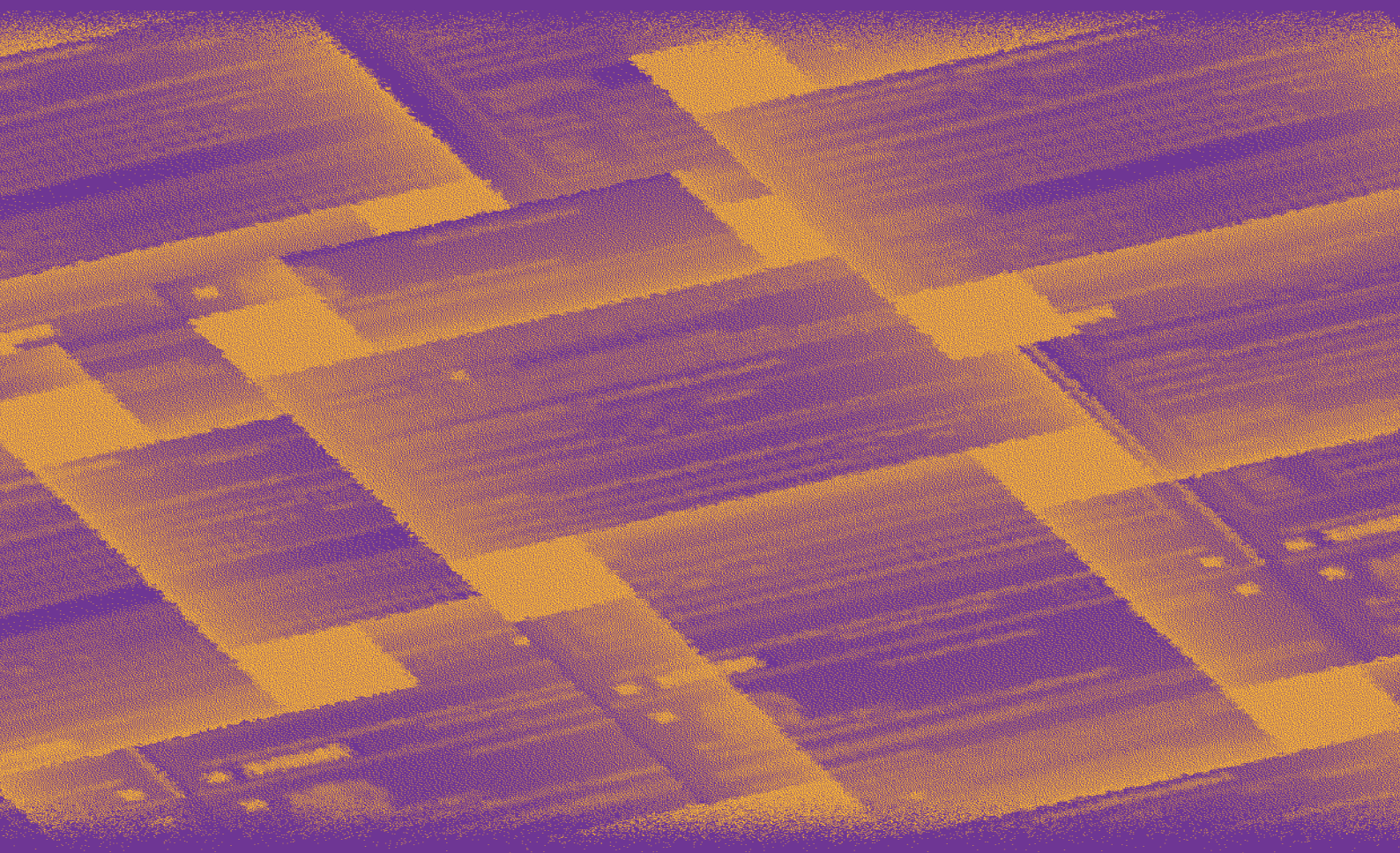


Defence Vetting Agency

Annual Report and Accounts 2007 - 2008

# Annual Report and Accounts 2007 - 2008



Defence Vetting Agency

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#### Vetting Abbreviations used in this report

CTC	– Counter Terrorist Check
DVA	– Defence Vetting Agency
DV	– Developed Vetting
DVP	– Defence Vetting Programme
KT	– Key Targets
MOD	– Ministry of Defence
NSV	– National Security Vetting
SC	– Security Check

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## Chief Executive's - Statement

I am very pleased to present this Annual Report and Accounts setting out our achievements during 2007-2008. The Report demonstrates the success we have had in delivering a National Security Vetting (NSV) service to the Ministry of Defence and to our repayment customers, and in supporting wider government initiatives in becoming one of only two shared service providers of NSV.

Particular highlights for me have been:

- Our Key Target performance, with 4 of the 5 Targets being met or exceeded. The one Key Target that was not achieved was substantially exceeded during the last 6 months of the year.
- The quality of our customer service being confirmed by the retention of Charter Mark status.
- Our status as a shared service provider of NSV attracting work from a range of new repayment customers, with more to come in 2008-2009.
- The successful pilot to test the concept of e-application forms for standard level (CTC and SC) applications. Users have confirmed that the process is much more user friendly and a significant improvement on the manual forms we currently use.

This performance was the result of commitment and dedication by people at all levels and in all parts of the Agency. It also reflects the support and cooperation we receive from our Owner and his staff, and from a wide range of other stakeholders and customers throughout MOD and from our repayment customers.

We all look forward to the challenges we face in the new financial year.



*Jacky Ridley*

Jacky Ridley - Chief Executive  
7 July 2008



## Performance Highlights

- We met or exceeded 4 of the 5 Key Targets set during 2007-2008. The one Key Target that was not achieved was substantially exceeded during the last 6 months of the year. We also either fully or generally met 45 of the 47 business performance targets that were actioned during the year. A significant feature being that we completed our Security Check Review Backlog Programme a year early.
- We have been nominated to be one of, currently, only two shared service providers of National Security Vetting (NSV) across government. To enable this to happen we are developing our IT system and customer access to services by way of a vetting transformation programme to help deliver the government's vision of a NSV service. This programme advanced to the point where invitations to tender were issued to potential bidders.
- Our customer base continues to widen from the Defence area into a large portfolio of other government departments, organisations, and national settings. This has resulted in the award of around another 4% of NSV work from other departments which will be processed from 1 April 2008, with a further 3-4% expected to be awarded later during 2008-2009.
- Charter Mark re-accreditation was achieved in February 2008.
- The pilot to test the concept of e-enabled NSV applications for CTC/SC level was successfully implemented and will remain in normal running.

# Part 1 Management Commentary

## Introduction

1. This Annual Report and Accounts shows our performance between 1 April 2007 and 31 March 2008. Part 1 records performance against the Key Targets and outlines business achievements. Part 2 presents the audited accounts.

## About us

2. The Defence Vetting Agency (DVA) is an Executive Agency of the Ministry of Defence (MOD). We are the UK's largest government organisation carrying out National Security Vetting (NSV), the only UK organisation whose core business is NSV, and the only NSV organisation to obtain Charter Mark accreditation.

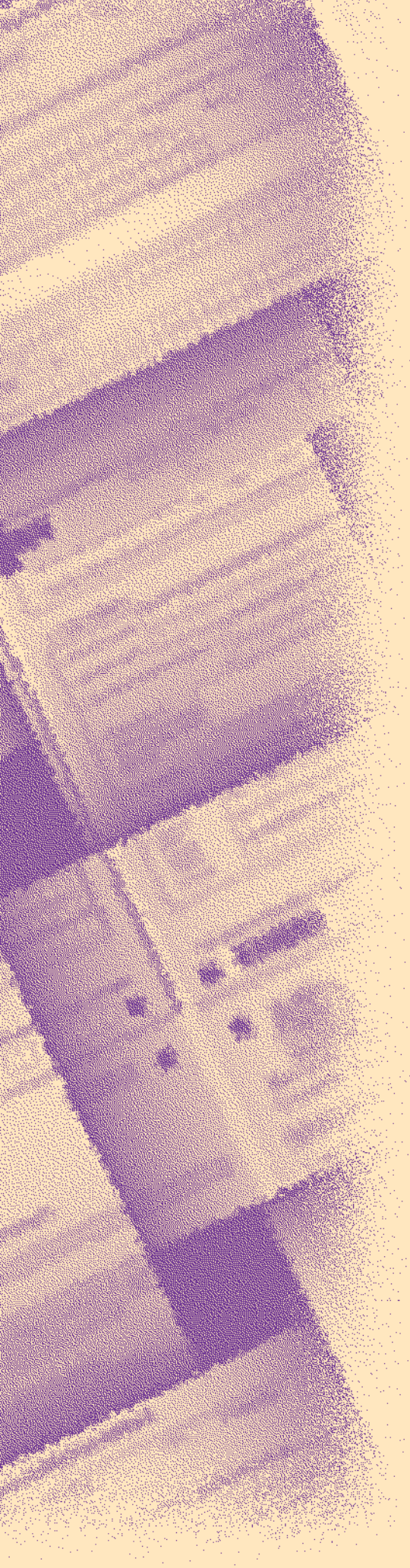
3. Although we formed in 1997 we can trace our roots five decades back into the history of personnel security. We receive around 150,000 NSV applications each year to enable people to do sensitive jobs or access restricted locations.

