



United Kingdom
Debt Management
Office

Commissioners for the Reduction of the National Debt

**Annual Report and Accounts of the
CRND receipts and payments accounts
2015-2016**

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Introduction

What this document covers

The Commissioners for the Reduction of the National Debt (CRND) is a statutory entity within the UK Debt Management Office (DMO) that performs a fund management service for public sector clients and manages several receipts and payments accounts.

Prior to 2013-2014, separate Annual Report and Accounts were prepared for the four receipts and payments accounts presented in this document. The significant areas of commonality between the accounts led to the decision to amalgamate them. The Secretary and Comptroller General's responsibilities to report on each account, as described on page 9, are discharged within this document.

This document presents the Annual Report and Accounts of the following accounts for the year ended 31 March 2016:

- Donations and Bequests Account
- Life and Other Annuities Warrant Account
- Unclaimed Redemption Moneys Account
- Unclaimed Stock and Dividends Account

The following sections of this document apply to all the accounts:

- Foreword and management commentary
- Statement of Secretary and Comptroller General's responsibilities
- Governance statement

The following sections are specific to each account:

- Accounts of the Donation and Bequests Account
- Accounts of the Life and Other Annuities Warrant Account
- Accounts of the Unclaimed Redemption Moneys Account
- Accounts of the Unclaimed Stock and Dividends Account

Foreword and management commentary

Donations and Bequests Account

The Donations and Bequests Account exists to deal with donations and bequests from the public that are for the purpose of reducing the National Debt. It arose from section 8 of the National Debt Reduction Act 1823.

Bequests are handled by the Treasury Solicitor, who conducts all negotiations with executors and trustees, and then passes cash or government securities to the CRND. Annually, the cash held is used to buy gilts from the market for cancellation, which reduces the National Debt.

The account presents the receipts, payments, and transactions in securities during the year ended 31 March 2016, and the net securities balance held at that date.

The account is prepared on a cash basis and must properly present the receipts and payments for the year and the balances held at the year end.

Any cash received into the Donations and Bequests Account is held in a non-interest bearing account at the Bank of England.

During 2015-2016, the account received £15k of donations and bequests (2014-2015: £8k). The funds were used to purchase £14k (nominal) of 1.75% Treasury Gilt 2019. These were considered by the DMO's Fund Management Review Committee to be the most cost effective gilts for purchase.

Historically, the CRND has purchased undated government securities into the Donations and Bequests Account for cancellation. Following HM Treasury's decision to redeem all outstanding undated government securities, the remaining undated government securities were redeemed on 6 July 2015. This caused the CRND to purchase non-undated government securities subsequent to this date. Since the cancellation of these non-undated government securities would have affected various market indices, CRND purchased gilts in 2015-2016 with a view to cancelling them only on maturity date.

At 31 March 2016, the cash balance held in the account was nil (31 March 2015: nil) and the balance of government securities held was £14k (nominal) of 1.75% Treasury Gilt 2019 (31 March 2015: nil).

Audit arrangements

The account is audited by the Comptroller and Auditor General under agreement with HM Treasury. The National Audit Office's fee for audit of the Donations and Bequests Account in 2015-2016 was £1,680 (2014-2015: £1,400). The cost of the audit is accounted for within the DMO's agency vote and reported in the DMO Report and Accounts 2015-2016.

Life and Other Annuities Warrant Account

The Life and Other Annuities Warrant Account is a non-statutory account that was opened by the CRND in 1885 for the purpose of paying life annuities which had been sold since 1808, although such annuities have not been sold since 1962. Sums are drawn quarterly from the National Loans Fund (NLF) against a certificate from the CRND to meet payments due. Payments are then allocated to remaining annuitants directly, and to National Savings and Investments in respect of Savings Bank issued annuities. Where appropriate, tax is deducted and paid to HM Revenue and Customs (HMRC). Where subsequently the annuity is not claimed, the related tax payments reclaimable from HMRC are deducted from later payments of tax.

