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**Serious Fraud Office**

**Annual Report and Accounts**  
**2011-12**

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**Annual Report and Accounts**  
**2011-12**  
**(For the year ended 31 March 2012)**

Accounts presented to the House of Commons pursuant to Section 6(4) of the Government

Resources and Accounts Act 2000

Accounts presented to the House of Lords by Command of Her Majesty

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

Ordered by the House of Commons to be printed on 1 November 2012

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This is part of a series of departmental publications which, along with the Main Estimates 2012-13, the document Public Expenditure: Statistical Analyses 2012, present the Government's outturn for 2011-12 and planned expenditure for 2012-13.

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Any enquiries regarding this publication should be sent to us at: Elm House, 10-16 Elm Street, London, WC1X 0BJ

This publication is also available for download at [www.official-documents.gov.uk](http://www.official-documents.gov.uk) and is also available from our website at [www.sfo.gov.uk](http://www.sfo.gov.uk)

ISBN: 978 0 10 298078 3

Printed in the UK by The Stationery Office Limited  
on behalf of the Controller of Her Majesty's Stationery Office

ID P002494870 10/12 24172 19585

Printed on paper containing 75% recycled fibre content minimum.

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## Director's foreword

I present our annual report and accounts for the year 2011-12. I took up my appointment as Director on 21 April 2012.

In 2011-2012, the SFO completed 20 cases including 17 prosecutions and three civil settlements (worth a total of £16.2 million).

We secured 38 convictions - up from 26 in the prior year. The average prison sentence per conviction was 55 months - almost double the figure in 2010-11.

Over £50 million of ill-gotten assets were recovered, up from £42.7 million in 2010-211.

The average direct, non-pay cost of a case was reduced from £910,000 to £669,000.

The ambit of the SFO's work continued to be great. We worked with over 30 other jurisdictions; and loaded 35 million documents onto our state of the art computerised document review system (which now holds a staggering 112 million documents).

We launched our SFO CONFIDENTIAL hotline for whistleblowers.

We continued to work with victims of fraud.

We continued to make progress in combating international bribery and corruption, and advanced the UK's reputation for law enforcement in this area.

We broke new ground in using anti-money laundering legislation to claw back shareholder dividends generated from unlawful activities.

We were at the forefront of the Government's debate on deferred prosecution agreements which, if introduced, will give us a valuable additional tool in the fight against corporate economic crime.

Although we achieved more, we did so at less cost to the taxpayer; reducing the net cost of the SFO's operations from £35.5m in 2010-11 to £31.4m in 2011-12.

Of course much more remains to be done to bring fraudsters to book, to protect victims and to prevent fraud. The Governance Statement to these accounts also discloses failures during 2011-12 in relation to redundancy proceedings and the process for undertaking applications for search warrants. I have been in post since 21 April 2012. I have restated the SFO's basic mission, which is to focus on cases that undermine confidence in UK Plc in general and the City of London in particular. I have urgently addressed our organisational and governance structures, and our investigation and case management processes. I look forward to meeting the challenges of the job and hope to guide the SFO to further success in the year ahead.

**DAVID GREEN CB QC**  
Director

# Annual Report

## Basis of Accounts

This document contains the annual report and accounts of the Serious Fraud Office (SFO) for the year 1 April 2011 to 31 March 2012. These have been prepared in accordance with the guidance set out in HM Treasury's Government Financial Reporting Manual (FRM) for 2011-12.

The Annual Report contains, where relevant, the type of information you would expect to see in a director's report for a public company, a management commentary on the SFO and a remuneration report. The accounts show how the SFO has used its resources to deliver its objectives.

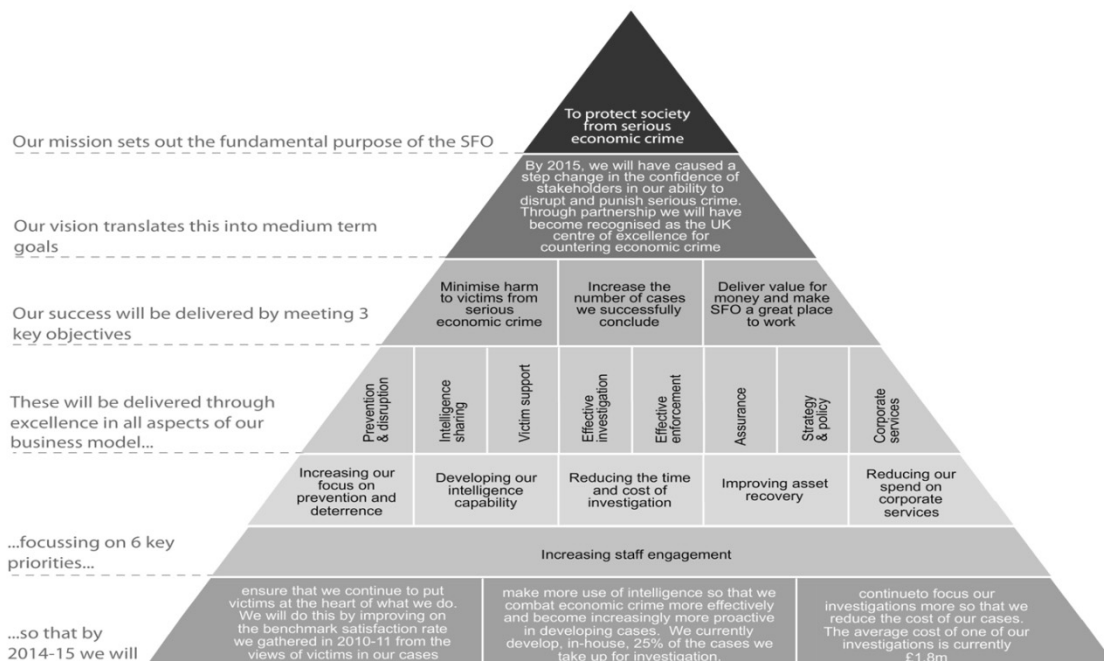
There is more information on the SFO on its website - [www.sfo.gov.uk](http://www.sfo.gov.uk)

## Role of the Department

The Serious Fraud Office (SFO) is a non-ministerial department. It was established by the Criminal Justice Act 1987, following the 1986 Roskill Report. Its role is to investigate and prosecute cases of serious or complex fraud in England, Wales and Northern Ireland and overseas corruption with a UK connection. Since the introduction of the 2010 Bribery Act, its role has expanded further to include domestic corruption as well. The SFO is headed by the Director, David Green QC, who acts under the superintendence of the Attorney General.

## Mission

The diagram below was presented in the SFO's three year Corporate Plan (2010-2013). It summarised the SFO's strategy and plan and showed the SFO's mission and vision, how these feed into three key objectives, the business model and six priorities.



## The SFO's approach to achieving this mission

The SFO had six core values underpinning the way the SFO worked towards this mission. These were:

- **Supportive:** We serve and help victims, witnesses and whistleblowers who are at the heart of what we do.
- **Focused:** We focus on serious cases where we can make a difference, delivering the most appropriate results as quickly as possible;
- **Proactive:** We are proactive in reducing the harm from fraud and corruption by educating the public and working with other agencies to disrupt economic crime. We look to share ideas for new and innovative ways of working and so improve what we do;
- **Relevant:** We are up to date on current and potential economic crime issues. We deliver the specialised work that makes the biggest difference to the harm caused by serious economic crime;
- **Collaborative:** We collaborate nationally and internationally to chase down and address serious economic crime. We treat our staff, partners and stakeholders with respect, valuing diversity and drawing on the different strengths, experience and talents of all our people and so provide equality of opportunity for staff to grow and develop; and
- **oneSFO:** We have a common purpose and consistent processes that deliver value for money and manage risk effectively.

### Governance

Information on SFO's governance and risk management arrangements, and the key challenges SFO faced in the year, are set out in the Governance Statement to this report and accounts (pages 25 to 33).

### SFO Activities and Operations

The SFO has two operational business areas (Fraud and Bribery & Corruption) each led by a member of the Senior Civil Service with a number of dedicated case managers who are responsible for the day-to-day management of cases. Case managers are either investigators or lawyers. The nature of a case and the stage it is at, determine whether a lawyer or an investigator is in charge of it. Multi-discipline case teams are established and members are allocated according to the skills and expertise the case requires. Cases are reviewed at least monthly to ensure that they are on track and that they still fit with the SFO's aims. Case selection criteria are set out on the website - [www.sfo.gov.uk](http://www.sfo.gov.uk)

### Company Directorships

None of the Strategic Management Board members hold any company directorships or significant interests which might conflict with their senior management responsibilities.

### Key Performance Indicators in 2011-12

For detailed information please refer to the separate publication 'Year in review 2011-12' available on the SFO website [www.sfo.gov.uk](http://www.sfo.gov.uk).

The table below provides a summary of performance against key indicators in 2011/12:

	2009/10	2010/11	2011/12
Number of trials	13	17	17
Number of civil recovery orders	1	1	3
Number of defendants convicted	22	26	38
Total number of defendants tried	24	31	52
Percentage of defendants convicted	91.7%	84%	73%
Average length of sentence (months)	31.8	30.1	55.2
Total sums removed or recovered from persons, entities and defendants associated with criminal or unlawful conduct	£10.3m	£42.7m	£50.2m
Average cost of cases (excluding staff)*		£910k	£669k
Cost of the SFO per person in the UK	£0.73p	£0.64	£0.59

\* The average cost of cases is calculated based on cases which have been at trial in that year and excludes staff costs.

In 2011/12 the SFO conducted three surveys of victims and witnesses to measure their views. The surveys measured:



Satisfaction indicator	% of respondents indicating they were satisfied with
1) how easy victims and witnesses felt it was to contact the SFO about their case	57%
2) how well the SFO kept victims and witnesses up to date on significant events during the investigation	51%
3) how well victims and witnesses rated the SFO's speed of response when responding to enquiries	60%

The responses of victims and witnesses to the survey questions above suggested varying satisfaction levels depending on their age and the type of case under investigation..

### Transparency

The SFO is supporting the Government's drive for greater transparency, in line with Cabinet Office guidance (<http://www.cabinetoffice.gov.uk/resource-library/guidance-transparency>) by publishing online:

- Details of payment transactions over £25k. The data is from the start of 2010-11
- Details of GPC transactions over £500;
- Workforce Management Information – paybill costs and workforce numbers for the year ended 31 March 2011 and monthly information for 2011-12;
- In year and end of year non-consolidated performance related pay awards made in 2010-11;
- Organisation charts showing salary details (in £5,000 bands) for staff in grades SCS Pay Band 2 and above.

Details are available at [www.sfo.gov.uk](http://www.sfo.gov.uk) and [www.data.gov.uk](http://www.data.gov.uk) (where required).

Additionally details of all new contracts and tender documents for contracts over £10k are published on the Business Link "Contracts Finder" website [www.businesslink.gov.uk](http://www.businesslink.gov.uk).

We comply fully with our obligations under Freedom of Information and Data Protection legislation.

### Consultation with employees

#### People survey

The SFO participated in the Civil Service People Survey in 2011. The SFO achieved a response rate of 78% (2010 70%) and an engagement score of 50%. (2010 52%)

Representative groups include the Equality and Diversity Working Group, with members drawn from across the SFO at all grades and the HR Stakeholder Group who are consulted with in the development of all policies in relation to people issues.

#### Partnership

The SFO has a formal consultation framework with the Trade Unions - the First Division Association (FDA), Prospect and the Public and Commercial Services (PCS). Monthly People Committee meetings are scheduled and chaired by the Head of Corporate Services.

The SFO was subjected to 2 days of strike action in 2011-12, 1 in June and 1 in November. These were in respect of the Civil Service pay freeze, and changes to the Civil Service Pension Scheme, and totalled 64 staff days lost.

## Departmental Report Core Tables

The tables below set out the key data for the Serious Fraud Office as required by the Public Expenditure System Paper PES (2011) 10.

**Table 1 Public Spending**

	£000s							
	2007- 08 Outturn	2008- 09 Outturn	2009- 10 Outturn	2010- 11 Outturn	2011- 12 Outturn	2012- 13 Plans	2013- 14 Plans	2014- 15 Plans
<b>Resource DEL</b>								
Section A: Investigations and Prosecution	43,318	51,529	39,616	35,513	31,579	33,400	30,172	28,838
<b>Total Resource DEL</b>	<b>43,318</b>	<b>51,529</b>	<b>39,616</b>	<b>35,513</b>	<b>31,579</b>	<b>33,400</b>	<b>30,172</b>	<b>28,838</b>
of which:								
Pay	18,460	23,640	19,948	19,941	18,820	18,496	18,303	17,834
Procurement	23,462	27,031	20,306	17,846	17,371	15,112	12,499	11,442
Depreciation*	1,604	2,354	2,709	2,137	2,531	2,292	1,870	2,062
Non vote income	(208)	(1,496)	(3,347)	(4,411)	(6,959)	(2,500)	(2,500)	(2,500)
<b>Resource AME</b>	-	1,762	517	-	(184)	1,400	2,000	2,000
<b>Total Resource Budget</b>	<b>43,318</b>	<b>53,291</b>	<b>40,133</b>	<b>35,513</b>	<b>31,579</b>	<b>34,800</b>	<b>32,172</b>	<b>30,838</b>
of which:								
Depreciation	1,604	2,354	2,709	2,137	2,351	2,292	1,870	2,062
<b>Capital DEL</b>								
Section A: Investigations and Prosecution	4,223	1,864	2,979	2,745	709	1,600	1,440	1,820
<b>Total Capital Budget**</b>	<b>4,223</b>	<b>1,864</b>	<b>2,979</b>	<b>2,745</b>	<b>709</b>	<b>1,600</b>	<b>1,440</b>	<b>1,820</b>
<b>Total departmental spending***</b>	<b>45,937</b>	<b>52,801</b>	<b>40,403</b>	<b>36,121</b>	<b>29,937</b>	<b>34,108</b>	<b>31,742</b>	<b>30,596</b>
of which:								
Total DEL	45,937	51,039	39,886	36,121	30,121	32,708	29,742	28,596
Total AME	-	1,762	517	-	(184)	1,400	2,000	2,000

\* Includes impairments

\*\* Expenditure on tangible and intangible fixed assets net of sales

\*\*\* Total departmental spending is the sum of the resource budget and the capital budget less depreciation. Similarly, total DEL is the sum of the resource budget DEL and capital budget DEL less depreciation in DEL, and total AME is the sum of the resource budget AME and capital budget AME less depreciation in AME.

