

Annual Report - Accounts 2009/10

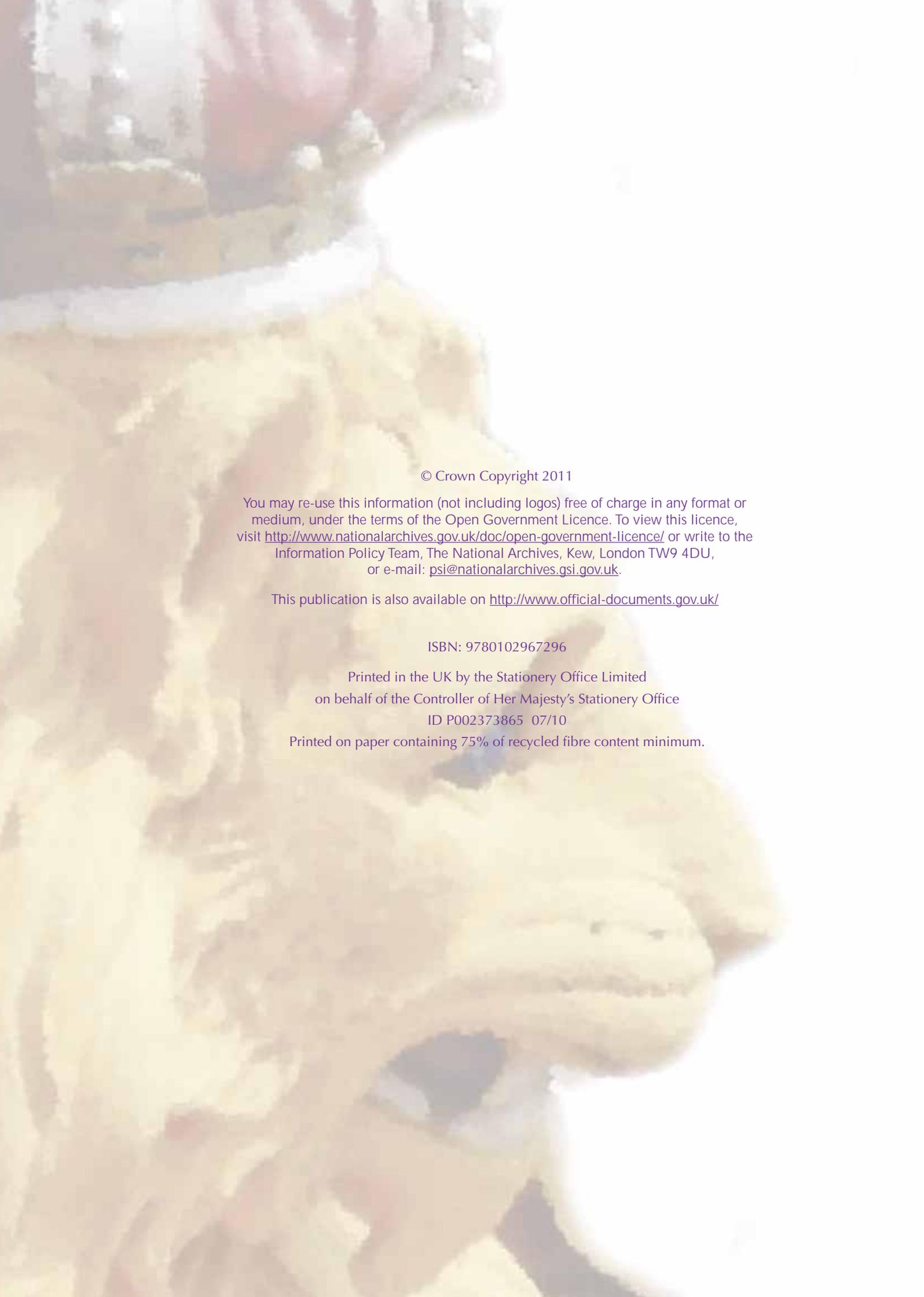




Annual Report - Accounts 2009/10



Presented to the House of Commons pursuant to Section 7 of the
Government Resources and Accounts Act 2000.
Ordered by the House of Commons to be printed 21 July 2010.
London - The Stationery Office.



© Crown Copyright 2011

You may re-use this information (not including logos) free of charge in any format or medium, under the terms of the Open Government Licence. To view this licence, visit <http://www.nationalarchives.gov.uk/doc/open-government-licence/> or write to the Information Policy Team, The National Archives, Kew, London TW9 4DU, or e-mail: psi@nationalarchives.gsi.gov.uk.

This publication is also available on <http://www.official-documents.gov.uk/>

ISBN: 9780102967296

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

ID P002373865 07/10

Printed on paper containing 75% of recycled fibre content minimum.

Contents

Chief Executive's statement	4
-----------------------------------	---



Part 1 Report

Management commentary	6
What we do	6
Service standards	7
Delivering our Key Targets	9
Business review highlights	12
Remuneration report	15



Part 2 Accounts

Foreword to the Accounts	20
Statement of the Agency's and Accounting Officer's Responsibilities	23
Statement on internal control	24
Certificate and Report of the Comptroller and Auditor General to the House of Commons	28
The Accounts	29
Notes to the Accounts	32

Common abbreviations

CTC - Counter Terrorist Check

DV - Developed Vetting

DVA - Defence Vetting Agency

KT - Key Targets

MOD - Ministry of Defence

NSV - National Security Vetting

SC - Security Check

Chief Executive's statement

2009/10 has been another exceptional year for the Defence Vetting Agency.

We have achieved or exceeded all, but one element, of our Key Targets.

This achievement is even more impressive when measured against a significant reduction in funding from the Ministry of Defence and the increase in demand for our vetting services.

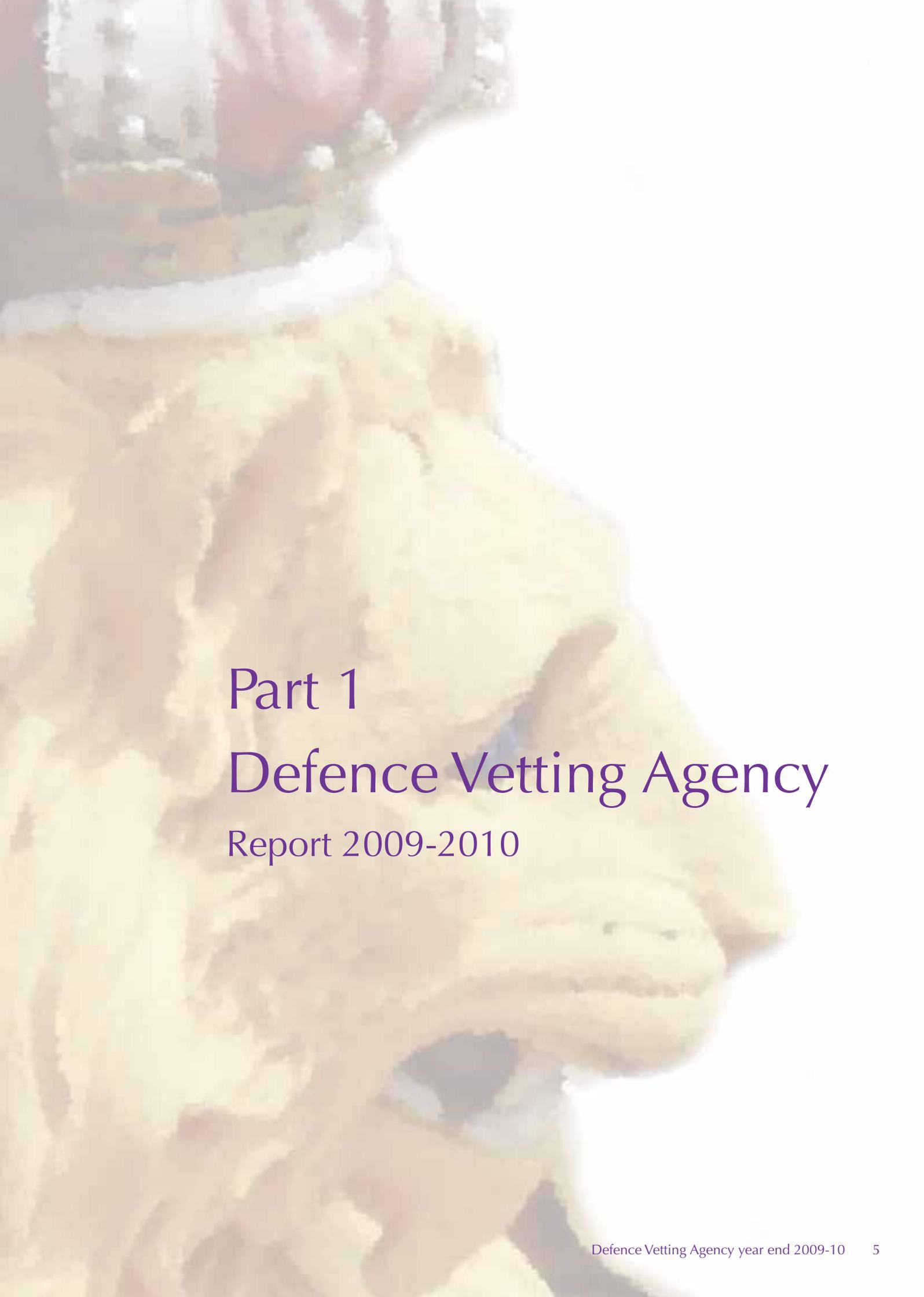
Our position as the main supplier of government vetting services has been further enhanced. This has culminated in 82 repayment customers as at 31 March 2010.