This account presents the receipts and payments for the year ended 31 March 2016 and the balance held at that date. Annuitants may claim payments due within 3 years, and unclaimed

payments are only returned to the NLF after this period. As a result, the amount received from the NLF does not generally equal the total payments in a given year.

The account is prepared on a cash basis and must properly present the receipts and payments for the year and the balance held at the year end.

Any cash in the Life and Other Annuities Warrant Account is held in a non-interest bearing account at the Bank of England.

During 2015-2016, the account received £3,368 (2014-2015: £3,584) from the NLF to pay annuitants. £2,826 (2014-2015: £3,027) was paid to annuitants, of which £1,165 (2014-2015: £1,006) was paid to NS&I for annuitants.

At 31 March 2016, the balance held in the account was £200 (31 March 2015: £120), which was retained for operational purposes.

Audit arrangements

The account is audited by the Comptroller and Auditor General under agreement with HM Treasury. The National Audit Office's fee for audit of the Life and Other Annuities Warrant Account in 2015-2016 was £1,680 (2014-2015: £1,400). The cost of the audit is accounted for within the DMO's agency vote and reported in the DMO Report and Accounts 2015-2016.

Unclaimed Redemption Moneys Account

The Unclaimed Redemption Moneys Account (URMA) was opened in 1921 and comprises redemption moneys of Government securities that have remained unclaimed by any party for two years or more. In accordance with Section 5 (2-6) of the Miscellaneous Financial Provisions Act 1955 (the Act) unclaimed redemption moneys received from the registrar (Computershare Investor Services plc) are deposited with the NLF at a rate of official Bank Rate less 0.25%. On a monthly basis, interest is calculated by the NLF and then paid directly to the Unclaimed Stock and Dividends account.

This account shows the transactions of the CRND in respect of unclaimed redemption moneys. The account presents the receipts and payments and transactions in securities for the year ended 31 March 2016 and the balances held at that date.

The account is prepared on a cash basis and must properly present the receipts and payments for the year and the balances held at the year end.

During 2015-2016, the account received unclaimed redemption moneys of £1,584k (2014-2015: £2,091k) from the gilts registrar, and paid reclaimed moneys of £491k (2014-2015: £1,362k) to the gilts registrar. The account also received unclaimed stock redemption moneys of £946k (2014-2015: £96k) from the Unclaimed Stock and Dividends Account as holdings of undated stock held since 1955 or earlier were redeemed.

By virtue of Section 5 (7) of the Act, the interest earned on the total holdings in the account was paid to the Unclaimed Stock and Dividends Account.

At 31 March 2016, the balance held in the account was £24,664k (31 March 2015: £22,625k), which represented unclaimed redemption moneys.

Audit arrangements

The account is audited by the Comptroller and Auditor General under agreement with HM Treasury. The National Audit Office's fee for audit of the Unclaimed Redemption Moneys Account in 2015-2016 was £1,680 (2014-2015: £1,400). The cost of the audit is accounted for within the DMO's agency vote and reported in the DMO Report and Accounts 2015-2016.

Unclaimed Stock and Dividends Account

The CRND have been involved in the handling of unclaimed Government stock and dividends since 1816. Initially, any Government stock on which dividends had been unclaimed for 10 years was transferred to CRND and held in their Unclaimed Stock Account. That arrangement was discontinued in 1955 by Section 5(1) of the Miscellaneous Financial Provisions Act 1955 (the Act). However, stock previously transferred is retained, and dividends on it continue to be paid into the Unclaimed Stock and Dividends Account.

The account now receives any dividends from the gilts registrar (Computershare Investor Services plc) that have been unclaimed for five years. The gilts registrar transfers the unclaimed dividends to CRND on or around 1 April and 1 October each year. The gilts registrar is responsible for validating claims for dividends including those that have been transferred to CRND as unclaimed for five years.

By virtue of Section 5(7) of the Act, the account also receives interest and dividends in respect of assets held by CRND's Unclaimed Redemption Moneys Account.

Assets are held as non-interest bearing demand deposits with the NLF and as undated stock from pre-1955, such as annuities. Annually, sums held in excess of £100,000 at 31 March, not including the Unclaimed Stocks, are surrendered to the NLF in accordance with Section 5(9) of the Act.