**Table 2 - Capital Employed**

£000s

	2007- 08 Outturn	2008- 09 Outturn	2009- 10 Outturn	2010- 11 Outturn	2011- 12 Outturn	2012- 13 Plans	2013- 14 Plans	2014- 15 Plans
<b>Assets and liabilities on the statement of financial position at end of year:</b>								
<b>Assets</b>								
Non-current assets	<b>7,878</b>	<b>6,155</b>	<b>6,859</b>	<b>7,335</b>	<b>5,569</b>	<b>5,968</b>	<b>5,538</b>	<b>5,296</b>
Intangible	489	1,485	2,548	4,066	3,123	3,568	3,828	3,676
Property, Plant and Equipment	7,375	4,686	4,300	3,259	2,437	2,400	1,710	1,620
of which:								
Improvements to leasehold property	2,645	2,733	2,015	1,065	457	1,000	750	500
Information technology	1,467	1,396	1,895	1,937	1,866	1,200	800	1,000
Furniture and fittings	525	480	390	257	114	200	160	120
Motor vehicles	65	49	-	-	-	-	-	-
Current assets	2,687	3,675	2,252	2,556	3,026	2,200	2,200	2,200
<b>Liabilities</b>								
Current (<1 year)	(5,899)	(9,344)	(4,763)	(4,873)	(4,674)	(3,700)	(3,300)	(3,000)
Non-current (>1 year)	-	-	(298)	(126)	-	(298)	(298)	(298)
Provisions	(965)	(2,050)	(2,279)	(1,467)	(1,283)	(653)	(355)	(200)
<b>Capital employed within main department</b>	<b>3,701</b>	<b>(2,034)</b>	<b>1,771</b>	<b>3,425</b>	<b>2,638</b>	<b>3,517</b>	<b>3,785</b>	<b>3,998</b>
Agency assets*	-	(855)	(173)	(18)	-	-	-	-
<b>Total capital employed in departmental group*</b>	<b>3,701</b>	<b>(2,889)</b>	<b>1,598</b>	<b>3,407</b>	<b>2,638</b>	<b>3,517</b>	<b>3,785</b>	<b>3,998</b>

\* For 2011-12 onwards the assets of the NFA are accounted for by the Home Office following a Machinery of Government change effective 1 April 2011.

**Table 3 – Public Spending Control**

The level of expenditure incurred by Government Departments, including the Serious Fraud Office, is subject to statutory limits approved by Parliament. It is a fundamental form of accountability that expenditure within a financial year does not exceed these limits. There are four key financial targets which the Serious Fraud Office must achieve. Our performance for 2011-12 against these targets is set out in the table below:

	£000s			
	Revenue DEL	Revenue AME	Capital DEL	Net Cash Requirement
<b>Expenditure limits set at start of year and subsequent adjustments</b>				
Main Estimate	33,859	2,000	1,580	32,931
Supplementary Estimate	-670	-	-	-670
<b>Final limit</b>	<b>33,189</b>	<b>2,000</b>	<b>1,580</b>	<b>32,261</b>
<hr/>				
<b>Expenditure incurred</b>	31,579	(184)	709	30,544
<hr/>				
<b>Performance within limits</b>	Yes	Yes	Yes	Yes

**Table 4 - Administration budget**

	£000s							
	2007- 08 Outturn	2008- 09 Outturn	2009- 10 Outturn	2010- 11 Outturn	2011- 12 Outturn	2012- 13 Plans	2013- 14 Plans	2014- 15 Plans
Section A: Investigations and prosecution	30,714	-	-	-	7,546	9,973	7,900	7,351
<b>Total administration budget*</b>	<b>30,714</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,546</b>	<b>9,973</b>	<b>7,900</b>	<b>7,351</b>
of which:								
Paybill	18,460	-	-	-	4,514	2,582	2,528	2,460
Expenditure	12,412	-	-	-	3,032	7,391	5,372	4,891
Income	(158)	-	-	-	-	-	-	-

\* From 1 April 2008 to 31 March 2011 all operating costs for the SFO were classified as programme. The Spending Review for 2010 which covers 2011-12 to 2014-15 financial years has reinstated the requirement for the reporting of expenditure split between programme and administration.

**Table 5 - Staff in post**

	2008-09 Actual	2009-10 Actual	2010-11 Actual	2011-12 Actual
Civil service (full time equivalents)	303	302	295	279
Fixed Term Appointments	2	5	10	27
<b>Total*</b>	<b>305</b>	<b>307</b>	<b>305</b>	<b>306</b>

\* The numbers in this table reflect staff numbers at 31 March 2012, including those on fixed term contracts but excluding Agency staff. The numbers in this table are not directly comparable with those in note 6(b) which shows average staff numbers for the year.

# Sustainability Report

## Greening Government Commitments

From 2011-12 all central government bodies that produce annual report and accounts in accordance with the government Financial Reporting Manual (FRM) are required to produce an annual sustainability report, using the data collected for reporting on the Greening Government Commitments. The responsibilities of central government bodies under these commitments can be found at [www.greeninggovernment.co.uk](http://www.greeninggovernment.co.uk)

The Serious Fraud Office is committed to sustainable development and reducing the impact of its activities on the environment. This will be achieved in part through implementation of the Law Officers' Departments Carbon Management Plan covering carbon reductions planned by the SFO, Crown Prosecution Service and Treasury Solicitors Departments. A copy of the current plan can be found on the Attorney General's Office website at [www.attorneygeneral.gov.uk](http://www.attorneygeneral.gov.uk). The SFO's performance against the current targets is set out below.

## Summary of performance

The Greening Government targets replace the Sustainable Operations on the Government Estate (SOG E) targets for 2011/12, and aim to reduce environmental impact by 2015, with a series of new measures to:

- Reduce greenhouse gas emissions 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; and
- Ensure procurement of sustainable and efficient products whilst reducing the impact of the supply chain.

The SFO's results for 2011-12 show that it is ahead of target for Greenhouse Gas emissions and Estate waste whilst Estate water performance is behind target. 10% of the electricity for our main building is from renewable energy with all of the electricity for the Grays Inn Road site being good quality Combined Heat and Power. Emissions and waste have reduced due to a mix of investment in plant and equipment and surrendering excess accommodation while water usage has suffered as a consequence of some of the investment decisions made to reduce emissions.

Over the remaining years to 2014-15 the SFO will be moving to new accommodation that is expected to ensure that by the final reporting year of the performance period all three targets will have been met as the new accommodation sourced is not only smaller in area than the current estate but also more efficient in terms of its utilisation of energy, waste and water.

Area		2011-12 Performance	
		Actual	Target
Greenhouse Gas emissions (Scopes 1, 2 & 3 business travel including air and rail travel)		1,299 tCO <sub>2</sub> e	1,424 tCO <sub>2</sub> e
Estate Energy	Consumption	2,961k kWh	-
	Expenditure	£218k	-
Estate Waste	Amount	67 tonnes	71 tonnes
	Expenditure	£30k	-
Estate Water	Consumption	7,476 m <sup>3</sup>	4,467 m <sup>3</sup>
	Expenditure	£6k	-

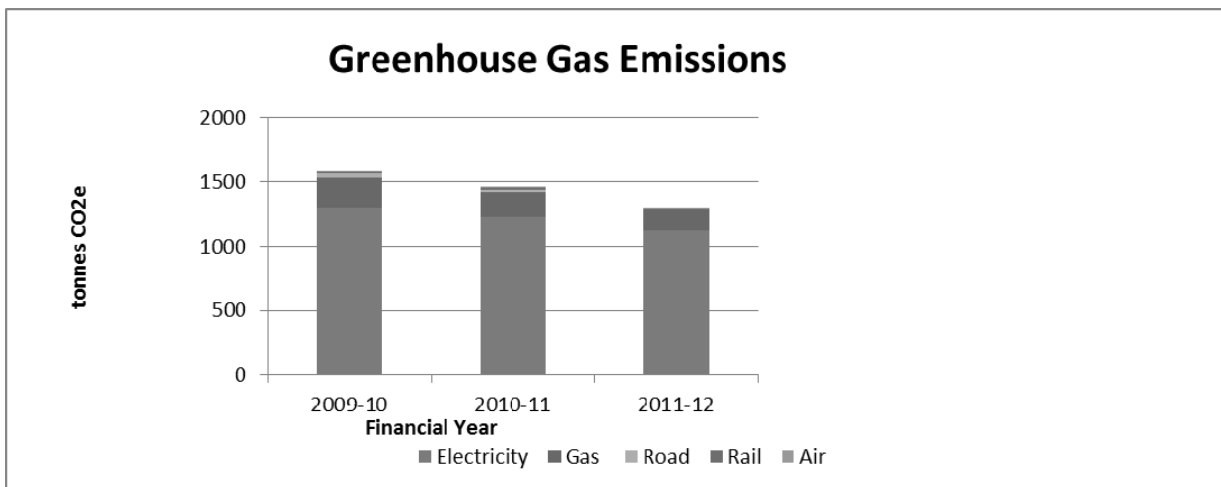
## Greenhouse gas emissions

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.



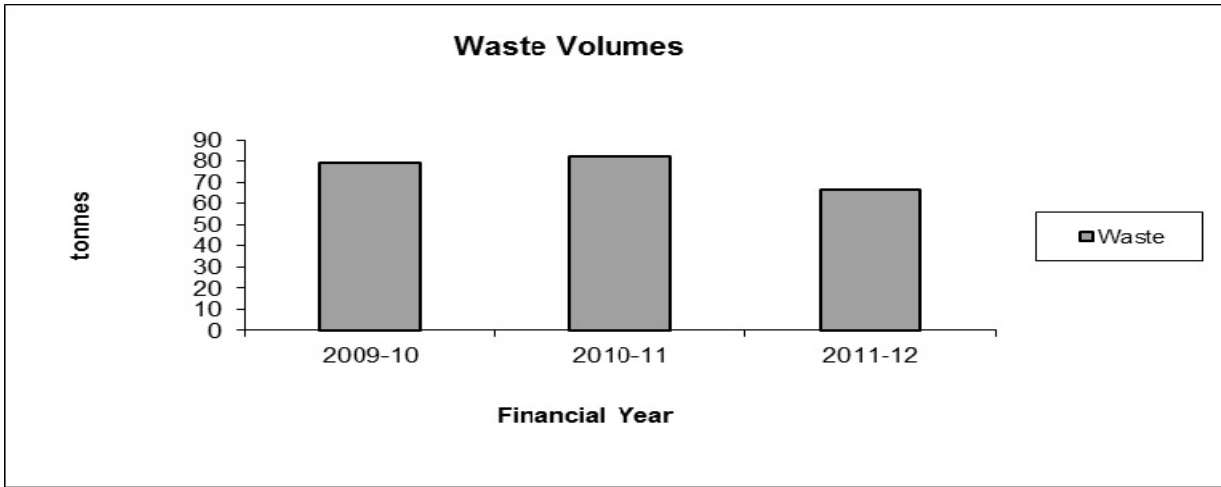
Greenhouse Gas Emissions		2009-10	2010-11	2011-12
Non-financial indicators (tCO <sub>2</sub> e)	Total Gross Emissions for Scopes 1 & 2	1,529	1,413	1,277
	Total Net Emission for Scopes 1 & 2	1,529	1,413	1,277
	Gross Emissions Scope 3 Business Travel	50	44	22
Related Energy Consumption (kWh,000s)	Electricity: Non Renewable	2,220	2,100	2,002
	Electricity: Renewable	166	154	146
	Gas	1,254	1,014	813
Financial Indicators (£k)	Expenditure on Energy	309	218	215
	CRC Licence Expenditure	0	4	3
	Expenditure on Accredited Offsets	0	0	0
	Expenditure on Official Business Travel	303	328	130

The target is to reduce greenhouse gas emissions from a 2009-10 baseline by 25% from the whole estate and business related transport by 2014-15. The SFO is on track to achieve this having reduced emissions by 18% against the 2009-10 baseline.

As part of a programme of capital works in 2009-10 old energy inefficient plant has been replaced including the installation of a new hot water system boiler, pressurisation unit and air conditioning chilled water pumps. The plant replacement programme contributed to the saving of 125k of kWh energy (66 tCO<sub>2</sub>e) in 2010-11 and will continue to save energy in the future.

Progress towards the target has also been furthered by releasing surplus accommodation in 2011-12 so that the actual size of the estate occupied by the SFO, and the consequent amount of carbon consumed by the department in energy is reduced.

