



Inspection of the Serious Fraud Office governance arrangements

May 2016



Inspection of the Serious Fraud Office governance arrangements

May 2016

If you ask us, we can provide this report in Braille, large print or in languages other than English.

For information or for more copies of this report, please contact our publications team on 020 7210 1197, or go to our website:

www.justiceinspectors.gov.uk/hmcpsi

1 Contents

1	Headlines	1
	Introduction.....	1
	Key findings	1
	Conclusion.....	3
	Recommendations.....	4
2	Introduction	5
	Background and context.....	6
	Overview of governance arrangements.....	6
	Defining corporate governance.....	9
	Report structure.....	10
	Methodology.....	10
3	Composition of the Management Board and supporting governance structures	11
	Principles.....	11
	Findings.....	11
	Supporting governance structures.....	17
	Summary.....	20
4	Board effectiveness	21
	Principles.....	21
	Findings.....	22
	Summary.....	31
5	Casework governance	33
	Principles.....	33
	Findings.....	33
	Summary.....	40
6	Risk management	41
	Principles.....	41
	Findings.....	42
	Summary.....	46
7	Stakeholder engagement and accountability	47
	Principles.....	47
	Findings.....	47
	Summary.....	53

Annexes	55
A Methodology	55
B Glossary	57
C SFO Civil Service People Survey results comparison	61
D Documents that have informed the principles of the inspection	65
E SFO conviction rates 2009-10 to 2015-16	67

1 Headlines

Introduction

1.1 The purpose of this inspection was to evaluate the Serious Fraud Office (SFO) governance arrangements, to ensure its structures, processes for decision-making, leadership and control, accountability and direction are effective and efficient: providing the strategic direction needed to achieve its intended outcomes for its stakeholders.

Key findings

1.2 The current Director of the SFO was appointed in April 2012. His appointment coincided with a number of damaging reputational issues for the SFO which he had to address. The Director set about a fundamental reorganisation of the SFO, building a new senior management team, changing the case acceptance criteria and creating additional layers of quality assurance.

1.3 The composition of the Management Board was also addressed, changing it from a small to a much larger board to enable inclusiveness of senior managers and provide the Director with as much insight as possible. Three new committees were formed to provide further detailed oversight of the organisation and these report regularly into the board.¹

1.4 Whilst this structure has proved successful in moving the SFO forward and addressing legacy issues it needs to change to align with best practice standards. The current board is too large, not strategic enough and many issues for discussion are duplicated in various other meetings, which has resulted in an inefficient use of senior managers' time. A smaller board should be formed and a new executive committee created to separate the current overlapping roles of strategic governance and executive management.

1.5 The Director has too many responsibilities and has taken on, and shared among other senior managers, many of the corporate and business responsibilities. The appointment of a Chief Executive Officer would alleviate pressure on the Director's time and provide an additional layer of scrutiny and challenge at board level.

1.6 The board operating framework needs to be refreshed, particularly after any restructure of the board, and should clearly set out the responsibilities and decision-making levels of the board, the executive and committees. Board roles should be clarified so that there is a clear understanding of individual responsibilities in the governance framework. Any restructure should also take into account appropriate training of existing board members and induction of new members. An action plan of how the board seeks to address diversity concerns at board and executive level should also be developed.

1 An Oversight and Governance Board was also established at the same time, although this does not directly report to the Management Board.

1.7 Notwithstanding the changes that need to be made to the governance structure, the Director and the board have been effective in establishing a positive transformational change to the SFO's direction and purpose. This change is clearly evident in the comparative analysis of Civil Service People Survey results between 2011 and 2015, although core values need to be better defined.

1.8 There is an inconsistent mix of information about values, purpose and strategic objectives which appear in some documents but not others, this needs clarifying. The business plan is also weak and there is little evidence that it is actively reviewed.

1.9 There appears to be a good level of challenge at board meetings with the chair being described as inclusive and the board as collegiate. However, the perception is that additional layers of challenge could be introduced. Observers at board and executive meetings would add to the transparency of the decision-making process.

1.10 The blockbuster funding model is not representing value for money and it prevents the SFO building future capability and capacity. Temporary and contract staff are often more expensive than permanent staff and managing surge capacity is a constant drain on Human Resources (HR) and other staff. Increasing core funding would provide the SFO with the ability to build capacity and capability in-house and lead to less reliance on blockbuster funding.

1.11 Generally, value for money is not understood as well as it could be, even though it is a core value. Even though it is not always easy to express how the SFO represents value for money, given the nature of its business, more should be done to set out what the organisation's approach to value for money is.

1.12 Although casework is not managed at board level, the existing process provides a good level of assurance to the board. Since 2012 new layers of challenge from senior managers, General Counsel, the Special Advisor and Director have been built into casework processes which have added significant value, oversight and viewpoint.

