

# Annual Report & Accounts

# 2010/11

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# Chief Executive's statement

I am delighted to present this Annual Report and Accounts because it demonstrates we have delivered the *best ever National Security Vetting performance* since the Agency was established fourteen years ago. It also shows our performance of meeting or exceeding all Key Targets as the best in class across government.

This delivery was achieved in a particularly challenging year, when much of our energy and resource was expended on Cerberus development, testing, and implementation planning. This work culminated with go-live of Cerberus on 4-7th March; the first system in government that can be accessed safely and securely from wider government networks. These achievements were made despite our workforce being reduced by 13% as a direct consequence of government imposed savings measures.

Looking forward we are keen to ensure that all Cerberus “bug fixes” are completed as soon as possible and Release 1.1 happens early in 2011-12. These changes will ensure the business case benefits can be delivered to all our customers. We are hopeful that deliberations around our bid to become the single vetting provider for government will come to fruition in the first half of 2011-12 and that as a consequence, the DVA continues to play a significant role in government security vetting.

In July 2010, the government announced its intention to close the Defence Vetting Agency and to transfer its functions to the Defence Business Support Organisation. Subject to the outcome of the single NSV provider initiative, the Agency will be taken into the new organisation during autumn 2011 and Agency status will be withdrawn from 1 April 2012.



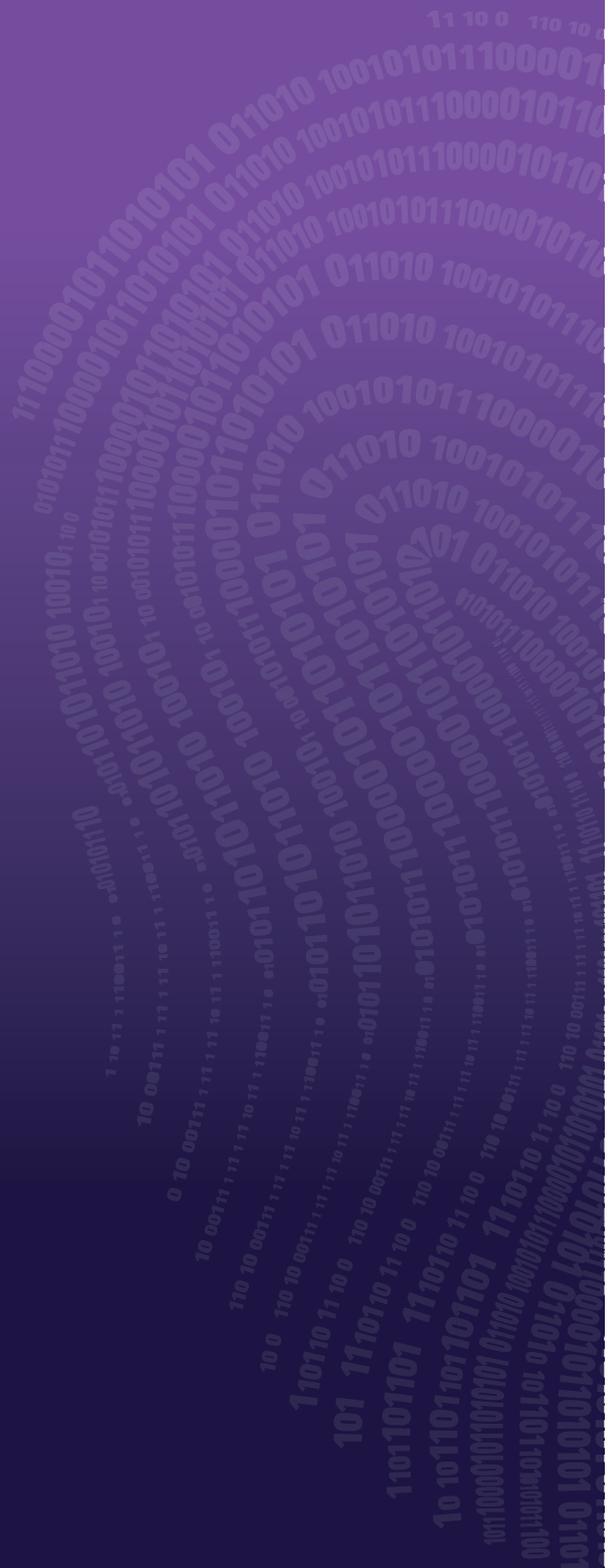
**Jacky Ridley**  
Chief Executive



**PART 1**

**Report**

2010/11



# Part 1

## Report 2010–2011

### **Management commentary**

1. The first part of this Report and Accounts records performance achieved during financial year (FY) 2010-11 in delivering National Security Vetting (NSV) work measured against our Key Targets. We also report on a range of other business achievements. The second part presents the audited accounts showing the financial position at year end. Part 2 also contains details how the Agency is managed and, in the Notes to the accounts details of the resources used to run the organisation.

2. Since 1997 the DVA has successfully provided NSV services through direct funding to the Ministry of Defence (MOD) civil service, to the Armed Forces, and to defence contractors. During this time we have also successfully provided NSV services on a repayment basis to a wide range of government customer organisations. Today the Defence Vetting Agency (DVA) is by far the larger of the two UK government shared service providers of NSV, and at the time of preparing this report is being considered, in competition with FCO Services, as the single provider of NSV services to government.

3. Looking ahead, the formation of the new Defence Business Services organisation within MOD centre during the summer of 2011 will affect the DVA. Subject to the outcome of the single NSV provider initiative, the Agency will be taken into the new organisation during autumn 2011 and Agency status will be withdrawn from 1 April 2012.

### **What we deliver**

4. The policy for NSV is owned by the Cabinet Office who set the standard to be followed. It is one of a range of protective security measures put in place to counter possible internal or external threats to the United Kingdom. NSV identifies those people who should be prevented from having access to sensitive information or facilities, through the identification of character weaknesses or circumstances in their background that could lead to the compromise of the trust required to hold a security clearance.

5. We deliver three main types of NSV clearances and checks to provide assurance to allow individuals access to government sites or unrestricted access to facilities or information up to Top Secret level. They are:

- › Counter Terrorist Check (CTC): allowing employment 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 of terrorist attack.
- › Security Check (SC): allowing unsupervised access to secret assets or occasional controlled access to Top Secret information.
- › Developed Vetting (DV): allowing substantial and unsupervised access to Top Secret assets or information.

6. Our work does not end when a clearance is issued; a range of follow up activities are required throughout the life of the clearance. For example:

- › Most clearances will require a periodic review, more frequently at the DV level than at SC or CTC.
- › Aftercare action is sometimes required to risk manage incidents of security concern, or to action scheduled follow up enquiries for individuals assessed as having vulnerabilities.
- › Arrange the transfer of clearances between sponsors when people move jobs.
- › Re-assess clearances as a result of a change of circumstances, such as marriage or significant financial problems.

7. The Agency also has a small secondary role as a registered body, and MOD lead signatory, under the Home Office legislation to co-ordinate on behalf of MOD, Criminal Records Bureau (CRB) checks for people being considered for employment with children or vulnerable adults. The role also requires a small number of Baseline Personnel Security Standard checks to be completed. This work sits outside of our NSV activities.

## Service standards

### Customer service

8. We provide real support, so we

- › Have a dedicated help desk;
- › Have a dedicated feed back system;
- › Hold Customer Advisory Group meetings;
- › Provide familiarisation visits to our office in York;
- › Hold customer open days;
- › Involve customers in designing improvements;
- › Ensure any complaints are fully investigated and responded to and
- › Publish all our customer service standards.

## **IT innovation**

9. We have developed the Cerberus IT system mandated by the Cabinet Office for use across government, so

- ▶ NSV applications can be made by e-form or by hard copy forms;
- ▶ Customers can check the progress of cases on-line;
- ▶ Direct interfaces for criminal records, credit worthiness, and Security Service checks are enabled; a first for government and among the first few across the world;
- ▶ Direct links with our Vetting Officers are available so they have access to the full details before undertaking interviews and so interview notes can be loaded directly to vetting records;
- ▶ Full security accreditation for the development is provided; and
- ▶ Interfaces with MOD HR systems are facilitated so changes of circumstances can be used to update vetting records; a design that is being considered as a model for exploitation by Other Government Departments (OGDs).