**Waste**

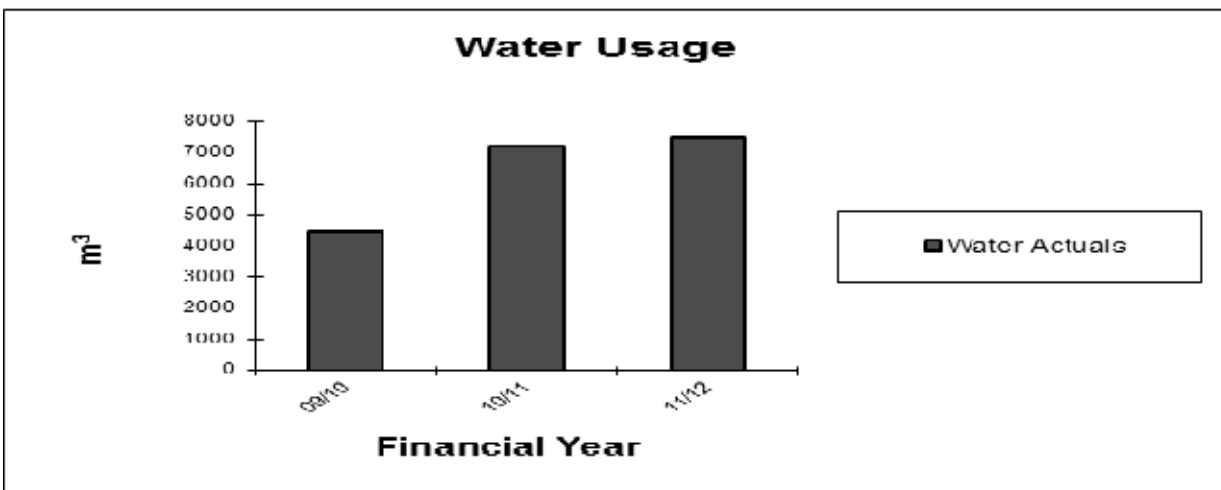


			2009-10	2010-11	2011-12
Weight (t)	Non Hazardous Waste	Landfill	40	38	22
		Reused/Recycled	39	44	39
		Incinerated/Energy from waste	0	0	6
Cost (£k)	Non Hazardous Waste	Landfill	18	15	11
		Reused/Recycled	31	20	19
		Incinerated/Energy from waste	0	0	0

The target is to reduce waste generated by 25% from a 2009-10 baseline by 2014-15. The release of the 5th floor of the 200 Grays Inn Road as part of an estate rationalisation programme in 2011-12 has resulted in a monthly reduction of 1 tonne per month and the SFO is confident of being able to achieve the target reduction by the end of the reporting period.

Waste volumes are expected to reduce further once the SFO moves from its current premises in Quarter 3 of 2012-13 although it is anticipated that the move itself will generate an increase in waste volumes in the months preceding the move as surplus equipment and furniture is disposed of.

**Water**



Finite Resource Consumption		2009-10	2010-11	2011-12
Non-financial indicators (m <sup>3</sup> )	Water Consumption	4,467	7,187	7,476
Financial Indicators (£k)	Water Supply Costs	3	5	6

The Greening Government target is to ensure that water consumption is reduced over the period 2009-10 to 2014-15 although no specific target has been set for this, unlike waste and greenhouse gas emissions.

The SFO's performance to date has been affected by the need to replace the old, inefficient air conditioning water chillers at the SFO's Grays Inn Road premises. Whilst this will have a beneficial impact on energy efficiency it has meant that there has been a significant increase in water consumption due to multiple drains and flushing of the heating / cooling system.

The SFO will be vacating the premises at the end of 2012 and therefore further measures in these premises will have limited benefit for the SFO. However the landlord has established a tenants working group to discuss green issues and feed in ideas and experiences and the SFO is an active participant in this.

#### **Other actions taken to promote sustainability**

The SFO implements sustainable procurement, following best practices, which means only purchasing goods and services that are really needed and buying items whose production, use and disposal minimise negative impacts on the environment and society.

We have ensured that a proportion of energy used is obtained from renewable sources, operate recycling schemes for paper, glass, cans and plastic packaging and additional "green" travel options for staff, supported by cycle storage and improved shower facilities.

Within the SFO, energy saving features have been incorporated in upgraded accommodation wherever possible, with proximity lighting installed on all upgraded floors. Further to this dual flush toilets and spray taps minimise water consumption and hand dryers have been included in the design to reduce usage of paper towels.



## Management Commentary

### 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 to be approved by Parliament each year. The amounts required for 2012-13 have already been approved and 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.

The Department's net assets of £2,638k at 31 March 2012 compare to net assets of £3,425k as at 31 March 2011. The movement in the position reflects reductions in the non current asset values at 31 March 2012 offset by an increase in current assets due to cash holdings at 31 March and a reduction in trade creditors compared to 2011 values.

The Statement of Financial Position as at 31 March 2012 includes the following liability payable over a number of years:

The provision for future payments associated with the early retirements of individuals in posts no longer required, with a decrease in year of £336k reducing the total provided to £886k.

### National Fraud Authority

In previous financial years, National Fraud Authority (NFA) was consolidated with Serious Fraud Office for financial reporting purposes to reflect its funding from the Consolidated Fund being a sub-head within the Request for Resources for the Department. On 1 April 2011, NFA was transferred into Home Office via a Machinery of Government change. The prior year (2010-11) comparators to these accounts apply the core Departmental figures and exclude the NFA consolidations; to enable comparison on a like-for-like basis.

The NFA had been established on 1 October 2008 as an executive agency of Attorney General's Office; to work across the public, private and charity sectors to provide strategic direction and to coordinate the fight against fraud.

### Reconciliation of Resource Expenditure between Estimate, Accounts and Budget

	2011-12 £000	2010-11 £000
<b>Net Resource Outturn (Estimate)</b>	<b>35,189</b>	<b>36,931</b>
Unused Resources	(3,794)	(1,057)
Income payable to the Consolidated Fund	-	(361)
<b>Net Operating Cost (Accounts)</b>	<b>31,395</b>	<b>35,513</b>
Of which:		
- Departmental Expenditure Limit (DEL)	31,579	35,513
- Annually Managed Expenditure (AME)	(184)	-

### Net Resource Outturn and Net Operating Cost

The resources available to the SFO are determined by Parliament through the Supply Estimates procedure. The decrease in both the Net Resource Outturn and Net Operating Cost over the previous year largely represents an increase in income received in addition to the Parliamentary Vote in 2011-12 compared to 2010-11.

As shown in the Statement of Parliamentary Supply on page 38, there has been an overall underspend of £1,610k against the DEL Estimate and an overall underspend of £2,184k against the AME Estimate. Income from civil recovery settlements and cost awards increased in 2011-12 to £6,959k compared to £4,411k in 2010-11.

## **Net Cash Requirement**

The net cash requirement of £30,544k for 2011-12 is £1,717k less than the estimated requirement for the year and reflects the significant increase in income achieved in 2011-12 offset by the operating expenditure of the SFO, the reduction of outstanding liabilities in respect of early departure costs by £336k and the settlement of remaining liabilities in respect of dilapidations in 2011-12.

## **Financial Instruments**

Details about the SFO's policies on financial instruments are included in the notes to these accounts. Most financial instruments are for contracts to buy 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.

## **Investment in the Future**

All current and capital expenditure support core operational functionality and are planned, as far as possible, to take account of changing circumstances which may affect these operations before they occur. The SFO continues to seek value for money on all procurements and contracts. Because the SFO is a small organisation, this is best done by using the Office of Government Commerce framework as much as possible and continuing partnerships with other public sector organisations that have dedicated resources working in these areas.

## **Pensions and Early Departure Costs**

Details about the SFO's pensions and early departure policies are included in the notes to these accounts.

## **Paying Suppliers**

The SFO's current payment policy is to pay bills on agreed contractual conditions, or where there are no conditions, either within 30 days of receiving the goods and services or on the presentation of a valid invoice, whichever is the later. The SFO paid 90% (2010-11 93%) of supplier invoices to time.

The Prime Minister made a commitment in October 2008 that central government departments would move to paying invoices within 10 days of goods being received and with a valid invoice. During 2011-12 the SFO paid 47% (2010-11 34%) of supplier invoices within 10 days. The legal requirement remains 30 days.

## **Data Handling**

The SFO has continued to build on the work it has done following the publication of the Cabinet Office guidance on Reporting of Personal Data Related Incidents which was issued in April 2008. The guidance requires government departments to:

- give the Information Commissioner's Office a summary of incidents
- disclose the numbers of incidents recorded by the department, but not required to be reported, in the department's annual report and accounts

Two data related incidents were reported with no loss of personal information and one incident was reported in relation to the storage of data. A thorough audit of the storage of material was subsequently undertaken and two further incidents were reported as a consequence of this audit. No personal information was compromised

## **Equal Opportunities**

The SFO is committed to treating all its employees fairly. It is also committed to treating all job applicants fairly and reasonably irrespective of their ethnic or national origin, sex, marital status, sexual orientation, religion or disability. Processes are reviewed regularly to ensure that any indicators of bias are highlighted and tackled.

## **Disability**

The SFO's Dignity at Work policy emphasises and embraces the importance of treating everyone equally with dignity and respect, irrespective of race, disability, belief or age. Inappropriate behaviour or discrimination is

deemed both unlawful and unacceptable. Our policy offers guidance on what to do if unacceptable behaviour occurs. The average number of declared disabled staff during the year was 18 (2010-11: 19).

### **Sickness**

The SFO wants its employees to attend work regularly. However, it recognises that, from time to time, employees may be unable to do this because of ill health. Working in partnership with its employees, the SFO tries to find ways to manage sick absences and to ensure that employees return to work at the earliest possible opportunity. Average working days lost due to sickness (per employee) was 8.76 (2010-11: 11.21 days).

### **Auditors**

The Comptroller and Auditor General is the statutory auditor for the SFO's accounts. The Department's notional audit fee for 2011-12 is £64,500 (2010-11: £64,500).

So far as I am aware, there is no relevant audit information of which the SFO's auditors are unaware, and I have taken all the steps that ought to have been taken to make myself aware of any relevant audit information and to establish that the SFO's auditors are aware of that information. No further assurance or other advisory services were provided by the auditors.

**DAVID GREEN CB QC**  
**Accounting Officer**  
**23 October 2012**

# Remuneration Report

## Ministers and Senior Officers

The Attorney General (Mr Dominic Grieve, QC) superintended the work of the SFO during the period covered by these accounts. The information given below relates to the Director and senior managers of the SFO. Information relating to the Attorney General is given in the accounts of the HM Procurator General and Treasury Solicitor.

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. The outgoing Director has foregone all pay increases since his appointment in April 2008.

## Remuneration Committee

The remuneration of the Executive Board Members is determined in accordance with the report of the Senior Salaries Review Body. The SFO's Senior Civil Service (SCS) Pay Committee meets annually to consider pay increases and bonus payments in accordance with these recommendations. The committee consists of the Director and an independent member of the Senior Civil Service from another government department with experience in setting SCS remuneration.

## At Risk Pay

For grades below the SCS, there are twice yearly merit and annual performance reviews. Instant bonuses can also be awarded by Heads of Business Area to individuals or teams who have completed a task under challenging circumstances. To assess performance, the SFO uses a competency framework. Each role within the Department is measured against the appropriate level of each competency. A formal review of performance is conducted at least once a year. In 2011-12 the annual performance bonus accrual for grades below the SCS totalled £150,000 (2010-11: £220,000).

## Service 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](http://www.civilservicecommission.org.uk)

The Director and Accounting Officer of the SFO is David Green CB QC.

## Senior Official Appointments

David Green was appointed by the Attorney General on a four-year contract that began on 21 April 2012.

## Salary and Pension Entitlements

This information is subject to audit.

The following sections provide details of the remuneration and pension interests of the most senior management of the Department during the year. The most senior management of the SFO is represented by the executive members of the Strategic Management Board and Executive Board.

## Non-Executive Board Members

<b>Name and title</b>	<b>2011-12</b>	<b>2010-11</b>
	<b>£000</b>	<b>£000</b>
Alan Graham* <b>Non-Executive Director</b>	25-30	25-30
Dame Elizabeth Neville QPM <b>Non-Executive Director</b>	15-20	15-20
Robert Goldspink <b>Non-Executive Director</b>	25-30	10-15
Simon Duckworth <b>Non-Executive Director</b> (from 1 July 2011)	5-10	-

- Alan Graham's fees reflect his remuneration for the role of chairman of the SFO and the NFA Audit Committees.

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 Executives

Name and title	2011-12		2010-11	
	Salary	Bonus Payments	Salary	Bonus Payments
	£000	£000	£000	£000
Richard Alderman <b>Director</b>	165-170	-	165-170	-
Phillippa Williamson <b>Chief Executive Officer</b>	130-135	10-15	120-125	10-15
Vivian Robinson QC <b>General Counsel</b> (to 28 July 2011)	45-50 (135-140 full year equivalent)	-	135-140	0-5
Josh Ellis <b>Chief Information Officer</b> (to 28 May 2011)	15-20 (90-95 full year equivalent)	-	95-100	5-10
Keith McCarthy <b>Chief Investigator</b> (to 19 December 2011)	65-70 (90-95 full year equivalent)	5-10	90-95	-
Christian Bailes <b>Chief Capability Officer</b>	115-120	5-10	115-120	5-10

### Salary

Salary includes gross salary; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office 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 (BIK)

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.

The BIK for the Chief Executive Officer is estimated to be £10,300 for the payments of travel and hotel costs for home to work travel incurred during 2011-12. These payments arise from her home base being out of London. This is enhanced by taxation and NI contributions to the value of £7,700. In 2011-12 the Chief Executive Officer moved on to an excess fares arrangement in respect of her home to office travel costs. Her increase in salary in the above table is due to the payment of £11,700 in excess fares during 2011-12. There was a corresponding reduction in her BIK in comparison to the prior year, in which BIK had been £27,600 and the taxation and NI contributions £24,300.