The account is prepared on a cash basis and must properly present the receipts and payments for the year and the balances held at the year end.

During 2015-2016, unclaimed dividends of £523k (2014-2015: £986k) were transferred from the gilts registrar to the account. Additionally, £12k (2014-2015: £28k) was received from dividends on unclaimed stock and £59k (2014-2015: £57k) was received from interest earned on the holdings in the Unclaimed Redemption Moneys Account.

During 2015-2016, £946k (2014-2015: £96k) of the unclaimed stock held in the account was redeemed following HM Treasury's decision to redeem all undated gilts during 2014-2015 and 2015-2016. The cash from these redemptions was transferred to the Unclaimed Redemptions Moneys Account.

Dividends received from unclaimed stock include dividends from the Bank of England holding of £4,920.99 of 2½% Consolidated Stock, which relates to Unclaimed Land Tax.

In accordance with legislation £1,071k was surrendered to the NLF during the year (2014-2015: £1,144k).

At 31 March 2016, the balance held in the account was £694k (31 March 2015: £2,117k), which represented accumulated unclaimed dividends retained by the account.

Audit arrangements

The account is audited by the Comptroller and Auditor General under agreement by HM Treasury. The National Audit Office's fee for audit of the Unclaimed Stock and Dividends Account in 2015-2016 was £1,680 (2014-2015: £1,400). The cost of the audit is accounted for within the DMO's agency vote and reported in the DMO Report and Accounts 2015-2016.

All accounts

Audit Arrangements

The Secretary and Comptroller General confirms that, as far as she is aware, there is no relevant audit information of which the auditors are unaware, and that she has taken all the steps that she ought to have taken as Secretary and Comptroller General in order to make herself aware of any relevant audit information and to establish that the auditors are aware of that information.

Date of authorisation for issue

The Secretary and Comptroller General authorised these financial statements for issue on 20 July 2016.

Jo Whelan

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

19 July 2016

Statement of Secretary and Comptroller General's responsibilities

Donations and Bequests Account

Section 8 of the National Debt Reduction Act 1823 requires the Commissioners to prepare an annual account of monies received and applied with regard to the Donations and Bequests Account.

The Donations and Bequests Account is prepared on a cash basis and must properly present the receipts and payments for the year and net balance held on 31 March 2016.

Life and Other Annuities Warrant Account

The Commissioners use the Life and Other Annuities Warrant Account to pay unexpired life annuities.

There is no statutory requirement for the production of an account. However the Life and Other Annuities Warrant Account is prepared on a cash basis and must properly present the receipts and payments for the year and balances held on 31 March 2016.

Unclaimed Redemption Moneys Account

There is no statutory requirement for the production of an account. However the Unclaimed Redemption Moneys Account is prepared on a cash basis and must properly present the receipts and payments for the year and balances held on 31 March 2016.

Unclaimed Stock and Dividends Account

There is no statutory requirement for the production of an account. However the Unclaimed Stock and Dividends Account is prepared on a cash basis and must properly present the receipts and payments for the year and balances held on 31 March 2016.

All accounts

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

In preparing the accounts, the Secretary and Comptroller General is required to comply with relevant legislation and has also elected to be consistent with certain requirements of the Government Financial Reporting Manual (FReM), and in particular to:

- apply suitable accounting policies on a consistent basis; and
- make judgements and estimates on a reasonable basis.

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

Governance statement

Scope of responsibility

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

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

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

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

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

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

Managing Board

The Secretary and Comptroller General was supported during 2015-2016 by the DMO Managing Board (the Board) which, in addition to the Secretary and Comptroller General, is comprised of:

Sir Robert Stheeman

DMO Chief Executive and Accounting Officer

Jim Juffs

Chief Operating Officer

Jessica Pulay (from 30 July 2015)

Co-Head of Policy and Markets

James Richardson (to 18 March 2016)

Non-executive HM Treasury representative

Brian Larkman

Non-executive director – Brian Larkman was Global Head of Money Markets at the Royal Bank of Scotland PLC from 2000 to 2001 and Managing Director, Global Money Markets at National Westminster Bank PLC from 1991 to 2000. He was a member of the Regulatory Decisions Committee of the Financial Services Authority until 2006.

