
Serious Fraud Office

Annual Report and Accounts
2016-17

Serious Fraud Office

Annual Report and Accounts
2016-17
(For the year ended 31 March 2017)

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

Annual Report presented to Parliament pursuant to Section 1(15) and Paragraph 3
of Schedule 1 to the Criminal Justice Act 1987

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Performance Report

Statement from the Director

I present the Annual Report for the Serious Fraud Office for the reporting year 2016-17.

The Serious Fraud Office (SFO) has remained sharply focussed on reducing the harm caused by high level economic crime and preserving the reputation of the UK as a safe place to do business. The complexity and gravity of the cases we investigate and prosecute call for a multi-disciplinary approach where investigators, lawyers, forensic accountants, IT experts and others work together as a dedicated team.

I have opened 12 new criminal investigations this year, just under half of which resulted from the proactive work of our own intelligence unit. These investigations relate to a broad range of suspected criminal activity, from an alleged fraudulent investment scheme marketed by Ethical Forestry Limited and others which directly targeted UK pension holders, to allegations of bribery and corruption concerning companies such as Airbus Group, Unaoil and ABB Ltd.

We have made significant progress in our investigations, with charges brought against 25 companies and individuals in eight cases. Among these were seven individuals and the company F.H. Bertling Ltd who were charged with making corrupt payments to an agent of the Angolan state oil company Sonangol, as well as David Ames, Chairman of the Harlequin Group, who was charged with three counts of fraud by abuse of position. Our investigation into the sale of solar panels to customers of Solar Energy Savings Ltd resulted in charges being brought against five individuals for conspiracy to commit fraud.

The complexity of the cases we investigate is reflected by the volume of material that we process: more than two million documents on average each month. Working with a technology partner, we have developed an artificial intelligence data processing tool, or robot, to significantly enhance our efficiency in the review of this material and deliver greater value for money.

Following our success in using the newly available power of a Deferred Prosecution Agreement (DPA) with Standard Bank last year, we have secured two further DPA's this year. The first was with a UK SME that cannot currently be named due to continuing legal proceedings. It was alleged that the company was involved in conspiracies to corrupt and to bribe contrary to the Criminal Law Act 1977 and that it failed to prevent bribery, all in connection with contracts to supply its products to customers in a number of foreign jurisdictions. The company will pay financial orders of £6.6m as a result of the agreement and will cooperate fully with us to report on the effectiveness of its anti-bribery and corruption controls every 12 months for the duration of the agreement.

Our second DPA this year was with Rolls-Royce PLC, which stood accused of 12 counts of conspiracy to corrupt, false accounting and failure to prevent bribery. Our investigation was wide-ranging, relating to the conduct of its businesses over a period of three decades across seven jurisdictions. The terms of the DPA were that Rolls-Royce PLC would pay a total penalty of £497.3 million, as well as the SFO's costs.

We continue to invest in recovering the proceeds of crime and obtained financial orders, including standalone compensation orders, totalling £25.3m, with payments received totalling £20.1m.

Given the relatively small number of trials that we bring each year, our conviction rate can vary significantly. This year 13 defendants were convicted in seven cases, giving a conviction rate by defendant of 87% and by case of 100%. In delivering value for money, our outcomes this year have enabled us to achieve a positive net financial impact of £325m over the four years covering 2013-14 to 2016-17.

In March 2017, the Organisation for Economic Cooperation and Development (OECD) published its 'Phase 4 Report' into the UK's progress in implementing its Convention, to which the UK is a signatory. This was a significant report from an independent and respected organisation which singled out the SFO for praise for its contribution to combatting foreign bribery.

This year I have made a number of improvements to our governance arrangements, aided by the helpful report from HMCPs Inspectorate. We now have a smaller, more strategic Board, an Executive Group to oversee operational activity, a new Chief Operating Officer, and fewer casework divisions undertaking a broader range of work.

Our Engagement Index rating in the Civil Service People Survey has increased to 67%. This is 7% better than the civil service average and 3% better than the civil service high performers.

2016-17 has been another successful year for the SFO, with a number of long-running investigations reaching positive resolution. We remain uniquely well-placed to investigate and prosecute the top-tier of serious and complex economic crime and our operating model underpins our success.

David Green CB QC
Director
Serious Fraud Office

12 July 2017

Statement of purpose and activities

The Serious Fraud Office (SFO) is a small independent non-ministerial Government department under the superintendence of the Attorney General. It was established by the Criminal Justice Act (CJA) 1987 and commenced operations in 1988. It is part of the UK criminal justice system covering England, Wales and Northern Ireland, but not Scotland, the Isle of Man or the Channel Islands.

The SFO's purpose is to investigate and, where appropriate, prosecute cases of serious or complex fraud, bribery and corruption. In addition, the SFO recovers the proceeds of those crimes it investigates and assists overseas jurisdictions in their investigations into serious or complex fraud, bribery and corruption.

The SFO has unique powers under section 2 of the Criminal Justice Act 1987 to require attendance at interview or the production of information or, in certain circumstances, to apply for a warrant to enter and search premises to take possession of information. The SFO has multi-disciplinary case teams of lawyers, investigators, forensic accountants, external counsel and other experts, led by a case controller. This joint investigatory prosecutorial case-team structure is known as the 'Roskill' model.

The SFO will investigate those cases which call for the legal powers and multi-disciplinary approach available to the SFO. In considering whether to take on an investigation, the Director applies a Statement of Principle, which includes consideration of:

- whether the apparent criminality undermines UK PLC's commercial or financial interests in general and the City of London in particular;
- whether the actual or potential financial loss involved is high;
- whether actual or potential economic harm is significant;
- whether there is a significant public interest element; and
- whether there is a new type of fraud.

To support this, the SFO has five strategic objectives:

- investigate and, if appropriate, prosecute serious or complex fraud, bribery and corruption cases fairly and effectively;
- recover the proceeds of serious or complex fraud fairly and effectively;
- develop, and strengthen, constructive relationships with partners both in the UK and internationally;
- build an effective workforce, treating our staff fairly and with respect and dignity; and,
- provide value for money in everything we do.

The values of the SFO are:

- Integrity and professionalism: we make objective decisions whilst always mindful of quality and value for money;
- Openness and transparency: we share information with each other and, where appropriate, others; explaining our decisions and learning from our mistakes;
- Respect: we show respect to one another, to our external colleagues and to the wider public; and,
- Excellence: we strive for excellence in all that we do.

The SFO's strategic risks at 31 March 2017 were:

- data loss leading to reputational damage and distress to individuals or other entities;
- cyber-attack leading to data loss or compromising of investigations;
- the undermining of cases by internal and external threat actors;
- poor information management leading to a lack of compliance with legislation and ineffective management of cases;
- failure to implement the European Investigation Order correctly and a loss of access to EU measures and tools arising from Brexit leading to an adverse effect on investigations and prosecutions;

- insufficient business continuity planning leading to a lack of adequate facilities in the event of an incident; and,
- insufficient resources leading to an adverse effect on operational and business delivery.

Further information on how risks are managed and mitigated can be found within the Governance Statement.

Going concern basis

In common with other government departments, the future financing of the SFO's liabilities is met by future grants of supply and the application of future income, both of which are to be approved by Parliament each year. The 2015 Spending Review confirmed the SFO's budgetary limits through to 2019-20 and in consequence there is no reason to believe that future approvals will not be forthcoming. It was therefore appropriate to prepare these financial statements on a going concern basis.

Performance Overview

This year, we have achieved excellent results in our casework. 13 defendants were convicted in seven cases, giving conviction rates by defendant of 86.7% and by case of 100%.

Our use of the newly available power of a Deferred Prosecution Agreement (DPA) has enabled us to build on the initial success of 2015-16. We secured two further DPAs in 2016-17 with a UK SME (that cannot currently be named due to continuing legal proceedings) and with Rolls-Royce. Overall, the financial recoveries we made in our cases, including proceeds of crime work and costs, amounted to £544.7m

Almost all of the SFO's cases have an international dimension that calls for close cooperation with overseas law enforcement agencies, prosecutors and regulators in order to secure the evidence required to investigate and prosecute those cases successfully. The SFO also received 48 requests from overseas partners for mutual legal assistance during the year. The SFO has accordingly invested substantially in deepening our understanding of, and relationships with, partners in key jurisdictions.

Performance Analysis

Our Casework

We opened 12 new criminal investigations during the year, raising the number of active investigations to around 70. 25 defendants were charged, and 16 prosecutions had either concluded or were in progress by the end of the year. Three investigations were concluded without charge. At the end of the year, 33 defendants were awaiting trial.

13 defendants out of 15 were convicted during the year, resulting in conviction rates of 86.7% by defendant and 100% by case. Over the past four years (2013-17), the average conviction rates are 70.3% by defendant and 82.6% by case. Due to the SFO's casework profile (small numbers of large cases, which typically take years to come to trial), these rates are subject to significant fluctuation. We continue to take on the most difficult top-tier cases of fraud, bribery and corruption.

The Intelligence Unit (IU) receives information and intelligence from a variety of sources. Primary referrers include law enforcement agencies, regulators, other UK authorities, whistleblowers and self-reports from corporate bodies. Almost half of the 12 new criminal investigations opened during the year resulted from the proactive work of the IU.

Of the two DPAs secured in 2016-17, the first was with a UK SME that cannot currently be named due to continuing legal proceedings. It was alleged that the company was involved in conspiracies to corrupt and to bribe contrary to the Criminal Law Act 1977 and that it failed to prevent bribery, all in connection with contracts to supply its products to customers in a number of foreign jurisdictions. The company will pay financial orders of £6.6m as a result of the agreement and will cooperate fully with

us to report on the effectiveness of its anti-bribery and corruption controls every 12 months for the duration of the agreement.

The second DPA this year was with Rolls-Royce PLC, which stood accused of 12 counts of conspiracy to corrupt, false accounting and failure to prevent bribery. Our investigation was broad ranging, relating to the conduct of its businesses over a period of three decades across seven jurisdictions. The terms of the DPA were that Rolls-Royce PLC would pay financial orders of £497.3 million, as well as the SFO's costs.

Proceeds of Crime Orders obtained by the SFO

The SFO continues to recover the proceeds of crime mainly using the powers in the Proceeds of Crime Act 2002. The specialist Proceeds of Crime Division also investigates and prosecutes cases where money laundering is alleged to have taken place. In addition, the Division provides assistance to overseas authorities by freezing and confiscating assets in the UK. During the reporting year enforcement proceedings were underway against 39 individuals or companies.

This year, we have obtained 12 confiscation orders with a combined value of £25.3m and eight restraint orders. We recovered £9.1m by enforcing confiscation orders previously obtained. We revisited one confiscation order and obtained an uplift.

Casework quality

The Case Evaluation Board (CEB), coupled with Case Review Panels (CRP), form the main elements of a robust quality assurance process.

The CEB enables the Director to make an informed decision based on its recommendation to initiate or decline an investigation. It meets periodically, depending upon the intelligence pipeline, and reports to the Director. Core members are the General Counsel, Chief Investigator and an appropriate member of the Intelligence Unit.

Specifically, the CEB:

- evaluates and challenges intelligence submissions against the SFO's Statement of Principle (which governs the basis upon which decisions are made as to which cases should be adopted for investigation);
- assesses strategic and tactical risk, cost and resource implications; and, where appropriate,
- considers potential cases in the context of the Government's strategic approach to economic crime.

The CRP meets several times a month and reports to the Director. The Panel comprises the General Counsel, the Chief Investigator, the relevant Head of Division and appropriate members of the relevant case team. The Director also attends at his discretion.

The CRP ensures that a level of appropriate scrutiny and challenge is given to every case by reviewing:

- case progress against case strategy;
- casework risks together with plans to mitigate them; and,
- value for money issues.

The frequency of CRPs for each case is informed by a programme which captures target dates for key milestones, case progress, agreed actions and the level of risk associated with the case.

The SFO continues to measure its performance by demonstrating organisational learning at different levels throughout the operational and non-operational divisions. By sharing lessons learnt at different phases of the case life cycle, the SFO is able to ensure this informs the training strategy. The SFO's Operational Handbook also provides the vehicle to ensure that we operate consistently and follow best practice.

Stakeholder engagement and Contributions to cross-Whitehall policy development

The SFO has well-developed and constructive working relationships with its partners in the UK and overseas at both strategic and operational levels.

Over the last year, we have continued to strengthen these relationships, seeking out opportunities for closer collaboration and to enhance our already strong international reputation. We have played an integral role, with other criminal justice and law enforcement partners, in preparations for the UK's exit from Europe, to understand and mitigate the impact on security and justice affairs, and provide evidence and data to inform the UK's negotiating position in these areas. The SFO has also contributed to the development of policy in respect of the proposed UK-US Data Sharing Agreements and the cross-government draft Anti-Corruption Strategy which will set out the UK's long-term vision for tackling corruption.

The SFO played an active role in the UK Anti-Corruption Summit in May 2016, developing policy proposals for key commitments. In particular, the SFO led on work with the Department for International Development (DFID), the National Crime Agency (NCA) and the Crown Prosecution Service (CPS) to ensure that, in appropriate cases, overseas victims who have suffered the consequences of corruption benefit from enforcement action in the UK, and that redress is made safely, fairly and transparently. In line with this commitment, the SFO has returned just over US\$7m to [the Government of the United Republic of] Tanzania as part of the Deferred Prosecution Agreement with Standard Bank. Additionally, following the conviction of Smith and Ouzman Ltd, £345k was returned to [the Government of] Kenya, where the money was used to purchase ambulances.

The SFO continues to play its full part in the Government's response to serious, organised crime and the strategic governance structures that oversee that effort. Relations with UK law enforcement and regulatory partners are enhanced through our contributions to various cross-government threat, delivery and working groups, regular bilateral liaison meetings (at senior and operational level) and underpinned by Memoranda of Understanding or operational protocols where necessary.

In July 2016, the SFO joined other law enforcement partners (NCA, Financial Conduct Authority and HMRC) to establish the Joint Financial Analytical Centre (JFAC), as part of the Panama Papers Taskforce. JFAC brings together officers, analytical capability, skills and intelligence from the four agencies in a collaborative and innovative working environment to analyse and assess the Panama papers data and identify potential criminality. Our commitment to joint working has directly benefited a number of active SFO investigations as well as those of partner agencies.

At the end of the 2015-16, the SFO secured funding to host a regional meeting of the European Judicial Network (EJN) – an informal network of contact points – judges, prosecutors and other competent authorities in the EU Member States with specific responsibilities for international cooperation in criminal matters. In October 2016, prosecutors from the SFO welcomed counterparts and specialist prosecutors from the CPS, Spain, Portugal, Austria, Sweden, Scotland and Guernsey to a two-day conference to discuss jurisdictional differences, and share best practice and their experience in cooperation in prosecuting complex economic crime.

In March 2017, the SFO jointly hosted, with the City of London Police, the 5th annual meeting of the Economic Crime Agencies Network. This network brings together economic crime agencies from around the world including Australia, Hong Kong, Indonesia, Malaysia, New Zealand and the USA for the exchange of knowledge and experience. The event was hosted over two days and included presentations on developments in tackling economic crime with case studies and plenary discussions.

Also in March 2017, the Organisation for Economic Co-operation and Development (OECD) Working Group on Bribery completed its 'Phase 4' evaluation on the UK's implementation of the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. The SFO worked closely with the Cabinet Office Joint Anti-Corruption Unit to present the evaluation. The OECD report concluded that foreign bribery enforcement in the UK had increased significantly since 2012 "notably thanks to the pragmatic and effective approach taken by the Serious Fraud Office (SFO) to investigate and resolve foreign bribery cases" and that "the Roskill model, with its multi-disciplinary approach and the

broad legislative powers it entails, is highly effective in effectively tackling complex fraud cases, including foreign bribery”.

Several bills containing provisions of relevance to the SFO passed through Parliament during the year, notably the Investigatory Powers Bill, the Policing and Crime Bill and the Criminal Finances Bill. We worked closely with the Home Office and other partners as the draft legislation was formulated and then scrutinised by Parliament. We also collaborated across Government and with other agencies on work to implement new provisions on pre-charge police bail and the EU Directive concerning European Investigation Orders and managing their impact on the work of the SFO. We provided a detailed submission to the Ministry of Justice in response to their call for evidence on changing the law on corporate criminal liability and invited the Law Commission to include this and other topics of SFO interest in their 13th Programme of Law Reform.

Digital and technological capability

The SFO continues to invest in its critical technology infrastructure and capability, to ensure that its operational divisions have the tools they need to investigate and prosecute cases efficiently and effectively.

The volume of data that is seized and processed in the course of our investigations continues to grow, and the majority of it (95%) is electronic. Continuing investment in our Digital Forensic Unit is essential, in terms of both people and technology, to ensure that we can process the broad range of devices we acquire, and then extract and present the most relevant evidential material to our case teams.