Our replacement information technology system (Cerberus) is developing well and will go live during 2010/11. This system will revolutionise the vetting application process whilst improving quality and driving down costs.

DVA staff have continued to be dedicated to the vetting process and to the requirements of our individual customers. Our Owner and our customers have helped us shape our service to ensure we are fit for the challenges to come.



Jacky Ridley
Chief Executive



Part 1
Defence Vetting Agency
Report 2009-2010



Part 1 Report 2009/10

Management commentary

Part 1 of this Annual Report and Accounts records performance against our Key Targets and summarises achievement of a range of other business activities. Part 2 presents the audited Accounts.

The Defence Vetting Agency (DVA) is by far the larger of the two Shared Service UK government organisations that carry out National Security Vetting (NSV). We are also the only organisation whose core business is NSV, holding Customer Service Excellence accreditation. We function as an executive agency within the Ministry of Defence (MOD).

Within the defence area we provide NSV, through direct funding, to the MOD Civil Service, the three Armed Services, and to defence contractors. As a Shared Service provider we deliver a range of repayment NSV services to a growing community of customers across the public sector.

The policy for NSV is owned by the Cabinet Office, who set the standard to be followed. NSV contributes to the government Public Service Agreements (PSAs) that counter possible internal and external threats to the UK. It is one of a range of protective security measures designed to minimise these threats by identifying those people who should be prevented from having access to sensitive information or facilities.

What we do

We process three main types of NSV clearance and checks to provide assurance that will allow people access to facilities and unrestricted access to information up to Top Secret level.

Counter Terrorist Checks (CTC) allowing employment in jobs with close proximity to public figures, access to information or material considered to be of value to terrorists, or require access to locations at risk from terrorist attack.

Security Checks (SC) allowing unrestricted access to Secret assets or occasional controlled access to Top Secret assets or information.

Developed Vetting (DV) allowing substantial and unsupervised access to Top Secret assets or information.

Other associated work covers:

- Aftercare, managing post clearance instances and reviews.
- Transfers of clearances between sponsors.
- Re-assessing clearances as a result of a change of life style such as on marriage or divorce.

We also undertake the role of MOD co-ordinator of Criminal Records Bureau checks required by people being considered for employment with children or vulnerable adults.



Service standards

Security

Our customers need their data to be secure, so our:

- management of data meets Cabinet Office requirements.
- IT systems and IT system users are security accredited.
- people are trained in security procedures and central government information assurance requirements.
- processes are compliant with the Data Protection Act, and
- systems and processes have been tested for business continuity purposes.

Speed of service

Our customers demand a fast response, so we:

- offer both a routine and a priority service.
- can demonstrate a continuing trend in significantly improved clearance times.
- work in partnership with our third party suppliers to ensure that we get the best from them for the benefit of our customers.
- have embedded staff with one of our third party suppliers to help improve end to end clearance times, and
- agreed to embed staff specifically to help cases in Northern Ireland.

Quality

Our customers need a quality service, so we:

- consistently achieve our Key Targets.
- meet the Cabinet Office minimum standards for vetting.
- will apply higher vetting standards if this is requested by specific customers.
- assure our products by continuous internal verification.
- externally assure our processes and decisions.
- have a full audit programme, and
- are the only Customer Service Excellence NSV organisation in government.



IT innovation

Our customers expect cutting edge IT processes, so we:

- are developing the single vetting database for government.
- will ensure our new IT system Cerberus goes live by the end of 2010.
- will include a suite of e-Forms for the submission of vetting applications, based on our successful e-Form pilot as part of our Cerberus system, and
- are leading the re-development of the NSV applications forms for government that will be introduced to coincide with our Cerberus system.

Customer service

Our customers want real support, so we:

- have a dedicated help desk.
- have a dedicated feedback system.
- provide familiarisation visits to our offices in York.
- hold quarterly Customer Advisory Group meetings.
- hold Customer Open Days.
- publish all our customer service standards.
- ensure any complaints are fully investigated and responded to, and
- involve customers in designing improvements to our services.

Value for money

Our Shared Service customers have to get value for money, so we:

- provide a menu of services.
- provide an annual binding price list.
- negotiate Joint Business Agreements with individual customers.
- pass on year-on-year efficiency improvements through reduced prices or improved service.
- ensure we can deliver both high volume and small niche requirements, and
- monitor performance against Joint Business Agreements.

Delivering our Key Targets



Key Targets are mandated for all Agencies. They focus on the most important aspects of output performance, as determined by Agency Owners and their Advisory Boards. As well as being valuable in-year performance indicators, they also allow the year-on-year achievement of the organisation to be measured. These Key Targets have been subject to review by Defence Internal Audit.

Key Targets covering the quality, timeliness and efficiency aspects of National Security Vetting have been set each year since the DVA formed in 1997. The timeliness targets have been gradually tightened as vetting capability has improved. In 2009/10 six key targets were set. Two targets covered quality, three timeliness, and one efficiency. The end of year result was that with the exception of one element of the routine target, all the targets were met or exceeded.

Quality

KT1 External validation of quality

To achieve at least a 98% satisfaction rating with 200 cases independently selected and reviewed.

An independent panel of Reviewers measure the quality of our vetting decisions against a set of agreed criteria. Two validation exercises took place during the year and a total of 237 cases were checked achieving a score of 99%.

Trends and achievement

	2005/06	2006/07	2007/08	2008/09	2009/10	
Targets	98%	98%	98%	98%	98%	
Performance	99%	100%	99%	100%	99%	Exceeded

KT2 Delivering customer service

Maintain the Customer Service Excellence accreditation standard.

Customer Service Excellence is a Government wide initiative that offers public services a practical tool for driving customer-focused change with the emphasis on developing customer insight and measuring service satisfaction. The rigorous accreditation criteria, which includes customer satisfaction, provision of feedback, and how complaints are handled, ensures that this remains a challenging target. We originally gained accreditation in 2007. In February we were re-assessed by the independent authority and re-accredited. We are the only NSV organisation to meet this rigorous standard.



Timeliness

Timeliness Key Targets 3 and 4 concentrate on the three main NSV checks and clearances, which are treated as either Priority or Routine when they are being processed. Priority clearances, due to their small number and special handling can normally be completed within 10 calendar days for the standard checks (CTC and SC) and 30 calendar days for the higher level (DV). Key Target 5 measures the processing of Aftercare work.

Performance against the routine targets was initially affected by the impact of information technology system failures with our third party supplier during the last quarter of 2008/09. This led to a larger than normal carry in to 2009/10. Our recovery plan enabled performance to significantly pick up over the remaining period to ensure that only the SC element of the routine target was missed by a small margin.

KT3 Achieve the following process times to complete routine cases by:

Completing 85% of CTC and SCs within 30 calendar days, and 85% of defence DV cases within 100 calendar days.

Trends and achievement

	2005/06	2006/07	2007/08	2008/09	2009/10	
CTC targets	62%	65%	75%	75%	85%	
Performance	51%	75%	62%	88%	85%	Achieved
SC targets	65%	65%	75%	75%	85%	
Performance	49%	70%	46%	88%	80%	Missed
DV targets	83%	83%	83%	83%	85%	
Performance	91%	82%	82%	87%	88%	Exceeded

KT4 Achieve the following process times to complete priority cases by:

Completing 90% of CTC and SCs within 10 calendar days and 85% of DVs within 30 calendar days.

Trends and achievement

	2005/06	2006/07	2007/08	2008/09	2009/10	
CTC/SC targets	85%	85%	85%	90%	90%	
Performance	88%	99%	96%	90%	96%	Exceeded
DV targets	90%	80%	80%	80%	85%	
Performance	88%	80%	86%	93%	96%	Exceeded



KT5 Aftercare

All Aftercare Incident Reports to be taken into action within 7 calendar days of receipt. 80% of scheduled Aftercare to be taken into action within 30 calendar days of the date for review.

Achievement

This was a new target for 2009/10. Aftercare Incident Reports (AIRs) which alert the Agency to possible personnel security concerns are seen as the cause of greatest risk. Scheduled work refers to cases where aftercare action was previously agreed and scheduled when the clearance was awarded. These cases are seen as the second level of priority aftercare work, reflected in the lower percentage target.

The first element of the target was achieved with 100% of Aftercare Incident Reports taken into action within seven calendar days. The second element was exceeded with 95% of scheduled Aftercare taken into action within 30 calendar days of the date for review.

AIRs taken into action	Target	100%	
within 7 days of receipt	Performance	100%	Achieved
Scheduled Aftercare taken into action	Target	80%	
within 30 days of review date.	Performance	95%	Exceeded

KT6 Improving efficiency

Reduce the Unit Cost of Output by 2%.

This target covers the need to demonstrate efficiency improvements by reducing the Unit Cost of Output (UCO), such as processing more clearances with fewer resources. We measure the extent to which we are becoming more efficient through annual accumulated percentage variations in the UCO which covers the cost of each of the main vetting products which are aggregated into a single figure to show:

- The value of the UCO expressed in cash terms; and
- The percentage change year on year.

We have a good record in maintaining a year-on-year improvement since we moved to York. A range of measures including collocation, amalgamation, better working practices, and the introduction of our first and second Warrantor IT systems enabled the UCO to reduce by around 27% between 2003 and 2008 (£34.65 to £25.31). During 2009/10 our focus on reducing costs produced a 8.3% reduction in the UCO, exceeding the target four fold. Further efficiencies are expected after the introduction of our new Cerberus IT system which should be realised over the next couple of years.

