
Security and Intelligence Agencies

Financial Statement 2011-12

(For the year ended 31 March 2012)

Presented to the House of Commons pursuant to Section 6(4) of the Government Resources and Accounts Act 2000

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Introduction

This Statement summarises the use of resources by the Security and Intelligence Agencies for the year ending 31 March 2012. Each of the Agencies produces its own full set of annual accounts 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 Chair of the Committee of Public Accounts in accordance with the procedure for handling such material set down by the relevant Secretary of State under the Intelligence Services Act 1994. In line with these arrangements this Statement comprises only a Statement of Parliamentary Supply and Statement of Net Expenditure together with appropriate notes and a Governance Statement.

Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed the Security and Intelligence Agencies (SIA) to prepare for each financial year a financial statement 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 accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Agency and of its net resource outturn, changes in taxpayers' equity, 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 Chair 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 Financial Statement 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 Statement of Net Expenditure together with appropriate notes.

In preparing the Financial Statement, the Accounting Officer is required, within the limitations imposed by the interests of national security, to comply with the Government Financial Reporting Manual prepared by the Treasury, and in particular to:

- i. observe the Accounts Direction issued by the Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- ii. make judgements and estimates on a reasonable basis;
- iii. state whether applicable accounting standards as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the Financial Statements; and
- iv. prepare the Financial Statements on a going concern basis.

The Treasury has appointed the National Security Adviser as Principal Accounting Officer for the Security and Intelligence Agencies. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the Security and Intelligence Agencies' assets, are set out in *Managing Public Money* published by HM Treasury.

2011-12 SIA Governance Statement

Scope of Responsibility

This governance statement covers the Single Intelligence Account, the funding vehicle for the Security and Intelligence Agencies (SIA): the Secret Intelligence Service (SIS), Government Communications Headquarters (GCHQ) and the Security Service.

As the Prime Minister's National Security Advisor (NSA) I am the Principal Accounting Officer (PAO) for the SIA. In line with the responsibility assigned to me in managing public money, my role is to ensure that the SIA operates effectively and efficiently in support of National Security policies, aims and objectives. However, I delegate authority for spending to the Heads of Agencies who are each Accounting Officers (AOs) in their own right.

The Intelligence Agencies' operations are conducted within a framework of legislation that defines their roles and activities – the main statutes are the Security Services Act 1989, the Intelligence Services Act 1994 and the Regulation of Investigatory Powers Act 2000. The independent Intelligence Services and Interception of Communications Commissioners oversee the Acts, review the exercise of the responsible Secretary of State's powers and report to the Prime Minister annually.

The SIA operates differently to all other government departments as the Prime Minister has overall responsibility for intelligence and security matters and is accountable to Parliament for matters affecting the agencies collectively. The Agency Heads have a statutory duty to provide annual reports directly to the Prime Minister as well as to their Secretary of State. The Foreign Secretary is the responsible Secretary of State for SIS and GCHQ and the Home Secretary for the Security Service. The Agencies ensure that the appropriate Secretary of State is briefed on matters that could become the subject of Parliamentary or public interest and on issues which they need to be aware of in discharging their wider Ministerial responsibilities. There are well-established arrangements for seeking Ministerial clearance for operations when required. Additionally the Agency Heads also report to me as the National Security Advisor and PAO for the SIA.

Parliamentary oversight of the three Intelligence Agencies is provided by the Intelligence and Security Committee (ISC). The Committee has a statutory remit to examine expenditure, administration and policy of the three Agencies. Additionally the Chairman of the House of Commons' Public Accounts Committee sees the expenditure details of the Agencies through the NAO.

The financial year 2011-12 saw the first year of the Government's four year £650million transformative National Cyber Security Programme (NCSP). While this funding is ring-fenced within the SIA it is spent by many delivery partners across Government. The NCSP is managed by a small programme team in the Office of Cyber Security and Information Assurance in the Cabinet Office on behalf of the Deputy NSA (Intelligence, Security and Resilience) (DNSA). The Minister for the Cabinet Office (MCO) is the Senior Responsible Owner (SRO).

The governance framework

Financial responsibility for the Single Intelligence Account lies with NSA, who is based in the Cabinet Office and leads the National Security Secretariat (NSS). The Prime Minister, NSA, and DNSA are supported in their engagement with the Agencies by a small team in NSS. The

governance at the Centre is complemented by comprehensive governance structures in each of the three Agencies.

