

Annual Report and Accounts 2006 - 2007



Defence Vetting Agency
www.dva.mod.uk

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Vetting Abbreviations used in this report

- BC – Basic Check
- CTC – Counter Terrorist Check
- DV – Developed Vetting
- DVA – Defence Vetting Agency
- EBC – Enhanced Basic Check
- SC – Security Check

Chief Executive's Statement

I am delighted to present this Annual Report detailing our achievements during 2006-07.

This has been a significant year. We have implemented the new Cabinet Office requirements for minimum standards for Developed Vetting and the Baseline Personnel Security Standards whilst improving our performance across the full range of Key Targets. Ending the year with the best Key Target achievement since the creation of the Agency.

We have extended our national security vetting footprint by adding a significant number of new customers to our Other Government Department repayment work. And, although this increase has at times been stretching, we have maintained our level of customer service. This customer focus was recognised in February 2007 when we became the first vetting organisation in government to become Charter Mark accredited.

We are keen to improve our service further by automating requests for clearances. To support this move we have produced our High Level Business Case for new technology and we are working closely with the Cabinet Office to ensure this meets wider government needs.

We could not have achieved so much without the dedication and commitment of staff at all levels. The service they have provided is commended.



Jacky Ridley

Jacky Ridley - Chief Executive
27 June 2007

Performance Summary

Introduction

The DVA delivered successfully against all its Key Targets. Another notable achievement was the award of Charter Mark accreditation in recognition of the levels of customer service it provides. The DVA's reputation for providing a quality vetting product continues to attract new repayment business from other government departments. Working closely with the Cabinet Office, the Agency has also moved forward on its strategy to become a Shared Services provider for national security vetting and be recognised as the lead authority across government on security vetting process and risk based assessment of cases.

Notable Achievements

- Achieved best performance against Key Targets since formation of the Agency in 1997.
- Gained Charter Mark accreditation, against the enhanced Cabinet Office Standards. The first vetting organisation to do so.
- Was runner up in the 2006 Civil Service Diversity and Equality Awards for the way it has diversified its Vetting Officers to reflect the range of subjects they interview.
- New business has been gained from a range of Other Government Departments, including the Serious Organised Crime Agency (SOCA), Office of Civil and Nuclear Security (OCNS), The Gambling Commission, and the Bank of England. Work has also begun to explore how the DVA can help the Olympic Delivery Authority (ODA) with arrangements for the 2012 Olympics.
- The Agency also established an e-transformation programme to enable vetting processes to be faster, cheaper and smarter. The programme is complimentary to the e-government agenda, Shared Services agenda, and the Cabinet Office vetting-transformation programme. A scoping study on the best way forward has been completed that will provide the foundation for a detailed business case for gateway funding.
- The interim solution for e-transformation for scanning all types of vetting applications was fully implemented.

Part 1 Management Commentary

Introduction

This Annual Report and Accounts details the performance of the Defence Vetting Agency (DVA) between 1 April 2006 and 31 March 2007. Part 1 records performance against the Key Targets and outlines business achievements. Part 2 presents the audited Accounts.

About the DVA

The DVA was formed in 1997 to modernise and co-locate the work of the four former military and MOD civilian security vetting units. Collocation was achieved during the summer of 2001 in York. An ongoing programme of development work is underway to introduce the concept of e-vetting, and restructure the Agency to support a single vetting process that will better meet customer requirements and strategic business objectives.

Mission, role, and vision

Mission - *why we exist:*

To deliver a quality, customer focussed, and efficient vetting service.

Role - *what we are tasked to do:*

To undertake national security vetting in line with the Cabinet Office standard, and provide a risk based assessment of suitability for people to hold clearance for access to sensitive information or valuable assets.

Vision - *What we want to be:*

To meet the expectations of customers and stakeholders with regard to the quality, timeliness, efficiency and value for money aspects of vetting. To be recognised as the lead organisation across government on vetting process and risk based assessment.

Corporate Outputs

Personnel security vetting is carried out so that people may take certain jobs or carry out tasks that need a national security clearance. These jobs and tasks are located throughout the Ministry of Defence and Armed Forces, as well as in the private sector dealing with defence related work. In addition, a number of other government departments and organisations pay the DVA to process clearances or carry out interview work. The main types of checks and clearances processed by the DVA are as follows:

National Security Checks

Counter Terrorist Check (CTC) is required for people who work in close proximity to public figures, or who have access to information or material vulnerable to terrorist attack, or who need unrestricted access to certain government or commercial establishments. A CTC does not allow access to, or knowledge or custody of, protectively marked assets. The following security vetting stages are mandatory before a CTC clearance can be approved:

- Baseline Standard check of identity
- Departmental/ Company Records Check
- Completion of a security questionnaire
- Criminal Record Check
- Security Service Check

On completion of, or during the vetting

process as appropriate, the information collected is assessed and a decision is made to refuse or approve the individual a CTC clearance.

Security Check (SC) is required for people who have substantial access to SECRET or occasional supervised access to TOP SECRET assets. The following security vetting stages comprise a full SC clearance:

- Baseline Standard check of identity
- Departmental/ Company Records Check
- Completion of a security questionnaire
- Criminal Record Check
- Credit Reference Check
- Security Service Check

On completion, or during the vetting process as appropriate, the information collected is assessed and a decision is made to refuse or approve the granting of an SC clearance.

Developed Vetting (DV) is required for people with substantial unsupervised access to TOP SECRET assets, or if working in the security or intelligence agencies. The following security vetting stages are mandatory before a DV clearance can be approved:

- Baseline Standard check of identity
- Departmental/ Company Records Check
- Completion of a security questionnaire and DV supplement
- Criminal Record Check
- Credit Reference Check
- Security Service Check
- Review of personal finances
- Subject Interview and further enquiries
- Referee and line manager interviews

On completion, or during the vetting process as appropriate, the information collected is assessed and a decision is made to refuse or approve the granting of a DV clearance.

Once a clearance is granted it is only valid for a pre-determined period after which a review must be conducted if the clearance is still required. For CTC, a review is completed after 10 years for defence staff, and 3 years for contractors. For SC the review period is 10 years for defence staff and 5 years for contractors. For defence staff holding DV, an initial review is completed after 5 years, then 7 years subsequently. DV reviews for contractors are after every 3-5 years.

A small number of clearances are granted in spite of some reservations. Risk management requires follow-up work and monitoring of some cases. This activity is termed "aftercare", and may be required in connection with any of the above clearances.

Employment Checks

Employment Assurance (disclosures) EA(D) are required by people employed by MOD sponsored units and organisations that benefit the MOD, who are being considered for employment with children or vulnerable adults. DVA acts as a co-ordinator for these requests.

Baseline Standard Check of Identity: Basic Checks (BC) and Enhanced Basic Checks (EBC) are not formal security clearances. A BC or EBC provides a level of assurance to the trustworthiness and integrity of individuals whose work involved access to CONFIDENTIAL assets. BCs are normally conducted by the recruitment authorities or companies to mandatory standards, and have to be completed before the DVA is able to process a national security check or clearance.

Key Target Performance Summary

Key Targets	Overall Achievement
KT1 External Validation of Quality	
Achieve at least a 98% success rating with cases independently selected at random	100% Exceeded
KT2 Completing the Vetting Review Backlog Programme	
By 31 March 07 complete a further 20,000 Security Check backlog reviews.	23,415 Exceeded
KT3 Improving Customer Satisfaction	
By 31st March 07, achieve 89% overall customer satisfaction.	95% Exceeded
KT4 Improving the completion time of Routine Cases	
a. Complete 65% of CTC cases within 30 days	a. 75% Exceeded
b. Complete 65% of SC within 30 days.	b. 70% Exceeded
c. Complete 83% of DV within 95 days	c. 82% Missed by 0.7%
KT5 Improving the completion time of Priority Cases	
a. Complete 85% of CTC and SC cases within 10 days.	a. 99% Exceeded
b. Complete 80% of DV cases within 30days.	b. 80% Achieved
KT 6 Improving Efficiency	
To reduce the Unit Cost of Output by 2% (from £27.49)	-2.1% Exceeded

Notes: Performance against the Timeliness targets is reported net of delays external to the Agency. Time is measured in calendar days.

Key Target Performance Detail

Quality Key Targets

Three Quality Key Targets were set:

Key Target 1: External Validation of Quality.

Achieve at least a 98% success rating with 200 cases independently selected at random.