### Bonuses

Bonuses relate to the performance in the year prior to which they become payable to the individual. The bonuses reported in 2011-12 relate to performance in 2010-11 and the comparative bonuses reported for 2010-11 relate to performance in 2009-10

## Redundancy Costs

Phillippa Williamson (Chief Executive Officer) left under voluntary redundancy terms on 16 April 2012 (agreement entered into during 2011-12). SFO made a payment of £407,245 to *My Civil Service Pension* to cover all additional pension costs arising from early departure. In addition she received compensation in lieu of notice of £36,360 and an ex-gratia payment of £15,000. Further information is set out in the Governance Statement (pages 30 and 31). The total redundancy cost is disclosed in note 7 to the accounts as being within the £450,000 - £475,000 band (page 51).

## Pay Multiples

	2011-12		2010-11
Band of Director's Remuneration (£000)	165-170	Band of Director's Remuneration (£000)	165-170
Median Total (£)	33,546	Median Total (£)	31,864
Remuneration Ratio	4.99	Remuneration Ratio	5.26

The SFO is required to disclose the relationship between the salary of the most highly-paid individual in their organisation and the median earnings of the SFO's workforce. The salary of the most highly-paid individual in the SFO in the financial year 2011-12 was £165,000 - £170,000. This was 4.99 times the median salary of the workforce, which was £33,546.

The ratio has reduced from 5.26 in 2010-11 because of a marginal increase in the median pay for permanent staff and the appointment in 2011-12 of a number of fixed term staff above the median pay point whilst the salary of the highest paid individual has not changed since 2010-11

## Pension Benefits

Name and title	Accrued pension at pension age as at 31/3/12 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31/3/12	CETV at 31/3/11***	Real increase in CETV
	£000	£000	£000	£000	£000
Richard Alderman <b>Director</b>	80-85 plus 245-250 lump sum	-	1,847	1,741	-
Phillippa Williamson* <b>Chief Executive Officer</b>	50-55	-	757	707	1
Vivian Robinson QC** <b>General Counsel</b> (to 28 July 2011)	5-10	0-2.5	114	98	11
Josh Ellis <b>Chief Information</b>	0-5	0-2.5	19	17	-

<b>Officer</b> (to 28 May 2011)					
Keith McCarthy <b>Chief Investigator</b> (to 19 December 2011)	40-45 plus 120-125 lump sum	-	737	721	-
Christian Bailes <b>Chief Capability Officer</b>	45-50 plus 135-140 lump sum	-	775	731	-

\* Member of Premium Scheme - lump sum not applicable

\*\* Member of Nuvos Scheme - lump sum not applicable

\*\*\* The actuarial factors used to calculate CETVs were changed in 2011-12. The CETVs at 31/3/11 and 31/3/12 have both been calculated using the new factors, for consistency. The CETV at 31/3/11 therefore differs from the corresponding figure in last year's report which was calculated using the previous factors.

### Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a final salary scheme (**classic**, **premium** or **classic plus**); or a whole career scheme (**nuvos**). 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** and **nuvos** are increased annually in line with Pensions Increase legislation. 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 set at the rate of 1.5% of pensionable earnings for **classic** and 3.5% for **premium**, **classic plus** and **nuvos**. Increases to employee contributions will apply from 1 April 2012. 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. 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% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three 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 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** and 65 for members of **nuvos**.

Further details about the Civil Service pension arrangements can be found at the website <http://www.civilservice.gov.uk/pensions>



### **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.

### **Partnership Pensions**

None of the Senior Management team participates in partnership pension arrangements (see note 6).

**DAVID GREEN CB QC**  
**Accounting Officer**  
**23 October 2012**

## Statement of Accounting Officer's Responsibilities

1. Under Section 5 of the Government Resources and Accounts Act 2000 HM Treasury has directed, the SFO to prepare, for each financial year, accounts detailing the resources acquired, held or disposed of during the year and the use of resources during the year by the department during the year.
2. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the department and of its net resource outturn, resources applied to the objectives, changes in taxpayers' equity and cash flows for the financial year.
3. In preparing the accounts, the principle Accounting Officer is required to comply with the requirements of the *Government Financial Reporting Manual* and in particular to:
  - a. observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
  - b. make judgements and estimates on a reasonable basis;
  - c. 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
  - d. prepare the accounts on a going concern basis.
4. HM Treasury has appointed the Director of the SFO as the Accounting Officer of the Department. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding the Department's assets, are set out *Managing Public Money* published by the HM Treasury.

## Governance Statement

### Scope of responsibility

This statement covers the SFO's governance arrangements for the year ended 31 March 2012. Since my arrival as Director and Accounting Officer in April 2012, I have reorganised the SFO's organisational structure and governance, and have appointed a new senior management team. The focus of this restructure has been on embedding successive layers of quality assurance to guard against the repetition of damaging errors such as that in the Kaupthing case (see page 31).

The Serious Fraud Office (SFO) is a small, government department under the superintendence of the Attorney General. The Director of the SFO (who is also the department's Accounting Officer) is appointed by and accountable to the Attorney General, who is responsible to Parliament for the SFO.

The Accounting Officer is responsible for maintaining a sound system of internal control, which supports the achievement of the SFO's policies, aims and objectives, while safeguarding the public funds and departmental assets, for which the Director 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. There is therefore a clear understanding of the different levels of accountability within the SFO and this helps to promote effective planning and decision taking within the organisation.

### Committee structure

During the period covered by this report, the three key committees are the Strategic Management Board, the Executive Board and the Audit and Risk Committee. Their membership is set out in the table below and their purpose and arrangements in the succeeding sections. There are also a number of supporting committees all of which feed into the work and responsibilities of at least one of the key committees. The supporting committees are the SCS Group, the Equality and Diversity Steering Group, the Accommodation Project Board, and the Tactical Tasking and Co-ordination Group.. Each committee has its own terms of reference which are published on the SFO's intranet so that all members of staff can be clear about them.

Members	Senior Management Board (SMB)	Audit and Risk Committee (A&RC)	Executive Board (EB)
Richard Alderman (Director)	Chair		
Alan Graham MBE (Non-Executive Director)	✓	Chair	
Dame Elizabeth Neville DBE QPM (Non-Executive Director)	✓	✓	
Robert Goldspink (Non-Executive Director)	✓	✓	
Simon Duckworth (Non-Executive Director)*	✓	✓	
Vivian Robinson QC (General Counsel)**	✓	✓	
Phillippa Williamson (Chief Executive)	✓		Chair
Chris Bailes (Chief Capability Officer)			✓
Keith McCarthy (Chief Investigator)			✓

\* Appointed in July 2011

\*\* Left SFO in July 2011

### Strategic Management Board

The Director chairs the Strategic Management Board (SMB) which meets monthly and whose members include the Chief Executive Officer, General Counsel<sup>1</sup> and four non-executive directors. Individually the non-executive directors have experience in core areas such as the law, financial regulation, policing and the City. It advises on and supervises the strategic direction of the SFO, supports the operational implications and effectiveness of policy proposals and focuses on getting policy translated into results, specifically:

- setting and articulating the vision for the organisation based on an agreed view of long-term capability and horizon scanning;
- setting the SFO's risk appetite and making sure that controls are in place to manage risk including reviewing and monitoring strategic risks to which the organisation may be exposed;
- setting the SFO's professional standards, competencies and values;
- making sure that strategic decisions are based on a collective understanding of policy issues and that the way the business is designed means that the strategic objectives can be achieved;
- monitoring the SFO's external reputation and brand (by taking a general overview of relations with key stakeholders);
- monitoring performance against the operational business plan, including strategic aims and objectives, using management information and outside perspectives to ensure that the SFO is challenged on its outcomes, and support the drive for improvements;
- ensuring sound financial management and advising on the sign-off of large operational projects or programmes;
- ensuring the SFO has the capability, through talented people, to deliver and to plan to meet current and future needs; and that appropriate succession plans are in place;
- monitoring diversity issues within the SFO;
- any issue referred to the SMB by any other committee; and
- evaluating the effectiveness of the SMB and its members.

The SMB operates as a team with each member of the board sharing a common interest in the overall performance and integrity of the SFO. Each member, therefore, represents the interests of the SFO as a whole at board meetings and not simply the interests of the member's particular area of responsibility.

The SMB will always try to reach a decision by consensus. In exceptional cases, however, a decision may be taken by the Director because of the Director's ultimate personal responsibility for the SFO.

Rules have been agreed so that the SMB can discharge its responsibilities effectively. These rules deal with the cycle of meetings, setting agendas, the timetable for distributing papers and communicating decisions. Papers for SMB meetings cover operational performance; financial and other corporate information; the strategic risk register and the Audit and Risk Committee minutes and reports.

In addition to this formal role, there are other occasions when the SMB may meet to discuss important issues or cases that could affect the SFO's strategy or results or the way the SFO is perceived externally or affect the SFO in other significant ways.

The Cabinet Office 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 Strategic Management Board (SMB) does not consider that a separate nominations and governance committee is necessary. Instead the SMB carries out the nominations and governance function as a standing discussion item at each SMB meeting.

The Strategic Management Board met eight times during 2011-12.

## **Executive Board**

The Executive Board (EB) is chaired by the Chief Executive and is attended by the Chief Capability Officer (who is also the Senior Information Risk Owner) and the Chief Investigator<sup>2</sup> both of whom are full members of the board. The Media Adviser, the Head of Corporate Services, the Head of Technology and Specialist Services and the Head of the Bribery and Corruption business area also attend in an advisory capacity.

The EB is the principal forum for managing the SFO's performance and is the forum at which day to day management decisions are made.

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

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

The board is responsible for:

- leading by example so that senior managers operate and are seen to operate as one SFO;
- reviewing performance and resolving issues to make sure that the SFO delivers its targets;
- discussing and resolving (so far as possible) immediate operational and functional issues so that the SFO delivers its targets. Where exceptionally this is not possible, the chair (or delegated member) will escalate the issue to another sub-committee of the Strategic Management Board (SMB) as appropriate. If the issue needs to be resolved before any of these groups convene, the chair (or delegated member) will discuss and resolve the issue with the Director;
- preparing initial key papers and plans (for example, the annual business plan) for discussion and sign-off by the Strategic Management Board;
- succession planning;
- finance planning and monitoring;
- ensuring that all parts of the business are aware of major issues, risks, developments and opportunities in the SFO with our partners and other agencies, and the media (as appropriate). This includes sharing good news stories;
- scanning the horizon for opportunities to develop the SFO's business and preparing papers for the SMB to consider; and
- identifying issues that need to be resolved outside the SMB and ensuring they are appropriately developed and handed over.

The board meets weekly except in August and during the main holiday periods (Easter, Christmas and New Year). Meetings that fall a fortnight before the Strategic Management Board (SMB) are more formal and often involve other senior managers (for example, the Finance Manager). As well as discussing routine issues, this meeting also reviews the progress of papers that are being tabled for the SMB and issues that need to be escalated to it. It also covers important issues like health and safety, equality and diversity and so on. A monthly finance paper is also considered by this board from the Head of Finance.

In addition, every month, or when the business needs dictate, the EB meets the business leads from the following areas – Fraud, Bribery & Corruption; Knowledge and Communication, and Policy. As well as discussing routine issues, this meeting allows all the attendees to bring forward any issues from the business areas they represent.

The Executive Board met on 32 occasions in 2011/12

## **Audit and Risk Committee**

This committee is chaired by a non-executive director and has a number of external attendees. This gives the committee the independence it needs to discharge its responsibilities properly. It meets at least five times a year.

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2. This post is currently vacant

The purpose of the committee is to support the Director (as Accounting Officer) and the Strategic Management Board by reviewing the comprehensiveness of the assurances that the Director and Senior Management Board receive, and reviewing the reliability and integrity of these assurances. As part of this the committee also reviews and oversees the organisation's internal and external auditing arrangements, plans and results; and management's response to these. The committee also considers the adequacy of the SFO's risk assessment and management procedures and internal control systems.

The members of the committee are all non-executive directors and General Counsel (this role is currently vacant). Other attendees include the Chief Capability Officer, the Head of Finance, the Risk Co-ordinator and representatives of the external auditors (National Audit Office) and internal auditors (HMRC Internal Audit). Where appropriate, the committee also asks other SFO officials to attend meetings. The Director (as Accounting Officer) is invited to attend the meeting at which the Accounts and Governance Statement are reviewed. Representatives of the external or internal audit team have free access to the committee's chairman.

The Audit and Risk Committee met on 5 occasions during 2011/12

### **Other Organisational Arrangements**

The operational side of the SFO's work is divided into two 'business areas' each under the leadership of members of the senior civil service. These 'heads of business area' meet with the Chief Capability Officer and Chief Investigator weekly to discuss operational performance. The heads of corporate services and information technology and specialist services also attend these meetings.

The bulk of the SFO's resources (around 95 per cent) are focused on the core business of investigation and prosecution and are organised into specialisms – bribery and corruption, and fraud. Given the importance of evidence handling and the increasing electronic nature of evidence, the SFO has combined its material management, digital forensics and IT services teams under its head of information technology and specialist services.

The SFO has a small corporate services team that provides HR, finance, procurement, estate management, and knowledge management services. It also has small internal and external communications teams which ensure good communications with the press, public, victims, witnesses and whistleblowers.

The Director meets the Attorney General regularly to discuss progress, key risks and issues.