1.13 Despite the high level of scrutiny the casework process still lacks any independent oversight or opinion. The SFO is in an unusual, but not unique, position of prosecuting and investigating its own cases, which demands greater objectivity in its decision-making. Introducing some independent oversight would greatly enhance transparency and challenge.

1.14 In consideration of the legacy issues which needed to be addressed, significant strides to improve the SFO's approach to risk have been made. The structure for effective risk management are largely in place but there needs to be more co-ordination at board level, the structure underpinned by a comprehensive written strategy, effective risk training introduced and a better clarity over roles and ownership of risk provided. The combination of Internal Audit and in-house quality assurance work is collaborative and comprehensive, providing additional assurances around potential risk areas.

1.15 The SFO has a complex and demanding stakeholder and accountability landscape which, overall, is managed well. Engagement with the Attorney General's Office (AGO) is less effective than it could be and this stems from the lack of clear expectations, which should be revisited.

1.16 External relations and stakeholder feedback has been largely positive and has improved considerably over the past three years. There is good evidence of inter-agency co-operation nationally and internationally and progress on sharing experiences has been positive.

1.17 It is encouraging that a good level of staff engagement exists at a business and social level. The positivity in staff engagement is reflected in the very good People Survey results, many of which are better than the Civil Service high performing units. The progress the SFO have made with regard to these issues has been a success story.

Conclusion

1.18 The last four years have seen a fundamental shift in the leadership and direction of the SFO which has had a positive, tangible change of organisational culture. However, there are a number of challenges, against which recommendations have been made to increase the Management Board's effectiveness. These include a reconstruction of board and executive responsibilities, clearer reporting lines, holistic risk management and measuring and providing better value for money. Whilst the current governance arrangements have served the SFO well, there is now an opportunity for a further step change in order to help future proof the organisation.

Recommendations

- 1 A smaller, more strategic Management Board, should be formed (paragraph 3.8).

- 2 Development of an action plan to better reflect the diverse workforce at Management Board and Senior Civil Servant level (paragraph 3.11).

- 3 Consideration should be given to appointing a new Chief Executive Officer (paragraph 3.25).

- 4 Establishment of an Executive Management Board responsible for the operational function of the SFO (paragraph 3.32).

- 5 Guidance should be developed to provide committees with clearer lines of reporting and delegation. These should be incorporated into the board operating framework (paragraph 3.38).

- 6 Development of a strategy to embed existing values throughout the organisation (paragraph 4.13).

- 7 Further consideration should be given to pursue a change to the funding model in order to build future SFO capability and provide better value for money (paragraph 4.45).

- 8 Production of a comprehensive risk management strategy (paragraph 6.4).

- 9 Clear relationship expectations should be agreed between the Attorney General's Office and the SFO (paragraph 7.7).

2 Introduction

2.1 This report details the findings of Her Majesty's Crown Prosecution Service Inspectorate's (HMCPsi) examination of the governance arrangements of the SFO.

2.2 In November 2012, HMCPsi published its first report to the Attorney General concerning the casework quality of the SFO.² At that time HMCPsi had no statutory power to inspect the organisation and the inspection was carried out by invitation of the then Director of the SFO.³ It was agreed to limit the scope of the inspection to casework related issues, including peripheral processes and systems.

2.3 The report made eight recommendations which highlighted that the quality of casework needed to be strengthened, made more consistent, and standards set and complied with. The progress towards achieving these recommendations was subject to a follow-up inspection report published in November 2014.⁴ The report recognised that significant effort had been made to address some deep-rooted issues, resulting in a positive 'direction of travel'. The report indicated that it was expected the business impact of continued remedial work and improvement in business processes would provide demonstrable outcomes in the near future.

2.4 Since these inspections, HMCPsi has been given the statutory power⁵ to inspect the SFO.

2.5 Both previous reports focussed on casework related issues. There was no in-depth evaluation of the corporate governance arrangements, structures and processes that underpin, direct and drive decision-making and resources.

2.6 This inspection of the SFO's corporate governance arrangements seeks to provide the Attorney General, in his superintendence role, with an objective assessment of whether a high quality service is being delivered. The review will also provide the Director and the Management Board with an oversight of where gaps in governance arrangements could be closed.

2 *Report to the Attorney General on the inspection of the Serious Fraud Office*; HMCPsi; November 2012. www.justiceinspectorates.gov.uk/hmcpai/inspections/serious-fraud-office/

3 The invitation was made by the then Director of the SFO, Richard Alderman, with the support of the AGO. The actual inspection took place after David Green became the new Director in April 2012.