4. Working to the Cabinet Office standard, we provide assurance for site admission and un-restricted access for material up to and including TOP SECRET. We especially pride ourselves on providing a tailored service to customers based on their individual risk management needs. We also provide a fully rounded service of help and customer engagement to support this. Since we formed as an Agency our customer base and exposure to a wide variety of personnel security requirements has widened from the Defence area into a large portfolio of other government departments, organisations and national settings. This has allowed us to benefit from the experience by applying the lessons learned to our own business process and procedures that results today in an organisation fit for the 21st century.

## The security context for our work

5. Security is a key enabler in the management of HM Government. It is essential to the delivery of successful operations and policy that people, information, and assets are adequately protected from a range of possible threats. The government and MOD are targets for military and industrial espionage, single issue campaigns, and a target for terrorists. Increasing attention is also being paid to the threat posed by disloyal, disaffected or vulnerable employees or contractors. Personnel security is part of a range of protective security measures designed to minimise these threats. Our vetting services help to contribute towards a safe and secure environment for HM Government to operate.

6. In line with the modernising government agenda, the Cabinet Office is driving forward a programme to produce a shared service approach to NSV. The MOD has nominated the DVA to be one of, currently only two shared service providers of NSV. In order to take this work forward we are developing our IT system and customer access to services by way of an e-transformation programme to help deliver the vision of a common NSV system and service.



# Our vision, mission, role, values and ideals

## **Our vision**

7. We will be recognised as the lead organisation on NSV process and personnel security risk based assessment across government. We will meet the expectations of our customers and stakeholders with regard to the delivery of quality, timeliness, efficiency and value for money.

## **Our mission**

8. We deliver a quality, customer focused and efficient NSV service.

## **Our role**

9. We carry out NSV checks in line with the Cabinet Office standard. Where required we will provide a risk-based assessment about the suitability of people to have access to sensitive information, sites, or valuable assets.

## **Our values and ideals**

10. Our values and ideals are embedded into all we do. We:

- Work together across organisations, sharing knowledge and skills;
- Are approachable, open and honest;
- Ask our customers' views, and learn from them;
- Explain what we are doing and why;
- Involve and develop our people and encourage people from different backgrounds; and
- Continuously improve and celebrate success.

# What we do

## National Security Checks

11. We process three main types of NSV checks and clearances:

**Counter Terrorist Check (CTC)** for people employed in posts with proximity to public figures, access to information or material assessed to be of value to terrorists or unescorted access to establishments assessed to be at risk from terrorist attack. A CTC does not allow a person access to, or knowledge of, protectively marked assets.

**Security Check (SC)** for people employed in posts which have substantial access to SECRET assets or occasional controlled access to TOP-SECRET assets.

**Developed Vetting (DV)** is needed for people with substantial unsupervised access to TOP-SECRET assets.

12. A small number of clearances are granted where the risks are managed through follow up work and monitoring. We call this activity "Aftercare". We also process Aftercare for all MOD clearances that are granted normally.

### Employment Checks

13. In addition to NSV we are responsible for co-ordination of all MOD Employment Assurance Disclosure requests, which are needed for people who are being considered for employment with children or vulnerable adults.

14. We also process MOD employment checks in support of the wider Baseline Personnel Security Standard (BPSS) requirements as laid down in the Cabinet Office Personnel Security Standard.



## Key Target performance summary

15. Key Targets are mandated for all Executive Agencies to focus management attention on the most important aspects of performance. In 2007-2008 our Owner set 5 Key Targets covering the quality, timeliness, and efficiency aspects of our business.

Key Targets	Overall achievement	Remarks
<b>KT1a: External validation of quality.</b> Achieve at least a 98% satisfaction rating with 200 cases independently selected and reviewed from a random sample.	99%	Target exceeded
<b>KT1b: Delivering customer service.</b> Maintain Charter Mark accreditation standards.	Re-accreditation achieved	Target achieved
<b>KT2: Complete the vetting review backlog programme</b> by reducing the backlog by a further 20,000 cases (or the remaining number if this is less).	Backlog Completed 16,712 records checked	Target exceeded and achieved 1 Year early
<b>KT3: Achieve the following process times for defence routine cases by:</b>		
a. Completing 75% of Counter Terrorist Checks within 30 calendar days	62%	Target missed Note 1.
b. Completing 75% of Security Checks within 30 calendar days.	46%	Target missed Note 1
c. Completing 83% of Developed Vetting cases within 100 calendar days.	82%	Target missed by 1%
<b>KT4: Achieve the following process times for defence priority cases by:</b>		
a. Completing 85% of Counter Terrorist and Security Check cases within 10 calendar days.	96%	Target exceeded
b. Completing 80% of Developed Vetting cases within 30 calendar days.	86%	Target exceeded
<b>KT5: Improving efficiency.</b> Reduce the Unit Cost of Output by 2%.	3.8%	Target exceeded

Notes: 1. Performance against these targets was depressed during the first part of the financial year. Recovery was achieved from October since when the monthly targets have been consistently exceeded. 2. Performance against the timeliness targets is based on processing time that excludes delays not caused by ourselves.

# Key Target performance details

## Quality Key Targets

### Key Target 1a External validation of quality.

To achieve at least a 98% satisfaction rating with 200 cases independently selected and reviewed from a random sample.

16. This target measures the quality of our vetting decisions. Validation exercises take place to review 200 completed CTC, SC, and DV cases and records selected from a random sample. The target is vulnerable because of the small number of cases reviewed caused by a lack of resources preventing the sample from being extended.

#### Trends and achievement

	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Targets</b>	95%	95%	98%	98%	98%
<b>Performance</b>	98%	97%	99%	100%	99%

### Key Target 1b Delivering customer service.

Maintain Charter Mark accreditation standards.

17. Charter Mark covers a whole range of customer service issues and setting a target to maintain accreditation ensures that customer service and quality are key features of our performance. Successfully completing the Charter Mark re-assessment process in February 2008 has enabled us to continue to focus on the development of key processes to further improve customer service and satisfaction.

### Key Target 2 Complete the vetting review backlog programme.

18. An important measure of the quality of our success is to be able to prove to the MOD that everyone, who line management say need access to sensitive information, has a valid security clearance. Three years ago a target was set to measure progress in reviewing an estimated 77,000 out of date SC clearances by 31 March 2009. The programme was completed a year early with a total of 77,885 records reviewed.

#### Trends and achievement

	2003-04	2004-05	2005-06	2006-07	2007-8
<b>Targets</b>	0	13,500	13,500	20,000	20,000
Note 3					Note1
<b>Performance</b>	0	18,438	19,320	23,415	16,712
					Note 2

Note 1: Or a lower number if this clears the programme.

2. This was the actual total of records to clear the backlog.

3. There was to be a further target to check another 10,000 records in 2008-2009.

## Timeliness

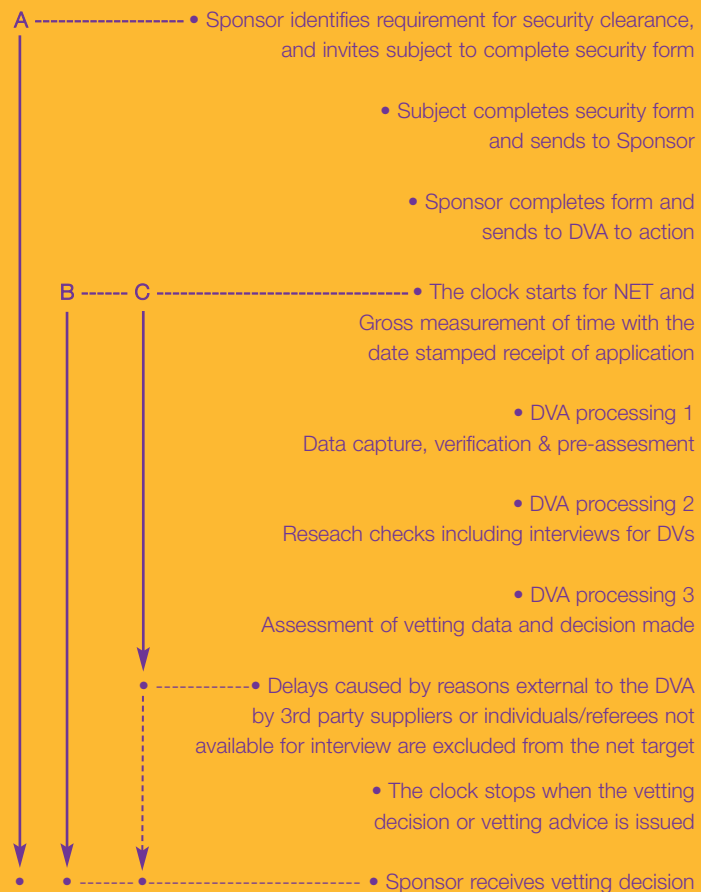
19. Timeliness is of most immediate concern to customers. Since we formed as an Agency we have strived to improve year-on-year performance. In the early years our Key Targets were to complete standard checks (CTC and SC), within 42 calendar days and 182 calendar days to complete the higher level (DV) clearances. We now work to 30 and 100 calendar day targets to complete routine work, and have introduced 10 and 30 calendar day targets to complete priority clearances. Because there is little scope to bear down on delays external to the DVA, these targets remain as net performance measures. The gross time taken to complete cases is monitored outside of the Key Target set. The difference between net and gross completion time is shown in the workflow diagram below:

## Measurement of Vetting Timeliness

Time line A: End-to-end time as recognised by the customer.

