

# Report of the Comptroller and Auditor General to the House of Commons into the Serious Fraud Office accounts 2011-12

## 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>1</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>2</sup>.

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<sup>1</sup> Cabinet Office Controls <http://www.cabinetoffice.gov.uk/resource-library/cabinet-office-controls-guidance>

<sup>2</sup> Annex A.4.13.A of Managing Public Money

6. HM Treasury also wrote<sup>3</sup> 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 Principal Civil Service Pension Scheme for UK Government) of £407k to cover all additional pension costs arising from 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.

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<sup>3</sup> Letter reference DAO(GEN)02/11