4 *Follow-up inspection of the Serious Fraud Office*; HMCPsi; November 2014. www.justiceinspectorates.gov.uk/hmcpai/inspections/serious-fraud-office-follow-up/

5 Section 149 of the Anti-Social Behaviour, Crime and Policing Act 2014.

Background and context

2.7 The SFO was established by the Criminal Justice Act 1987 and commenced operation in 1988. This followed the report of the Fraud Trials Committee, an independent body established by the Government, to consider how the investigation and prosecution of serious fraud could be made more effective. The committee's report recommended a unified joint investigative and prosecutorial case team structure including lawyers, investigators, forensic accountants, external counsel and other experts.

2.8 As a consequence the SFO investigates and prosecutes the top most tier of serious or complex fraud, bribery and corruption cases and the Director has statutory responsibility for accepting a case for investigation. The SFO is also the principal enforcer of the Bribery Act 2010 which has been designed to encourage good corporate governance and enhance the reputation of the City of London and the UK as a safe place to do business.

2.9 Although the SFO is superintended by the Attorney General and funded by the Treasury it operates independently, but is nevertheless subject to a close degree of scrutiny.

2.10 At the time of our inspection the SFO employed 503 full-time equivalent staff and had a core budget of around £35m.⁶ The core budget was supplemented by blockbuster funding in particular cases.

Overview of governance arrangements

2.11 Although this inspection has focussed on current governance arrangements it has taken due account of events and governance arrangements that existed under the previous Director.⁷ It is clear that the previous management and governance arrangements did not follow good governance principles, which allowed a culture of exclusiveness at a senior level to develop. This led to significant reputational harm and low morale at all levels of the organisation.

2.12 In September 2011 a number of SFO staff made allegations relating to misconduct by senior staff. The Cabinet Secretary asked Sir Alex Allan to investigate these allegations. His report made a number of recommendations to address governance issues. He observed that the then senior management team operated in a closed, rather than open, way and recommended that *“senior managers, with the support from the non-executive directors, consider carefully the case for greater consultation and openness about future management decisions”*. Arising from the same whistleblowing allegations, a Civil Service Commission panel concluded that senior managers in 2010 had contravened the Civil Service Code provisions on integrity, honesty and objectivity when reporting on consultancy spend.⁸

6 Numbers include temporary staff. The budget for 2015-16 was £33.8m.

7 Richard Alderman held the Director post from 2008 until April 2012.

8 Complaint to the Civil Service Commission (AP000086) Findings and Recommendations: Final decision – 5 March 2014.

2.13 During this period there were also poor casework decisions made including the Tchenguiz case,⁹ inappropriate delegation of case adoption, unauthorised severance payments to senior management members and loss of data which undermined the reputation of the SFO. The House of Commons Committee on Public Accounts¹⁰ reported on the irregularities of severance payments to senior SFO staff and concluded that a culture existed at senior management level where advice and scrutiny was to be avoided wherever possible amounting to an *“apparent need for secrecy”*. The Committee concluded: *“This catalogue of errors amounts to a case study in how not to run a public body. These failings have undermined the reputation of the SFO and the morale of its staff which the new Director has to rebuild”*.

2.14 Throughout our inspection interviewees, internally and externally, spoke of the damaging legacy issues which the SFO has had to address, often referred to collectively as the ‘previous regime’.

2.15 Upon taking up his appointment the current Director had to address these reputational and legacy issues, as well as build a new senior management team. This structural reorganisation included the appointment of General Counsel, a Special Advisor,¹¹ and other senior posts. The Management Board was enlarged to include the entire Senior Civil Servant Group (mainly operational) to provide inclusivity, develop and promote corporate strategy and provide as much insight and experience as possible.

2.16 New layers of quality control were built into casework and supporting processes, including the creation of a Case Evaluation Board and Case Review Panels. A new quality assurance team was also developed. The Director refocused SFO casework on the investigation and prosecution of the top tier of fraud, bribery and corruption replacing the old criteria with a new Statement of Principle.¹² This was seen as a clear steer away from previous cases which had been criticised for being more straightforward, less challenging casework. As a consequence the LIBOR¹³ investigation, which had been rejected by the previous Director, was undertaken.

9 A judge accused the SFO of *“sheer incompetence”* after the SFO admitted it had inadequate information to obtain warrants to search Vincent Tchenguiz’s home. Subsequently the SFO had to pay significant costs and damages accompanied by an apology from the current Director on behalf of the SFO.

10 Tenth Report of Session 2013-14.

11 His Honour Geoffrey Rivlin QC was appointed on a fixed term contract to a new post of Special Advisor to strengthen the oversight of, and challenge to, casework strategy and decisions. He has now retired and consideration of a replacement is under review.

12 *Statement of Principle*; SFO; 2012. www.sfo.gov.uk/publications/guidance-policy-and-protocols/

13 The investigation involves a series of fraudulent actions connected to the LIBOR (London Interbank Offered Rate). The allegations concern banks falsely inflating or deflating the LIBOR rates so as to profit from trades, or to give the impression they were more creditworthy than they actually were.