## **Quality**

10. Quality of vetting is paramount in providing the level of assurance required by our customers. To ensure quality standards are met we:

- ▶ Have consistently achieved our Key Targets (see page 12);
- ▶ Met the Cabinet Office minimum standards for NSV;
- ▶ Will apply Higher Vetting standards if this is requested by specific customers;
- ▶ Assure our products and decisions through internal and external validation;
- ▶ Have a full audit programme; and
- ▶ Are the only Customer Service Excellence NSV organisation in UK government.

## **Security**

11. We hold in excess of 2.5 million NSV records so data, IT and physical security along with the security management of our personnel are extremely important. To ensure we meet all our requirements we:

- ▶ Manage our data in accordance with the Cabinet Office requirements;
- ▶ All our IT systems and system Users are security accredited;
- ▶ Our people are trained in security procedures and central government information assurance requirements;

- › Have achieved Level 2 for information assurance and we are working to achieve Level 3;
- › Processes are compliant with the Data Protection Act; and
- › Systems and processes have been tested for business continuity purposes.

### **Speed of service**

12. Our customers tell us that the speed of service is important to them. We therefore:

- › Make our targets transparent;
- › Consistently achieve our Key Targets (see page 13);
- › Offer both a routine and priority service;
- › Demonstrate a continuing trend in improved clearance times;
- › Work in partnership with our third party suppliers to help improve end-to-end clearance times;
- › Have embedded staff to help with third party supply; and
- › Have embedded staff specifically to help Northern Ireland cases.

### **Value for money**

13. Our shared service customers want value for money, and reducing costs so we

- › Provide a menu of services;
- › Ensure our price list is binding for each financial year;
- › Negotiate Joint Business Agreements;
- › Pass on year-on-year efficiency improvements through reduced prices or improved service;
- › Ensure we can deliver both high volume and small niche vetting requirements; and
- › Monitor performance against Joint Business Agreements.

### **Key Target performance**

14. Key Targets covering the quality, timeliness and business improvement aspects of NSV were set in financial year (FY) 2010-11, and performance in reporting against these targets is covered in the narrative below. It is practice to report net achievement against the timeliness targets in order to exclude delays external to the DVA.

15. Our performance reporting was affected by the changeover of IT systems in early March 2011. It was found that the data migration process to the new Cerberus system could not measure the internal

processing time for cases started before transfer and completed during March. For this reason the performance data reported below for Key Targets 3-5 represent performance between 1st March 2010 and 28th February 2011.

*Key Target 1 External validation of the quality of defence cases.*

**Achieve at least a 98% satisfaction rating with 200 cases independently selected and reviewed from a random sample of SC and DV cases.**

16. An independent panel of four Reviewers, from MOD Centre and the three Armed Services, measure the quality of our vetting decisions against a set of agreed criteria. Two validation exercises took place during the year. A total of 231 cases achieved the pass mark indicating that vetting staff had acted correctly and in a timely manner in the light of the information available.

	2006/07	2007/08	2008/09	2009/10	2010/11
Targets	98%	98%	98%	98%	98%
Performance	100%	99%	100%	99%	99.6% Exceeded

*Key Target 2 Delivering Customer service.*

**To maintain the Customer Service Excellence accreditation standard.**

17. Customer Service Excellence is a government wide initiative that offers public services a practical tool for driving change with the emphasis of developing customer insight and measuring service satisfaction. The accreditation process is rigorous and challenging, being centred on customer satisfaction, provision of feedback, and how complaints are handled. We have achieved the standard each year since 2007, and received confirmation on 11th March 2011 that the Agency had achieved the standard for another year.

18. The timeliness Key Targets concentrate on the three main types of NSV checks and clearances and Aftercare. The checks and clearances are treated as either priority or routine when they are being processed. Priority clearances, due to the small number and special handling can normally be completed with 10 and 30 calendar days for CTC and SC and the higher level DV. With the Aftercare target, Aftercare Incident Reports (AIRs), alert the Agency to possible personnel security concerns and are seen as the greatest cause of risk. Scheduled work refers to cases where action was previously agreed and scheduled when the clearance was awarded. These cases are seen as the second level of priority, reflected in the lower level percentage target. Annual DV security appraisal reviews (commonly known as SAFs) remind line managers of their responsibility to report issues of security concern

about their staff holding DV clearance. The majority of these returns require no further action.

**Key Target 3 Completing routine clearances for defence customers.**

**By completing 85% of routine CTCs and SCs within 30 calendar days, and 80% of DVs within 100 calendar days.**

	2006/07	2007/08	2008/09	2009/10	2010/11
CTC					
Targets	65%	75%	75%	85%	85%
Performance	75%	62%	88%	85%	96% Exceeded
SC					
Targets	65%	75%	75%	85%	85%
Performance	70%	46%	88%	80%	92% Exceeded
DV					
Targets	83%	83%	83%	85%	85%
Performance	82%	82%	87%	88%	93% Exceeded

2010/11 performance represents the overall position at the end of February 2011 when the Warrantor IT system was shut down prior to reliable Cerberus data becoming available in the new financial year.

**Key Target 4 Completing priority clearances for defence customers.**

**By completing 95% of priority CTC/SCs within 10 calendar days, and 95% of DVs within 30 calendar days.**

	2006/07	2007/08	2008/09	2009/10	2010/11
CTC/SC					
Targets	85%	85%	90%	90%	95%
Performance	99%	96%	90%	96%	99% Exceeded
DV					
Targets	80%	80%	80%	85%	95%
Performance	80%	86%	93%	96%	98% Exceeded

2010/11 performance represents the overall position at the end of February when the Warrantor IT system was shut down prior to reliable Cerberus data becoming available in the new financial year.

*Key Target 5 Completing aftercare.*

**All Aftercare Incident Reports (AIRs) to be taken into action within 7 calendar days of receipt. 95% of annual security appraisal forms (SAFs) to be actioned (when appropriate) within 21 calendar days of receipt, and 80% of scheduled aftercare to be taken into action within 30 calendar days of the date for review.**

		2009/10	2010/11	
AIRs taken into action	targets %	100	100	
	performance %	100	100	Achieved
SAFs taken into action	targets %	n/a	95	
	performance %	n/a	97	Exceeded
Scheduled aftercare taken into action	target %	80	80	
	performance %	95	99	Exceeded

2010/11 performance represents the overall position at the end of February when the Warrantor IT system was shut down.

*Key Target 6 Delivery of the Cerberus project in line with planning tolerances.*

**Manage third party suppliers to provide their side of the Cerberus interfaces by September 2010. Achieve an operational capability for e-forms and case management system by December 2010, and achieve roll-out, in line with plan, to vetting customers by March 2011.**

19. All third party suppliers for the original specified links supplied their side of the Cerberus interfaces, with the underlying connectivity provided by BT and Cable and Wireless within the September timescale. An operational capability, albeit with a large number of software bugs needing to be resolved, was available from December. The DVA Programme Board took a very firm view that Cerberus would not go live until the bulk of these were resolved, go-live was achieved over the weekend of 4-7<sup>th</sup> March 11. Access to the system was then rolled out to customers by the end of March 2011, therefore achieving the Key Target.

## **Business review summary**

20. This section is structured around the 5 strategic themes of our Business Plan, linked to a range of underlying business targets, which are focused on helping the DVA achieve its vision of being the single provider of NSV services. As well as delivering a NSV service that exceeded the standards set in our Key Targets, considerable management and staff effort had to be devoted during the year on preparing for:

- › Cerberus go-live over the weekend of the 4-7th March;
- › The DVA's bid to the Cabinet Office to be the single government NSV provider;
- › Preparation and follow-on work associated with the formation of the new Defence Business Services organisation;
- › MOD Centre financial and staff savings targets.