### **Evaluating the effectiveness of the committees**

Each of the three committees conducts an annual self-assessment of its effectiveness. The Strategic Management Board and the Executive Board had used the National Audit Office/Mazar's template *Unlocking your board's full potential* for this while the Audit and Risk Committee used the National Audit Office's *Audit Committee Self-Assessment Checklist* template. Self-assessments were undertaken for each committee during 2011-12, with recommendations being implemented as appropriate.

### **The information given to the committees**

All committees receive regular paper and oral reports on various aspects of the business. The key management information which underpins all data submitted to the boards is the 'dashboard' (a collection of information from across the SFO's business including case data, operational statistics, people information and information on stakeholders and victims) and financial data. This information is reviewed and collated monthly. The committees find the information sufficiently comprehensive and robust and the fact that committee members have the opportunity to consider it and explore wider issues where appropriate means that they have confidence that they have the information they need to be able to make decisions.

The function and purpose of the other committees, boards and groups that enable staff to share learning and best practice as well as ensuring that policy and strategy is effectively disseminated throughout the organisation are set out below.

### **Equality and Diversity Committee**

The committee acts as a subcommittee of the Executive Board and its overarching aim is to provide a forum at which appropriate representatives from the business manage the SFO's obligation under the Public Sector

Equality Duty by ensuring that an equality and diversity plan is put in place to address these obligations and that they are implemented. The committee also audits and scrutinises both the equality and diversity plan and equality impact assessment programme.

### **Accommodation Project Portfolio Programme Board**

The Board has been set up to oversee the transition of the SFO to new premises in Cockspur Street at the end of December 2012. The Board is responsible for the overall direction and management of the project portfolio. It approves all plans, authorises changes, monitors risks and signs off the completion of each stage to ensure that final products are fit to deliver the desired outcomes. It reports up to the Strategic Management Board.

### **SCS Group**

The SCS Group meets weekly to review operational performance and resolves immediate operational issues to make sure that targets are met. It also updates members on important developments and wider business issues. The SCS Group reports to the Executive Board.

### **Tactical Tasking and Coordination Group**

The group reviews, as delegated by the Director, the intelligence gathering and casework carried out by the Intelligence team in line with the Strategic Assessment and Control Strategy. It prioritises issues highlighted in the tactical intelligent assessment provided by the Head of Intelligence. A key function of the TT&CG meeting is to determine and develop a tactical resolution to a referral, including resource, technical requirements and an operational plan. The Board reports to the Director, via the Executive Board.

### **Risk**

The SFO's approach to risk is to manage it to a reasonable level rather than eliminate all the risk of failure to achieve policies, aims and objectives. The organisation can only therefore give reasonable and not absolute assurance of effectiveness.

Risk is a standing item on the agendas of each of the key committees with new issues being added to the registers as appropriate and the RAG status of existing risks being amended in line with developments.

The Strategic Risk Register (which is owned by the Strategic Management Board) covers three broad areas – environment (risks relating to what is going on outside the SFO), business, and individual. The Audit and Risk Committee is responsible for ensuring that the SFO risk management policies and processes are adequate and complied with. The committee also reviews the Strategic Risk Register at its meetings. The Strategic Risk Register is underpinned by an Operational Risk Register which is owned by the Executive Board and is updated and reviewed regularly.

### **Risk appetite**

Using the Strategic Risk Register as its basis, work was done in the year to determine the SFO's appetite for risk. The statement that emerged set out the department's risk appetite into the following categories – finance, political, legal, business continuity, regulatory, information security, governance, external stakeholders and people. Each category was then allocated a tolerance of high, medium or low risk appetite depending on the information on the Strategic Risk Register. The tolerances are:

- the SFO is extremely concerned about carrying risks in areas where it has a **low risk appetite**, and requires immediate action to be taken to bring the risk within tolerable levels.
- the SFO is uneasy about carrying risks in areas where it has a **medium risk appetite**, but accepts that some risks need to be taken here provided that they are well considered and well managed.
- the SFO is content to carry risks in areas where it has a **high risk appetite**, but will ensure that any controls are operating effectively and will regularly review the level of risk exposure.



Appetite		Description
Low	Averse	Avoidance of risk and uncertainty is a key objective
Medium	Minimalist	Preference for ultra safe options that have a low degree of residual risk and may only have limited potential for reward
Medium/High	Open	Willing to consider all options and choose the one that is most likely to result in the successful delivery while also providing an acceptable level of reward
High	Hungry	Eager to be innovative and to choose options based on the potential for higher rewards (despite greater inherit risk)

### Capacity to handle risk

The SFO actively considers and identifies potential risks to the organisation. Its strategy to identify and counter risks to the organisation is based on clear senior management leadership and responsibility; delegation to appropriate levels of authority and functional areas of the Department, and the availability of relevant training and information within the SFO.

### Managing risk

The SFO has a robust process in place to manage and mitigate organisational and operational risk. Risk appetites ensure that risks to the reputation of the organisation and its ability to deliver its operational effect are mitigated appropriately. This process is coordinated by the Audit and Risk Committee.

The SFO has a robust risk management strategy which is regularly reviewed. Each Executive Board member is accountable for risk and mitigation in their respective areas of responsibility as well as corporately. The strategic and operational risk registers are reviewed regularly, and risk assessment is part of the project methodology used by project sponsors and managers in their plans.

The Audit and Risk Committee reviews the SFO's risk strategy and the risk register as a standing agenda item. The Audit and Risk Committee provides commentary to the Strategic Management Board on the strategy and risk register monthly. It also receives reports on the effectiveness of risk management processes and systems. The Strategic Management Board reviews the strategic risk register each month.

Risk is inherent in the operational aspects of the SFO's business, particularly in the prosecution of cases. A staff guide to risk management and assessment has been distributed to every member of staff and is maintained on the departmental intranet. This is regularly updated to build in best practice. In addition posters communicating key risk management messages are displayed throughout the organisation to further promote risk awareness. These are supplemented by occasional staff awareness promotions on the intranet.

Considerable management effort is applied at case level to assessing risk factors – particularly financial – when embarking upon prosecution, balancing those factors with the need to pursue cases in the public interest. The SFO follows best practice in respect of providing risk awareness training to all staff. This programme of delivery is constantly reviewed and refreshed so as to ensure that any learning in respect of risk management is shared widely. Consistent with this, 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.

### Significant control issues during 2011-12

#### Irregularity of redundancy decision and compensation agreement for Chief Executive Officer

In September 2011 the then Director, Richard Alderman, began a process to make the Chief Executive Officer (CEO) redundant. He offered voluntary redundancy terms under the civil service compensation scheme (CSCS), leading to the departure of the CEO in April 2012.



The key contractual aspects of the severance agreement and payments were in line with new CSCS rules. However, the decision to effect the redundancy was not submitted for the requisite Cabinet Office and HM Treasury approval. In addition, an ex-gratia enhancement to the package, apparently intended to prevent potential employment claims, had not received the requisite HM Treasury approval.

Neither the redundancy decision itself nor its terms were brought to the attention of or discussed with the Non-Executive Directors, or the Attorney General's Office in its Superintendence role.

As incoming Director and Accounting Officer, I was and remain unconvinced that this payment was justified. On the contractual amounts, this is not least because Cabinet Office and HM Treasury approval had not been obtained. On the ex-gratia amount, this is because I have found no evidence that it was justified. Given this context, I decided it was inappropriate to seek retrospective approval from HM Treasury, in the knowledge that this would lead to these accounts being qualified on 'regularity' grounds.

In reaching that decision, I commissioned an independent review of the redundancy decision and package. I also obtained legal advice which confirmed that a legally binding contract existed regardless of the justification for the decision, and that it was therefore not appropriate to seek recovery of the ex-gratia amount.

The CEO's redundancy costs have been accrued into the 2011-12 accounts - as the decision and agreement were both made in that financial year and her departure followed soon after it ended. SFO made a payment of £407,245 to *My Civil Service Pension* to cover all additional pension costs arising from early departure. This is in line with CSCS rules, although in this case there was no overall Cabinet Office or HM Treasury approval for the redundancy. The ex-gratia payment was in the sum of £15,000 and, additionally, the CEO received compensation in lieu of notice of £36,360. Note 7 to the accounts sets out the total cost of this redundancy decision in the £450,000 - £475,000 band.

I have put in place measures to prevent the repetition of this control failure. All future exit decisions will follow the due process and Cabinet Office and HM Treasury approval will be obtained.

### Kaupthing Case

A Judicial Review of the Kaupthing case was heard in May 2012, with an adverse judgment being delivered in July. The SFO had conceded that serious mistakes were made with the application for search warrants in this case. The judgment and the SFO's concession highlight the importance of quality and accuracy in the drafting of informations supporting warrant applications. This focus on quality underlies the reorganisation of the SFO that I, as incoming Director, conducted in the first quarter of the 2012-13 financial year. The restructuring and recent senior appointments are designed to embed successive layers of quality assurance and avoid the repetition of such errors.

The SFO had already conceded in December 2011 that the warrants relating to Vincent Tchenquiz should be quashed and agreed to pay the reasonable costs of the Claimants in the Vincent Tchenquiz claim which are associated with that concession. Note 20 to the accounts (page 62) provides further detail

### **Other key challenges during 2011-12**

The main challenges that arose during 2011-12 were:

- the national debate over the UK's arrangements for handling serious economic crime. This threatened the status of the SFO as an independent, standalone law enforcement agency. Instead it could have been subsumed into the National Crime Agency. The SFO contributed to the debate, highlighting its expertise and justifying its independence. In June 2011, the statement in Parliament by the Home Secretary, the Right Honourable Theresa May MP, and the debate that followed, assured the SFO's existence as an independent agency.
- as an organisation that deals with huge volumes of information, we need to make sure that our IT systems not only function smoothly but that they are also leading edge. In 2011-12 we had no major 'outages' of our Autonomy system despite 35 million documents being downloaded on to it. The system now holds more than 112 million individual documents, including 30 million on one case alone. A leaking battery in our IT room did close the system down for three hours in February but this situation was managed admirably through our business continuity processes.

- with leases on our properties in Elm Street and Gray's Inn Road expiring at the end of 2012, we had to source new accommodation. Working with the Government Property Unit and working within the Government's new guidelines for public sector accommodation, we have sourced modern premises in Cockspur Street, just off Trafalgar Square. This accommodation will house all our London-based staff in one office. Our relocation strategy is estimated to save £4.3 million of public money by 2015-15.

### **Making sure that we do what we need to do**

The Director, as Accounting Officer, is responsible for reviewing the effectiveness of the system of internal control. The main elements of the department's control framework include:

- a clearly defined 'Statement of Accounting Officer's Responsibilities' (see page 24 of these accounts).
- a Strategic Management Board with clear terms of reference and a defined membership, including three independent non-executive members, which meets regularly to consider the strategic and operational direction of the SFO.
- an Executive Board which comprises all senior managers. Its function is to review performance and to resolve issues to make sure that the SFO delivers its objectives.
- an Audit and Risk Committee chaired by a non-executive director which meets five times a year. The membership of the committee comprises four non-executive directors, General Counsel and the Chief Capability Officer. The SCS lead for operational assurance also attends these meetings. In addition, the Chief Capability Officer, Chief Executive and Director have one to one meetings with the Chair of the Audit and Risk Committee.
- a bought-in internal audit service (provided by HM Revenue and Customs) which conducts an annual programme of specific reviews drawn up on a risk analysis basis, agreed by the Audit and Risk Committee and executive managers.
- The Chair of the Audit and Risk Committee has regular bilateral meetings with both the HM Revenue and Customs Internal Audit team and the NAO Director with responsibility for the SFO.
- to further embed ethics within the SFO we have collated all ethical codes and policies from the civil service in general and the SFO in particular into one easily accessible place on our intranet. This is very visible on the home page and includes a detailed guide on standards of behaviour and conduct; our whistle-blowing policy and a clear corporate policy to combat fraud.
- an Operational Handbook which is reviewed and updated on an ongoing basis and which covers all casework processes, procedures and best practice, supported by a monthly case reporting process and quality assurance checks.
- a clear structure of delegated responsibility. All job roles have been reviewed and responsibilities defined.
- a framework of financial regularity and propriety supported by a Finance Manual which provides clear financial policies and protocols.

### **Ministerial directions**

No ministerial directions were given during 2011-12.

### **Cabinet Office rules for information assurance**

The SFO applies the Cabinet Office rules for information assurance and complies with the Security Policy Framework for the protection of physical security. In addition, it retains ISO 27001 accreditation which provides assurance that the technical aspects of the way the department manages information are well founded.

All laptops, PDAs and other devices which are taken out of the office are encrypted and all IT equipment has its data ports disabled to prevent unauthorised copying of data. Heads of business areas fulfill the role of information asset owners and are responsible for ensuring that case material is suitably protected at all times. There is a system to provide exemptions if unencrypted data needs to be taken off the premises.

No major control weaknesses have occurred during the past year. There were three data loss incidents, two involving material in our off-site storage facility and one lost BlackBerry which was wiped remotely.

### **Review of effectiveness**

As Accounting Officer, the Director 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 and the executive managers within the SFO (who are responsible for developing and maintaining the internal control framework) and comments made by the external auditors in their management letter and other reports.

The Strategic Management Board and Audit and Risk Committee have advised the Director on the implications of the result of his review of the effectiveness of the system of internal control. There is a plan to address weaknesses and make sure that the system is continuously improved. The Director has received an opinion from the Head of Internal Audit on 2011-12 that says "During the year we have identified areas for improvement and have made appropriate recommendations. None of the identified areas significantly impact on the overall adequacy and effectiveness of risk management, control and governance. I can therefore give a reasonable overall assurance on risk management, control and governance in the SFO.