Brian Duffin

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

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

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

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

The Board has put in place a formal process to self-evaluate its performance on a regular basis. The Board undertook a self-evaluation of its performance in 2015 and concluded that it has operated effectively in delivering the objectives set out in its Terms of Reference, and that the information used by the Board was accurate and relevant. The Terms of Reference underwent a full review by the Board in 2012.

2015-2016 Managing Board activities

Board meetings were held throughout 2015-2016 and covered regular agenda items, including risk management, staffing and progress against the operational business plan.

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

Managing Board		Audit Committee		
	Possible	Actual		
Sir Robert Steeman	8	8		
Jo Whelan	8	8		
Jim Juffs	8	8		
Jessica Pulay	5*	5		
James Richardson	8	7		
Brian Larkman	8	8	Possible	Actual
Brian Duffin	8	8	4	4
Caroline Mawhood	n/a	n/a	4	4

* Started 30 July 2015

Audit Committee

The Secretary and Comptroller General was supported during 2015-2016 by the Audit Committee on matters relating to risk, internal control and governance. The members of the Audit Committee during 2015-2016 were:

Brian Larkman (Chaired to 30 June 2015)

Brian Duffin (Chaired from 1 July 2015)

Caroline Mawhood – Caroline Mawhood was an Assistant Auditor General at the National Audit Office until 2009 and President of the Chartered Institute of Public Finance and Accountancy for 2008 - 2009. She is a non-executive member of the Audit Committees of the

Department of Energy and Climate Change and the Corporation of London and one of two external members of the Audit Progress Committee of the European Commission. She is also the Honorary Treasurer of Breast Cancer Now charity and a trustee of the Wimbledon Guild charity.

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

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

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

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

- Business continuity planning;
- Risk management and financial control;
- Internal management reporting;
- Implementation of audit recommendations;
- Effectiveness of whistleblowing arrangements;
- Security policy framework, including information systems security and controls;
- Internal management reporting;
- IT configuration management;
- Payroll Controls; and
- Implementation of the financing remit.

The Audit Committee covers a regular programme of agenda items, together with other current topics, through an annual schedule of four meetings. All scheduled meetings were held and no additional meetings were deemed necessary.

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

Fund Management Review Committee

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

The Fund Management Review Committee met four times in 2015-2016.

Business Delivery Committee

The Business Delivery Committee reviews the status of the delivery of DMO's business and work plan as a collective cross functional body, resolving emerging issues in a timely way, and agreeing priorities to ensure the plan stays on track.

The Business Delivery Committee met regularly (typically weekly) throughout 2015-2016.

Risk Committees

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

Risk management and internal control

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

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

The Risk and Control Framework

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

First line of defence:

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

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

Second line of defence:

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

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

Credit and Market Risk Committee

The Credit and Market Risk Committee (CMRC) meets on a regular basis, with more frequent meetings held when required, for example during times of market stress. It monitors and reviews the management of market, credit, and liquidity risk. It sets limits across a range of exposures including counterparties, countries, instruments held as collateral as well as setting absolute limits on net daily flows across the DMA. CMRC met fourteen times during 2015-2016.

Operational Risk Committee

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

The ORC has advised the DMO Accounting Officer and the Board, during the year, on significant operational risk concerns, significant risk issues and trends as well as actions to mitigate such risks. The Committee has focused this year on transaction processing risks and controls, IT and data security, security classifications for email communications, policy for escalation of concerns and business continuity planning. ORC met eight times during 2015-2016.

Controls Group

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

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

During the year the Controls Group review work has covered the DMO's strengthening the resilience of the IT infrastructure and changes to the banking arrangements.