Rationale

This Key Target measures the quality of vetting judgements through the external validation of the quality of the Agency's outputs and performance. External validation of quality is achieved in a variety of ways, but for performance purposes is measured through a review of actual casework by the Service Lead Command Principal Security Advisors and the MOD Security Policy Division.

Measurement

Measurement of quality through the external validation of casework was provided through an independent check of case records selected at random. The range of casework offered for validation covered Developed Vetting and Security Check cases withdrawn or denied in service, and a random sample of completed Developed Vetting cases. The purpose of the review was to determine the extent to which the Agency might have been able to identify potential problems earlier, or whether poor decisions were made during the vetting process. No Reviewer assessed a case in which he or she had prior involvement, and each assessment was assigned a 'level of liability' based on an agreed scoring method.

Trends					
	02/03	03/04	04/05	05/06	06/07
Targets	95%	95%	95%	98%	98%
Perform	97%	98%	97%	99%	100%

Commentary

The aim was to check at least 200 case records by the four independent Reviewers. The Agency recognised that there was some risk in processing this volume due to the limited resources within each area to manage the caseload. In the event, 79 cases were checked by the end of the year. A new process to significantly improve the number of cases checked will be introduced next year.

Key Target 2: The Vetting Review Backlog programme. By 31 March 2007, complete a further 20,000 SC backlog Reviews.

An important indicator of the quality of the DVA's success in vetting is to be able to demonstrate to the MOD, that everyone, who Line Managers report as needing access to sensitive information, has a valid in-date security clearance.

Measurement

Following an audit observation last year, the Agency put in place a more robust ring fence procedure to ensure that only SC review cases from the backlog programme are reported against this target. Progress, which was dependent on full co-operation of customers, was reported and monitored by the Management Board each month through the Agency Performance Review process, and was subject to a further in-year check to ensure that the records were compliant with the audit observation.



Trends					
	02/03	03/04	04/05	05/06	06/07
Targets	-	-	13,500	13,500	20,000
Outturn	-	-	18,438	19,326	23,415

Commentary

A quality target to measure progress in reducing the number of out of date clearances has been running for the past three years. At the end of FY 05/06, when the DV backlog was eliminated, the size of the estimated backlog requiring review was 50,000 SCs, spread over three years to be completed in FY 08/09.

Key Target 3: Improving Customer Satisfaction.

By 31 March 07, achieve 89% overall customer satisfaction.

The DVA aims to improve customer satisfaction generally, and was successful in achieving Charter Mark accreditation during FY 06/07. Seeking customers' views about the service provided by the Agency was a key part of this work. This target focuses on improving the satisfaction of customers in the sponsor, recruiting, and HR areas. Continuous attitude surveys of DV subjects and referees continue to be run and reported through the Business Plan reporting process.

Measurement

The measure of customer satisfaction against this target is through the outcome of the annual Customer Satisfaction Survey, which is undertaken and analysed by an external organisation.

Trends

	01/02	02/03	03/04	04/05	05/06	06/07
Targets	-	no survey conducted	80%	no survey conducted	89%	89%
Outturn	77%	-	89%	-	91%	95%
	Baseline figure					

Commentary

From a baseline of 77% established shortly after full collocation in York, customer satisfaction has steadily improved. From FY 05/06 the DVA has moved towards annual customer satisfaction surveys and looks towards increasing the sample size. It was agreed that the target for FY 06/07 should remain at 89% in recognition of the customer issues expected to be created by the introduction of a new suite of Security Questionnaires across the Department. It was anticipated that customers would be concerned about the increased size of the new scannable security questionnaires, and the difficulty in completing the forms in longhand. Also, full rollout of scannable forms for all types of clearances might lead to processing issues that could prolong turn around times.

Timeliness Key Targets

Timeliness is the aspect of service most visible, and of most immediate concern to customers. Two timeliness Key Targets were set, which concentrate on the three main checks and clearances, which were processed as either routine or priority:

Key Target 4: Improving the completion time of routine cases by:

a: Completing 65% of routine CTC and SC cases within 30 calendar days.

b: Completing 83% of routine DV cases within 95 calendar days.

Rationale

Since its inception, the Agency has looked to improve year on year performance against the timeliness targets. Three years ago customers were informed that, as a planning objective, within 5 years DVA would aim to complete all CTC/SC cases within 30 calendar days and all DV cases in 100 calendar days, net of delays external to the Agency. Customers recognised that it would not be possible for the end to end clearance time to be completed within these timescales, and were content for the Agency to aspire to this aim, and plan to achieve it within the shortest possible time. The DVA's Owner accepted that end to end targets are not currently achievable and therefore agreed that the targets would remain as "net" performance measures.

Trends

Routine CTC Cases to be completed within 30 calendar days

	02/03	03/04 note 1	04/05	05/06	06/07
Targets	60%	62%	62%	62%	65%
Outturn	41%	59%	55%	51%	75%

Routine SC Cases to be completed within 30 calendar days

	02/03	03/04 note 1	04/05	05/06	06/07
Targets	60%	62%	65%	65%	65%
Outturn	38%	63%	55%	49%	70%

Routine DV Cases to be completed within 100 calendar days

	02/03	03/04 note 1	04/05	05/06	06/07
Targets	40%	40%	50%	83%	Target
Outturn	36%	49%	85%	91%	Discontinued

to be completed within 95 calendar days

Target	-	-	-	-	83%
Outturn	-	-	-	-	82%

Notes: 1. Targets and performance from FY 03/04 onwards represent net performance. This excludes delays outside of DVA control.

Commentary

A number of issues impacted on DV performance this year. The outcome of a review of the DV process resulted in a number of process re-engineering initiatives that were tested and piloted in tandem with the normal day to day work. Furthermore, the implementation of the new Cabinet Office standard for DV clearances affected the overall process time for cases.

Key Target 5: Improving the completion time of priority cases by:

a: Completing 85% of priority CTC & SC cases within 10 calendar days.

b: Completing 80% of priority DV cases within 30 calendar days.

Rationale

The attachment of a 'Priority' or 'Immediate' flag enables the Agency to be more responsive to customer requirements. This involves reconciling competing priorities across and between customer areas to avoid the DVA being overwhelmed with an unreasonable number of requests for fast tracking. Over time, as the performance for routine clearances improves the need for priority clearances should diminish.

Trends

Priority CTC/SC Cases to be completed within 10 calendar days

	02/03	03/04 <small>note 1</small>	04/05	05/06	06/07
Targets	-	-	45%	85%	85%
Outturn	-	-	77%	88%	99%

Priority DV Cases to be completed within 30 calendar days

	02/03	03/04 <small>note 1</small>	04/05	05/06	06/07
Targets	90%	90%	90%	80%	80%
Outturn	44%	28%	67%	86%	80%

Notes

1. Targets and performance from FY 03/04 onwards represent net performance. This excludes delays outside of DVA control.

Commentary

The adjustment upwards of the CTC/SC target two years ago proved to be a success and in driving forward changes in handling priority casework. Almost all priority CTC/SC casework was completed on time, allowing the target to remain at 85%. For DV, it was agreed to keep the target at 80% in order to reflect current performance. It should be noted that these targets are very vulnerable to being underachieved due to the small number of cases processed.

Efficiency Key Target

Key Target 6: Improving Efficiency

Reduce the Unit Cost of Output by 2%.

Rationale

The DVA needs to be able to demonstrate the extent to which it is becoming more efficient while maintaining a cost effective and efficient service in line with customers' needs and within its financial allocation. The Agency does this in two ways. Firstly, through centrally imposed assumed input efficiency cash savings taken from the budget allocation, and secondly through 2% output efficiencies measured through annual accumulated percentage variations in the Unit Cost of Output, covering each of the main vetting outputs. Overall, the Agency was required to deliver 4.5% in input and output efficiency in FY 06/07. At steady state, the target is to maintain a steady year-on-year improvement.

The Unit Cost of Output (UCO) aggregates each of the categories of vetting output into a single figure to show:

- The value of the UCO expressed in Cash Terms;
- The % Change Year on Year;



Trends

	01/02	02/03	03/04	04/05	05/06	06/07
UCO	£38.57	£39.05	£34.63	£28.75	£28.23	£27.41
Targets	0%	-2%	-2%	-2%	-2%	-2%
Cash actual	£38.80	£38.27	£33.93	£28.17	£27.66	£27.53
Outturn variation	+0.6%	-11.3%	-17%	-1.8%	-2.9%	-2.1%
Cash actual	£37.80	£34.63	£28.75	£28.23	£27.41	£26.20

Notes

1. The outturn figure represents the % change in the financial Unit Cost of Output from the previous year.
2. End year position reflects Departmental Resource Account expenditure.