Measures in place in the SFO include:

- regular reports by the internal auditors in line with the Government Internal Audit Standards, which include the Head of Internal Audit's assurance on the overall adequacy and effectiveness of the SFO's processes and systems for risk management, control and governance, together with any recommendations for improvement
- regular reports which are distributed to members of the Strategic Management Board and Executive Board, on operational, financial, staffing and IT issues and performance
- improved business and strategic planning processes
- improved data security procedures and supporting communications
- monthly reports from the chair of the Audit & Risk Committee, to myself and to the Strategic Management Board; and
- advice on the effectiveness of the system of internal control by the Strategic Management Board, Audit & Risk Committee and senior managers.

**DAVID GREEN CB QC**  
**Accounting Officer**  
**23 October 2012**

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

I certify that I have audited the financial statements of the Serious Fraud Office (the Department) for the year ended 31 March 2012 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. I have also audited the Statement of Parliamentary Supply and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

## **Respective responsibilities of the 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 Annual Report to identify material inconsistencies with the audited financial statements. 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.

## **Basis for qualified opinion on regularity**

As explained in the attached report, the Chief Executive officer left the SFO under voluntary redundancy and there is no evidence that the requisite Cabinet Office and HM Treasury approval was obtained. Under this agreement, a payment of £407k was made to the administrators of the Principal Civil Service Pension Scheme for UK Government and a further ex-gratia payment of £15k was also made. I have concluded that this expenditure is not in conformity with the authorities which govern it and is, therefore, irregular.

## **Qualified opinion on regularity**

In my opinion, except for the payments made in respect of the Chief Executive Officer's voluntary redundancy, 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; and the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2012 and shows that those totals have not been exceeded.

### **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 2012 and of its 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 part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Management Commentary and Governance Statement 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
- the financial statements and the part of the Remuneration Report 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**

My report, explaining in further detail the reasons for my qualified opinion on regularity, is on pages 36 to 37.

**Amyas C E Morse**  
**Comptroller and Auditor General**

**29 October 2012**

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

# Report of the Comptroller and Auditor General to the House of Commons

## Introduction

1. The Serious Fraud Office (SFO) is a non-ministerial department established by the Criminal Justice Act 1987, and its role is to investigate and prosecute cases of serious or complex fraud in England, Wales and Northern Ireland and overseas corruption with a UK connection. The SFO is led by a Director, who is also the Accounting Officer. The role of Director at the SFO was held by Richard Alderman until he retired in April 2012. His successor, David Green QC was appointed in December 2011 and assumed office in April 2012.
2. Under the Government Resource Accounts Act 2000, I am required to examine, certify and report on each statement of account that I receive. In addition to the requirements to obtain evidence to give reasonable assurance that the SFO's financial statements are free from material misstatement, I am also required to give an opinion that the transactions are, in all material respects, in conformity with the authorities which govern them (a regularity opinion).

## Purpose of report

3. The purpose of this Report is to explain my audit opinion and the background to the regularity qualification of my audit opinion in respect of the voluntary redundancy costs for the Chief Executive Officer (CEO), Phillippa Williamson, and to note the steps taken in respect of this matter by the new Director on coming to office.

## Qualified audit opinion arising from irregular expenditure on a severance package

4. The Cabinet Office implemented expenditure controls with the key objectives being to:
  - help organisations stop unnecessary expenditure;
  - help organisations to deliver value for money; and
  - help organisations to deliver Government reform.<sup>3</sup>

The controls and an explanation of the spending powers that lie beneath them were set out in a letter from the Minister for the Cabinet Office to Secretaries of State on 8 July 2010. The controls represent cross-government policy and state that all redundancy and compensation schemes must be approved by the Cabinet Office.

5. HM Treasury's requirements for departments, as set out in *Managing Public Money*, are that severance payments in excess of contractual amounts (special severance payments) always need Treasury approval and departments should always consult HM Treasury in advance when considering whether to make a special severance payment. According to *Managing Public Money*, these payments go beyond statutory cover, legal liability or administrative rules.<sup>4</sup>
6. HM Treasury also wrote to all accounting officers on 19 April 2011 to remind them that the terms of staff severance payments often require approval from HM Treasury. The letter states that any severance payments in excess of contractual amounts allowed by pension schemes will be contentious or repercussive and the letter directed Accounting Officers to the relevant section of *Managing Public Money* as setting out the established policy.
7. The SFO entered into a compromise agreement with the former CEO which was signed on 16 February 2012 and the CEO left the SFO on 16 April 2012 under voluntary redundancy. The agreement provided for payments in respect of the CEO's departure comprising a payment to MyCSP (the administrators of the

<sup>3</sup> Cabinet Office Controls <http://www.cabinetoffice.gov.uk/resource-library/cabinet-office-controls-guidance>

<sup>4</sup> Annex A.4.13.A of *Managing Public Money*

Principal Civil Service Pension Scheme for UK Government) of £407k to cover all additional pension costs arising from the early departure and a special severance payment of £15k.

8. There is no evidence that due process was followed in instigating this voluntary redundancy, for example, whether alternative positions within the Civil Service were sought prior to the severance being initiated. There is also no evidence that Cabinet Office approval was obtained. In the absence of Cabinet Office approval, the payment to MyCSP in respect of the CEO's departure must be deemed to be irregular.
9. There is also no evidence that approval was sought from HM Treasury for the £15k special severance payment. In the absence of approval, this payment must also be deemed to be irregular.
10. The new Director, David Green has decided against seeking retrospective approval for the transactions because, as he has stated in the Governance Statement, he believes that it would be inappropriate. In the absence of appropriate approvals for these payments I have concluded that they are irregular and, accordingly, I have qualified my audit opinion on regularity.

#### **Actions of the New Director**

11. On becoming aware of the issue, David Green sought legal advice which confirmed that the compromise agreement with the CEO created a legally binding obligation for the SFO to make the payments. He also commissioned an independent review into the matter with the results being shared with the Attorney General's Office and has taken steps to ensure that all future exit packages are appropriately approved.

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



# Statement of Parliamentary Supply

## Summary of Resource and Capital Outturn 2011-12

£000								2011-12	2010-11
	Estimate			Outturn			Voted outturn compared with Estimate: saving/ (excess)	Outturn	
	Note	Voted	Non Voted	Total	Voted	Non Voted			Total
Departmental Expenditure Limit									
- Resource	2(a)	33,189	-	33,189	31,579	-	31,579	1,610	36,326
- Capital	2(b)	1,580	-	1,580	709	-	709	871	2,745
Annually Managed Expenditure									
- Resource	2(a)	2,000	-	2,000	(184)	-	(184)	2184	(813)
<b>Total Budget</b>		<b>36,769</b>	<b>-</b>	<b>36,769</b>	<b>32,104</b>	<b>-</b>	<b>32,104</b>	<b>4,665</b>	<b>38,258</b>
Total Resource		35,189	-	35,189	31,395	-	31,395	3,794	35,513
Total Capital		1,580	-	1,580	709	-	709	871	2,745
<b>Total</b>		<b>36,769</b>	<b>-</b>	<b>36,769</b>	<b>32,104</b>	<b>-</b>	<b>32,104</b>	<b>4,665</b>	<b>38,258</b>

## Net Cash Requirement 2011-12

£000					2011-12	2010-11
	Note	Estimate		Outturn	Outturn compared with Estimate: saving/ (excess)	Outturn
<b>Net Cash Requirement</b>	<b>4</b>	<b>32,261</b>		<b>30,544</b>	<b>1,717</b>	<b>37,246</b>

## Administration Costs 2011-12

£000					2011-12	2010-11
	Note	Estimate		Outturn	Outturn compared with Estimate: saving/ (excess)	Outturn
<b>Administration Costs</b>	<b>3.2</b>	<b>9,389</b>		<b>7,546</b>	<b>1,843</b>	<b>9,339</b>

Explanation of variances between Estimate and Outturn are given in Note 2 and in the Management Commentary.

The notes on pages 43 to 63 form part of these accounts



## Statement of Comprehensive Net Expenditure

for the year ended 31 March 2012

£000	2011-12		2010-11
	Note	Department Total	Department Total Restated
<b>Administration Costs</b>			
Staff costs	6	4,514	4,916
Other costs	8	3,032	4,423
Income		-	-
<b>Programme expenditure</b>			
Staff costs	6	14,306	15,025
Other costs	9	16,502	15,560
Income	10	(6,959)	(4,411)
<b>Net Operating Cost for the year ended 31 March 2012</b>		<b>31,395</b>	<b>35,513</b>
Total expenditure		38,354	39,924
Total income	10	(6,959)	(4,411)
<b>Net Operating Cost for the year ended 31 March 2012</b>		<b>31,395</b>	<b>35,513</b>
<b>Other comprehensive Net Expenditure</b>			
Net (gain) / loss on:			
- revaluation of property, plant & equipment		-	-
<b>Total comprehensive expenditure for the year ended 31 March 2012</b>		<b>31,395</b>	<b>35,513</b>

The notes on pages 43 to 63 form part of these accounts

# Statement of Financial Position

as at 31 March 2012

£000	2011-12		2010-11
	Note	Department Total	Department Total
<b>Non-current assets:</b>			
Property, plant and equipment	11	2,437	3,259
Intangible assets	12	3,123	4,066
Trade and other receivables	13	9	10
<b>Total non-current assets</b>		<b>5,569</b>	<b>7,335</b>
<b>Current assets:</b>			
Trade and other receivables	13	1,897	2,518
Cash and cash equivalents	14	1,129	38
<b>Total current assets</b>		<b>3,026</b>	<b>2,556</b>
<b>Total assets</b>		<b>8,595</b>	<b>9,891</b>
<b>Current liabilities:</b>			
Trade and other payables	15	(4,674)	(4,873)
Provisions	16	(669)	(363)
<b>Total current liabilities</b>		<b>(5,343)</b>	<b>(5,236)</b>
<b>Non-current assets plus/less net current assets/liabilities</b>		<b>3,252</b>	<b>4,655</b>
<b>Non-current liabilities</b>			
Trade and other payables	15	-	(126)
Provisions	16	(614)	(1,104)
<b>Total non-current liabilities</b>		<b>(614)</b>	<b>(1,230)</b>
<b>Assets less liabilities</b>		<b>2,638</b>	<b>3,425</b>
<b>Taxpayers' equity and other reserves:</b>			
General fund		2,297	2,871
Revaluation reserve		341	554
<b>Total equity</b>		<b>2,638</b>	<b>3,425</b>

David Green CB QC  
Accounting Officer  
23 October 2012

The notes on pages 43 to 63 form part of these accounts

# Statement of Cash Flows

for the year ended 31 March 2012

£000	2011-12		2010-11
	Note	Department Total	Department Total
<b>Cash flows from operating activities</b>			
Net operating cost		(31,395)	(35,513)
Adjustments for non-cash transactions	8,9	2,855	2,000
(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>	13	622	(507)
		-	-
Increase/(Decrease) in trade payables <i>less movements in payables relating to items not passing through the Statement of Comprehensive Net Expenditure</i>	15	(325)	(62)
		(848)	(30)
Use of provisions	16	(608)	(389)
<b>Net cash outflow from operating activities</b>		<b>(29,699)</b>	<b>(34,501)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	11	(504)	(580)
Purchase of intangible assets	12	(205)	(2,165)
Proceeds of disposal of property, plant and equipment			
Proceeds of disposal of intangibles			
<b>Net cash outflow from investing activities</b>		<b>(709)</b>	<b>(2,745)</b>
<b>Cash flows from financing activities</b>			
From the Consolidated Fund (Supply)- current year		31,499	37,042
From the Consolidated Fund (Supply)- prior year		-	-
From the Consolidated Fund (non-Supply)		-	-
<b>Net financing</b>		<b>31,499</b>	<b>37,042</b>
<b>Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund</b>		<b>1,091</b>	<b>(204)</b>
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities		-	-
Payments of amounts due to the Consolidated Fund		-	-
		-	-
<b>Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund</b>		<b>1,091</b>	<b>(204)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	14	<b>38</b>	<b>242</b>
<b>Cash and cash equivalents at the end of the period</b>	14	<b>1,129</b>	<b>38</b>

The notes on pages 43 to 63 form part of these accounts

## Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2012

£000	Note	General Fund	Revaluation Reserve	Total Reserves
<b>Balance at 31 March 2010</b>		1,034	737	1,771
Changes in accounting policy		-	-	-
<b>Restated balance at 1 April 2010</b>		<b>1,034</b>	<b>737</b>	<b>1,771</b>
Net Parliamentary Funding - drawn down		37,042		37,042
Net Parliamentary Funding - deemed		242		242
Supply payable/(receivable) adjustment		(38)		(38)
CFERs payable to the Consolidated Fund	5	(361)		(361)
Comprehensive Net Expenditure for the Year		(35,513)		(35,513)
<b>Non-Cash Adjustments</b>				
Non-cash charges - auditor's remuneration	8	65		65
<b>Movements in Reserves</b>				
Transfer between reserves		400	(183)	217
<b>Balance at 31 March 2011</b>		<b>2,871</b>	<b>554</b>	<b>3,425</b>
Net Parliamentary Funding – drawn down		31,499		31,499
Net Parliamentary Funding – deemed		38		38
Supply payable/(receivable) adjustment	15 (a)	(993)		(993)
Comprehensive Net Expenditure for the Year		(31,395)		(31,395)
<b>Non-Cash Adjustments</b>				
Non-cash charges – auditor's remuneration	8	65		65
<b>Movements in Reserves</b>				
Transfer between reserves		212	(213)	(1)
<b>Balance at 31 March 2012</b>		<b>2,297</b>	<b>341</b>	<b>2,638</b>

The notes on pages 43 to 63 form part of these accounts

# Notes to the Departmental Accounts

## 1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2011-12 *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* and supporting notes show outturn against Estimate in terms of the net resource requirement and the net cash requirement.

