

Presented pursuant to the Government Resources and Accounts Act 2000 c.20, s.6 (4)

Security and Intelligence Agencies

Financial Statement 2009-10

(For the year ended 31 March 2010)

LONDON: The Stationery Office
HC 303

19 July 2010
£5.75

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ISBN: 9780102969115

Printed in the UK by The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office

ID P002386192 08/10

Printed on paper containing 75% recycled fibre content minimum.

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Introduction

This Statement summarises the use of resources by the Security and Intelligence Agencies for the year ending 31 March 2010. Each of the Agencies produces its own full annual resource account in accordance with the Government Financial Reporting 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 Statement of Parliamentary Supply, Operating Cost Statement together with appropriate notes and a Statement on Internal Control.

Statement of Accounting Officer's Responsibilities

The Security and Intelligence Agencies have prepared resource accounts for the year ending 31 March 2010 in accordance with the Government Financial Reporting 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 department and of its net resource outturn, resources applied to objectives 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 5 (2) of the Government Resources and Accounts Act 2000, and that this should comprise only a Statement of Parliamentary Supply and Operating Cost Schedule together with appropriate notes.

The Treasury has appointed the National Security Adviser as Accounting Officer for the consolidated account, with responsibility for preparing the financial statement and for transmitting it to the Comptroller and Audit 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 Government Financial Reporting Manual prepared by the Treasury, and in particular to:

- i. observe the Accounts Direction issued by the Treasury, including 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. state whether applicable accounting standards as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the accounts; and
- iv. 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 the Accounting Officer is answerable, for keeping proper records and for safeguarding the Security and Intelligence Agencies' assets, are set out in the Accounting Officer's Memorandum issued by the Treasury and published in *Managing Public Money*.

Statement on Internal Control

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Security and Intelligence Agencies' policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *Managing Public Money*. Each of the Security and Intelligence Agencies has its own Accounting Officer (AO) and my statement takes account of the separate statements they have made.

The agencies' Accounting Officers report annually on the work of their service to the Prime Minister and the appropriate Secretary of State. There are well-established arrangements for seeking Ministerial clearance for operations when required. They ensure that the appropriate Secretary of State is briefed on matters that could become the subject of Parliamentary interest or public controversy and on issues which they need to be aware of in discharging their wider Ministerial responsibilities. They also report regularly to me as the Principal Accounting Officer (PAO) for the Single Intelligence Account (SIA). I advise Ministers on matters concerning the SIA as a whole. Oversight by Parliament is provided by the Intelligence and Security Committee (ISC).

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Security and Intelligence Agencies for the year ended 31 March 2010 and up to the date of approval of each of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

The effective management of risk is embedded in all processes and at all levels of the Security and Intelligence Agencies. All business units or departments within the Agencies must produce and maintain accurate risk registers and risk maps which in turn inform corporate risk registers. These high level strategic risk registers and risk maps form integral elements of the Agency Management Boards' planning and performance management systems. It informs, among other things: threat assessment; corporate and strategic planning; operational decision making; programmes and projects of all sizes; assessment of external risks and business continuity arrangements; and health, safety and welfare policy and practice. The Accounting Officer (Head) of each Agency takes personal responsibility for an appropriate risk management process for each organisation.

The risk and control framework

Each of the Agencies' main Boards supports the individual accounting officers in leading and managing corporate governance within their Agency.

The key elements of the agency frameworks include:

- Individual agency Risk Registers reviewed and updated regularly by their main Boards with individual ownership and management of risks assigned to specific board members;
- Agency plans and programmes aligned with key organisation risks and aligned with priorities identified by the Board;
- Board sub-committees where key risk areas are considered in more detail;
- Clear definitions of strategic, corporate and operational levels of risk;

- Risk management at lower levels of the Agencies controlled through the operation of programme management to identify, review, monitor and report on risks and the adoption of best practice; and
- Clearly defined fraud policies and fraud response plans.

Review of effectiveness

As Principal Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the SIA who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letters and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the agency Accounting Officers and they have been advised by their agency boards and Audit and Risk committees. I am also briefed by my SIA support team who have reviewed in detail the full, unpublished, versions of the individual Agency Statements on Internal Control. Additional scrutiny and challenge will be undertaken by my deputy in the remainder of this financial year. Plans to address weaknesses and ensure continuous improvement of the system are in place.