Commentary

The target has achieved 36.8% output efficiency between FY01/02 and FY 06/07. The DVA is closely involved in a number of ongoing e-vetting initiatives and further organisational changes that have yet to be fully implemented. Input efficiencies, from a combination of savings measures and output enhancements will continue to be sought but it would be unrealistic to expect future improvements to be of the same magnitude as in the past.

Business Review

Introduction

This section of the Report provides an overview of other business activity during the year. As well as the six Key Targets, the DVA was also set 29 targets in the Business Plan to deliver. The end of year position was that 19 of these targets were achieved, 8 were partly achieved with action carried forward, 1 target was failed, and 1 target cancelled.



Vetting Operations

Delays in recruiting two new Vetting Operations senior managers, setback a number of important organisational changes. The successful candidates will now be in post by late Spring 07, at which point the Agency management structure will be in place to support the development work to create a single vetting process, and merge the three vetting Divisions to one.

Aftercare: Timely attention to Aftercare cases is of vital importance in order to manage risk. In the past a small team handled SC aftercare, and DV cases were actioned by each of the Case Officer Teams. The Agency has set up a combined Aftercare Team to handle all aftercare cases to give better visibility to this work and also establish the volume, activity, and resource implications required to action these cases. This is a first stage in the move to a single vetting process.

New Business: The Agency has set up a dedicated team to process repayment work and manage the Customer Supplier Agreements with each of our repayment customers. This is the second phase of our move to an end to end vetting organisation. The DVA's reputation for providing a quality vetting product accurately and speedily continues to attract new business. The following list of new customers seeking DVA assistance is not exhaustive:

- Serious Organised Crime Agency
- Office for Civil and Nuclear Security
- Financial Services Authority
- The Gambling Commission
- An external government Vetting Authority.

Also taken on by the DVA, as normal defence vetting, is work formally undertaken by HQ Northern Ireland following "normalisation" of life in the province.

New Application forms: Following extensive trialling, the introduction new scannable application forms for all vetting work was achieved. This enabled a major reorganisation of the data capture area to be completed and a consequent reduction in staff of about 50%, which the Agency was able to achieve through the cancellation of temporary employment agency contracts. These scannable forms are an interim solution towards the introduction of smart e-forms containing business rules which will allow the direct input of data to the Agency IT system eliminating the need and time wasted in returning incomplete applications.

DV Baseline Standard: A new standard for Developed Vetting was introduced by the Cabinet Office on 1 April 2006. All DVs completed by the Agency since April 2006 have met this revised standard. This increased the vetting activity to be undertaken in each case and was a contributing factor in achieving no more than a 2.1% reduction in the Unit Cost of Output.

Finance Training/Vetting Financial

Advisor: The assessment of financial risk has become more challenging in recent years as the social attitude to debt changes and individual finances become more complex. A new Vetting Financial Advisor post has been established in the Agency to help assess security risks posed by personal finances, and to provide training for vetting staff who are involved in the collection and assessment of financial information. This service is also being offered to external customers.



National Security Checks (as at 31 March 07)

Clearances to Secret				
Defence Customers	Forecast receipts	Completed	Cases In hand	Actual receipts
Basic Checks	1,630	3,785	2	3,787
Enhanced Basic Checks	5,380	4,898	207	5,105
Counter Terrorist Checks	10,690	7,088	1,835	8,923
Security Checks	68,850	60,458	15,908	76,366
Counter Terrorist Check Reviews	1,050	698	131	829
Security Check Reviews	34,470	40,181	4,645	44,826
Total	122,070	117,108	22,728	139,836
Other Customers	Forecast receipts	Completed	Cases In hand	Actual receipts
Enhanced Basic Checks	0	0	0	0
Counter Terrorist Checks	0	180	33	213
Security Checks	10,080	2,429	635	3,064
Counter Terrorist Checks Reviews	0	0	5	5
Security Check Reviews	190	21	8	29
Total	10,270	2,630	681	3,311

Clearances to Top Secret				
Defence Customers	Forecast receipts	Completed	Cases In hand	Actual receipts
Developed Vetting	6,800	4,961	1,595	6,556
Developed Vetting Reviews	5,060	3,729	891	4,620
Total	11,860	8,690	2,486	11,176
Other Customers	Forecast receipts	Completed	Cases In hand	Actual receipts
Developed Vetting	2,685	1,309	415	1,724
Developed Vetting Reviews	710	490	137	627
Total	3,395	1,799	552	2,351
Total forecast			Completed & in hand total	
147,595				156,674

Other Business Areas

Customer Relations & Marketing

The new Marketing function within the Customer Relations area, from January 07, has presented a number of challenges. Not least in the change of emphasis from reactive to proactive engagement with existing and potential customers. An example being the recent change of government vetting policy to replace all paper Security Service transactions with electronic checks, which only a small number of vetting authorities, including the DVA, are able to provide. The DVA has grasped this as a business opportunity, and in February a bid was sent out to 25 organisations across central and local government offering a bespoke service based upon this element of our work. Within a short time 32% of these organisations had agreed to use the DVA to process these checks, and a further 10% indicated interest. While the potential business is not particularly large, about 1,600 transactions per year, the work is important in increasing the Agency's visibility in some new areas and increasing its share of the security vetting business. This proactive and personal approach to customer handling has earned high praise from these new customers, and our reputation has been a significant factor in this achievement.

The Customer Relations team have revised our Customer Service Standards and Complaints procedures, and have also reviewed the way feedback is captured from a variety of sources so that it can be more readily analysed and used to improve our service. Corporate documentation has been reviewed and made easier to read and understand. Various guides, information sheets, and newsletters are being used to increase awareness of the DVA amongst our customers - not only about what we do, but how we do it, and what we require from our customers in order to be able to provide a more efficient service. Gaining such feedback is one of the most important means of understanding where and how we can make further improvements. These improvements led in February to the Agency achieving the Charter Mark standard for customer excellence.



Community involvement: This is any type of activity in which the Agency contributes to the local and wider community. Involvement with the community began in 2004 when the DVA's Social Club was formed. Before that date a high level of charity and voluntary work had been undertaken on an individual basis. Building on this excellent start a Community Liaison Officer was nominated and a Community Action policy published. During the past year we have been involved in a wide range of activities, ranging from charity walks and runs to a bag packing event at a local supermarket, to support the St Leonard's Hospice in York. Sainsbury's Active Kids Vouchers and Tesco Computers for Schools are being collected in support of the local St Oswald's primary school. The formation of a "Green Group" to take forward environmental initiatives has already made a positive impact to improve recycling arrangements and raising the profile of environmental issues. The Social Committee raised over £3,000 in the past year and have a number of fund raising events planned for the next twelve months.

Diversity – In October 2006 the DVA applied to be considered for the Civil Service Diversity and Equality Awards. Our application was based on the changes we had made over a number of years to improve the diversity of the Agency as a whole, and in particular to the make-up of the home based Vetting Officers. Against strong competition from other departments, the DVA was pleased to be awarded a 'runner-up' Certificate for Improvement in recognition of the changes that had been achieved.

Disability In July, a Disability Audit looked at the adequacy and effectiveness of the current disability related processes and procedures to ensure that they meet the Departmental standard. A Full Assurance, with no recommendations, was given. The HQ building in York was highlighted as being well adapted for use by staff and visitors with disabilities. The Agency's responsive management and culture to individual changes in circumstances was highlighted as best practice, along with our record of practical assistance to ensure that individuals can continue their normal duties, irrespective of where located for work purposes. The auditors also recognised that the Agency was pro-active in respect of disability and has a good track-record of recruiting and/or supporting staff with disabilities, whether short-term or long-term.

Freedom of Information/Data Protection:

The Freedom of Information Act allows public access to information held by the MOD not covered by automatic exemptions. Individuals who have been vetted by the DVA have a right to ask our Data Protection Officer for details of the information we hold on them. This is an entitlement under the Act. In practice this means that any information the individual provided to allow the vetting process to be completed, but not information provided to the DVA by third parties. The table below shows a steady downward trend of the number of people who exercised that right, together with the number of Freedom of Information requests actioned. All requests were answered within the mandatory 20 days.

Freedom of Information/Data Protection			
	04/05	05/06	06/07
Data Protection Act Subject Access Requests	115	88	45
Freedom of Information Requests	11	7	11

The above figures represent a very small proportion of the total number of enquiries received from the public. For example, the Help Desk dealt with over 245,000 "business as usual" enquiries about vetting status or policy during the past year.