Time line B: Gross DVA processing time outside of the Key Targets.

Time line C: Net DVA processing time measured by Key Targets.



Key Target 3 Achieve the following process times for defence routine cases by:

- a. Completing 75% of Counter Terrorist Checks within 30 calendar days.
- b. Completing 75% of Security Checks within 30 calendar days.
- c. Completing 83% of Developed Vetting cases within 100 calendar days.

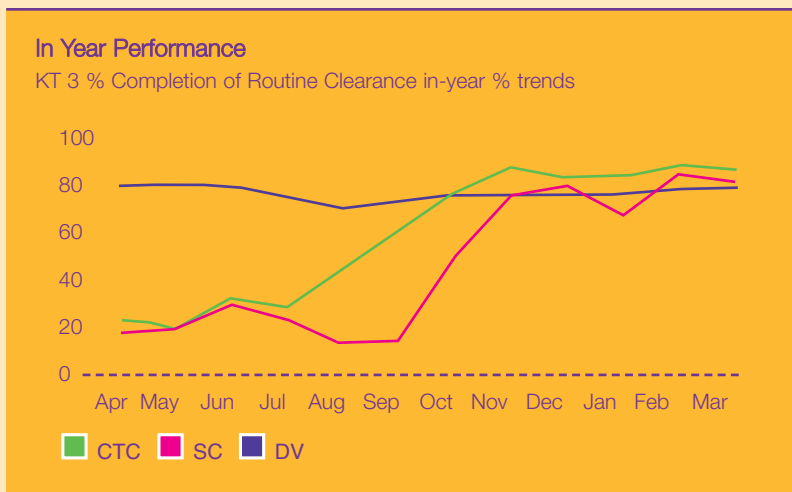
20. The majority of vetting work is conducted at the routine level. Unfortunately, CTC/SC performance fell below target levels during the first half of 2007-2008 (as shown in the chart below) mainly due to:

- High staff turnover and shortages in key areas;
- A MOD moratorium on recruitment and overtime from Autumn 2006 to April 2007 led to gapped posts and backlogs;
- IT problems relating to two key processes, leading to a backlog of cases waiting action when the problems were resolved; and
- Uneven flow of cases being returned from one of the DVA's key data suppliers leading to temporary backlogs.

21. Management action led to performance significantly improving during the second part of the year enabling the monthly targets to be exceeded. Because performance against the Key Target is measured across the 12 month period, the improved performance was too late to offset the earlier poor performance causing the target to be missed. Despite the introduction of a more demanding vetting standard, DV performance was more stable across the year and matched the same standard achieved in 2006/2007.

**Routine Cases**

		2003-04	2004-05	2005-06	2006-07	2007-08
CTC	Targets	62%	62%	62%	65%	75%
	Performance	59%	55%	51%	75%	62%
SC	Targets	62%	65%	65%	65%	75%
	Performance	63%	55%	49%	70%	46%
DV	Targets	40%	50%	83%	83%	83%
	Performance	49%	85%	91%	82%	82%



Key Target 4: Achieve the following process times for defence priority cases by:

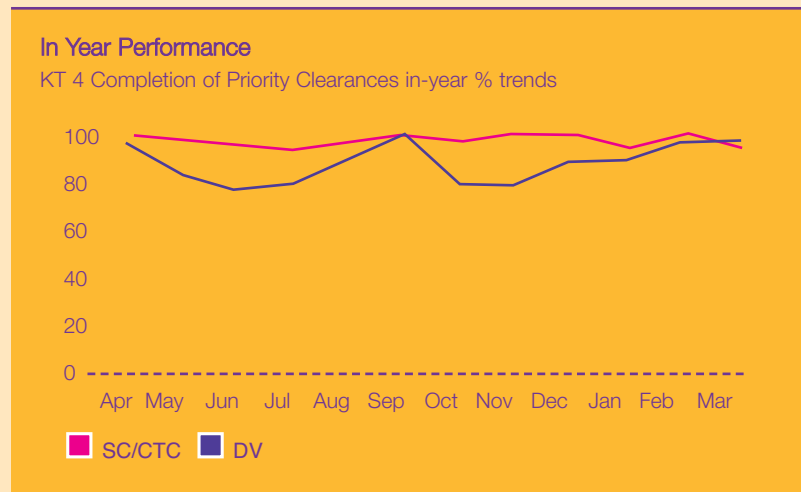
- a. Completing 85% of Counter Terrorist and Security Check cases within 10 calendar days.
- b. Completing 80% of Developed Vetting cases within 30 calendar days.

22. The attachment of a 'Priority' or 'Immediate' flag to no more than 3% of clearances per month enables us to be more responsive to customer requirements. This involves reconciling competing priorities across and between customer areas to avoid us being overwhelmed with an unreasonable number of requests for priority action. As the performance of routine clearances improves the need for priority clearances should diminish.

**Trends and achievement**

Priority Cases		2003-04	2004-05	2005-06	2006-07	2007-08
CTC/SC	<b>Targets</b>	0	45%	85%	85%	85%
	<b>Performance</b>	Note 1	77%	88%	99%	96%
DV	<b>Targets</b>	90%	90%	90%	80%	80%
	<b>Performance</b>	28%	67%	88%	80%	86%

Note 1: No target set that year.



**Key Target 5: Improving efficiency.**  
**Reduce the Unit Cost of Output by 2%.**

23. We need to be able to demonstrate the extent to which we are becoming more efficient while maintaining a cost effective and efficient service in line with customers' needs and within our financial allocation. We do this by delivering more efficient processes that reduce the cost of vetting. Efficiency is measured through annual accumulated percentage variations in the Unit Cost of Output (UCO) that covers each of the main vetting 'products'. The target is to maintain a year-on-year improvement. As in the past, the calculation aggregates each of the categories of vetting output into a single figure to show:

- a. The value of the UCO expressed in Cash Terms; and
- b. The percentage change year on year.

**Trends and achievement**

	2003-04	2004-05	2005-06	2006-07	2007-08
<b>UCO baseline</b>	£34.63	£28.75	£28.23	£27.41	£26.20
<b>Targets</b>	-2%	-2%	-2%	-2%	-2%
Note 1	£33.93	£28.17	£27.66	£27.53	£26.96
<b>Performance variation</b>	-17%	-1.8%	-2.9%	-2.1	- 3.8%
Note 2	£28.75	£28.23	£27.41	£26.20	£25.83

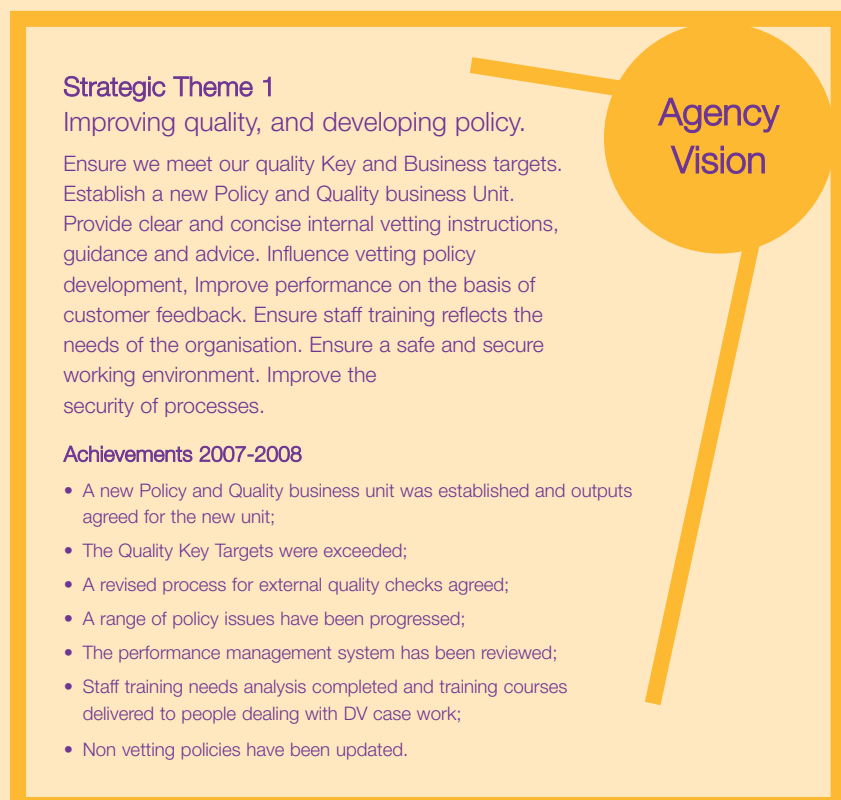
Notes: 1 The target figures also reflect an uplift for inflation and input efficiency adjustment.  
 2. The performance variation figure represents the percentage change in the financial Unit Cost of Output from the previous year.