Trends and achievement

	2005/06	2006/07	2007/08	2008/09	2009/10	
UCO	£28.25	£27.43	£26.85	£25.83	£25.31	
Targets	-2%	-2%	-2%	-2%	-2%	
Performance	-2.9%	-2.1%	-3.8%	-2%	-8.3%	Exceeded
Cash actual	£27.43	£26.85	£25.83	£25.31	£23.21	



Business review highlights

As well as the 6 Key Targets we also set ourselves 58 business performance targets to deliver the Agency business strategy. Each of these business targets was linked to the 5 strategic themes set out in our Corporate Plan, which when achieved in full will help us achieve our vision of being the UK NSV organisation of choice, meeting the expectations of customers and stakeholders.

Strategic theme 1 Improving quality and policy *so that our NSV services are fit for purpose and provide the level of assurance our customers require.*

Achievements/progress

- Both quality Key Targets were achieved or exceeded.
- Working closely with MOD centre and the Cabinet Office, a range of policy and quality issues were taken forward. With updated guidance issued to the business to address the most pressing issues.
- A programme of monthly internal quality assurance reviews were completed to check if there were any aspects of the vetting process that were not operating in accordance with agreed procedures. Various anomalies were identified and addressed through regular feedback to the business, including training events, to ensure a more consistent quality vetting product is delivered to our customers.
- There were no personal data security incidents reported to MOD centre or to the Information Commissioner's Office.
- Our information processes have been reviewed against the new MOD and government requirements and have proved to be compliant. This review covered such matters as staff training, data movement, and storage requirements, and assurance testing.

Strategic theme 2 Enabling our business *by being re-accredited as a Customer Service Excellence organisation, and ensuring that we are ready to move forward to meet the future Shared Service requirements for NSV.*

Achievements/progress

- Our York based staff successfully migrated to the new MOD defence information infrastructure (DIIF) platform. This provides a more stable platform for our current and future business applications and provides enhanced connectivity across the MOD estate.
- The DVA Transformation Programme remains on schedule and within overall budget.
- The development work for the new Cerberus IT system has made good progress. The only exception being connectivity with third party interfaces. The go live date and rollout to customers starts this Autumn with system availability to all customers being achieved by the end of 2010. Cerberus has been endorsed by the Cabinet Office as the single NSV IT system for government.
- Our business recovery processes were invoked on a number of occasions as a result of breakdowns to third party supplier IT links, heating and lighting issues in York, and adverse weather conditions in January. Critical business outputs were delivered throughout these incidents, with the exception of one afternoon when adverse weather meant that employees were sent home to ensure duty of care obligations were met. We have assurance that our recovery plans have provided an appropriate level of support to ensure swift recovery.

Strategic theme 3 Transforming vetting service delivery by achieving our Key Targets, making improvements to the exchange of vetting data with our HR customers, and improving our Help Desk.



Achievements/progress

- The Key Targets were achieved or exceeded apart from one element of the routine target.
- We delivered more cases than forecast. Against a target to complete 130,000 initial and review cases, with at least 10,400 being DV cases. We delivered 131,929 cases with 14,074 at the DV level.

	2008/2009		2009/2010	
	New applications	Completions	New applications	Completions
Defence vetting				
CTC/SC	103,499	102,786	99,923	104,872
DV	10,346	10,136	10,219	10,497
Total	113,845	112,922	110,142	115,369
Repayment vetting				
CTC/SC	12,885	11,810	12,457	12,983
DV	3,223	3,133	3,281	3,577
Total	16,108	14,943	15,738	16,560
Overall total	129,953	127,865	125,880	131,929

Other work we completed for defence customers

	2008/2009	2009/2010
CRB checks	n/a	25,700
Vetting transfers	8,100	8,806
Change of personal circumstances	2,200	3,048
Annual security appraisals	13,100	16,286
Aftercare cases	2,600	2,387
Cases cancelled before completion	21,400	23,206

- **Corporate governance:** The corporate governance requirements placed upon the Agency continue to be fully met. A range of other audit and compliance assurance checks were made by our own Corporate Governance team. Audits of Key Target performance and Risk Management procedures were conducted by Defence Internal Audit, and the statutory National Audit Office accounts audit was also completed.
- **MOD system updates:** A data link to the civilian and military HR systems, allows the majority of MOD staff, both civilian and military, to check their own security status without having to contact the Agency. Work continues to analyse and correct those records that have failed the data transfer process. Over time this facility should help to keep the status of vetting clearances current and significantly reduce the number of routine calls to the Help Desk leading to a faster service.
- **Criminal Records Bureau (CRB) checks:** The DVA is registered with all three UK CRB Bodies for processing MOD CRB applications, and is one of the top 10 Registered Bodies in England & Wales in terms of numbers of applications, averaging about 680 per week, and with one of the lowest error rates. Working closely with customers, our CRB team overcame a backlog situation during the first quarter reporting period, and recovered the level of service to meet agreed service levels by February 10.



Strategic theme 4 Supporting people to obtain their potential *by ensuring that our people have the right skills and competences to deliver Agency objectives.*

Achievements/progress

- We were pre-assessed against the Investors in Diversity Standard in September. While good paper evidence was provided to show that the Agency could meet the standard, more work was required to determine staff attitudes. A short survey will be undertaken early in the new financial year to stimulate greater involvement and encourage behaviours that promote inclusion, equality, diversity and achievement.
- The Agency is positive about employing disabled people. It operates a guaranteed interview scheme as part of its recruitment process, and every effort is made to ensure that special needs are covered to address access and office equipment issues.
- An enhanced training team has been established to deliver in-house vetting training, which has covered issues identified through our internal quality surveys and policy changes.
- Training briefs have now been developed and implemented for all vetting posts, and a start has been made to cover non-operational posts in the Agency.
- Feedback from the Civil Service wide "Your Say" staff engagement survey showed many positives. The DVA had better results than the MOD Head Office on the majority of questions. An action plan has been prepared and issued to take forward the findings.
- The Agency proactively manages sickness absence, and follows Departmental good practice. The current absence rate is around the MOD average of 10.5 days per person per annum.



Strategic theme 5 Helping our customers deliver their vision by maximising new business developing relationships with existing customers. Ensuring the required level of performance is delivered by our suppliers.

Achievements/progress

- DVA has been re-accredited as a Customer Service Excellence organisation
- Measured against a target of 89% satisfaction, our 2009/10 customer survey revealed that 95% of respondents were satisfied with our service. Over 90% of respondents considered clearance times to be at least satisfactory.
- The volume of vetting completed for repayment customers increased by 11%. We finished the financial year with 82 repayment customers, and are negotiating with a number of new organisations to gain additional work in 2010-2011.
- There was a continuing downward trend in the number of people submitting Subject Access requests as shown in the table below:

	2007/08	2008/09	2009/10
Subject access requests	89	67	52

- Parliamentary and Freedom of Information enquiries also showed a downward trend:

	2007/08	2008/09	2009/10
Parliamentary questions	4	4	2
Ministerial correspondence	9	20	11
Correspondence from MPs	2	5	6
"Treat Official" correspondence	4	15	9
Freedom of information requests	25	72	18

- There were no environmental incidents to report. Our Green Group meets on a regular basis to identify ways to improve environmental conservation, and propose initiatives.
- The Agency also supports a range of community initiatives, helping not only our local community in York, but more widely through the Princes Trust, Challenge Cymru training programme, and voluntary work undertaken by our headquarters staff and home based vetting officers throughout the UK.

Remuneration report

Remuneration policy

Our Management Board is made up of civil servants. Their salaries are set at national level. The Chief Executive's pay package was set by the Senior Civil Service Salaries Review Body, and the salaries of the other members of the Board were set by negotiation between the MOD and Civil Service Trade Unions.

Service contracts

With the exception of the two non-executive directors, all members of our Management Board are MOD civilians and are appointed by civil service standard procedures. The officials covered by this report hold appointments which are open ended.

If their contracts are ended early, other than for misconduct, it would result in the individual receiving compensation as set out in the civil service compensation scheme. Their remuneration (while a member of the Agency Management Board) and pension entitlements during the financial year are shown on the next pages. Performance Pay is granted on a payable basis where specific bonus criteria have been met. The non-executive directors are appointed via open competition on fixed term contracts. The following tables have been subject to audit.



2009 - 2010

	Remuneration Including Pay Performance (£000)	Real increase in Pension and related lump sum at age 60 (£000)	Total Pension at age 60 at 31 March 2010* (£000)	Cash Equivalent Transfer Value at 1 April 2009 (£000)	Cash Equivalent Transfer Value at 31 March 2010 (£000)	Real Increase in Cash Equivalent Transfer Value (£000)
Mrs J Ridley Chief Executive	85-90	0 – 2.5 plus 2.5-5 lump sum	30–40 plus 105-110 lump sum	671	743	34
Miss A Hulme Head of Vetting Operations (to 2 Aug 09)	25-30**	0-2.5 plus 0-2.5 lump sum	20–25 plus 60-65 lump sum	336	353	11
Mr M Wraight Head of Vetting Operations (to 30 Aug 09)	35–40	2.5-5 plus 7.5-10 lump sum	20–25 plus 60-65 lump sum	292	349	42
Mrs J Shaw Head of Primary and Developed Vetting (to 14 Sept 09)	25-30***	0–2.5 plus 0–2.5 lump sum	15–20 plus 45-50 lump sum	197	213	8
Miss J A Coates Head of Customer Relations & Marketing	45-50	2.5-5 plus 7.5-10 lump sum	10-15 plus 30-35 lump sum	92	134	36
Mr M Wraight Head of Policy Plans & Quality (to 2 Aug 09)	15-20	0–2.5 plus 0–2.5 lump sum	15-20 plus 50-55 lump sum	280	292	7
Mr R Markwell**** Head of Policy Plans & Quality (from 3 Aug 09)	25-30****	2.5-5 plus 7.5-10 lump sum	10-15 plus 35-40 lump sum	124	166	37
Mr M D Fairbotham Head of Strategic Programmes	45–50	0–2.5 plus 0–2.5 lump sum	0-5 plus 0-5 lump sum	30	40	7
Mr A Mortimer Head of Developed Clearance and Field Investigations Division (from 2 Nov 09)	15-20****	0–2.5 plus 0–2.5 lump sum	5–10 plus 25-30 lump sum	133	159	24
Mrs S J Back Head of Resources	40-45	0–2.5 plus 2.5-5 lump sum	10–15 plus 35-40 lump sum	149	171	12
Mr M A Calaminus Head of Field Investigations Division (to 16 Nov 09)	25–30****	0–2.5 plus 0–2.5 lump sum	5–10 plus 15-20 lump sum	134	146	11
Mr W H Buckley Non Executive Director	5-10 (NED Fees)					
Mr P Rowley Non Executive Director (from 30 Jul 09)	0-5 (NED Fees)					

* The figure may be different from the closing figure in last year's accounts. This is due to the CETV factor being updated to comply the Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008.