Planning and Programme Management

Programme Management: The Programme Management office was established to manage a modernisation initiative to ensure that the DVA was fit for purpose and had the capability to meet future requirements. Three major work strands were undertaken during 2006/07. First, work focused on pulling together a variety of projects into a coherent programme and establishing associated management processes. Second was the development of an agreed strategic plan (the DVA Corporate Plan) and high level action plan to achieve identified business objectives. Third, the modernisation programme was reviewed to ensure that each project sat within the strategic framework and addressed specific business objectives. A major review of the DVA's Information Services Strategy was also carried out to ensure that enablers were in place to deliver the modernisation programme.

Modernisation Programme: These work strands culminated in a DVA wide strategic modernisation programme that is managed using formal project management techniques. The process has become fully embedded with business cases being required for new projects, and the benefits realised from completed projects assessed through post project evaluations. Progress of the programme is reviewed monthly against the programme plan and risk register.

Risk Management: Formal risk management of the programme in particular proved its worth when the supplier of the vetting case management system went into Administration. Failure of business critical information technology had already been identified as the most significant corporate risk to DVA service delivery, and mitigation measures planned. Interim support arrangements were put into place quickly with no loss or disruption to business until contractual support was re-established.

IT developments: The DVA's present case management system is reasonably effective in supporting the present business processes. It is however, highly MOD specific, and has limited interoperability with other systems, lacks appropriate integration, and cannot cost effectively support the DVA's strategic aspirations. The new IS Strategy proposes automation, particularly secure web based automation, as a key enabler for the delivery of the business strategy. Automation can only be enabled through the improvement or replacement of the current system. A major challenge for the next reporting period will be to identify and obtain the necessary funding to allow this work to go ahead.

Business Continuity: The Agency Business Continuity Plan took another step forward with the recruitment of additional IT staff and the completion of two external consultancy reports. This work enabled the Management Board to give approval to develop the information systems infrastructure necessary to support the contingency plan and put in place an agreed test and maintenance programme.



Other Business Challenges

Five strategic themes have been identified to enable the Agency to achieve its Vision. Some objectives within each of these strategies are deliverable in the short term, others will take longer to achieve. All these objectives are important to the Agency being a successful organisation delivering a quality vetting service to customers and stakeholders.

Delivery of Services: The Strategic Management Board has identified the need to manage the end-to-end vetting process in a more coherent manner, and take more responsibility for the performance of its third party suppliers. The Head of Vetting Operations post will manage all of those tasks, activities, and resources that provide a direct contribution to the delivery of the vetting outputs.

By placing the responsibility and accountability for the delivery of vetting outputs with a clearly identified process owner, vetting performance will improve. The need to continually improve all aspects of our business is fundamental to the aspirations of the Agency, and is supported by the DVA's stakeholders. In doing this we will be contributing to the delivery of the Vision by helping the DVA, through the quality and timeliness of our work, to aspire to be the lead vetting service in Government.

Policy and Quality: A new Policy and Quality team will form up during FY 07/08 to provide the central focus for, and oversight, of vetting policy and quality within the Agency. The main task is to engage with agency stakeholders and seek to influence vetting policy as part of the implementation of the DVA strategic vision. As the organisation has matured and its vetting role develops, the need to provide a single point of contact for policy matters both internally and externally has increased. The Team will need to ensure that it provides consistent and useful advice. In this way we will be recognised by our Owner and stakeholders as making a significant contribution to the development of personnel vetting security policy.

Future Challenges

Key Targets for FY 07/08 (These Key Targets cover MOD specific vetting. Vetting for repayments customers is covered by separate Customer Supplier Agreements).

Quality

Key Target 1a: External validation of Quality

Achieve at least a 98% success rating with cases independently selected and reviewed from a random sample. (No change to % target, but a wider selection of 200 Defence SC and DV casework to be checked).

Key Target 1b: Delivering Customer Service

Maintain Charter Mark accreditation standards (New).

Key Target 2: Completing the Vetting Review Backlog Programme

Reduce the SC review backlog by a further 20,000 cases. (No change)

Timeless

Key Target 3: Achieve the following process times for defence vetting Routine Cases by:

- a. Completing 75% of CTC cases within 30 days. (Increase from 65%).
- b. Completing 75% of SC cases within 30 days. (Increase from 65%).
- c. Completing 83% of DV cases within 100 days. (Relaxed from 95 days to allow for further policy changes).

Key Target 4: achieve the following process times for defence vetting Priority Cases by:

- a. Completing 85% of CTC and SC cases within 10 days. (No change).
- b. Completing 80% of DV cases within 30 days. (No change).

Note: Volume of priority cases to be no more than 3% of total requests per month.

Efficiency

Key Target 5: Improving Efficiency

Reduce the Unit Cost of Output by 2%. (No change)

- Notes: 1. The above Timeliness Targets represent Net performance that exclude delays outside of DVA control.
2. Measurement is in calendar days.



Business Development: Business Development is critical to the delivery of the DVA Vision. Current work in our Customer Relationship Management area will be expanded and the range of activities widened to develop our business relationships on a more “business like” basis. Greater efficiency and effectiveness should be delivered through better relationships with customers, competitors, and suppliers, and that we are responsible for making these arrangements work. Significant improvements will be made in the way we work, through best practice and sharing knowledge and cultivating an intelligent customer. Achieving the Charter Mark standard earlier in the year was a key step towards this goal. As the range of and volume of business expands, the Agency expects this to lead to a better service to existing customers as greater economies of scale are achieved, leading to reduced overheads, more flexibility and responsiveness.

Enable the business: The main emphasis, and a common theme running through all our activities, is to maintain a robust Strategic Management process, which was put in place last year. A programme of modernisation projects has been established which is being managed using formal project management techniques. The most significant projects are the e-transformation programme being progressed through an Information Systems Strategy, and the organisation realignment project to ensure the DVA is capable of meeting further requirements. This vital work is enabling the coherent delivery of major initiatives planned for the next 5 years, which will contribute to the delivery of the Agency Vision.

Resource Management: During the past year the opportunity was taken to combine the HR Business Partner and Finance functions under a Resource Manager reporting directly to the Chief Executive. This is helping to provide better management of resources with a simplified and more effective decision making process. Furthermore, as a significant local employer, the DVA recognises the need to raise its profile within the local community and to this end is committed to making best use of its facilities and resources. A Community action plan has been set up to manage and take forward this work.

Remuneration Report

Remuneration policy: The DVA Management Board is composed solely of Civil Servants. The salaries of all members, including the Chief Executive are determined at national level. The Agency Chief Executive’s remuneration was determined by the Senior Civil Service Salaries Review body whilst the salaries of the remaining members of the Board were determined by negotiation between the Ministry of Defence and Civil Service Trade Unions.

Service Contracts: All members of the Agency’s Management Board are MOD Civilians and are appointed by MOD Civil Service standard procedures. The officials covered by this report hold appointments which are open-ended until they reach the normal retiring age of 65. Early termination, otherwise than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation scheme.

The remuneration (whilst a member of the Agency Management Board) and pension entitlements of the members of the Board during the financial year were as follows. This section has been subject to audit.

2006 - 2007

	Remuneration Including Performance Pay (£000)	Real increase in Pension and related lump sum at age 60 (£000)	Total accrued Pension at age 60 at 31/3/06 (£000)	Cash Equivalent Transfer Value @ 1/4/2006 (£000)	Cash Equivalent Transfer Value @ 31/3/2007 (£000)	Real Increase in Cash Equivalent Transfer Value (£000)
Mrs J Ridley Chief Executive	70-75	0 – 2.5 plus 2.5 – 5.0 lump sum	30–35	528	568	23
Mr C Hodgeon Deputy Chief Executive (to 9 Nov 06)	30-35	0 – 2.5 plus 0- 2.5 lump sum	25–30	628	623	-3
Mr M Revell Head of Primary Clearance Division (to 7 Jan 07) Head of Customer Relations & Marketing (from 8 Jan 07)	40–45	0–2.5	10–15	150	168	13
Mr K Connor Head of Primary Clearance Division (from 8 Jan 07) plus 0–2.5 lump sum	10-15	0–2.5 plus 0–2.5 lump sum	15–20	362	368	-10
Mr M Wraight Head of Developed Clearance Division	45-50	0–2.5 plus 0–2.5 lump sum	15–20	225	235	7
Mr E Graham Head of Field Investigations Division (to 5 Jan 07)	35-40	0–2.5	25–30	555	508	-51
Mr M A Calaminus Head of Field Investigations Division (from 8 Jan 07)	10–15	0–2.5 plus 0–2.5 lump sum	2.5–5	90	88	1
Mrs J J Wheeler Head of Planning	45–50	0–2.5 plus 0–2.5 lump sum	10-15	224	231	1
Mr B Truscott Business Excellence & Continuity Manager (to 28 Apr 06)	0–5	0–2.5 plus 0–2.5 lump sum	10–15	220	222	1
Mrs S J Farley Head of Resources	35-40	0–2.5 plus 0–2.5 lump sum	5–10	111	117	5
Mr M K Barley IS Manager (to 28 Apr 06)	0-5	0–2.5 plus 0–2.5 lump sum	15–20	424	426	1
Mr P West Customer Relations Mgr (to 28 Apr 06)	0-5	0–2.5 plus 0–2.5 lump sum	0–5	55	56	1
Mrs S Gentry Human Resources Business Partner (to 28 Apr 06)	0-5	0–2.5 plus 0–2.5 lump sum	5–10	102	100	1
Mrs C Roe Staff Representative	25-30	0–2.5 plus 2.5–5.0 lump sum	10–15	175	200	20
Mr W H Buckley Non Executive Director	5-10					
Mr B Newton Non Executive Director	20-25					

