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# **Security and Intelligence Agencies**

## **Financial Statement 2010-11**

**(For the year ended 31 March 2011)**

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

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**Introduction**

This Statement summarises the use of resources by the Security and Intelligence Agencies for the year ending 31 March 2011. Each of the Agencies produces its own full set of annual accounts in accordance with the Government Financial Reporting Manual and Treasury directions but, for reasons of national security, they are not published. They are audited by the Comptroller and Auditor General and shown to the Chair of the Committee of Public Accounts in accordance with the procedure for handling such material set down by the relevant Secretary of State under the Intelligence Services Act 1994. In line with these arrangements this Statement comprises only a Statement of Parliamentary Supply, Statement of Net Expenditure together with appropriate notes and a Statement on Internal Control.

## Statement of Accounting Officer's Responsibilities

The Security and Intelligence Agencies (SIA) have prepared accounts for the year ending 31 March 2011 in accordance with the Government Financial Reporting 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 accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the department and of its net resource outturn and cash flows for the financial year. For reasons of national security, these accounts are not published. They are audited by the Comptroller and Auditor General and shown to the Chair of the Committee of Public Accounts in accordance with the procedure for handling such material set down by the Secretary of State under the Intelligence Services Act 1994.

As a consequence of these arrangements, the Treasury has directed that a Financial Statement should be published in accordance with Section 5 (2) of the Government Resources and Accounts Act 2000, and that this should comprise only a Statement of Parliamentary Supply and Statement of Net Expenditure together with appropriate notes.

The Treasury has appointed the National Security Adviser as Principal Accounting Officer for the Security and Intelligence Agencies, 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 Government Financial Reporting Manual prepared by the Treasury, and in particular to:

- i. observe the Accounts Direction issued by the Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- ii. make judgements and estimates on a reasonable basis;
- iii. state whether applicable accounting standards as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the accounts; and
- iv. 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 the Accounting Officer is answerable, for keeping proper records and for safeguarding the Security and Intelligence Agencies' assets, are set out in the Accounting Officer's Memorandum issued by the Treasury and published in *Managing Public Money*.

**STATEMENT ON INTERNAL CONTROL 2010-11****Scope of responsibility**

As Principal Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the SIA's 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 Managing Public Money.

The Agencies' 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 which they need to be aware of in discharging their wider Ministerial responsibilities. They also report regularly to me as the Principal Accounting Officer (PAO) for the SIA. I advise Ministers on matters concerning the SIA as a whole. Oversight by Parliament is provided by the Intelligence and Security Committee (ISC).

**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 SIA'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.

In addition, the system of internal control in place in the SIA ensures that public funds are used efficiently and effectively and assets are safeguarded in accordance with each Accounting Officers' responsibilities. The system of internal control improves the integrity and reliability of information as well as ensures compliance with relevant legislation.

The system of internal control has been in place in the SIA for the year ended 31 March 2011 and up to the date of approval of the Financial Statement, and accords with Treasury guidance.

**Capacity to handle risk**

The effective management of risk is embedded in all processes and at all levels of the Security and Intelligence Agencies, with the responsibility for overseeing risk management policy and processes lying with the responsible Board members delegated by the Accounting Officer in each Agency. Each staff member is trained on the identification and management of risk and is supported by units that can provide specific advice.

Corporate risk processes in some of the Agencies have been redesigned over the past year, with one of the changes being the design of Board agendas around discussion of key corporate risks. The other Agencies will be looking at this issue during 2011-12. In addition, in accordance with HMT's Orange Book, all business units or departments within the Agencies must produce and maintain accurate risk registers. There are procedures in place to ensure risks are considered at appropriate levels.