** Annual Equivalent 75-80K, *** Annual Equivalent 60-65K, **** Annual Equivalent 40-45K.



2008 - 2009

	Remuneration Including Pay Performance (£000)	Real increase in Pension and related lump sum at age 60 (£000)	Total Pension at age 60 at 31 March 2009* (£000)	Cash Equivalent Transfer Value at 1 April 2008 (£000)	Cash Equivalent Transfer Value at 31 March 2009 (£000)	Real Increase in Cash Equivalent Transfer Value (£000)
Mrs J Ridley Chief Executive	80-85	0 – 2.5 plus 0–2.5 lump sum	30–35	622	681	2
Miss A Hulme Head of Vetting Operations	55-60	2.5 – 5.0 plus 2.5-5 lump sum	20–25	295	339	16
Mr M Revell Head of Customer Relations & Marketing (to 30 April 08)	0–5	0–2.5 plus 0-2.5 lump sum	10–15	192	194	1
Mr B Truscott Customer Relations Manager 30 April 08 to 23 Feb 09)	40-45	0–2.5 plus 0–2.5 lump sum	15–20	286	338	2
Miss J A Coates Head of Customer Relations & Marketing (From 23 Feb 09))	5-10	0–2.5 plus 0–2.5 lump sum	5–10	97	93	2
Mr M Wraight Head of Policy Plans & Quality	45-50	0–2.5 plus 0–2.5 lump sum	15-20	258	284	5
Mrs J Shaw Head of Primary and Developed Vetting	50–55	0–2.5 plus 0–2.5 lump sum	15-20	176	200	8
Mr M D Fairbotham Head of Strategic Programmes (from 17 Jul 08)	35–40	0–2.5 plus 0–2.5 lump sum	0-5	28	33	5
Mr M K Barley Head of Strategic Programme (to 17 Jul 08)	15-20	0–2.5 plus 0–2.5 lump sum	20–25	503	530	20
Mrs S J Back Head of Resources	40-45	0–2.5 plus 0–2.5 lump sum	10–15	135	152	5
Mr M A Calaminus Head of Field Investigations Division	40–45	0–2.5 plus 0–2.5 lump sum	5–10	119	135	12
Mr W H Buckley Non Executive Director	5-10 (NED Fees) 0-5 (other Fees)					
Mr B Newton Non Executive Director	10-15 (NED Fees)					

Note: Mr Newton received £14,763 during 2008-09 for the performance of his duties as a Non-Executive Director. Mr Buckley received £6,200 during 2008-09 for the performance of his duties as a Non-Executive Director. He was also paid £4,600 for additional NED work in direct support of the DVA's e-transformation project.



Salary

"Salary" includes gross salary, performance pay or bonuses, overtime, reserved rights to London weighting or London allowances, recruitment and retention allowances and any other allowance that is taxed in the UK.

Benefits in kind

The monetary value of Benefits in Kind covers any benefits we provide and which are treated by HM Revenue and Customs as a taxable emolument. There were no benefits in kind during the year (2008-09 £nil).

Pension

Pension benefits are provided through the civil service pension arrangements. From 1 October 2002, civil servants may be in one of the three salary based "final salary" defined benefit schemes (classic, premium, and classic plus). The schemes are not funded, with the cost of benefits paid for with money voted by Parliament each year. Pensions paid under classic, premium, and classic plus are increased each year in line with changes in the Retail Price Index. People joining the schemes after October 2002 may choose between being a member of premium, or joining a good quality "money purchase" stakeholder based arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium and classic plus. Benefits build up at the rate of 1/80 of pensionable salary for each year of service. They are also given in a lump sum equivalent to three years' pension when they retire. For premium, benefits build up at the rate of 1/60 of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum but members may give up (commute) some of their pension to provide a lump sum. Classic plus is essentially a variation of premium, but with benefits for service before 1 October 2002 worked out in broadly the same way as for classic.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension chosen by the employer. The employee does not have to contribute but where they do make contributions, these will be matched by the employer up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution).

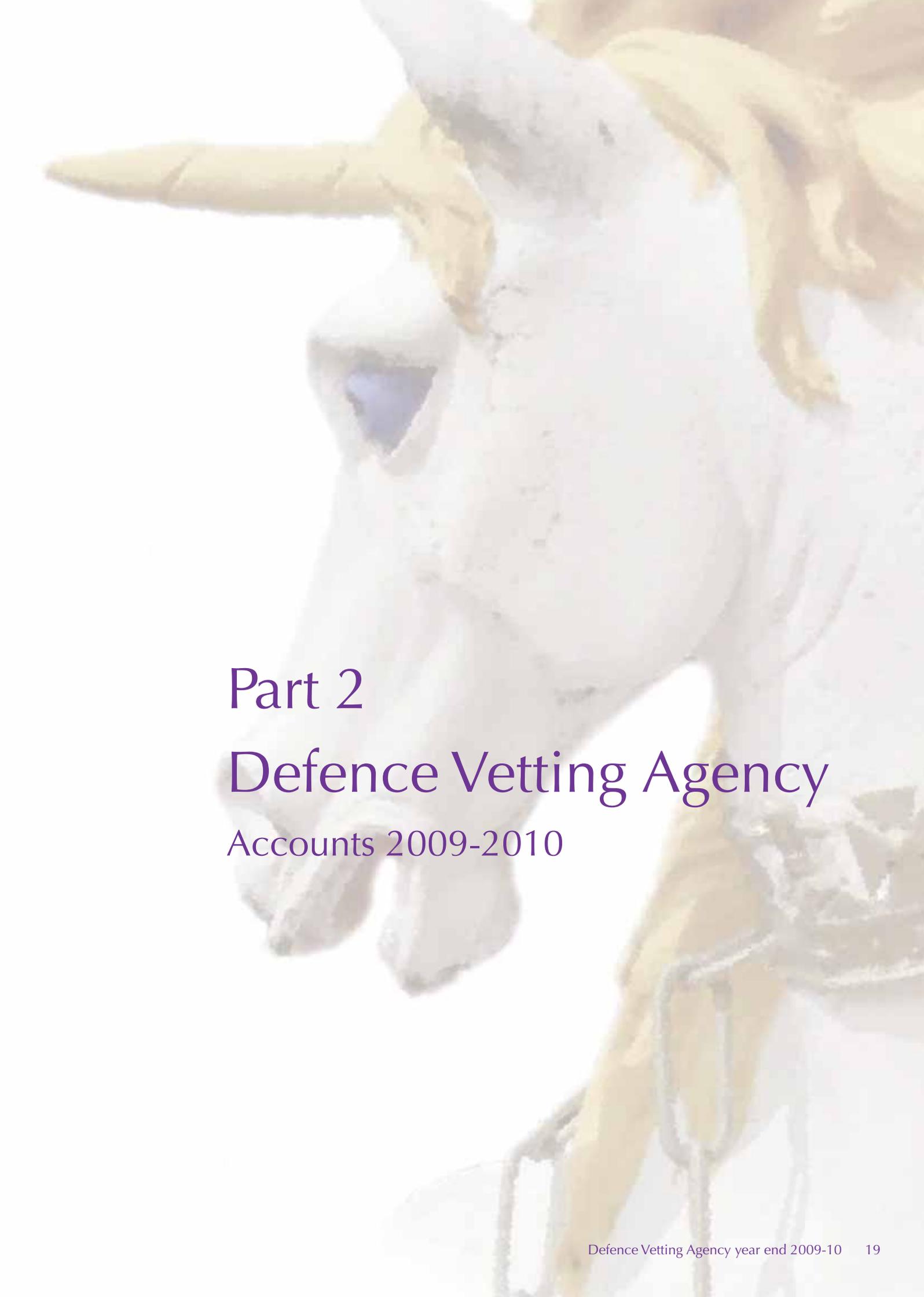
Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally provided risk benefit cover (death in service and ill health retirement).

Columns five and six of the pensions table show the members cash equivalent transfer value (CETV) built up at the beginning and the end of the reporting period. Column seven reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including and benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

A cash equivalent transfer value (CETV) is the capitalised value of the pension scheme benefits accrued by the member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to put pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits from their former scheme. The pension figures shown relate to the benefits that the individual has built up as a result of their total membership of the pension scheme. The CETV figures, and from 2003-2004, the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the civil service pension arrangement and for which the civil service vote has received a transfer payment which equals the extra pension liabilities they are taking on. They also include any extra pension benefit built up by the member as a result of buying extra years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries. The Chief Executive and other members of the Agency Management Board are in the classic pension scheme.

