

# **Security and Intelligence Agencies**

## **Financial Statement**

### **2002-03**

---

---



# **Security and Intelligence Agencies**

## **Financial Statement 2002 - 03**

**(For the year ended 31 March 2003)**

*Ordered by the House of Commons to be printed  
8 January 2004*

---

---

## Contents

	Page
Introduction	3
Statement of Accounting Officer's Responsibilities	4
Statement on the System of Internal Control	5
Certificate and Report of the Comptroller and Auditor General	7
The Accounting Schedules:	
Schedule 1 – Summary of Resource Outturn	8
Schedule 2 – Operating Cost Statement	10
Notes on the Accounts	11

---

## INTRODUCTION

This Statement summarises the use of resources by the Security and Intelligence Agencies for the year ending 31 March 2003. Each of the Agencies produces its own full annual resource account in accordance with the *Resource Accounting Manual* and Treasury directions but, for reasons of national security, they are not published. They are audited by the Comptroller and Auditor General and shown to the Chairman of the Committee of Public Accounts in accordance with the procedure for handling such material set down by the Secretary of State under the Intelligence Services Act, 1994. In line with these arrangements this statement comprises only a summary of resource outturn (Schedule 1) and operating costs (Schedule 2) together with appropriate notes.

## STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

The Security and Intelligence Agencies have prepared resource accounts for the year ending 31 March 2003 in accordance with the *Resource Accounting Manual*, detailing the resources acquired, held, or disposed of during the year and the use of resources by the Agencies during the year.

The individual Agency resource accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Agencies, the net resource outturn, resources applied to objectives, recognised gains and losses, and cash flows for the financial year. For reasons of national security, these accounts are not published. They are audited by the Comptroller and Auditor General and shown to the Chairman of the Committee of Public Accounts in accordance with the procedure for handling such material set down by the Secretary of State under the Intelligence Services Act, 1994.

As a consequence of these arrangements, the Treasury has directed that a consolidated account should be published in accordance with section 7 (2) of the Government Resources and Accounts Act 2000, and that this should comprise only a summary of resource outturn (Schedule 1) and operating costs (Schedule 2) together with appropriate notes.

The Treasury has appointed the Security and Intelligence Co-Ordinator and Permanent Secretary to the Cabinet Office as Accounting Officer for the consolidated account, with responsibility for preparing the financial statement and for transmitting it to the Comptroller and Auditor General.

In preparing the financial statement, the Accounting Officer is required within the limitations imposed by the interests of national security to comply with the *Resource Accounting Manual* prepared by the Treasury, and in particular to:

- i. observe the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- ii. make judgements and estimates on a reasonable basis;
- iii. prepare the accounts on a going-concern basis.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for the safeguarding of assets, are set out in the Accounting Officer's Memorandum, issued by the Treasury and published in Government Accounting.

## STATEMENT BY THE ACCOUNTING OFFICER ON THE SYSTEM OF INTERNAL CONTROL FOR THE FINANCIAL YEAR ENDING 31 MARCH 2003

1. This statement is given in respect of the Security and Intelligence Agencies' resource account summary statement. As Accounting Officer for this account, I acknowledge my responsibility for ensuring that effective systems of internal control are maintained and operated in connection with the resources concerned. Each of the Security and Intelligence Agencies (SIA) has its own Accounting Officer and my statement takes account of the separate statements they have made.

2. The system of internal control is designed to manage rather than eliminate risk of failure to achieve aims and objectives: therefore it can provide only reasonable and not absolute assurance of effectiveness.

3. The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of departmental policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. The situation is not uniform across the organisations funded from the SIA. In some cases there is a long-established culture of risk management where actions are routinely evaluated in relation to the threats to and opportunities for success: the identification and management of risk is an integral part of systems and processes used throughout these Agencies. Elsewhere, action has been taken to integrate risk management fully into planning and decision making and to embed it at all levels throughout the organisation, and this is expected to be complete by March 2004. The action taken up to March 2003 has included:

- communicating risk management policy to staff;
- embedding risk management at all organisational levels;
- incorporating risk management more fully into planning and decision processes; and
- regular reporting from managers on progress on their key objectives and risks to achieving them.

4. It is expected that the procedures needed to implement Treasury guidance will be embedded in all SIA Agencies during the accounting year ending 31 March 2004. These include:

- updating records of corporate risks;
- improving linkages between risk management at different organisational levels; and
- training in risk management.

5. Each Agency has an internal audit unit which operates to the Government Internal Audit Standards. The work of the internal audit units is informed by analyses of risk to which the Agencies are exposed. Annual internal audit plans are based on these analyses. The analyses of risk and the internal audit plans are endorsed by the Audit Committees in each Agency. At least annually, the Head of Internal Audit (HIA) provides the relevant Accounting Officer and Audit Committee with a report on internal audit activity. The report includes the HIA's independent opinion on the adequacy and effectiveness of the Agencies' systems of internal control.

