

Security and Intelligence Agencies

Financial Statement 2004-05

Security and Intelligence Agencies

Financial Statement 2004 - 05

(For the year ended 31 March 2005)

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Introduction

This Statement summarises the use of resources by the Security and Intelligence Agencies for the year ending 31 March 2005. Each of the Agencies produces its own full annual resource account in accordance with the *Resource Accounting Manual* and Treasury directions but, for reasons of national security, they are not published. They are audited by the Comptroller and Auditor General and shown to the Chairman of the Committee of Public Accounts in accordance with the procedure for handling such material set down by the Secretary of State under the Intelligence Services Act, 1994. In line with these arrangements this statement comprises only a summary of resource outturn (Schedule 1) and operating costs (Schedule 2) together with appropriate notes.

Statement of Accounting Officer's Responsibilities

The Security and Intelligence Agencies have prepared resource accounts for the year ending 31 March 2005 in accordance with the *Resource Accounting Manual*, detailing the resources acquired, held, or disposed of during the year and the use of resources by the Agencies during the year.

The individual Agency resource accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Agencies, the net resource outturn, resources applied to objectives, recognised gains and losses, and cash flows for the financial year. For reasons of national security, these accounts are not published. They are audited by the Comptroller and Auditor General and shown to the Chairman of the Committee of Public Accounts in accordance with the procedure for handling such material set down by the Secretary of State under the Intelligence Services Act, 1994.

As a consequence of these arrangements, the Treasury has directed that a consolidated account should be published in accordance with Section 5 (2) of the Government Resources and Accounts Act 2000, and that this should comprise only a summary of resource outturn (Schedule 1) and operating costs (Schedule 2) together with appropriate notes.

The Treasury has appointed the Security and Intelligence Co-ordinator and Permanent Secretary to the Cabinet Office as Accounting Officer for the consolidated account, with responsibility for preparing the financial statement and for transmitting it to the Comptroller and Auditor General.

In preparing the financial statement, the Accounting Officer is required within the limitations imposed by the interests of national security to comply with the *Resource Accounting Manual* prepared by the Treasury, and in particular to:

- i. observe the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- ii. make judgements and estimates on a reasonable basis;
- iii. prepare the accounts on a going-concern basis.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for the safeguarding of assets, are set out in the Accounting Officer's Memorandum, issued by the Treasury and published in *Government Accounting*.

Statement by the Accounting Officer on the System of Internal Control for the Financial Year Ending 31 March 2005

1. Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of Security and Intelligence Agencies' policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *Government Accounting*.

Each of the Security and Intelligence Agencies (SIA) has its own accounting officer and my statement takes account of the separate statements they have made.

The agency accounting officers report annually on the work of their service to the Prime Minister and the appropriate Secretary of State. There are well-established arrangements for seeking ministerial clearance for operations when required. They ensure that the appropriate Secretary of State is briefed on matters that could become the subject of Parliamentary interest or public controversy and on issues of which they need to be aware in discharging their wider ministerial responsibilities. They also report regularly to me as the Principal Accounting Officer for the Single Intelligence Account. I advise ministers on matters concerning the SIA as a whole. Oversight by Parliamentarians is provided by the Intelligence and Security Committee.

2. The purpose of the system of financial control

The system of internal control is designed to manage risk to a reasonable level rather than eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of departmental policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. The systems of internal control have been in place in the Security and Intelligence Agencies for the year ended 31 March 2005 and up to the date of approval of the annual accounts, and accord with Treasury guidance.

3. Capacity to handle risk

The effective management of risk is embedded at all levels of the Security and Intelligence Agencies. At the strategic level, the agency management boards integrate best current practices in their planning and performance management. The inclusion of risk management in management training supports the operation of control frameworks throughout each of the agencies.

4. The risk and control framework

The key elements of the agency frameworks include:

- clear definitions of strategic, corporate and operational levels of risk;
- active roles in the ownership and management of risks by board members;
- assignment of responsibilities for evaluating, monitoring and reviewing risks;
- regular and systematic monitoring of risks, through, for example, comprehensive risk registers and audit and risk committees;
- evaluation of the financial impact of risks and the cost of mitigation;
- enhancements to management information systems; and
- the integration of risk management in the personal job objectives and appraisal of each member of staff.

5. Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and executive managers within the SIA who have responsibility for the development and maintenance of their internal control frameworks, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the agency accounting officers, and they have been advised by their agency boards and audit and risk committees. Plans to address weaknesses and ensure continuous improvement of the systems are in place.