2.17 In making these changes, it is clear the Director was determined to address the lack of transparency that had preceded him, re-focus the SFO mission and build corporate self-confidence. The current governance arrangements have brought important advantages including more inclusivity, increased staff morale, better stakeholder engagement and a clearer picture of what the SFO is meant to investigate. The direction has marked a clean break with the past climate and has set a positive and open tone for the organisation.

2.18 Since the current Director took office in 2012, in addition to HMCPSI's reports, there have been several external and internal reviews which have further shaped or informed the SFO's governance arrangements:

- in August 2013, two independent reviews were completed relating to a data loss incident which occurred between November 2011 and October 2012.¹⁴ Peter Mason CBE reported on the incident itself and Alan Woods on procedures and processes around data management and, more widely, about SFO structure including board composition and risk. The Risk Management and Moderation Group was established in response to the Woods review. This new group has responsibility to review the strategic risk register, capturing new risks, redefining old ones and undertaking an in-depth analysis of individual risks
- in June 2014 a review of board effectiveness was conducted by Norman Pickavance (a non-executive director on the SFO Management Board). The report made various recommendations and resulted in the formation of three sub-committees of the Management Board: Strategy, Infrastructure and People and Culture
- in September 2014 the SFO's internal audit function, undertaken by HM Revenue and Customs (HMRC), reported on its review which focused on the SFO's corporate governance and its compliance with the principles of the Corporate Governance Code. The report gave the SFO a 'green' rating, meaning that risk exposure was at an acceptable level
- in November 2015 a discussion paper was presented to senior management which provided various options to restructure both operational and governance arrangements.

¹⁴ The data loss was reported to the Information Commissioner's Office (ICO). The Commissioner considered the contravention to be "very serious" and likely to cause substantial distress. The ICO imposed a penalty of a £144,000 fine on the SFO.

Defining corporate governance

2.19 Given the huge range and types of organisations, it is not surprising that there is no universally agreed definition of corporate governance, just as there are no universally accepted structures and practices that constitute good governance. There are a number of structures employed, dependent on a range of variables, including the type of organisation, its ownership (private or public) and the nature and breadth of function.

2.20 Corporate governance is complex and getting the balance right between strategic and operational focus is difficult, *“How do you equate the total accountability of the Board with the physical impossibility of knowing everything that is being done in the Board’s name?”*¹⁵

2.21 In general terms, corporate governance encompasses the arrangements by which organisations are run and controlled and, specifically, about decision-making. It focuses upon the board and senior management, although management and leadership at all levels are important. Governance is also concerned with the structures of responsibility, systems and the flows of information upon which decisions are based.

2.22 With regard to public sector organisations such as the SFO, the greater an organisation’s independence, the greater is the need for robust governance mechanisms as a means of ensuring that it is discharging its delegated powers appropriately. To the extent that independence is combined with power, that need is heightened. Given the independence of statutory authorities such as the SFO, effective governance is a critical factor and provides assurance, not only to Parliament but also to the public. Good governance also serves as a safeguard to those affected by its activities so that they are protected from the inappropriate exercise of power. Good governance in the public sector ensures bodies are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.¹⁶

2.23 Guidance on how corporations should be governed effectively is extensive. In 2011, the Treasury and the Cabinet Office published a Code of Good Practice (the Code)¹⁷ with supporting guidance. The focus of the Code was to guide ministerial departments about how to implement good governance arrangements. Although the SFO is a non-ministerial department, the Code encourages smaller departments to adopt its principles, although the guidance acknowledges that the Code is not a blueprint for all boards to follow. The SFO has adopted the principles set out in the Code.¹⁸

¹⁵ Sir Stuart Burgess, Chair, NHS Corporate Governance Group; 1995.

¹⁶ CIPFA definition from *Good Governance Standards for Public Services*; Chartered Institute of Public Finance and Accountancy (CIPFA) and Office for Public Management Ltd (OPM); 2004.
www.cipfa.org/~media/files/publications/reports/governance_standard.pdf

¹⁷ *Corporate governance in central government departments: Code of Good Practice*; HM Treasury; July 2011.
www.gov.uk/government/publications/corporate-governance-code-for-central-government-departments

¹⁸ The SFO have made certain divergences from the Code, for example the Code states that there should be a separate Nominations and Governance Committee but the Annual Report 2014-15 states that such a function is carried by the SFO Management Board.