### 1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of property, plant and equipment and intangible assets.

### 1.2 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.

#### *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.

#### *Trade payables*

Trade payables are not interest bearing and are stated at their fair value.

### 1.3 Property, plant and equipment and intangible assets

The Department does not own any freehold land and buildings.

Property, plant and equipment assets are included in the Statement of Financial Position at their fair values. In line with the FReM, indexation is used to assess depreciated replacement cost as a proxy for fair value. Indexation adjustments are applied at the reporting date where not doing so would cause the fair values to be materially misstated.

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.

### 1.4 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.

### 1.5 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 prospectively. The respective useful lives are as follows:

#### Property, plant and equipment

Improvements to leasehold property	Over the unexpired term of the lease
Information technology	5 years
Furniture and fittings	10 years or over the unexpired term of the property lease (which ever is the shorter)

#### Intangible assets

software licenses	5 years or over the unexpired term of the related software license (which ever is the shorter)
Information technology	5 years or over the unexpired term of the related software license (which ever is the shorter)
website costs	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.

### 1.6 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 provide 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.

### 1.7 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.

### 1.8 Civil Recovery Receipts

The SFO's share of receipts from Civil Recovery and confiscation orders is recognised at the point that payment of the Order is made into the third party bank account prior to onward transfer to the Home Office as required by the Asset Recovery Incentivisation Scheme (ARIS). Payment by the Home Office of the SFO's cash share of the ARIS receipt is generally made at the end of the month following the transfer of the settlement to the Home Office.

#### *1.9 Other income*

Any amounts relating to other income not covered above is recognised at the point of payment.

#### *1.10 Administration and programme expenditure*

The Statement of Comprehensive Net Expenditure is analysed between administration and programme income and expenditure. The classification of expenditure and income as administration or as programme follows the definition of administration costs set out in the Consolidated Budgeting guidance issued by HM Treasury.

##### **Administration costs**

Administration costs reflect the costs of running the Department.

##### **Programme costs**

Programme costs reflect non-administration costs being the direct cost and associated overheads of prosecution. These costs include the employment of counsel and reimbursements paid to witnesses for costs incurred through their attendance at court. Associated overheads include rental and other accommodation costs.

#### *1.11 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.

#### *1.12 Pensions*

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The defined benefit schemes are unfunded and are non-contributory except in respect of dependants' benefits. The Department recognises the expected cost of these elements in a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for paying future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, the Department recognises the contributions payable for the year.

#### *1.13 Provisions – Early departure costs*

The Department is required to meet the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who retire early. The Department provides in full for this cost when an early retirement programme has been announced and is binding.

#### *1.14 Provisions – 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 Treasury discount rate.

#### *1.15 Operating leases*

Operating lease rentals and lease incentives are charged to the Statement of Comprehensive Net Expenditure in equal amounts over the lease term.

#### *1.16 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.

#### *1.17 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.

#### *1.18 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.

#### *1.19 Areas of judgement and key sources of estimation uncertainty*

The preparation of financial statements requires managers to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. Information about such judgements and estimates is contained in the accounting policies or the notes to the financial statements, and the key areas are summarised below.

No sources of estimation uncertainty that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year have been identified.

#### *1.20 Impending application of newly issued accounting standards not yet effective*

The Department has reviewed the IFRSs in issue but not yet effective, to determine if it needs to make any disclosures in respect of those new IFRSs that are or will be applicable. References to 'new IFRSs' includes new Interpretations and any new amendments to IFRSs and Interpretations. It has been determined that there are no new IFRSs which will have a significant impact on the Department's financial statements.



2(a) Analysis of net resource outturn by section

£000	2011-12								2010-11 Outturn
	Outturn						Estimate		
	Administration			Programme			Net Total	Net total compared to Estimate	
	Gross	Income	Net	Gross	Income	Net			Total
<b>Spending in Departmental Expenditure Limit</b>									
<b>Voted:</b>									
A Investigations and Prosecutions	7,546	-	7,546	30,992	(6,959)	24,033	33,189	1,610	36,326
<b>Annually Managed Expenditure</b>									
<b>Voted:</b>									
B New provision and adjustment to existing provisions	-	-	-	(184)	-	(184)	2,000	2,184	(813)
<b>Total</b>	<b>7,546</b>	<b>-</b>	<b>7,546</b>	<b>30,808</b>	<b>(6,959)</b>	<b>23,849</b>	<b>35,189</b>	<b>3,794</b>	<b>35,513</b>

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

There has been an overall underspend of £1,610k against the Estimate largely as a result of a significant increase in income from civil recoveries and cost awards in 2011-12, a fuller explanation of the variances is given in the Management Commentary within the Foreword.

2(b) Analysis of net capital outturn by section

£000	2011-12								2010-11 Outturn
	Outturn						Estimate		
	Administration			Programme			Net total compared to Estimate	Total	
	Gross	Income	Net	Gross	Income	Net			Net Total
<b>Spending in Departmental Expenditure Limit Voted:</b>									
A Investigations and Prosecutions	-	-	-	709	-	709	1,580	871	2,745
<b>Total</b>	-	-	-	<b>709</b>	-	<b>709</b>	<b>1,580</b>	<b>871</b>	<b>2,745</b>

3. Reconciliation of outturn to net operating cost and against Administration Budget

3.1 Reconciliation of net resource outturn to net operating cost

	Note	2011-12	2010-11
		£000 Outturn	£000 Outturn
Total resource outturn in Statement of Parliamentary Supply	2	31,395	35,513
Budget			
Non Budget		-	-
<b>Net Operating Cost in Statement of Comprehensive Net Expenditure</b>		<b>31,395</b>	<b>35,513</b>

### 3.2 Outturn against final Administration Budget

	2011-12 £000 Outturn	2010-11 £000 Outturn
Estimate - Administration costs limit	9,389	-
Outturn – Gross administration costs	7,546	9,339
Outturn – Income relating to administration costs	-	-
Outturn – Net administration costs	7,546	9,339
Reconciliation to operating costs:		
Less: provisions utilised (transfer from Programme)	-	-
Less: Other	-	-
<b>Administration Net Operating Costs</b>	<b>7,546</b>	<b>9,339</b>

### 4 Reconciliation of Statement of Cash Flows to Net Cash Requirement

	Note	2011-12 £000 Outturn	2010-11 £000 Outturn
Net cash requirement		(30,544)	(37,246)
From the Consolidated Fund (Supply) – current year		31,499	37,042
From the Consolidated Fund (Supply) – prior year		-	-
Amounts due to the Consolidated Fund received and not paid over	15	136	-
Amounts due to the Consolidated Fund received in prior year and not paid over		-	-
Net increase /(decrease) in cash		<b>1,091</b>	<b>(204)</b>

Explanation of variation between Estimate and Outturn:

The net resource outturn variance is £1,610k, after taking account of variances on capital acquisitions, movements on non cash items and reductions in current liabilities including provisions the cash requirement variance for the year was £650k.

The Management Commentary within the Foreword to the Accounts gives further details of operating variances.

## 5 Analysis of income payable to the Consolidated Fund

In addition to income retained by the department the following income relates to the department and is payable to the Consolidated Fund (cash receipts being shown in italics).

	Outturn 2011-12		Outturn 2010-11	
	£000		£000	
	Income	<i>Receipts</i>	Income	<i>Receipts</i>
Operating income outside the ambit of the Estimate	-	-	-	-
Excess cash surrenderable to the Consolidated Fund	-	<i>361</i>	361	-
<b>Total income payable to the Consolidated Fund</b>	-	<b><i>361</i></b>	<b>361</b>	-

The SFO received £361k CFER receipts in 11-12. £225k has been paid to the Consolidated Fund. £136k received but not paid over to the Consolidated Fund shown in note 15 on page 59.

## 6 (a) Staff numbers and related costs

Staff costs comprise:

	2011-12			2010-11
	£000			£000
	Permanently employed staff	Others	Total	Total
Wages and salaries	13,098	2,295	15,393	16,571
Social security costs	1,118	-	1,118	1,068
Other pension costs	2,418	1	2,419	2,442
<b>Sub Total</b>	<b>16,634</b>	<b>2,296</b>	<b>18,930</b>	<b>20,081</b>
Less recoveries in respect of outward secondments	(110)	-	(110)	(140)
<b>Total net costs *</b>	<b>16,524</b>	<b>2,296</b>	<b>18,820</b>	<b>19,941</b>

\* Of which

Charged to administration costs	4,514
Charged to programme costs	<u>14,306</u>
	<u>18,820</u>

£213k (£376k 10-11) of staff costs have been capitalised and are not included in the figures above

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but the SFO is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2007. You can find details in the accounts of the Cabinet Office: Civil Superannuation ([www.civilservice.gov.uk/my-civil-service/pensions](http://www.civilservice.gov.uk/my-civil-service/pensions)).

For 2011-12, employer's contributions of £2,707,795 were payable to the PCSPS (2010-11: £2,835,444) at one of four rates in the range 16.7 to 24.3 per cent (2010-11: 16.7 to 24.3 per cent) 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 are set to meet the cost of the benefits accruing during 2011-12 to be paid when the member retires and not the benefits paid during this period to existing pensioners

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £32,814 (2010-11: £26,359) were paid to two of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5 per cent (2010-11: 3 to 12.5 per cent) of pensionable pay. Employers also match employee contributions up to 3

per cent of pensionable pay. In addition, employer contributions of £nil were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service or ill health retirement of these employees. Contributions due to the partnership pension providers at the balance sheet date were £nil. Contributions prepaid at that date were £nil.

**6 (b) Average number of persons employed**

The average number of whole-time equivalent persons employed during the year was as follows:

	2011-12			2010-11
	Permanently employed staff	Fixed Term Appointments	Other	Total
Serious Fraud Office	282	23	51	356
<b>Total</b>	<b>282</b>	<b>23</b>	<b>51</b>	<b>356</b>

**7 Reporting of Civil Service and other compensation schemes – redundancy and exit packages**

Exit package cost band	2011-12			2010-11
	Number of compulsory redundancies	Number of other departures agreed	Total number by cost band	Total number by cost band
<£10,000	-	-	-	-
£10,000 - £25,000	-	1	1	1
£25,000 - £50,000	-	1	1	-
£450,000-£475,000	-	1	1	-
<b>Total Number of exit packages</b>	<b>-</b>	<b>3</b>	<b>3</b>	<b>1</b>
<b>Total cost</b>	<b>-</b>			

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.

## 8 Other Administration Costs

		2011-12	2010-11
	Note	£000	Restated £000
<b>Rentals under operating leases:</b>		382	477
<b>Non-cash items:</b>			
Depreciation	11	234	260
Amortisation	12	195	123
Auditor's remuneration and expenses		65	65
Write back's		(243)	(5)
		251	443
<b>Other expenditure:</b>			
General Administration		824	921
IT costs		329	450
Consultancy		856	1,557
Travel and subsistence		57	196
Hospitality		3	5
Other accommodation costs		330	374
		2,399	3,503
<b>Total</b>		<b>3,032</b>	<b>4,423</b>

In 2010-11 all costs were treated as programme costs in line with the Supply Estimate. Estimates from 2011-12 are split between Programme and Administration expenditure. The 10-11 expenditure is therefore restated for comparative purposes.

## 9 Programme Costs

	Note	2011-12 £000	2010-11 Restated £000
<b>Rentals under operating leases:</b>		1,976	2,174
<b>Non-cash items:</b>			
Depreciation	11	1,142	1,184
Amortisation	12	960	570
Amounts provided for liabilities and charges	16	397	-
Amounts provided for early departure costs / write back	16	27	(28)
Write back of Dilapidation provision		-	(169)
Write off intangible asset		78	
		2,604	1,557
<b>Other expenditure:</b>			
General Administration		682	1,107
IT costs		1,573	1,597
Travel and subsistence		211	385
Counsel costs		4,697	4,437
Investigating Accountants costs		823	1,008
Other programme costs		2,128	1,581
Hospitality		5	10
Other accommodation costs		1,803	1,704
		11,922	11,829
<b>Total</b>		<b>16,502</b>	<b>15,560</b>

In 2010-11 all costs were treated as programme costs in line with the Supply Estimate. Estimates from 2011-12 are split between Programme and Administration expenditure. The 10-11 expenditure is therefore restated for comparative purposes.

## 10 Income

	2011-12 £000	2010-11 £000
Civil recoveries	6,446	3,515
Costs awards	297	675
Other income	17	-
Incentivisation	199	221
<b>Total</b>	<b>6,959</b>	<b>4,411</b>

11 **Property, plant and equipment 2011-12**

	<b>Improvements to Leasehold Property</b>	<b>Information Technology</b>	<b>Furniture and Fittings</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Cost or valuation</b>				
At 1 April 2011	3,544	4,567	831	<b>8,942</b>
Additions	-	551	3	<b>554</b>
Disposals	-	(1,568)	-	<b>(1,568)</b>
Revaluations	-	-	-	-
<b>At 31 March 2012</b>	<b>3,544</b>	<b>3,550</b>	<b>834</b>	<b>7,928</b>
<b>Depreciation</b>				
At 1 April 2011	2,479	2,630	574	<b>5,683</b>
Charged in year	608	622	146	<b>1,376</b>
Disposals	-	(1,568)	-	<b>(1,568)</b>
Revaluations	-	-	-	-
<b>At 31 March 2012</b>	<b>3,087</b>	<b>1,684</b>	<b>720</b>	<b>5,491</b>
<b>Net book value at 31 March 2012</b>	<b>457</b>	<b>1,866</b>	<b>114</b>	<b>2,437</b>
<b>Net book value at 31 March 2011</b>	<b>1,065</b>	<b>1,937</b>	<b>257</b>	<b>3,259</b>

Asset financing:

All assets are owned.