This data is then ingested into our eDiscovery platform, which is the system used by our operational divisions to review evidence electronically. Although we archive cases when we are able to, the volume of data stored in this system is continually increasing. Our largest case to date contains 30 million documents, while another in the pipeline has over 100 million documents.

Due to this exponential increase in data, we have looked to technology to create efficiencies and help the SFO deliver better value for money. Working with our key technology partner, RAVN, we have created a robot to assist with the review process, in particular to classify and quarantine material that is potentially covered by legal professional privilege, and to determine relevance. Using this robot, which is based on artificial intelligence and machine learning techniques, we have been able to drastically reduce our reliance on independent counsel for the purposes of LPP review, which led to savings of 80% on one aspect of the Rolls-Royce case.

A project is underway to replace the SFO’s current eDiscovery platform, and this will be launched in the first half of 2017-18. Given the complexity and volume of data on the current platform and the timetable of existing cases, it is expected that the migration could take up to a year, but cases which begin in the summer of 2017 will be on the new system from the outset. This new platform will make better use of the newer technologies already described, and the algorithmic approach of Technology Assisted Review will form a key part of the SFO’s cases in the future. This will facilitate a more targeted and intelligent approach to our investigations, which should ultimately reduce the time it takes to bring cases to trial.

Following the recent appointment of a Head of Knowledge and Information Management, the SFO has developed an Information Management Strategy and a programme of work to implement it. This programme includes a range of projects designed to ensure we make the best use of our data and systems and create efficiencies by improving internal processes. It will also ensure that we are compliant with the Public Records Act, the General Data Protection Regulation (GDPR), and other relevant legislation, and will help to demonstrate how we provide value for money in everything that we do.

Our People

The SFO strives to be an employer of choice with effective, highly skilled, capable and motivated employees. Our approach to building and maintaining an effective workforce, and treating our people fairly and with respect and dignity, is measured to an extent through our participation in the Civil Service People Survey. We have continued to improve year-on-year since 2012-13. In 2016, our engagement score was 67%, compared to 65% in 2015, with encouraging upward trends in many areas.

All civil servants are entitled to five days of learning and development each year. During 2016-17, the SFO delivered 2,711 days of core training which equates to 6.7 days on average per person. We have additionally supported employees to attend a range of external training courses.

As part of our commitment to developing our people, we:

- continued to develop investigative skills by working alongside the College of Policing in delivering an Investigation Training Programme that reflects authorised professional practice;
- developed Tier 3 and Tier 5 interview training to establish a cadre of specialist interviewers to support teams on PACE interviews;
- continued to offer a sandwich placement programme for digital forensics students;
- continued to encourage staff in their personal development through the provision of support for both professional qualifications and further education where it relates to the business needs of the SFO; and
- provided a programme of leadership and management training for all Band C and Band D staff.

We have a formal consultation framework with three recognised Trade Unions; the First Division Association (FDA), Prospect and the Public and Commercial Services Union (PCS).

A total of 15 staff across all grades from Band D to SCS1 took voluntary exit in 2016-17. The costs of these exits are disclosed within the remuneration section of the Accountability Report.

The 2016-17 pay award was delivered on the basis of a performance matrix enabling top performing staff to move up the pay bands more quickly than other colleagues. It also introduced a new, non-pensionable, allowance for accredited financial investigators.

HR Policies

The SFO HR team undertook a complete review of all people management policies during the year, ensuring policies were fully compliant with current legislation as well as being more user-friendly to managers and staff across the business.

Shared Services

The SFO and the CPS have agreed to put in place a shared service arrangement by transferring one full-time procurement post from the SFO to the CPS in September 2017. The CPS will then assist the SFO with the procurement of lower value contracts, publication of contracts over £10k, and the transfer of the SFO's existing contract database to the current contract database supplier for the CPS.

In the spirit of greater collaboration with the Law Officers' departments, the SFO completed the successful transfer of its payroll provision to a service delivered through the CPS Pay and Benefits team.

Financial Performance

The SFO's Resource DEL outturn for the year totals £51.8m against a voted limit of £53.6m, an underspend of £1.8m. Capital DEL was underspent by £1.1m while AME was underspent by £3.1m.

Expenditure within ring fenced depreciation was £1.2m lower than the estimate while non-ring fenced DEL outturn was £600k or just over 1% of non-ring fenced expenditure.

Due to its unpredictable nature it is very difficult to estimate spend within AME and in this instance the underspend is wholly related to the lack of new provisions in year and the clearance of provisions set aside in previous years.

Capital DEL for 2016-17 was £5.0m for investment in a refresh of IT kit and equipment and a replacement for the current digital review system in use at the SFO. The £1.1m underspend is due to deferment of the procurement of a document management system to 2017-18 and along with economies achieved in the procurement of the replacement for the existing digital review system.

The 2015 Spending Review set the SFO's financing requirements through to 2019-20 and renewed the principle that access to Reserve funding will continue to be a part of the SFO's settlement. This additional financing will continue to be agreed with HM Treasury on a case by case and year by year basis.

The increase in Resource DEL funding from the £35.7m agreed at the 2015 Spending Review to £53.6m for the year was a result of the additional Reserve financing available to the SFO to support the work of the SFO as agreed with HM Treasury. During the year the SFO called on a Contingencies Fund Advance of £5.5m which was repaid following publication of the 2017 Supplementary Estimate.

Sustainability

The SFO is committed to government policy to improve sustainability and is working towards meeting the Greening Government Commitment (GGC) targets which started on 1 April 2011 with a baseline period of 2009-10. Information on SFO progress can be found at Annex A.

DAVID GREEN CB QC
Accounting Officer

12 July 2017

Accountability Report

Corporate governance

Directors' report

Directors

The Governance Statement on page 12 includes the name of the Director and the composition of the SFO Board, including the former Management Board.

Register of interests

Senior managers within the SFO, including the non-executive directors, are required to complete a declaration of any interests. No significant company directorships or other interests were held by Board members which may have conflicted with their responsibilities. Note 14 to the accounts confirms that no member of the Board, including non-executive directors, has any related-party interests.

Personal data related incidents

In 2016-17 there were no protected personal data related incidents reported to the Information Commissioner's Office (ICO). There were seventeen minor (non-reportable) data related incidents recorded.

Auditors

The Serious Fraud Office's Accounts are audited by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General. No further assurance or other advisory services were provided by the auditors.

Remuneration to auditors for non-audit work

The SFO did not pay any remuneration to its auditors for non-audit work. The notional fee for the audit of the Department's Accounts for 2016-17 was £50,000, (2015-16: £55,000). The total NAO fee was £60,000 including £10,000 for the audit of the new Trust Statement and associated working papers.

Statement of Accounting Officer's Responsibilities

Under Section 5 (2) of the Government Resources and Accounts Act 2000 HM Treasury has directed the SFO to prepare, for each financial year resource accounts detailing the resources acquired, held or disposed of during the year and the use of resources by the Department during the year. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the SFO and of its net resource outturn, application of resources, changes in taxpayers' equity and cash flows for the financial year.

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

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards, as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the accounts; and,
- prepare the accounts on a going concern basis.

HM Treasury has appointed the Director of the SFO as Accounting Officer of the SFO. 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 SFO's assets, are set out in *Managing Public Money* published by the HM Treasury.

The Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the SFO's auditors are aware of that information. So far as the Accounting Officer is aware, there is no relevant audit information of which the SFO's auditors are unaware.

The Accounting Officer confirms that the annual report and accounts as a whole are fair, balanced and understandable and that he takes personal responsibility for the annual report and accounts and the judgements required for determining that it is fair, balanced and understandable.

DAVID GREEN CB QC
Accounting Officer

12 July 2017

Governance Statement

Scope of responsibility

This statement covers the SFO's governance arrangements for the year ended 31 March 2017 for both the Departmental Resource Accounts and the SFO's Trust Statement at page 56.

The Director is responsible for the discharge of the organisation's functions through the SFO's Board, Executive Group, Audit & Risk Committee and other supporting Governance forums. He is supported by the SFO's General Counsel, who has direct responsibility for overseeing the operational work of the organisation, and the Chief Operating Officer (since September 2016), who has responsibility for the organisation's corporate functions, including Finance, IT and Human Resources.

The Director is responsible for maintaining a sound system of internal control, which supports the achievement of the SFO's policies, aims and objectives. The Director is also charged with safeguarding public funds and Departmental assets, for which he is personally responsible, in accordance with the responsibilities assigned to him in *Managing Public Money*.

Governance structure

The SFO's governance arrangements are in line with the HM Treasury and Cabinet Office Code of Good Practice for Corporate Governance. During the year, a number of improvements were made to our governance arrangements, aided by the helpful Governance Inspection report from HMCPs Inspectorate published in May 2016. We now have a smaller, more strategic Board, an Executive Group to oversee operational activity, a new Chief Operating Officer, and fewer casework divisions delivering on a broader range of work.

The three main governance forums therefore are: the Board; the Executive Group; and, the Audit and Risk Committee. There are also two committees which support the Executive Group. Alongside this, there are a number of supporting working groups, all of which feed into the work and responsibilities of at least one of the main Governance forums.

In accordance with superintendence arrangements the Director meets the Attorney General regularly to discuss progress, key risks and issues arising.

Committee structure

For the period 1 April 2016 to 31 December 2016, the two key committees were the Management Board and the Audit and Risk Committee. Following the restructure of the SFO's governance arrangements in late 2016, a new structure was introduced on 1 January 2017 whereby the Management Board was replaced by the Board and the Executive Group. The membership of the Management Board, Board, Executive Group and Audit and Risk Committee are set out in the tables below and their purpose and arrangement in the succeeding sections.

| Members | Management Board | The Board | Executive Group |
|--|------------------|-----------------|-----------------|
| David Green CB QC Director, Chair | Attended 5 of 6 | Attended 1 of 1 | Attended 1 of 2 |
| Simon Duckworth OBE DL Non-Executive Director | Attended 5 of 6 | Attended 1 of 1 | Attended 2 of 2 |
| Tony Osbaldiston Non-Executive Director | Attended 6 of 6 | Attended 1 of 1 | Attended 1 of 2 |
| Ruth Evans Non-Executive Director | Attended 5 of 6 | Attended 1 of 1 | Attended 1 of 2 |

| | | | |
|--|-----------------|-----------------|-----------------|
| Alun Milford General Counsel | Attended 4 of 6 | Attended 0 of 1 | Attended 1 of 2 |
| Mark Thompson (Chief Financial Officer and Head of Proceeds of Crime (to 21 September 2016), Chief Operating Officer thereafter | Attended 6 of 6 | Attended 1 of 1 | Attended 2 of 2 |
| Kristin Jones* Head of Strategic Relations (to 30 April 2016) | Attended 1 of 1 | | |
| Elizabeth Baker Joint Head of Strategic Relations (from 30 April 2016 to 30 September 2016) Head of Proceeds of Crime thereafter | Attended 4 of 5 | | Attended 2 of 2 |
| John Carroll Joint Head of Strategic Relations (from 30 April 2016 to 30 September 2016) then Head of Strategic Relations (to 31 December 2016) Head of Strategy & Policy Division thereafter | Attended 4 of 5 | | Attended 2 of 2 |
| Lesley Dugdale Head of Human Resources (to 31 March 2017) | Attended 6 of 6 | | Attended 2 of 2 |
| Kevin Davis Chief Investigator | Attended 5 of 6 | | Attended 1 of 2 |
| Ben Denison Chief Technology Officer | Attended 6 of 6 | | Attended 2 of 2 |
| Matthew Wagstaff Head of Division A | Attended 4 of 6 | | Attended 2 of 2 |
| Ben Morgan Head of Division B | Attended 4 of 6 | | Attended 1 of 2 |
| Clare Whitaker Head of Division C | Attended 5 of 6 | | Attended 2 of 2 |
| Jane de Lozey Head of Division D (to 31 March 2017) | Attended 5 of 6 | | Attended 1 of 2 |
| Stuart Alford* Head of Division E (to 30 September 2016) | Attended 3 of 4 | | |
| Hannah von Dadelszen Head of Division E (from 30 September 2016) | Attended 2 of 2 | | Attended 2 of 2 |

*Dates given for Kristin Jones, Stuart Alford QC, Jane de Lozey and Lesley Dugdale are the date of their departure.

| Members | Audit and Risk Committee |
|--|---------------------------------|
| Tony Osbaldiston Non-Executive Director | Chair Attended 3 of 3 |
| Simon Duckworth OBE DL Non-Executive Director | Attended 1 of 3 |
| Ruth Evans Non-Executive Director | Attended 3 of 3 |

Management Board

The Management Board operated between April and December 2016. The Director chaired the Management Board which comprised the senior civil service team plus the non-executive Directors. It met six times in 2016.

The Management Board operated as a team with each member sharing a common interest in the overall performance and integrity of the SFO. The Management Board advised on, and supervised, the strategic direction of the SFO, enabling it to meet its statutory purpose of investigating and prosecuting serious or complex fraud, bribery and corruption.

The Board

The Director chairs the Board which aims to meet six times per annum. It replaced the Management Board in January 2017 and met once before the end of March 2017. Membership comprises of the General Counsel, Chief Operating Officer and three non-executive Directors. The Board is the SFO's principal forum that sets the strategic direction and provides the senior leadership for both the corporate and operational functions of the SFO. Through membership of its three non-executive Directors, it seeks to provide independent scrutiny and challenge to SFO business delivery processes. The Board specifically:

- supports the Director in setting and articulating the vision for the organisation based on an agreed view of long-term capability and horizon scanning;
- sets the SFO's, mission, direction and corporate values;
- sets the priorities for the SFO's Strategic Plan;
- provides support and leadership to the Executive Group;
- ensures that strategic and operational functions are performing effectively, efficiently and delivered in an ethical manner;
- provides independent, effective and robust challenge to the Executive Group as appropriate / holds members to account for operational delivery;
- oversees SFO Performance (immediate and future objectives);
- considers ways to improve performance (value for money);
- sets the priorities for strategic engagement with the SFO's partners/stakeholders; and,
- monitors the SFO's external reputation and its relationships with key stakeholders.

Working practices have been agreed so that the Board can discharge its responsibilities effectively. These practices deal with the cycle of meetings, setting agendas, the timetable for distributing papers and communicating decisions.

The Board aims to reach decisions by consensus. In exceptional cases, however, a decision may be taken by the Director alone because of the Director's ultimate personal responsibility for the SFO as Accounting Officer.

In addition to this formal role, there are other occasions when the Board may meet to discuss important issues that could affect the SFO's strategy, results or performance.

The Code of Good Practice for Corporate Governance cites a nominations and governance committee as good practice. Because the SFO is a small, non-ministerial Government department, the Board does not consider that a separate nominations and governance committee is necessary. Instead, the Board carries out the nominations and governance function as part of its normal terms of reference.

Executive Group

The Executive Group was established in January 2017 as part of the improved governance arrangements for the SFO. It met twice before the end of March 2017.

Under delegated authority from the Board, the Executive Group is responsible for overseeing the SFO's overall performance and delivery against its stated objectives. It is chaired by the Director and is comprised of the General Counsel, Chief Operating Officer, and all senior civil servants at SCS1 level (operational and corporate). The Executive Group aims to meet on a minimum of eight occasions per annum. It is the principal decision-making body which delivers the Board's vision through the annual Business Plan and oversees operational delivery of the business. To support that delivery the People and Culture and Strategy and Engagement Committees have delegated responsibility to develop policies and ideas on behalf of the Executive Group, make recommendations and implement those decisions that are relevant to that committee.

The Executive Group:

- provides assurance to the Board on the implementation of the SFO's Strategic Plan;
- reviews, challenges and scrutinises performance against the SFO's annual Business Plan;
- sets corporate governance and assurance arrangements;
- provides assurance to the Board on budgetary matters by monitoring and ensuring the SFO continues to live within its means;
- works with the Audit and Risk Committee to set the risk appetite and ensure that controls are in place to identify, manage and monitor strategic risks to which the organisation may be exposed;
- provides assurance to the Board on the management of risk supported by Risk Management Group;
- ensures the SFO's core values are embedded within the culture of the organisation and monitors delivery of Diversity and Inclusion strategies/objectives supported by the People and Culture Committee;
- ensures People strategies covering training, talent management and succession plans are in place, supported by the People and Culture Committee;
- ensures external stakeholder engagement remains coherent, relevant and consistent, supported by the Strategy and Engagement Committee;
- oversees key infrastructure matters (accommodation / IT investment strategy); and,
- ensures sound financial management and scrutiny to achieve business objectives and value for money.

The Executive Group aims to reach decisions by consensus. In exceptional cases, however, a decision may be taken by the Director alone.

In addition to this formal role, there are other occasions when the Executive Group may meet to discuss important issues that could affect the SFO's strategy, results or performance.

Staff are routinely encouraged to attend Executive Group meetings as observers which brings transparency to the function of the meetings and the way in which decisions are made at a corporate level.