Note: The factors used to calculate the CETV for members of the PCSPS were revised for 2006/7 following advice from the Cabinet Office. The figures for 31 March 2006 have been recalculated using the new factors and this led to changes to the figures published last year.

2005 - 2006

	Remuneration Including Performance Pay (£000)	Real increase in Pension and related lump sum at age 60 (£000)	Total accrued Pension at age 60 at 31/3/06 (£000)	Cash Equivalent Transfer Value @ 1/4/2005 (£000)	Cash Equivalent Transfer Value @ 31/3/2006 (£000)	Real Increase in Cash Equivalent Transfer Value (£000)
Mrs J Ridley Chief Executive (from 5 Sep 05)	35-40	0 – 2.5 plus 5 – 7.5 lump sum	25–30	387	439	36
Mr C Hodgeon Deputy Chief Executive (from 5 Sep 05) Chief Executive (to 2 Sep 05)	50-55	0 – 2.5 plus 5 - 7.5 lump sum	25–30	406	461	39
Mr M Revell Head of Primary Clearance Division	35–40	0–2.5 plus 7.5–10 lump sum	5–10	101	119	14
Mr M Wraight Head of Developed Clearance Division	40-45	0–2.5 plus 0–2.5 lump sum		10–15	163	184 12
Mr E Graham Head of Field Investigations Division (from 5 Sep 05) Deputy Chief Executive (to 2 Sep 05)	40-45	0–2.5	25–30	331	366	40
Mr M A Calaminus Head of Field Investigations Division (to 2 Sep 05)	20–25	0–2.5 plus 0–2.5 lump sum	2.5–5	48	0	0
Mrs J J Wheeler Programme Manager (from 6 Feb 06)	0–5	0–2.5 plus 0–2.5 lump sum	10-15	188	189	0
Miss M Moloney Senior Personnel & Admin Manager (to 22 Sep 05)	20-25	0–2.5 plus 0–2.5 lump sum	10–15	170	186	7
Mr B Truscott Business Excellence & Continuity Manager	35–40	0–2.5 plus 0–2.5 lump sum	10–15	159	178	10
Mrs S J Back Senior Finance Manager	35-40	0–2.5 plus 0–2.5 lump sum	5–10	85	98	90
Mr M K Barley IS Manager	35-40	0–2.5 plus 0–2.5 lump sum	15–20	299	323	14
Mr P West Customer Relations Mgr	25-30	0–2.5 plus 0–2.5 lump sum	0–5	37	46	8
Mrs S Gentry Human Resources Business Partner (from 22 Sep 05)	15-20	0–2.5 plus 0–2.5 lump sum	5–10	77	87	11
Mrs C Roe Staff Representative	20-25	0–2.5 plus 0–2.5 lump sum	5–10	135	142	3
Mr W H Buckley Non Executive Director	0-5					
Mr B Newton Non Executive Director	10-15					

Salary: 'Salary' includes gross salary; performance pay or bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances and any other allowance to the extent that it is subject to UK taxation.

Benefits in kind: The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Inland Revenue as a taxable emolument. There were no Benefits in Kind provided during the year

Pension: Pension benefits are provided through the Civil Service pension arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (classic, premium, and classic plus). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium and classic plus are increased annually in line with changes in the Retail Prices Index. New entrants after October 2002 may choose between membership of premium or joining a good quality 'money purchase' stakeholder based arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium and classic plus. Benefits accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th 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 in respect of service before 1 October 2002 calculated broadly as per classic.

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

matched by the employer up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally provided risk benefit cover (death in service and ill health retirement).

Columns 5 & 6 of the pensions table show the member's cash equivalent transfer value (CETV) accrued at the beginning and the end of the reporting period. Column 7 reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by the member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003-04 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 arrangements and for which the Civil Service Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional 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.

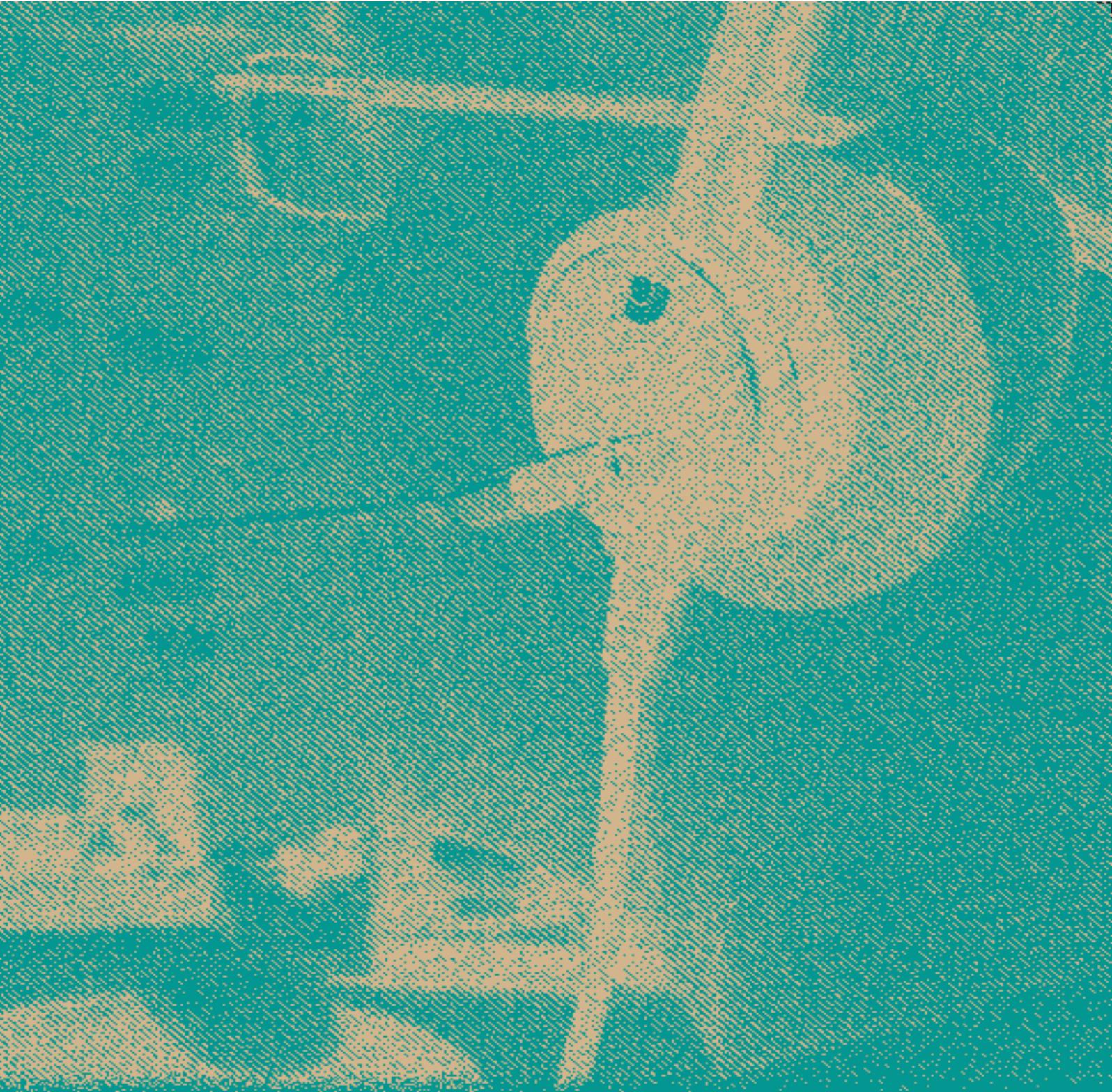
With the exception of the Head of Field Investigations Division (Mr Graham) who opted for the Premium Scheme, the Chief Executive and other members of the Agency Management Board opted to remain within the Classic Pension Scheme.

