SCHEDULE 7.3

FINANCIAL REPORTS AND AUDIT RIGHTS

VERSION CONTROL

VERSION NUMBER	DATE	COMMENT
1.0	27 June 2018	Executed by the Parties

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SCHEDULE 7.3 – FINANCIAL REPORTS AND AUDIT RIGHTS

1. PURPOSE

1.1 This Schedule contains provisions relating to the Financial Transparency Objectives and Open Book Data, the Financial Reports and TTL's audit rights, and is structured as follows:

1.1.1 Part A: Financial Transparency Objectives and Open Book Data;

1.1.2 Part B: Financial Reports; and

1.1.3 Part C: Audit Rights.

PART A: FINANCIAL TRANSPARENCY OBJECTIVES AND OPEN BOOK DATA

2. FINANCIAL TRANSPARENCY OBJECTIVES

2.1 Without prejudice to TTL's rights and remedies and the Supplier's other obligations set out in this Agreement, the Supplier shall co-operate with TTL in order to achieve the following objectives (the "**Financial Transparency Objectives**"):

Understanding the Charges

2.1.1 TTL understands any payment sought from it by the Supplier including an analysis of the Costs, Overhead recoveries (where relevant), time spent by Supplier Personnel in performing this Agreement and the Supplier Profit Margin.

2.1.2 The Parties understand the Financial Reports and Cost forecasts and have confidence that these are based on justifiable numbers and appropriate forecasting techniques.

2.1.3 Facilitating the use of Guaranteed Maximum Price with Target Cost (where relevant as referred to in Schedule 7.1 (Charges and Invoicing)).

Agreeing the impact of Contract Changes

2.1.4 The Parties agree the quantitative impact of any Contract Changes that affect on-going costs and to identify how these could be mitigated and/or reflected in the Charges.

2.1.5 The Parties review, address issues with and re-forecast progress in relation to the performance of this Agreement.

Continuous improvement

2.1.6 The Parties challenge each other with ideas for efficiency and improvements.

2.1.7 TTL is able to demonstrate that it is achieving value for money relative to current market prices.

3. OPEN BOOK DATA

3.1 The Supplier acknowledges the importance to TTL of the Financial Transparency Objectives and TTL's need for complete transparency in the way in which the Charges are calculated.

3.2 During the Term, and for a period of seven (7) years following the end of the Term, the Supplier shall:

3.2.1 maintain and retain the Open Book Data; and

3.2.2 disclose and allow TTL and/or the Audit Agents access to the Open Book Data.

PART B: FINANCIAL REPORTS

4. PROVISION OF THE FINANCIAL REPORTS

4.1 The Supplier shall provide the following Financial Reports to TTL, at the frequency specified below:

Financial Report	Frequency
Final Reconciliation Report	Within six (6) months following the expiry or early termination of this Agreement
Milestone Payment Report	Following the Achievement of each Payment Milestone
Period Report	By midday (12:00) on the 15th Working Day of each Period. A forecast for the remaining days in the Period is acceptable, to be reconciled in the next Period Report
Period 13 Report	By midday (12:00) on the 10th Working Day of each Period 13. A forecast for the remaining days in Period 13 is acceptable, to be reconciled in the next Period Report

5. GENERAL FINANCIAL REPORT REQUIREMENTS

5.1 The Supplier shall provide to TTL the Financial Reports in the same software package (Microsoft Excel or Microsoft Word), layout and format as the Financial Report Templates.

5.2 A copy of each Financial Report shall be held by both TTL and the Supplier. If there is a Dispute regarding a Financial Report, TTL's copy of the relevant Financial Report shall be authoritative.

5.3 Each Financial Report shall:

5.3.1 be completed by the Supplier using reasonable skill and care;

5.3.2 incorporate and use the same defined terms as are used in this Agreement;

5.3.3 quote all monetary values in pounds sterling;

5.3.4 quote all Costs as exclusive of any VAT and state the VAT separately;

5.3.5 quote all Costs and Charges based on current prices;

5.3.6 include appropriate additional information to enable the contents of the Financial Report to be mapped to both Contract Years and Financial Years. The Supplier shall promptly provide to TTL any additional information reasonably requested by TTL in relation to such mapping exercise;

5.3.7 be compiled using data which is extracted from the Supplier's management accounting system;

5.3.8 include sufficient information to enable TTL to identify from where in the Supplier's management accounting system the data has been extracted and details of any

adjustments made to the data to convert the data into a format which is consistent with the Financial Reports; and

5.3.9 where applicable, incorporate agreed Change Authorisation Notes.