## Strategic theme 1: Improving quality and policy.

### Achievements and progress.

21. **Quality:** Both quality key targets were achieved or exceeded. In addition, the Agency also ran a continuous survey of vetting subject and referees based on their experience of the Developed Vetting process. Questions covered the efficiency of the process, how the follow up interviews were conducted and offering the opportunity to recommend improvements. A total of 1069 vetting subjects and 305 referees contributed to this work, indicating a satisfaction score of 99.5% for subjects and 99.7% for referees.

22. **Policy:** Although vetting policy is led by MOD Centre and in central government by the Cabinet Office the DVA, as the largest NSV organisation, is asked its views and is encouraged to take a proactive role in moving forward on a range of vetting issues. Working closely with both organisations it was also responsible for proposing a number of options to help reduce demand and the cost of vetting by altering the timeframe and arrangements to review low risk DV cases and carry out interviews. These proposals were accepted both by the Cabinet Office and the MOD. The Agency then took a central role in the implementation of this change.

23. **Personal data security incidents:** We had 3 security incidents which were reported to MOD Centre using the laid down procedure:

Two incidents were near misses:

- › An asset loss that was subsequently retrieved.
- › Eight vetting files which were mislaid by Parcel Force having been sent from York to the MOD Main Building in Whitehall. The files were found by Parcel Force and safely reached their destination;

and a third incident concerned asset losses of 2 encrypted laptops and printers which had been sent to home based Vetting Officers via Parcel Force.

There were no incidents of personal data loss.

## **Strategic theme 2: Enabling the business.**

### **Achievements and progress.**

24. We continue to be accredited as a Customer Service Excellence organisation.

25. **Transformation programme:** The main element of our change programme has been the design and introduction of the Cerberus case management system, supported by new vetting processes, staff and customer training, and associated organisational changes.

26. **Cerberus:** This is the new NSV case management system developed by the Agency for government use under the Cabinet Office shared services agenda and it is envisaged that the system will, in the longer term, be linked to the HR systems of OGDs to provide vetting information in the same way that the DVA currently provides data for its own military and civilian HR systems. We have already had some enquiries about this automated service with other departments indicating that they would be willing to pay for change requests if the business case benefits can be confirmed.

27. The Cerberus development was challenging because a large number of issues were uncovered during the User Acceptance and Operational Acceptance testing periods. Both testing periods were extended so that five periods were used. In the third quarter of the year, the DVA took the decision to delay Go-Live until the 4-7th March, to give our IT partners time to fix the outstanding issues identified during testing.

28. In the month since the introduction of Cerberus the system has exhibited teething problems, causing the Management Board to meet on a daily basis to discuss critical performance issues which, in turn, are escalated to our IT partners to resolve. Notwithstanding these difficulties, the case management system is being accessed by users in York, our home based Vetting Officers, and external customers across Defence and in OGDs. This is a significant achievement in itself, as Cerberus is the first IT system hosted on the MOD's network which can be accessed safely and securely from wider government networks. The less good news is that there continue to be a number of bug fixes to do in order for the system to work up to specification and generate the time and cost savings that were anticipated in the original business case. Performance recovery will be a top priority for the new financial year.

29. **Business continuity (BC):** In the early hours of 6<sup>th</sup> September 2010 a major electrical fault leading to a power surge caused widespread damage to electrical equipment and installations including the destruction of 86 workstations, and some associated desk management systems. The building had to be evacuated for a short period when electrical fires occurred in a number of work areas when PCs were switched on before the problem had been identified.

Prompt business recovery action led the Warrantor and network servers to be recovered during the afternoon and staff with functional workstations were allowed to resume work. A full vetting service was recovered from 8th September with teams relocated to unaffected temporary accommodation in another part of the building normally occupied by our Army neighbours who were away on deployment. A number of weeks were then taken up with the sourcing of replacement workstations and the testing and repair of the building electrical systems. The overall impact of this incident on our business was judged to be medium, proving that our BC planning met requirements. Nevertheless the agency BC plan was revised to take account of the lessons learnt.

**Strategic theme 3: Transforming vetting service delivery. Achievements and progress.**

30. The timeliness key targets were met or exceeded.

31. Delivery of NSV products is shown in the table below. The drop in requirement for NSV is thought to be mainly due to the cross government drive to reduce recruitment and general budget constraints reducing the number of defence contracts.

	2009/10		2010/11	
	Receipts	Completions	Receipts	Completions
<b>Defence vetting</b>				
CTC/SC	99,923	104,872	76,199	76,330
DV	10,219	10,497	8,829	9,778
<b>Total</b>	<b>110,142</b>	<b>115,369</b>	<b>85,028</b>	<b>86,108</b>
<b>Repayment vetting</b>				
CTC/SC	12,457	12,983	9,627	10,111
DV	3,281	3,577	2,195	2,371
<b>Total</b>	<b>15,738</b>	<b>16,560</b>	<b>11,822</b>	<b>12,482</b>
<b>Grand total</b>	<b>125,880</b>	<b>131,929</b>	<b>96,850</b>	<b>98,590</b>

Note: The completions for 2010-11 include an element of estimated work received during March 11 that was less than the previous month receipts and completions. The Agency lost 13% of its workforce during the 2010-11 year.

32. Other work we completed for defence customers included:

	2008/09	2009/10	2010/11
Aftercare cases	2,600	2,387	3,095
Annual appraisals of DV subjects	13,100	16,286	17,932
Clearance transfers between sponsors	8,100	8,608	9,056
Aftercare incident reports	n/a	1572*	738
Change of circumstance reviews	2,200	3,042	3,154
Cases cancelled before completion	21,400	23,206	17,815
Vetting medical referrals	n/a	n/a	1539
Appeals against vetting decisions	10**	29**	40

\*estimated

\*\*calendar year

### Criminal Records Bureau (CRB) checks:

33. All MOD related CRB applications are routed via the DVA, which has a co-ordination role to play on behalf of the department to ensure that any defence personnel, or volunteers, being considered for employment with children or vulnerable adults is checked through the CRB process. The number of cases completed is shown below:

	2008/09	2009/10	2010/11	
	Completions	Completions	Receipts	Completions
Primary CRB checks	n/a	n/a	15,731	15,274
Volunteer CRB checks	n/a	n/a	10,226	9,949
Baseline personnel security standard	n/a	n/a	26	26
Total	20,707	25,700	25,983	25,249

34. **Corporate governance:** The Agency corporate governance requirements were met, with our own dedicated Corporate Governance and Assurance Manager conducting a range of compliance checks, and ensuring that the central audit requirements on an Executive Agency were achieved. These checks and other requirements are considered by the Agency Management Board and Agency Risk and Assurance Committee (ARAC), attended by the Non Executive Directors. Defence Internal Audit also work together with the ARAC to provide support on audit matters, work plans and risk items. The National Audit Office also attends meetings of the ARAC and contributes in its role as external auditors. The Statement on Internal Control in the accounts section of this report covers this area of work in more detail.

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

35. The DVA follows MOD employment HR policies and terms and conditions of employment. A change in MOD policy due to budget cuts resulted in the Investors in People and Investors in Diversity initiatives being cancelled. Budget restrictions also stopped external training activity and recruitment. We do, however, continue to encourage our staff to complete relevant internal training opportunities, which are free at point of use. We also encourage people to consider other nil cost developmental opportunities, such as “buddying” newer colleagues, taking part in focus group workshops or observing at Agency management board meetings. Vetting related internal training continued with particular emphasis on technical training to support Cerberus implementation, and the introduction of new policy initiatives.

