
National Fraud Strategic Authority

Annual Report and Resource Accounts

(From 1 October 2008 to 31 March 2009)

National Fraud Strategic Authority

An Executive Agency of the Attorney General's Office

Annual Report and Resource Accounts 2008-2009

**On 1 April 2009 we change our name to the
National Fraud Authority**

Presented to Parliament in pursuance of the Government
Resources and Accounts Acts 2000

*Ordered by the House of Commons to be printed
on 14 July 2009*

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Chief Executive's foreword

The National Fraud Authority (NFA) was formally established as an executive agency of the Attorney General's Office on 1 October 2008, a part of the Government's Response to the Fraud Review.

Following public consultation, the Fraud Review recommended a Government-led and co-ordinated approach between the private and public sectors was essential to make any significant impact on reducing the fraud economy. It also recommended a move from a reactive to proactive approach in the continuing fight to combat fraud.

The key to success of the co-ordinated approach will be to establish a network of stakeholders, bringing together various private sector, regulatory and enforcement agencies to work together to tackle the fraud threats which are likely to have a significant impact on the UK economy.

The most significant milestone during this period was the development of the National Fraud Strategy, launched on 19 March 2009 after consultation with organisations across both the public and private sector. The Strategy provides a clear and structured work programme with the aim of reducing the harm caused by fraud and increasing the risk for the fraudster. This work programme will be undertaken with our delivery partners across all sectors. The NFA will play a range of key roles: facilitating engagement and information-sharing; managing delivery performance; co-ordinating and delivering a range of activities that will strengthen both the counter-fraud infrastructure and public awareness of the fraud threat.

The next twelve months will see further significant developments as the NFA builds to a full complement of staff and focuses on a series of priority projects as set out in the NFA Business Plan 09/10.

The aim of the NFA going forward is to make the UK a hostile environment for the fraudster and I am committed to working with my colleagues and with our partners in the public and private sectors to make this a reality.

Dr Bernard Herdan CB
Chief Executive
National Fraud Authority

3 July 2009

Management Commentary

The creation of the National Fraud Authority forms part of the Government's national response to combating fraud.

The fraud threat is evolving as criminals adapt to interventions. No-one is immune from the criminal ingenuity of fraudsters; the speed at which they move and adapt makes them a formidable force to combat.

Fraudsters create devastating effects for individuals and businesses, causing a range of financial and emotional suffering which has often remained unrecognised.

The threats created by fraudsters are serious and real. Serious and organised crime groups are behind much fraudulent activity across the world. Funds generated by fraud are being used to support and expand other serious criminal activity such as people and drug trafficking. Fraud has also featured in terrorist cases both in the UK and abroad.

The Fraud Review was commissioned in October 2005 by the then Attorney General and Chief Secretary. A cross-cutting interdepartmental team conducted a wide ranging and holistic review of fraud in England and Wales, making some 62 recommendations in July 2006. The review proposed that public and private sector counter-fraud work should be co-ordinated nationally under Government leadership; with the development and delivery of a national fraud strategy to be informed by proper measurement of the impact and harms caused by fraud.

Following public consultations, the Government Response in March 2007 announced that seven key groups of recommendations would be taken forward and considered as part of the 2007 Comprehensive Spending Review (CSR). Seven joint public/private working groups were appointed by the then Attorney General to prepare detailed business plans and budgets; the establishment of the National Fraud Authority was the objective of one of the seven working groups.

Funding for the NFA was formally agreed in October 2007 for the three years (2008-09, 2009-10 and 2010-11) and the process for setting up the Agency began.

The NFA has, during its development stage, and the first six months of operation (October 2008–March 2009) delivered tangible benefits. It has:

- Co-ordinated developed and launched the UK's first National Fraud Strategy in partnership with 28 public, private and trade bodies. This delivers a key recommendation of the Government's most comprehensive review of fraud.
- Established a radical overhaul of the Government's delivery framework on fraud. New structures that bring Ministers and key agencies together mean that the UK is now better equipped to review progress and direct reform on fraud.
- Launched a number of projects to identify the strategic challenges in addressing the fraud problem and built joined-up projects to tackle these.
- Established a national Mortgage Fraud Taskforce, bringing lenders, law enforcement, regulators and public bodies together. Initiatives under this project have led to new guidance for industry; action to remove corrupt mortgage brokers and increased data-sharing to spot and stop fraudulent applications.

Vision and Mission

The NFA's Vision is of a UK safe from the harm caused by fraud.

Our Mission is to work collectively across the counter fraud sector in order to build a more hostile environment for fraudsters.