2.24 The principles and underlying standards for this inspection are drawn from the Code and other governance reports (see annex D), and HMCPSI's existing framework for inspection of governance issues. We did not scrutinise the totality of SFO governance responsibilities but focussed on the core issues of strategic clarity, leadership, effectiveness and accountability, whilst taking into account the unique nature of the SFO's business. We considered five key elements of governance during our inspection, these were:

- board composition
- board effectiveness (including an assessment of blockbuster funding and value for money)
- casework governance
- risk management
- stakeholder engagement and accountability.

Report structure

2.25 The report is structured around these five key elements of governance which are divided into separate chapters. Each chapter begins with the principles that underpin good governance for the specific element considered, then an overview and context of each particular element, followed by our findings and summary.

Methodology

2.26 A full methodology can be found at annex A.

3 Composition of the Management Board and supporting governance structures

Principles

The SFO Management Board should have a balance of skills and experience, be diverse and manageable in size. Roles and responsibilities are clearly defined and arrangements in place to enable the board to discharge its responsibilities effectively. Responsibilities and accountabilities of each Board member are clearly defined and included in the board's operating framework.

Overview and context

3.1 Prior to April 2012 the SFO operated a small Management Board and only had one committee reporting to it. An executive board, made up of operational team members, also existed but its operation has been described as 'siloed' and remote from Management Board engagement or information flows. When the previous Director left the SFO in April 2012, the Chief Executive Officer and other senior members also left, leaving the in-coming Director with the need to build a senior management team.

3.2 In order to overcome some of the legacy issues, the new Director began a complete structural reorganisation of the SFO and widened membership of the Management Board. This was seen as a clean break from the past by increasing transparency and inclusiveness, as well as helping the Director run the organisation with as much insight and experience as possible.

3.3 In 2014, as a consequence of the Woods review, the Director commissioned an internal review of board effectiveness which was conducted by one of the board's non-executive directors (NEDs), Norman Pickavance,¹⁹ and made a number of recommendations which resulted in the formation of three new sub-committees of the Management Board: Strategy, Infrastructure, and People and Culture. These changes took effect from December 2014 with one committee reporting into the Management Board each meeting, on rotation. The three committees are in addition to the established Audit and Risk Committee. An Oversight and Governance Board was also formed to co-ordinate various projects and their associated risks.

Findings

Board composition

3.4 The board meets approximately every six weeks. It has a membership of 15 including the Director, General Counsel, all SFO staff at the Senior Civil Servant (SCS) grade and three NEDs. The Special Advisor, whose role is currently vacant, was also a member of the board. In addition, the Head of Governance, Head of Communications and a member of Private Office also attend, swelling the numbers attending board meetings to 18. The current board composition has existed without a Chief Executive Officer²⁰ since 2012.

¹⁹ Referred to as the Pickavance review or report. Norman Pickavance left the SFO in July 2014.

²⁰ The role of Chief Executive Officer ended in April 2012 and the role of Chief Operating Officer ended in December 2012. Both roles had similar remits.

3.5 The SCS Group who attend comprise of the Chief Financial Officer, Chief Investigator, Chief Technology Officer, Head of Human Resources (HR) and operational heads of division. Legal expertise is well represented with eight board members being lawyers. The board is supported by three NEDs, who together provide a strong mix of skills and experience from the commercial world and public sector. It is unsurprising, given the number of board members, that a full range of skills and expertise are represented at board level so that the SFO has the capability to understand and carry out its strategic aims and business.

3.6 The current board structure has served the SFO well over the past four years and has provided inclusion, better communication and improved decision-making. It has had the advantage of drawing in a wider range of skills and experience and the large board has helped to address the previous difficulties of closed decision-making and silo working.

3.7 Whilst the strength of such a large board has been its inclusivity, it also has several weaknesses:

- the SCS Group meetings, described below, have the same membership as the board, less the NEDs, which lends itself to duplicating issues already discussed by the board
- with so many operational heads being present, the board runs the risk of not being able to focus sufficiently on the more strategic issues
- the significant investment of senior management time in the board, SCS Group and committee meetings is inefficient because many of the same issues are discussed at each of the meetings
- the board is unable to hold the executive senior staff to account for operational delivery because they are in effect one and the same
- members may not be able to fully contribute which can make it harder to build consensus; and
- the role and contribution of the NEDs may be weakened because of the finite time to address issues on the agenda.

Many of these concerns were echoed in various interviews we held.

3.8 As the legacy issues of exclusion experienced in previous years dissipate, we consider that the board should enter a new stage of maturity and significantly reduce its size to around eight or nine members. This will provide the board with the opportunity to operate more strategically and separate the overlapping roles of governance and executive management that currently exist and which do not meet best practice standards. The SCS meetings and broader committee structure now provide a means of continuous inclusion and improved communication, which should avoid past problems.

Recommendation

A smaller, more strategic Management Board, should be formed.