### *Achievements and progress*

36. **Staff engagement:** The MOD ran another ‘Your Say’ staff engagement survey across the whole of the department last October. The results from the survey of DVA staff indicated that we should focus on four main indicators to encourage and maintain staff engagement, as shown below with associated targets and success indicators:

- › Leadership and managing change target and success indicator: Everyone will be kept informed and up to date on key issues, and will have the opportunity to input their views and ideas. Staff will feel change is happening with them and not just to them. The perception of how change is managed will improve. Benefits will be realised.
- › Doing the job well target and success indicator: The workforce will be effective at their jobs. Work processes will become more coherent and streamlined. Cerberus will be successfully introduced and implemented. Staff views will be welcomed, listened to and acted upon where appropriate.
- › Standards of behaviour target and success indicator: All staff will display the Civil Service core values, and will act and conduct themselves in a professional manner. There will be fair and inclusive behaviour within a supportive work environment.
- › Organisational objectives and purpose target and success indicator: All staff will have a clear understanding of what is expected of them, and will understand the purpose and objectives of the DVA and the wider MOD.

37. The management board have agreed an action plan to address these areas, and have set an aspiration of achieving a 5% increased score against each indicator in the next survey. The plan also reinforces the DVA’s commitment to ensure there is no form of discrimination, harassment or bullying.

38. **In-house training:** Our small training team continues to deliver in-house vetting training which has covered a range of topics and issues identified by vetting staffs, and has also addressed the understanding of policy changes at the desk level.

39. **Sick absence:** The DVA proactively manages staff attendance and follows Departmental good practice. The average absence rate per person is shown in the table below:

2008/09	2009/10	2010/11
n/a	10.5	10

40. **Workforce diversity:** The DVA scores highly with staff self declaration of diversity on the MOD's HR system scoring 100% for ethnicity, 94% for sexual orientation, 93% for religion and 86% for disability. 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.

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

*Achievements and progress*

41. **Customer Services:** With the launch of Cerberus our Customer Services team introduced additional checks and controls relating to access and release of information to ensure that personal data continues to be kept as secure as possible. In the build up to 'go live' they pre-registered over 6,500 customer accounts.

42. **Help desk:** The Help Desk received over 150,000 multi-enquiry telephone calls faxes/emails during the year. Despite this high volume of enquiries the average waiting time for a call was between 3 and 5 minutes. In anticipation of increased traffic during the Cerberus implementation the staffing was increased to 17.

43. Opportunity was also taken to introduce a Management Information (MI) system to the Helpdesk to work alongside Cerberus. This Incident Management system helps to resolve incident requests as quickly as possible in a prioritised fashion. The Helpdesk use this module to record tickets for incoming calls, emails and faxes, whilst providing the customer with a unique reference number that allows better management of follow up correspondence. Customer Services department also use this module to record all forms of feedback received from customers. The other benefits of this system is that intelligent reports can be created, an ability to drill down deeper than what was available before, and a 'start to finish' process provided for customer queries, improving the level of service provided.

44. **Data protection/freedom of information:** As well as responding to formal Subject Access Requests, we answered queries and requests from Data Subjects on a range of issues. The table below shows the number of people who exercised the right to see their personal data, together with the number Freedom of Information requests received.

	2008/09	2009/10	2010/11
Freedom of information requests	72	18	31
Subject Access Requests	67	52	49

45. The Agency continues to take its Data Protection responsibilities extremely seriously, both in its obligation to keep personal data safe and used only for the purpose for which it was supplied, and in allowing Data Subjects access to the data held on them, when this does not conflict with third party or vetting confidentiality.

46. **Parliamentary business:** There was a continuing downward trend in the amount of parliamentary business. All was answered within the departmental timescales.

	2008/09	2009/10	2010/11
Parliamentary enquiries and correspondence from MPs	44	28	11

47. **Environmental impact:** The Agency is committed to, and actively promotes the conservation of the environment and minimising the impact of its activities, particularly those that it has direct control such as travel, use of energy, and paper usage. It complies with the MOD Environmental Management System, and, as a lodger unit co-operates with its host HQ 15 (NE) Brigade on environmental issues affecting the site. There were no environmental incidents to report. The DVA's "Green Group" meets on a regular basis to identify ways to improve environmental conservation and propose initiatives.

48. **Community involvement:** The Agency continues to support a range of community initiatives not only helping our local community in York but also through voluntary work by our headquarters staff and home based Vetting Officers throughout the UK. Three members of staff attended the Challenge Cymru 10 day personal development programme. Funding for this type of activity has, however, now been withdrawn as part of the MOD's austerity measures to reduce costs.

## Remuneration report

49. **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.

50. **Service contracts:** With the exception of the non-executive directors, all members of our Management Board are MOD civilians who were appointed by Civil Service standard procedures. They do not hold any other directorships. 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 NED contracts are for a period of three years and were effective from 30 July 2009 and 6 August 2009, respectively. The NED contracts can be terminated early by either party, by giving one months notice in writing. If DVA should, however, be wound up before the normal period of appointment ends, the appointment will terminate on dissolution. The appointment will be terminated immediately should the appointee be found guilty of grave misconduct.

## Remuneration Tables

51. The following tables have been subject to audit.

2010-11	Remuneration including performance pay (£000)	Real increase in pension and related lump sum at age 60 (£000)	Total pension at age 60 at 31 March 2011 (£000)	Cash equivalent Transfer Value at 1 April 2010 (£000)	Cash equivalent Transfer Value at 31 March 2011 (£000)	Real increase in Cash equivalent Transfer Value (£000)
Mrs J Ridley Chief Executive	80-85	0-2.5 Plus 2.5-5 lump sum	35-40 Plus 105-110 lump sum	695	749	0
Mr M Wright Head of Vetting Operations	55-60	0-2.5 Plus 2.5-5 lump sum	20-25 Plus 65-70 lump sum	307	359	24
Mr A Mortimer Head of Developed Clearance and Field Investigations Division	50-55	2.5-5 Plus 7.5-10 lump sum	10-15 Plus 35-40 lump sum	137	187	37
Miss J A Coates Head of Customer Relations & Marketing	45-50	0-2.5 Plus 0-2.5 lump sum	10-15 Plus 35-40 lump sum	110	126	7
Mr M D Fairbotham Head of Strategic Programmes	50-55	0-2.5	5-10	34	43	5
Mr R Markwell Head of Policy, Plans & Quality	45-50	0-2.5 Plus 5-7.5 lump sum	10-15 Plus 40-45 lump sum	139	175	24
Mrs S J Back Head of Resources	45-50	0-2.5 Plus 2.5-5 lump sum	10-15 Plus 40-45 lump sum	145	166	9
Mr W H Buckley Non Executive Director	5-10 (NED Fees)	-	-	-	-	-
Mr P Rowley Non Executive Director	0-5 (NED Fees)	-	-	-	-	-

<b>2009-10</b>	<b>Remuneration including performance pay (£000)</b>	<b>Real increase in pension and related lump sum at age 60 (£000)</b>	<b>Total pension at age 60 at 31 March 2011 (£000)</b>	<b>Cash equivalent Transfer Value at 1 April 2009 (£000)</b>	<b>Cash equivalent Transfer Value at 31 March 2010 (£000)</b>	<b>Real increase in Cash equivalent Transfer Value (£000)</b>
Mrs J Ridley Chief Executive	85-90	0 - 2.5 Plus 2.5-5 lump sum	35-40 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 (from 3 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 November 2009)**	15-20****	0-2.5 Plus 2.5-5 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 November 2009)	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 July 2009)	0-5 (NED Fees)	-	-	-	-	-

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

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

52. **Salary:** Salary includes gross salary, overtime, reserved right to London weighting or London allowances, recruitment and retention allowances and any other allowance that is taxed in the UK. Performance pay or bonuses are listed separately.

53. **Benefits in kind:** The monetary value of Benefits in Kind covers any benefits we provide which are treated by HM Revenue and Customs as a taxable emolument. There were no Benefits in Kind during the year (2009-10 Nil).