**The risk and control framework**

As well as the individual Agency risk and control frameworks, I am supported in my role as Principal Accounting Officer by the Deputy National Security Adviser (DNSA) for Intelligence, Security and Resilience and his team in the National Security Secretariat within Cabinet Office. During the 2010-

11 financial year, the following changes have been made to further strengthen the risk and control framework:

- Creation of an SIA Investment Board whose Terms of Reference include ensuring: the SIA delivers value for money; delivery against SDSR outcomes, emerging priorities from the NSC and the JIC and Spending Review conditions; and a high standard of financial management including a sound system of internal control, and procedures to promote the efficient and economical conduct of business;
- Continuing engagement with Finance Directors from the Agencies through regular Cabinet Office chaired meetings focussing on the effective allocation of resources across the SIA; and
- Continuing engagement at working level at to assess and advise on the consolidated budgetary issues facing the SIA.

Each of the Agencies' main Boards supports the individual Accounting Officers in leading and managing corporate governance within their Agency.

The key elements of the Agency frameworks include:

- Individual Agency risk registers reviewed and updated regularly by their main Boards with individual ownership and management of risks assigned to specific Board members;
- Agency plans and programmes aligned with key organisation risks and aligned with priorities identified by the Board;
- Board sub-committees where key risk areas are considered in more detail;
- Clear definitions of strategic, corporate and operational levels of risk;
- Risk management at lower levels of the Agencies controlled through the operation of programme management to identify, review, monitor and report on risks and the adoption of best practice;
- Clearly defined fraud policies and fraud response plans;
- Internal control statements from the Director accountable for each business area, as well as reports from those responsible for specialist advice on particular corporate risks;
- A comprehensive financial budgeting process covering all activities of the Agencies, supported by a system of delegated financial authorities to control commitment and expenditure; and
- Internal Audit review of the effectiveness of controls and mitigation of risks.

### **Review of effectiveness**

As Principal 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 the executive managers within the SIA 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 Agency Accounting Officers and they have been advised by their Agency Boards and Audit Committees. I am also briefed by my SIA support team who have reviewed in detail the full, unpublished, versions of the individual Agency Statements on Internal Control. My team in the Cabinet Office have been working with the Agencies during the financial year, in addition to discussions held between individual Agencies and the National Audit Office (NAO) to improve quality and consistency across the SIA. Plans to address weaknesses and ensure continuous improvement of the system are in place.

Each of the Agencies' Boards receives annual statements of management assurance provided by Directors identifying significant difficulties or impacts during the year and an explanation of areas of non-compliance. The Boards also undertake reviews of the effectiveness of a number of key activities and the associated risks. There are a number of areas which have been subjected to tests of effectiveness including: planning and financial management; asset management; risk management; safety, health and wellbeing; information management; data handling; people

management and hospitality; security; business continuity; programme and project management; legal compliance; and procurement.

The Boards of each Agency considers the key corporate risks at their meetings including discussion of mitigation strategies and longer term risk management concerns.

Each Agency has an internal audit function which operates to the Government Internal Audit Standards. The work of Internal Audit is informed by analyses of risk to which the Agencies are exposed. Annual internal audit plans are based on these analyses. The examination 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 overall effectiveness of the Agencies' systems of internal control, highlighting any areas where there are control weaknesses which need remedial action. The consensus of these reports is that the SIA operates effective risk management and mitigation strategies.

### **Information security**

Risk to SIA information and personal data is managed in accordance with national security policies, primarily the Security Policy Framework and the STRAP manual. The SIA's contractors are briefed on, and required to operate within, the same policy framework and to the same standards.

The Agencies are continuing to review procedures and processes associated with portable information, removable media and devices. Progress has been made in improving compliance and this process will continue into the next financial year.

### **Other risks**

Like other Government Departments, the Agencies have or are currently undertaking workforce rationalisation strategies which could result in associated risks to staff morale and security. Significant effort is being made across the SIA to reduce this risk and the possible consequences.

The Agencies also face a challenge in that they must ensure their internal control systems are able to manage the significant increase in activity associated with the London 2012 Olympics. Preparations for this are in the advanced stages.