3.9 Diversity in board composition is an important driver of a board's effectiveness, creating a breadth of perspective among directors, and breaking down a tendency towards 'groupthink'.²¹ Whilst the board has a diverse range of skills and experience, its make-up is not fully reflective of its diverse workforce. The board is predominately white and although two thirds of board members are male, the proportion of female board members is above targets set by Lord Davies.²² The board is aware of these potential negative perceptions and has discussed the situation recently, without identifying a clear way forward.

3.10 The board accepts that more needs to be done, including talent spotting from within to identify potential leaders, although the development of a talent management mechanism decision has been deferred. The SFO is participating in the Civil Service Positive Action Pathway which aims to equip under-represented groups with the skills and confidence to enable career progression.

3.11 The SFO has a diversity champion who is also a board member and sits on the Equality and Diversity Group. This group reports into the People and Culture Committee (PCC) of which he is also chair. This is an unfortunate situation because it raises a conflict of roles which has resulted in a lack of perceived challenge concerning diversity issues at PCC and board level. Whilst the board acknowledges all of these issues it needs to demonstrate that it is addressing them by developing an action plan.

Recommendation

Development of an action plan to better reflect the diverse workforce at Management Board and Senior Civil Servant level.

²¹ Groupthink is a psychological phenomenon that occurs within a group of people in which the desire for harmony or conformity in the group results in an irrational or dysfunctional decision-making outcome. Group members try to minimise conflict and reach a consensus decision without critical evaluation of alternate viewpoints, by actively suppressing viewpoints and by isolating themselves from outside influence. Page 2, *Guidance on Board Effectiveness*; Financial Reporting Council; May 2011. www.frc.org.uk/Our-Work/Publications/Corporate-Governance/Guidance-on-Board-Effectiveness.pdf

²² In 2011 Lord Davies set a target for the FTSE 100 companies to have 25% of women on boards by 2015. In his 2015 report he has set an increased target of 33% by 2020. *Women on boards: 5 year summary* (Davies review); October 2015; Department for Business, Innovation & Skills. www.gov.uk/government/news/lord-davies-ftse-350-boards-should-be-33-female-by-2020

Role of non-executive directors

3.12 There are three NEDs on the board. Their role is to provide independent, external and expert challenge to the board and its members. They are not involved in the day-to-day operational function, but exert their influence and contribute to the development of strategy and risk.

3.13 All three NEDs sit on the Audit and Risk Committee (ARC) with one chairing the meeting. NEDs make a significant contribution to the drafting of the annual report which is progressed through ARC meetings. A NED also sits on each of the three recently formed committees. There is no NED representation at the Case Evaluation Board or Case Review Panels (see chapter 5 for more discussion about casework evaluation and review).

3.14 Evidence from the review of minutes and interviews suggest that NEDs play a vital role in providing constructive and effective challenge to papers presented to the board and discussions emanating from the agenda, notwithstanding that their influence could increase if a smaller Management Board is formed. Their varied experience and backgrounds add an important perspective to discussions.

3.15 Concerns have been raised by some interviewees that the number of NEDs should be increased but we consider, on balance, the number is about right particularly if board numbers are reduced. However it is good practice for one of them to be appointed as lead NED and expectations of the role to form part of the board operating framework. The lead NED should act as a point of contact between the other NEDs, the Director, SCS Group and the Attorney General's Office (AGO).

3.16 Inspectors consider it a positive step that the Attorney General now meets with the NEDs. It is important that the AGO has an independent view of how the SFO is operating, separate to the meetings held with the Director. It is equally important to demonstrate, publicly, that the NEDs have a channel to raise concerns directly to the SFO's superintending authority.

3.17 The NEDs' role is outlined in the SFO's board operating framework and follows expectations set out in Cabinet Office guidelines. There is no formal appraisal of NED contribution at board level and this should be considered in any restructure because it will determine whether each individual is a fully engaged board member who upholds the principles of independent challenge. Inspectors also noted that a register of interests for NEDs needs updating and is not published on the SFO website. It is particularly important for internal staff to be aware of these interests to ensure any potential conflict with case investigations is handled appropriately and speedily.

Role of the Director

3.18 The role of the Director is onerous. As Accounting Officer he is responsible for ensuring there are effective mechanisms of internal control. In addition to his statutory duty of accepting cases for investigation, he is leader of the organisation and chair of the Management Board. His active role in case management is combined with managing and championing organisational change and culture internally, whilst externally raising the SFO's profile, nationally and internationally.

3.19 The board operating framework provides an overview of all the responsibilities the Director should deliver as Accounting Officer and as chair of the Management Board. They are comprehensive although not exhaustive. For example the Director remains at the centre of a number of decision-making bodies which do not all feed into the board. There is no separately nominated chair of the board or the SCS Group so both the leadership and executive roles are combined into the role of the Director. In short, governance issues rely too heavily upon one individual, which raises concern over whether there is sufficient challenge to the Director.