Executive Group Committees

The two Executive Group committees are:

- **Strategy and Engagement** – under delegated authority from the Executive Group, the Strategy and Engagement Committee is responsible for developing and maintaining constructive relationships with all external partners reinforcing the SFO's reputation as a single focus specialist investigative and prosecuting authority tackling the top level of serious or complex fraud, bribery and corruption.
- **People and Culture** – under delegated authority from the Executive Group, the People and Culture Committee is responsible for developing strategies and policies to foster an inclusive workplace for all its people supported by the Diversity Champion, and consider and advise on matters affecting its people.

Audit and Risk Committee

The Committee is chaired by a non-executive Director (NED) and meetings are attended by all current NEDs who are standing members. Others who attended by invitation throughout the year included the Chief Operating Officer, the Chief Technology Officer and the Head of Strategy & Policy. In addition, commencing this year, the Senior Information Risk Information Owner (SIRO) attended meetings of the Committee by invitation. Representatives from the SFO's Internal Audit function and the National Audit Office also attend, providing the Committee with the independence it needs to discharge its responsibilities appropriately.

The Committee is a peer group to the Executive Group and supports the Director in his role as Accounting Officer. It reviews and assesses the reliability of the assurances that the Director and Executive Group receive. The Committee reviews and oversees the organisation's internal and external auditing arrangements, plans, results, and management responses. It also considers the adequacy of the SFO's risk assessment and management procedures, and internal control systems which are overseen by the Risk Management Group.

Risk Management and Moderation Group and Risk Management Group

The Risk Management and Moderation Group (RMMG) was renamed the Risk Management Group (RMG) during the year. New arrangements and membership were put in place to reflect the maturity of risk management in the SFO. The new Chief Operating Officer was appointed as Chair of the Risk Management Group.

Working with the Executive Group and Audit and Risk Committee, the Group coordinates and guides risk management across the SFO, implementing change when required. The Group considers the adequacy of the SFO's risk assessment and management procedures as well as internal control systems. It is responsible for ensuring that the SFO's Strategic Risk Register is up-to-date and accurately reflects the risks faced by the organisation.

Other Committees

SCS Group (SCSG)

The SCSG holds an informal weekly meeting chaired by the Director. It is attended by the SFO's members of the Senior Civil Service. The Head of Communications and the Head of Governance and Private Office also attend. The SCSG is the principal forum for managing the SFO's day-to-day management decisions.

The aim of the group is to provide a forum at which appropriate representatives from the business can:

- share information frequently and regularly;
- update members on important developments in specific parts of the business;
- discuss issues that affect the whole business; and,
- receive immediate advice, support or resources to resolve issues.

Case Evaluation Board (CEB)

The CEB enables the Director to make an informed decision based on its recommendation to initiate or decline an investigation. It meets periodically, depending on the intelligence pipeline, and reports to the Director. Core members are the General Counsel and Chief Investigator. The relevant intelligence lead will also attend.

Specifically the CEB:

- evaluates and challenges intelligence submissions against the SFO's Statement of Principle (which governs the basis upon which decisions are made as to which cases should be adopted for investigation);
- assesses strategic and tactical risk, cost/resource implications; and, where appropriate,
- considers potential cases in the context of HMG's strategic approach to economic crime.

Case Review Panel (CRP)

The CRP meets several times a month, it comprises the General Counsel, the Chief Investigator, the relevant Head of Division and appropriate members of the relevant case team. The Director also attends at his discretion.

The CRP ensures an appropriate level of scrutiny and challenge is given to every case by reviewing both case progress and casework risks together with plans to mitigate them.

The frequency of CRPs for each case is informed by a programme which captures target dates for key milestones, case progress, agreed actions and the level of risk associated with the case.

Strategic and Tactical Tasking and Co-ordination Group (STT&CG)

The Strategic Tasking and Coordination Group is chaired by the Chief Investigator and meets quarterly or more frequently should operational circumstances dictate. It provides a governance process that enables senior managers to consider operational priorities and the prioritisation and alignment of resources to meet agreed objectives. The Group also considers operational priorities set out in the Strategic Assessment, the Control Strategy and SFO intelligence requirements. Group membership includes the General Counsel, Chief Operating Officer, Heads of Division and the Head of Intelligence.

Resourcing Steering Group (RSG)

The RSG supports the Executive Group in delivering a strategic and consistent approach to resourcing. It equips the SFO to deliver its objectives through the effective prioritisation of recruitment and by ensuring a coordinated approach to identifying resourcing requirements. RSG members ensure that the collective views of the Executive Group are represented, and where appropriate, take decisions on the Executive Group's behalf.

Other working groups

The work of the Executive Group and its committees is supported by a number of working groups set up to address specific issues or to update processes and practices within the SFO. Such groups cover areas including equality and diversity, the Operational Handbook, evidence handling, the SFO's digital review system, community engagement and charities and victims and witnesses.

Risk management

The SFO has a multi-layered approach to identifying and managing potential risks to the organisation. Its strategy is to identify and counter risks based on clear senior management leadership and responsibility, and delegating authority to appropriate levels. Each Head of Division is accountable for risk and risk mitigation in their respective divisions.

Risks are monitored and reviewed within the SFO by various different Groups and Committees. The Executive Group leads on the SFO's approach to risk and has a mandate to provide an assurance to the Board that the SFO has a fully functioning risk management policy. The Executive Group works with the Audit and Risk Committee to set the risk appetite and ensure that controls are in place to identify, manage and monitor strategic risks to which the organisation may be exposed.

The Executive Group has published a risk management policy statement, which sets out the SFO's overall approach to risk and the expectations and standards the organisation is expected to attain.

Risk Registers

The Strategic Risk Register (SRR) is a log of individual risks which carry the potential to impact upon the delivery of the SFO's strategic aims and objectives. The SRR is updated on a monthly basis and is considered and monitored by the Risk Management Group, Audit and Risk Committee and the Executive Group.

Divisional Risk Registers (DRR) are maintained by each division and are a log of risks which have the potential to affect the operational capabilities of the SFO. DRRs are reviewed by the Chief Operating Officer and any risks that could potentially be elevated to the SRR are referred to, and considered by, the Risk Management Group.

Individual case risks are recorded in Case Risk Registers which are maintained by each division. Risk is inherent in the operational aspects of the SFO's business, particularly in the investigation and prosecution of cases. Managers and casework staff keep case risks under continuing review and they are taken into account when commencing an investigation and, where appropriate, a prosecution. At the prosecution stage, risks are balanced against the need to pursue cases in the public interest. The SFO also ensures that it complies with best practice guidance in respect of undertaking operational risk assessments particularly when deploying staff outside of the SFO estate on search operations.

As part of our programme and project management procedures, risk registers are used to manage and mitigate the associated risks. For the more significant programmes or projects, a Risks, Issues and Decisions Log is used to enhance risk management. An escalation process enables programme and project risks to be referred to the Chief Operating Officer as circumstances require.

Risk appetite

A Risk Management booklet is published on the SFO's intranet and is available to all staff. This outlines the SFO's approach to risk management, risk ratings, review processes and roles and responsibilities. The risk appetite is set as low, medium or high dependant on the residual risk deemed acceptable to the SFO. The booklet is currently being updated to reflect all aspects of the SFO's approach to risk.

Information assurance

The SFO's security arrangements (including information security) comply with the Cabinet Office Security Policy Framework (SPF) that sets out a range of mandatory security outcomes and risk management requirements. The SPF underpins the SFO's security policies and procedures that are applicable to all staff. The SFO operates a rolling information security awareness programme that includes mandatory induction and annual information security training, regular intranet updates, poster campaigns and reinforcement of information security at divisional level.

A Security Working Group meets quarterly to promote knowledge and understanding of information (and other) security risks to promote and maintain a healthy security culture. Our electronic data is encrypted in line with guidance issued by the National Cyber Security Centre (NCSC) and complies with Public Services Network (PSN) requirements. Unencrypted data can only be removed from the SFO's premises with the express permission of the SIRO. The SFO's Information Asset Owners (IAOs) are primarily senior civil servants (SCS) who are responsible for assuring information security within their area and providing quarterly assurance reports to the SIRO. The SIRO maintains strategic oversight and accountability for managing and assuring information risks and regularly reports to (and advises) the Accounting Officer, Board and Audit and Risk Committee.

Whistleblowing

The Chief Investigator maintains overall responsibility for the SFO's whistleblowing policy and practice. As a permanent member of the Executive Group and Audit & Risk Committee, he makes periodic reports to these governance groups, and to the Board, on the effectiveness of the SFO's procedures. A register of referrals is maintained together with a record of complaints of victimisation. There were no internal whistleblowing referrals within the accounting period.

Individuals may decide to blow the whistle to a prescribed person rather than their employer. The Director is a prescribed person to whom a whistleblower may make complaints about fraud or bribery and corruption. The SFO's Intelligence Unit frequently receives reports from whistleblowers relating to individuals or companies receiving or making bribes to secure a benefit for themselves or others and in respect of fraudulent conduct. Further details on the role of prescribed persons may be found in guidance published by the Department for Business, Energy & Industrial Strategy – "Whistleblowing: list of prescribed people and bodies".

Inspection

There have been three inspections of the SFO since April 2012. The first two inspections were by invitation of the Director and concerned casework. The third was a statutory inspection of the SFO's governance arrangements using new powers in the Anti-Social Behaviour, Crime and Policing Act 2014.

The Governance Inspection found that the SFO had achieved a positive transformational change to its direction and purpose over the four years between 2012 and 2016. Significant progress has since been made to implement the recommendations from the inspection which has further enhanced the SFO's governance arrangements.

Quality assurance

Quality assurance provides the Director with objective information about the efficiency and effectiveness of the SFO's work and about the extent of compliance with systems, policies and guidance. This helps the SFO to deliver on its strategic objectives, deliver value for money, comply with statutory requirements and operate in accordance with its values.

The Quality Assurance Team is part of the Governance Unit and reports to the Director on progress and performance. It works closely with the SFO's internal auditors so that the programme of audit and assurance work is comprehensive and joined-up. The Quality Assurance Team also manages the SFO's relationship with HM Crown Prosecution Service Inspectorate (HMCPIS) with the aim of securing fair and proportionate improvements to the SFO's efficiency and effectiveness. The Director and the Law Officers take assurance from all this activity.

Effectiveness of the risk management and governance framework

The Director, as Accounting Officer, is responsible for reviewing the effectiveness of the system of internal control. His review of its effectiveness is informed by the work of the internal auditors, quality assurance and comments made by the external auditors in their Audit Completion Report and other reports. The Head of Internal Audit (HIA) provides an annual report and opinion on the adequacy and effectiveness of the SFO's framework of governance, risk management and controls.

For 2016-17 the HIA opinion is of Moderate Assurance (level two from a four tier structure), namely that some improvements are required to enhance the adequacy and effectiveness of the SFO's framework of governance, risk management and control. The framework in place increases the likelihood that objectives and risk tolerance will be met, although further management actions are required to ensure the risk exposure is moved within tolerance.

The Board and A&RC have advised the Director on the effectiveness of the system of internal control. There is a continuing plan to address weaknesses and make sure that the system is continuously improved.

Measures in place include:

- regular reports by the internal auditors, based on the annual Internal Audit Plan, and in line with the Government Internal Audit Standards, together with any recommendations for improvement;
- improved business and strategic planning processes;
- improved data security procedures and supporting communications;
- regular reports from the chair of the A&RC to the Management Board; and,
- regular advice on the effectiveness of the system of internal control.

DAVID GREEN CB QC
Accounting Officer

12 July 2017

Remuneration and Staff

Remuneration

Employment Contracts

The Constitutional Reform and Governance Act 2010 requires Civil Service appointments to be made on merit on the basis of fair and open competition. The Recruitment Principles published by the Civil Service Commission specify the circumstances when appointments may be made otherwise.

Unless otherwise stated below, the officials covered by this report hold appointments which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Further information about the work of the Civil Service Commission can be found at www.civilservicecommission.org.uk

Remuneration policy

The remuneration of senior civil servants is set by the Prime Minister following independent advice from the Senior Salaries Review Body. In reaching its recommendations, the Review Body considers:

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities;
- regional/local variations in labour markets and their effects on the recruitment and retention of staff;
- Government policies for improving public services including the requirement on departments to meet the output targets for the delivery of departmental services;
- the funds available to departments as set out in the Government's departmental expenditure limits; and,
- the Government's inflation target.

The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations. The Director's salary is linked to that of a High Court Judge.

Remuneration Committee

The remuneration of Senior Civil Servants (SCS) is determined in accordance with the report of the Senior Salaries Review Body. The SFO's SCS Pay Committee meets annually to consider pay increases and bonus payments in accordance with these recommendations. The committee consists of the Director, the non-executive directors, and a senior HR professional from another Government Department.

Performance Appraisal

Performance management of staff below the SCS is covered by the SFO's performance appraisal system. The system supports all staff in improving their performance through continuous dialogue between managers and staff. It provides a framework for conversations about objective setting, how people have performed against their objectives, and what development needs they have. A formal review of performance is conducted at least once a year. Bonuses can be paid in-year to individuals to reward work on particularly demanding tasks or situations. Annual performance bonuses are based on performance appraisal markings.

In 2016-17, the annual performance bonus accrual for grades below the SCS totalled £132,219 (2015-16: £121,411).

Senior Official Appointments

David Green CB QC was appointed Director by the Attorney General in April 2012 for a fixed term of four years, ending in 2016. His contract has been extended by two years and will now end on 20 April 2018.

Salary and Pension Entitlements

This information has been audited.

The following sections provide details of the remuneration and pension interests of the SFO's senior management (i.e. Management Board members) during the year.

Non-Executive Board Members Remuneration

| Name and title | Salary £000 | | Benefits in Kind (to nearest £100) | | Total £000 | |
|---|----------------|---------|---------------------------------------|---------|---------------|---------|
| | 2016-17 | 2015-16 | 2016-17 | 2015-16 | 2016-17 | 2015-16 |
| Simon Duckworth OBE DL Non-Executive Director | 10-15 | 10-15 | - | - | 10-15 | 10-15 |
| John Anthony Osbaldiston Non-Executive Director | 15-20 | 15-20 | 1,400 | 1,500 | 15-20 | 15-20 |
| Ruth Evans Non-Executive Director (from 26 January 2015) | 10-15 | 10-15 | 100 | 100 | 10-15 | 10-15 |

The non-executive directors have been appointed on a three-year renewable contract with their remuneration determined by the number of days required for their duties at a rate per diem plus reimbursement of expenses. None of the current non-executive directors are members of the Civil Service Pension Scheme.

Senior Management

As covered in the Governance Statement a new structure was introduced on 1 January 2017 whereby the Management Board was replaced by two new committees, the Board and Executive Group. The tables below therefore show senior management remuneration split between those who remained board members throughout the year and those whose participation ceased on 31 December 2016.