Risk Management Unit (RMU)

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

As well as supporting the risk committee structure, the RMU provides control advice on risks. As part of the second line of defence the RMU is separate from, and independent of, the

DMO's trading operations. The RMU conducts risk analysis and provides market, credit and operational risk capability for the DMO.

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

Third line of defence:

The DMO's Internal Audit function provides the DMO Accounting Officer with independent and objective assurance on the overall effectiveness of the Agency's system of internal control. It does this through a risk based work programme which is approved by the Audit Committee at the start of each year. All audits make a series of recommendations which, once agreed by management, are monitored for implementation. The function is independent of the DMO's trading activities and operations and has a direct reporting line to the DMO Accounting Officer. The work of Internal Audit includes assessing the effectiveness of both control design and control performance. With its independence and overall remit, Internal Audit provides a third line of defence against the risks that might prevent the DMO delivering its objectives.

Risk policies and procedures

The DMO's risk policies reflect the high standards and robust requirements which determine the way in which risks are managed and controlled. The DMO Accounting Officer, with the support of the Board, ensures that policies are regularly reviewed to reflect any changes in the DMO's operations and/or best practice. In 2015-2016, this included the DMO's Whistleblowing and Escalation Policies.

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

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

Risk profile

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

Principal risks and uncertainties

Mitigation and management

IT systems and infrastructure

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

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

During the year the DMO has undertaken a review of its most significant IT systems in the context of current and anticipated business requirements including those of CRND. The DMO has strengthened the resilience of systems further to the strategic review conducted in 2014-2015. The DMO has put in place structured business continuity arrangements to ensure it is able to continue market operations in the event of an internal or external incident that threatens business operations.

To mitigate the risk of failure of a key third party the DMO undertakes a corporate risk assessment of each potential supplier in order to assess financial strength and operational capacity. The DMO has dedicated relationship managers who meet regularly with key suppliers and monitor performance against agreed Service Level Agreements.

Transaction processing

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

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

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

The RMU conducts regular control and compliance testing of CRND activities, providing the executive sub-committee of the Board with assurance on the effectiveness of operational controls and compliance with relevant Financial Conduct Authority and Prudential Regulation Authority rules in the dealing and settlement areas.

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

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

People risk

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

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

The DMO's Training and Development policy is designed to help ensure that staff have the right skills to meet its objectives. In response to developments in regulatory best practice, the DMO organised focused training sessions in 2015 covering the Escalation and Whistleblowing Policies.

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

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

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

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

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

The DMO is accredited as an Investor in People.

IT and data security

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

The DMO is exposed to risk of an external attack on its IT systems and infrastructure.

The DMO continues to work to maintain the required level of protective security covering physical, personnel and information security and is particularly aware of the growing threat posed by cyber security risk. Cyber security has been a specific area of focus in 2015 - 2016 and the DMO's IT team have worked to strengthen controls against both external and internal threats to IT systems and infrastructure. The DMO completed a number of upgrade projects in 2015 which have helped improve the resilience of the DMO's IT security environment, including an upgrade of information technology patching and network components.

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

The DMO has put in place several layers to defend

against external attack and its infrastructure undergoes an annual penetration test. This year particular attention has been paid to the auction process and systems used to ensure the control environment remains robust. Further support and guidance from Communications Electronics Security Group (CESG) has been received and acted upon over the course of the year to ensure that the DMO meets their requirements, which are a condition for continuing connection to the Public Service Network (PSN). In response to this the DMO has updated its security strategy and continues to progress improvements to the control environment.

Review of effectiveness

I have reviewed the effectiveness of the system of internal control and confirm that an ongoing process designed to identify, evaluate and prioritise risks to the achievement of CRND's aims and objectives has been in place throughout 2015-2016. This review included an assessment of any material risk and control issues identified and reported during the relevant period.

My review has been informed by the advice of the risk committees and by the work of the internal auditors and the executive managers within the DMO, who have been delegated responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports.

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

In 2015-2016, no ministerial directions were given and no material conflicts of interest have been noted by the Board or Audit Committee members in the Register of Interests.

