit to be accomplished within the stated timescale.
- Provide feedback on GIAA's performance by completing the CFF and returning it to the Head of Internal Audit.
- Provide a management response to the draft audit report within 5 working days of its issue.



UKGI-ARCP-4a

- Provide periodic updates on the implementation of agreed actions after the audit completes.