The five key areas that are needed to help realise these:

- Tackling the key threats that pose greatest harm to the UK
- Acting effectively to pursue fraudsters, hold them to account and improve the support available to victims
- Reduce the UK's exposure to fraud by building the nation's capability to prevent it
- Targeting action against fraud more effectively by building, sharing and acting on knowledge
- Securing the international collaboration necessary to protect the UK from fraud.

Main activities of the NFA

During the year our main activities have been:

To develop a comprehensive counter fraud strategy based on agreed national priorities.

To oversee the delivery of this strategy by:

- Identifying and managing strategic gaps, risks and dependencies across the delivery programme
- Challenging the performance of others delivering the programme of work
- Identifying, tracking and communicating the realisation of benefits
- Taking the lead on resolution of disputes relating to the delivery of the programme
- Taking the lead on removing barriers to effective joint action
- Identifying and removing duplication of effort across delivery bodies
- Identifying when resources need to be re-allocated across the programme to deliver against the priorities more effectively

Relationship with the sponsor department

A Framework Document was agreed between the Attorney General and the NFA in September 2008. It sets out the responsibilities of the NFA and the key policies within which it will operate.

The NFA Management Board

A management board was not in place during 2008/09. The senior executives listed in the remuneration report, with Sandra Quinn as interim Chief Executive were responsible for setting up the organisation and putting in place governance and internal control arrangements.

The NFA Board was set up in April 2009 and is chaired by Dr Bernard Herdan CB, Chief Executive. The Board has ten members, including two non-executive directors.

The Board has responsibility for establishing the NFA's strategic direction, including its mission, vision, values, strategic objectives and corporate governance arrangements. It also oversees the management of staff, finance, information and physical resources.

Board meetings commenced in April 2009 and are held monthly. In the absence of the CEO, the deputy will chair proceedings and a quorum of four members must be present. Other members of the NFA will attend meetings for particular agenda items.

Audit and Risk Committee

During 2008-09, the SFO's Audit and Risk Committee agreed to act for the NFA as an interim measure. The membership of the Committee comprises three non-executive directors and an assistant director. It is directly supported by the chief executive, chief operating officer, head of corporate services and the internal and external auditors. The Committee has clearly defined terms of reference, which are reviewed annually.

The Agency is in the process of setting up its own Audit and Risk Committee.

It has appointed HM Revenue and Customs Internal Audit Unit to provide internal audit services.

Data and Data Security

The NFA has given consideration to Cabinet Office guidance on Reporting of Personal Data Related Incidents. It complies with the Security and Acceptable Use Policy set by the Attorney General's Office. The NFA report any incidents to the Attorney General's Office, the incidents that fall within this guidance are reported to the Cabinet Office and Information Commissioner's Office. The NFA is satisfied that there have been no such incidents.

Business Plan

The NFA has produced Business Plans and identified key risks for inclusion in its risk register. The risk register is reviewed on a regular basis by both the Board and the Audit and Risk Committee. It includes financial risks to its objectives and policies and identifies the level of exposure.

Future Developments

The NFA Business Plan for 2009/10 sets out the range of activities that NFA will be pursuing in the year ahead. This includes its operational plan to drive forward work on 14 or more key projects; in partnership with the counter-fraud community and in order to improve fraud prevention, detection and deterrence arrangements.

During 2008/09, NFA's staffing base was almost exclusively made up of interims, contractors and secondees. A key activity for 2009/10 is to recruit up to 54 staff and within this to build a much higher proportion of permanent staffing to provide for effective business continuity and knowledge retention.

Relationships with key stakeholders

The Agency has a good working relationship with its sponsoring department and its many partners in the public and private sectors.

Diversity

The NFA operates an Equal Opportunities Recruitment policy. It encourages active involvement from all staff members and continues to engender positive two-way communication channels.

Environmental policy and sustainability

NFA's business provides limited opportunity to subscribe directly to wider environmental policy formulation and to the Sustainable Development in Government initiative. The Agency is developing a Green Housekeeping Policy and all staff are encouraged to be energy efficient. We currently recycle paper and toner cartridges and seek to purchase environmentally friendly goods wherever possible.

The Law Officers' Departments have developed a Sustainable Development action plan and all departments will work to:

- comply with relevant environmental legislation;
- minimise waste by reducing and reusing; maximising recycling opportunities;
- conserve energy, water and other natural resources;
- reduce carbon emissions from buildings and business related travel;
- reduce the usage of paper and office consumables; and
- Introduce better procurement of sustainable goods and services.

Social/community issues

The Agency works closely with the local community whenever it can.