Management Board and Board Executive Members Remuneration 1 April 2016 to 31 March 2017

| | Salary (£'000) | | Bonus payment (£'000) | | Pension benefits (to nearest £1,000) ¹ | | Total (£'000) | |
|--|----------------|---------------------------------------|-----------------------|---------|---|---------|---------------|---------|
| | 2016-17 | 2015-16 | 2016-17 | 2015-16 | 2016-17 | 2015-16 | 2016-17 | 2015-16 |
| David Green CB QC Director | 175-180 | 170-175 | - | - | 66 | 66 | 240-245 | 235-240 |
| Alun Milford General Counsel | 120-125 | 115-120 | 5-10 | - | 70 | 36 | 200-205 | 150-155 |
| Mark Thompson Chief Operating Officer (from 21 September 2016) Chief Financial Officer and Head of Proceeds of Crime (to 20 September 2016) | 100-105 | 85-90 | - | - | 113 | 53 | 210-215 | 135-140 |
| Barry Todd Chief Financial Officer (to 31 May 2015) | - | 10-15 (80-85 full year equivalent) | - | - | - | 3 | - | 15-20 |

Management Board Executive Members Remuneration to 31 December 2016

| | Salary (£'000) | | Bonus payment (£'000) | | Pension benefits (to nearest £1,000) ¹ | | Total (£'000) | |
|---|---------------------------------------|---|-----------------------|---------|---|---------|---------------|---------|
| | 2016-17 | 2015-16 | 2016-17 | 2015-16 | 2016-17 | 2015-16 | 2016-17 | 2015-16 |
| His Honour Geoffrey Rivlin QC Special Advisor (to 31 July 2015) | - | 30-35 (180-185 full year equivalent) | - | - | - | - | - | 30-35 |
| Kevin Davis Chief Investigator | 60-65 (80-85 full year equivalent) | 80-85 | 5-10 | - | 18 | 58 | 90-95 | 140-145 |
| Matthew Wagstaff Head of Division A | 60-65 (85-90 full year equivalent) | 85-90 | - | - | 28 | 40 | 90-95 | 125-130 |
| Ben Morgan Head of Division B | 60-65 (85-90 full year equivalent) | 85-90 | 5-10 | 5-10 | 34 | 34 | 105-110 | 125-130 |
| Clare Whitaker Head of Division C | 60-65 (80-85 full year equivalent) | 80-85 | - | - | 20 | 27 | 80-85 | 105-110 |

| | Salary (£'000) | | Bonus payment (£'000) | | Pension benefits (to nearest £1,000) ¹ | | Total (£'000) | |
|---|---------------------------------------|---------------------------------------|-----------------------|---------|---|---------|---------------|---------|
| | 2016-17 | 2015-16 | 2016-17 | 2015-16 | 2016-17 | 2015-16 | 2016-17 | 2015-16 |
| Jane de Lozey Head of Division D | 60-65 (80-85 full year equivalent) | 55-60 (80-85 full year equivalent) | - | - | 32 | 25 | 90-95 | 80-85 |
| Simon Daniel Head of Division D (to 29 February 2016) | - | 70-75 (80-85 full year equivalent) | - | - | - | 67 | - | 140-145 |
| Hannah von Dadelszen Head of Division E (from 30 September 2016) | 20-25 (80-85 full year equivalent) | - | - | - | 28 | - | 45-50 | - |
| Stuart Alford QC Head of Division E (to 30 September 2016) | 40-45 (80-85 full year equivalent) | 80-85 | - | - | 16 | 32 | 55-60 | 110-115 |
| Elizabeth Baker Head of Proceeds of Crime (from 21 September 2016) Joint Head of Strategic Relations (from 22 April 2016) | 50-55 (80-85 full year equivalent) | - | - | - | 35 | - | 85-90 | - |
| John Carroll Head of Strategy and Policy (from 21 September 2016) Joint Head of Strategic Relations (from 22 April 2016) | 55-60 (80-85 full year equivalent) | - | - | - | 90 | - | 145-150 | |
| Kristin Jones Head of Strategic Relations (to 22 April 2016) | 5-10 (85-90 full year equivalent) | 85-90 | - | 5-10 | 1 | 35 | 5-10 | 130-135 |
| Lesley Dugdale Head of Human Resources | 60-65 (80-85 full year equivalent) | 80-85 | - | - | 32 | 37 | 90-95 | 115-120 |
| Ben Denison Chief Technology Officer | 65-70 (90-95 full year equivalent) | 90-95 | - | 5-10 | 36 | 35 | 100-105 | 130-135 |

1. The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increase excludes increases due to inflation or any increase or decrease due to transfer of pension rights. Where prior year figures have changed, this is due to a retrospective update to salary data.
2. Elizabeth Baker and John Carroll received bonuses of £0-£5k paid in 2016-17 for 2015-16 performance prior to becoming members of the Management Board.

Salary

'Salary' includes gross salary; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; and any other allowance to the extent that it is subject to UK taxation. This report is based on accrued payments made by the Department and thus recorded in these accounts.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by HM Revenue and Customs as a taxable emolument.

Bonuses

Bonuses are based on performance levels attained and are made as part of the appraisal process. Bonuses relate to the performance in the year prior to which they become payable to the individual. The bonuses reported in 2016-17 relate to performance in 2015-16, and the comparative bonuses reported for 2015-16 relate to performance in 2014-15.

Pay multiples

The SFO is required to disclose the relationship between the remuneration of the highest-paid director and the median remuneration of the SFO's workforce. Total remuneration includes salary, non-consolidated performance-related pay and benefits-in-kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

| | 2016-17 | | 2015-16 |
|--------------------------------|---------|--------------------------------|---------|
| Highest paid individual (£000) | 175-180 | Highest paid individual (£000) | 170-175 |
| Median total (£) | 34,553 | Median total (£) | 33,407 |
| Remuneration ratio | 5.13 | Remuneration ratio | 5.16 |

The banded remuneration of the highest-paid board member at SFO in the financial year 2016-17 was £175,000-£180,000 (2015-16, £170,000-£175,000). This was 5.13 times (2015-16, 5.16) the median remuneration of the workforce, which was £34,553 (2015-16, £33,407).

In 2016-17, 0 (2015-16, 0) employees received remuneration in excess of the highest-paid board member. Remuneration ranged from £15,000 - £20,000 to £175,000 – £180,000 (2015-16, £15,000 – £20,000 to £170,000 - £175,000).

Pension Benefits Management Board and Board Executive Members 1 April 2016 to 31 March 2017

| | Accrued pension at pension age as at 31/3/17 and related lump sum | Real increase in pension and related lump sum at pension age | CETV at 31/3/17 | CETV at 31/3/16 | Real increase in CETV |
|--|---|--|-----------------|-----------------|-----------------------|
| | £000 | £000 | £000 | £000 | £000 |
| David Green CB QC Director | 15-20 | 2.5-5.0 | 335 | 258 | 56 |
| Alun Milford General Counsel | 35-40 plus 105-110 lump sum | 2.5-5.0 plus 2.5- 5.0 lump sum | 709 | 635 | 41 |
| Mark Thompson Chief Operating Officer (from 21 September 2016) Chief Financial Officer and Head of Proceeds of Crime (to 20 September 2016) | 25-30 | 5.0-7.5 | 380 | 294 | 68 |
| Barry Todd Chief Financial Officer (to 31 May 2015) | - | 0-2.5 plus 2.5-5.0 lump sum | - | 530 | - |

Pension Benefits Management Board Executive Members to 31 December 2016

| | Accrued pension at pension age as at 31/3/17 and related lump sum | Real increase in pension and related lump sum at pension age | CETV at 31/3/17 | CETV at 31/3/16 | Real increase in CETV |
|---|--|---|------------------------|------------------------|------------------------------|
| | £000 | £000 | £000 | £000 | £000 |
| His Honour Geoffrey Rivlin QC Special Adviser (to 31 July 2015) | - | - | - | - | - |
| Kevin Davis Chief Investigator | 35-40 plus 115-120 lump sum | 0-2.5 plus 2.5-5.0 lump sum | 808 | 758 | 16 |
| Matthew Wagstaff Head of Division A | 30-35 plus 25-30 lump | 0-2.5 | 438 | 407 | 9 |
| Ben Morgan Head of Division B | 5-10 | 0-2.5 | 63 | 45 | 10 |
| Clare Whitaker Head of Division C | 30-35 plus 90-95 lump sum | 0-2.5 plus 2.5-5.0 lump sum | 638 | 586 | 16 |
| Jane de Lozey Head of Division D | 15-20 | 0-2.5 | 241 | 215 | 12 |
| Simon Daniel Head of Division D (to 29 February 2016) | - | - | - | - | - |
| Hannah von Dadelszen Head of Division E (from 30 September 2016) | 5-10 | 0-2.5 | 101 | 85 | 13 |
| Stuart Alford QC Head of Division E | 5-10 | 0-2.5 | 91 | 79 | 7 |
| Elizabeth Baker Head of Proceeds of Crime (from 21 September 2016) Joint Head of Proceeds of Crime and Strategic Relations (from 22 April 2016) | 20-25 plus 55-60 lump sum | 0-2.5 plus 0-2.5 lump sum | 341 | 303 | 16 |
| John Carroll Head of Strategic Relations (from 21 September 2016) Joint Head of Proceeds of Crime and Strategic Relations (from 22 April 2016) | 10-15 plus 40-45 lump sum | 2.5-5.0 plus 10.0-12.5 lump sum | 341 | 244 | 90 |
| Kristin Jones Head of Strategic Relations | 40-45 plus 55-60 lump sum | 0-2.5 | 795 | 794 | 1 |
| Lesley Dugdale Head of Human Resources | 25-30 Plus 70-75 lump sum | 0-2.5 | 487 | 448 | 16 |
| Ben Denison Chief Technology Officer (from 14 August 2014) | 5-10 | 0-2.5 | 44 | 27 | 9 |

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015 a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or **alpha**, which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date all newly appointed civil servants and the majority of those already in service joined **alpha**. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections, three providing benefits on a final salary basis (**classic**, **premium** or **classic plus**) with a normal pension age of 60; and one providing benefits on a whole career basis (**nuvos**) with a normal pension age of 65.

These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under **classic**, **premium**, **classic plus**, **nuvos** and **alpha** are increased annually in line with Pensions Increase legislation. Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and 5 months from their normal pension age on 1 April 2012 will switch into **alpha** sometime between 1 June 2015 and 1 February 2022. All members who switch to **alpha** have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave **alpha**. (The pension figures quoted for officials show pension earned in PCSPS or **alpha** – as appropriate. Where the official has benefits in both the PCSPS and **alpha** the figure quoted is the combined value of their benefits in the two schemes.) Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (**partnership** pension account).

Employee contributions are salary-related and range between 3% and 8.05% of pensionable earnings for members of **classic** (and members of **alpha** who were members of **classic** immediately before joining **alpha**) and between 4.6% and 8.05% for members of **premium**, **classic plus**, **nuvos** and all other members of **alpha**. Benefits in **classic** accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For **premium**, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike **classic**, there is no automatic lump sum. **classic plus** is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per **classic** and benefits for service from October 2002 worked out as in **premium**. In **nuvos** a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. Benefits in **alpha** build up in a similar way to **nuvos**, except that the accrual rate is 2.32%. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The **partnership** pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% up to 30 September 2015 and 8% and 14.75% from 1 October 2015 (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. The employee does not have to contribute, but where they do make contributions, the employer will match these 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 up to 30 September 2015 and 0.5% of pensionable salary from 1 October 2015 to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of **classic**, **premium** and **classic plus**, 65 for members of **nuvos**, and the higher of 65 or State Pension Age for members of **alpha**. (The pension figures quoted for officials show pension earned in PCSPS or **alpha** – as appropriate. Where the official has benefits in both the PCSPS and **alpha** the figure quoted is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages.)

Further details about the Civil Service pension arrangements can be found at the website www.civilservicepensionscheme.org.uk

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period

Staff

Staff costs

| | 2016-17 | | | 2015-16 |
|---|----------------------------|--------------|---------------|---------------|
| | £000 | | | £000 |
| | Permanently employed staff | Others | Total | Total |
| Wages and salaries | 18,335 | 6,122 | 24,457 | 24,019 |
| Social security costs | 1,916 | - | 1,916 | 1,465 |
| Other pension costs | 3,609 | - | 3,609 | 3,482 |
| Sub Total | 23,860 | 6,122 | 29,982 | 28,966 |
| Less recoveries in respect of outward secondments | - | - | - | - |
| Total net costs | 23,860 | 6,122 | 29,982 | 28,966 |

£52k of other staff costs have been capitalised and are not included in the figures above (2015-16: £0k).

For 2016-17, employers' contributions of £3,525k were payable to the PCSPS (2015-16: £3,445k) at one of four rates in the range of 20.0% to 25.5% of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred and reflect past experience of the scheme.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £72k (2015-16: £48k) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £nil (2015-16: £nil), were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill-health retirement of these employees.

Contributions due to the partnership pension providers at the balance sheet date were £nil. (2015-16: £nil). Contributions prepaid at that date were £nil (2015-16: £nil).

Off-Payroll Engagements (e.g. contractors, consultants) as at 31 March 2017, for more than £220 per day and that last for longer than six months

| | |
|--|----------|
| Number of existing engagements as at 31 March 2017 | 6 |
| Of which: | |
| Number that have existed for less than one year at time of reporting | 0 |
| Number that have existed for between one and two years at time of reporting | 6 |
| Number that have existed for between two and three years at time of reporting | 0 |
| Number that have existed for between three and four years at time of reporting | 0 |
| Number that have existed for four years or more at time of reporting | 0 |
| Total | 6 |

All existing off-payroll engagements have been subject to a risk-based assessment as to whether assurance is required that the individual is paying the correct amount of tax and, where necessary, that assurance has been sought.

This information has been audited.

Reporting of Civil Service and other compensation schemes - exit packages

| Exit package cost band | 2016-17 | | | 2015-16 |
|--------------------------------------|-----------------------------------|-----------------------------------|--|--|
| | Number of compulsory redundancies | Number of other departures agreed | Total number of exit packages by cost band | Total number of exit packages by cost band |
| <£10,000 | - | - | - | - |
| £10,000 - £25,000 | - | 7 | 7 | - |
| £25,000 - £50,000 | - | 6 | 6 | - |
| £50,000 - £100,000 | - | 2 | 2 | - |
| £100,000 - £150,000 | - | 1 | 1 | - |
| £150,000 - £200,000 | - | - | - | - |
| Total Number of exit packages | - | 16 | 16 | - |
| Total cost £000 | - | 602 | 602 | - |

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year of departure. Where the department has agreed early retirements, the additional costs are met by the department and not by the Civil Service pension scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table.

This information has been audited.

Average number of employees

The average number of full-time equivalent employees during the year was as follows:

| Permanently employed staff | Fixed Term Appointments | Agency Staff | 2016-17 | 2015-16 |
|----------------------------|-------------------------|--------------|---------|---------|
| | | | Total | Total |
| 369 | 29 | 116 | 514 | 510 |

SCS by pay band

The number of SCS staff by pay band in the SFO as at 31 March 2017 was as follows:

| | 2016-17 | 2015-16 |
|---|-----------|-----------|
| SCS 3 | 1 | 1 |
| SCS 2 | 2 | 1 |
| SCS 1 | 10 | 10 |
| Total (excluding non-executives) | 13 | 12 |

Staff composition

The gender breakdown of permanent and fixed term staff at the SFO at 31 March 2017 was as follows:

| | Male | Female |
|---------------|------------|------------|
| SCS | 8 | 5 |
| Non SCS staff | 220 | 174 |
| Total | 228 | 179 |

The proportion of staff who are recorded as being from a black and minority and ethnic (BME) background is 15.5%. No SCS staff are recorded as being from a BME background. Levels of staff recorded as having a disability are: 0% of SCS and 4.1% of non-SCS which is below the total Civil Service figure for 2015-16 of 8.9%.

The SFO operates a guaranteed interview scheme which means that it is committed to interviewing all disabled applicants who meet the minimum criteria for a job vacancy and to consider them on their abilities. On a case by case basis the SFO seeks to make reasonable adjustments to support employees who are or become disabled to make sure they stay in employment. The guaranteed interview scheme applies equally to all staff applying for positions through internal promotion.

The SFO is committed to providing an environment where everyone is treated with dignity and respect, recognising the differences between people and positively valuing the spectrum of skills and talent of its people. The development of the Public Sector Equality Duty action plan is overseen by a Diversity Champion at Board level.

The SFO actively supports the Civil Service Positive Action Pathway (PAP) Programme. The programme provides support to staff from four Equality Act strands (gender, ethnicity, disability and sexual orientation) by delivering a programme of activities and workshops aimed at breaking down barriers to promotion; in particular, lack of confidence, role modelling and mentoring. Two SFO staff entered the PAP programme in March 2017.

The SFO's Dignity at Work policy emphasises the importance of treating everyone with dignity and respect, irrespective of any of the protected characteristics. The SFO's policy offers guidance on what to do if unacceptable behaviour occurs.

Sickness absence

There has been a reduction in Average Working Days Lost (AWDL) from 8.61 days in 2015-16 to 6.23 days in 2016-17 against a Civil Service average in 2016 of 7.2 days. The SFO's Management Board has adopted a more pro-active approach to attendance management during the year leading to better compliance with the SFO's policy which has enabled line managers to improve the management of sick absence across the organisation.

Expenditure on consultancy

There was no spend on consultancy in 2016-17 (2015-16 £nil).

DAVID GREEN CB QC
Accounting Officer

12 July 2017

Parliamentary Accountability and Audit

Accountability

This information has been audited

Losses and special payments

There were no losses during the period which in aggregate exceeded £300,000.

Remote contingent liabilities

The SFO has a legacy Proceeds of Crime enforcement case, dating to 2008, which relates to a high value complex confiscation order. By order of the court an Enforcement Receiver (ER) was appointed. The assets which are potentially subject to the enforcement receivership are held by a number of corporate entities and spread across a number of jurisdictions. Some recoveries have been made but activity slowed due to multi-jurisdictional issues and litigation in relation to various competing claims to the assets.

The costs of the ER are covered by statutory provision within the Criminal Justice Act 1988 which amounts to an indemnity for the ER in the event that their costs exceed recoveries by the end of the receivership. In such an event the costs would then fall on the SFO to pay.

The SFO is of the view that there remain significant sums potentially available to recover and that these far exceed the fees likely to be incurred in the receivership.