Each agency has an internal audit unit which operates to the Government Internal Audit Standards. The work of the internal audit units is informed by analyses of risk to which the agencies are exposed. Annual internal audit plans are based on these analyses. The analyses of risk and the internal audit plans are endorsed by the Audit Committees in each agency. At least annually, the Head of Internal Audit (HIA) provides the relevant accounting officer and audit committee with a report on internal audit activity. The report includes the HIA's independent opinion on the adequacy and effectiveness of the agencies' systems of internal control.

The Cabinet Office also has an internal audit unit (shared with the Office of the Deputy Prime Minister), operating to the same standards and methods. The Cabinet Office HIA has an overview of the adequacy of the agencies' internal audit units. He is also responsible for providing me with an independent opinion on the assurance provided by each of the agencies' HIAs to their own accounting officers on the adequacy of their systems of internal control. He is able to do this by reviewing the work of the agencies' internal audit functions in support of their assurance to their accounting officers.

6. Significant internal control problems

The agencies' internal control processes identified areas where further improvements are needed. These include (but in each case only apply to a single agency) procurement (including contract management), management information, pay and grading, gaps in key skill areas, business continuity planning and IT infrastructure. Work is under way or planned to implement the required improvements.

Lord Butler's Review of Intelligence on Weapons of Mass Destruction highlighted weaknesses in the effective application of source validation procedures. These weaknesses have been addressed, most notably in the evaluation of sources completed by 31 March 2005.

Bill Jeffrey
Accounting Officer
14 October 2005

The Certificate of the Comptroller and Auditor General to the House of Commons

I certify that I have examined the summary financial statement.

The Cabinet Office has prepared this financial statement in accordance with directions made by the Treasury under the Government and Resources Accounts Act 2000.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 4, the Treasury has appointed the Security and Intelligence Co-ordinator and Permanent Secretary to the Cabinet Office as Accounting Officer for this account with responsibility for preparing the summary financial statement covering the use of resources by the Security and Intelligence Agencies and for ensuring the regularity of financial transactions. My responsibility, as independent auditor, is to report my opinion on the consistency of the summary financial statement with the full annual resource accounts produced by each of the agencies and its compliance with directions made by the Treasury.

I read the other information contained in the accompanying introduction and consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

I review whether the statement on pages 5 and 6 reflects the Department's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my examination of the financial statement. I am not required to consider, nor have I considered whether the Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

Basis of opinion

I conducted my work in accordance with Bulletin 1999/6, "The Auditor's Statement on the Summary Financial Statement", issued by the Auditing Practices Board.

The summary financial statement covers the use of resources by the Security and Intelligence Agencies. As explained in the introduction on page 3, for reasons of national security it consists solely of Schedules 1 and 2 and does not comply fully with generally accepted accounting practice or the requirements of the *Resource Accounting Manual*. I concur with that approach and my opinion is unqualified in that respect. The unpublished constituent resource accounts, which I audit in accordance with United Kingdom Accounting Standards issued by the Auditing Practices Board, are, however, fully compliant. My opinion on each of these is unqualified.

Opinion

In my opinion the summary financial statement is consistent with the full annual resource accounts of the Security and Intelligence Agencies for the year ended 31 March 2005 and complies with the requirements of Treasury.

John Bourn
Comptroller and Auditor General

14 October 2005

National Audit Office
157-197 Buckingham Palace Road
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LONDON SW1W 9SP

Schedule 1

Summary of Resource Outturn (£'000s)

for the year ended 31 March 2005

| Estimate | | | Outturn | | | Net Total Saving Compared with Estimate: Saving/ (Excess) | 2003-04 |
|-------------------|--------|-----------|-------------------|--------|-----------|---|---------|
| Gross Expenditure | A-in-A | Net Total | Gross Expenditure | A-in-A | Net Total | | Outturn |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |

Protecting and promoting the national security and economic well being of the UK.

Administration and operational costs, research and developmental works, equipment and other payments, and associated non-cash items.

| | | | | | | | | |
|--------------------------------|-----------|--------|-----------|-----------|--------|-----------|--------|-----------|
| Request for Resources 1 | 1,265,004 | 66,522 | 1,198,482 | 1,172,420 | 45,788 | 1,126,632 | 71,850 | 1,059,425 |
|--------------------------------|-----------|--------|-----------|-----------|--------|-----------|--------|-----------|

Security Service and Secret Intelligence Service Superannuation.