11 **Property, plant and equipment 2010-11**

	<b>Improvements to Leasehold Property</b>	<b>Information Technology</b>	<b>Furniture and Fittings</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Cost or valuation</b>				
At 1 April 2010	4,212	3,670	815	<b>8,697</b>
<b>Additions</b>	-	518	-	<b>518</b>
Disposals	(668)	-	-	<b>(668)</b>
Credit Adjustments	-	379	16	<b>395</b>
Revaluations	-	-	-	-
<b>At 31 March 2011</b>	<b>3,544</b>	<b>4,567</b>	<b>831</b>	<b>8,942</b>
<b>Depreciation</b>				
At 1 April 2010	2,197	1,775	428	<b>4,400</b>
Charged in year	722	584	138	<b>1,444</b>
Disposals	(440)	-	-	<b>(440)</b>
Credit Adjustments	-	271	8	<b>279</b>
Revaluations	-	-	-	-
<b>At 31 March 2011</b>	<b>2,479</b>	<b>2,630</b>	<b>574</b>	<b>5,683</b>
<b>Net book value at 31 March 2011</b>	<b>1,065</b>	<b>1,937</b>	<b>257</b>	<b>3,259</b>
<b>Net book value at 1 April 2010</b>	<b>2,015</b>	<b>1,895</b>	<b>387</b>	<b>4,297</b>

Asset financing:

All assets are owned.

**Reconciliation of cash flows to property, plant and equipment additions**

	<b>2011-12</b>	<b>2010-11</b>
	<b>£000</b>	<b>£000</b>
Total property, plant and equipment additions	554	518
Opening property, plant and equipment accrual	-	62
Closing property, plant and equipment accrual	(50)	-
<b>Cash flows for property, plant and equipment additions</b>	<b>504</b>	<b>580</b>

12 Intangible assets 2011-12

	Information Technology	Software Licenses	Website Costs	Development Expenditure	Total
	£000	£000	£000	£000	£000
<b>Cost or valuation</b>					
At 1 April 2011	7,165	1,642	299	259	<b>9,365</b>
Additions	213	-	-	93	<b>306</b>
Disposals	-	(287)	(34)	-	<b>(321)</b>
Write-back	-	(94)	-	-	<b>(94)</b>
Reclassifications	259	-	-	(259)	-
<b>At 31 March 2012</b>	<b>7,637</b>	<b>1,261</b>	<b>265</b>	<b>93</b>	<b>9,256</b>
<b>Amortisation</b>					
At 1 April 2011	4,128	1,027	144	-	<b>5,299</b>
Charged in year	625	484	46	-	<b>1,155</b>
Disposals	-	(287)	(34)	-	<b>(321)</b>
Credit Adjustments	-	-	-	-	-
Reclassifications	-	-	-	-	-
<b>At 31 March 2012</b>	<b>4,753</b>	<b>1,224</b>	<b>156</b>	<b>-</b>	<b>6,133</b>
<b>Net book value at 31 March 2012</b>	<b>2,884</b>	<b>37</b>	<b>109</b>	<b>93</b>	<b>3,123</b>
<b>Net book value at 31 March 2011</b>	<b>3,037</b>	<b>615</b>	<b>155</b>	<b>259</b>	<b>4,066</b>

12 Intangible assets 2010-11

	Information Technology	Software Licenses	Website Costs	Development Expenditure	Total
	£000	£000	£000	£000	£000
<b>Cost or valuation</b>					
At 1 April 2010	3,443	2,492	269	371	<b>6,575</b>
Additions	217	28	30	1,849	<b>2,124</b>
Disposals	-	-	-	(8)	<b>(8)</b>
Credit Adjustments	589	85	-	-	<b>674</b>
Reclassifications	2,916	(963)	-	(1,953)	-
<b>At 31 March 2011</b>	<b>7,165</b>	<b>1,642</b>	<b>299</b>	<b>259</b>	<b>9,365</b>
<b>Amortisation</b>					
At 1 April 2010	3,192	736	101	-	<b>4,029</b>
Charged in year	388	262	43	-	<b>693</b>
Disposals	-	-	-	-	-
Credit Adjustments	532	45	-	-	<b>577</b>
Reclassifications	16	(16)	-	-	-
<b>At 31 March 2011</b>	<b>4,128</b>	<b>1,027</b>	<b>144</b>	<b>-</b>	<b>5,299</b>
<b>Net book value at 31 March 2011</b>	<b>3,037</b>	<b>615</b>	<b>155</b>	<b>259</b>	<b>4,066</b>
<b>Net book value at 31 March 2010</b>	<b>251</b>	<b>1,756</b>	<b>168</b>	<b>371</b>	<b>2,546</b>

**Reconciliation of cash flows to intangible asset additions**

	2011-12	2010-11
	£000	£000
Total intangible asset additions	306	2,124
Opening intangible asset accrual	21	62
Closing intangible asset accrual	(122)	(21)
Cash flows for intangible assets additions	205	2,165

### 13 Trade receivables and other current assets

#### 13 (a) Analysis by type

	2011-12 £000	2010-11 £000
<b>Amounts falling due within one year:</b>		
VAT receivable	215	480
Deposits and advances	143	144
NFA receivable	420	-
Other receivables	20	36
Prepayments and accrued income	990	1,336
Costs awarded to the SFO	156	842
Provision for bad and doubtful debt	(47)	(320)
	<b>1,897</b>	<b>2,518</b>

	2011-12 £000	2010-11 £000
<b>Amounts falling due after more than one year:</b>		
Costs awarded to the SFO	9	10

#### 13 (b) Intra-Government balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	31 March 2012 £000	31 March 2011 £000	31 March 2012 £000	31 March 2011 £000
Balances with other Central Government bodies	653	498	-	-
Balances with bodies external to government	1,244	2,020	9	10
<b>Total</b>	<b>1,897</b>	<b>2,518</b>	<b>9</b>	<b>10</b>

## 14 Cash and cash equivalents

	2011-12 £000	2010-11 £000
Balance at 1 April	38	242
Net change in cash and cash equivalent balances	1,091	(204)
<b>Balance at 31 March</b>	<b>1,129</b>	<b>38</b>
The following balances at 31 March were held at:		
Government Banking Service	1,129	38
Commercial banks and cash in hand	-	-
<b>Balance at 31 March</b>	<b>1,129</b>	<b>38</b>

## 15 Trade payables and other current liabilities

### 15 (a) Analysis by type

	2011-12 £000	2010-11 £000
<b>Amounts falling due within one year:</b>		
Other taxation and social security	-	10
Trade payables	112	661
Accruals and deferred income	3,261	3,525
Pension providers	-	-
Non current asset accruals	172	21
Amounts issued from the Consolidated Fund for supply but not spent at year end	993	38
Consolidated Fund extra receipts due to be paid to the Consolidated Fund:		
Received	136	-
Receivable	-	618
	<b>4,674</b>	<b>4,873</b>

	2011-12 £000	2010-11 £000
<b>Amounts falling due after more than one year:</b>		
Lease incentive accrual	-	126
	-	<b>126</b>

## 15 (b) Intra-Government balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	31 March 2012	31 March 2011	31 March 2012	31 March 2011
	£000	£000	£000	£000
Balances with other Central Government bodies	165	110	-	-
Balances with bodies external to government	4,509	4,763	-	126
<b>Total</b>	<b>4,674</b>	<b>4,873</b>	<b>-</b>	<b>126</b>

## 16. Provisions for liabilities and charges

	Early departure costs	Legal Costs	Leasehold property dilapidations	Total
	£000	£000	£000	£000
Balance at 1 April 2011	1,222	-	245	1,467
Provided / (Released) in the year	27	397	-	424
Provisions utilised in the year	(363)	-	(245)	(608)
<b>Balance at 31 March 2012</b>	<b>886</b>	<b>397</b>	<b>-</b>	<b>1,283</b>
Amounts falling due within one year	272	397	-	669
Amounts falling due after one year	614	-	-	614
<b>Total</b>	<b>886</b>	<b>397</b>	<b>-</b>	<b>1,283</b>

	Early departure costs	Leasehold property dilapidations	Total
	£000	£000	£000
Balance at 1 April 2010	1,639	640	2,279
Provided / (Released) in the year	(28)	(395)	(423)
Provisions utilised in the year	(389)	-	(389)
<b>Balance at 31 March 2011</b>	<b>1,222</b>	<b>245</b>	<b>1,467</b>
Amounts falling due within one year:	363	-	363
Amounts falling due after one year:	859	245	1,104
<b>Total</b>	<b>1,222</b>	<b>245</b>	<b>1,467</b>

### 16.1 Early departure costs

The Department meets 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 Department provides for this in full when the early retirement programme becomes binding by establishing a provision for the estimated payments, discounted by the Pensions discount rate of 2.8 per cent (2.9 per cent 2010-11) in real terms when material. It is expected that early departure payments will be incurred through to 2017-18.

### 16.2 Leasehold property dilapidations

The obligations under the SFO's property leases require the properties to be returned to the landlords in an appropriate condition. During 2011-12 the SFO paid over the final costs of restoring the properties and no longer has any obligation for dilapidations.

### 16.3 Legal costs

The legal costs provision reflects all known legal claims where legal advice indicates that it is more than 50 percent probable that the claim will be successful and the amount of the claim can be reliably estimated. Expenditure on legal claims is likely to be incurred within one year.

## 17 Capital commitments and other commitments

### 17.1 Capital commitments

	2011-12 £000	2010-11 £000
Contracted capital commitments at 31 March not otherwise included in these financial statements		
Property, plant and equipment	-	-
Intangible assets	-	82
	-	82

### 17.2 Commitments under leases

#### 17.2.1 Operating leases

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

	2011-12 £000	2010-11 £000
<b>Obligations under operating leases comprise:</b>		
<b>Buildings:</b>		
Not later than 1 year	2,345	2,700
Later than 1 year and not later than 5 years	4,703	2,025
Later than 5 years	-	-
	<b>7,048</b>	<b>4,725</b>
<b>Other:</b>		
Not later than 1 year	126	83
Later than 1 year and not later than 5 years	270	115
Later than 5 years	-	-
	<b>396</b>	<b>198</b>

The SFO entered into a Memorandum of Terms of Occupation (MOTO) with the Department for Culture, Media and Sport for use and occupy space at 2-4 Cockspur Street from 1<sup>st</sup> October 2012 to 25 March 2017.

## **18 Other Financial Commitments**

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

## **19 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 are 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.

### **Interest rate risk**

The financial liabilities of the department carry nil or fixed rates of interest. The entities, therefore, are not exposed to significant interest rate risk.

### **Currency risk**

The Department is not exposed to any significant foreign currency risks.

## **20 Contingent liabilities**

Vincent and Robert Tchenguiz ("VT" and "RT") and Rawlinson & Hunter ("R&H") issued Judicial Review (JR) proceedings against the SFO in May 2011, challenging search warrants obtained by the SFO which authorised searches of premises associated with the claimants. Vincent Tchenguiz ("VT") was later joined as an interested party to the proceedings in August 2011. The hearing was held in May 2012 and the Administrative Court judgment was handed down on 31 July 2012. The court found against the SFO, held that the warrants and searches were unlawful and ordered that (a) the decision to issue the warrants be quashed; and (b) the materials seized under the warrants for R&H and VT should be returned. The SFO subsequently agreed to return material to RT.

The SFO is liable for the claimants' reasonable costs. Whether this is on a standard or indemnity basis is to be determined. The amount of this obligation cannot be measured with sufficient reliability at the time of closing these accounts. Whilst the SFO will seek a satisfactory resolution of these and other linked issues as speedily as possible, the process of doing so could run beyond the 2012-13 accounting period.

RT, R&H and VT have stated publicly that they intend to claim damages on the basis of the searches. The nature, legal basis and amounts of such claims have not yet been pleaded by any of them. A hearing is scheduled to take place on or before 21 December 2012, where directions will be given for the future conduct of the claim.

In addition, VT has notified SFO of his intention to pursue a civil claim for damages under the Human Rights Act (HRA) and for misfeasance in public office. VT has made it known publicly that he will seek substantial damages from the SFO. It is likely that VT will seek to have this claim joined with the claim brought by RT and R&H.

## **21 Losses and special payments**

### **21 (a) Losses statement**

There were no losses during the period which in aggregate exceeded £250,000.

### **21 (b) Special payments**

There were no special payments during the period which in aggregate exceeded £250,000.



## **22 Related-party transactions**

The SFO has had a small number of transactions with other government departments and other central government bodies.

A sum of £13,000 was paid to the Chartered Management Institute (CMI) for the provision of learning resources. It should be noted that Phillippa Williamson is a trustee of CMI. Otherwise none of the board members, key managerial staff or other related parties has undertaken any material transactions with the SFO during the year. The SFO has had a small number of transactions with other government departments and other central government bodies.

The Remuneration Report (pages 18 to 23) provides details of senior management remuneration.

## **23 Third party assets**

The Department manages a small number of sterling interest-bearing accounts containing seized monies. These are not departmental assets but are held as part of the Department'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 2012 was £243k (10-11 £229k).

## **24 Events after the reporting period**

There are no additional reportable events not already covered elsewhere in these accounts. The financial statements were authorised for issue on the date they were certified by the Comptroller and Auditor General.







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ISBN 978-0-10-298078-3



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