For reasons of National Security no further disclosure is included in this statement.

**Sir Peter Ricketts**  
**Accounting Officer**  
**13 July 2011**



## **The Certificate and Report of the Comptroller and Auditor General to the House of Commons**

I certify that I have examined the Financial Statement of the Security and Intelligence Agencies for the year ended 31 March 2011 under the Government Resources and Accounts Act 2000. This comprises the Statement of Parliamentary Supply, the Statement of Net Expenditure and the related notes. This Financial Statement has been prepared under the accounting policies set out within it.

### **Respective responsibilities of the Accounting Officer and Auditor**

As explained more fully in the Statement of Accounting Officer's Responsibilities, the National Security Adviser as Principal Accounting Officer is responsible for preparing the Financial Statement and for ensuring that it is presented properly. My responsibility is to audit, certify and report on the Financial Statement in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). These standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the Financial Statement**

An audit involves obtaining evidence about the amounts and disclosure in the Financial Statement sufficient to give reasonable assurance that the Financial Statement is free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Security and Intelligence Agencies' circumstances and have been consistently applied and adequately disclosed; the reasonableness of the significant accounting estimates made by the Agencies; and the overall presentation of the Financial Statement. My audit of the Financial Statement also includes verification that the underlying accounts have been appropriately and consistently consolidated.

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

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

### **Opinion on Regularity**

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

### **Opinion on the Financial Statement**

In my opinion:

- the Financial Statement properly presents the net cash requirement, net resource outturn and net operating cost for the year ended 31 March 2011;
- the Financial Statement has been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder; and

- the Financial Statement is consistent with the unpublished audited accounts of the individual Security and Intelligence Agencies for the year ended 31 March 2011.

**Matters on which I report by exception**

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the Financial Statement is not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

**Report**

I have no observations to make on the Financial Statement.

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

*July 2011*

**STATEMENT OF PARLIAMENTARY SUPPLY**

for the year ended 31 March 2011

**Summary of Resource Outturn 2010-11****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.

	Estimate			Outturn			2010-11 Net Total Saving Compared with Estimate : saving/ (excess) £000	2009-10 Outturn £000
	Gross Expenditure £000	A-in-A £000	Net Total £000	Gross Expenditure £000	A-in-A £000	Net Total £000		
<b>Request for Total Resources</b>	2,210,177	203,325	2,006,852	2,134,282	189,829	1,944,453	62,399	1,841,423
<b>Non operating Appropriations in Aid</b>	-	46,685	-	-	46,685	46,685	-	44,042
<b>Net Cash Requirement 2010-11</b>								
			Estimate			Outturn		2010-11 Net Total Saving Compared with Estimate : saving/ (excess) £000
			£000			£000		£000
<b>Net Cash Requirement</b>			2,018,798			1,918,023	100,775	1,872,774

**Summary 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 (cash receipts being shown in italics)

	2010-11 Forecast		2010-11 Outturn	
	Income £000	Receipts £000	Income £000	Receipts £000
Total	-	-	11,707	<i>11,707</i>
<b>Total income payable to the Consolidated Fund</b>			<b>11,707</b>	<b><i>11,707</i></b>

**STATEMENT OF NET EXPENDITURE**

for the year ended 31 March 2011

	2010-11		2009-10	
	£000s	£000s	Restated £000s	£000s
<b>Request for Resources 1</b>				
<b>Administration costs</b>				
Staff costs	58,144		57,960	
Other administration costs	<u>29,634</u>		<u>34,473</u>	
<b>Gross administration costs</b>	87,778		92,433	
Operating income	<u>(13,744)</u>		<u>(12,895)</u>	
Net administration costs		74,034		79,538
<b>Programme costs</b>				
Staff costs	631,305		607,712	
Other programme costs	<u>1,415,199</u>		<u>1,229,629</u>	
<b>Gross programme costs</b>	2,046,504		1,837,341	
Operating Income	<u>(180,805)</u>		<u>(136,884)</u>	
Net programme costs		<u>1,865,699</u>		<u>1,700,457</u>
<b>Net Operating Cost</b>		<u><u>1,939,733</u></u>		<u><u>1,779,995</u></u>