# Business Review

## Introduction

24. This part of the Annual Report provides an overview of other business activity completed during the year. Shown below are the 5 Strategic Themes and associated objectives that we needed to deliver in order to move towards meeting our Vision. We achieved 35 out of the 47 business performance targets set. A further 10 targets were substantially achieved with action carried forward to the new financial year, and 2 targets were missed.

## Strategic Themes 2007 - 2008



## Strategic Theme 2

Enable the Business.

Maintain Charter Mark accreditation;  
Match the organisational capability to future Shared Service requirements for vetting;  
Deliver the e-transformation project;  
Create a culture that encourages information and knowledge sharing.

Agency  
Vision

### Achievements 2007-2008

- Charter Mark standard re-accredited;
- Business critical IT support systems were maintained;
- E-transformation project outcomes delivered to plan including; Invitation to Tender issued; Pilot SC e-form completed;
- A new information manager post is being recruited to take forward a Knowledge Management project;
- The Business Continuity Plan has been tested and revised;
- Timely production of corporate documents and business reporting;
- Accommodation project agreed and being implemented to plan.

## Strategic Theme 3

Improving vetting service delivery.

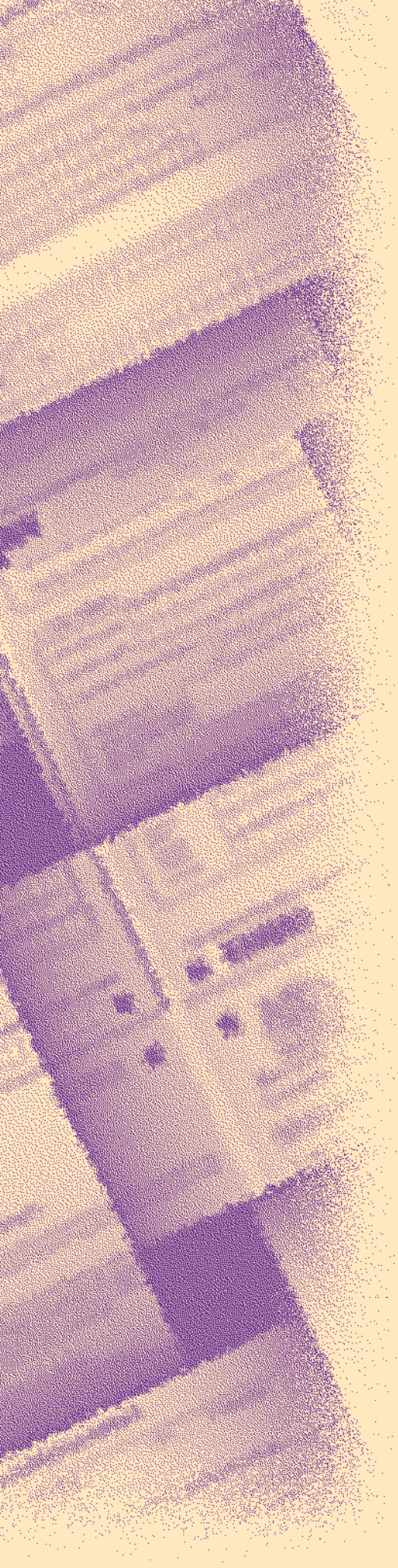
Meet or exceed vetting, Key, and Business targets;  
Create a more managed end-to-end single vetting process;  
Implement full e-vetting;  
Improve business processes to reflect e-vetting opportunities;  
Increase the range of key indicators;  
Improve performance of Customer Helpdesk.

Agency  
Vision

### Achievements 2007-2008

- Majority of vetting Key Targets achieved;
- Single point of contact to process Aftercare established, and performance targets agreed to measure this work during 2008-2009;
- Additional Area Manager posts created to help manage the Home based Vetting Officers;
- Performance Management Team established;
- New organisation implemented for managing DV work;
- A new system was implemented to support the e-pilot;
- Help Desk call waiting rates performance improved.





#### Strategic Theme 4

Resources and improving efficiency.

Meet efficiency Key Target;  
Ensure robust corporate governance systems;  
Make best use of staff and financial resources;  
Deliver skills and competences to deliver Agency objectives;  
Ensure IIP standard is retained.

Agency  
Vision

#### Achievements 2007-2008

- Assurance and support requirements met;
- Review staff skills and development in line with e-transformation rollout;
- Efficiency key target was exceeded;
- Workforce planning system developed;
- On target to meet IIP standard, reaccreditation;
- Workforce succession plan developed;
- Diversity targets for gender were met at all grades.

#### Strategic Theme 5

Business Development.

Identify customers and stakeholder needs.  
Work with suppliers to ensure required level of performance is received. Network with other vetting organisations to establish best practice.  
Obtain new business and develop relationships with existing customers.

Agency  
Vision

#### Achievements 2007-2008

- Customer Service Standards published;
- Help Desk performance improved during the year;
- A stakeholder analysis was produced;
- A marketing strategy was agreed;
- 145 existing and potential customers were visited;
- A customer Open Day was held;
- 4% of new repayment business, with more to follow in 2008-2009.

# Achievements at Division level

## Vetting Operations Division

25. The Vetting Operations Division faced a number of challenges during the reporting period.

26. **Recruitment and resources:** A number of recruitment exercises were conducted in York and throughout the country to support current and anticipated business. Turnover at administrative level was managed by measures such as regularised recruitment campaigns. A resource model has also been developed to help inform decisions about capacity and the resources required to support business operations.

## 27. Re-organisation of Developed

**Vetting Teams:** The key feature of this long-running project was the deeper delegation of lower risk DV casework. Trade Union consultation was finalised and the organisational structure changes were implemented. Training in support of these structures has begun.

## 28. Review of the Field Investigations

**Division:** A number of activities have taken place as a result of this review which was conducted by MOD Management Consultants. These include the creation of additional Area Manager posts to help manage the home-based Vetting Officers and a review of the system for allocating vetting interviews from York HQ.

29. **Aftercare:** A new Aftercare focal point has been established to process cases at all levels. This has allowed the size and shape of the overall Aftercare programme to be identified for the first time, and for developmental business performance targets to be agreed to monitor performance in processing this work during the new financial year. The intention will be to set an Aftercare Key Target in 2009-2010.

## 30. Employment Assurance Disclosure requests EA(D):

A separate Team within the DVA processes requests on behalf of the MOD. Over 12,500 completed, and 5,000 incomplete applications were processed last year. Complete applications were processed in an average time of 9 days well within the 14 day target time. Over 15,500 disclosure letters were issued back to Units in an average time of under 2 days from the receipt of advice from the Criminal Records Bureau.

## 31. Baseline Personnel Security

**Standard:** We have also assisted with the implementation of the new Cabinet Office Baseline Personnel Security Standard within the MOD HR community. We have provided advice and a facility to confirm the immigration status or criminal declarations of new recruits.

32. **Accommodation:** An extensive refurbishment project is taking place at York, much of it within the Vetting Operations area. The intention is to make better use of the available space to help deliver current and anticipated business and to support team culture change.

33. **Vetting Statistics:** Our monthly Performance Review document, published at [www.dva.mod.uk](http://www.dva.mod.uk) contains a range of vetting data to support the monitoring of performance against the timeliness Key Targets. The table below shows the volume of work measured within the Key Targets that was completed last year.

### Volume of vetting completed

Defence work	2007-2008
Forecast	130475
Receipts +carry forward	140360
Other checks	4760
CTC	8652
SC	103623
DV	8236
Total Defence Completions	125271

### Other Government Department repayment work

Forecast	14627
Receipts +carry forward	11622
Other checks	344
CTC	974
SC	5262
DV	3139
Total OGD Completions	9719

### Overall Totals

Forecast	145102
Receipts +c/f	151982
Overall Completions	134990

## Customer Relations and Marketing Division

34. Proactive engagement with existing and potential customers last year resulted in 48 inward visits being arranged. Our Marketing Manager visited 145 customer and potential customer sites. Our customer base continues to widen from the Defence area into a large portfolio of other government departments, and national organisations. This engagement with customers has resulted in the award of around another 4% of new NSV work from other departments which will be processed from 1 April 2008, with a further 3-4% expected to be awarded later during 2008-2009.

