

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

Security and Intelligence Agencies

Financial Statement 2007-08

LONDON: The Stationery Office
HC 872

17 July 2008
£5.15

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

Security and Intelligence Agencies

Financial Statement

2007-08

(For the year ended 31 March 2008)

Ordered by the House of Commons to be printed 17 July 2008

© Crown Copyright 2008

The text in this document (excluding the Royal Arms and other departmental or agency logos) may be reproduced free of charge in any format or medium providing it is reproduced accurately and not used in a misleading context. The material must be acknowledged as Crown copyright and the title of the document specified.

Where we have identified any third party copyright material you will need to obtain permission from the copyright holders concerned.

For any other use of this material please write to Office of Public Sector Information, Information Policy Team, Kew, Richmond, Surrey TW9 4DU or e-mail: licensing@opsi.gov.uk

ISBN: 978 0 10 295761 7

Contents

	Page
Introduction	2
Statement of Accounting Officer's Responsibilities	3
Statement on Internal Control	4 & 5
Certificate and Report of the Comptroller and Auditor General	6
The Accounting Schedules:	
Statement of Parliamentary Supply	8
Operating Cost Statement	9
Notes on the Accounts	10

Introduction

This Statement summarises the use of resources by the Security and Intelligence Agencies for the year ending 31 March 2008. 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 and Operating Cost Statement 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 2008 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 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 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 Cabinet Secretary 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 Government Financial Reporting 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 Managing Public Money.

Statement on Internal Control

1. Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of 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 (SIA) has its own accounting officer 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 of which they need to be aware in discharging their wider ministerial responsibilities. They also report regularly to me as the Principal Accounting Officer for the Single Intelligence Account. I advise ministers on matters concerning the SIA as a whole. Oversight by Parliamentarians is provided by the Intelligence and Security Committee.

2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than 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 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 systems of internal control have been in place in the Security and Intelligence Agencies for the year ended 31 March 2008 and up to the date of approval of the annual accounts, and accord with Treasury guidance.

3. Capacity to handle risk

The effective management of risk is embedded at all levels of the Security and Intelligence Agencies. At the strategic level, the agency management boards are working towards integrating best current practices in their planning and performance management. The maintenance of risk registers supports the operation of control frameworks throughout each of the agencies.

4. The risk and control framework

Each of the agencies uses a Board whose structure supports their accounting officer in leading and managing corporate governance within their agency.

The key elements of the agency frameworks include:

- clear definitions of strategic, corporate and operational levels of risk;
- active roles in the ownership and management of risks by board members;
- assignment of responsibilities for evaluating, monitoring and reviewing risks;
- regular and systematic monitoring of risks, through, for example, comprehensive risk registers and audit committees;
- evaluation of the financial impact of risks and the cost of mitigation;
- enhancements to management information systems; and
- fraud policy and response procedures.

5. Review of effectiveness

As 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 executive managers within the SIA who have responsibility for the development and maintenance of their internal control frameworks, and comments made by the external auditors in their management letter 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. Plans to address weaknesses and ensure continuous improvement of the systems are in place.

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. Planned Improvements

The agencies' internal control processes identified areas where, although significant progress has been made, further improvements are still needed. The principle areas for improvement are (but in each case only apply to a single agency) procurement, business continuity planning, information security, management information systems, risk and configuration management. All these areas are receiving sustained senior management focus and the agencies have implemented measures to address weaknesses and deliver the required improvements.

7. Information Security

The agencies protect their information, including personal data, to the highest levels required by national security policies. Whilst internal reviews of information handling procedures have assessed that the agencies operate suitable and appropriate procedures for protecting data, I am clear that these procedures need to be continuously and critically reviewed and updated. This area will continue to demand significant senior management attention. The agencies plan more internal reviews to support further measures for enhancing the effectiveness of their data security frameworks.

No protected personal data related incidents were formally reported to the Data Commissioner's Office in 2007-08. Prior to the current year, the agencies had focussed their attention to incident reporting on national security issues.

Sir Gus O'Donnell
Accounting Officer
14 July 2008

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 2008 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 described in the Statement of Accounting Officer's Responsibilities, HM Treasury has appointed the Cabinet Secretary as Accounting Officer for this account with responsibility for preparing the consolidated Financial Statement, in accordance with the Government and Resources Act 2000, and with HM Treasury directions made thereunder, and for ensuring the regularity of financial transactions.

My responsibility is to audit the Financial Statement 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 Statement properly presents the net resource out-turn, net operating cost and net cash requirement of the Security and Intelligence Agencies, whether the Financial Statement has been properly prepared in accordance with the direction issued by HM Treasury, and is consistent with the full unpublished audited resource accounts produced by the Security and Intelligence Agencies. 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 Department 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 is not disclosed.

I review whether the Statement on Internal Control reflects 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 Department's corporate governance procedures or risk and control procedures.

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 Financial Statement.