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

Jo Whelan

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

19 July 2016

Accounts of the Donations and Bequests Account

Year ended 31 March 2016

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INDEPENDENT AUDITOR'S REPORT TO THE COMMISSIONERS FOR THE REDUCTION OF THE NATIONAL DEBT

I have audited the financial statements of Donations and Bequests Account for the year ended 31 March 2016. The financial statements comprise: the Receipts and Payments Account, the Statement of Balances and the related notes. These financial statements have been prepared under the accounting policies set out within the Foreword and management commentary.

Respective responsibilities of the Commissioners for the Reduction of the National Debt, the Secretary and Comptroller General to the Commissioners for the Reduction of the National Debt and Auditor

As explained more fully in the Statement of Secretary and Comptroller General's Responsibilities, the Commissioners for the Reduction of the National Debt have a responsibility to produce a receipts and payments account and statement of balances. They have appointed the Secretary and Comptroller General to the Commissioners for the Reduction of the National Debt to discharge these responsibilities. My responsibility is to audit the financial statements. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Donations and Bequests Account's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Secretary and Comptroller General; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Foreword and Management Commentary, the Statement of Secretary and Comptroller General's Responsibilities, and the Governance Statement, to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

I am required to obtain evidence sufficient to give reasonable assurance that the receipts and payments recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

In my opinion, in all material respects, the receipts and payments recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements properly present the receipts and payments of the Donations and Bequests Account for the year ending 31 March 2016 and of the balances held at that date; and
- the financial statements have been properly prepared in accordance with the National Debt Reduction Act 1823.

Opinion on other matters

In my opinion, the information given in the Foreword and Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters for which I report by exception

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

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Elaine Lewis

For and behalf of the Comptroller and Auditor General

20 July 2016

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

Donations and Bequests Account Receipts and payments

For the year ended 31 March 2016

	Note	2016 £	2015 £
Cash receipts			
From donations or bequests		14,558	7,823
Cash payments			
Securities purchased for cancellation	1	14,558	7,823
Excess of payments over receipts		<u>-</u>	<u>-</u>

Statement of balances

As at 31 March 2016

	2016 £	2015 £
Balance at beginning of year	-	-
Net movement in year	-	-
Balance at end of year	<u>-</u>	<u>-</u>

As at 31 March 2016, the Donations and Bequests Account held £14,006 (nominal) of 1.75% Treasury Gilt 2019, which will be cancelled on maturity of the gilt (31 March 2015: no gilts were held).

Jo Whelan

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

19 July 2016

Notes to the accounts

1. Securities purchased for cancellation

	2016 Nominal £	2016 Cash £	2015 Nominal £	2015 Cash £
2.5% Undated Treasury Stock	-	-	7,791	7,823
1.75% Treasury Gilt 2019	14,006	14,558	-	-
	<u>14,006</u>	<u>14,558</u>	<u>7,791</u>	<u>7,823</u>

Accounts of the Life and Other Annuities Warrant Account

Year ended 31 March 2016

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INDEPENDENT AUDITOR'S REPORT TO THE COMMISSIONERS FOR THE REDUCTION OF THE NATIONAL DEBT

I have audited the financial statements of Life and Other Annuities Warrant Account for the year ended 31 March 2016. The financial statements comprise: the Receipts and Payments Account, the Statement of Balances and the related notes. These financial statements have been prepared under the accounting policies set out within the Foreword and management commentary.

Respective responsibilities of the Commissioners for the Reduction of the National Debt, the Secretary and Comptroller General to the Commissioners for the Reduction of the National Debt and Auditor

As explained more fully in the Statement of Secretary and Comptroller General's Responsibilities, the Commissioners for the Reduction of the National Debt have a responsibility to produce a receipts and payments account and statement of balances. They have appointed the Secretary and Comptroller General to the Commissioners for the Reduction of the National Debt to discharge these responsibilities. My responsibility is to audit the financial statements. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Life and Other Annuities Warrant Account's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Secretary and Comptroller General; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Foreword and Management Commentary, the Statement of Secretary and Comptroller General's Responsibilities, and the Governance Statement, to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

I am required to obtain evidence sufficient to give reasonable assurance that the receipts and payments recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

In my opinion, in all material respects, the receipts and payments recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion, the financial statements properly present the receipts and payments of the Life and Other Annuities Warrant Account for the year ending 31 March 2016 and of the balances held at that date.