Sir Peter Ricketts  
Principal Accounting Officer  
13 July 2011

**Notes to the Accounts**

for the year ended 31 March 2011

**1. Statement of accounting policies**

This is the consolidated Financial Statement of the individual Security and Intelligence Agencies. The individual Agency accounts have been prepared in accordance with the 2010-11 *Government Reporting Manual (FReM)* issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be the most appropriate to the particular circumstances of the SIA for the purpose of ensuring the Financial Statement is presented properly.

**2. Change in accounting policy and disclosure – removal of the cost of capital charge and adaptation of IAS36 impairment of assets**

In line with HM Treasury advice, Prior Period Adjustments (PPAs) arising from the removal of the cost of capital charge and FReM adaptation of IAS 36, *Impairment of Assets*, were not included in the Spring Supplementary Estimates for 2010-11, other than as a note, on the basis that the PPA numbers could have been misleading. The impact of these accounting policy changes on Net Operating Costs in respect of 2009-10 are shown in the table below. PPA's arising from an error in previous recording or any other changes in accounting policy were included in the Estimates in line with conventional arrangements.

The removal of the cost of capital charge and the adaptation of IAS 36, *Impairment of Assets*, has the following effect on Net Operating Costs in 2009-10. The Statement of Parliamentary Supply and related notes have not been restated for this effect.

	£000
Net Operating Costs 2009-10 (as originally published)	1,838,788
Adjustments for:	
<i>Cost of Capital Charge</i>	<i>(59,548)</i>
<i>IAS 36 Impairment of Assets</i>	<i>755</i>
<b>Net Operating Costs for 2009-10</b>	<b>1,779,995</b>

**3. Outturn against final Administration Budget**

	Budget	Outturn 2010-11	Outturn 2009-10 Restated
	£000	£000	£000
<b>Gross Administration Budget</b>	94,521	87,778	92,433
<b>Income allowable against the Administration Budget</b>	(13,771)	(13,744)	(12,895)
<b>Net Outturn Against Final Administration Budget</b>	80,750	74,034	79,538

## 4. Reconciliation of Net Resource Outturn to Net Operating Cost

	Outturn	Supply Estimate	2010-11 Net Total Saving Compared with Estimate : saving/ (excess)	2009-10 Outturn
	£000	£000	£000	£000
Net Resource Outturn	1,944,453	2,006,852	62,399	1,841,423
Prior Period adjustments				(58,793)
Non-supply income (CFERs)	(4,720)	0	4,720	(2,635)
Net Operating Costs	1,939,733	2,006,852	67,119	1,779,995

## 5. Reconciliation of Net Resource Outturn to Net Cash Requirement

	Estimate	Outturn	2010-11 Net Total Saving Compared with Estimate : Saving/ (Excess)	2009-10 Outturn
	£000s	£000s	£000s	£000s
Net Total Resources	2,006,852	1,944,453	62,399	1,841,423
Net expenditure on Fixed Assets	351,000	354,838	(3,838)	346,274
Accruals adjustments	(339,054)	(381,268)	42,214	(314,923)
Net Cash Requirement	<u>2,018,798</u>	<u>1,918,023</u>	<u>100,775</u>	<u>1,872,774</u>

## 6. Losses and Special Payments

	2010-11 No. Of cases	2010-11 £000	2009-10 No. Of cases	2009-10 £000
Losses and Special Payments				
Total	133 cases	13,369	134 cases	1,076

Included in the above disclosure, during the year ended 31 March 2011, is an SIA contribution to a payment in respect of legal claims in excess of £250k which is classified as a Special Payment within the relevant Agency's accounts.



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