Going Concern Basis

The activities of the NFA are financed by the Supply Estimate process and sits within the Vote Structure of the Serious Fraud Office (SFO). The SFO also provide transactional services for the payment of all NFA invoices. The Balance Sheet shows net liabilities of £855k which relate to accruals plus creditors less fixed assets. The creditors and accruals will be paid in full based on NFA's 2008/09 resource budget. NFA was allocated funding by the Comprehensive Spending Review 2007, which covers the period 2008-11. Therefore it is considered appropriate to adopt a going concern basis for the preparation of these financial statements.

Payment of suppliers

The SFO pay all supplier invoices on behalf of the NFA. The NFA policy for 2008-09 was to pay undisputed invoices within 30 days of receipt. It is not possible to disclose NFA-specific payment performance as it uses the Serious Fraud Office (SFO's) accounting system which does not allow for payment performance analysis by cost centre. Going forward, NFA is planning to deliver a 10 day payment target.

Post Balance Sheet Events

Other than what has been disclosed in this Report & Accounts on activity and developments during 2009/10, there are no post balance sheet events to disclose.

External audit arrangements

The Comptroller and Auditor General is the external auditor of the NFA. The notional audit fee for the period of these accounts was £25,000.

As Accounting Officer, I am also able to disclose the following:

- As far as I am aware, there is no relevant audit information of which the NFA auditors are not aware; and
- I have taken all steps that ought to have been taken in order to make myself aware of any relevant audit information, and also to ensure that the NFA's auditors are aware of that information.

Dr Bernard Herdan CB
Chief Executive and Accounting Officer
National Fraud Authority

3 July 2009

Remuneration Report

Policy

The Attorney General appoints the Chief Executive and sets the salary in accordance with the Review Body on Senior Salaries taking account of the skills and experience required.

Other Senior Civil Servants will be appointed by the Chief Executive in agreement with the Attorney General and salaries set in accordance with Cabinet Office guidance on SCS Reward, Benefits and Recruitment. The NFA is currently conducting a Job Evaluation for Senior Posts to ensure there is a consistent basis for comparing the relative value of jobs within and across Departments.

Senior Official Appointments

Dr Bernard Herdan CB was appointed as Chief Executive by the Attorney General on a two year contract commencing on 1 April 2009, he succeeded Sandra Quinn who was the Interim Chief Executive of the NFA during the period covered by these accounts.

Sandra Quinn was appointed Interim Chief Executive in June 2008 and left the NFA on the 31 March 2009. Sandra joined the Attorney General's Office in May 2007 on secondment from the Financial Services Authority (FSA).

Salaries, emoluments and pension entitlements of the Board (audited)

The NFA did not employ any Senior Civil Servants during the period of these financial statements. The Interim Chief Executive, Sandra Quinn, was on secondment from the Financial Services Authority. The senior managers that assisted her were also interim staff either on secondment or provided through recruitment agencies. There are no ongoing pension costs attributable to those individuals, and therefore the Remuneration Report does not include any pension tables. The costs payable to organisations/suppliers for the services of the individuals listed below (including Recruitment Agency and other on-costs) were:

| Name | Position | From | To | Supplier | Amount |
|---------------------------|--------------------------------|-------------|-----------|--|----------|
| Sandra Quinn ¹ | Interim Chief Executive | 01 Jun 08 | 31 Mar 09 | FSA (Secondment) | £91,666 |
| Rachel Block | HR Director | 16 Apr 08 | 31 Jan 09 | Alpine Consortium | £91,388 |
| Joy Lincoln | Finance Director | 01 April 08 | 31 Dec 08 | Allen Lane Financial Recruitment Consultants | £122,525 |
| Michael Schindler | Chief Operating Officer | 05 Jan 09 | 31 Mar 09 | Adecco Resources | £45,290 |
| Adam Morris | Head of Engagement | 01 Apr 08 | 31 Mar 09 | Spring Technology | £140,696 |
| Sean Byrne | Head of Prevention and Threats | 01 Apr 08 | 31 Mar 09 | HM Treasury | £75,068 |

Note 1 The costs for Sandra Quinn include £6,666 which relate to secondment costs during April and May prior to her official appointment.

As all the above staff were Agency/contractor or seconded staff, notice periods and termination payments do not apply.

The above table has been subject to audit

Non-Executive Directors

Stephen Barratt and Alison Porter were appointed on 01 April 2009.

Service Contracts

Civil Service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointments to be on merit on the basis of fair and open competition, but also includes the circumstances when appointments may otherwise be made.

Unless otherwise stated, the officials covered by this report hold fixed term contracts of up to two years. Early termination for any appointments that are open-ended, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Further information about the work of the Civil Service Commissioners can be found at www.civilservicecommissioners.gov.uk.