54. **Bonuses:** Bonuses are based on performance levels attained and are made as part of the appraisal process. Bonuses relate to the performance in the year in which they become payable to the individual. The bonuses reported in 2010-11 relate to performance in 2010-11 and the comparative bonuses reported for 2009-10 relate to the performance in 2009-10.

55. **Pension:** Pension benefits are provided through the Civil Service pension arrangements. From 1<sup>st</sup> 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 Consumer 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).

56. 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<sup>th</sup> of pensionable salary for each year of service. They are also given a lump sum equivalent to three year’s 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<sup>st</sup> October 2002 worked out in broadly the same way as for classic.

57. 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 to a limit of 3% of pensionable salary (in addition to the employer’s basic contribution).

58. 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).

59. Column six and seven of the remuneration 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 employer (including benefits paid transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

60. 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 payment 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 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 which the civil service vote has received a transfer payment which equates 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.

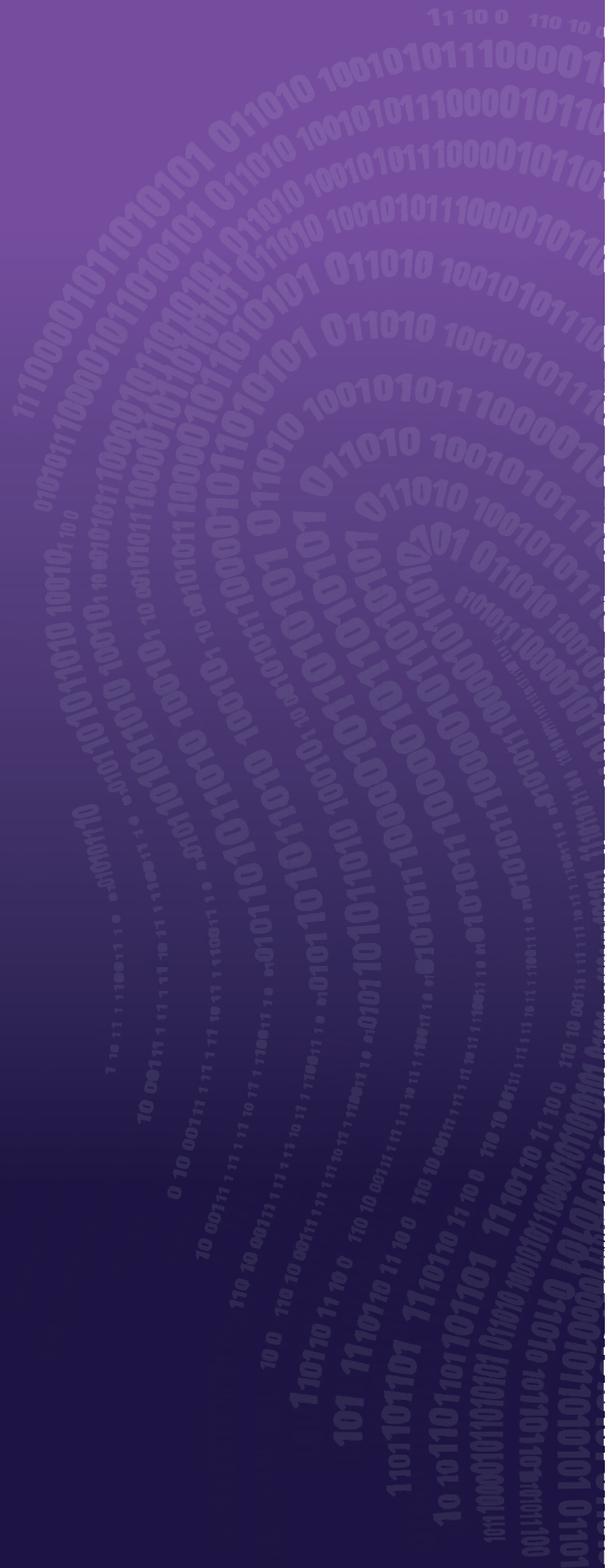
61. Members of the Owner's Advisory Board receive no remuneration from the Agency. The MOD pay the salaries and expenses for those members who are MOD staff. The non executive directors sit on our Audit and Risk Assurance Committee and Programme Board. They are paid £350 a day for each day they work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



**Jacky Ridley**  
Chief Executive  
12 July 2011

# PART 2

# Accounts 2010/11



## Foreword to the Accounts

### Introduction

1. These accounts relate to the thirteenth 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 Defence Vetting Agency (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 business improvement. You can find full details of these key targets, including comments and performance, in part 1 of this Annual Report and Accounts.

### 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 2010-2011 are shown below.

Chairman	Mr M Preston	DBR
Members:	Mrs J Ridley	Chief Executive DVA
	Miss J Duberry	DBR-Defence Security- 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 members receive 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 the Agency's Management Board (AMB), which meets every month. The members during 2010-2011 are shown below.

Chairman	Mrs J Ridley	Chief Executive
Members	Mr M Wraight	Head of Vetting Operations
	Miss J Coates	Head of Customer Relations and Marketing
	Mr R Markwell	Head of Policy Plans and Quality
	Mr A Mortimer	Head of Developed Vetting and Field Investigations Division
	Mr M Fairbotham	Head of Strategic Programme
	Mrs S J Back	Head of Resources

11. You can find details of the salaries and pension entitlements of myself 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.

## **Payment Performance**

14. All the Agency's bills are paid through the Financial Management Shared Service Centre (FMSSC). In the period 1 April 2010 to 31 March 2011, the FMSSC paid 99.76% of all correctly submitted bills within 10 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.

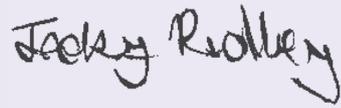
17. The Department makes regular payments of Superannuation Contributions Adjusted for Past Experience (SCAPE) into the relevant pension schemes at rates set by the Government Actuary. Liability for payment of future pension benefits to members is a charge on the schemes and not a liability of the Department.

## **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 Statement of Comprehensive Net Expenditure for audit services provided were £38,000 (2009-10 £38,000). This charge is a notional cost to the Agency. 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.

A handwritten signature in black ink that reads "Jacky Ridley". The signature is written in a cursive, slightly slanted style.

**Jacky Ridley**  
Chief Executive  
12 July 2011

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

Under the Government Resources and Accounts Act 2000, HM Treasury has directed the Defence Vetting Agency to prepare, for each financial year, resource accounts detailing the resources acquired, held or disposed of during the year and the use of resources by the department during the year. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the department and of its net resource outturn, resources applied to objectives, changes in taxpayers' equity and cash flows for the financial year.

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

- › observe the Accounts Direction issued by 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 as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the accounts; and
- › prepare the accounts on the going concern basis.

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. 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 of proper records and for safeguarding the Defence Vetting Agency's assets, 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 and for ensuring compliance with DVA's Financial Memorandum and Management Statement, Dear Accounting Officer letters and Financial Directions

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 strategic steers and advise through a twice yearly tripartite meeting also attended by his Non-Executive Director (NED) and twice yearly Target & Performance Sub Committee (T&PSC) meetings, that are chaired by the Owner's Non-Executive Director (NED) and provide feedback to the Agency Owner. 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. Defence Internal Audit (DIA) 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 National Audit Office (NAO) also attends meetings of the ARAC and contributes in its capacity as external auditors.

### 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 departmental 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 2011 and up to the date of approval of the Annual Report and Accounts, and accords with Treasury guidance.

### 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 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 2010-11:

- ▶ 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 assurance programme was completed by the end of the financial year and a full report was provided to the Agency Management Board;
- ▶ 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;
- ▶ 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; and
- ▶ An Information Assurance (IA) Audit was undertaken in January.

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 in year has been the work to deliver the e-transformation programme. This involved the implementation of a new business system (Cerberus) which came into 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 has already impacted upon our budget and 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). A number of suggestions have been made to the Owner of the Agency that could reduce or manage the demand for MOD vetting in line with the budget reductions. With the exception of extending the periods for review of DV clearances no other suggestion has yet been accepted.