Members of the Owner's Advisory Board receive no remuneration from the Agency. The MOD pay the salaries and expenses for those members who are MOD staff. The non executive directors sit on our Audit and Risk Assurance Committee and Programme Board. They are paid £350 a day for each day they work on our behalf.

Jacky Ridley, Chief Executive
12 July 2010



Part 2
Defence Vetting Agency
Accounts 2009-2010



Foreword to the Accounts

Introduction

1. These accounts relate to the eleventh year for which we have had to produce full financial accounts. We have prepared the accounts in line with a direction given by the Treasury under Section 7(2) of the Government Resources and Accounts Act 2000.

Background

2. The DVA is an Executive Agency of the Ministry of Defence, within the budget area of the Central Top Level Budget (TLB). In financial reporting terms, it is a Basic Level Budget (BLB) reporting to the Director Business Resilience as the Agency Owner and to the Director General Human Resources & Corporate Services Higher Level Budget (HLB). For Departmental Resource Account submission it holds the status of a Management Grouping reporting directly to the Central TLB.

3. The Agency was formed on 1st April 1997, bringing together the four vetting units of the three Armed Services and of HQ MOD. The Agency is located at Imphal Barracks, York.

Our Main Activity

4. Our main activity is to carry out security checks on individuals in the Armed Services, the MOD Civil Service, other government departments, and in the Defence Industry. The purpose of the checks is to provide a level of assurance as to how suitable those individuals are to hold security clearances or to be allowed access to military installations, valuable assets and classified information.

Business Review

5. The agency was set key targets covering quality, timeliness and efficiency. You can find full details of these key targets, including comments and performance, in part 1 of this annual report.

DVA Owner's Advisory Board

6. The Secretary of State for Defence delegates ownership responsibilities to the Director Business Resilience (DBR). The Owner is responsible for:

- a. setting the strategic direction of the Agency.
- b. setting the policy and standards to be followed by the Agency.
- c. approving the Agency corporate and business plans, and the key targets within these; and
- d. approving the Agency's annual budget.

7. The DVA Owner's Advisory Board (DVA OAB) is available to DBR to provide advice on the responsibilities outlined above. The members of the OAB during 2009-2010 are shown below.

Chairman

Mr M Preston DBR

Members:

Mrs J Ridley Chief Executive DVA

Miss J Duberry DBR Personnel Security Policy

External Members

Ms A Porter Non Executive Director



8. Membership of the OAB is an ex-officio appointment for the MOD staff detailed above. Their salaries and expenses are paid for by the Department. The external board member receives no payment from the Agency.

Agency Chief Executive

9. As the Chief Executive of the DVA I am responsible for all aspects of the day-to-day running of the Agency. I answer to the Principal Accounting Officer of the MOD (the Permanent Under Secretary) for the propriety and regularity of the Agency's expenditure along with its prudent and economical administration. I was appointed as Chief Executive through Civil Service open competition recruitment. Civil Service Management Code regulations will apply on termination of my appointment as the Chief Executive and other members of the Management Board.

DVA Management Board

10. The main mechanism through which I, as the Chief Executive, carry out my responsibilities is through the Agency's Management Board (AMB), which meets every month. The members during 2009-2010 are shown below.

Chairman

Mrs J Ridley Chief Executive

Members

Miss A Hulme (to 2 Aug 09) - Head of Vetting Operations

Mr M Wraight (from 3 Aug 09) - Head of Vetting Operations

Mrs J Shaw (to 14 Sep 09) - Head of Primary and Developed Vetting Division

Miss J Coates - Head of Customer Relations and Marketing

Mr M Wraight (to 2 Aug 09) - Head of Policy Plans and Quality

Mr R Markwell (from 3 Aug 09) - Head of Policy Plans and Quality

Mr M A Calaminus (to 16 Nov 09) - Head of Field Investigations Division

Mr A Mortimer (from 2 Nov 09) - Head of Developed Vetting and Field Investigations Divisions

Mr M Fairbotham - Head of Strategic Programmes

Mrs S J Back - Head of Resources

11. You can find details of the salaries and pension entitlements of the Chief Executive and other members of the Management Board in the Remuneration Report.



Employment Policies

12 The Agency's policy is to employ and promote staff on the basis of individual merit and not to discriminate.

Staff Involvement, Development and Training

13. The Agency keeps staff informed through individual and group briefings, personal letters and newsletters. The DVA Training and Development Plan reflects the Agency's training and development needs as well as those of the MOD. An induction programme is provided for all new people joining the Agency. The Agency is accredited with the Investors in People Standard.

Policy on the Payment of Payables

14. All the Agency's bills are paid through the Financial Management Shared Service Centre (FMSSC), which took over the responsibilities of the Defence Bills Agency. In the period 1 April 2009 to 31 March 2010, the FMSSC paid 99.76% of all correctly submitted bills within 11 calendar days, ensuring that the Department is in compliance with its statutory obligation under the Late Payment of Commercial Debts (Interest) Act 1998.

Pension Arrangements

15. On 1 October 2002 new Civil Service pensions arrangements came into effect. From that date all new entrants to the Department have the option to join either the new defined benefits (DB) scheme, known as 'Premium' or to join the new defined contributions (DC) scheme known as the 'Partnership Pension Account'.

16. Under the new arrangements, new people cannot join the current Principal Civil Service Pension Scheme (PCSPS), which has now been renamed the 'Classic' and has become a closed scheme. Existing members of the PCSPS can stay in Classic, choose to transfer to Premium or choose 'Classic Plus' where they will transfer to premium but only for their service after 1 October 2002.

17. The Department makes regular payments of Superannuation Contributions Adjusted for Past Experience (SCAPE) into the relevant pension schemes at rates set by the Government Actuary. Liability for payment of future pension benefits to members is a charge on the schemes and not a liability of the Department.

Auditors

18. The Accounts are audited by the Comptroller and Auditor General in line with Section 7(3) of the Government Resources and Accounts Act 2000. During the year the charges to the Operating Cost Statement for audit services provided were £38,000. No non-audit services were provided. Internal audit services are provided by the MOD Directorate of Internal Audit.

Statement on Disclosure to Auditors

19. So far as I am aware, there is no relevant audit information of which the DVA's auditors are unaware, and I have taken all steps to make myself aware of any relevant audit information and to make sure that the DVA's auditors are also aware of that information.

Jacky Ridley,
Chief Executive
12 July 2010



Statement of the Agency's and Accounting Officer's Responsibilities

Under Section 5(2) of the Government Resources and Accounts Act 2000 the Treasury have directed the Defence Vetting Agency to prepare a statement of accounts for each financial year in the form and on the basis set out in the Accounts Direction dated 22 December 2009. The accounts are prepared on an accruals basis and must give a true and fair view of the Agency's state of affairs at the year end and of its net operating cost, recognised gains and losses and cash flows for the financial year.

In preparing the Accounts the Accounting Officer is required to:

- observe the Accounts Direction issued by the Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed, and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Agency will continue in operation.

The Departmental Accounting Officer for the Ministry of Defence has designated the Chief Executive of the Defence Vetting Agency as the Accounting Officer for the Agency. Her relevant responsibilities as Accounting Officer, including her responsibility for the propriety and regularity of the public finances for which she is answerable and for the keeping of proper records, are set out in the Accounting Officer's Memorandum, issued by the Treasury and published in the Government Financial Reporting Manual.



Statement on Internal Control

The Scope of Responsibility

As Accounting Officer for the Defence Vetting Agency (DVA), I have responsibility for maintaining a sound system of internal control that supports the achievement of departmental policies, aims and objectives, set by the Department's Ministers whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Managing Public Money.

The Agency's Corporate Governance arrangements benefit from active involvement with a number of individuals and bodies who have the knowledge and expertise to aid me in properly discharging my role as Accounting Officer (AO). The Agency Owner provides me with support and guidance through twice yearly Owner's Advisory Board (OAB) meetings and twice yearly Target & Performance Sub Committee (T&PSC) meetings, which are a sub committee of the OAB but are chaired by the Owner's Non-Executive Director (NED). All my corporate documentation is reviewed and agreed with the owner prior to publication.

The Agency Strategic and Management Boards both offer me assistance and advice and the National Audit Office (NAO) and Defence Internal Audit (DIA) both work together with members of the Agency Risk and Assurance Committee (ARAC) to provide support on audit matters, work plans and financial & risk items.

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 Agency's system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Agency 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 Agency during the year ended 31 March 2010 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance unless specifically stated in the following sections.

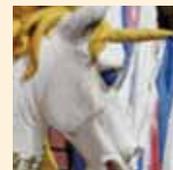
Capacity to Handle Risk

Risk management is embedded into the corporate planning and programme management systems. In year, my senior managers have participated in a workshop, lead by the DIA, to review the risk management process and aid the process used within the Agency to highlight risks. The workshop was a success and enabled members to further improve on an already functioning business focussed risk register. This exercise has been invaluable for challenging risk and ensuring that corporate risks have been captured and addressed throughout the year.

The Agency now has a better understanding of the principles of public risk management.

Executive managers within the Agency undertake development and maintenance of the system. In particular it includes:

- comprehensive budgeting systems with an annual budget which is agreed as part of MOD's resource allocation process.
- regular reviews by the Agency's Management Board of monthly, periodic and annual financial reports which indicate financial performance against the forecasts.
- setting targets to measure financial and other performance.
- clearly defined capital investment control guidelines.
- formal project management disciplines.
- regular reviews of the Agency's Key risks and actions being taken to minimise the effects of these risks, and
- a full rolling audit and assurance programme to ensure that risks are examined and addressed.