Salary

Salary includes gross salary, performance pay or bonuses, overtime, reserved rights to London weighting or London allowances, recruitment retention allowances, private office allowance and any other allowance to the extent that it was subject to UK taxation.

Benefits in Kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by HM Revenue and Customs as a taxable emolument. No benefits in kind were received in this period.

Civil Service Pensions

Information on the Civil Service pension arrangements can be found at the website www.civilservice-pensions.gov.uk.

Dr Bernard Herdan CB
Chief Executive and Accounting Officer
National Fraud Authority

3 July 2009

Statement of Accounting Officer's Responsibilities

Under section 7(2) of the Government Resources and Accounts Act 2000, HM Treasury have directed the National Fraud Authority to prepare for each financial year accounts, in the form and on the basis set out in the Accounts Direction in the Dear Accounting letter DAO(GEN)07/08.

The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Agency, the income and expenditure, recognised gains and losses and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- Observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- Make judgments and estimates on a reasonable basis;
- 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
- Prepare the accounts on a going-concern basis.

The Attorney General formally assigned the Director of the Serious Fraud Office (SFO) as Principal Accounting Officer of the National Fraud Authority. The Director of the SFO has designated the Chief Executive of the National Fraud Authority as Additional Accounting Officer.

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 Agency's assets, are set out in Managing Public Money guidance.

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 NFA's targets, aim and objectives whilst safeguarding the public funds and Agency assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Managing Public Money.

The NFA's Board, which was introduced in April 2009, is responsible for ensuring that the Agency properly discharges its functions and receives assurance on its risk and internal control arrangements from its Audit and Risk committee. The Audit and Risk Committee has complete access to any aspects of NFA's control arrangements.

The NFA's Board is also responsible for ensuring there is no infringement upon the requirements of propriety or regularity or upon my wider responsibility for value for money.

During 2008/09, the senior executives listed in the Remuneration Report operated in effect as a senior team; being responsible for setting up the organization, developing its governance, risk and internal control arrangements, and delivering its key activities.

In the early part of 2008/09, the organisation designed and implemented the necessary internal controls. The controls follow best practice, and have been reviewed by Internal Audit. They are still relatively new and will be reviewed and developed where necessary.

During its first year of operation the NFA introduced some Standard Operating Procedures. These procedures will be reviewed and amended, when necessary, throughout 2009/10 to ensure the integrity of such procedures.

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 the risk of failure to achieve policies, aim 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 principal risks to the achievement of the NFA's policies, aim 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 will continue to be developed during the year ended 31 March 2010 as outlined above and in accordance with HM Treasury requirements.

Capacity to handle risk

The first six months of year ended 31 March 2009 was focused on designing the Agency's processes and putting in place the necessary Corporate Governance policies and procedures, in particular dealing with Human Resources, Communications and Financial Strategies. This was managed as a formal Implementation Programme, which recognised and managed the associated risks. The Programme was led by the Interim Chief Executive with direct assistance from the Head of Programme Office. The Heads of all business units and other staff have had clear leadership roles in each of the major project strands.

Where appropriate the NFA has and will use professional Project Management staff who will provide training and guidance to NFA staff where required.

The NFA has developed a Risk Register which is reviewed monthly and updated as necessary. Each risk has an owner and is classified by probability, impact and RAG rating, it also records the mitigation action required and by when.

The Risk and Control Framework

Risk management forms part of the operating environment of the NFA. There is a risk management strategy, which is reviewed periodically. Each executive board member has responsibility for risk and mitigation in their respective areas of responsibility as well as corporately. There is a regular review of the risk register, and risk assessment is part of project methodology employed by project sponsors and managers in their plans.

The Audit Committee reviews the risk strategy and risk register as a standing agenda item and receives reports on the effectiveness of risk management processes and systems.

During the set-up process the NFA has established a framework of procedures that cover all aspects of the conduct of business including:

- Annual budgets for each work stream which are examined and challenged, and then approved by the Management Board;
- regular reviews by the Management Board of in-year expenditure against the budgets and forecasts, for the year ended 31 March 2009 this review was conducted by the senior managers;
- setting targets to measure achievement of objectives;
- The application of formal project management disciplines, as appropriate;
- A Finance Manual was drafted and reviewed by Internal Audit and is available to all staff.
- Monthly financial reports are provided to the Attorney General's Office and the Board (from April 2009), setting out expenditure to date and forecast for full financial year against its annual resource allocations.
- the Management Board (set up in April 2009) has clear terms of reference and defined memberships, including two independent non-executive members, which meets monthly to consider the strategic and operational direction of the NFA;
- for year ended 31 March 2009 the membership of the NFA's Audit Committee comprised the three Non-Executive Directors and an operational Assistant Director of the Serious Fraud Office. The Committee met four times and was supported by the Chief Executive, Head of Finance, Chief Operating Officer and internal and external auditors;
- for the year ended 31 March 2010 the membership of the Audit and Risk Committee will comprise the two Non-Executives and a Non-Executive Director of the Serious Fraud Office who is the chair. It will meet three times a year and be supported by the Chief Executive, Chief Operating Officer and the Head of Corporate Services;
- NFA's internal audit service is provided by HM Revenue and Customs. They conduct an annual programme of specific reviews drawn up on a risk analysis basis, agreed by the Audit Committee and the Management Board;
- Detailed guidance on standards of behaviour and conduct, including a clear corporate policy to combat fraud;
- Clear structure of delegated responsibility; and
- Framework of financial regularity and propriety.

Assurance arrangements in place in the NFA include:

- regular reports by the internal auditors in line with the Government Internal Audit Standards, which include the Head of Internal Audit's assurance on the overall adequacy and effectiveness of the NFA's systems for risk management, control and governance, together with any recommendations for improvement;
- Regular reports which are distributed to the Management Board, on operational, financial, staffing and IT issues and performance;
- Improved business and strategic planning processes;
- Periodic reports to myself and to the Management Board from Audit Committee Chair, who is an independent non-executive director, and
- Advice on the effectiveness of the system of internal control by the Board, Audit Committee and senior managers.

Data Handling and Information Risk

The NFA complies with the Security and Usage Policy of the Attorney General's Office and encryption software has been installed on all laptops. The NFA continues to work closely with the Attorney General's Office to develop and improve our security procedures.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the work of the internal auditors and the executive managers within the NFA who have responsibility for the development and maintenance of the internal control framework. I also take into account the management letters and other reports by the external auditors. I have been advised by Internal Audit of the effectiveness of internal controls and a plan to address weaknesses and ensure continuous improvement of the system is in place.

Significant internal control problems

There were no significant control problems during the year; however the internal controls are relatively new and will be reviewed and amended when necessary as the business develops and evolves. The NFA will ensure during the year ending 31 March 2010 that it has robust and accurate financial management and planning information systems. The Chief Executive will ensure that the NFA has a proactive budgeting discipline and adequate reviews, and accurate, relevant and timely monthly management accounts. These will further improve our financial management and increase support for delegated budget holders, thus better informing our management of resources and ability to respond and make effective decisions.

The annual opinion of Internal Audit, based on their work undertaken during 2008/09, was that whilst areas for improvement have been identified and recommendations made accordingly, none significantly impact on the overall adequacy and effectiveness of risk management, control and governance. The Head of Internal Audit concluded that, during 2008/09, reasonable assurance could be placed on NFA's risk management, control and governance arrangements.

Dr Bernard Herdan CB
Chief Executive and Accounting Officer
National Fraud Authority

3 July 2009

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

I certify that I have audited the financial statements of National Fraud Authority for the year ended 31 March 2009 under the Government Resources and Accounts Act 2000. These comprise the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Agency, the Chief Executive and auditor

The Agency and Chief Executive, as Accounting Officer, are responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, the information, which comprises the Management Commentary, included in the Annual Report, is consistent with the financial statements. I also report whether 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.

In addition, I report to you if the Agency has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Agency's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the unaudited part of the Remuneration Report and the Chief Executive's Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Agency and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Agency's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that 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. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Agency's affairs as at 31 March 2009, and of the net operating cost, recognised gains and losses and cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- Information, which comprises the Management Commentary, included within the Annual Report, is consistent with the financial statements.

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.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General

National Audit Office
151 Buckingham Palace Road
Victoria
London SW1W 9SS

17 July 2009

Operating Cost Statement
for the year ended 31 March 2009

| | Note | Staff Costs | Other Costs | 2008-09 Income |
|---------------------------|------|----------------|----------------|-------------------|
| | | £000 | £000 | £000 |
| Programme Costs | | | | |
| Staff Costs | 2 | 1,458 | | |
| Other programme costs | 3 | | 936 | |
| Income | | | | – |
| Totals | | 1,458 | 936 | – |
| Net Operating Cost | | | | 2,394 |

All activities are continuing. There were no other gains and losses in the period.

The notes on pages 18 to 25 form an integral part of the financial statements.