The Information Assurance (IA) Audit conducted by Chief Information Officer (CIO), which took place in January looked at our IA process and document handling against the Information Assurance Maturity Model (IAMM). We were assessed at level 1 with some areas being assessed as at level 2. The 15 recommendations were made which the DVA is working through. A formal governance board was set up to take IA forward. This governance board (called the Information Working Group (IWG)), meets monthly and includes all IM nominated personnel. Chief Information Officer (CIO) attends the IWG on a regular basis to monitor and assist with our progress. We are also in the process of implementing Microsoft Office SharePoint Server (MOSS) which will also help us in the protecting and management of our data.

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. This is being carried forward by use of the IWG. Cerberus has been accredited by the MOD and a Privacy impact assessment has been carried out as part of this accreditation.

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 to meet the continued demand for NSV services;
- › failure to realise the full benefits of the e-Transformation Programme;
- › failure to comply with data handling regulations; and
- › ongoing performance issues from third party suppliers.

An additional 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.

## **Review of Effectiveness**

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the 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 two Non-Executive Directors (NEDs), the Corporate Governance and Assurance Manager and DIA 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.

In line with Treasury guidelines the ARAC membership was changed in year to reflect a more independent approach. Whilst the Committee still has three members; two are now from outside the Agency and the remaining one is from within the Agency. I am now provided with the level of assurance and challenge that my business requires. Since the end of the financial year MOD has undertaken some internal restructuring and the internal position has passed across to DIA. In order to avoid the risk of a conflict of interests, the ARAC membership has, therefore, been reduced to the two NED members and I am seeking support for a third position from the wider MOD for the next Financial Year.

The DVA is subject to internal 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 final return of its audit work during FY2010-11 and has provided guidance in those areas where existing controls could be improved. The DIA undertook 3 new internal audit examinations within the Agency during the 2010-11 financial year. The audits covered the Agency's Key Targets (substantial assurance received), Business Continuity and Site Recovery (substantial assurance received) and Controls over Management Information (limited assurance received). The Agency also contributed towards two pan MOD audits on Low Value Purchasing and Travel and Subsistence and also a pan Top Level Budget (TLB) audit on Occupational Road Risk.

During the year further 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; Staff at D grade and above have to complete the level 2 course those in an IM role (Information Asset Owners (IAO), AO, Imgr, SIO and SIRO) have to complete the level 3;
- ▶ All information assets have been identified and assigned to Information Asset Owners; an Information risk register is being produced from information supplied by the IAO's to be reviewed at the IWG;
- ▶ Robust information governance exists, supported by an effective compliance regime by the DVA's Corporate Governance Manager (work that has now transferred to DIA);
- ▶ 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 and the system has been fully accredited;
- ▶ During 2010-11 there were no personal data losses;
- ▶ 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 Office of Government Commerce (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 now been completed.

## Development of Cerberus

In 2008, the DVA tendered for its e-transformation programme, now called Cerberus, replacing: the existing Case Management System (CMS), Warrantor 2; stand-alone terminals for a range of third party interfaces, such as the Police National Computer (PNC); and enhancing data input into the system through a new suite of Cabinet Office approved e-Forms. 2010/11 was the final year of the Cerberus project, where the system development was completed, tested and came into service in March 2011. It is currently undergoing a stabilisation period.

The project was managed throughout the year at monthly Projects Boards, chaired by the Head of Strategic Programmes, and governed by the DVA's Programme Board, chaired by the Chief Executive. Throughout the development these boards managed numerous issues, both specifically at project level with the main supplier, Logica, a range of third party suppliers and for the wider development at programme level covering workstreams such as Communications and Account Management and implementation for all MOD and OGD customers.

Some of the key issues that have come up during the year are where Cerberus touches other systems, in particular, network connectivity to the Government's Government Secure Intranet network, and automated interfaces with the Security Services, PNC and Experian. Changes in MOD Security protocols that could not have been anticipated by the DVA, resulted in unprogrammed work which caused a delay to the project and moved the go live date later into the Financial Year. The original date of June 2010 had been agreed with the suppliers (Logica) and the system thus required additional stabilisation leaving the DVA liable to pay maintenance charges. Whilst a level of service was received for these payments, the full service, as contractually agreed, could not be delivered and although DVA made every effort to reduce/delay these payments they were legally binding. Despite many set-backs throughout the year, all areas of functionality were developed and successfully tested by February 2011 to the point where the Programme Board could make a decision about go-live.

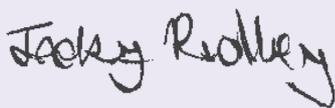
On the 28 February 2011, DVA members of the Programme Board and additional Subject Matter Experts (SMEs) met to assess the progress of Cerberus and agreed a Go-Live date of 4-7 March 2011. The go-live weekend went ahead as planned and the system came on-line on the Monday morning following the successful transfer of 2.5 million National Security Vetting records. For the remainder of the month the DVA spent its time training customers and solving the first batch post go-live identified issues. These issues included a number caused by the customer local configuration settings, although outside the scope of the development both ourselves and our supplier have worked with individual customers to seek resolution.

The system has now been live for 3 months, and we still have a number of issues outstanding since Cerberus go live but Logica and the DVA have been working closely together to resolve these. The Agency Management Board have been managing the priority issues via daily meetings (moved to twice weekly in the third month) and regular teleconferences. The main issues are:

- › The DVA has been working very closely with CPNI to accommodate a change in specification. The link to CPNI was down for a number of weeks, but we have now completed the change to Cerberus they requested to meet their new requirement and the work is flowing again. A few remaining issues will be resolved in the next couple of weeks;
- › The DVA have had instances of cases that have been completed on the portals by both subject and sponsor yet do not appear as active cases within the CMS, effectively becoming 'stuck'. These cases are being managed on a daily basis by Logica and the DVA via spreadsheets and the DVA providing criteria for priority on these cases for Logica to push them through the system. DVA and Logica are currently also looking into ways to resolve this issue in the long term;
- › Local security policies in place mean some organisations cannot turn on Javascript in Adobe Reader/PDFs and therefore cannot use the E Form as envisaged. With our customers in mind we are now running a pilot via an RFC (Terminal Server Pilot). This Pilot will be run with one of our prominent customers and if successful could be rolled out to other customers. A longer term solution is being developed;
- › The usability of the CWC remains an issue and this is currently being looked at by Logica. We have an RFC which is due to be appraised by Logica and this will fix one of the main issues. There are, however, a number of other issues such as the presentation of the report which need to be fixed to ensure the CWC is working as anticipated.

Regardless of these outstanding issues, the Cerberus development should be considered a success.

Despite missing the project's original go-live date in 2010, the project was delivered on time to meet Key Target 6, within budgetary tolerances and to the agreed specification. With the pressure to make savings to the MOD budget, the post reductions identified in the Main Gate Business Case that were scheduled to be achieved in the 12 to 18 month window post go-live have already been achieved in year.



**Jacky Ridley**  
Chief Executive  
12 July 2011

## **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 2011 under the Government Resources and Accounts Act 2000. These comprise the Statement of Comprehensive Net Expenditure, the 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 the Agency's and Accounting Officer's 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 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 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 read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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 2011, and of the net operating cost 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 section of 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;
- › 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 2011*

## 2010-11 Defence Vetting Agency Accounts

### Statement of Comprehensive Net Expenditure For The Year Ended 31 March 2011

	Note	Staff costs	2010/11 £000 Other costs	Income	2009/10 £000
<b>Administration costs</b>					
Staff costs	3	13,306			13,759
Other administrative costs	4		3,279		3,666
Operating income	5			(2,676)	(4,182)
<b>Totals</b>		<b>13,306</b>	<b>3,279</b>	<b>(2,676)</b>	<b>13,243</b>
<b>Net operating cost</b>				<b>13,909</b>	<b>13,243</b>

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

### Other Comprehensive Expenditure

	Note	2010/11 £000	2009/10 £000
Net (gain) on revaluation of Property Plant & Equipment	6	(17)	(2)
Net (gain) on revaluation of Intangibles	7	(464)	-
<b>Other Comprehensive Expenditure for the year ended 31 March 2011</b>		<b>(481)</b>	<b>(2)</b>
<b>Total Comprehensive Expenditure for the year ended 31 March 2011</b>		<b>13,428</b>	<b>13,241</b>

The notes on pages 46 to 59 form part of these accounts.