The Risk and Control Framework

The following governance processes were established during 2009/10:

- Inclusion within pan-MOD internal audits were provided by the DIA.
- Advice and consultancy support was provided by DIA following discussions at the ARAC.
- The Assurance programme was reviewed by the ARAC and implemented in year. This programme was reviewed at quarterly Committee meetings and additional assurances sought and implemented as required.
- The Agency's central record of all audits carried out by the DIA on the Agency was updated in year. All recommendations together with any management action taken were reviewed and updated on a quarterly basis, and
- The risk matrix, used to define the risk appetite within the Agency, was reviewed and updated in year to provide clarity and aid prioritisation of risks on both corporate and lower level risk registers.

The Agency has in place a corporate risk register and lower level divisional risk registers which are reviewed by the Agency Management Board, together with the ARAC on a regular basis. This provides the Agency with the ability to monitor new or emerging risks and, where possible, agree and put in place risk mitigation actions.

The biggest challenge for the Agency both in year, and over the coming two years, has been, and will continue to be, the work to deliver the e-transformation programme. This involves the implementation of a new business system (Cerberus) which will come into full operating capability in the last quarter of 2010/11. The system is breaking new ground for the MOD in the area of access to IT systems, and also due to its Pan Government and approved contractor usage. The programme and projects are being managed under Prince 2 principles with associated risk registers that are reviewed and challenged monthly.

Fiscal pressure on public expenditure will lead to increased financial challenges not only within the MOD but within this Agency and will also impact upon the repayment work received from Other Government Departments (OGDs). Going forward this risk is being managed by suggesting a capping & charging regime for MOD customers and by discussing with OGDs their continued demand for National Security Vetting services.

During 2009/10 a change in the guidance of charging MOD Trading Funds for services was discovered. Discussions began with MOD Trading Funds and these have culminated in agreement to Joint Business Agreements (JBAs) to support direct repayment charging with effect from 1 July 2010. A system is in place to recognise the creation of any new Trading Funds so that charging can be implemented immediately.

The protection of information is of paramount importance to the DVA and the security arrangements of the MOD provide DVA with a rigorous level of physical protection. All IT security developments have been fully accredited to meet all information assurance and security standards. Work has been completed to assess our current capacity and to develop an action plan to ensure the DVA meets the government requirements for Level 3 assurance by 2012.



Review of Effectiveness

As AO, 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 executive managers within the Agency who have responsibility for the development and maintenance of the internal control framework, the stewardship statements and advice received from the Agency's 2 Non-Executive Directors (NEDs) (one who currently sits on the ARAC and the other on the Cerberus Project & Programme Boards), 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 Management Board and the ARAC and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The Agency Management Board together with the ARAC are adhering to a policy of continuous improvement to examine the existing internal processes within the organisation and provide a comprehensive and forward looking process of risk management, compliance and assurance for myself as the Accounting Officer.

The Chair of the ARAC is a NED, and provides me with levels of assurance around risk management and corporate governance across my organisation. The ARAC meet on a quarterly basis and seek information from DVA management, the NAO and DIA to assist in their role of challenging business practices, to provide me with the assurance that I require as AO of the Agency.

Due to budgetary constraints decisions were taken, in conjunction with the previous Agency Owner, around NED membership of the ARAC and this resulted in a temporary reduction of NED roles upon this Committee. This has left the Committee with three members; one from outside the Agency and the other two from within the Agency. I am still provided with the level of assurance and challenge that my business requires despite being outside Treasury guidelines. I am hoping that with effect from late Autumn I will be able to utilise the days currently consumed by my other NED for Cerberus IT project work for the ARAC. I am also working through options for co-opting a further member from an unrelated MOD business unit. When the other DVA NED returns to the ARAC and the independent member is agreed I intend to ask the two DVA staff members to step down as ARAC members and to act in a 'report to' capacity.

The Corporate Risk Register contains the top risks across my organisation and is linked to Agency business objectives and Key Targets. The top risks are currently:

- lack of Central MOD funding.
- reduction in demand from OGDs.
- Cerberus IT system development & implementation, particularly around interface issues with third party suppliers.
- business impact of the change programme, and
- on going performance issues from third party suppliers.

This final risk was actually an issue at the end of 2008/09.

An additional risk but ongoing risk which was observed by previous ARAC members was the potential impact of loss of key personnel. Consideration was given to increasing staff in critical areas such as the Agency Accountant or IT Manager. In the current economic climate this option was not viable so alternatives have been pursued, these include: accepting the level of risk, sharing resources from other MOD business units and filling any future vacancies from the wider civil service.



The DVA is subject to audit by the MOD DIA, which operates to standards defined in the Government Internal Audit Manual. The work of the internal auditors is informed by an analysis of the risks to which the Department as a whole is exposed, and annual audit plans are based on this analysis. The analysis of risks and the internal audit plans are endorsed by the Defence Audit Committee and approved by the Permanent Under Secretary. The DIA has provided the Agency with a substantial audit opinion in its audit during FY2009/10. The DIA undertook 1 new internal audit examination within the Agency during the 2009-2010 financial year and also facilitated a Risk Management Workshop. The audit covered the Agency's Key Targets (substantial assurance received). The workshop sought to review the existing risk registers and risk management process. The Agency also contributed towards the pan MOD Information Assurance Audit and was commended on a number of initiatives undertaken within the organisation, and also a pan Top Level Budget (TLB) audit on Transaction processing and was commended on its financial controls within the organisation.

The 2009/10 DIA programme for the DVA was lighter than in previous years; this programme was agreed as meeting the assurance needs for 2009/10. Following the requirement for a DIA annual assurance statement it has been agreed that the audit programme for 2010/11 third and fourth quarters will be increased against the 2009/10 baseline with additional audits already scheduled for the first and second quarters.

During the year a great deal of work has been undertaken on Information Assurance and the following key points from the year should be noted:

- All available staff have completed Protecting Information Level 1 Course.
- All information assets have been identified and assigned to Information Asset Owners.
- Robust information governance exists, supported by an effective compliance regime by the DVA's Corporate Governance Manager.
- All elements of the system meet relevant compliance standards. For the new Cerberus Vetting IT system, the DSAS accreditor has been involved in each stage of the process.
- During 2009/10 there have been a total of 26 Security Contraventions within the DVA, only two of these were of an IA nature, one of which was referred to CIO (CIO ref 3-27-1, Sep 09).
- A policy is in place to report all contraventions.
- A policy is in place to investigate and in all cases consideration given to whether disciplinary action would be appropriate, and the outcome of the decision is recorded.
- The results of investigations and disciplinary action taken are reported to Central MOD in order that lessons may be learned across the Department, and
- An OGC gateway review was completed in year on the Cerberus project. This provided an amber level assurance with all recommendations now being either complete or in hand.

I can report that all recommendations of the 2009/10 Information Assurance Maturity Model Peer Review report have been completed apart from one which is under discussion in light of recent budgetary issues. This will be resolved by July 2010. All recommendations from the Centre/CIO office with regard to the security of removable media have been addressed and all staff have completed their data handling on-line training. Level 1 assessment against the assurance model took place in year by a member of CIO and the DVA was shown to be well positioned. An Information Maturity Model audit was also undertaken and a number of improvement areas were highlighted. These are now being addressed as part of an action plan which is being monitored by the ARAC.

Jacky Ridley
Chief Executive
12 July 20



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 the Defence Vetting Agency for the year ended 31 March 2010 under the Government Resources and Accounts Act 2000. These comprise the Operating Cost Statement and Statement of Changes in Taxpayers' Equity, the Statement of Financial Position, the Statement of Cash Flows 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 Chief Executive and auditor

As explained more fully in the Statement of Chief Executive Responsibilities, the Chief Executive is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit the financial statements 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 statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Agency's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Agency; and the overall presentation of the financial statements.

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

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 statements

In my opinion:

- the financial statements give a true and fair view, of the state of the Agency's affairs as at 31 March 2010, and of the net operating cost, changes in taxpayers' equity and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Management Commentary, What We Do, Key Target Performance, Business Plan Review and the part of the Remuneration Report not subject to audit, included within the Annual Report, for the financial year for which the financial statements are prepared is consistent with the financial statements.

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 statements are 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's guidance.

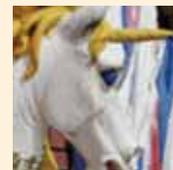
Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General
National Audit Office 157-197 Buckingham
Palace Road Victoria London SW1W 9SP
15 July 2010

2009-10 Defence Vetting Agency Accounts

Operating Cost Statement For The Year Ended 31 March 2010



		2009/10		2008/09	
		£000		£000	
	Note	Staff costs	Other costs	Income	
Administration costs					
Staff costs	3	13,759			12,646
Other administrative costs	4		3,752		4,873
Operating income	5			(4,182)	(3,207)
Totals		13,759	3,752	(4,182)	14,312
Net operating cost				13,329	14,312

All income and expenditure are derived from continuing operations.
There were no material acquisitions or disposals in the year.