As with other departments, where specific investment plans in the Agencies either exceed the delegated financial authority given to Agency Heads by the Chief Secretary to the Treasury (CST) through the PAO, or falls within the Treasury definition as complex, Agency Heads must seek approval from HM Treasury. In considering approval, CST will seek the advice of DNSA on behalf of NSA.

The Agencies adhere to the Cabinet Office controls set out by the Efficiency and Reform Group (ERG), as applicable to national security. There are also special arrangements, approved by MCO, Treasury, and DNSA, for the appropriate application of the spending controls of the ERG in the Cabinet Office. This application seeks to ensure that tax payers get the best possible value from SIA spending while ensuring that front line intelligence operations are not burdened with inappropriate layers of administration.

Each of the Agencies produce their own Annual Accounts and these are independently audited, in full, by the NAO. The Agencies also produce their own Governance Statements; which reflect their individual circumstances. For these reasons, this Governance Statement focuses on the SIA level structures and aggregated risk position, making reference to the individual statements of the Agencies as necessary.

Each Agency complies with the Corporate Governance code. Any exceptions are outlined in their governance statements. Since each Agency operates independently under the direction of its Accounting Officer, the governance structures at the SIA level in NSS are different to that of standard governance frameworks. The structures in place outlined below, while they enable effective management of finances, are not formal governance arrangements but complement those of the Agencies.

Special arrangements have been agreed for the implementation by the SIA of the government's transparency agenda. To help drive good financial management, the Agencies are required to produce all the data required of other government departments for the transparency agenda and share it with the relevant teams in HM Treasury and NSS. However, this data is not published because of risks to national security. In line with other departments the SIA is also required to produce and maintain a business plan. This plan has been shared with the ISC and its implementation is periodically monitored by the Treasury spending team.

NSS Governance of Intelligence Agencies

The Financial Steering Group (FSG) is the highest level of financial governance in the SIA and is made up from NSA (Chair), Agency Heads and finance directors. The Group usually meets twice a year and provides the opportunity for the PAO to meet with his AOs and discuss key financial issues such as setting future budgets, in-year financial management and to review the Annual Accounts.

The SIA Investment Board (IB) was established as a condition of the 2010 Spending Review with the purpose of enabling effective prioritisation of investments and driving the collaborative working agenda. The IB meets three to four times a year. It is chaired by the DNSA and has representation from across the finance, CIO, and operational communities. To date the Investment Board has focussed on the development of plans to realise collaborative savings over the SR.

Each month the Director of Security and Intelligence in NSS (DSI) chairs a meeting of SIA Finance Directors. This manages the in-year finances of the SIA to enable the most efficient use of the SIA budget collectively. In 2011-12 this group enabled the reprioritisation and reallocation of SIA funding to support the SIA's response to events in the Arab Nations without recourse to the Treasury Reserve. The group also co-ordinated a successful bid for Budget Exchange at Supplementary Estimates (moving funds from 2011-12 to 2012-13) in order to fund a key collaborative corporate programme.

Supporting these structures there are frequent working level meetings including a monthly meeting chaired by NSS with representatives from across the Agencies and HM Treasury. The aim of this meeting is to provide peer review and discussion of the spending forecasts, cash management, and application of Treasury policy papers.

Governance of the National Cyber Security Programme (NCSP)

The NCSP has a rigorous governance framework. The programme is managed centrally by a team in Office of Cyber Security and Information Assurance (OCSIA), and delivered through some 15 Departments and Agencies. Delivery partners submit business cases for approval by DNSA as the SRO and HM Treasury before resources are released. The programme team assesses the delivery of the programme using monthly reporting and monitoring arrangements, and raises issues as appropriate through the governance hierarchy. Given the number and wide-range of delivery partners, programme delivery is managed at the working level by six theme-based Cyber Delivery Capability Groups (CDCGs); their role is to drive the delivery of their respective elements of the NCSP. Above this, the Cyber Delivery Management Group (CDMG), at which all delivery partners are represented, draws together the entire programme and addresses cross-cutting issues. The Programme and Strategic Implementation Board is the senior-level Board responsible for the NCSP; chaired by MCO.

The NCSP is also included within the governance arrangements for the Government's Major Projects Portfolio. The programme also participates in annual Gateway reviews by ERG to ensure that it follows programme management best practice.

Agency Governance

Each Agency operates their own governance structures, the majority of which are independent of each other and of Cabinet Office. Most of these structures are aligned but there are some differences which take into account the uniqueness of each organisation. These governance structures are set out in detail in each of the Agency Governance Statements.