## Statement of Financial Position As at 31 March 2011

	Note	31 March 2011 £000	31 March 2010 £000 Restated	1 April 2009 £000 Restated
<b>Non current assets</b>				
Property, plant & equipment	6	191	256	305
Intangible assets	7	6,386	3,514	568
<b>Total non-current assets</b>		<b>6,577</b>	<b>3,770</b>	<b>873</b>
<b>Current assets</b>				
Trade and other receivables	8	336	844	882
<b>Total current assets</b>		<b>336</b>	<b>844</b>	<b>882</b>
<b>Total assets</b>		<b>6,913</b>	<b>4,614</b>	<b>1,755</b>
<b>Current liabilities</b>				
Trade and other payables	9	(1,388)	(1,874)	(1,248)
<b>Total current liabilities</b>		<b>(1,388)</b>	<b>(1,874)</b>	<b>(1,248)</b>
<b>Assets less liabilities</b>		<b>5,525</b>	<b>2,740</b>	<b>507</b>
<b>Taxpayers' equity</b>				
General fund		5,041	2,726	495
Revaluation reserve		484	14	12
<b>Total taxpayers' equity</b>		<b>5,525</b>	<b>2,740</b>	<b>507</b>



**Jacky Ridley**  
Chief Executive  
12 July 2011

The notes on pages 46 to 59 form part of these accounts

**Statement of Cash Flows**  
**For the year ended 31 March 2011**

	Note	2010/11 £000	2009/10 £000
<b>Cash flows from operating activities</b>			
Net operating cost		(13,909)	(13,243)
Adjustments for non-cash transactions	4	842	1,476
Decrease in trade and other receivables	8	508	38
(Decrease)/Increase in trade and other payables	9	(486)	626
<b>Net cash outflow from operating activities</b>		<b>(13,045)</b>	<b>(11,103)</b>
<b>Cash flows from investing activities</b>			
Purchase of plant and equipment	6	-	(37)
Purchase of intangibles	7	(2,374)	(2,982)
<b>Net cash outflow from investing activities</b>		<b>(2,374)</b>	<b>(3,019)</b>
<b>Net financing from Defence Resource Account</b>		<b>15,419</b>	<b>14,122</b>
<b>Net increase/(decrease) in cash and cash equivalents in the period</b>		<b>-</b>	<b>-</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>-</b>	<b>-</b>
<b>Cash and cash equivalents at the end of the period</b>		<b>-</b>	<b>-</b>

Note: The DVA does not handle any cash and holds no cash balances.

The notes on pages 46 to 59 form part of these accounts

## Consolidated Statement of Changes in Taxpayers' Equity for the year ended 31 March 2011

	Note	General Fund £000	Revaluation Reserve £000	Total Reserves
<b>Balance at 31 March 2009</b>		<b>495</b>	<b>12</b>	<b>507</b>
Changes in Accounting Policy		-	-	-
Restated balance at 1 April 2009		495	12	507
<b>Changes in taxpayers' equity for 2009-10</b>				
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
Net operating cost for the year		(13,243)	-	(13,243)
<b>Total recognised income &amp; expense for 2009-10</b>		<b>(11,891)</b>	<b>2</b>	<b>(11,889)</b>
Funding from Defence Resource Account		14,122		14,122
<b>Balance at 31 March 2010</b>		<b>2,726</b>	<b>14</b>	<b>2,740</b>
<b>Changes in taxpayers' equity for 2010-11</b>				
Net gain on revaluation		-	481	481
Non cash items				
IT maintenance & software	4	499	-	499
Services provided by MOD	4	33	-	33
Higher formation costs	4	136	-	136
Utilities	4	55	-	55
Audit remuneration	4	38	-	38
Contribution in lieu of rates	4	33	-	33
Transfer between reserves		11	(11)	-
Net operating cost for the year		(13,909)	-	(13,909)
<b>Total recognised income &amp; expense for 2010-11</b>		<b>(13,104)</b>	<b>470</b>	<b>(12,634)</b>
Funding from Defence Resource Account		15,419	-	15,419
<b>Balance at 31 March 2011</b>		<b>5,041</b>	<b>484</b>	<b>5,525</b>

The notes on pages 46 to 59 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 2010. 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 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 property, 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 Statement of Comprehensive Net Expenditure based on the cost of services provided.

##### **ii) Intra-departmental Services**

Notional amounts are included in the other administrative 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**

In line with the Government Financial Reporting Manual (FRem) 2010-11, the notional cost of capital charge is not included for

the year ended 31 March 2011. HM Treasury have advised that the removal of cost of capital is material by nature. Therefore, in line with IAS 1, retrospective restatement of prior period financial statements has been made to prior year comparative figures. As required under IAS 1, three Statements of Financial Position are presented.

**f) Property, 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 and 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 Statement of Comprehensive Net Expenditure.

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

**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 Property, Plant & Equipment, on 1 April 2006 the Ministry of Defence also transferred responsibility for accounting for intangibles from the DVA 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 or have access to any bank accounts and therefore 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 DVA 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.

***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.

***o) Significant Estimates and Judgements***

The Agency is required, when applying its accounting policies, to make certain judgements, estimates and associated assumptions relating to assets, liabilities, income and expenditure. These judgements, estimates and associated assumptions are based on knowledge of current facts and circumstances, assumptions concerning past events and forecasts of future events and actions. Actual results may differ from these estimates.

***p) IFRS that have been issued but are not yet effective***

IAS24: Related Party Disclosures was amended in November 2009 and will be effective for accounting periods starting on or after 1 January 2011. The revision of IAS24 simplifies and clarifies the definition of a related party, and provides government-related entities with partial exemption from the

disclosure requirements relating to related party transactions and outstanding balances. The DVA intends to apply amended IAS24 in the 2011/12 financial year. The impact of applying this revised standard will not be material.

IFRS 9: Financial Instruments was issued in November 2009 and will be effective for financial reporting periods beginning on or after 1 January 2013. The new standard simplifies the classification and measurement of financial assets, previously reported under IAS 39 Financial Instruments: Recognition and Measurement. The application of this standard will not have a material effect on the disclosure of financial assets within the DVA financial statements.

## **2 Change of Accounting Policy (Disclosure under IAS(8))**

In line with HM Treasury advice, a Prior Period Adjustment has been included for the removal of the cost of capital charge. The impact of this accounting policy change on net operating cost in respect of 2009/10 is shown in Note 2.1.

### **2.1**

	<b>£000</b>
Net operating cost for 2009-10	13,329
Adjustments for:	
Cost of Capital	(86)
<b>Net operating cost for 2009-10</b>	<b>13,243</b>

### 3 STAFF COSTS AND NUMBERS

Staff costs comprise:

			2010-11 £000	2009-10 £000
	Permanently employed staff	Agency staff	Total	Total
Wages and salaries	10,736	-	<b>10,736</b>	<b>11,184</b>
Social security costs (ERNIC)	753	-	<b>753</b>	<b>753</b>
Other pension costs	1,817	-	<b>1,817</b>	<b>1,822</b>
<b>Total Costs</b>			<b>13,306</b>	<b>13,759</b>

Total capitalised staff costs during 2010-11 amounted to £315k (2009-10 £304k).

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](http://www.civilservice-pensions.gov.uk)).