Statement of Financial Position

As at 31 March 2010

	Note	31 March 2010	31 March 2009	1 April 2008
		£000	£000	£000
Non current assets				
Plant & equipment	6	256	305	163
Intangible assets	7	3,514	568	143
Total non-current assets		3,770	873	306
Current assets				
Trade and other receivables	8	844	882	723
Total current assets		844	882	723
Total assets		4,614	1,755	1,029
Current liabilities				
Trade and other payables	9	(1,874)	(1,248)	(653)
Total current liabilities		(1,874)	(1,248)	(653)
Assets less liabilities		2,740	507	376
Taxpayers' equity				
General fund		2,726	495	366
Revaluation reserve		14	12	10
Total taxpayers' equity		2,740	507	376

Jacky Ridley

Jacky Ridley
Chief Executive
12 July 2010

The notes on pages 32 to 41 form part of these accounts



Statement of Cash Flows

For the year ended 31 March 2010

	Note	2009/10 £000	2008/09 £000
Cash flows from operating activities			
Net operating cost		(13,329)	(14,312)
Adjustments for non-cash transactions	4	1,562	1,544
(Increase)/Decrease in trade and other receivables	8	38	(159)
Increase/(Decrease) in trade and other payables	9	626	595
Net cash outflow from operating activities		(11,103)	(12,332)
Cash flows from investing activities			
Purchase of plant and equipment	6	(37)	(160)
Purchase of intangibles	7	(2,982)	(566)
Net cash outflow from investing activities		(3,019)	(726)
Net financing from Defence Resource Account		14,122	13,058
Net increase/(decrease) in cash and cash equivalents in the period		-	-
Cash and cash equivalents at the beginning of the period		-	-
Cash and cash equivalents at the end of the period		-	-

The notes on pages 32 to 41 form part of these accounts

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2010



	Note	General Revaluation		Total Reserves
		Fund £000	Reserve £000	
Balance at 31 March 2008				
Changes in Accounting Policy		366	10	376
		-	-	-
Restated balance at 1 April 2008		366	10	376
Changes in taxpayers' equity for 2008-09				
Net gain on revaluation		-	2	2
Non cash items				
IT maintenance & software	4	512	-	512
Services provided by MOD	4	312	-	312
Higher formation costs	4	281	-	281
Works services	4	182	-	182
Audit remuneration	4	38	-	38
Contribution in lieu of rates	4	33	-	33
Cost of capital charge	4	25	-	25
Net operating cost for the year		(14,312)	-	(14,312)
Total recognised income & expense for 2008-09		(12,929)	2	(12,929)
Funding from Defence Resource Account		13,058		13,058
Balance at 31 March 2009		495	12	507
Changes in taxpayers' equity for 2009-10				
Net gain on revaluation		-	2	2
Non cash items				
IT maintenance & software	4	499	-	499
Services provided by MOD	4	213	-	213
Higher formation costs	4	569	-	569
Works services	4	-	-	-
Audit remuneration	4	38	-	38
Contribution in lieu of rates	4	33	-	33
Cost of capital charge	4	86	-	86
Net operating cost for the year		(13,329)	-	(13,329)
Total recognised income & expense for 2009-10		(11,891)	2	(11,891)
Funding from Defence Resource Account		14,122	-	14,122
Balance at 31 March 2010		2,726	14	2,740

The notes on pages 32 to 41 form part of these accounts



Notes to the Accounts

1 ACCOUNTING POLICIES

a) Statement of Accounting Policies

The financial statements have been prepared in accordance with the Government Financial Reporting Manual (FReM) issued by HM Treasury and the Treasury Accounts Direction issued on 22 December 2009. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted for the public sector. Where the FReM permits a choice of accounting policy, the policy which is judged to be most appropriate to the particular circumstances of the Defence Vetting Agency (DVA) for the purpose of giving a true and fair view has been selected. The particular policies adopted by the DVA are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

b) Accounting Convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of plant and equipment and intangible assets

c) Value Added Tax

The Agency is not separately registered for Value Added Tax (VAT) and VAT collected is accounted for centrally by the Ministry of Defence. The Agency's accounts do however, include non-recoverable VAT attributable to its activities.

d) Operating Income

Operating Income solely consists of the value of transactions for vetting services to repayment customers. The amounts charged are calculated to reflect the full cost to the Agency of providing the service. No value is attributed in the accounts to services provided to the Ministry of Defence. The funding of the Agency by the Ministry of Defence is shown in cash terms in the Cash Flow Statement.

e) Notional Charges

i) Auditor's Remuneration

DVA is not charged an auditor's remuneration cost by the National Audit Office. The auditors remuneration charge represents a notional fee to the Operating Cost Statement based on the cost of services provided.

ii) Intra-departmental Services

Notional amounts are included in the operating costs for charges in respect of services provided from other areas of the Ministry of Defence. The amounts charged are calculated to reflect the full cost of providing these services to the Agency.

iii) Cost of Capital

A notional charge for cost of capital is included in operating costs. This is calculated as 3.5 percent on the monthly average value of net total assets. The Imphal Barracks site owner notifies a notional agency cost of capital charge



Notes to the Accounts (continued)

f) Plant and Equipment

On 1 April 2006 the Ministry of Defence transferred responsibility for accounting for property, plant and equipment from the Defence Vetting Agency to other parts of the Department. As the Agency retains the risks and rewards of ownership of these items they continue to be accounted for on the Agency's Statement of Financial position. Non-current assets are valued at current replacement cost which is deemed representative of fair value. Estimated useful lives are as follows:

	Estimated useful life in years
Networked Computer Systems	5
Personal computers	3
Office equipment	10-15
Plant and Machinery	15-20

g) Capitalisation and Revaluation

Items are capitalised where the useful life exceeds one year. The values of non-current assets are revised annually, between formal revaluations, using indices provided by the Department.

Any reduction in the valuation below historical cost arising either from the use of indices or from professional revaluation is treated by the Agency as an impairment and is charged to the Operating Cost Statement.

The capitalisation level of the Agency is set at £2,000.

h) Depreciation and Amortisation

Depreciation and amortisation are provided at rates calculated to write off the cost of acquisition or valuation by equal instalments over the asset's estimated useful life. Asset lives are periodically reviewed for technical obsolescence.

i) Intangibles

As with Plant & Equipment, on 1 April 2006 the Ministry of Defence also transferred responsibility for accounting for intangibles from the Defence Vetting Agency to other parts of the Department. As the Agency retains the risks and rewards of ownership of these items they continue to be accounted for on the Agency's Statement of Financial position. Intangibles are valued at current replacement cost which is deemed representative of fair value. The Estimated Useful Life of Intangibles is 7 years.

j) Cash Balances

The Agency does not hold any cash balances in its own right.

k) Pension Costs

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which is a defined benefit scheme and is unfunded and non-contributory. The Defence Vetting Agency recognises the expected cost of providing pensions 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 Agency recognises the contributions payable in year.



Notes to the Accounts (continued)

l) Taxation and Social Security Liabilities

As the Ministry of Defence charges the Agency during the year with the gross payments, inclusive of PAYE and National Insurance contributions, due to Agency employees, the Department is liable for the payment of any liabilities which may be due to HM Revenue and Customs or Department for Works and Pensions at the end of the reporting period, and these are not disclosed in the Agency's statement of financial position.

m) Employee Benefits

DVA recognises a liability and expense for all employee benefits, including unused annual leave, accrued at the end of the reporting period, provided these amounts are material in the context of the overall staff costs.

n) Reserves

The revaluation reserve reflects the unrealised gain following indexation and revaluation adjustments.

2. FIRST-TIME ADOPTION OF IFRS

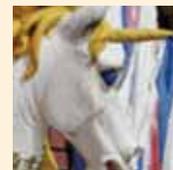
	General Revaluation	
	Fund	Reserve
	£000	£000
Taxpayers' equity at 31 March 2009 under UK GAAP	939	12
Adjustments for:		
Accrual for employee benefits (IAS 19)	(444)	-
Taxpayers' equity at 1 April 2009 under IFRS	495	12
Net operating cost for 2008-09 under UK GAAP	14,231	
Adjustments for:		
Employee benefits (IAS 19)	81	
Net operating cost for 2008-09 under IFRS	14,312	

3. STAFF COSTS AND NUMBERS

Staff costs comprise:

	2009/10		2008/09	
	£000		£000	
	Permanently employed staff	Agency staff	Total	Total
Wages and salaries	10,932	252	11,184	10,263
Social security costs (ERNIC)	753		753	674
Other pension costs	1,822		1,822	1,709
Total Costs			13,759	12,646

Total capitalised staff costs during 2009/10 amounted to £304k (2008/09 £200k).



Notes to the Accounts (continued)

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

For 2009-2010, employer's contributions of £1,821,667 were payable to the PCSPS (2008-2009, £1,709,149) at rates in the range 17.1 to 26.5 per cent of pensionable pay, based on salary bands. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. 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 employees during the year was as follows:

	2009/10		2008/09	
	Permanent staff	Others	Total	Total
Directly employed	448	-	448	397
Agency staff	-	10	10	39
Staff engaged on capital projects	10	-	10	10
Total	458	10	468	446

4. OTHER ADMINISTRATIVE COSTS

	2009/10	2008/09
	£000	£000
Support services	133	160
Travel and subsistence	1,087	1,008
Contract/Consultant Staff	268	928
IT maintenance and software	286	408
Works and maintenance	64	298
Office running costs	195	213
Telecommunications	99	175
Utilities	48	73
Training	10	64
Legal fees	-	1
Foreign currency stabiliser	-	1
	2,190	3,329
Non cash Items		
IT maintenance & software	499	512
Services provided by MOD	213	312
Higher formation costs	569	281
Works services	-	182
Depreciation and amortisation	76	150
Impairment on non-current assets	48	11
Auditor's remuneration	38	38
Contribution in lieu of rates	33	33
Cost of capital charge	86	25
Total	3,752	4,873



Notes to the Accounts (continued)

5. OPERATING INCOME

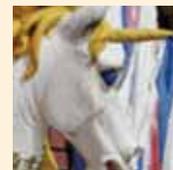
The sources of operating income for the year were:

	2009/10	2008/09
	£000	£000
Repayment for services provided to other government departments	3,933	2,848
Repayment for services provided to commercial organisations	167	284
Repayment for services provided to overseas governments	82	75
Total	4,182	3,207

Rates charged to repayment customers for Vetting Services are based on the requirement to recover the full cost to the Agency of providing such services. As the above table shows income of £4.182M was received in Financial Year 2009/10 with no surplus/deficit being incurred by the DVA. The Financial Objective was therefore achieved.