Owner's Advisory Board and External Board Member Remuneration: The members of the OAB receive no remuneration from the Agency. Salaries and expenses for those members who are MOD staff are borne by the Department.

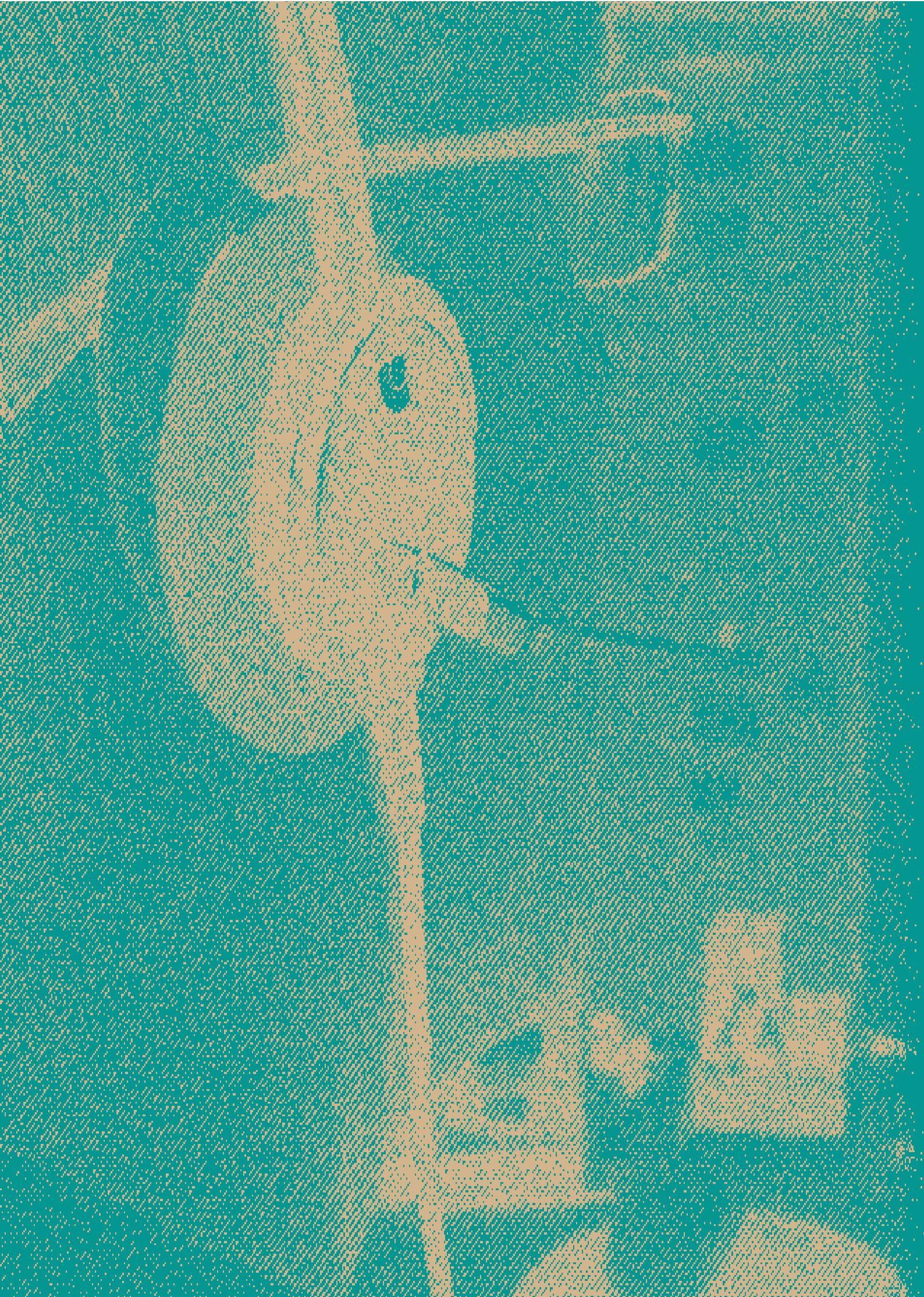
Two new Non Executive directors were appointed in January 2006 to sit on the Agency's Audit Committee and Strategic Management Board. They are remunerated on the basis of £400 per day worked on behalf of the DVA.

Jacky Ridley
Chief Executive

27 June 2007



Accounts 2006 - 2007



Foreword to the Accounts

Introduction

1. These accounts relate to the eighth year for which the Defence Vetting Agency (DVA) has been required to produce a full financial Account. The Account has been prepared in accordance with a Direction given by the Treasury in accordance with Section 7(2) of the Government Resources and Accounts Act 2000.

Background

2. The DVA is an Executive Agency of the Ministry of Defence, within the budget area of the Central Top Level Budget (TLB). In financial reporting terms it is a Basic Level Budget (BLB) reporting to the Director General (Security and Safety) as the Agency Owner and to the Personnel Director 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 3 Armed Services and of HQ MOD. The Agency is located at Imphal Barracks, York.

Principal Activity

4. The principal activity of the DVA is to undertake 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 the suitability of individuals to hold security clearances, allowing access to military installations, to valuable assets and to classified information.

Business Review

5. The agency was set key targets covering quality, timeliness and efficiency. Full details of these key targets including commentary and performance are contained within Part 1 of the Annual Report.

DVA Owner's Advisory Board

6. The Secretary of State for Defence delegates ownership responsibilities to the Director General (Security and Safety) (DG(S&S)). 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.
- d. Approving the Agency's annual budget and allocation.

7. The DVA Owner's Advisory Board (DVA OAB) is available to DG(S&S) to provide advice on the responsibilities outlined above. Membership of the OAB during 2006-2007 was:

Chairman:

Mr R Rooks DG S&S

Members:

Brig R Barrons ACOS Cts Land Command
 Mr M Fuller (to Dec 06) DGSP Pol Director of Service Conditions
 Mr D King DGCP HR Ops
 Mr J C Cochrane (to Mar 07) D.Def Sy
 Mr D Reynolds (from Mar 07) D.Def Sy

External Members:

Mr A Aston Defence Industry Security Association
 Mr S Reinstadler (to Dec 06) Hd of Security Policy, Cabinet Office
 Mr M Fuller (from Dec 06) Hd of Security Policy, Cabinet Office
 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 borne 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 am directly accountable 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 via 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 exercise my responsibilities is the Agency's Management Board (AMB). This meets monthly. Following some restructuring at senior management level during the year there were a number of changes following the April AMB, its membership during 2006-2007 was:



Chairman:

Mrs J Ridley Chief Executive

Members:

Mr C. Hodgeon (to 30 Nov 06) Deputy Chief Executive

Mr M Revell (to 7 Jan 07) Hd PC Division

Mr K Connar (from 8 Jan 07)

Mr M Revell (from 8 Jan 07)

Hd of Customer Relations and Marketing

Mr M. Wraight Hd DC Division

Mr M A Calaminus (from 8 Jan 07) Hd FI Division

Mr E Graham (to 5 Jan 07)

Mrs J Wheeler Hd of Planning

Mrs S J Farley Hd of Resources

Mr M.K. Barley (to 28 Apr 06) IS Manager

Mr B Truscott (to 28 Apr 06) Business Excellence & Continuity Manager

Mr P West (to 28 Apr 06) Customer Relations Manager

Mrs S Gentry (to 28 Apr 06) Human Resources Business Partner

Mrs C Roe Staff Representative

11. Details of the salaries and pension entitlements of the Chief Executive and other members of the Management Board are shown in the Remuneration Report.

Employment Policies

12. The Agency's policy is to employ and promote staff on the basis of individual merit in a non-discriminatory manner. The MOD's Equal Opportunities Policy is reflected in this.

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 in addition to those of the MOD. An induction programme is provided for all new entrants to the Agency. The Agency has recently achieved re-accreditation against the Investors in People Standard/Criteria.