Long-term expenditure trends

The SFO's planned expenditure as agreed with HM Treasury during the 2015 Spending Review is shown below, this covers the net expenditure which is met from the Parliamentary Estimate.

| | 2016-17 ¹ £000 | 2017-18 £000 | 2018-19 £000 | 2019-20 £000 |
|----------------------------|------------------------------|-----------------|-----------------|-----------------|
| Non-ring fenced DEL | 32,800 | 32,900 | 31,600 | 30,800 |
| Ring fenced DEL | 2,900 | 2,800 | 2,700 | 2,700 |
| Resource DEL | 35,700 | 35,700 | 34,300 | 33,500 |
| Capital DEL | 5,200 | 1,500 | 2,300 | 2,800 |

The Resource Departmental Expenditure Limit (DEL) funding is to cover the costs of the SFO incurred in investigating and, where appropriate, prosecuting cases of serious or complex fraud, bribery and corruption. Ring fenced DEL is non cash funding to cover the anticipated costs of depreciation of non-current assets financed via Capital DEL.

In addition to the above the SFO currently has access to HM Treasury Reserve funding to finance the costs of investigating very large and complex cases. This financing is agreed with HM Treasury on a case by case and year by year basis.

The Capital DEL Funding is to enable the SFO to invest in improving and developing its IT infrastructure to meet its operational needs, procure a new Document Review System and keep pace with technological developments.

¹ This table shows figures from the Spending Review 2015. For details of the final funding figures see the Statement of Parliamentary Supply on page 33.

Statement of Parliamentary Supply

This information has been audited

Summary of Resource and Capital Outturn

| £000 | | | | | | | | 2016-17 £000 | 2015-16 £000 |
|-----------------------------------|----------|---------------|--------------|---------------|---------------|--------------|--|-----------------|-----------------|
| | Estimate | | | Outturn | | | Voted outturn compared with Estimate: saving/ (excess) | Outturn | |
| | Note | Voted | Non Voted | Total | Voted | Non Voted | | | Total |
| Departmental Expenditure Limit | | | | | | | | | |
| - Resource | 1.1 | 53,630 | - | 53,630 | 51,825 | - | 51,825 | 1,805 | 60,314 |
| - Capital | 1.2 | 5,000 | - | 5,000 | 3,985 | - | 3,985 | 1,015 | 1,787 |
| Annually Managed Expenditure | | | | | | | | | |
| - Resource | 1.1 | 2,000 | - | 2,000 | (1,157) | - | (1,157) | 3,157 | (13,601) |
| Total Budget | | 60,630 | - | 60,630 | 54,653 | - | 54,653 | 5,977 | 48,500 |
| Total Resource | | 55,630 | - | 55,630 | 50,668 | - | 50,668 | 4,962 | 46,713 |
| Total Capital | | 5,000 | - | 5,000 | 3,985 | - | 3,985 | 1,015 | 1,787 |
| Total | | 60,630 | - | 60,630 | 54,653 | - | 54,653 | 5,977 | 48,500 |

Net Cash Requirement

| | | 2016-17 £000 | 2015-16 £000 |
|-----------------------------|--------------|-----------------|-----------------|
| | SoPS Note | Estimate | Outturn |
| | | Estimate | Outturn |
| Net Cash Requirement | 3 | 55,730 | 54,354 |
| | | | 1,376 |
| | | | 58,940 |

Administration Costs

| | 2016-17 £000 | 2015-16 £000 |
|-----------------------------|-----------------|-----------------|
| | Estimate | Outturn |
| | Estimate | Outturn |
| Administration Costs | 7,400 | 6,988 |
| | | 5,973 |

Explanation of variances between Estimate and Outturn are given in SoPS Note 1.

SOPS1 Net outturn

SOPS1.1 Analysis of net resource outturn by section

| | 2016-17 £000 | | | | | | | | | 2015-16 £000 |
|---|-----------------|----------|--------------|---------------|----------------|---------------|---------------|---------------|-----------------------------|-----------------|
| | Outturn | | | | | | Estimate | | | Outturn |
| | Administration | | | Programme | | | Net Total | Net Total | Net total to Estimate | Total |
| | Gross | Inc. | Net | Gross | Inc. | Net | | | | |
| Spending in Departmental Expenditure Limit | | | | | | | | | | |
| Voted: | | | | | | | | | | |
| Investigations and Prosecutions | 6,988 | - | 6,988 | 45,949 | (1,112) | 44,837 | 51,825 | 53,630 | 1,805 | 60,314 |
| Annually Managed Expenditure | | | | | | | | | | |
| Voted: | | | | | | | | | | |
| New provision and adjustment to existing provisions | (148) | - | (148) | (1,009) | - | (1,009) | (1,157) | 2,000 | 3,157 | (13,601) |
| Total | 6,840 | - | 6,840 | 44,940 | (1,112) | 43,828 | 50,668 | 55,630 | 4,962 | 46,713 |

Explanation of variation between Estimate and Outturn (net total resources):

There has been an overall underspend of £4,962k against the Estimate.

Of this £1,805k was within DEL. Expenditure within ring fenced depreciation was £1,200k lower than the estimate while non-ring fenced DEL outturn was £600k or just over 1% of non-ring fenced expenditure.

The remaining underspend of £3,157k relates to AME. Due to its unpredictable nature it is very difficult to estimate spend within AME the SFO's Supplementary Estimate made provision for an AME utilisation of £2,000k in anticipation of possible provisions which were not subsequently required. The resulting underspend was increased by the settlement of provisions, set aside in previous years which results in a credit to AME.

SOPS1.2 Analysis of net capital outturn by section

| | | | | 2016-17 | 2015-16 | |
|---|--------------|----------|--------------|--------------------------------|--------------|--------------|
| | | | | £000 | £000 | |
| | Outturn | | | Estimate | Outturn | |
| | Gross | Income | Net | Net total compared to Estimate | Total | |
| Spending in Departmental Expenditure Limit | | | | | | |
| Voted: | | | | | | |
| A Investigations and Prosecutions | 3,985 | - | 3,985 | 5,000 | 1,015 | 1,787 |
| Total | 3,985 | - | 3,985 | 5,000 | 1,015 | 1,787 |

Explanation of variance between Estimate and Outturn:

Capital DEL is underspent by £1,015k for 2016-17. Capital DEL for 2016-17 was £5,000k for investment in a refresh of IT kit and equipment and a replacement for the current digital review system in use at the SFO. This expenditure has taken place albeit with some slippage in the timing of spend. The proposed procurement of a document management system did not take place and this along with economies achieved in the procurement of the new digital review system represents the bulk of the underspend for the year.

SOPS2. Reconciliation of outturn to net operating expenditure

SOPS2.1 Reconciliation of net resource outturn to net operating cost

| | SoPS Note | 2016-17 | 2015-16 |
|---|-----------|---------------|---------------|
| | | £000 | £000 |
| | | Outturn | Outturn |
| Total resource outturn in Statement of Parliamentary Supply | 1.1 | 50,668 | 46,713 |
| Less income payable to the Consolidated Fund | 4.1 | (1,486) | (4,746) |
| Net Operating Cost in Statement of Comprehensive Net Expenditure | | 49,182 | 41,967 |

SOPS3 Reconciliation of Net Resource Outturn to Net Cash Requirement

| | SoPS Note | Estimate | Outturn | 2016-17 £000 Net total outturn compared with Estimate: saving / (excess) |
|---|-----------|---------------|---------------|--|
| Net Resource Outturn | 1.1 | 55,630 | 50,668 | 4,962 |
| Capital outturn | 1.2 | 5,000 | 3,985 | 1,015 |
| Accruals to cash adjustments | | | | |
| Depreciation | | (2,900) | (1,703) | (1,197) |
| New Provisions and adjustments to previous provisions | | (2,000) | 398 | (2,398) |
| (Increase) / Decrease in payables | | - | 153 | (153) |
| Increase / (Decrease) in receivables | | - | 173 | (173) |
| Other non-cash items | | - | (80) | 80 |
| Use of provision | | - | 760 | (760) |
| Net cash requirement | | 55,730 | 54,354 | 1,376 |

SOPS4. Income payable to the Consolidated Fund

SOPS4.1 Analysis of income payable to the Consolidated Fund

In addition to income retained by the Department, the following income is payable to the Consolidated Fund.

| | 2016-17 Outturn £000 | | 2015-16 Outturn Restated £000 | |
|--|----------------------------|----------------|--|----------------|
| | Income | Receipts | Income | Receipts |
| Income outside ambit of the Estimate | (1,486) | (1,434) | (4,746) | (5,576) |
| Excess cash surrenderable to the Consolidated Fund | - | - | - | - |
| Total payable to the Consolidated Fund | (1,486) | (1,434) | (4,746) | (5,576) |

Income outside the ambit of the Estimate primarily refers to receipts from the Asset Recovery Incentivisation Scheme (ARIS). The ARIS scheme permits investigators and prosecutors to receive a percentage of confiscated criminal assets and income from civil settlements.

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 Serious Fraud Office for the year ended 31 March 2017 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Serious Fraud Office's Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the Statement of Parliamentary Supply and the related notes, and the information in the Remuneration and Staff Report and the Parliamentary Accountability and Audit Disclosures that is described in those reports and disclosures as having been audited.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Department's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accounting Officer; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Performance and Accountability sections of the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals and that those totals have not been exceeded. The voted Parliamentary control totals are Departmental Expenditure Limits (Resource and Capital), Annually Managed Expenditure (Resource and Capital), Non-Budget (Resource) and Net Cash Requirement. I am also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2017 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Department's affairs as at 31 March 2017 and of the Department's net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the parts of the Remuneration and Staff Report and the Parliamentary Accountability and Audit disclosures to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Remuneration and Staff Report and the Parliamentary Accountability and Audit disclosures to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General

14 July 2017

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

Statement of Comprehensive Net Expenditure

For the year ended 31 March 2017

| | | 2016-17 | 2015-16 Restated |
|-------------------------------------|------|---------------|---------------------|
| | Note | £000 | £000 |
| Income | | | |
| Cost awards and other income | 4 | 1,112 | 1,199 |
| Consolidated fund extra receipts | 4 | 1,486 | 4,746 |
| Total operating income | | 2,598 | 5,945 |
| Expenditure | | | |
| Staff costs | 2 | 29,982 | 28,966 |
| Purchase of goods and services | 3 | 16,466 | 16,646 |
| Accommodation | 3 | 3,947 | 3,625 |
| Depreciation and impairment charges | 3 | 1,723 | 2,186 |
| Provisions increase | 3 | 1 | 737 |
| Provisions not required | 3 | (399) | (4,541) |
| Other operating expenditure | 3 | 60 | 293 |
| Total operating expenditure | | 51,780 | 47,912 |
| Net operating expenditure | | 49,182 | 41,967 |

2015-16 values have been restated to reflect the introduction of a Trust Statement for DPA revenue.

The notes on page 43 to 55 form part of these accounts.

Statement of Financial Position

As at 31 March 2017

| | Note | 2016-17 £000 | 2015-16 £000 |
|---|------|-----------------|-----------------|
| Non-current assets: | | | |
| Property, plant and equipment | 5 | 3,492 | 3,676 |
| Intangible assets | 6 | 3,029 | 583 |
| Trade and other receivables | 11 | 52 | 54 |
| Total non-current assets | | 6,573 | 4,313 |
| Current assets: | | | |
| Trade and other receivables | 11 | 2,594 | 2,362 |
| Cash and cash equivalents | 10 | 1,905 | 3,235 |
| Total current assets | | 4,499 | 5,597 |
| Total assets | | 11,072 | 9,910 |
| Current liabilities: | | | |
| Trade and other payables | 12 | (6,783) | (8,210) |
| Provisions | 13 | (54) | (1,109) |
| Total current liabilities | | (6,837) | (9,319) |
| Non-current assets plus net current assets | | 4,235 | 591 |
| Non-current liabilities | | | |
| Trade and other payables | 12 | - | - |
| Provisions | 13 | (1) | (103) |
| Total non-current liabilities | | (1) | (103) |
| Assets less liabilities | | 4,234 | 488 |
| Taxpayers' equity and other reserves: | | | |
| General fund | | 4,123 | 377 |
| Revaluation reserve | | 111 | 111 |
| Total equity | | 4,234 | 488 |

DAVID GREEN CB QC
Accounting Officer

12 July 2017

The notes on pages 43 to 55 form part of these accounts.

Statement of Cash Flows

For the year ended 31 March 2017

| | Note | 2016-17 £000 | 2015-16 Restated £000 |
|---|------|-----------------|-----------------------------|
| Cash flows from operating activities | | | |
| Net operating cost | | (49,182) | (41,967) |
| Adjustments for non-cash transactions | 3 | 1,385 | (1,509) |
| (Increase)/Decrease in trade and other receivables <i>less movements in receivables relating to items not passing through the Statement of Comprehensive Net Expenditure</i> | 11 | (229) | 1,083 |
| | | - | - |
| Increase/(Decrease) in trade payables <i>less movements in payables relating to items not passing through the Statement of Comprehensive Net Expenditure</i> | 12 | (1,427) | 2,117 |
| | | 1,339 | (1,610) |
| Use of provisions | 13 | (760) | (9,795) |
| Net cash outflow from operating activities | | (48,874) | (51,681) |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | 5 | (1,495) | (1,516) |
| Purchase of intangible assets | 6 | (2,555) | (168) |
| Net cash outflow from investing activities | | (4,050) | (1,684) |
| Cash flows from financing activities | | | |
| From the Consolidated Fund (Supply)- current year | | 52,849 | 60,924 |
| Advances from the Contingencies Fund | | 5,500 | 15,500 |
| Repayments to the Contingencies Fund | | (5,500) | (15,500) |
| Net financing | | 52,849 | 60,924 |
| Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund | | (75) | 7,559 |
| Receipts due to the Consolidated Fund which are outside the scope of the Department's activities | | - | - |
| Payments of amounts due to the Consolidated Fund | | (1,255) | (5,221) |
| Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund | | (1,330) | 2,338 |
| Cash and cash equivalents at the beginning of the period | 10 | 3,235 | 897 |
| Cash and cash equivalents at the end of the period | 10 | 1,905 | 3,235 |

2015-16 values have been restated to reflect the introduction of a Trust Statement for DPA revenue.

The notes on pages 43 to 55 form part of these accounts.

Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2017

| | Note | General Fund £000 | Revaluation Reserve £000 | Total Reserves £000 |
|--|------|----------------------|-----------------------------|------------------------|
| Balance at 31 March 2015 | | (11,905) | 111 | (11,794) |
| Net Parliamentary Funding | | 60,924 | - | 60,924 |
| Net Parliamentary Funding – deemed | | 897 | - | 897 |
| Supply payable adjustment | | (2,881) | - | (2,881) |
| CFERS payable to the Consolidated Fund | | (4,746) | - | (4,746) |
| Comprehensive Net Expenditure | | (41,967) | - | (41,967) |
| Non-Cash Adjustments | | | | |
| Auditor's remuneration | | 55 | - | 55 |
| Movements in Reserves | | | | |
| Transfer between reserves | | - | - | - |
| Balance at 31 March 2016 | | 377 | 111 | 488 |
| Net Parliamentary Funding | | 52,849 | - | 52,849 |
| Net Parliamentary Funding – deemed | | 2,881 | - | 2,881 |
| Supply payable adjustment | 12 | (1,376) | - | (1,376) |
| CFERS payable to the Consolidated Fund | 4 | (1,486) | - | (1,486) |
| Comprehensive Net Expenditure | | (49,182) | - | (49,182) |
| Non-Cash Adjustments | | | | |
| Auditor's remuneration | 3 | 60 | - | 60 |
| Movements in Reserves | | | | |
| Transfer between reserves | | - | - | - |
| Balance at 31 March 2017 | | 4,123 | 111 | 4,234 |

The notes on pages 43 to 55 form part of these accounts.

Notes to the accounts

1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2016-17 Government Financial 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 most appropriate to the particular circumstances of the Serious Fraud Office for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Serious Fraud Office are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

In addition to the primary statements prepared under IFRS, the FReM also requires the Department to prepare one additional primary statement. The Statement of Parliamentary Supply, page 33, and supporting notes, pages 33 to 36, show outturn against Estimate in terms of the net resource requirement and the net cash requirement.

Accounting convention

These accounts have been prepared under the historical cost convention and where material modified to account for the revaluation of property, plant and equipment and intangible assets at their value to the business by reference to their current costs.

Financial instruments

Financial assets and financial liabilities are recognised in the Statement of Financial Position when the SFO becomes a party to the contractual provisions of the instrument. The Department is subject to a limited range of financial instruments as its cash requirements are met through the Estimates process, and it is not exposed to significant credit, liquidity or market risk.

Borrowings

The SFO has limited powers to borrow money to fund short-term fluctuations in cash flow.

Trade receivables

Trade and other receivables are non-interest bearing and stated at fair value. Provision is made where there is evidence that the balances will not be recovered in full. Note 11 on page 52 sets out the closing receivable values at 31 March.

Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, and short-term highly-liquid deposits with a maturity period of three months or less. Note 10 on page 52 sets out the closing cash balances held by the SFO.

Trade payables

Trade payables are not interest bearing and are stated at their fair value. Note 12 on page 52 sets out the closing receivable values at 31 March.