Basis of opinions

I conducted my work in accordance with International Standards on Auditing (UK and Ireland), issued by the Auditing Practices Board. My audit of the unpublished resource accounts which form the basis of the Financial Statement includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in those resource accounts. It also includes an assessment of the significant estimates and judgements made in the preparation of those resource accounts. My audit of the consolidated Financial Statement includes verification that the underlying accounts have been appropriately and consistently consolidated.

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 Statement is 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 Statement.

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 Operating Cost Statement and does not comply fully with generally accepted accounting practice or the requirements of the Government Financial Reporting Manual. The unpublished constituent resource accounts, which I audit in accordance with International Standards of Auditing (UK and Ireland), are, however, fully compliant. My opinion on each of these is unqualified.

Opinions

In my opinion:

- the Financial Statement properly presents the net resource out-turn, net operating cost and net cash requirement of the Security and Intelligence Agencies, in accordance with the HM Treasury direction issued under the Government Resources and Accounts Act 2000, for the year ended 31 March 2008;
- the Financial Statement has been properly prepared in accordance with the HM Treasury direction issued under the Government Resources and Accounts Act 2000;
- the Financial Statement is consistent with the full unpublished audited resource accounts of the Security and Intelligence Agencies for the year ended 31 March 2008.

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.

T J Burr
Comptroller and Auditor General

15 July 2008

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

STATEMENT OF PARLIAMENTARY SUPPLY (£'000s)

for the year ended 31 March 2008

Summary of Resource Outturn 2007-08**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			2007-08 Net Total Saving Compared with Estimate : saving/ (excess)	2006-07 Outturn
	Gross Expenditure	A-in-A	Net Total	Gross Expenditure	A-in-A	Net Total		
Request for Total Resources	1,638,135	(86,662)	1,551,473	1,564,154	(84,248)	1,479,906	71,567	1,405,537
Non operating Appropriations in Aid	-	-	11,241	-	-	10,262	-	1,653

Net Cash Requirement 2007-08

	Estimate	Outturn	2007-08 Net Total Saving Compared with Estimate : saving/ (excess)	2006-07 Outturn
Net Cash Requirement	1,652,869	1,544,136	108,733	1,399,644

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)

	2007-08 Forecast		2007-08 Outturn	
	Income	Receipts	Income	Receipts
Operating Income not classified as A- in-A (CFER)	-	<i>12,500</i>	2,891	<i>3,250</i>
Total income payable to the Consolidated Fund	-	<i>12,500</i>	2,891	<i>3,250</i>

OPERATING COST STATEMENT (£'000s)
for the year ended 31 March 2008

	2007-08	2006-07
Request for Resources 1		
Administration costs		
Staff Costs	509,241	479,283
Other administration costs	<u>404,150</u>	<u>352,109</u>
Gross administration costs	913,391	831,392
Operating income	<u>(60,020)</u>	<u>(49,899)</u>
Net administration costs	853,371	781,493
Programme costs		
Programme Costs	650,763	650,021
Income	<u>(25,746)</u>	<u>(28,243)</u>
Net programme costs	625,017	621,778
	_____	_____
Net operating cost	1,478,388	1,403,271
Income not Appropriated in Aid	1,518	2,266
	_____	_____
Net Resource Outturn	1,479,906 =====	1,405,537 =====

Sir Gus O'Donnell
Accounting Officer
14 July 2008

Notes to the Accounts (£'000)

for the year ended 31 March 2008

1. Reconciliation of Resources to Cash Requirement

	Estimate	Outturn	2007-08 Net Total Saving Compared with Estimate : Saving/ (Excess)	2006-07 Outturn
Net Total Resources	1,551,473	1,479,906	71,567	1,405,537
Net expenditure on Fixed Assets	320,544	286,567	33,977	221,849
Accruals adjustments	(219,148)	(222,337)	3,189	(227,742)
Net Cash Requirement	<u>1,652,869</u>	<u>1,544,136</u>	<u>108,733</u>	<u>1,399,644</u>

2. Losses and Special Payments

	2007-08 £000	2006-07 £000
Losses		
Total 149 cases (2006-07: 103 cases)	1,511	664
Special payments		
Total 47 cases (2006-07: 35 cases)	424	153

Included in Losses for the current year is a Fruitless Payment of £1.1m related to abortive planning and development costs incurred.



information & publishing solutions

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

Online

www.tsoshop.co.uk

Mail, Telephone, Fax & E-mail

TSO

PO Box 29, Norwich NR3 1GN

General enquiries: 0870 600 5522

Order through the Parliamentary Hotline *Lo-call* 0845 7 023474

Fax orders: 0870 600 5533

Email: customer.services@tso.co.uk

Textphone: 0870 240 3701

TSO Shops

16 Arthur Street, Belfast BT1 4GD

028 9023 8451 Fax 028 9023 5401

71 Lothian Road, Edinburgh EH3 9AZ

0870 606 5566 Fax 0870 606 5588

The Parliamentary Bookshop

12 Bridge Street, Parliament Square

London SW1A 2JX

TSO@Blackwell and other Accredited Agents

ISBN 978-0-10-295761-7



9 780102 957617