3.20 All 12 members of the SCS Group are personally line managed by the Director. This inevitably limits the time each individual has with their line manager for sharing problems, coaching and personal development. It was clear from the interviews we held and responses from the recent senior managers' 'away day' that the Director's span of responsibilities is too broad.

3.21 Various suggestions were put forward in the Woods review to reduce the burden on the Director, but none of these have been taken forward. In addition these concerns were raised at the managers' away day, but discussion did not reach a consensus about how these issues should be addressed.

Position of Chief Executive Officer

3.22 There is currently no SFO Chief Executive Officer (CEO). The previous CEO's post ended in April 2012 and the role of Chief Operating Officer ended in December 2012. Since 2012 corporate and business responsibilities have been devolved between the SCS Group, with the Director having overall responsibility for the effective delivery of both casework and corporate services.

3.23 Because of the legacy issues outlined earlier there has been a reluctance to appoint a new CEO. More recently however the SCS Group have become more persuaded of the rationale for the appointment of a CEO, which will alleviate the Director and some of the SCS Group from the more corporate type responsibilities they manage. This rationale is supported by prominent external stakeholders.

3.24 The portfolio of responsibilities for a CEO at the SFO could include:

- the Governance Unit
- HR
- finance
- management of risk
- information technology
- the Digital Forensic Unit
- professional standards
- organisational learning
- organisational values
- communications and media
- performance management information
- the business plan and annual report
- corporate facilities and procurement
- line management of appropriate SCS staff.

3.25 By pulling these corporate and business functions together it would allow for a significant reduction in the number of SCS members that need to attend board meetings, as well as allowing the Director more time to have a clearer focus on operational matters and to strengthen external engagement. Significantly, appointing a CEO would provide additional checks and balances to the board and Director, as well as providing important leadership and business continuity after the current Director's contract expires in April 2018. Inspectors consider that in order for the SFO to mature to the next stage of effective governance, the appointment of a CEO should be strongly considered.

Recommendation

Consideration should be given to appointing a new Chief Executive Officer.

Role of other board members

3.26 Other board members include General Counsel, the Chief Financial Officer, Chief Investigator, Chief Technology Officer, Head of HR and heads of division. Other than the NEDs and the Director, the board operating framework does not set out the responsibilities and accountabilities of board members, but refers to more generic responsibilities of upholding the seven principles of public life²³ and the role of the Management Board as a whole.

²³ Selflessness, integrity, objectivity, accountability, openness, honesty and leadership. *The 7 principles of public life*; Committee on Standards in Public Life; May 1995.
www.gov.uk/government/publications/the-7-principles-of-public-life

3.27 For roles and responsibilities to be fully understood it is important for those involved in governance and management to have a clear understanding of their individual roles and relationships with one another. In the event of the board moving to a smaller size it would be appropriate to clearly define the role and responsibility of each board member, particularly that of the Chief Financial Officer and any future CEO.

Induction

3.28 It is understandable that during the formation of the new board in 2012 the induction of its members was very limited. However by 2014 the Internal Audit review of board effectiveness identified the need to strengthen induction, training and support for board members. There has only been a limited induction into the role for NEDs and newer members of the SCS despite there being wide interest in more formal training on the governance role of being a board member. The induction pack for NEDs provides limited information on governance of the SFO.

3.29 Now that the board has developed and governance structures have become more robust, all members of the Management Board should have access to formal training on governance and the role of executive boards. This will support them in being more effective in their role. Such training should form part of the induction process of all new board members.

Supporting governance structures

Senior Civil Servant Group

3.30 The Director chairs a weekly SCS Group meeting attended by all the Senior Civil Servants and the Head of the Governance Unit, a member of Private Office and the Head of Communications. The composition of this group is identical to the Management Board without the NEDs. The group discuss operational day-to-day matters although some of the issues at board level are also discussed within this group. The meetings are informal and not minuted, although if decisions are made they are noted and emailed to the SCS Group.

3.31 In addition, a member chairs a meeting of the SCS Group once a month to identify corporate and casework issues which may be of concern or interest. It is not a decision-making body and if issues need to be resolved they are either given to the most appropriate committee to address or, if issues need to be urgently considered, they are raised at Management Board or the SCS Group weekly meeting.

3.32 If a more strategic Management Board is formed then it needs to be supported by an effective executive management team, responsible for the day-to-day operational running of the SFO. The current weekly SCS Group could be re-configured to become the Executive Management Board, accompanied by a clear remit, formally structured, to include the recording of decisions and actions. It will be important to clarify the role of the board and the executive management team in the board operating framework and to carefully address delegated decision-making parameters.

Recommendation

Establishment of an Executive Management Board responsible for the operational function of the SFO.