Property, plant and equipment and intangible assets

The Department does not own any freehold land or buildings. Property, plant and equipment assets are included in the Statement of Financial Position at their fair values. Expenditure on property, plant and equipment and intangible assets is capitalised when that expenditure, on an individual basis, is £2,000 or more. For IT expenditure the £2,000 threshold is applied to assets on a grouped basis. Development expenditure represents internally generated assets under construction.

Property, plant and equipment and intangible assets are subject to consideration for an annual impairment review if there are any indicators of such impairments arising. Notes 5.1 page 48 and 6.1 page 50 detail the closing position at 31 March.

Revaluation reserve

The unrealised element of the Revaluation Reserve is disclosed in the Statement of Financial Position. Realised elements are transferred from the reserve to the General Fund. Downward revaluations are charged to the existing balance brought forward for that particular asset. If there is no previous balance, the charge is expensed in-year and disclosed in the Statement of Comprehensive Net Expenditure.

Depreciation and amortisation

Depreciation and amortisation are provided monthly on a straight line basis at rates calculated to write off the valuation of property, plant and equipment and intangible assets, less the estimated residual value, over their estimated useful lives. Depreciation and amortisation are provided from the month of acquisition up to and including the month of disposal.

The useful lives, residual values and depreciation and amortisation methods are reviewed annually with any revisions to those estimates accounted for retrospectively. The respective useful lives are as follows:

| | |
|--------------------------------------|---|
| <u>Property, plant and equipment</u> | |
| Improvements to leasehold property | Over the unexpired term of the lease |
| Information technology | 5 years |
| Furniture and fittings | 5-10 years |
| <u>Intangible assets</u> | |
| Software licenses | 5 years or over the unexpired term of the related software license (whichever is the shorter) |
| Information technology | 5 years or over the unexpired term of the related software license (whichever is the shorter) |
| Website | 5 years |

Development expenditure is not amortised until the assets are brought into use, at which point amortisation is applied in accordance with the asset category to which the asset is transferred on coming into use.

Costs awarded to the Serious Fraud Office (SFO)

Costs may be awarded to the SFO as prosecutor under Section 18 of the Prosecution of Offences Act 1985 following a successful prosecution, or as a result of subsequent appeal proceedings. Where costs are awarded, they may subsequently be revoked or reduced as a result of a successful appeal by the defendant. The court may order that they are not to be recovered without leave of the court, defer recovery until a future date, or subsequently vary the amount and/or timing of recovery or waive it altogether. Responsibility for the recovery of costs awarded rests with the appropriate magistrates' court. The SFO has no powers to recover costs awarded to it.

Where costs are awarded, they are shown as receivables on the Statement of Financial Position. Where they may not be recovered without leave of the court, full provision is made against them until leave is obtained. In other cases, the SFO makes a judgement on the likelihood of costs being recovered based on the circumstances of each case, and may make provisions accordingly. In practice, full provision is made one year after the debt becomes due except where the defendant is making regular payments to the SFO. Where costs are subject to appeal proceedings, full provision is made against them until all proceedings are finally determined. Subsequent treatment of these receivables and provisions will depend on the outcome of the proceedings.

Costs awarded to the SFO are written off after a period of five years unless there are compelling reasons to believe that payment will be received.

Costs awarded against the SFO

Any costs awarded against the SFO are included under prosecution costs for the year in which the awards are made unless awarded against the SFO due to inadequacy on the part of the SFO. In such cases costs awarded against the SFO are included within the losses and special payments note on page 32 as part of the Parliamentary Accountability and Audit section.

Asset Recovery Incentivisation Scheme

SFO receipts from the Asset Recovery Incentivisation Scheme (ARIS) for Civil Recovery and Confiscation Orders are recognised at the point that settlement is confirmed by the Courts. From April 2014 all ARIS receipts are paid to the Consolidated Fund as a Consolidated Fund Extra Receipt (CFER) and recorded as such in the Statement of Parliamentary Supply note 4.1 on page 36.

Other income

Any amounts relating to income not covered above is recognised at the point of payment and includes both budgetary and non-budgetary income. Non-budgetary income is outside the ambit of the Department and is surrenderable to the Consolidated Fund as a CFER and recorded as such in the Statement of Parliamentary Supply note 4.1 on page 36.

Foreign exchange

The presentational currency used for the financial statements is sterling. Transactions which are denominated in a foreign currency are translated at the rate of exchange ruling on the date of the transaction, except where rates do not fluctuate significantly, in which case an average rate for the period is used.

Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015 a new scheme, alpha, was introduced with transition arrangements in place for staff who were members of the prior scheme the Principal Civil Service Pension Scheme (PCSPS). Both alpha and PCSPS schemes are unfunded and are non-contributory except in respect of dependants' benefits. The Department 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 schemes of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on alpha and the PCSPS.

Provisions – Early departure costs

Under the Civil Service Compensation Scheme rules in place until 22 December 2010 the Department was required to meet the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts annually to the PCSPS over the period between early departure and normal retirement date. The provision reflects costs associated with staff who retired early prior to 22 December 2010. The provision is written off to the Statement of Comprehensive Net Expenditure, as and when the liabilities materialise. Note 13 on page 54 sets out the current value of provisions at the SFO.

Provisions – Legal, Leasehold and Other

The Department provides for legal and constructive obligations, which are of uncertain timing or amount, at the reporting date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the HM Treasury discount rate. Note 13 on page 54 sets out the current value of provisions at the SFO.

Operating leases

Operating lease rentals and lease incentives are charged to the Statement of Comprehensive Net Expenditure in equal amounts over the lease term. The Department currently holds operating leases for premises as well as reprographic equipment, note 7.2 on page 51 sets out the current value of lease commitments.

Value Added Tax (VAT)

Most of the activities of the Department are outside the scope of VAT, and in general output tax does not apply and input tax on purchases is not recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of property, plant and equipment and intangible assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

Third party assets

The Department may seize monetary assets. If the Department retains any monetary assets, it invests the sums in an interest-bearing account. The principal and the interest earned are held on behalf of the third party and are not a part of the Department's accounts, details of sums held are disclosed in note 15 on page 54.

Contingent liabilities

In addition to contingent liabilities disclosed in accordance with IAS 37, the Department discloses for parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote, but which have been reported to Parliament in accordance with the requirements of *Managing Public Money*.

Where the time value of money is material, contingent liabilities which are required to be disclosed under IAS 37 are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by IAS 37 are stated at the amounts reported to Parliament.

Operating segments

The Department does not have any operating segments to report.

2. Staff costs

| | 2016-17 | | | 2015-16 |
|---|----------------------------------|--------------|---------------|---------------|
| | £000 | | | £000 |
| | Permanently employed staff | Others | Total | Total |
| Wages and salaries | 18,335 | 6,122 | 24,457 | 24,019 |
| Social security costs | 1,916 | - | 1,916 | 1,465 |
| Other pension costs | 3,609 | - | 3,609 | 3,482 |
| Sub Total | 23,860 | 6,122 | 29,982 | 28,966 |
| Less recoveries in respect of outward secondments | - | - | - | - |
| Total net costs | 23,860 | 6,122 | 29,982 | 28,966 |

£52k of other staff costs have been capitalised and are not included in the figures above (2015-16: £0k).

3. Operating costs

| | | 2016-17 | 2015-16 |
|--|------|---------------|------------------|
| | Note | £000 | Restated £000 |
| Rentals under operating leases: | | 1,791 | 1,816 |
| Non-cash items: | | | |
| Depreciation | | 1,428 | 1,382 |
| Amortisation | | 275 | 804 |
| Loss on disposal of property, plant, and equipment | | 20 | 54 |
| Write-offs | | - | 184 |
| Increase in provisions | | 1 | 737 |
| Provisions not required written back | | (399) | (4,541) |
| External auditors' remuneration | | 60 | 55 |
| | | 1,385 | (1,325) |
| Purchase of goods and services: | | | |
| Civil litigation | | 326 | 99 |
| Counsel costs | | 9,274 | 9,632 |
| IT costs | | 3,342 | 3,435 |
| Other accommodation costs | | 2,228 | 1,907 |
| Other case costs | | 1,388 | 1,200 |
| General administration | | 1,635 | 1,872 |
| Costs awarded against the SFO | | 29 | - |
| Travel and subsistence | | 400 | 310 |
| | | 18,622 | 18,455 |
| Total | | 21,798 | 18,946 |

4. Income

| | 2016-17 | 2015-16 Restated |
|---|--------------|---------------------|
| | £000 | £000 |
| Costs awards | 546 | 757 |
| Other income | 566 | 442 |
| Total income within the ambit | 1,112 | 1,199 |
| Payable to the Consolidated Fund | | |
| Consolidated Fund Extra Receipts | 1,486 | 4,746 |
| Total income | 2,598 | 5,945 |

5.1 Property, plant and equipment 2016-17

All assets are owned.

| | Improvements to Leasehold Property | Information Technology | Furniture & Fittings | Assets under construction | Total |
|--|--|---------------------------|-------------------------|---------------------------------|--------------|
| | £000 | £000 | £000 | £000 | £000 |
| Cost or valuation | | | | | |
| At 1 April 2016 | 1,775 | 6,695 | 22 | - | 8,492 |
| Additions | 45 | 1,193 | 10 | - | 1,248 |
| Disposals | - | (520) | - | - | (520) |
| Reclassifications | - | - | - | - | - |
| At 31 March 2017 | 1,820 | 7,368 | 32 | - | 9,220 |
| Depreciation | | | | | |
| At 1 April 2016 | 1,297 | 3,517 | 2 | - | 4,816 |
| Charged in year | 485 | 938 | 5 | - | 1,428 |
| Disposals | - | (516) | - | - | (516) |
| Reclassifications | - | - | - | - | - |
| At 31 March 2017 | 1,782 | 3,939 | 7 | - | 5,728 |
| Net book value at 31 March 2017 | 38 | 3,429 | 25 | - | 3,492 |
| Net book value at 31 March 2016 | 478 | 3,178 | 20 | - | 3,676 |

Reconciliation of cash flows to property, plant and equipment additions

| | 2016-17 £000 | 2015-16 £000 |
|---|-----------------|-----------------|
| Total property, plant and equipment additions | 1,248 | 1,547 |
| Opening property, plant and equipment accrual | 247 | 216 |
| Closing property, plant and equipment accrual | - | (247) |
| Cash flows for property, plant and equipment additions | 1,495 | 1,516 |

5.2 Property, plant and equipment 2015-16

| | Improvements to Leasehold Property £000 | Information Technology £000 | Furniture & Fittings £000 | Assets under construction £000 | Total £000 |
|--|--|-----------------------------------|---------------------------------|---|---------------|
| Cost or valuation | | | | | |
| At 1 April 2015 | 1,773 | 5,318 | - | - | 7,091 |
| Additions | 2 | 1,523 | 22 | - | 1,547 |
| Disposals | - | (146) | - | - | (146) |
| Reclassifications | - | - | - | - | - |
| At 31 March 2016 | 1,775 | 6,695 | 22 | - | 8,492 |
| Depreciation | | | | | |
| At 1 April 2015 | 780 | 2,794 | - | - | 3,574 |
| Charged in year | 517 | 863 | 2 | - | 1,382 |
| Disposals | - | (140) | - | - | (140) |
| Reclassifications | - | - | - | - | - |
| At 31 March 2016 | 1,297 | 3,517 | 2 | - | 4,816 |
| Net book value at 31 March 2016 | 478 | 3,178 | 20 | - | 3,676 |
| Net book value at 31 March 2015 | 993 | 2,524 | - | - | 3,517 |

6.1 Intangible assets 2016-17

| | Information Technology £000 | Software Licenses £000 | Website Costs £000 | Development Expenditure £000 | Total £000 |
|--|-----------------------------------|------------------------------|--------------------------|------------------------------------|---------------|
| Cost or valuation | | | | | |
| At 1 April 2016 | 3,600 | 1,134 | 397 | - | 5,131 |
| Additions | - | 660 | - | 2,077 | 2,737 |
| Disposals | - | - | (228) | - | (228) |
| Reclassifications | - | - | - | - | - |
| At 31 March 2017 | 3,600 | 1,794 | 169 | 2,077 | 7,640 |
| Amortisation | | | | | |
| At 1 April 2016 | 3,452 | 771 | 325 | - | 4,548 |
| Charged in year | 138 | 109 | 28 | - | 275 |
| Disposals | - | - | (212) | - | (212) |
| Reclassifications | - | - | - | - | - |
| At 31 March 2017 | 3,590 | 880 | 141 | - | 4,611 |
| Net book value at 31 March 2017 | 10 | 914 | 28 | 2,077 | 3,029 |
| Net book value at 31 March 2016 | 148 | 363 | 72 | - | 583 |

Reconciliation of cash flows to intangible asset additions

| | 2016-17 £000 | 2015-16 £000 |
|--|-----------------|-----------------|
| Total intangible asset additions | 2,737 | 240 |
| Opening intangible asset accrual | 89 | 18 |
| Closing intangible asset accrual | (271) | (89) |
| Cash flows for intangible assets additions | 2,555 | 169 |

6.2 Intangible assets 2015-16

| | Information Technology £000 | Software Licenses £000 | Website Costs £000 | Development Expenditure £000 | Total £000 |
|--|-----------------------------------|------------------------------|--------------------------|------------------------------------|---------------|
| Cost or valuation | | | | | |
| At 1 April 2015 | 3,600 | 963 | 358 | 30 | 4,951 |
| Additions | - | 231 | 1 | 8 | 240 |
| Disposals | - | (60) | - | - | (60) |
| Reclassifications | - | - | 38 | (38) | - |
| At 31 March 2016 | 3,600 | 1,134 | 397 | - | 5,131 |
| Amortisation | | | | | |
| At 1 April 2015 | 2,734 | 721 | 301 | - | 3,756 |
| Charged in year | 718 | 62 | 24 | - | 804 |
| Disposals | - | (12) | - | - | (12) |
| Reclassifications | - | - | - | - | - |
| At 31 March 2016 | 3,452 | 771 | 325 | - | 4,548 |
| Net book value at 31 March 2016 | 148 | 363 | 72 | - | 583 |
| Net book value at 31 March 2015 | 866 | 242 | 57 | 30 | 1,195 |

7. Capital commitments and other commitments

7.1 Capital commitments

Capital commitments at 31 March 2017 totalled £56k (2015-16: £nil).

7.2 Commitments under leases

Total future minimum lease payments under operating leases are given in the table below, for each of the following periods:

| | 2016-17 £000 | 2015-16 £000 |
|---|-----------------|-----------------|
| Obligations under operating leases comprise: | | |
| Buildings: | | |
| Not later than 1 year | 2,155 | 1,716 |
| Later than 1 year and not later than 5 years | 9,971 | 26 |
| Later than 5 years | - | - |
| | 12,126 | 1,742 |
| Other: | | |
| Not later than 1 year | 50 | 74 |
| Later than 1 year and not later than 5 years | - | 50 |
| Later than 5 years | - | - |
| | 50 | 124 |

Property lease commitments relate to office space and offsite IT hosting for business continuity purposes:

- 2-4 Cockspur Street to 24 March 2022;
- Spring Park, Corsham, to 15 March 2018.

The properties have been assessed against IAS 17 Leases and determined as operating leases and therefore the associated commitments have been recorded in this note.

The SFO entered into one five-year contract on 27 November 2012 and a further two contracts on 1 December 2012 for the provision of reprographic equipment.

8. Other Financial Commitments

The Department has not entered into any non-cancellable contracts which are not leases, PFI contracts or other service concession arrangements.

9. Financial instruments

As the cash requirements of the Department are met through the Estimates process, financial instruments play a more limited role in creating risk than would apply to a non-public sector body of a similar size. The majority of financial instruments relate to contracts for non-financial items in line with the expected purchase and usage requirements and the Department is therefore not exposed to significant credit, liquidity or market risk.

The Department has very limited powers to borrow or invest surplus funds. Financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the entities in undertaking its activities.