Opinion on other matters

In my opinion, the information given in the Foreword and Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters for which I report by exception

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

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Elaine Lewis

For and on behalf of the Comptroller and Auditor General

20 July 2016

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

Life and Other Annuities Warrant Account Receipts and payments

For the year ended 31 March 2016

	2016 £	2015 £
Cash receipts		
From the National Loans Fund for annuitants	3,368	3,584
Cash payments		
To annuitants	1,661	2,021
To National Savings & Investments for annuitants	1,165	1,006
Unclaimed amounts returned to the National Loans Fund	-	-
To HM Revenue & Customs for tax deducted on annuity payments	462	537
	<hr/> 3,288	<hr/> 3,564
Excess of receipts over payments	<hr/> 80	<hr/> 20

Statement of balances

As at 31 March 2016

	2016 £	2015 £
Balance at beginning of year	120	100
Net movement in year	80	20
Balance at end of year	<hr/> 200	<hr/> 120

Jo Whelan

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

19 July 2016

Accounts of the Unclaimed Redemption Moneys Account

Year ended 31 March 2016

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INDEPENDENT AUDITOR'S REPORT TO THE COMMISSIONERS FOR THE REDUCTION OF THE NATIONAL DEBT

I have audited the financial statements of Unclaimed Redemption Moneys Account for the year ended 31 March 2016. The financial statements comprise: the Receipts and Payments Account, the Statement of Balances and the related notes. These financial statements have been prepared under the accounting policies set out within the Foreword and management commentary.

Respective responsibilities of the Commissioners for the Reduction of the National Debt, the Secretary and Comptroller General to the Commissioners for the Reduction of the National Debt and Auditor

As explained more fully in the Statement of Secretary and Comptroller General's Responsibilities, the Commissioners for the Reduction of the National Debt have a responsibility to produce a receipts and payments account and statement of balances. They have appointed the Secretary and Comptroller General to the Commissioners for the Reduction of the National Debt to discharge these responsibilities. My responsibility is to audit the financial statements. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Unclaimed Redemption Moneys Account's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Secretary and Comptroller General; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Foreword and Management Commentary, the Statement of Secretary and Comptroller General's Responsibilities, and the Governance Statement, to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

I am required to obtain evidence sufficient to give reasonable assurance that the receipts and payments recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

In my opinion, in all material respects, the receipts and payments recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion, the financial statements properly present the receipts and payments of the Unclaimed Redemption Moneys Account for the year ending 31 March 2016 and of the balances held at that date.

Opinion on other matters

In my opinion, the information given in the Foreword and Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters for which I report by exception

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

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records or returns; or
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- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Elaine Lewis

For and on behalf of the Comptroller and Auditor General

20 July 2016

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Unclaimed Redemption Moneys Account Receipts and payments

For the year ended 31 March 2016

	2016	2015
	£000	£000
Cash receipts		
Unclaimed redemption moneys from registrar	1,584	2,091
Unclaimed stock redemption moneys from Unclaimed Stock and Dividends Account	946	96
	<hr/> 2,530	<hr/> 2,187
Cash payments		
Reclaimed redemption moneys to registrar	491	1,362
	<hr/> 2,039	<hr/> 825
Excess of receipts over payments		

Statement of balances

As at 31 March 2016

	2016	2015
	£000	£000
Balance at the beginning of year	22,625	21,800
Net movement in year	2,039	825
Balance at the end of year	<hr/> 24,664	<hr/> 22,625

Jo Whelan

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

19 July 2016

Notes to the accounts

1. Deposits with the National Loans Fund

Unclaimed redemption moneys received from the registrar were held in demand deposits with the National Loans Fund at the official Bank Rate less 0.25%. On a monthly basis, interest was calculated by the National Loans Fund and then paid directly to the Unclaimed Stock and Dividends account.