35. **Open Day:** A successful Open Day was held in February 2008 which, unlike the previous event held in October 2006, was targeted at over 100 existing MOD and government customers as well as potential repayment customers representing 47 organisations. The event was well received, with customers particularly interested in the presentations about the Cabinet Office Vetting Transformation programme and hearing about our key role in taking forward the e-transformation programme. Visitors also took the opportunity to have an interactive demonstration of the new security application e-form, which is currently being trialled. Typical feedback comments were:

*" .....I especially liked the demonstration and explanation about the e-form for SC applications."*

*" .....The e-transformation form will be great once implemented, very user friendly and will make the process easier and quicker."*

*" .....The day was very interesting and I am looking forward to when the e-system becomes live in the future."*

*"....Very helpful informative, the DVA team went out of their way to accommodate everyone."*

*" .....I particularly liked the opportunity to meet and mingle."*

*" .....I enjoyed the opportunity to network."*

36. **Charter Mark:** We successfully maintained our Charter Mark certification for 2008-2009. The Assessor highlighted improvements since our original accreditation 12 months earlier, in the areas of:

- Customer feedback and complaints procedures and supporting database;
- Customer Service Standards and the underlying procedures in place to measure performance;
- The very positive feedback received from the randomly selected customers (internal and external) the Assessor contacted during the day.

37. **Customer Feedback:** Informal customer feedback, both positive and negative, is received through a variety of forums, such as the Owner's Advisory Board, the regular Customer Advisory Group meetings, meetings at customer sites, the Open Day, and through the Help Desk. Follow up action is taken to learn lessons, and improve service delivery. The Developed Vetting process is subject to a formal survey involving everyone being cleared, together with their Referees. A range of useful feedback was provided which will help to improve the process. Against a target of 98% satisfaction, a 98.3% satisfaction score was achieved from those people who responded to the survey.

#### Enquiries to the Help Desk

Customer Usage of the Help Desk	Telephone Calls	Electronic enquiries
MOD civilian	42%	32%
RN	3%	4%
Army	12%	29%
RAF	13%	13%
Defence Industry	16%	15%
OGD	3%	3%
Public/other	15%	3%

Note: These percentages have been rounded so will not equal 100%. These percentages relate to:

- 26,030 faxes and emails comprising over 100,000 individual queries;
- 115,000 calls comprising over 250,000 individual queries.

#### Policy, Plans and Quality Division

38. **Policy focus:** A new Policy, Plans and Quality Division became fully established during the latter part of the financial year successfully combining a new Policy and Quality Assurance focus with the existing Planning and Central Services functions and a range of tasks formally carried out by other Divisions. Work was started to:

- Provide internal advice on all NSV policy and procedural issues;
- Influence policy for NSV;
- Review all customer feedback and provide feedback to business areas on quality issues;
- Undertake a formal review of and republish the internal vetting process working instructions;
- Prepare a programme of internal quality assurance checks;
- Scope the size and shape of a programme of vetting policy issues that need to be addressed;
- Produce training briefs for all staff.

39. **Business Continuity:** While we did not suffer any significant incidents that stopped business, a number of minor incidents caused temporary disruptions leading to contingency arrangements being invoked to cope with:

- Failure of business links;
- Server problems;
- Connectivity problems between York and our Vetting Officers;
- On site heating and water issues during the winter.

40. More generally, Business Continuity planning work focused on lessons learned from a Management Board desk top exercise last autumn to test a number of emergency scenarios. A revised Plan has been produced and a Business Continuity "Tool Kit" has been assembled to assist managers to better identify their Business Continuity needs.

#### Resource Management Division

41. **HR issues:** A workforce planning strategy was agreed to ensure that we maintain a workforce that is appropriately skilled, managed, and motivated to support our outputs and vision. This work involved the identification of the various constituent HR parts of the strategy, including the supporting management information. An HR "Tool Kit" of personnel information has been produced by the HR Business Partner Team for the Management Board to use to manage performance and monitor progress in achieving developmental targets.

#### 42. Learning and development:

Recognition of the importance we place on training and development scored 88% in the most recent Staff Opinion Survey demonstrating the fact that people recognise they were given access to the training and guidance required to do their jobs. A high positive score of 85% was also recorded to acknowledge that people are given access to opportunities to broaden their skills. Once again individuals took part in demanding developmental events such as Project Druidstone, or were involved with various charitable fundraising activities. These opportunities encourage and develop many transferable skills which can be directly applied to the workplace. Other staff are taking degrees through the Open University or taking a Master of Business Administration qualification. This is another indicator that our people are prepared to stretch themselves and are actively taking up opportunities to help achieve their own potential.

## Strategic Programme Division

43. The Cabinet Office review of personnel security, carried out in 2004, resulted in the setting up of a cross-government vetting e-transformation programme. DVA is leading the work to produce an IT enabled shared service approach to NSV. The aim is to move to a small number of accredited shared service providers. We are one of only two (currently) government NSV providers. Other organisations will retain the authority to decide who, and to what level, staff and contractors should be vetted, and retain final responsibility to grant, refuse or risk manage clearances. The role of the shared service will be to collect and collate all the vetting information and interface with information providers, and notify the employing organisation the outcome of the various checks. The purpose and drivers behind the e-transformation project cover;

- Automation, to reduce error rates, remove manual activities and increase the efficiency of business processes;
- The creation of a more flexible workflow, building towards a single vetting process, with additional processes and stages for various clearance types;
- Better integration with internal and external systems, with a strong linkage between the DVA and Cabinet Office Vetting Strategy and MOD HR systems;
- A system that will be scalable and flexible in order to cope with the emerging requirements of the Cabinet Office e-vetting strategy;
- Improvements in resilience and performance with faster turnaround times;
- The creation of a more accessible service with robust levels of security;
- An automated e-form is being trialled during 2008 to enable electronic submission of data to the DVA.
- Improving management information and better management of case work.

44. A major part of the programme will be the introduction of electronic security questionnaires, automated case management, more direct interfaces to information providers, and possibly a single database of clearances. We are the vetting organisation who will take forward the technical work and act as the "pilot" unit to trial the new processes and systems. Our staff and customers have been involved in the development work to identify the business requirements and functionality for the new system. Feedback was very positive as shown by the typical comments below:

*".....the e-form is a much faster and more efficient way to complete a security questionnaire"*

*".....it provides a more user friendly service, saving vital time in my busy schedule"*

*".....the business rules the DVA have included negates the requirement to complete fields that are not applicable to me, this is seen as a huge improvement"*

45. Reducing the number of NSV organisations should enable greater standardisation of clearances in terms of quality and timeliness and the e-forms we have trialled will become the cornerstone of vetting practice across government.

### Our impact on the wider community

46. **Environmental impact:** There have been no environmental incidents. Our Green Group have continued to meet and identify ways in which we can improve our contribution to environmental conservation. Further work is planned establishing Sustainable Development strategies for managing waste and energy. Regular newsletters have been published and there is widespread commitment to energy saving and identifying new recycling opportunities.

**47. Safety Health Environmental and Fire Audit (SHEF):** In February, the MOD's safety audit team reviewed the operation of SHEF in the organisation. The audit report confirmed that we operate a compliant controls system and have been awarded an overall score of 86%.

**48. Accidents:** In the last year there have been 12 accidents involving our people. The accidents were minor in nature.

**49. Community Relations:** We continued to deliver our Community Action Policy. Our people have been involved in a wide range of activities raising almost £2,000 for the St Leonard's Hospice in York. Individual staff initiatives raised another £500 for Children in Need and Sports Relief.

**50. Data Protection and Freedom of information:** We are very mindful that we collect and process sensitive personal information from everyone we vet, and of the need to ensure that this information is properly protected and only used for the purpose for which it was supplied. People who have been vetted by us have a right to ask our Data Protection Officer for details of the personal information we hold on them. This is an entitlement under the Act. In practice this means any personal information the individual provided to allow the vetting process to be completed, but not information provided to us by third parties. The table below shows the number of Subject Access and Freedom of Information requests received.

**2007-2008**

Data Protection	
Subject Access Requests	89
Freedom of Information requests	25

**51. Reporting of personal data related incidents:** No protected personal data related incidents, serious enough to be reported either centrally or to the Information Commissioner's Office, occurred last year. Records were not specifically kept to record incidents prior to 2007-2008. In spite of this, we are not aware of any such incidents. In the light of the Hannigan Review of data handling procedures in government, and an internal MOD audit of data retention, we are in the process of reviewing and re-publishing internal guidance and policies to cover the handling and retention of personal security records. We are also putting in place a reporting process to record any future incidents.

## Remuneration Report

### Remuneration policy

52. Our Management Board is made up of Civil Servants. The salaries of all members, including the Chief Executive, are set at national level. Our Chief Executive's pay package was set by the senior civil service salaries review body, while the salaries of the other members of the Board were set by negotiation between the MOD and Civil Service Trade Unions.

### Service Contracts

53. With the exception of our two non-executive directors, all members of our Management Board are MOD civilians and are appointed by civil service standard procedures. The officials covered by this report hold appointments which are open-ended until they reach their normal retiring age of 65. If we end contracts early, other than for misconduct, they would result in the individual receiving compensation as set out in the civil service compensation scheme. The remuneration (while a member of the Agency Management Board) and pension entitlements of the members of the Board during the financial year are shown below. The non-executive directors are appointed via open competition on fixed term contracts. The following tables have been subjected to audit.