Balance Sheet

as at 31 March 2009

| | Note | <u>£000</u> | <u>2008-09</u> <u>£000</u> |
|--|------|--------------|-------------------------------|
| Fixed Assets: (to be confirmed) | | | |
| Tangible assets | 4 | 28 | |
| Intangible assets | | <u>–</u> | |
| | | | 28 |
| Debtors falling due after more than one year | | | |
| Current Assets: | | | |
| Debtors | 5 | – | |
| Cash at bank and in hand | 1.6 | <u>–</u> | |
| | | – | |
| Creditors (Amounts falling due within one year) | 6 | <u>(883)</u> | |
| Net Current (Liabilities) | | | <u>(883)</u> |
| Total Assets less Current Liabilities | | | <u>(855)</u> |
| Provisions for Liabilities and Charges | | | – |
| | | | <u>(855)</u> |
| Taxpayers' Equity: | | | |
| General fund | | | (855) |
| Revaluation reserve | | | – |
| | | | <u>(855)</u> |

Dr Bernard Herdan CB
Chief Executive and Accounting Officer

3 July 2009

The notes on pages 18 to 25 form an integral part of the financial statements.

Cash Flow Statement

for the year ended 31 March 2009

| | | 2008-09 |
|--|-------------|----------------|
| | Note | £000 |
| Net cash outflow from operating activities | 7(a) | (1,498) |
| Capital expenditure and financial investment | 4 | (31) |
| Financing | | 1529 |
| (Decrease)/Increase in cash in the period | | — |

The notes on pages 18 to 25 form an integral part of the financial statements.

Notes to the Accounts

1 Statement of accounting policies

These financial statements have been prepared in accordance with the 2008-09 *Government Financial Reporting Manual (FReM)* issued by HM Treasury. The accounting policies contained in the FReM follow UK generally accepted accounting practice for companies (UK GAAP) as adapted or interpreted for the public sector context.

Where the *FReM* permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the Agency for the purpose of giving a true and fair view has been selected. The particular accounting policies adopted by the Agency are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

1.1 Accounting convention

These accounts have been prepared under the modified historical cost convention.

1.2 Prior Year Comparatives

The NFA was officially launched on 1 October 2008 as an Executive Agency of the Attorney General's Office. It was funded for the whole of 2008/09 and therefore these accounts also cover the whole financial year, covering also the activities and spend between April and October 2008 that was involved in setting up the Agency. But no activities or spend occurred in the prior year (2007/08) and so no comparative figures exist nor are disclosed in these accounts.

1.3 Notional costs

The NFA has received the following goods or services at no charge.

| Item | Notional cost | Received from |
|--------------------------------|-----------------|------------------------------|
| Accommodation | £180,000 | (HMCPsi) |
| IT services | £82,385 | (AGO) |
| Staff | £155,726 | (AGO),(SFO), (SOCA), & (MOJ) |
| Furniture | £6,488 | (HMCPsi) |
| Computer equipment | £2,839 | (AGO) |
| Transactional Finance Services | £37,261 | (SFO) |
| Total | £464,699 | |

Her Majesty's Crown Prosecution Service Inspectorate (HMCPsi), Attorney General's Office (AGO), Serious Fraud office (SFO), Serious Organised Crime Agency (SOCA) & Ministry of Justice (MOJ)

These notional costs are not recognised in the Operating Cost Statement as they have been supplied free of charge by stakeholders associated with NFA as a start up initiative. The basis of estimation is actual salaries being incurred by stakeholders for staff and current market value for all other goods and services.

1.4 Tangible Fixed Assets and Intangible Fixed Assets

The NFA does not own any freehold land and buildings.

Assets are capitalised as fixed assets if they are intended for use on a continuing basis and their original purchase cost, on an individual basis is £2,000 or more. For IT expenditure the £2,000 threshold is applied to assets on a grouped basis. Fixed assets are carried at their value in existing use. They are

valued on a Modified Historic Cost basis by reference to the Price Index Numbers published by the Office for National Statistics, where not doing so would cause figures to be materially mis-stated.

1.5 Depreciation and Amortisation

Depreciation and amortisation are provided on a straight line basis at rates calculated to write off the valuation of fixed assets, less the estimated residual value, over their estimated useful lives. The useful lives and residual values of fixed assets are reviewed annually with any revisions to those estimates accounted for prospectively.

| | |
|--------------------------------|----------|
| Furniture and fittings | 10 years |
| Computer Equipment | 5 years |
| Intangible Assets | 5 years |
| IT Development Projects in use | 5 years |

Assets under construction are not depreciated until they are in use.