5.4 The Supplier shall:

5.4.1 prepare each Financial Report using the same methodology, as approved by TTL;

5.4.2 ensure that each Period 13 Report is a true and fair reflection of the Costs and Supplier Profit Margin forecast by the Supplier; and

5.4.3 the Final Reconciliation Report is a true and fair reflection of the Costs.

5.5 During the Term, and for a period of eighteen (18) months following the end of the Term, the Supplier shall make available the Financial Representative at reasonable times and on reasonable notice to answer any queries that TTL may have on any of the Financial Reports and/or Open Book Data.

5.6 If the Supplier becomes aware of the occurrence, or the likelihood of the future occurrence, of an event which will or may have a material effect on the following:

5.6.1 the Costs incurred (or those forecast to be incurred) by the Supplier; and/or

5.6.2 the forecast Charges for the remainder of the Term,

the Supplier shall, as soon as practicable, notify TTL in writing of the event in question detailing the actual or anticipated effect. For the avoidance of doubt, notifications provided in accordance with this paragraph 5.6 shall not have the effect of amending any provisions of this Agreement.

6. SPECIFIC FINANCIAL REPORT REQUIREMENTS

The Financial Reports shall include the relevant information set out in the Financial Report Templates.

7. CERTIFICATION

7.1 Each Period 13 Report and the Final Reconciliation Report shall be certified by the Supplier's Chief Financial Officer or Director of Finance (or equivalent as agreed in writing by TTL in advance of issue of the relevant Financial Report), acting with express authority, as:

7.1.1 being accurate and not misleading;

7.1.2 having been prepared in conformity with generally accepted accounting principles within the United Kingdom;

7.1.3 being a true and fair reflection of the information included within the Supplier's management and statutory accounts; and

7.1.4 compliant with the requirements of paragraph 5.4.

8. APPROVAL OF FINANCIAL REPORTS

8.1 Following receipt by TTL of a Financial Report, the Supplier shall at its own expense provide to TTL such additional information as TTL may reasonably request so that TTL can verify the accuracy of the Financial Report.

8.2 Within three (3) Working Days of receipt of each Financial Report and all additional information required pursuant to paragraph 8.1, TTL shall notify the Supplier whether it agrees with or disputes the Financial Report.

8.3 If TTL disputes the Financial Report, the Parties shall meet within three (3) Working Days of such notice to discuss TTL's concerns and the Supplier shall provide such updated versions of the Financial Report as TTL may reasonably require until the Financial Report is agreed.

8.4 If the Parties are unable to reach agreement on any Financial Report within ten (10) Working Days of its receipt by TTL, the matter shall be referred for determination in accordance with the Dispute Resolution Procedure.

9. KEY SUB-CONTRACTORS

9.1 The Supplier shall, if requested by TTL, provide (or procure the provision of) a report or reports including the level of information set out in the Financial Reports in relation to the costs and expenses to be incurred by any of its Key Sub-contractors.

9.2 Without prejudice to paragraph 9.1, the Supplier shall:

9.2.1 be responsible for auditing the financial models/reports of its Key Sub-contractors and for any associated costs and expenses incurred or forecast to be incurred; and

9.2.2 on written request by TTL, provide TTL or procure that TTL is provided with:

(a) full copies of audit reports for the Key Sub-contractors. TTL shall be entitled to rely on such audit reports; and

(b) further explanation of, and supporting information in relation to, any audit reports provided.

PART C: AUDIT RIGHTS

10. AUDIT RIGHTS

10.1 TTL, acting by itself or through its Audit Agents, shall have the right during the Term and for a period of eighteen (18) months thereafter, to assess compliance by the Supplier and/or its Key Sub-contractors of the Supplier's obligations under this Agreement, including for the following purposes:

10.1.1 to verify the integrity and content of any Financial Report;

10.1.2 to verify the accuracy of the Charges and any other amounts payable by TTL under this Agreement (and proposed or actual variations to such Charges and payments);

10.1.3 to verify the Costs (including the amounts paid to all Sub-contractors and any third party suppliers);

10.1.4 to verify the Certificate of Costs and/or the Open Book Data;

10.1.5 to verify the Supplier's and each Key Sub-contractor's compliance with this Agreement and applicable Law;

10.1.6 to identify or investigate actual or suspected fraud, impropriety or accounting mistakes or any breach or threatened breach of security and in these circumstances TTL shall have no obligation to inform the Supplier of the purpose or objective of its investigations;

10.1.7 to identify or investigate any circumstances which may impact upon the financial stability of the Supplier and/or any Key Sub-contractors or their ability to perform this Agreement;

10.1.8 to obtain such information as is necessary to fulfil TTL's obligations to supply information for parliamentary, ministerial, judicial or administrative purposes including the supply of information to the Comptroller and Auditor General;