Each of the Agencies' Boards receives annual statements of management assurance provided by Directors identifying significant difficulties or impacts during the year and an explanation of areas of non-compliance. The Boards also undertake reviews of the effectiveness of a number of key activities and the associated risks. There are a number of areas which have been subjected to tests of effectiveness covering (each case only applies to a single agency): corporate planning, financial management; asset management; risk management; health, safety and wellbeing; information management; data handling; people management and hospitality; security; business continuity; programme and project management; procurement; and legal compliance.

Each Agency has an internal audit function which operates to the Government Internal Audit Standards. The work of Internal Audit is informed by analyses of risk to which the agencies are exposed. Annual internal audit plans are based on these analyses. The examination 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.

Information Security

Risk to SIA information and personal data is managed in accordance with national security policies, primarily the Security Policy Framework and the STRAP manual. The SIA's contractors are briefed on, and required to operate within, the same policy framework and to the same standards.

The reviews of portable information, removable media and devices have identified areas of weakness and new procedures and processes are being, and have been, implemented across the agencies to mitigate and avoid risk in relation to information security.

For reasons of National Security no further disclosure is included in this statement.

Sir Peter Ricketts
Accounting Officer
13 July 2010

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

I certify that I have examined the Financial Statement of the Security and Intelligence Agencies for the year ended 31 March 2010 under the Government and Resources Act 2000. This comprises the Statement of Parliamentary Supply and Operating Cost Statement and the related notes.

Respective responsibilities of the Accounting Officer and Auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the National Security Adviser as Principal Accounting Officer is responsible for preparing the consolidated Financial Statement and for ensuring the regularity of transactions. My responsibility is to audit the Financial Statement in accordance with applicable law and 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 Statement is free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Agencies' circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Agencies; and the overall presentation of the Financial Statements. My audit of the consolidated Financial Statement also includes verification that the underlying accounts have been appropriately and consistently consolidated.

In addition I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the Financial Statement have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

The Financial Statement discloses the use of resources by the Security and Intelligence Agencies. As explained in the introduction, for reasons of national security it consists solely of a Statement of Parliamentary Supply and an Operating Cost Statement and does not comply fully with International Financial Reporting Standards or the Government Financial Reporting Manual. The unpublished constituent resource accounts, which I audit in accordance with International Standards on Auditing (UK and Ireland), are, however, fully compliant. My opinion on each of these is unqualified.

Opinion on Regularity

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

Opinion on the Financial Statement

In my opinion:

- the Financial Statement properly presents the net cash requirement, net resource outturn, and net operating cost of the Security and Intelligence Agencies, for the year ended 31 March 2010;
- the Financial Statement has been properly prepared in accordance with the HM Treasury direction issued under the Government Resources and Accounts Act 2000; and
- the Financial Statement is consistent with the full unpublished audited resource accounts of the individual Security and Intelligence Agencies for the year ended 31 March 2010.

Matters on which I report by exception

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

- adequate accounting records have not been kept; or
- the Financial Statement is 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 Statement on Internal Control does not reflect compliance with HM Treasury guidance.

Report

I have no observations to make on the Financial Statement.

Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
LONDON SW1W 9SP

14 July 2010

STATEMENT OF PARLIAMENTARY SUPPLY

for the year ended 31 March 2010

Summary of Resource Outturn 2009-10**Protecting and promoting the national security and economic well being of the UK.**

Administration and operational costs, research and developmental works, equipment and other payments, and associated non-cash items.

| | Estimate | | | Outturn | | | 2009-10 Net Total Saving Compared with Estimate : saving/ (excess) £000 | 2008-09 Outturn £000 | |
|--|------------------------------|----------------|----------------------|------------------------------|----------------|----------------------|---|---|----------------------------|
| | Gross Expenditure £000 | A-in-A £000 | Net Total £000 | Gross Expenditure £000 | A-in-A £000 | Net Total £000 | | | |
| Request for Total Resources | 2,027,176 | -148,104 | 1,879,072 | 1,988,567 | -147,144 | 1,841,423 | 37,649 | 1,647,503 | |
| Non operating Appropriations in Aid | - | - | 44,042 | - | - | 44,042 | - | 1,031 | |
| Net Cash Requirement 2009-10 | | | | | | | | | |
| | | | Estimate £000 | | | Outturn £000 | | 2009-10 Net Total Saving Compared with Estimate : saving/ (excess) £000 | 2008-09 Outturn £000 |
| Net Cash Requirement | | | 1,936,680 | | | 1,872,774 | 63,906 | 1,762,421 | |