Policy on the Payment of Creditors

14. All the Agency's bills, with the exception of a very small number of minor payments through a local imprest account, are paid through the Defence Bills Agency (DBA). In 2006-2007 DBA had a target of paying 99.9% of correctly presented bills within 11 calendar days of receipt. Actual performance against this target was 99.95%. All payments were made within the contractually agreed credit period, or 30 days if not stated. No interest payments arose from the implementation of the Late Payment of Commercial Debt (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 entrants are not able to 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 have been given the option of remaining within the Classic, electing to transfer to the Premium, or choosing 'Classic Plus' whereby they transfer to Premium but only in respect of 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 determined 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 accordance with Section 7(3) of the Government Resources and Accounts Act 2000.

During the year the charges to the Operating Cost Statement for audit services provided were £38,000. No non-audit services were provided. Internal audit services are provided by the MOD Directorate of Internal Audit.

Statement on Disclosure to Auditors

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

Jacky Ridley

Jacky Ridley
Chief Executive

27 June 2007



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

Under Section 7(2) of the Government Resources and Accounts Act 2000 the Treasury have directed the Defence Vetting Agency to prepare a statement of accounts for each financial year in the form and on the basis set out in the Accounts Direction dated 19 December 2006. The accounts are prepared on an accruals basis and must give a true and fair view of the Agency's state of affairs at the year end and of its net operating cost, recognised gains and losses and cash flows for the financial year.

In preparing the Accounts the Agency is required to :

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



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

Statement on Internal Control

The Scope of Responsibility

As Accounting Officer for the Defence Vetting Agency, 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. In addition I am responsible for safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

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 2007 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.



Capacity to Handle Risk

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 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.

In addition to these existing controls, further measures have been introduced during the 2006-2007 financial year to ensure that the Agency has in place all the risk management and review processes necessary to ensure full compliance with the provisions of the Turnbull Report. These processes were all fully implemented by 31 March 2007 and a Management Action Plan is in place to take further changes forward.

The Risk and Control Framework

The following governance processes were established during 2006/7:

- Lower level Risk Registers were established across all divisions within the Agency. These have been updated monthly and inform the Corporate Risk Register which is reviewed at the monthly Agency Management Board as a standard Agenda Item. A full escalation and review process is now in place across the Agency and this is monitored by the Audit and Risk Assurance Committee.
- The audit of Corporate Governance and Risk Management by the Directorate of Internal Audit in 2005/06 gave a limited Assurance of the processes within the Agency and a Management Action Plan was implemented to address those areas of weakness that were identified. These areas of weakness have now been addressed and the audit recommendations have all been addressed appropriately;
- An overhaul of the Audit and Risk Assurance Committee Terms of Reference;
- The Assurance programme was reviewed by the Agency Audit and Risk Assurance Committee and implemented in year. This programme was reviewed at quarterly Committee meetings and additional assurances sought and implemented as required.
- A central record of all audits carried out by the Directorate of Internal audit on the Agency was established in year. All recommendations together with any management action taken was reviewed and updated on a quarterly basis by the Agency Management Board.
- The Environmental Risk for the Agency was assessed in year and an Environmental Policy was introduced. An Agency 'Green Group' was formed to advise the AMB of any environmental issues and reduce their impact upon the Agency.

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, 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 Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The Agency Management Board together with the Audit and Risk Assurance Committee 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 Terms of Reference for the Agency Audit and Risk Assurance Committee were reviewed in year and it is hoped that these will ensure a more varied input to the Management Board in future years and assist in the provision of assurance to the Agency.

During the last year the Agency has undertaken a full review of its future strategy and structure. This has resulted in a major overhaul of the membership of the Agency Management Board. The revised structure is more streamlined and in a better position to bring to my attention as the Accounting Officer of any areas of assurance that may warrant further investigation.

The Defence Vetting Agency is subject to audit by the MOD Directorate of Internal Audit (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. Given the size of the Agency in relation to the Department, it follows that the Agency's system of internal control is not separately examined by the DIA every year. The DIA undertook 3 internal audit examinations within the Agency during the 2006-2007 financial year and conducted 2 pieces of informative consultancy work. The audits covered the Agency's Key Targets, Disability policy (no adverse comments received) and Manpower planning (this audit received a limited assurance and a management action plan is now in place). The areas within the Key Targets audit that warranted comment and management action all have been addressed prior to the year end.



Jacky Ridley
Chief Executive

27 June 2007

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 2007 under the Government Resources and Accounts Act 2000. These comprise the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement 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 Agency, the Chief Executive and Auditor

The Agency and Chief Executive as Accounting Officers are responsible for preparing the Annual Report which includes the Remuneration Report and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, certain information given in the Annual Report which comprises the Management Commentary and Remuneration Report, is consistent with the financial statements. I also report whether, in all material respects, the expenditure and income have been

applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In addition, I report to you if the Agency has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the statement on Internal Control reflects the Agency's compliance with HM Treasury's guidance and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Agency and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Agency's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as

to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Agency's affairs as at 31 March 2007 and of the net operating cost, recognised gains and losses and cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- the information given within the Annual Report, Which comprises the Management Commentary and the Remuneration Report, is consistent with the financial statements.

Audit Opinion on Regularity

In my opinion, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Report

I have no observations to make on these financial statements.



John Bourn National Audit Office
Comptroller and Auditor General
2 July 2007
157-197 Buckingham Palace Road
Victoria London SW1W 9SP

The Accounts

Operating Cost Statement for the Year Ended 31 March 2007

	NOTE	2006/07 £000	2005/06 £000 restated
OPERATING COSTS			
Staff Costs	2	9,789	9,045
Supplies and Services Consumed	3	1,728	1,972
Accommodation Costs	4	307	321
Other Administration Costs	5	1,248	1,459
GROSS OPERATING COSTS		13,072	12,797
OPERATING INCOME			
Less income from repayment customers	6	1,507	1,383
OTHER INCOME			
		0	0
NET OPERATING COST		11,565	11,414

All activities undertaken during the year are continuing.

The previous years figures have been restated to take into account foreign currency losses.

Statement of Recognised Gains and Losses for the year ended 31 March 2007

	NOTE	2006/07 £000	2005/06 £000
Net Gain on revaluation of tangible fixed assets.	12	2	2
Recognised gains & losses since last annual report		2	2

The notes on pages 29 to 36 form part of these Accounts.

Balance Sheet As at 31 March 2007

	NOTE	31 March 2007 £000	31 March 2006 £000
FIXED ASSETS			
Tangible Assets	7	393	525
CURRENT ASSETS			
Debtors and Prepayments	8	494	322
CURRENT LIABILITIES			
Creditors due within one year	9	<u>(490)</u>	<u>(270)</u>
NET CURRENT ASSETS		4	52
TOTAL ASSETS LESS CURRENT LIABILITIES		397	577
TAXPAYERS' EQUITY			
General Fund	10	388	570
Revaluation Reserve	12	9	7
		397	577

Jacky Ridley

Jacky Ridley - Chief Executive
27 June 2006

Cash Flow Statement for the year ended 31 March 2006

	2006/07 £000	2005/06 £000 restated
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	10,174	10,028
Capital Expenditure:		
Payments to acquire tangible fixed assets	---	---
NET CASH OUTFLOW BEFORE FINANCING	10,174	10,028
Financing:		
Payments on Defence Resource Account	11,681	11,411
Receipts on Defence Resource Account	(1,507)	(1,383)
NET FINANCING FROM DEFENCE RESOURCE ACCOUNT	10,174	10,028
INCREASE/(DECREASE) IN CASH	0	0

The Notes on Pages 29 to 36 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 issued by HM Treasury and the Treasury Accounts Direction issued on 19 December 2006. The particular accounting policies adopted by the Agency 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 fixed assets at their value to the business by reference to their current costs.

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) Income

Income comprises the invoiced value of transactions for 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) Audit Fee

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

ii) Intra-departmental Services

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

iii) Cost of Capital

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

f) Tangible Fixed Assets

On 1 April the Ministry of Defence transferred responsibility for accounting for fixed assets from the Defence Vetting Agency to other parts of the Department. As the Agency retains the risks and rewards of ownership of these assets they continue to be accounted for on the Agency's balance sheet in accordance with FRS 5 and SSAP 21.