6. The Cabinet Office also has an internal audit unit operating to the same standards and methods. The Cabinet Office HIA has an overview of the adequacy of the Agencies' internal audit units. He is also responsible for providing me with an independent opinion on the assurance provided by each of the Agencies' HIAs to their own Accounting Officers on the adequacy of their systems of internal control. He is able to do this by reviewing the work of the Agencies' internal audit functions in support of their assurance to their Accounting Officers.

7. My review of the effectiveness of the system of internal control is informed mainly by the statements on the systems of internal control made by the Accounting Officers of the individual Agencies, by the work of the Cabinet Office HIA, by comments made by the external auditors in the management letters and other reports to the Agencies and by the work of the managers within Cabinet Office who have responsibility for the development and maintenance of the control framework.

8. The Agencies' internal control processes identified areas where further improvements are needed. These include (but in each case only apply to a single Agency) compliance with organisational processes, management information, contract management, pay bill control, asset management, the data underpinning manpower planning, completeness of staff recruitment files and project management. Work is under way or planned to implement the required improvements.

David Omand

Accounting Officer  
12 November 2003



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

I certify that I have examined the summary financial statement on pages 8 to 11.

The Cabinet Office has prepared this financial statement in accordance with directions made by the Treasury under the Government Resources and Accounts Act 2000.

### Respective responsibilities of the Accounting Officer and the Auditor

As described at page 4, the Treasury has appointed the Security and Intelligence Co-ordinator and Permanent Secretary to the Cabinet Office as Accounting Officer for this account with responsibility for preparing the summary financial statement covering the use of resources by the Security and Intelligence Agencies and for ensuring the regularity of financial transactions. My responsibility, as independent auditor, is to report my opinion on the consistency of the summary financial statement with the full annual resource accounts produced by each of the agencies and its compliance with directions made by the Treasury.

I read the other information contained in the accompanying introduction and consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

I also review whether the statement on pages 5 and 6 reflects the Department's compliance with Treasury's guidance "Corporate Governance: statement on the system of internal control". I report if it does not meet the requirements specified by the Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my examination of the financial statement.

### Basis of audit opinion

I conducted my work in accordance with Bulletin 1999/6, "The auditor's statement on the summary financial statement", issued by the Auditing Practices Board.

The summary financial statement covers the use of resources by the Security and Intelligence Agencies. As explained in the introduction on page 3, for reasons of national security it consists solely of Schedules 1 and 2 and does not comply fully with generally accepted accounting practice or the requirements of the Resource Accounting Manual. I concur with that approach and my opinion is unqualified in that respect. The unpublished constituent resource accounts, which I audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board, are, however, fully compliant. My opinion on each of these was unqualified.

### Opinion

In my opinion the summary financial statement is consistent with the full annual resource accounts of the Security and Intelligence Agencies for the year ended 31 March 2003 and complies with the requirements of the Treasury.

*John Bourn*  
Comptroller and Auditor General

1 December 2003

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

## SCHEDULE 1

## Summary of Resource Outturn

for the year ended 31 March 2003

	2002-03			2001-02				
	Estimate		Net Total Expenditure	Outturn		Net Saving compared with Estimate	Outturn	
	Gross Expenditure	A-in-A		Gross Expenditure	A-in-A			
	<sup>1</sup>	<sup>2</sup>	<sup>3</sup>	<sup>4</sup>	<sup>5</sup>	<sup>6</sup>	<sup>7</sup>	<sup>8</sup>
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Protecting and promoting the national security and economic well being of the UK.</b>								
Administration and operational costs, research and developmental works, equipment and other payments, and associated non-cash items.								
<b>Request for Resources 1</b>	1,091,195	45,902	1,045,293	973,515	13,567	959,948	85,345	958,960
<b>Security Service and Secret Intelligence Service superannuation.</b>								
Security Service and Secret Intelligence Service superannuation								
<b>Request for Resources 2</b>	33,231	-	33,231	30,545	-	30,545	2,686	-
<b>Requests for Resources</b>	<u>1,124,426</u>	<u>45,902</u>	<u>1,078,524</u>	<u>1,004,060</u>	<u>13,567</u>	<u>990,493</u>	<u>88,031</u>	<u>958,960</u>
<b>Net Cash Requirement</b>			<u>1,059,363</u>			<u>930,392</u>	<u>128,971</u>	<u>859,932</u>
Reconciliation of Resources to Cash Requirement :								
Net Total Resources			<u>1,078,524</u>			<u>990,493</u>	<u>88,031</u>	<u>958,960</u>
Net expenditure on Fixed Assets			163,785			115,100	48,685	107,719
Accruals adjustments			(182,946)			(175,201)	(7,745)	(206,747)
<b>Net Cash Requirement</b>			<u>1,059,363</u>			<u>930,392</u>	<u>128,971</u>	<u>859,932</u>

There was only one request for resources in 2001 – 2002 and this included the superannuation costs.