10. Cash and cash equivalents

| | 2016-17 | 2015-16 |
|--|----------------|----------------|
| | £000 | £000 |
| Balance at 1 April | 3,235 | 897 |
| Net change in cash and cash equivalent balances | (1,330) | 2,338 |
| Balance at 31 March | 1,905 | 3,235 |
| The following balances at 31 March were held at: | | |
| Government Banking Service | 1,905 | 3,235 |
| Balance at 31 March | 1,905 | 3,235 |

11. Trade receivables and other current assets

11(a) Due within one year

| | 2016-17 | 2015-16 Restated |
|---|--------------|---------------------|
| | £000 | £000 |
| Amounts falling due within one year: | | |
| VAT receivable | 184 | 99 |
| Deposits and advances | 305 | 235 |
| Other receivables | 446 | 122 |
| Prepayments and accrued income | 1,328 | 1,632 |
| Consolidated Fund extra receipts | 66 | 10 |
| Costs awarded to the SFO | 308 | 308 |
| Provision for bad and doubtful debt | (43) | (44) |
| | 2,594 | 2,362 |

11(b) Due after more than one year

| | 2016-17 | 2015-16 |
|--|---------|---------|
| | £000 | £000 |
| Amounts falling due after more than one year: | | |
| Costs awarded to the SFO | 52 | 54 |

12. Trade payables and other current liabilities

| | 2016-17 | 2015-16 Restated |
|--|--------------|---------------------|
| | £000 | £000 |
| Amounts falling due within one year: | | |
| VAT creditor | - | - |
| Trade payables | 1,450 | 1,207 |
| Accruals and deferred income | 3,091 | 3,422 |
| Pension providers | - | - |
| Non-current asset accruals | 271 | 336 |
| Amounts issued from the Consolidated Fund for supply but not spent at year end | 1,376 | 2,881 |
| Consolidated Fund extra receipts due to be paid to the Consolidated Fund: | | |
| Received | 529 | 354 |
| Receivable | 66 | 10 |
| | 6,783 | 8,210 |

13. Provisions for liabilities and charges

| | Early departure costs | Legal claims | Leasehold property dilapidations | Other | Total |
|--------------------------------------|-----------------------|--------------|----------------------------------|----------|-----------|
| | £000 | £000 | £000 | £000 | £000 |
| Balance at 1 April 2016 | 509 | - | 137 | 566 | 1,212 |
| Provided in the year | - | - | 1 | - | 1 |
| Provisions not required written back | (7) | - | (137) | (254) | (398) |
| Provisions utilised in the year | (448) | - | - | (312) | (760) |
| Balance at 31 March 2017 | 54 | - | 1 | - | 55 |
| Amounts falling due within one year | 54 | - | - | - | 54 |
| Amounts falling due after one year | - | - | 1 | - | 1 |
| Total | 54 | - | 1 | - | 55 |

13.1 Early departure costs

The provision recognised for early retirement reflects the full anticipated costs associated with staff who retired before the transition to the new Civil Service Compensation Scheme. These have not been discounted. The provision is written off to the Statement of Comprehensive Net Expenditure as and when the liabilities materialise. It is expected that early departure payments will be incurred to 2017-18.

13.2 Leasehold property dilapidations

This provision is for the estimated costs of restoring the Cockspur Street property to a state specified within the property lease when the SFO's current lease ends in 2021-22.

13.3 Legal claims

This provision reflects all known legal claims where legal advice indicates that the claim is more likely than not to be successful and the amount of the claim can be reliably estimated.

13.4 Other

Other provisions reflects all known claims that do not fall under early departure costs, leasehold property or legal costs.

14. Related-party transactions

The SFO has had a small number of transactions with other Government Departments.

No Board member, key manager or other related party has undertaken any material transactions with the Department during the year.

15. Third party assets

The SFO manages a small number of sterling interest-bearing accounts containing seized monies. These are not SFO assets but are held as part of the SFO's law enforcement activities and, as such, do not form part of these accounts. Once legal proceedings have been completed, any seized cash is forfeited to the Home Office, confiscated by the court or, if the defendant is found not guilty, returned.

The assets held at the reporting date to which it was practical to ascribe monetary values comprised monetary assets such as bank balances and monies on deposit. The balance held at 31 March 2017 was £18,600 (2015-16: £49,978).

16. Events after the reporting period

On 10 April 2017 the SFO's application for a Deferred Prosecution Agreement was approved by Lord Justice Leveson at Southwark Crown Court, sitting at the Royal Courts of Justice. As a result of the DPA the company will pay £129m plus the expected costs of an FCA compensation scheme of £85m and related costs. This is a non-adjusting event as set out in International Accounting Standard 10.

The financial statements were approved by the Accounting Officer for issue on the date they were certified by the Comptroller and Auditor General.

Trust Statement

Accounting Officer's Foreword

Scope

This Trust Statement reports on receipts arising from Deferred Prosecution Agreements concluded by the Serious Fraud Office during the financial year. These sums are paid into HM Treasury's Consolidated Fund.

Deferred Prosecution Agreements are a means of disposing of cases involving corporate defendants and arise from the operational activity of the Serious Fraud Office, the costs of which are accounted for in the separate financial statements contained in this Annual Report.

Statutory Background

Deferred Prosecution Agreements were introduced on 24 February 2014, under the provisions of Schedule 17 of the Crime and Courts Act 2013. A Deferred Prosecution Agreement (DPA) is an agreement reached between a prosecutor and an organisation which could be prosecuted, under the supervision of a judge. They are available to the SFO and there is a Code of Practice for Prosecutors which was published jointly by the SFO and Crown Prosecution Service on 14 February 2014 after a public consultation.

A DPA allows a prosecution to be suspended for a defined period provided the organisation meets certain specified conditions. DPAs can be used for fraud, bribery and other economic crime. They apply to organisations only, never individuals. The key features of DPAs are:

- They enable a corporate body to make full reparation for criminal behaviour without the collateral damage of a conviction (for example sanctions or reputational damage that could put the company out of business and destroy the jobs and investments of innocent people);
- They are concluded under the supervision of a judge, who must be convinced that the DPA is 'in the interests of justice' and that the terms are 'fair, reasonable and proportionate';
- They avoid lengthy and costly trials;
- They are transparent, public events.

Under a DPA, a prosecutor charges a company with a criminal offence but proceedings are automatically suspended if the DPA is approved by the judge. A company would only be invited to enter DPA negotiations if there was full cooperation with an SFO investigation.

If the negotiations go ahead, the company agrees to a number of terms, such as paying a financial penalty, paying compensation, paying the costs of the SFO and co-operating with future prosecutions of individuals. If the company does not honour the conditions, the prosecution may resume. Arrangements for monitoring compliance with the conditions is set out in the terms of the DPA.

Financial Background

The receipts from DPAs relating to financial penalties and compensation are not retained by the SFO and are payable to HM Treasury's Consolidated Fund. Where the terms of the DPA include payment of the SFO's investigation costs in cases funded from the Reserve ("Blockbuster" cases), the applicable portion of those costs is also payable to the Consolidated Fund and included in this Trust Statement. In cases which are funded from the SFO's core vote, any relevant costs awards are retained by the SFO and accounted for as income in the accompanying separate financial statements for that vote.

No material expenditure was incurred in the process of collecting and processing these receipts.

Business Review

Two DPAs were concluded in the financial year.

XYZ Limited

On 8 July 2016 the SFO's application for a DPA was approved by Lord Justice Leveson at Southwark Crown Court, sitting at the Royal Courts of Justice. The counterparty to the DPA, is a UK SME that cannot currently be named due to ongoing, related legal proceedings.

The company was the subject of an indictment alleging conspiracy to corrupt, contrary to section 1 of the Criminal Law Act 1977, conspiracy to bribe, contrary to section 1 of the same Act, and failure to prevent bribery, contrary to section 7 of the Bribery Act 2010, all in connection with contracts to supply its products to customers in a number of foreign jurisdictions. Pursuant to the DPA, this indictment was immediately suspended.

As a result of the DPA, the company will pay financial orders of £6,553,085, comprised of a £6,201,085 disgorgement of gross profits and a £352,000 financial penalty.

Rolls Royce PLC

On 17 January 2017, the SFO and Rolls-Royce entered into a DPA which was approved by Lord Justice Leveson, President of the Queen's Bench Division. The DPA enabled Rolls-Royce to account to a UK court for criminal conduct spanning three decades in seven jurisdictions and involving three business sectors.

The DPA stipulated payments of £497,252,645 (comprising disgorgement of profits of £258,170,000 and a financial penalty of £239,082,645) plus interest, and reimbursement of the SFO's costs of £12,961,000.

The investigation into Rolls Royce was funded from the Reserve, and so the SFO's costs arising from this DPA were paid to the Consolidated Fund and are accounted for in this Trust Statement.

Under the DPA Rolls-Royce will pay the disgorgement of profits and financial penalty in four instalments as prescribed below:

- £119 million payable by 30 June 2017
- £100 million payable by 31 January 2019
- £130 million payable by 31 January 2020
- £148,252,645 by 31 January 2021

Rolls-Royce will pay simple interest on the dates prescribed above at an annual rate of 80 basis points over the GBP 6 month LIBOR interest rate on any amount of disgorgement or financial penalty unpaid calculated from 30 June 2017 until full payment is made.

Results and Appropriations

2016-17 is the first year of preparation of a Trust Statement for the SFO, prior year comparatives have been included to reflect DPA receipts received in 2015-16 and the SFO accounts have been restated to reflect this adjustment.

The net revenue for the Consolidated Fund was £516.7m. The transfer of receipts to the Consolidated Fund from the Trust in the year was £15.8m, which left a balance due to the Consolidated Fund of £500.9m at 31 March 2017. Cash balances at the year-end were nil.

DAVID GREEN CB QC
Director

12 July 2017

Statement of the Accounting Officer's Responsibilities

Under Section 2(3) of the Exchequer and Audit Departments Act 1921 HM Treasury has directed the SFO to prepare, for each financial year, a Trust Statement in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Trust Statement and of its: Statement of revenue, other income and expenditure; Statement of financial position; and Statement of cash flows cash flows for the financial year.

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

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards, as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the Trust Statement; and,
- prepare the Trust Statement on a going concern basis.

HM Treasury has appointed the Director of the SFO as Accounting Officer. 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 SFO's assets, are set out in *Managing Public Money* published by the HM Treasury.

Accounting Officer's confirmation

As Accounting Officer, as far as I am aware, there is no relevant audit information of which the SFO's auditors are unaware. I have taken all of the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the National Audit Office are aware of that information.

The annual report and accounts as a whole is fair, balanced and understandable and I take personal responsibility for the annual report and accounts and the judgements required for determining that it is fair, balanced and understandable.

DAVID GREEN CB QC
Accounting Officer

12 July 2017

Performance report and accountability report

The Department's Performance Report covering both the Department and the Trust Statement is shown on page 1.

The Department's Accountability Report covering both the Department and the Trust Statement is shown on page 10.

Governance statement

The Department's governance statement covering both the Department and the Trust Statement is shown on page 12.

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS

I certify that I have audited the Trust Statement of the Serious Fraud Office for the year ended 31 March 2017 under the Government Resources and Accounts Act 2000. The financial statements comprise the Statement of Revenue, Other Income and Expenditure, the Statement of Financial Position, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of the Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the Serious Fraud Office Trust Statement and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Serious Fraud Office; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Accounting Officer's Foreword, the Statement of the Accounting Officer's Responsibilities, the Performance and Accountability report and the Governance Statement to the Serious Fraud Office's Resource Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the Serious Fraud Office Trust Statement gives a true and fair view of the state of affairs of Deferred Prosecution Agreements as at 31 March 2017 and of the net revenue for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the information given in the Accounting Officer's Foreword and the Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General

14 July 2017

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

Statement of Revenue, Other Income and Expenditure

For the year ended 31 March 2017

| | Note | 2016-17 £000 | 2015-16 Restated £000 |
|---|------|------------------|-----------------------------|
| Revenue | | | |
| Deferred Prosecution Agreements: | | | |
| Financial penalties and disgorgement of profits | | (503,805) | (16,782) |
| Compensation | | - | (4,692) |
| Total | | (503,805) | (21,474) |
| Other income | | | |
| DPA costs payable to the Consolidated Fund | | (12,961) | - |
| Total revenue | | (516,766) | (21,474) |
| Expenditure | | | |
| Other expenditure | | - | - |
| Total operating expenditure | | - | - |
| Net revenue for the Consolidated Fund | | (516,766) | (21,474) |

There were no recognised gains or losses accounted for outside the above Statement of Revenue, Other Income and Expenditure (2015-16; nil).

2015-16 values have been restated to reflect the introduction of a Trust Statement for DPA revenue. There were no DPA receipts in 2014-15.

The notes on pages 65 to 66 form part of these accounts.

Statement of Financial Position

As at 31 March 2017

| | Note | 2016-17 £000 | 2015-16 £000 |
|---|------|-----------------|-----------------|
| Non-current assets | | | |
| Trade and other receivables | 2(b) | 381,012 | - |
| Total current assets | | 381,012 | - |
| Current assets: | | | |
| Trade and other receivables | 2(a) | 119,920 | - |
| Cash and cash equivalents | | - | - |
| Total current assets | | 500,932 | - |
| Total assets | | 500,932 | - |
| Current liabilities: | | | |
| Trade and other payables | | - | - |
| Total current liabilities | | - | - |
| Assets less liabilities | | 500,932 | - |
| Balance on Consolidated Fund account at 31 March | | 500,932 | - |

2015-16 values have been restated to reflect the introduction of a Trust Statement for DPA revenue. There were no DPA receipts in 2014-15.

DAVID GREEN CB QC
Accounting Officer

12 July 2017

The notes on pages 65 to 66 form part of these accounts.

Cash Flow Statement

For the year ended 31 March 2017

| | | 2016-17 | 2015-16 |
|---|------|----------|----------|
| | Note | £000 | £000 |
| Cash flows from revenue activities | | 15,834 | 21,474 |
| Cash paid to Consolidated Fund | | (15,834) | (21,474) |
| Increase/(decrease) in cash and cash equivalents | | - | - |

Notes to the Statement of cash flows

| Reconciliation of net cash flows to movement in net funds | | 2016-17 | 2015-16 |
|---|------|---------------|---------------|
| | Note | £000 | £000 |
| Net revenue for Consolidated Fund | | 516,766 | 21,474 |
| (Increase) in non-cash assets | 2 | (500,932) | - |
| Increase in liabilities | | - | - |
| Net cash flow from revenue activities | | 15,834 | 21,474 |

| Analysis of changes in net funds | | 2016-17 | 2015-16 |
|---|------|----------|----------|
| | Note | £000 | £000 |
| Increase/(decrease) in cash in this period | | - | - |
| Net funds as at 1 April (opening cash at bank) | | - | - |
| Net cash as at 31 March (closing cash at bank) | | - | - |

The notes on pages 65 to 66 form part of these accounts.

Notes to the Trust Statement

1. Principal accounting policies

Basis of accounting

The Trust Statement is prepared in accordance with the accounts direction issued by HM Treasury in accordance with section 2(3) of the Exchequer and Audit Departments Act 1921. The Trust Statement is prepared in accordance with the 2016-17 Government Financial 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 most appropriate to the particular circumstances of the Serious Fraud Office for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Serious Fraud Office are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

The income and associated expenditure contained in this statement are those flows of funds which the SFO handles on behalf of the Consolidated Fund and Treasury where it is acting as an agent rather than principal.

Accounting convention

These accounts have been prepared under the historical cost convention.

Revenue recognition

Receipts from Deferred Prosecution Agreements (DPA) are recognised at the point that settlement is confirmed by the Courts. DPA cost awards, where they are payable to the Consolidated Fund are also recognised at the point that settlement is confirmed by the Courts.

Due to the uncertainty of the DPA process and a lack of historic data to indicate the probability of a DPA being agreed the SFO does not classify DPA's in progress as contingent assets. For the purposes of the accounting treatment DPA's are recognised at the point that the agreement is approved.

Payables

Payables are stated at their fair value and includes interest payable as specified in the DPA agreement where applicable.

Receivables

Receivables are stated at their fair value and includes interest payable as specified in the DPA agreement where applicable, note 2 on page 66 refers.

Expenditure

The notional audit fee for the Trust Statement is included within operating costs note 3, page 46, of the SFO accounts. Any expenditure included in the Trust Statement is the direct cost of collection of sums owing.

Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, and short-term highly-liquid deposits with a maturity period of three months or less.

Foreign exchange

The presentational currency used for the financial statements is sterling. Transactions which are denominated in a foreign currency are translated at the rate of exchange ruling on the date of the transaction, except where rates do not fluctuate significantly, in which case an average rate for the period is used.

Receivables

2(a) Due within one year

| | 2016-17 | 2015-16 |
|---|----------------|----------|
| | £000 | £000 |
| Amounts falling due within one year: | | |
| Financial penalties and disgorgement of profits | 119,920 | - |
| Compensation | - | - |
| Costs awarded to the SFO | - | - |
| | 119,920 | - |

2(b) Due after more than one year

| | 2016-17 | 2015-16 |
|---|----------------|----------|
| | £000 | £000 |
| Amounts falling due after one year: | | |
| Financial penalties and disgorgement of profits | 381,012 | - |
| Compensation | - | - |
| Costs awarded to the SFO | - | - |
| | 381,012 | - |

3. Events after the reporting period

On 10 April 2017 the SFO's application for a Deferred Prosecution Agreement was approved by Lord Justice Leveson at Southwark Crown Court, sitting at the Royal Courts of Justice. As a result of the DPA the company will pay £129m plus the expected costs of an FCA compensation scheme of £85m and related costs. This is a non-adjusting event as set out in International Accounting Standard 10.

The financial statements were approved by the Accounting Officer for issue on the date they were certified by the Comptroller and Auditor General.