For 2010-2011, employer's contributions of £1,817,245 were payable to the PCSPS (2009-2010, £1,821,667) at rates in the range 16.7-24.3% 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:

	2010/11			2009/10
	Permanent staff	Others	Total	Total
Directly employed	420	-	420	<b>448</b>
Agency staff	-	-	-	<b>10</b>
Staff engaged on capital projects	10	-	10	<b>10</b>
<b>Total</b>	<b>430</b>	<b>-</b>	<b>430</b>	<b>468</b>

There were no early exit packages in 2010/11(2009/10 nil).

## 4 OTHER ADMINISTRATIVE COSTS

	2010/11 £000	2009/10 £000 Restated
Support services	110	133
Travel and subsistence	794	1,087
Contract/Consultant Staff	357	268
IT maintenance and software	863	286
Works and maintenance	64	64
Office running costs	152	195
Telecommunications	92	99
Utilities	-	48
Training	5	10
	<b>2,437</b>	<b>2,190</b>
Non-cash Items		
IT maintenance & software	499	499
Services provided by MOD	33	213
Higher formation costs	136	569
Utilities	55	-
Depreciation and amortisation	96	76
(Gain)/Impairment on non-current assets	(48)	48
Auditor's remuneration	38	38
Contribution in lieu of rates	33	33
<b>Total</b>	<b>3,279</b>	<b>3,666</b>

## 5 OPERATING INCOME

The sources of operating income for the year were:

	2010/11 £000	2009/10 £000
Repayment for services provided to other government departments	2,402	3,933
Repayment for services provided to commercial organisations	222	167
Repayment for services provided to overseas governments	52	82
<b>Total</b>	<b>2,676</b>	<b>4,182</b>

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 £2.676m was received in Financial Year 2010-11 with no surplus/deficit being incurred by the DVA. The Financial Objective was therefore achieved.

## 6 PROPERTY PLANT AND EQUIPMENT

	Plant & machinery £000	Information technology £000	Assets under construction £000	Total £000
<b>Cost/valuation</b>				
At 1 April 2010	134	393	-	527
Additions	-	-	-	-
Revaluations	5	38	-	43
Disposals	-	(12)	-	(12)
<b>At 31 March 2011</b>	<b>139</b>	<b>419</b>		<b>558</b>
<b>Depreciation</b>				
At 1 April 2010	71	200	-	271
In year charge	7	89	-	96
Backlog charge	2	10	-	12
Disposals	-	(12)	-	(12)
<b>At 31 March 2011</b>	<b>80</b>	<b>287</b>	<b>-</b>	<b>367</b>
<b>Net book value</b>				
<b>At 31 March 2011</b>	<b>59</b>	<b>132</b>	<b>-</b>	<b>191</b>
<b>At 31 March 2010</b>	<b>63</b>	<b>193</b>	<b>-</b>	<b>256</b>
At 1 April 2009	131	256	233	620
Additions	-	-	37	37
Revaluations	3	(1)	(14)	(12)
Disposals	-	(118)	-	(118)
Reclassifications		256	(256)	-
<b>At 31 March 2010</b>	<b>134</b>	<b>393</b>	<b>-</b>	<b>527</b>
<b>Depreciation</b>				
At 1 April 2009	63	252	-	315
Charged in Year	7	67	-	74
Backlog charge	1	(1)	-	-
Disposals	-	(118)	-	(118)
<b>At 31 March 2010</b>	<b>71</b>	<b>200</b>	<b>-</b>	<b>271</b>
<b>Net book value</b>				
<b>At 31 March 2010</b>	<b>63</b>	<b>193</b>	<b>-</b>	<b>256</b>
<b>At 31 March 2009</b>	<b>68</b>	<b>4</b>	<b>233</b>	<b>305</b>

## 7 INTANGIBLE ASSETS

Intangible assets comprise software packages. The Assets under construction consist wholly of the Cerberus National Security Vetting system. This system provides the single vetting database for Government and remained in a stabilisation period at the end of the FY following its introduction on 7th March 2011. It is expected to be capitalised in the next FY.

	Assets under construction	Software	Total
	£000	£000	£000
Cost or valuation			
At 1 April 2010	3,514	616	4,130
Additions	2,374	-	2,374
Revaluation	498	-	498
<b>At 31 March 2011</b>	<b>6,386</b>	<b>616</b>	<b>7,002</b>
Amortisation			
At 1 April 2010	-	616	616
Charged in year	-	-	-
Backlog charge	-	-	-
<b>At 31 March 2011</b>	<b>-</b>	<b>616</b>	<b>616</b>
<b>Net book value at 31 March 2011</b>	<b>6,386</b>	<b>-</b>	<b>6,386</b>
Cost or valuation			
At 1 April 2009	566	656	1,222
Additions	2,982	-	2,982
Revaluation	(34)	(40)	(74)
<b>At 31 March 2010</b>	<b>3,514</b>	<b>616</b>	<b>4,130</b>
Amortisation			
At 1 April 2009	-	654	654
Charged in year	-	2	2
Backlog charge	-	(40)	(40)
<b>At 31 March 2010</b>	<b>-</b>	<b>616</b>	<b>616</b>
<b>Net book value at 31 March 2010</b>	<b>3,514</b>	<b>-</b>	<b>3,514</b>
<b>Net book value at 31 March 2009</b>	<b>566</b>	<b>2</b>	<b>568</b>

## 8 TRADE RECEIVABLES AND OTHER CURRENT ASSETS

Amounts falling due within one year

	31 March 2011 £000	31 March 2010 £000	1 April 2009 £000
Trade receivables	149	500	532
Accrued income	150	301	299
Prepayments	37	43	51
<b>Totals</b>	<b>336</b>	<b>844</b>	<b>882</b>

Receivables are attributed as follows

	31 March 2011 £000	31 March 2010 £000	1 April 2009 £000
Other central government bodies	211	507	510
Local authorities	32	203	231
National Health Service bodies	-	-	-
Public corporations and trading funds	40	-	-
Bodies external to government	53	134	141
<b>Totals</b>	<b>336</b>	<b>844</b>	<b>882</b>

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 2011 £000	31 March 2010 £000	1 April 2009 £000
Trade payables	28	29	350
Accruals	1,360	1,845	898
<b>Totals</b>	<b>1,388</b>	<b>1,874</b>	<b>1,248</b>

Payables and accruals are attributed as follows

	31 March 2011 £000	31 March 2010 £000	1 April 2009 £000
Other central government bodies	24	-	-
Local Authorities	-	-	-
National Health Service bodies	-	-	-
Public corporations and trading funds	-	-	-
Bodies external to government	1,364	1,874	1,248
<b>Totals</b>	<b>1,388</b>	<b>1,874</b>	<b>1,248</b>

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

## 10 RELATED PARTY TRANSACTIONS

The DVA is an Agency of the Ministry of Defence. The Ministry of Defence is regarded as a related party. During the period 1 April 2010 to 31 March 2011 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 £0.14M (2009/10 £1.6m). This project is scheduled to conclude in 2011/12.

## **12 CONTINGENT LIABILITIES**

The DVA has no contingent liabilities.

## **13 LOSSES AND SPECIAL PAYMENTS**

There were no losses or special payments that required disclosure within the accounts as at 31 March 2011 (also nil in FY 09/10).

## **14 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.

## **15 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's financial assets are receivables and their financial liabilities are payables.

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.

## 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:

	Note	Carrying Value 31 March 2011 £000	Carrying Value 31 March 2010 £000
<b>Financial Assets</b>			
Historic Cost	8	336	844
<b>Financial Liabilities</b>			
Historic Cost	9	(1,388)	(1,874)

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

## **16 GOING CONCERN**

The financial statements have been prepared on a going concern basis.

In July 2010, the Government announced its intention to close the Defence Vetting Agency and to transfer its functions to the Defence Business Support Organisation. Subject to the outcome of the single NSV provider initiative, the Agency will be taken into the new organisation during autumn 2011 and Agency status will be withdrawn from 1 April 2012.

At the point of closure it is proposed that the Defence Vetting Agency, in its current legal form, will be abolished although the arrangements for this have yet to be confirmed.

Vetting operations will be transferred to another government body.

## **17 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.



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