**Analysis of income payable to the Consolidated Fund**

In addition to appropriations-in-aid the following income relates to the agencies and is payable to the Consolidated Fund

	2002-03 Forecast		2002-03 Outturn	
	<u>Income</u>	<u>Receipts</u>	<u>Income</u>	<u>Receipts</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Income not classified as A-in-A (CFER)				
<b>Total income payable to the Consolidated Fund</b>	<b><u>17,889</u></b>	<b><u>17,889</u></b>	<b><u>21,166</u></b>	<b><u>21,166</u></b>

**Actual outturn – resources:**

Request for Resources 1 : actual amount net resources outturn £959,947,544.80. Actual amount of savings in resources over estimate £85,345,455.20.

Request for Resources 2 : actual amount net resources outturn £30,545,451.30. Actual amount of savings in resources over estimate £2,685,548.70.

**Actual outturn – cash:**

Net Cash Requirement: Outturn net cash requirement £930,392,444.15, which is £128,970,555.85 less than estimate.

**Income Payable to the Consolidated Fund**

Receipts of £21,165,982.22 were surrenderable to the Consolidated Fund.

**Cash Drawn Down from the Consolidated Fund Not Spent**

Of the £950,357,000.00 drawn down from the consolidated fund, an amount of £19,964,555.85 was not spent. Together with amounts drawn down in prior years, but not spent of £27,173,720.32, this makes a total creditor to the consolidated fund of £47,138,276.17.

**SCHEDULE 2****Operating Cost Statement**

for the year ended 31 March 2003

	2002-03		2001-02	
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
<b>Request for Resources 1</b>				
Administration costs				
Staff Costs	296,006		314,724	
Other administration costs	212,123		205,922	
<b>Gross administration costs</b>	508,129		520,646	
Operating income	<u>(30,576)</u>		<u>(51,452)</u>	
<b>Net administration costs</b>		<b><u>477,553</u></b>		<b><u>469,194</u></b>
<b>Programme costs</b>				
Programme costs	465,386		469,009	
Income	<u>(4,157)</u>		<u>(695)</u>	
<b>Net programme costs</b>		<b><u>461,229</u></b>		<b><u>468,314</u></b>
<b>Request for Resources 2</b>				
Superannuation Costs		<u>30,545</u>		<u>-</u>
<b>Net operating cost</b>		<b><u>969,327</u></b>		<b><u>937,508</u></b>
Income not Appropriated in Aid		<u>21,166</u>		<u>21,452</u>
<b>Net Resource Outturn</b>		<b><u>990,493</u></b>		<b><u>958,960</u></b>

There was only one request for resources in 2001 – 2002 and this included the superannuation costs within staff costs.

*David Ormand*  
Accounting Officer

12 November 2003

## Notes to the Accounts

	<u>2002-03</u>	<u>2001-02</u>
	<u>£000</u>	<u>£000</u>
<b>Losses Statement</b>		
Total 99 cases (2001-2002 : 69 cases)	99	175
<b>Special Payments</b>		
Total 30 cases (2001-2002 : 60 cases)	201	426

In addition to the above, as disclosed to the Intelligence and Security Committee early in 2003, GCHQ confirmed the planned write off of a developmental Signals Intelligence system that only partly delivered the intended capability.

---





Published by TSO (The Stationery Office) and available from:

**Online**

[www.tso.co.uk/bookshop](http://www.tso.co.uk/bookshop)

**Mail, Telephone, Fax & E-mail**

TSO

PO Box 29, Norwich NR3 1GN

Telephone orders/General enquiries 0870 600 5522

Fax orders 0870 600 5533

Order through the Parliamentary Hotline Lo-call 0845 7 023474

E-mail [book.orders@tso.co.uk](mailto:book.orders@tso.co.uk)

Textphone 0870 240 3701

**TSO Shops**

123 Kingsway, London WC2B 6PQ

020 7242 6393 Fax 020 7242 6394

68-69 Bull Street, Birmingham B4 6AD

0121 236 9696 Fax 0121 236 9699

9-21 Princess Street, Manchester M60 8AS

0161 834 7201 Fax 0161 833 0634

16 Arthur Street, Belfast BT1 4GD

028 9023 8451 Fax 028 9023 5401

18-19 High Street, Cardiff CF10 1PT

029 2039 5548 Fax 029 2038 4347

71 Lothian Road, Edinburgh EH3 9AZ

0870 606 5566 Fax 0870 606 5588

**The Parliamentary Bookshop**

12 Bridge Street, Parliament Square,

London SW1A 2JX

Telephone orders/General enquiries 020 7219 3890

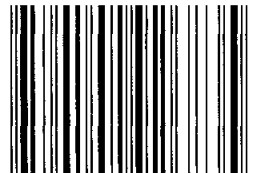
Fax orders 020 7219 3866

**TSO Accredited Agents**

(see Yellow Pages)

*and through good booksellers*

ISBN 0-10-292683-2



9 780102 926835