## 2007 - 2008

	Remuneration Including Pay Performance (£000)	Real increase in Pension and related lump sum at age 60 (£000)	Total Pension at age 60 at 31/3/2008 (£000)	Cash Equivalent Transfer Value at 1/4/2007 (£000)	Cash Equivalent Transfer Value at 31/3/2008 (£000)	Real Increase in Cash Equivalent Transfer Value (£000)
Mrs J Ridley Chief Executive	75-80	0 – 2.5 plus 0–2.5 lump sum	30–35	571	670	16
Miss A Hulme Head of Vetting Operations (from 24 May 07)	40-45	2.5 – 5.0 plus 5-10 lump sum	15–20	220	323	50
Mr M Revell Head of Customer Relations & Marketing	45–50	0–2.5	10–15	169	204	9
Mr K Connar Head of Primary Clearance Division (to 24 May 07)	5-10	0–2.5 plus 0–2.5 lump sum	15–20	380	448	15
Mr M Wraight Head of Developed Clearance Division (to 24 May 07) Head of Policy, Plans and Quality	45-50	0–2.5 plus 0–2.5 lump sum	15–20	232	277	5
Mrs J Shaw Head of Primary and Developed Vetting (from 24 May 07)	35-40	0–2.5 plus 0–2.5 lump sum	0–2.5	2	0	7
Mrs J J Wheeler Head of Planning (to 20 Sept 07)	20–25	0–2.5 plus 0–2.5 lump sum	10-15	240	284	4
Mr M K Barley Head of Strategic Programme (from 20 Sept 07)	20-25	0–2.5 plus 0–2.5 lump sum	20–25	452	511	1
Mrs S J Farley Head of Resources	35-40	0–2.5 plus 0–2.5 lump sum	10–15	123	152	7
Mr M A Calaminus Head of Field Investigations Division (from 1 Apr 07 to 24 May 07) (from 28 Jan 08)	10–15	0–2.5 plus 0–2.5 lump sum	5–10	93	129	2
Mr W H Buckley Non Executive Director	5-10 (NED Fees) 0-5 (other Fees)					
Mr B Newton Non Executive Director	10-15 (NED Fees) 5-10 (other Fees)					

Note: Mr Newton received £12,785 during 2007- 08 for the performance of his duties as a Non-Executive Director. He was also paid £7,886 for other work done in the year in support of the Department not directly related to his non-Executive role. Mr Buckley received £8,400 during 2007-08 for the performance of his duties as a Non-Executive Director. He was also paid £3,000 for additional NED work in direct support of the DVA's e-transformation project.

## 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 31/3/2008 (£000)	Cash Equivalent Transfer Value at 1/4/2007 (£000)	Cash Equivalent Transfer Value at 31/3/2008 (£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 Connar Head of Primary Clearance Division (from 8 Jan 07)	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
Mr W H Buckley Non Executive Director	5-10					
Mr B Newton Non Executive Director	20-25					

**Salary:**

54. '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 that is taxed in the UK.

**Benefits in kind**

55. The monetary value of Benefits in Kind covers any benefits we provide and which are treated by HM Revenue and Customs as a taxable emolument. There were no benefits in kind provided during the year.

**Pension:**

56. 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 not funded, with the cost of benefits paid for with money voted by Parliament each year. Pensions paid under classic, premium and classic plus are increased each year in line with changes in the Retail Prices Index. People joining the schemes after October 2002 may choose between being a member of premium or joining a good-quality 'money purchase' stakeholder-based arrangement with a significant employer contribution (partnership pension account). The factors used to calculate the Cash Equivalent Transfer Value (CETV) for members of the PCSPS were revised for 2007/08 following advice from the Cabinet Office. The figures for 31 March 2007 have been recalculated using the new factors and this has led to changes to the figures published last year. Due to certain factors being incorrect in last year's CETV calculator there may be a slight difference between the final period CETV for 2006/07 and the start of period CETV for 2007/08.

57. Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium and classic plus. Benefits build up at the rate of 1/80 of pensionable salary for each year of service. They are also given a lump-sum equivalent to three years' pension when they retire. For premium, benefits build up at the rate of 1/60 of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum).

Classic plus is essentially a variation of premium, but with benefits for service before 1 October 2002 worked out in broadly the same way as for classic.

58. The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension chosen by the 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).

59. Columns 5 and 6 of the pensions table show the member's cash equivalent transfer value (CETV) built up 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.

60. A cash equivalent transfer value (CETV) is the capitalised value of the pension scheme benefits accrued by the member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to buy pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits from their former scheme. The pension figures shown relate to the benefits that the individual has built up as a result of their total membership of the pension scheme. The CETV figures, and from 2003-2004 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the civil service pension arrangements and for which the civil service vote has received

a transfer payment which equals the extra pension liabilities they are taking on. They also include any extra pension benefit built up by the member as a result of buying extra years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

74. Apart from the Head of Primary and Developed Vetting Division (Mrs Shaw) who chose the Premium Scheme, the Chief Executive and other members of the Agency Management Board chose to stay in the classic pension scheme.

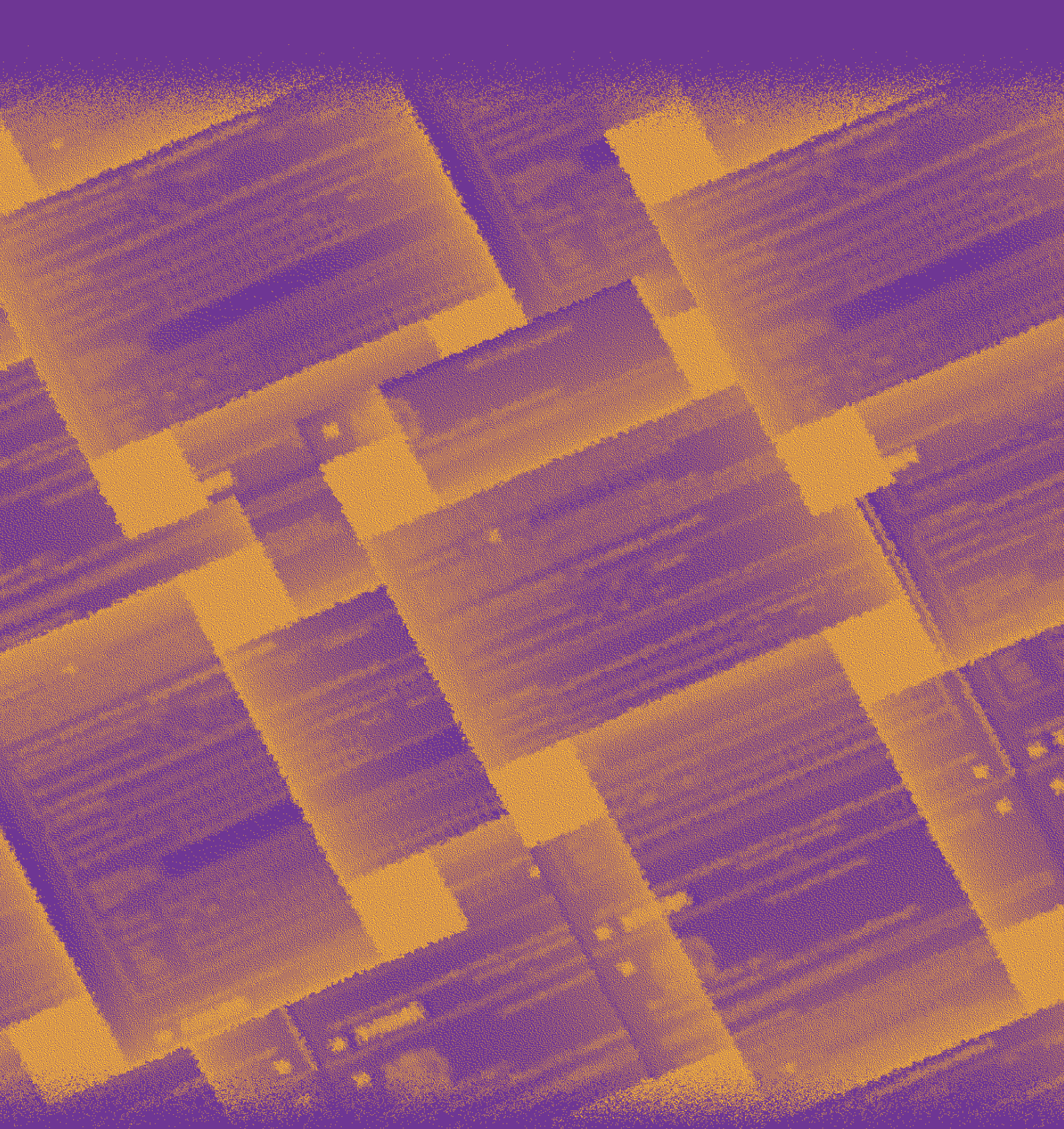
61. The members of the OAB receive no remuneration from us. The MOD pay the salaries and expenses for those members who are MOD staff.