10.1.9 to review any books of account and the internal contract management accounts kept by the Supplier in connection with this Agreement;

10.1.10 to carry out TTL's internal and statutory audits and to prepare, examine and/or certify TTL's annual and interim reports and accounts;

10.1.11 to enable the National Audit Office to carry out an examination pursuant to Section 6(1) of the National Audit Act 1983 of the economy, efficiency and effectiveness with which TTL has used its resources;

10.1.12 to verify the accuracy and completeness of any information delivered or required by this Agreement;

10.1.13 to review any Performance Monitoring Reports and/or other records relating to the Supplier's performance of this Agreement and to verify that these reflect the Supplier's own internal reports and records;

10.1.14 to inspect the IT Environment (or any part of it) and the wider service delivery environment (or any part of it);

10.1.15 to review the accuracy and completeness of the registers maintained under this Agreement (including the Registers and the Document Register);

10.1.16 to review any records created during the design and development of the Supplier System and pre-operational environment such as information relating to Testing;

10.1.17 to review the Supplier's quality management systems (including all relevant quality manuals and procedures);

10.1.18 to review the Supplier's compliance with the Standards;

10.1.19 to inspect TTL Assets, including TTL's IPRs, equipment and facilities, for the purposes of ensuring that TTL Assets are secure and that any register of assets is up to date; and/or

10.1.20 to review the integrity, confidentiality and security of TTL Data.

10.2 Except where an audit is imposed on TTL by a regulatory body or where TTL has reasonable grounds for believing that the Supplier has not complied with its obligations under this Agreement, TTL may not conduct an audit of the Supplier or of the same Key Sub-contractor more than once in any Contract Year.

10.3 Nothing in this Agreement shall prevent or restrict the rights of the Comptroller and Auditor General and/or their representatives from carrying out an audit, examination or investigation of the Supplier and/or any of the Key Sub-contractors for the purposes of and pursuant to applicable Law.

11. CONDUCT OF AUDITS

11.1 TTL shall during each audit comply with those security, sites, systems and facilities operating procedures of the Supplier that TTL deems reasonable and use its reasonable endeavours to ensure that the conduct of each audit does not unreasonably disrupt the Supplier or delay the performance of this Agreement.

11.2 Subject to TTL's obligations of confidentiality, the Supplier shall on demand provide TTL and the Audit Agents with all reasonable co-operation and assistance (and shall procure such co-operation and assistance from its Sub-contractors) in relation to each audit, including:

11.2.1 all information requested by TTL within the permitted scope of the audit;

11.2.2 reasonable access to any Supplier Sites and to any equipment used (whether exclusively or non-exclusively) in the performance of this Agreement;

11.2.3 access to the RTO System and the Supplier System; and

11.2.4 access to Supplier Personnel.

11.3 The Supplier shall implement all measurement and monitoring tools and procedures necessary to measure and report on the Supplier's performance against the applicable Performance Levels at a level of detail sufficient to verify compliance with the Performance Levels.

11.4 With the exception of the circumstances covered by paragraphs 10.1.6 and 10.1.8, TTL shall provide at least fifteen (15) Working Days' notice of its intention to conduct an audit. For the circumstances covered by paragraphs 10.1.6 and 10.1.8, TTL shall endeavour to (but is not obliged to) provide the same notice.

11.5 The Parties agree that they shall bear their own respective costs and expenses incurred in respect of compliance with their obligations under this paragraph 11, unless the audit identifies a material Default by the Supplier in which case the Supplier shall reimburse TTL for all TTL's reasonable costs incurred in connection with the audit.

12. RESPONSE TO AUDITS

12.1 If an audit undertaken pursuant to paragraph 10 identifies that:

12.1.1 the Supplier has committed a Default, TTL may (without prejudice to any rights and remedies TTL may have) require the Supplier to correct such Default as soon as reasonably practicable and, if such Default constitutes a Notifiable Default, to comply with the Rectification Plan Process;

12.1.2 there is an error in a Financial Report, the Supplier shall promptly rectify the error;

12.1.3 TTL has overpaid any Charges, the Supplier shall pay to TTL:

(a) the amount overpaid;

(b) interest on the amount overpaid at the applicable rate under the Late Payment of Commercial Debts (Interest) Act 1998, accruing on a daily basis from the date of overpayment by TTL up to the date of repayment by the Supplier; and

(c) the reasonable costs incurred by TTL in undertaking the audit,

provided that TTL may exercise its right to deduct such amount from the Charges if it prefers; and

12.1.4 TTL has underpaid any Charges, the Supplier shall be entitled to recover from TTL an amount equivalent to such underpayment.