Summary 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 (cash receipts being shown in italics)

| | 2009-10 Forecast | | 2009-10 Outturn | |
|--|------------------|------------------|-----------------|---------------------|
| | Income £000 | Receipts £000 | Income £000 | Receipts £000 |
| Total | - | - | 4,699 | <i>1,950</i> |
| Total income payable to the Consolidated Fund | | | <u>4,699</u> | <u><i>1,950</i></u> |

OPERATING COST STATEMENT

for the year ended 31 March 2010

| | 2009-10 | | 2008-09 | |
|-----------------------------------|------------------|-------------------------|-------------------|-------------------------|
| | £000s | £000s | Restated £000s | £000s |
| Request for Resources 1 | | | | |
| Administration costs | | | | |
| Staff costs | 57,960 | | 53,974 | |
| Other administration costs | <u>34,473</u> | | <u>35,991</u> | |
| Gross administration costs | 92,433 | | 89,965 | |
| Operating income | <u>(12,895)</u> | | <u>(10,455)</u> | |
| Net administration costs | | 79,538 | | 79,510 |
| Programme costs | | | | |
| Staff costs | 607,712 | | 564,647 | |
| Other programme costs | <u>1,288,422</u> | | 1,106,554 | |
| Gross programme costs | 1,896,134 | | 1,671,201 | |
| Operating Income | <u>(136,884)</u> | | <u>(102,901)</u> | |
| Net programme costs | | <u>1,759,250</u> | | <u>1,568,300</u> |
| Net Operating Cost | | <u>1,838,788</u> | | <u>1,647,810</u> |

Sir Peter Ricketts
Principal Accounting Officer
13 July 2010

Notes to the Accounts

for the year ended 31 March 2010

1. Statement of accounting policies

This is the consolidated Financial Statement of the individual Security and Intelligence Agencies. The individual agency accounts have been prepared in accordance with the 2009-10 *Government Reporting Manual (FReM)* issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be the most appropriate to the particular circumstances of the SIA for the purpose of giving a true and fair view has been selected.

2. First-time adoption of IFRS

| | | |
|--|--|------------------|
| | | £000 |
| Net operating cost for 2008-09 under UK GAAP | | 1,646,567 |
| Adjustments for: | | |
| <i>Applicable IFRS</i> | | 1,243 |
| Net operating cost for 2008-09 under IFRS | | 1,647,810 |

3. Reconciliation of Net Resource Outturn to Net Operating Cost

| | | | 2009-10 Net Total Saving Compared with | 2008-09 |
|-----------------------------------|-----------|--------------------|---|-----------|
| | Outturn | Supply Estimate | Estimate : saving/ (excess) | Outturn |
| | £000 | £000 | £000 | £000 |
| Net Resource Outturn | 1,841,423 | 1,879,072 | 37,649 | 1,647,503 |
| Prior IFRS adjustments | | | | 1,243 |
| Non-supply income (CFERs) | -2,635 | 0 | 2,635 | -936 |
| Net Operating Costs | 1,838,788 | 1,879,072 | 40,284 | 1,647,810 |

4. Reconciliation of Net Resource Outturn to Net Cash Requirement

| | Estimate | Outturn | 2009-10 Net Total Saving Compared with Estimate : Saving/ (Excess) | 2008-09 Outturn |
|---------------------------------|------------------|------------------|---|--------------------|
| | £000s | £000s | £000s | £000s |
| Net Total Resources | 1,879,072 | 1,841,423 | 37,649 | 1,647,503 |
| Net expenditure on Fixed Assets | 356,000 | 346,274 | 9,726 | 320,954 |
| Accruals adjustments | (298,392) | (314,923) | 16,531 | (206,036) |
| Net Cash Requirement | <u>1,936,680</u> | <u>1,872,774</u> | <u>63,906</u> | <u>1,762,421</u> |

In line with HM Treasury advice, Prior Year Adjustments (PPAs) arising from the adoption of IFRS were not included in Spring Supplementary Estimates for 2009-10 on the basis that the PPA numbers could have been misleading, particularly where transactions may well have pre-dated the 2001-02 cut-off point for reporting PPAs, as only part of an obligation would have been included. PPAs arising from a change in accounting policy related to other than IFRS were included in the Estimates in line with conventional arrangements.

5. Losses and Special Payments

| | 2009-10 No. Of cases | 2009-10 £000 | 2008-09 No. Of cases | 2008-09 £000 |
|-------------------------|----------------------------|-----------------|----------------------------|-----------------|
| Losses | | | | |
| Total | 88 cases | 854 | 144 cases | 2,622 |
| Special payments | | | | |
| Total | 46 cases | 222 | 62 cases | 565 |



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ISBN 978-0-10-296911-5



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