62. Our non-executive directors sit on our Audit Committee and Strategic Management Board. They are paid £400 a day for each day they work on our behalf.



Jacky Ridley - Chief Executive  
7 July 2008





## The Accounts 2007 - 2008

## Foreword to the Accounts

1 These accounts relate to the ninth year for which we have had to produce full financial accounts. We have prepared the accounts in line with a direction given by the Treasury under Section 7(2) of the Government Resources and Accounts Act 2000.

### Background

2. The 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.

### Our main activity

4. Our main activity is to carry out security checks on individuals in the Armed Services, the MOD Civil Service, Other Government Departments and in the Defence Industry. The purpose of the checks is to provide a level of assurance as to how suitable those individuals are to hold security clearances or to be allowed access to military installations, to valuable assets and to classified information.

### Business Review

5. The agency was set key targets covering quality, timeliness and efficiency. You can find full details of these key targets, including comments and performance, in part 1 of this 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; and
- d. approving the Agency's annual budget.

7. The DVA Owner's Advisory Board (DVA OAB) is available to DG(S&S) to provide advice on the responsibilities outlined above. The members of the OAB during 2007-2008 are shown below.

### Chairman:

Mr R Rooks ..... DG S&S

### Members:

Brig R Barrons (to Feb 08) ..... ACOS Cts Land Command

Brig J Everand (from Feb 08) ..... D Commitments

Mrs Smith ..... DGCP HR Ops

Mr D Reynolds ..... D.Def Sy

### External Members:

Mr A Aston (to Feb 08) ..... Defence Industry Security Association

Mr G Gardiner (from Feb 08) ..... Defence Industry Security Association

Mr M Fuller ..... 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 paid for by the Department. The external board members receive no payment from the Agency.

### Agency Chief Executive

9. As the Chief Executive of the DVA I am responsible for all aspects of the day-to-day running of the agency. I answer to the Principal Accounting Officer of the MOD (the Permanent Under Secretary) for the propriety and regularity of the Agency's expenditure along with its prudent and economical administration. I was appointed as Chief Executive through civil service open competition recruitment. Civil service management code regulations will apply on termination of my appointment as the Chief Executive and other members of the Management Board.

## Foreword to the Accounts (continued)

### DVA Management Board

10. The main mechanism through which I as the Chief Executive, carry out my responsibilities is through the Agency's Management Board (AMB). This meets every month. The restructuring at senior-management level that began in 2006-2007 was completed this year. The members during 2007-2008 are shown below.

11. You can find details of the salaries and pension entitlements of the Chief Executive and other members of the Management Board in the Remuneration Report.

### Employment Policies

12 The Agency's policy is to employ and promote staff on the basis of individual merit and not to discriminate.

### Staff Involvement, Development and Training

13. The Agency keeps staff informed through individual and group briefings, personal letters and newsletters. The DVA Training and Development Plan reflects the Agency's training and development needs as well as those of the MOD. An induction programme is provided for all new people joining the Agency. The Agency is accredited with the Investors in People Standard.

### Policy on the Payment of Creditors

14. All the Agency's bills are paid through the Financial Management Shared Service Centre (FMSSC), which took over the responsibilities of the Defence Bills Agency. In the period 1 April 2007 to 31 March 2008, the FMSSC paid 99.76% of all correctly submitted bills within 11 calendar days, ensuring that the Department is in compliance with its statutory obligation under the Late Payment of Commercial Debts (Interest) Act 1998.

### Pension Arrangements

15. On 1 October 2002 new Civil Service pensions arrangements came into effect. From that date all new entrants to the Department have the option to join either the new defined benefits (DB) scheme, known as 'Premium' or to join the new defined contributions (DC) scheme known as the 'Partnership Pension Account'.

### Chairman:

Mrs J Ridley ..... Chief Executive

### Members:

Mrs A Hulme (from 24 May 2007) ..... Hd Vetting Ops

Mr K Connar (to 24 May 2007) ..... Hd PC Division

Mrs J Shaw (from 24 May 2007) ..... Hd Primary & Developed Vetting Division

Mr M Revell ..... Hd of Customer Relations and Marketing

Mr M Wraight ..... Hd DC Division ( to 24 May 07) Hd Policy Plans & Quality

Mr M A Calaminus (to 24 May 2007) ..... Hd FI Division

Mr M A Calaminus (from 28 Jan 2008)

Mrs J Wheeler (to 20 Sept 2007) ..... Hd of Planning

Mr M K Barley (from 20 Sept 2007) ..... Hd of Strategic Programme

Mrs S J Farley ..... Hd of Resources

16. Under the new arrangements, new people cannot join the current Principal Civil Service Pension Scheme (PCSPS), which has now been renamed the 'Classic' and has become a closed scheme. Existing members of the PCSPS can stay in classic, choose to transfer to premium or choose 'Classic Plus' where they will transfer to premium but only for their service after 1 October 2002.

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

### Auditors

18. The Accounts are audited by the Comptroller and Auditor General in line with Section 7(3) of the Government Resources and Accounts Act 2000. During the year the charges to the 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 steps to make myself aware of any relevant audit information and to make sure that the DVA's auditors are also aware of that information.

Jacky Ridley - Chief Executive  
7 July 2008

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

Under Section 5(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 11 December 2007. 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.

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## 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 Agency's Corporate Governance arrangements benefit from active involvement with a number of individuals and bodies who have the knowledge and expertise to aid me in properly discharging my role as Accounting Officer. The Agency Strategic and Management Boards both offer me assistance and advice and the National Audit Office and Directorate of Internal Audit both work together with members of the Agency Risk and Assurance Committee to provide support on audit matters, work plans and financial and risk items.

### 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 2008 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

### Capacity to Handle Risk

Risk management has been built into the corporate planning and programme management systems. The Agency fully recognises the principles for public risk management.

Executive managers within the Agency undertake development and maintenance of the system. In particular it includes:

- comprehensive budgeting systems with an annual budget which is agreed as part of MOD's resource allocation process;
- regular reviews by the Agency's Management Board of periodic and annual financial reports which indicate financial performance against the forecasts;
- setting targets to measure financial and other performance;
- clearly defined capital investment control guidelines;
- formal project management disciplines.
- Regular reviews of the Agency's Key risks and actions being taken to minimise the effects of these risks.

### The Risk and Control Framework

The following governance processes were established during 2007/8:

- Additional audits were provided by the DIA following recommendations by the Audit and Risk Assurance Committee.
- 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.
- The Agency's central record of all audits carried out by the Directorate of Internal Audit on the Agency was updated in year. All recommendations together with any management action taken were reviewed and updated on a quarterly basis.

The Agency has in place a management risk register which is reviewed by the Agency Strategic and Management Boards together with the Audit and Risk Assurance Committee on a regular basis.

This provides the Agency with the ability to identify new or emerging risks and, where possible, agree and put in place risk mitigation actions.

### Review of Effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the executive managers within the Agency who have responsibility for the development and maintenance of the internal control framework, the stewardship statements and advice received from the Agency's 2 Non-Executive Directors 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.

The Corporate Governance post was vacant during much of the financial year. The risk was managed with no detriment to the business.

Last year the Agency undertook a full review of its future strategy and structure. This restructuring was fully implemented during the current Financial Year and the anticipated overhaul of the Agency Management Board has now been completed. The revised structure is now 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 2007-2008 financial year. The audits covered the Agency's Key Targets (no adverse comments received), Programme and project management and Data Protection. The areas within the Programme and Project Management and Data Protection Audits that warranted comment and a management action plan, are all currently being addressed. This work will also include a review of internal guidance and policies to cover the handling and retention of personal security records.



Jacky Ridley - Chief Executive  
7 July 2008

# 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 2008 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 Officer, 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 includes the Management Commentary, and including the part of the Remuneration Report not subject to audit, 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. This other information includes the Management Commentary and the part of the Remuneration Report not subject to audit. 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 opinions

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 2008, 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

certain information given in the Annual Report, which includes the Management Commentary and the part of the Remuneration Report not subject to audit, is consistent with the financial statements.

## 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.

T J Burr  
Comptroller and Auditor General  
National Audit Office  
151 Buckingham Palace Road  
Victoria London  
SW1W 9SS

14 July 2008

## The Accounts

### Operating Cost Statement for the Year Ended 31 March 2008

	Note	2007/08	2006/07
		£000	£000
OPERATING COSTS			
Staff Costs	2	10,992	9,789
Supplies and Services Consumed	3	2,415	1,728
Accommodation Costs	4	525	307
Other Administration Costs	5	1,586	1,248
GROSS OPERATING COSTS		15,518	13,072
OPERATING INCOME			
Less income from repayment customers	6	2,521	1,507
OTHER INCOME			
		0	0
NET OPERATING COST		12,997	11,565

All activities undertaken during the year are continuing.

### Statement of Recognised Gains and Losses for the year ended 31 March 2008

	Note	2007/08	2006/07
		£000	£000
Net Gain on revaluation of tangible fixed assets.	12	1	2
Recognised gains & losses since last annual report		1	2

The notes on pages 32 to 39 form part of these Accounts.