| | | | | | | | | |
|--------------------------------|---|---|---|---|---|---|---|--------|
| Request for Resources 2 | - | - | - | - | - | - | - | 32,235 |
|--------------------------------|---|---|---|---|---|---|---|--------|

| | | | | | | | | |
|------------------------|-----------|--------|-----------|-----------|--------|-----------|--------|-----------|
| Total Resources | 1,265,004 | 66,522 | 1,198,482 | 1,172,420 | 45,788 | 1,126,632 | 71,850 | 1,091,660 |
|------------------------|-----------|--------|-----------|-----------|--------|-----------|--------|-----------|

| | | | | | | | | |
|--|---|---|-----|---|---|-----|----|-------|
| Non operating Appropriations in Aid | - | - | 152 | - | - | 134 | 18 | 6,334 |
|--|---|---|-----|---|---|-----|----|-------|

| | | | | | | | | |
|-----------------------------|---|---|-----------|---|---|-----------|---------|-----------|
| Net Cash Requirement | - | - | 1,206,192 | - | - | 1,075,209 | 130,983 | 1,038,952 |
|-----------------------------|---|---|-----------|---|---|-----------|---------|-----------|

Analysis of income payable to the Consolidated Fund

In addition to appropriations-in-aid the following income relates to the agencies and is payable to the Consolidated Fund

| | 2004-2005 Forecast | | 2004-2005 Outturn | |
|--|--------------------|---------------|-------------------|--------------|
| | Income | Receipts | Income | Receipts |
| | £000 | £000 | £000 | £000 |
| Operating Income not classified as A-in-A (CFER) | - | 14,339 | - | 3,520 |
| Total income payable to the Consolidated Fund | - | 14,399 | - | 3,520 |

Explanation of Variation

The variance between the estimate net cash requirement and the outturn net cash requirement is largely due to longer than expected lead times in implementing capital expenditure programmes which impacted on programme expenditure.

Request for Resources 2 - Costs of operating the Security Service and Secret Intelligence Service Superannuation Scheme

This RfR was transferred to the Cabinet Office Civil Superannuation Accounts from 1 April 2004.

Reconciliation of Resources to Cash Requirements

for the year ended 31 March 2005

| | Estimate | Outturn | Net Total Saving Compared with Estimate: Saving/ (Excess) | 2003-04 Outturn |
|------------------------------------|-------------------------|-------------------------|--|----------------------------|
| | <u>£000</u> | <u>£000</u> | <u>£000</u> | <u>£000</u> |
| Net Total Resources | 1,198,482 | 1,126,632 | 71,850 | 1,091,660 |
| Net expenditure on Fixed Assets | 200,755 | 150,814 | 49,941 | 509,808 |
| Accruals adjustments | (193,045) | (202,237) | 9,192 | (562,516) |
| Net Cash Requirement | <u><u>1,206,192</u></u> | <u><u>1,075,209</u></u> | <u><u>130,983</u></u> | <u><u>1,038,952</u></u> |

Amount of grant actually issued to support the net cash requirement : £1,130,042,937.47

Schedule 2**Operating Cost Statement**

for the year ended 31 March 2005

| | 2004-05 | | 2003-04 | |
|-----------------------------------|-----------------|-------------------------|-----------------|-------------------------|
| | <u>£000</u> | <u>£000</u> | <u>£000</u> | <u>£000</u> |
| Request for Resources 1 | | | | |
| Administration costs | | | | |
| Staff Costs | 367,678 | | 336,907 | |
| Other administration costs | <u>285,312</u> | | <u>232,268</u> | |
| Gross administration costs | 652,990 | | 569,175 | |
| Operating income | <u>(43,434)</u> | | <u>(46,335)</u> | |
| Net administration costs | | 609,556 | | 522,840 |
| Programme costs | | | | |
| Programme costs | 519,430 | | 520,394 | |
| Income | <u>(5,874)</u> | | <u>(5,029)</u> | |
| Net programme costs | | 513,556 | | 515,365 |
| Request for Resources 2 | | | | |
| Superannuation Costs | | <u>-</u> | | <u>32,235</u> |
| Net operating cost | | 1,123,112 | | 1,070,440 |
| Income not Appropriated in Aid | | <u>3,520</u> | | <u>21,220</u> |
| Net Resource Outturn | | <u><u>1,126,632</u></u> | | <u><u>1,091,660</u></u> |

Bill Jeffrey
Accounting Officer

14 October 2005

Notes to the Accounts

| | <u>2004-05</u> | <u>2003-04</u> |
|--------------------------------------|----------------|----------------|
| | <u>£000</u> | <u>£000</u> |
| Losses | | |
| Total 104 cases (2003-04 : 19 cases) | 241 | 7 |
| Special Payments | | |
| Total 33 cases (2003-04 : 51 cases) | 230 | 413 |

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