ACCOUNTS DIRECTION GIVEN BY HM TREASURY IN ACCORDANCE WITH SECTION 2(3) OF THE EXCHEQUER AND AUDIT DEPARTMENTS ACT 1921.

This direction applies to the Serious Fraud Office in respect of revenue and other income arising from Deferred Prosecution Agreements (DPA) and the proportionate share of receipts from DPA cost awards payable to the Consolidated Fund.

The Serious Fraud Office shall prepare a Trust Statement (“the Statement”) for the financial year ended 31 March 2017, and each year thereafter, for the revenue and other income, as directed by the Treasury, collected by the department as an agent for others, in compliance with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual by HM Treasury (“FReM”) which is in force for the reporting period.

The Statement shall be prepared, as prescribed in Appendix 1, so as to give a true and fair view of (a) the state of affairs relating to the collection and allocation of revenue and other income by the Serious Fraud Office as agent and of the expenses incurred in the collection of that revenue and other income insofar as they can properly be met from that revenue and other income; (b) the revenue and expenditure; and (c) the cash flows for the year then ended.

The Statement shall also be prepared so as to provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.

When preparing the Statement, the Serious Fraud Office shall comply with the guidance given in the FReM (Chapter 8). The Serious Fraud Office shall also agree with HM Treasury the format of the Principal Accounting Officer’s Foreword to the Statement, and the supporting notes, and the accounting policies to be adopted, particularly in relation to revenue recognition. Regard shall also be given to all relevant accounting and disclosure requirements in Managing Public Money and other guidance issued by HM Treasury, and to the principles underlying International Financial Reporting Standards.

Compliance with the requirements of the FReM will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirements of the FReM is inconsistent with the requirement to give a true and fair view, the requirements of the FReM should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment which should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the FReM. Any material departure from the FReM should be discussed in the first instance with HM Treasury.

The Statement shall be transmitted to the Comptroller and Auditor General for the purpose of his examination and report by a date agreed with the Comptroller and Auditor General and HM Treasury to enable compliance with the administrative deadline for laying the audited accounts before Parliament before the Summer Recess.

The Trust Statement, together with this direction (but with the exception of the related appendices) and the Report produced by the Comptroller and Auditor General under section 2(3) of the Exchequer and Audit Departments Act 1921 shall be laid before Parliament at the same time as the Department’s Resource Accounts for the year unless the Treasury have agreed that the Trust Statement may be laid at a later date.

Vicky Rock

Deputy Director, Government Financial Reporting
Her Majesty’s Treasury
21st March 2017

Sustainability Report

Greening Government

The Serious Fraud Office is committed to improve sustainability and is working towards meeting the Greening Government Commitment (GGC) targets which came into force on 1 April 2011 baselined against performance in 2009-10.

The GGC targets aim to reduce environmental impact with a series of measures to:

- Reduce greenhouse gas emissions by 25% from a 09-10 baseline from the whole estate and business related transport:
- Reduce waste generated by 25% from a 09-10 baseline:
- Reduce water consumption from a 09-10 baseline:
- Ensure procurement of sustainable and efficient products whilst reducing the impact of the supply chain.

| Area | | 2016-17 Performance | | 2015 - 16 |
|--|--------------------|--------------------------|----------------------------|--------------------------|
| | | 2016 – 17 | Target | |
| Greenhouse Gas emissions (Scopes 1, 2 & 3 business travel including air and rail travel) | | 582 (tCO ₂ e) | 1,367 (tCO ₂ e) | 638 (tCO ₂ e) |
| Estate Energy | Consumption | 1,632,000 kWh | - | 1,622,000 kWh |
| | Expenditure (£000) | 105 | - | 113 |
| Estate Waste | Amount | 43 tonnes | 63 tonnes | 41 tonnes |
| | Expenditure (£000) | 2.5 | - | 7.5 |
| Estate Water | Consumption | 2,882 m ³ | 4,467 m ³ | 5,485m ³ |
| | Expenditure (£000) | 15 | - | 9 |

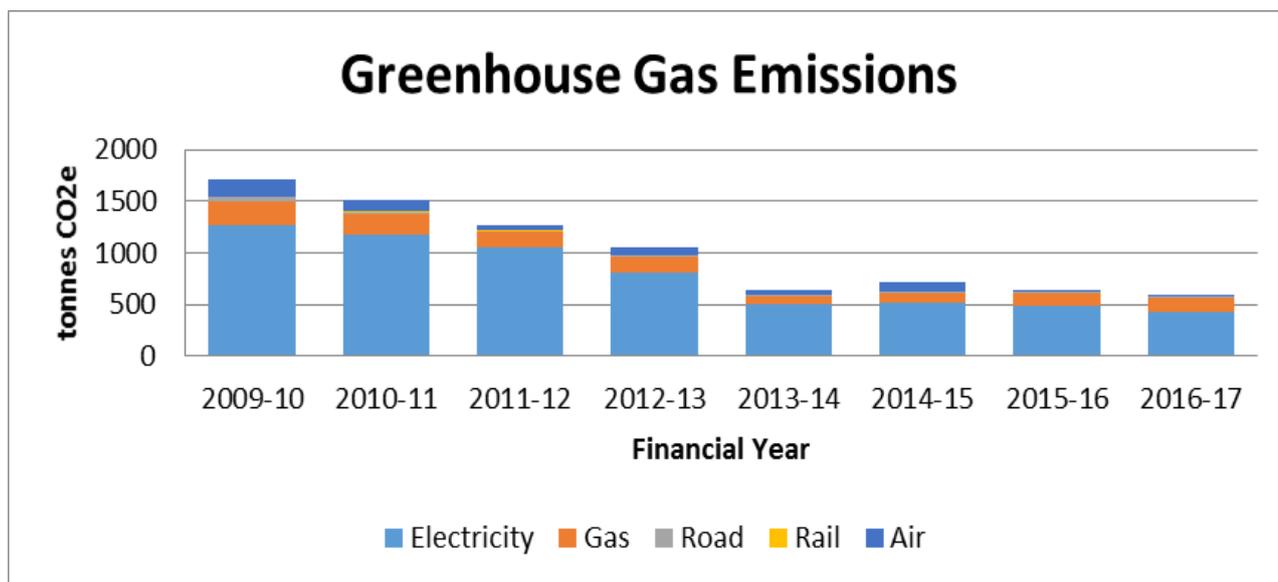
For 2016-17 Greenhouse Gas emissions are below the target by 42.5%, a further 9% reduction on 2015-16. Estate Consumption has increased by 0.62% while Estate Waste remains 31% lower than the baseline target.

Water usage is 35% below target due to our landlord (the Canadian High Commission) installing new water tanks and associated equipment.

Green House Gas emissions

There are three different classifications of greenhouse emissions, known as Scopes:

- Scope 1:** Direct emissions occurring from sources owned or controlled by the department, for example, emissions from combustible boilers and from fleet vehicles.
- Scope 2:** Indirect emissions occurring from electricity consumed which is supplied by another party.
- Scope 3:** Other indirect emissions. All other emissions which occur as a consequence of our activity but which are not owned or controlled by the department. For example emissions as a result of staff travel on public transport, taxis or airline flights.



| Greenhouse Gas Emissions | | 2009-10 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 |
|---|---|---------|---------|---------|---------|---------|---------|
| Non-financial indicators (tCO ₂ e) | Total Gross Emissions for Scopes 1 & 2 | 1,409 | 901 | 537 | 568 | 567 | 520 |
| | Total Net Emission for Scopes 1 & 2 | 1,409 | 901 | 537 | 568 | 567 | 556 |
| | Gross Emissions Scope 3 Business Travel | 209 | 94 | 67 | 113 | 34 | 26 |
| | Other Scope 3 Emissions Measured | 93 | 59 | 40 | 42 | 37 | 36 |
| Related Energy Consumption (kWh,000s) | Electricity: Non Renewable | 2,220 | 1,414 | 1,041 | 1,003 | 963 | 964 |
| | Electricity: Renewable | 166 | 72 | 0 | 0 | 0 | 0 |
| | Gas | 1,254 | 795 | 401 | 458 | 660 | 668 |
| Financial Indicators (£000) | Expenditure on Energy | 309 | 218 | 161 | 121 | 113 | 105 |
| | CRC Licence Expenditure | 0 | 0.07 | 0 | 0 | 0 | 0 |
| | Expenditure on Accredited Offsets | 0 | 0 | 0 | 0 | 0 | 0 |
| | Expenditure on Official Business Travel | 303 | 115 | 154 | 220 | 95 | 116 |

In line with the requirements given in [Public sector annual reports: sustainability reporting guidance 2016-17](#) international air travel is not included in our business travel reporting.

Combined energy consumption has increased by 10k (kWh) on 2015-16 levels, overall the total gross emissions has been reduced by 47 tonnes CO₂e. Electricity consumption has remained relatively level with only a 0.1% increase over 2015/16

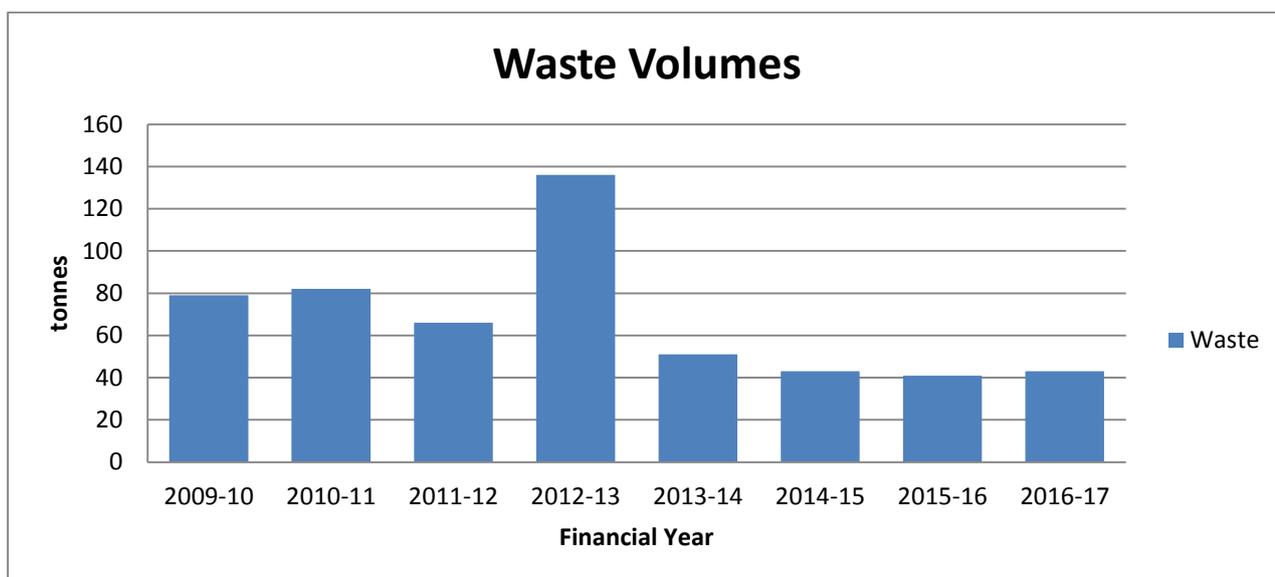
Domestic flights

The number of domestic flights taken by SFO staff on official business has fallen from the 2009-10 baseline of 99. In 2015-16, 66 domestic flights were taken. This figure has reduced further for 2016-17 to 26 domestic flights taken, against a target of 85. This area of expenditure is demand led and a direct result of operational case requirements.

Waste minimisation and management

The target is to reduce waste generated by 25% from a 2009-10 baseline. The SFO operates in a flexible working environment where waste is collected at central points on each floor encouraging recycling and an overall reduction in the volume of waste.

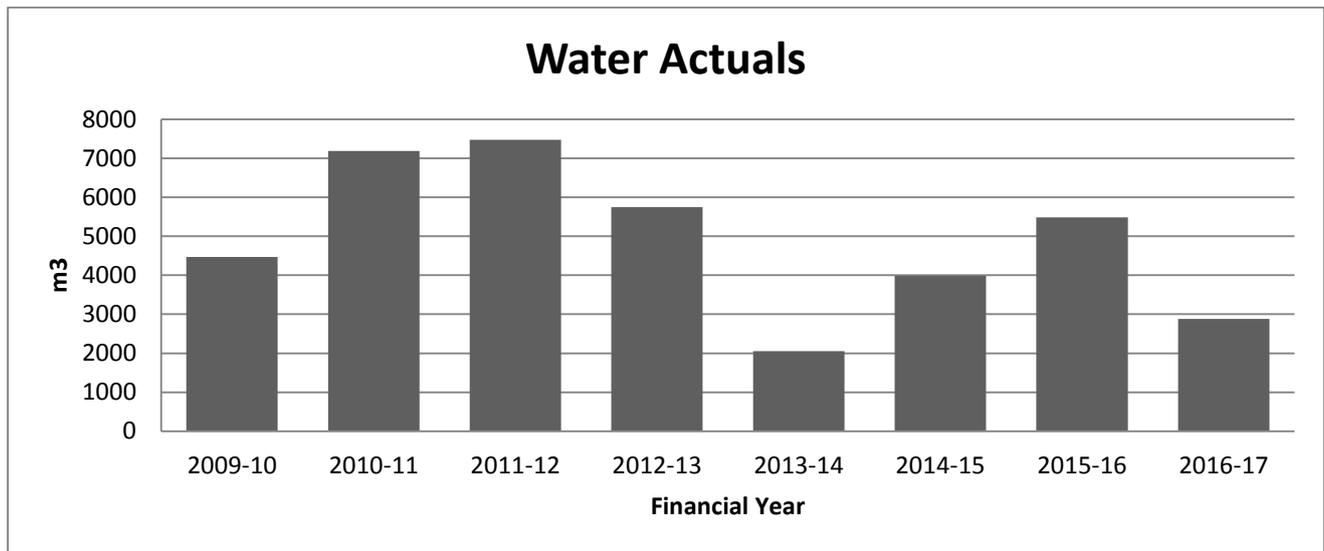
The SFO utilises 100% recycled paper for its main printing and any IT equipment continues to be disposed of under the WEEE Directive.



| Non Hazardous Waste | | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 |
|---------------------|-------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|
| Weight (t) | Landfill | 40 | 38 | 22 | 35 | 36 | 18 | 17 | 0 |
| | Reused/Recycled | 39 | 44 | 39 | 101 | 14.5 | 26 | 24 | 26 |
| | Incinerated/Energy from waste | 0 | 0 | 6 | 0 | 0 | 0 | 0 | 17 |
| Cost (£000) | Landfill | 18 | 15 | 11 | 12 | 11 | 4.5 | 4.5 | 0 |
| | Reused/Recycled | 31 | 20 | 19 | 32 | 2 | 3 | 3 | 2.5 |
| | Incinerated/Energy from waste | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

The SFO has an informal working group who consider green issues and ways to reduce waste generation. Recent initiatives have included increasing the recycling waste bins and encouraging reuse. Changes to the figures are as a result of Westminster Council no longer send commercial waste to landfill and instead uses, mixed recycling which is processed dependant on materials. Landfill materials are now incinerated to produce electricity for 50'000 homes and businesses, the TFL tube system and residual ash is used in road building and repair.

Finite resource consumption



| Finite Resource Consumption | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 |
|---|---------|---------|---------|---------|---------|---------|---------|---------|
| Non-financial indicators (m ³) Water Consumption | 4,467 | 7,187 | 7,476 | 5,747 | 2,054 | 3,985 | 5,485 | 2,882 |
| Financial Indicators (£000) Water Supply Costs | 3 | 5 | 6 | 6 | 18 | 6 | 9 | 15 |

The Greening Government target is to ensure that water consumption is reduced from 2009-10 to 2015-16 although no specific target has been set for this, unlike waste and greenhouse gas emissions.

Climate change adaptation

The SFO has a business continuity plan that we can invoke if required, in response to the impact of any climate change either nationally or globally.

Sustainable procurement

The SFO makes use of mandated centralised framework contracts where appropriate, that embed the Government Buying Standards (GBS) within them. However, if there are no centralised contracts available then any contract entered into will meet the GBS requirements.

Governance

The Solicitor General represents the Law Officers' Departments (LODs) on Sustainable Development matters. The minister is supported by the LOD Sustainable Development Steering Group chaired by the Crown Prosecution Service (CPS) Finance Director. The SFO is a member of this group. The CPS is the Secretariat to this Group and represents the LODs on any relevant Sustainable Development committees.

Our results against the GGC targets will be reported annually.

Notes:

- 1. Figures have been presented using the 2016-17 FREM guidance and Defra conversion figures.*
- 2. Estimates have been used in some instances where complete data was not available from suppliers or service providers.*
- 3. Figures are only for electricity consumed by the SFO. As the minor occupier they do not attempt to reflect any charges made through the service charge.*

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