Accounts of the Unclaimed Stock and Dividends Account

Year ended 31 March 2016

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INDEPENDENT AUDITOR'S REPORT TO THE COMMISSIONERS FOR THE REDUCTION OF THE NATIONAL DEBT

I have audited the financial statements of Unclaimed Stock and Dividends Account for the year ended 31 March 2016. The financial statements comprise: the Receipts and Payments Account, the Statement of Balances and the related notes. These financial statements have been prepared under the accounting policies set out within the Foreword and management commentary.

Respective responsibilities of the Commissioners for the Reduction of the National Debt, the Secretary and Comptroller General to the Commissioners for the Reduction of the National Debt and Auditor

As explained more fully in the Statement of Secretary and Comptroller General's Responsibilities, the Commissioners for the Reduction of the National Debt have a responsibility to produce a receipts and payments account and statement of balances. They have appointed the Secretary and Comptroller General to the Commissioners for the Reduction of the National Debt to discharge these responsibilities. My responsibility is to audit the financial statements. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Unclaimed Stock and Dividends Account's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Secretary and Comptroller General; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Foreword and Management Commentary, the Statement of Secretary and Comptroller General's Responsibilities, and the Governance Statement, to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

I am required to obtain evidence sufficient to give reasonable assurance that the receipts and payments recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

In my opinion, in all material respects, the receipts and payments recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion, the financial statements properly present the receipts and payments of the Unclaimed Stock and Dividends Account for the year ending 31 March 2016 and of the balances held at that date.

Opinion on other matters

In my opinion, the information given in the Foreword and Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters for which I report by exception

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

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records or returns; or
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Elaine Lewis

For and on behalf of the Comptroller and Auditor General

20 July 2016

**National Audit Office
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Unclaimed Stock and Dividends Account Receipts and payments

For the year ended 31 March 2016

	Note	2016 £000	2015 £000
Cash receipts			
Unclaimed dividends transferred from the gilts registrar		523	986
Dividends on unclaimed stock		12	28
Interest on assets held by Unclaimed Redemption Moneys Account		59	57
Cash from redemption of unclaimed stock		946	96
		<hr/> 1,540	<hr/> 1,167
Cash payments			
Excess surrendered to the National Loans Fund	1	1,071	1,144
Cash from redemption of unclaimed stock transferred to Unclaimed Redemption Moneys Account		946	96
		<hr/> 2,017	<hr/> 1,240
Excess of payments over receipts		<hr/> (477)	<hr/> (73)

Statement of balances

As at 31 March 2016

	Note	2016 £000	2015 £000
Balance at beginning of year		2,117	2,286
Net movement in year		(477)	(73)
Decrease in unclaimed stock due to redemptions		(946)	(96)
Balance at end of year	2	<hr/> 694	<hr/> 2,117

The notes on page 35 are an integral part of these accounts.

Jo Whelan

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

19 July 2016

Notes to the accounts

1. Payments to the National Loans Fund

Under section 5(9) of the Miscellaneous Financial Provisions Act 1955, as amended by Schedule 5 to the National Loans Act 1968, total sums held in excess of £100,000 at 31 March, not including the Unclaimed Stocks, are surrendered to the National Loans Fund.

During 2015-2016, the account surrendered £1,071k in respect of 2014-2015. During 2016-2017 the account will surrender £594k in respect of 2015-2016.

2. Deposits and securities held at year end

	2016 £000	2015 £000
In respect of unclaimed dividends		
Deposits		
Deposits with the National Loans Fund	694	1,171
In respect of unclaimed stocks		
Government and Government guaranteed securities		
Undated securities	-	946
	694	2,117

Demand deposits with the National Loans Fund, which are interest-free, are funds deposited with the Bank of England and swept overnight into the National Loans Fund.

Following HM Treasury's decision to redeem all outstanding undated government securities, the Unclaimed Stock and Dividends Account holding of £946k of undated government securities were redeemed in 2015-2016. The proceeds were transferred to the Unclaimed Redemption Moneys Account.