Compliance with the Corporate Governance Code of Good Practice 2011

As non-ministerial departments, the individual Agencies follow the principles of the Corporate Governance Code where relevant and practical. Areas of departure are set out in each of the Agency's own governance statements. The SIA collectively is not a ministerial department and so is not accountable to Parliament in the way described by the Code. Parliamentary oversight mechanisms are as described above. As each Agency has its own Accounting Officer, there is no SIA management board as described by the Code. FSG (see above) has responsibility for those issues requiring Cabinet Office oversight or co-ordination.

Risk Assessment

As noted above, the SIA does not function as a Ministerial department and there is no oversight mechanism for monitoring risks at an SIA level. This is something I am looking to address in the next financial year and work is already underway towards this. The individual Agency Boards have their own systems in place to review and mitigate risks. Drawing on the risks highlighted in their governance statements, several cross-cutting risks can be identified, including:

1. People – the SIA collectively faces a challenge to recruit and retain the skills required to deliver intelligence and the enabling technology.
2. Collaborative Savings – there has been increasing confidence in the delivery of savings required for this Spending Review (SR) period. However, continued effort is required for the SIA to realise the benefits of collaboration during this SR period whilst protecting resources for front line delivery.
3. Reputation – each of the Agencies is carrying reputational risks, and the effects of these risks materialising in one Agency is likely to impact on the reputation of the British Intelligence community as a whole.

Review of the effectiveness of risk management and internal control

As Principal Accounting Officer, I, NSA, have responsibility for reviewing the effectiveness of governance structures. I have been provided with the full, unpublished, versions of the individual Agency Governance Statements. As far as I am able, I am content that these governance statements represent a true picture of each Agency's position.

Current Issues

The Justice and Security Bill provides for stronger oversight by the ISC and Intelligence Services Commissioner of the security and intelligence agencies and related activities. The Bill was introduced to the House of Lords on 29 May and Second reading took place on 19 June.

Sir Kim Darroch
Principal Accounting Officer
21 June 2012

**THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL
TO THE HOUSE OF COMMONS**

I certify that I have audited the Financial Statement of the Security and Intelligence Agencies for the year ended 31 March 2012 under the Government Resources and Accounts Act 2000. The Financial Statement comprises the Statement of Net Expenditure. I have also audited the Statement of Parliamentary Supply and the related notes. The Financial Statement has been prepared under the accounting policies set out within it.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the National Security Adviser as Principal Accounting Officer is responsible for the preparation of the Financial Statement and for ensuring that it is presented properly. My responsibility is to audit, certify and report on the Financial Statement in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with 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 Statement sufficient to give reasonable assurance that the Financial Statement is free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Security and Intelligence Agencies' circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accounting Officers of the Agencies; and the overall presentation of the Financial Statement. My audit of the Financial Statement also includes verification that the underlying accounts have been appropriately and consistently consolidated. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals and that those totals have not been exceeded. The voted Parliamentary control totals are Departmental Expenditure Limits (Resource and Capital), Annually Managed Expenditure (Resource and Capital), Non-Budget (Resource) and Net Cash Requirement. I am also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the Financial Statement have been applied to the purposes intended by Parliament and the financial transactions recorded in the Financial Statement conform to the authorities which govern them.

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

Opinion on regularity

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2012 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the Financial Statement have been applied to the purposes intended by Parliament and the financial transactions recorded in the Financial Statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the Financial Statement properly presents the net cash requirement, net resource outturn and net operating cost for the year ended 31 March 2012;
- the Financial Statement has been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder; and
- the Financial Statement is consistent with the unpublished audited accounts of the individual Security and Intelligence Agencies for the year ended 31 March 2012.

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 returns adequate for my audit have not been received from branches not visited by my staff; or
- the Financial Statement is not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement 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

22 June 2012

National Audit Office
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London
SW1W 9SP

Statement of Parliamentary Supply

Summary of Resource and Capital Outturn 2011-12

£000	2011-12						2010-11	
	Estimate			Outturn			Outturn	
	Voted	Non-Voted	Total	Voted	Non-Voted	Total	Voted outturn compared with Estimate saving/ (excess)	
Departmental Expenditure Limit							Net Total	
- Resource	1,963,874	-	1,963,874	1,950,356	-	1,950,356	13,518	1,843,054
- Capital	386,155	-	386,155	385,357	-	385,357	798	354,837
Annually Managed Limit								
- Resource	26,028	-	26,028	18,270	-	18,270	7,758	101,399
- Capital	-	-	-	-	-	-	-	-
Total Budget	2,376,057		2,376,057	2,353,983		2,353,983	22,074	2,299,290
Non-Budget								
- Resource	-	-	-	-	-	-	-	-
Total	2,376,057		2,376,057	2,353,983		2,353,983	22,074	2,299,290

