

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

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# **Security and Intelligence Agencies**

## **Financial Statement 2008-09**

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

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# **Security and Intelligence Agencies**

## **Financial Statement 2008-09**

**(For the year ended 31 March 2009)**

*Ordered by the House of Commons to be printed 16 July 2009*

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**Introduction**

This Statement summarises the use of resources by the Security and Intelligence Agencies for the year ending 31 March 2009. 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 2009 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 2009 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 in processes at all levels of the Security and Intelligence Agencies. 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 and safety policy and practice. At the highest strategic level, corporate risk registers and risk maps, form integral parts of the Agency Management Boards planning and performance management systems.

### 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 fraud response plans.

## 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 planned. The principle areas for improvement are (but in each case only apply to a single agency) asset management, business continuity planning, 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.

**Sir Gus O'Donnell**  
**Accounting Officer**  
**10 July 2009**

## **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 2009 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**

The Cabinet Secretary as Accounting Officer is responsible for preparing the consolidated Financial Statements, in accordance with the Government and Resources Act 2000, and with 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 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 Statements 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 whether it is consistent with the audited Financial Statement. 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 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 Security and Intelligence Agencies' 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 2009;
- 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 2009.

### **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**

**14 July 2009**

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

**STATEMENT OF PARLIAMENTARY SUPPLY (£'000s)**

for the year ended 31 March 2009

**Summary of Resource Outturn 2008-09****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			2008-09 Net Total Saving Compared with Estimate : saving/ (excess)	2007-08  Outturn
	Gross Expenditure	A-in-A	Net Total	Gross Expenditure	A-in-A	Net Total		
<b>Request for Total Resources</b>	1,828,977	(93,412)	1,735,565	1,737,388	(89,885)	1,647,503	88,062	1,479,906
<b>Non operating Appropriations in Aid</b>	-	-	2,398	-	-	1,031	-	10,262
<b>Net Cash Requirement 2008-09</b>								
			Estimate			Outturn	2008-09 Net Total Saving Compared with Estimate : saving/ (excess)	2007-08 Outturn
<b>Net Cash Requirement</b>			1,859,977			1,762,421	97,556	1,544,136

**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)

	2008-09 Forecast		2008-09 Outturn	
	<u>Income</u>	<u>Receipts</u>	<u>Income</u>	<u>Receipts</u>
Operating Income not classified as A- in-A (CFER)	-	-	2,536	3,216
<b>Total income payable to the Consolidated Fund</b>	-	-	2,536	3,216

**OPERATING COST STATEMENT (£'000s)**

for the year ended 31 March 2009

	2008-09	2007-08 <i>Restated</i> <sup>1</sup>
<b>Request for Resources 1</b>		
<b>Administration costs</b>		
Staff costs	54,486	60,395
Other administration costs	<u>37,188</u>	<u>40,232</u>
<b>Gross administration costs</b>	91,674	100,627
Operating income	<u>(10,500)</u>	<u>(11,460)</u>
Net administration costs	81,174	89,167
<b>Programme costs</b>		
Staff costs	559,539	499,356
Other programme costs	<u>1,086,175</u>	<u>964,171</u>
<b>Gross programme costs</b>	1,645,714	1,463,527
Operating Income	<u>(80,321)</u>	<u>(74,306)</u>
Net programme costs	<u>1,565,393</u>	<u>1,389,221</u>
<b>Net Operating Cost</b>	<b>1,646,567</b>	<b>1,478,388</b>
Income not Appropriated-in-Aid	936	1,518
<b>Net Resource Outturn</b>	<u><b>1,647,503</b></u>	<u><b>1,479,906</b></u>

1. The 2007/08 figures have been restated to reflect the change in definition of administration costs as agreed with HM Treasury

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**Sir Gus O'Donnell**  
Accounting Officer  
10 July 2009

**Notes to the Accounts (£'000)**

for the year ended 31 March 2009

**1. Reconciliation of Resources to Cash Requirement**

	Estimate	Outturn	2008-09 Net Total Saving Compared with Estimate : Saving/ (Excess)	2007-08 Outturn
<b>Net Total Resources</b>	1,735,565	1,647,503	88,062	1,479,906
Net expenditure on Fixed Assets	361,355	320,954	40,401	286,567
Accruals adjustments	(236,943)	(206,036)	(30,907)	(222,337)
<b>Net Cash Requirement</b>	<u>1,859,977</u>	<u>1,762,421</u>	<u>97,556</u>	<u>1,544,136</u>

**2. Losses and Special Payments**

	2008-09 £'000	2007-08 £'000
<b>Losses</b>		
Total 144 cases (2007-08: 149 cases)	2,622	1,511
<b>Special payments</b>		
Total 62 cases (2007-08: 47 cases)	565	424



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