6. PLANT AND EQUIPMENT

	Plant & machinery	Information technology	Assets under construction	Total
	£000	£000	£000	£000
Cost/valuation				
At 1 April 2009	131	256	233	620
Additions	-	-	37	37
Revaluations	3	(1)	(14)	(12)
Disposals	-	(118)	-	(118)
Reclassifications	-	256	(256)	-
At 31 March 2010	134	393	-	527
Depreciation				
At 1 April 2009	63	252	-	315
In year charge	7	67	-	74
Backlog charge	1	(1)	-	-
Disposals	-	(118)	-	(118)
At 31 March 2010	71	200	-	271
Net book value				
At 31 March 2010	63	193	-	256
At 31 March 2009	68	4	233	305



Notes to the Accounts (continued)

	Plant & machinery	Information technology	Assets under construction	Total
Cost/valuation	£000	£000	£000	£000
At 1 April 2008	127	248	78	453
Additions	-	-	160	160
Revaluations	4	8	(5)	7
Disposals	-	-	-	-
At 31 March 2009	131	256	233	620
Depreciation				
At 1 April 2008	53	237	-	290
In year charge	8	11	-	19
Backlog charge	2	4	-	6
Disposals	-	-	-	-
At 31 March 2009	63	252	-	315
Net book value				
At 31 March 2009	68	4	233	305
At 31 March 2008	74	11	78	163



Notes to the Accounts (continued)

7. INTANGIBLE ASSETS

Intangible assets comprise software packages

	Assets under construction	Software	Total £000
Cost or valuation			
At 1 April 2009	566	656	1,222
Additions	2,982	-	2,982
Revaluation	(34)	(40)	(74)
At 31 March 2010	3,514	616	4,130
Amortisation			
At 1 April 2009	-	654	654
Charged in year	-	2	2
Backlog charge	-	(40)	(40)
At 31 March 2010	-	616	616
Net book value at 31 March 2010	3,514	-	3,514
Cost or valuation			
At 1 April 2008	-	704	704
Additions	566	-	566
Revaluation	-	(48)	(48)
At 31 March 2009	566	656	1,222
Amortisation			
At 1 April 2008	-	561	561
Charged in year	-	131	131
Backlog Charge	-	(38)	(38)
At 31 March 2009	-	654	654
Net book value at 31 March 2009	566	2	568
Net book value at 31 March 2008	-	143	143

8. TRADE RECEIVABLES AND OTHER CURRENT ASSETS

Amounts falling due within one year

	31 March 2010 £000	31 March 2009 £000	1 April 2008 £000
Trade receivables	500	532	273
Accrued income	301	299	423
Prepayments	43	51	27
Totals	844	882	723

Notes to the Accounts (continued)

Receivables are attributed as follows

	31 March 2010 £000	31 March 2009 £000	1 April 2008 £000
Other central government bodies	507	510	205
Local authorities	203	231	68
National health service bodies	-	-	-
Public corporations and trading funds	-	-	-
Bodies external to government	134	141	450
Totals	844	882	723

There were no receivables falling due after more than one year.

9. TRADE PAYABLES AND OTHER CURRENT LIABILITIES

Amounts falling due within one year

	31 March 2010 £000	31 March 2009 £000	1 April 2008 £000
Trade payables	29	350	70
Accruals	1,845	898	583
Totals	1,874	1,248	653

Payables and accruals are attributed as follows

	31 March 2010 £000	31 March 2009 £000	1 April 2008 £000
Other central government bodies	-	-	-
Local authorities	-	-	-
National health service bodies	-	-	-
Public corporations and trading funds	-	-	-
Bodies external to government	1,874	1,248	653
Totals	1,874	1,248	653

There were no payables falling due after more than one year.





Notes to the Accounts (continued)

10. RELATED PARTY TRANSACTIONS

The Defence Vetting Agency is an Agency of the Ministry of Defence. The Ministry of Defence is regarded as a related party. During the period 1 April 2009 to 31 March 2010 the Defence Vetting Agency has had significant material transactions with the Ministry of Defence.

In addition the Agency has had a number of transactions with other Government Departments (principally the Home Office, National Criminal Intelligence Service, Cabinet Office, Department for Business, Enterprise and Regulatory Reform and HM Revenue and Customs).

During the year none of the senior staff and other key management staff, or other related parties, has undertaken any material transactions with the Defence Vetting Agency.

11. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

The DVA has capital commitments in respect of the Cerberus IT project of £1.6M (2008-09 £3m). This project is scheduled to conclude in 2010-11

12. LOSSES AND SPECIAL PAYMENTS

There were no losses or special payments that required disclosure within the accounts as at 31 March 2010.

13. EVENTS AFTER THE REPORTING PERIOD

There have been no events since the end of the financial year which would affect the understanding of the financial statements. I can confirm that the date of issue of the financial statements will be the same as the date of the Comptroller and Auditor General's Certificate and Report.

Since the end of the Financial Year the Treasury has announced that cost of capital charges will no longer be applied to Agency accounts this will effect the accounts for the next financial year.

I can confirm that these accounts have been authorised for issue on the date of the Comptroller and Auditor General's Certificate.

14. FINANCIAL INSTRUMENTS

Agencies are required to provide disclosures in respect of the role of financial instruments on performance during the period, the nature and extent of the risks to which the Agency is exposed and how these risks are managed..

As the cash requirements of the Agency are primarily met through Ministry of Defence (MoD) funding, financial instruments play a more limited role in creating risk than would apply to a non-public sector body of a similar size. The majority of financial instruments relate to contracts for non-financial items in line with the Agency's expected purchase and usage requirements and the Agency is therefore exposed to little liquidity risk.

The Agency is not exposed to significant credit risk as its customers are all other government departments or Crown Bodies.

Interest rate risk

The Agency has no financial assets and liabilities on which interest is earned or paid, and is therefore not exposed to significant interest rate risk.



Notes to the Accounts (continued)

Currency risk

The Agency does not hold assets or liabilities denominated in a foreign currency, and income and expenditure denominated in a foreign currency is negligible. The Agency is therefore not exposed to significant currency risk.

The Ministry of Defence, through whose Resource Account the Agency is financed, enters into forward purchase contracts annually with the Bank of England to cover the majority of its foreign exchange requirements for the following year. Small gains/losses in foreign currency transactions may occur as a result of minor transactions falling outside the remit of the forward purchasing agreement. The details of the outstanding foreign currency contracts are given in the Departmental Resource Account.

Liquidity Risk

The Agency is not exposed to significant liquidity risk, as liquidity requirements are met by financing from the Ministry of Defence Resource Account, and it has no borrowing facilities. The Department's resource requirements are voted annually in Parliament.

Embedded Derivatives

Derivatives embedded in other financial instruments or host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not measured at fair value with changes in fair value recognised in the operating cost statement. The Agency operates a commercial framework whereby it does not currently hold financial risks of this nature, and places restrictions on doing so in the future. No embedded derivatives exist in the agreements the Agency has entered into with customers or suppliers.

Fair Value of Financial Instruments

Details of the financial instruments by valuation methods are:

	Carrying Value 31 March 2010 £000	Carrying Value 31 March 2009 £000
Financial Assets		
Historic Cost	844	882
Financial Liabilities		
Historic Cost	(1,874)	(1,248)

These values are equal to the carrying values as they are all considered to be short term financial instruments.

15. GOING CONCERN

It is envisaged that the Defence Vetting Agency will remain as an executive agency within the Ministry of Defence for the foreseeable future.

16. SEGMENTAL REPORTING

The Defence Vetting Agency only deals with National Security Vetting matters and this is represented as a single business entity under segmental accounting.



Contact Details

For all general and vetting enquiries:

Visit our website at: www.mod.uk/dva

Send e-mail to: dvacustomersupport@mod.uk

Write to:

Defence Vetting Agency, Building 107, Imphal Barracks, Fulford Road, York YO10 4AS.

Contact our Help Desk by telephone or fax

T: 01904-662644

F: 01904-662765



The lion and unicorn design elements in this document are based on the crest situated outside the DVA's front entrance in Imphal Barracks. The crest shows the Arms adopted by King George I on his accession to the throne in 1714. These Arms continued in use until 1801.

The quartered Arms represented England, Scotland, France, Ireland and Hanover. This relief-moulded example was executed in Coade stone in 1796. It was part of the pediment of the former York Cavalry Barracks Officers Mess, which was removed in 1971, renovated and erected in 1978 outside the former HQ 2 Division Headquarters building that the DVA now occupies.







www.tso.co.uk

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

Telephone orders/General enquiries 0870 600 5522

Order through the Parliamentary Hotline Lo-Call

0845 7 023474

Fax orders: 0870 600 5533

E-mail: customer.services@tso.co.uk

Textphone: 0870 240 3701

The Parliamentary Bookshop

12 Bridge Street, Parliament Square,
London SW1A 2JX

Telephone orders/ General enquiries: 020 7219 3890

Fax orders: 020 7219 3866

Email: bookshop@parliament.uk

Internet: <http://www.bookshop.parliament.uk>

TSO@Blackwell and other Accredited Agents

Customers can also order publications from

TSO Ireland

16 Arthur Street, Belfast BT1 4GD

028 9023 8451 Fax 028 9023 5401



POSITIVE ABOUT DISABLED PEOPLE



INVESTOR IN PEOPLE

Working Towards



Investors in Diversity

www.iiduk.com

CUSTOMER
SERVICE
EXCELLENCE



The Government Standard

ISBN 978-0-10-296729-6



9 780102 967296