1.6 Cash at bank and in-hand

For funding purposes, the NFA has a line on the Serious Fraud Office's (SFO) estimate, and therefore for accounting purposes the NFA is consolidated into SFO's resource accounts. In drawing down this funding, SFO pays the NFA's invoices directly against its own bank account. This means that the NFA, as a distinct entity, holds no cash or bank assets.

1.7 Operating Income

Any sundry amounts relating to operating income are surrendered to the Consolidated Fund unless HM Treasury has agreed they can be retained.

1.8 Administration and programme expenditure

The Operating Cost Statement requires an analysis between administration and programme income and expenditure. The classification of expenditure and income as administration or as programme follows the definition of administration costs set by HM Treasury.

The Serious Fraud Office's estimate, of which NFA is part, is classified as programme expenditure, and therefore all NFA operating costs come under this classification.

1.9 Capital charge

A charge, reflecting the cost of capital utilised by the NFA, is included in operating costs. The charge is calculated at the real rate set by HM Treasury (currently 3.5 per cent) on the average carrying amount of all assets less liabilities, except for:

- (a) tangible and intangible fixed assets where the cost of capital charge is based on opening values, adjusted pro rata for in-year:
 - additions at cost;
 - disposals as valued in the opening balance sheet (plus any subsequent capital expenditure prior to disposal);
 - impairments at the amount of the reduction of the opening balance sheet value (plus any subsequent capital expenditure); and
 - Depreciation of tangible and amortisation of intangible fixed assets.
- (b) cash balances with the Office of the Paymaster General and amounts due to the Consolidated Fund.

1.10 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The defined benefit schemes are unfunded and are non-contributory except in respect of dependents' benefits. The expected cost of these elements are recognised on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, the contributions payable for the year are recognised.

1.11 Provisions – Other

The NFA provide for legal and constructive obligations which are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the Treasury discount rate.

1.12 Operating leases

Operating lease rentals will be charged to the Operating Cost Statement in equal amounts over the lease term.

1.13 Value Added Tax (VAT)

Most of the activities of the NFA are outside the scope of VAT and, in general, output tax does not apply and input tax on purchases is not recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

1.14 Contingent liabilities

In addition to contingent liabilities disclosed in accordance with Financial Reporting Standard 12: Provisions, contingent liabilities and contingent assets (FRS 12) the Agency discloses for parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote, but which have been reported to Parliament in accordance with the requirements of Managing Public Money.

Where the time value of money is material, contingent liabilities which are required to be disclosed under FRS 12 are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by FRS 12 are stated at the amounts reported to Parliament.

2. Staff numbers and related costs

Staff costs comprise:

| | 2008-09 | | |
|-----------------------|----------------------------------|--------------|--------------|
| | Permanently employed staff | Others | Total |
| | £000 | £000 | £000 |
| Wages and salaries | 114 | 1,307 | 1,421 |
| Social security costs | 11 | – | 11 |
| Other pension costs | 26 | – | 26 |
| Total | 151 | 1,307 | 1,458 |

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but the NFA is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2007. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2008-09, employer's contributions of £26,358 were payable to the PCSPS at one of four rates in the range 17.1 to 25.5 per cent of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. The salary bands and contribution rates were revised for 2007-08. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Average number of persons employed

The average number of whole-time equivalent persons employed during the year was as follows:

| | 2008-09 | | |
|--------------|--------------------|-------------|-------------|
| | Permanent staff | Others | Total |
| Total | 2.2 | 15.9 | 18.1 |

3. Other costs

| | Note | £000 | 2008-09 £000 |
|--|------|------|-----------------|
| Non-cash items | | | |
| Depreciation and amortisation | 4 | 3 | |
| Cost of Capital Charges | | (15) | |
| Auditors' remuneration and expenses ¹ | | 25 | 13 |
| Other expenditure | | | |
| General administration | | 49 | |
| Consultancy services | | 657 | |
| Printing and stationery | | 47 | |
| Recruitment & Training | | 63 | |
| Travel and subsistence | | 7 | |
| Hospitality | | 4 | |
| Other programme costs | | 96 | 923 |
| Total | | | 936 |

4. Tangible fixed assets

| | Computer Equipment £000 | Total £000 |
|--|-------------------------------|---------------|
| Cost or valuation | | |
| At 1 April 2008 | - | - |
| Additions | 31 | 31 |
| Disposals | - | - |
| Revaluations | - | - |
| At 31 March 2009 | 31 | 31 |
| Depreciation | | |
| At 1 April 2008 | - | - |
| Charged in year | 3 | 3 |
| Disposals | - | - |
| Revaluations | - | - |
| At 31 March 2009 | - | - |
| Net book value at 31 March 2009 | 28 | 28 |
| Net book value at 31 March 2008 | - | - |

¹ Auditors have not received any payments for non-audit services.