## Balance Sheet As at 31 March 2008

	Note	31 March		31 March	
		2008		2007	
		£000	£000	£000	£000
<b>FIXED ASSETS</b>					
Tangible Assets	7		303		393
<b>CURRENT ASSETS</b>					
Debtors and Prepayments	8	723		494	
<b>CURRENT LIABILITIES</b>					
Creditors due within one year	9	(294)		(490)	
<b>NET CURRENT ASSETS</b>			429		4
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			732		397
<b>Taxpayers' equity</b>					
General Fund	10		722		388
Revaluation Reserve	12		10		9
			732		397

*Jacky Ridley*

Jacky Ridley - Chief Executive  
7 July 2008

## Cash Flow Statement for the year ended 31 March 2008

	Note	2007/08	2006/07
		£000	£000
NET cash outflow from operating activities	13	11,659	10,174
Capital Expenditure:			
Payments to acquire tangible fixed assets	7	78	---
<b>NET CASH OUTFLOW BEFORE FINANCING</b>		11,737	10,174
Financing:			
Payments on Defence Resource Account		14,258	11,681
Receipts on Defence Resource Account	6	(2,521)	(1,507)
<b>NET financing from defence resource account</b>		11,737	10,174
<b>INCREASE/(DECREASE) IN CASH</b>		0	0

The notes on pages 32 to 39 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 11 December 2007. 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 includes the 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 2006 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.

### g) 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.

### h) 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:

i) 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

### j) 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.

### k) Stocks

The Agency does not hold significant stocks.

### l) 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.

## Notes to the Accounts (continued)

### m) 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.

The PCSPS is an unfunded multi-employer defined benefit scheme but the Defence Vetting Agency is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2007 and details can be found in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)). For 2007-2008, employer's contributions of £1,562,950 were payable to the PCSPS (2006-

2007, £1,352,490) at rates in the range 17.1 to 26.5 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.

### n) Taxation and Social Security Liabilities

As the Ministry of Defence charges the Agency during the year with the gross payments, inclusive of PAYE and National Insurance contributions, due to Agency employees, the Department is liable for the payment of any liabilities which may be due to HM Revenue and Customs or Department for Works and Pensions at the 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:

	2007/08	2006/07
	£000	£000
Salaries, Wages and Allowances	8,653	7,531
Social Security Costs (ERNIC)	629	540
Other Pension Costs	1,563	1,352
Cost of Employing Agency Staff	147	366
	<hr/> 10,992	<hr/> 9,789

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

	2007/08	2006/07
Senior Management	9	6
Executive Grades	74	68
Administrative Grades	152	135
Specialist Investigating Grades	138	124
Agency Staff	13	24
	<hr/> 386	<hr/> 357

## Notes to the Accounts (continued)

### 3. Supplies and Services Consumed

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

	2007/08	2006/07
	£000	£000
Support Services	614	588
Contract/Consultant Staff	901	274
IT Maintenance and Software	900	866
	<hr/>	<hr/>
	2,415	1,728

Supplies and Services consumed include £1,088k of Notional Costs.

### 4. Accommodation and Associated Costs

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

	2007/08	2006/07
	£000	£000
Contribution in lieu of rates	31	61
Utilities	72	70
Telecommunications	194	110
Works and Maintenance	228	66
	<hr/>	<hr/>
	525	307

Accommodation and Associated Costs include £178k of Notional Costs.

### 5. Other Administration Costs

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

	2007/08	2006/07
	£000	£000
Travel and Subsistence	802	597
Office Running Costs	164	145
Legal Fees	42	---
Training	58	42
Services provided by MOD	277	270
Depreciation	123	65
Write off of USAF Debtor	22	---
Write Down on Fixed assets	46	69
Foreign currency stabiliser	1	2
Audit Fee	38	38
Cost of Capital Charge	13	20
	<hr/>	<hr/>
	1,586	1,248

Other Administration costs include £328k of Notional Costs. No remuneration was paid to the auditors in respect of non audit work. Legal Fees relate to a tribunal case that was raised against the MOD. The MOD was successful in its defence of this case.

## Notes to the Accounts (continued)

### 6. Operating Income

The sources of operating income for the year were:

	2007/08	2006/07
	£000	£000
Repayment for Services provided to Other Government Departments	2,192	1,190
Repayment for Services provided to Commercial Organisations	273	250
Repayment for Services provided to Overseas Governments	56	67
	<b>2,521</b>	<b>1,507</b>

Rates charged to repayment customers for Vetting Services are based on the requirement to recover the full cost to the Agency of providing such services. As the above table shows income of £2.521M was received in Financial Year 2007/08 with no surplus/deficit being incurred by the DVA.

The Financial Objective was therefore achieved.

### 7. Tangible Fixed Assets

	P & M	IT&Comms	Assets Under Construction	Total
Cost/Valuation	£000	£000	£000	£000
At 1 April 2007	124	998	----	1,122
Additions	----	----	78	78
Revaluations	3	(46)	----	(43)
Disposals	----	----	----	----
At 31 March 2008	127	952	78	1,157
<b>Depreciation</b>				
At 1 April 2007	45	684	----	729
In Year Charge (Including backlog)	9	116	----	125
Disposals	----	----	----	----
At 31 March 2007	54	800	----	854
<b>NET BOOK VALUE</b>				
At 31 March 2008	73	152	78	303
At 31 March 2007	79	314	----	393

The £ 46,000 (2006-07: £69,000) adjustment arising from the downwards revaluation of IT assets in 2007-2008 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 2008	31 March 2007
	£000	£000
Balances with Other Government Departments	205	87
Balances with Local Authorities	68	128
Balances with National Health Trusts	----	----
Other Trade Debtors and Accrued Income	423	262
Prepayments	27	17
	<hr/> 723	<hr/> 494

There were no debtors falling due after more than one year. Services to the value of £2,050 will be received within the next 15 months and are included as part of the prepayment figure.

### 9. Creditors

Amounts falling due within one year

	31 March 2008	31 March 2007
	£000	£000
Other Trade Creditors	70	104
Accruals	224	386
	<hr/> 294	<hr/> 490

No balances were held with Other Government Departments, Local Authorities or National Health Trusts.

### 10. General Fund Reconciliation

	Note	2007-08 £000
General Fund: Opening balance 1 April 2007		388
Financing from the Defence Resource Account		11,737
Notional Items	11	1,594
Less:		
Net Operating Costs		(12,997)
Net decrease in General Fund		<hr/> 334
General Fund: Closing balance 31 March 2008		722

## 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:

	Note	2007/08	2006/07
		£000	£000
Notional Costs:			
Staff Costs		----	----
<hr/>			
		----	----
Supplies and Services consumed -			
IT Maintenance & Software	3	621	460
Higher Formation Costs	3	467	421
		<hr/>	<hr/>
		1,088	881
Accommodation and Associated Costs -			
Works and Maintenance	4	178	----
		<hr/>	<hr/>
		178	----
Other Administration Costs -			
Training	5	----	----
Services provided by MOD	5	277	270
Audit Fee	5	38	38
Cost of Capital Charge	5	13	20
		<hr/>	<hr/>
		328	328
<b>Total Notional Costs</b>		<hr/>	<hr/>
		1,594	1,209
Other non-cash costs			
Other administration costs -			
Depreciation	5	123	65
Write down of fixed assets	5	46	69
		<hr/>	<hr/>
		169	134
		<hr/>	<hr/>

## Notes to the Accounts (continued)

### 12. Reserves - Revaluation Reserve

	Note	2006/07
		£000
Balance as at 1 April 2007		9
Arising from positive revaluation during the year	7	1
<b>Balance as at 31 March 2008</b>		<b>10</b>

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	2007/08	2006/07
		£000	£000
<b>NET OPERATING COST</b>		<b>12,997</b>	<b>11,565</b>
Adjustments for notional and non-cash transactions:			
Depreciation	11	(123)	(65)
Impairment of fixed assets	11	(46)	(69)
Notional costs included in:			
Supplies and Services Consumed	11	(1,088)	(881)
Accommodation and associated costs	11	(178)	
Other Administration Costs	11	(328)	(328)
Movements in net current assets:			
Increase/(Decrease) in debtors and prepayments	8	229	172
(Increase)/Decrease in creditors	9	196	(220)
<b>NET CASH OUTFLOW FROM OPERATING ACTIVITIES</b>		<b>11,659</b>	<b>10,174</b>

## 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 2007 to 31 March 2008 the Defence Vetting Agency has had significant material transactions with the Ministry of Defence. In addition the Agency has had a number of transactions with other Government Departments (principally the Home Office, National Criminal Intelligence Service, Cabinet Office, Department for Business, Enterprise and Regulatory Reform (formerly Department of Trade and Industry) and HM Revenue and Customs). During the year none of the senior staff and other key management staff, or other related parties, has undertaken any material transactions with the Defence Vetting Agency.

### 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 statements 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 2008.

### 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 2008.









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