Total Resource		1,989,902		1,968,626	21,276	1,944,453
Total Capital		386,155		385,357	798	354,837
Total		2,376,057		2,353,983	22,074	2,299,290

Net Cash Requirement 2011-12

£000

2011-12 Estimate	2011-12		2010-11
	Outturn	Outturn compared with Estimate saving/ (excess)	Outturn
2,009,681	1,909,645	100,036	1,918,023

Administration Costs 2011-12

2011-12 Estimate	2011-12 Outturn	2010-11 Outturn
77,675	72,811	74,034

Consolidated Statement of Net Expenditure**For the Year ended 31 March 2012**

£000	2011-12	2010-11 <i>Restated</i>
Administration costs		
Staff costs	58,199	59,193
Other costs	24,238	28,870
Income	(10,493)	(13,745)
Programme costs		
Staff costs	651,594	648,360
Other costs	1,372,955	1,412,814
Income	(134,979)	(282,085)
Net Operating Costs for the year ended 31 March 2012	<u>1,961,514</u>	<u>1,853,407</u>
Total expenditure	2,106,986	2,149,237
Total income	(145,472)	(295,830)
Net Operating Costs for the year ended 31 March 2012	<u>1,961,514</u>	<u>1,853,407</u>

Sir Kim Darroch
Principal Accounting Officer
21 June 2012

Notes to the Accounts

For the Year ended 31 March 2012

1. Statement of accounting policies and disclosure

This is the consolidated Financial Statement of the individual Security and Intelligence Agencies. The individual Agency accounts have been prepared in accordance with the 2011-12 *Government Reporting Manual (FReM)* issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the policy, which is judged to be the most appropriate to the particular circumstances of the SIA for the purpose of ensuring the Financial Statement is presented properly, has been selected.

1.1 Accounting convention

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

1.2 Basis of consolidation

These accounts are based upon a consolidation of the individual Intelligence and Security Agencies. Transactions between entities included in the consolidation are eliminated.

2. Change in accounting policy and disclosure

Prior year comparators have been adjusted to reflect changes to IAS 20, Accounting for Government Grants and a change to the FReM relating to accounting for Donated Assets, where they are now revalued, depreciated and subject to an impairment review in the same way as other fixed assets.

The impact of these changes on Net Operating Cost for 2010-11 is shown in the table below.

2.1 Adjusted Net Operating Cost

	<u>2010-11</u>
	<u>£000</u>
Net operating cost for the year (as published):	1,939,733
Adjustment for:	
Grants	(86,332)
Donated assets	<u>6</u>
Adjusted Net Operating Cost for the year:	<u>1,853,407</u>

3. Reconciliation of outturn to net operating cost against Administration Budget**3.1 Reconciliation of resource outturn to net operating cost**

		2011-12	2010-11
		£000	£000
		Outturn	Outturn
Total resource outturn in	Budget	1,968,626	1,944,453
Statement of Parliamentary Supply	Non Budget	-	-
Less:			
	Income Payable to the Consolidated Fund	(2,133)	(4,720)
	Prior Year Change in accounting policy	-	(86,326)
	Other Net Adjustments	(4,979)	-
		(7,112)	(91,046)
Net Operating Costs in Consolidated Statement of Net Expenditure		1,961,514	1,853,407

3.2 Outturn against final Administration Budget and Administration net operating cost

		2011-12	2010-11
		£000	£000
Estimate Administration costs limit		77,675	83,822
Outturn – Gross Administration Costs		82,437	87,778
Outturn – Income relating to administration costs		(9,626)	(13,744)
Outturn – Net administration costs		72,811	74,034
Reclassification of audit fee from Programme to Administration		-	285
Reconciliation to operating costs:			
Less: Other		(867)	-
Administration Net Operating Costs		71,944	74,319

4. Analysis of Income Payable to the Consolidated Fund

In addition to income retained by the department, the following income relates to the department and is payable to the Consolidated Fund (cash receipts being shown in italics)

	Outturn 2011-12		Outturn 2010-11	
	Income	<i>Receipts</i>	Income	<i>Receipts</i>
Total	3,318	<i>3,318</i>	11,707	<i>11,707</i>
Total income payable to the Consolidated Fund	3,318	<i>3,318</i>	11,707	<i>11,707</i>

5. Losses and Special Payments

	2011-12	2011-12	2010-11	2010-11
	No. of cases	£000	No. of cases	£000
Losses and Special Payments				
Total	151 cases	3,292	133 cases	13,369



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