Reconciliation of cash flows to tangible fixed asset additions

| | 2008-09 |
|---|----------------|
| | £000 |
| Total tangible fixed asset additions for the year ended 31 March 2009 | 31 |
| Tangible fixed asset accrual as at 31 March 2008 | – |
| Tangible fixed asset accrual as at 31 March 2009 | – |
| Cash flows for tangible fixed assets | 31 |

5. Debtors

| | 2008-09 |
|--|----------------|
| | £000 |
| Amounts falling due within one year | |
| Deposits and advances | – |
| Prepayments and accrued income | – |
| Provision for bad and doubtful debt | – |
| | – |

6. Creditors**6(a) Analysis by type**

| | 2008-09 |
|---|----------------|
| | £000 |
| Amounts falling due within one year: | |
| Other taxation and social security | – |
| Trade creditors | 313 |
| Other Creditor | – |
| Accruals and deferred income | 570 |
| Pension providers | – |
| Fixed Assets accruals | – |
| | 883 |

6(b) Intra-Government balances

| | Amounts falling due within one year 31 March 2009 | Amounts falling due after one year 31 March 2009 |
|---|--|---|
| Balances with other central government bodies | 126 | – |
| Subtotal: intra-government balances | 126 | – |
| Balances with bodies external to government | 757 | – |
| Total creditors at 31 March 2009 | 883 | – |

7. Notes to the Cash Flow Statement**7(a) Reconciliation of operating cost to operating cash flows**

| | Note | 2008-09 £000 |
|---|-------------|-------------------------------|
| Net operating cost | | 2,394 |
| Adjustments for non-cash transactions | 3 | (13) |
| Increase/(Decrease) in Debtors | | – |
| less movements in debtors relating to items not passing through the OCS | | – |
| (Increase)/Decrease in Creditors | 6 | (883) |
| less movements in creditors relating to items not passing through the OCS | | – |
| Use of provisions | | – |
| Net cash outflow from operating activities | | 1,498 |

7(b) Analysis of capital expenditure and financial investment

| | Note | 2008-09 £000 |
|---|-------------|-------------------------------|
| Tangible fixed asset additions | 4 | 31 |
| Intangible fixed asset additions | | – |
| Net cash outflow from investing activities | | 31 |

8. Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2009

| | Note | General Fund £000 | Revaluation Reserve £000 | Total Reserves £000 |
|---|-------------|------------------------------------|---|--------------------------------------|
| Balance at 31 March 2008 | | – | – | – |
| Changes in taxpayers' equity for 2008-09 | | | | |
| Non-cash changes – cost of capital | | (15) | – | (15) |
| Non-cash changes – auditor's remuneration | | 25 | – | 25 |
| Net operating cost for the year | | (2,394) | – | (2,394) |
| Total recognised income and expenditure for year ended 31 March 2009 | | (2,384) | – | (2,384) |
| Funding from SFO | | 1,529 | – | 1,529 |
| Balance at 31 March 2009 | | (855) | – | (855) |

9. Capital commitments

There were no capital commitments at 31 March 2009 (31 March 2008: Nil).

10. Commitments under leases

There were no commitments under either operating or finance leases at 31 March 2009.

11. Contingent liabilities disclosed under FRS 12

There were no contingent liabilities at 31 March 2009.

12. Losses and Special payments**12(a) Losses Statement**

There are no material losses during the period which in aggregate exceeded £250,000.

12(b) Special Payments

There were no special payments during the period which in aggregate exceeded £250,000.

13. Related-party transactions

The NFA is an Executive Agency of the Attorney General's Office. The NFA is funded by the Supply Estimate process and sits within the vote of the Serious Fraud Office, which also provides transactional services and pays the NFA's invoices. No key manager or other related party has undertaken any material transactions with the NFA.

14. Third-party assets

The NFA held no monetary assets at 31 March 2009 in interest bearing or other accounts at the balance sheet date.

15. Financial Instruments

The activities of the NFA are financed by the Supply Estimate Process and sit within the Vote Structure of the SFO. Financial instruments play a more limited role in creating and needing to manage risk than would apply to non-public sector body. The majority of the financial instruments relate to contracts to buy non-financial items in line with the NFA's expected purchase and usage requirements and the NFA is therefore exposed to little credit, liability or market risk.

The NFA does not face significant medium-to-long term financial risks.

16. Post Balance Sheet events

There are no post balance sheet events up to the date the Annual Report and Accounts were authorised for issue. In the public sector context the authorisation date is the same date on which the Annual Report and Accounts were certified by the Comptroller and Auditor General.



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