Capitalisation and Revaluation

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

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

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

Depreciation

Depreciation is 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. Estimated useful lives are as follows:

Depreciation

Asset Category	Estimated useful life in years
Networked Computer Systems.....	5
Personal computers	4
Vetting Software	7
Office equipment.....	10-15
Plant and Machinery	15-20

g) Creditors due within one year

Creditors due within one year represent the amount due to suppliers within one year for goods and services received including accrued expenses and liabilities.

h) Stocks

The Agency does not hold significant stocks.

i) Cash Balances

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

are cleared through local cash offices administered through the Ministry of Defence central accounting organisation and brought to account by the Ministry of Defence in the Departmental Resource Account and are disclosed in aggregate in the Cash Flow Statement.

j) Pension Costs

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which is a defined benefit scheme and is unfunded and non-contributory. The Defence Vetting Agency recognises the expected cost of providing pensions on a systematic and rational basis over the period during which it benefits from employees services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS.

Notes to the Accounts (continued)

The PCSPS is an unfunded multi-employer defined benefit scheme but the Defence Vetting Agency is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2003 and details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk). For 2006-2007, employer's contributions of £1,352,490 were payable to the PCSPS (2005-2006, £1,193,959) at rates in the range 16.2 to 24.6 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.

k) 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 the Inland Revenue or Department for Works and Pensions at the balance sheet date, and these are not disclosed in the Agency's balance sheet.

2. Staff Costs and Numbers

a) Staff costs were as follows:

	2006/07	2005/06
	£000	£000
Salaries, Wages and Allowances	7,531	6,971
Social Security Costs (ERNIC)	540	500
Other Pension Costs	1,352	1,194
Cost of Employing Agency Staff	366	380
	9,789	9,045

b) The average number of employees during the year was as follows:

	2006/07	2005/06
Senior Management	6	6
Executive Grades	68	61
Administrative Grades	135	133
Specialist Investigating Grades	124	121
Agency Staff	24	25
	357	346

Notes to the Accounts (continued)

3. Supplies and Services Consumed

Supplies and Services consumed comprise cash costs and notional cost elements as follows:

	2006/07	2005/06
	£000	£000
Support Services	588	601
Contract/Consultant Staff	274	471
IT Maintenance and Software	866	900
	<u>1,728</u>	<u>1,972</u>

4. Accommodation and Associated Costs

Accommodation and Associated Costs comprise cash costs and notional cost elements as follows:

	2006/07	2005/06
	£000	£000
Contribution in lieu of rates	61	---
Utilities	70	55
Telecommunications	110	184
Works and Maintenance	66	82
	<u>307</u>	<u>321</u>

5. Operating Costs

Other Administration Costs comprise cash costs, non-cash costs and notional cost elements as follows:

	2006/07	2005/06
	£000	£000
		restated
Travel and Subsistence	597	532
Office Running Costs	145	120
Training	42	73
Services provided by MOD	270	200
Depreciation	65	184
Write off of USAF Debtor	---	47
Write Down on Fixed assets	69	240
Foreign currency stabiliser	2	1
Audit Fee	38	36
Cost of Capital Charge	20	26
	<u>1,248</u>	<u>1,459</u>

No remuneration was paid to the auditors in respect of non audit work.

The previous years figures have been restated to take into account foreign currency losses.

Notes to the Accounts (continued)

6. Operating Income

The sources of operating income for the year were:

	2006/07	2005/06
	£000	£000
Repayment for Services provided to Other Government Departments	1,190	1,044
Repayment for Services provided to Commercial Organisations	250	256
Repayment for Services provided to Overseas Governments	67	83
	<u>1,507</u>	<u>1,383</u>

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 £1.507M was received in Financial Year 2006/07 with no surplus/deficit being incurred by the DVA. The Financial Objective was therefore achieved.

7. Tangible Fixed Assets

	P & M	IT&Comms	Total
	£000	£000	£000
At 1 April 2006	120	1,067	1,187
Additions	---	---	---
Revaluations	4	(69)	(65)
Disposals	---	---	---
At 31 March 2007	<u>124</u>	<u>998</u>	<u>1,122</u>
Depreciation			
At 1 April 2006	36	626	662
In Year Charge (Including backlog)	9	58	67
Disposals	---	---	---
At 31 March 2007	<u>45</u>	<u>684</u>	<u>729</u>
NET BOOK VALUE			
At 31 March 2007	79	314	393
At 31 March 2006	84	441	947

The £ 69,000 (2005-06: £240,000) adjustment arising from the downwards revaluation of IT assets in 2006-2007 is regarded as an impairment in the value of fixed assets and has been charged to the Operating Cost Statement under the heading of Other Administration Costs (note 5).

Notes to the Accounts (continued)

8. Debtors and Prepayments

Amounts falling due within one year

	31 March 2007	31 March 2006
	£000	£000
Balances with Other Government Departments	87	136
Balances with Local Authorities	128	68
Balances with National Health Trusts	---	---
Other Trade Debtors and Accrued Income	262	98
Prepayments	17	20
	<u>494</u>	<u>322</u>

9. Creditors

Amounts falling due within one year

	31 March 2007	31 March 2006
	£000	£000
Other Trade Creditors	104	119
Accruals	386	151
	<u>490</u>	<u>270</u>

10. General Fund Reconciliation

Amounts falling due within one year

	Note	2006-07
		£000
General Fund: Opening balance 1 April 2006		570
Financing from the Defence Resource Account		10,174
Notional Items	11	1,209
Less:		
Net Operating Costs		(11,565)
Net decrease in General Fund		<u>(182)</u>
General Fund: Closing balance 31 March 2007		388

Notes to the Accounts (continued)

11. Non-cash and Notional Items

The non-cash and notional cost elements included under the headings of staff costs, supplies and services consumed, accommodation and associated costs, and other administration costs are as follows:

	2006/07	2005/06
	£000	£000
Notional Costs:		
Staff Costs	---	---
<hr/>		
Supplies and Services consumed -	460	511
IT Maintenance & Software	421	425
Higher Formation Costs	881	936
<hr/>		
Accommodation and Associated Costs -		
Works and Maintenance	---	---
<hr/>		
Other Administration Costs -		
Training	---	---
Services provided by MOD	270	200
Audit Fee	38	36
Cost of Capital Charge	20	26
	328	262
<hr/>		
Total Notional Costs	1,209	1,198
<hr/>		
Other non-cash costs		
Other administration costs -		
Depreciation	65	184
Write down of fixed assets	69	240
	134	424
<hr/>		

Notes to the Accounts (continued)

12. Reserves - Revaluation Reserve

Amounts falling due within one year

	Note	2006/07 £000
Balance as at 1 April 2006		7
Arising from positive revaluation during the year	7	2
Balance as at 31 March 2007		9

The revaluation reserve reflects the unrealised gain following indexation and revaluation adjustments. Reductions in values of assets not previously accounted for are charged to the Operating Cost Statement.

13. Reconciliation of Net Operating Costs to Operating Cost Cash Flows

	NOTE	2006/07 £000	2005/06 £000 restated
NET OPERATING COST		11,565	11,414
Adjustments for notional and non-cash transactions:			
Depreciation	11	(65)	(184)
Impairment of fixed assets	11	(69)	(240)
Notional costs included in:			
Supplies and Services Consumed	11	(881)	(936)
Other Administration Costs	11	(328)	(262)
Movements in net current assets:			
Increase/(Decrease) in debtors and prepayments	8	172	(19)
(Increase)/Decrease in creditors	9	(220)	255
NET CASH OUTFLOW FROM OPERATING ACTIVITIES		10,174	10,028

The previous years figures have been restated to take into account foreign currency losses.

Notes to the Accounts (continued)

14. Related Party Transactions

The Defence Vetting Agency is an Agency of the Ministry of Defence. The Ministry of Defence is regarded as a related party. During the period 1 April 2006 to 31 March 2007 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 of Trade and Industry and Customs and Excise). 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.

15. Post Balance Sheet Events

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 statement is that on which they were signed by myself as Chief Executive and Accounting Officer for the Agency.

16. Capital Commitments and Contingent Liabilities

There were no capital commitments or contingent liabilities as at 31 March 2007.

17. Financial Instruments

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities.

Because of the largely non-trading nature of its activities and the way in which government Agencies are financed, the Defence Vetting Agency is not exposed to the degree of financial risk faced by business entities.

Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies.

Financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the Agency in undertaking its activities, or for trading. The fair values of all the Agency's financial assets and liabilities approximate to their book values. In line with FRS 13, short term debtors and creditors (those which mature or become payable within 12 months from the balance sheet date) have been excluded from these disclosures.

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.

18. Losses and Special Payments

There were no losses or special payments that required disclosure within the accounts as at 31 March 2007.

Notes

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For sponsors to request e-forms
and updates

E: dva-vettingdocs-gm@land.mod.uk

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