Committees and groups

3.33 Committees are a useful mechanism for the board to enhance its effectiveness through further detailed oversight and supervision of the management of risks and operational issues which may be critical to the success of the organisation.

3.34 There are four principal committees that report into the Management Board. These are: the Audit and Risk Committee (discussed in more detail at paragraph 6.7), which advises the Director and board on issues of risk, management procedures and internal control systems; the Strategy Committee, which advises on business strategy and external engagement with partners; the Infrastructure Committee, advising on accommodation, information technology and evidence handling; and the People and Culture Committee covering recruitment and development of staff, and the working environment. All committees have terms of reference and are chaired by a member of the SCS Group. Reports from committees are built into the Management Board programme of meetings.

3.35 In addition there are many other committees, boards and groups which meet and feed into one or more of the principal committees. Cross-committee communication and working is in its infancy and much work is duplicated. There is a confused mix of groups and committees which is in need of further rationalisation in any restructure. These should form clear pathways of information flows to and from the board and between committees and groups. A clear organisational chart would be helpful to staff and the executive.

3.36 There is no clear guidance either in the board operating framework or in the terms of reference about the delegated responsibility given to committees; which matters a committee can decide upon for itself and which should be referred to the board for decision. Most interviewees reported that issues that should be brought to the attention of the board resulted from an exercise of common sense or 'feel'. They would welcome more guidance on delegated responsibility and these should be made clear in the board operating framework.

3.37 The SFO does not have a Nominations and Governance Committee which would normally advise the board on key elements of effectiveness, implementation of corporate policy, scrutinising whether there are satisfactory systems for identifying and developing leadership and high potential, plans for succession and appointments to the board. The rationale for not having such a committee is that the SFO is a relatively small organisation and the Management Board subsumes this function as part of its normal terms of reference. This rationale is captured in the annual report.

3.38 Whilst the turnover at board level is relatively low there is little evidence that this role is being effectively discharged by the board. Consideration should be paid in any restructure to whether such a committee should be formed, or if these functions could be subsumed into another existing committee, and how the board will address these types of issues effectively in the future. The board operating framework should capture how these issues will be addressed.

Recommendation

Guidance should be developed to provide committees with clearer lines of reporting and delegation. These should be incorporated into the board operating framework.

Structure of operational teams

3.39 Each operational team is currently represented at board level. The discussion as to whether the operational teams should be restructured has been subject to comments by the Woods review in 2013 and more recently at the senior managers' away day. No conclusion has yet been drawn and various options are still being considered. We made several observations during our inspection which may help inform any reorganisation and should be considered together with other recommendations made in this report.

3.40 There appears to be a consensus approach to the tasking of teams rather than one purely based on capacity. This has resulted in some heads of division willing to take on more cases than others, making the workload imbalanced.²⁴ There also appears to be an artificial barrier between the fraud teams and the bribery and corruption teams because both types of work are investigated at some level in all teams.

3.41 It is evident that there is a strong case for reducing the number of divisions but any process of restructuring should ensure a better equality of workload and a better spread of skills and knowledge. This will provide teams with the ability to take on a full range of casework as well as building future capacity. It will also necessitate taking away the 'labelling' of teams, which will go some way to improving inter-divisional staff relations.²⁵ Any future tasking should then be conducted on a strict capacity basis. The newly developed time recording system should be used to better inform capacity management for tasking.

²⁴ For example one division has 111 staff and another has just 45 staff.

²⁵ Staff surveys and interviews revealed some friction between fraud teams and bribery and corruption teams due to a perception, real or perceived, that resources allocated and importance afforded are unequal.

3.42 If there is a reduction in the SCS Group, under current board arrangements, the board size would also be reduced. Just reducing the number of SCS posts to achieve a smaller board size will not address the need to separate the strategic board function from the operational executive. Any restructure of divisional teams should be taken as part of an overall restructure of the board and SCS Group rather than in isolation. It is important that any restructure of divisional teams is fit for purpose, is synchronised with any new governance restructuring and also provides efficiency and value for money.²⁶

Summary

3.43 Since April 2012 the current board arrangements have been enlarged to incorporate all members of the SCS Group, three NEDs and others, swelling board numbers to 18 persons. The large board composition has given the Director good insight and has built inclusivity, which has marked a clean break from the previous board. The board is now supported by four standing committees, each chaired by a board member, and reports into the board regularly. However, whilst the current structure has served the SFO well there are various weaknesses which do not align to best practice. The board is too large and there is no division between the strategic board and the executive. Senior managers attend various groups and duplication exists, which is inefficient. A significantly reduced board and separate executive board would provide better governance arrangements.

3.44 The Director has too many responsibilities and has taken on, and shared among the SCS Group, many of the corporate and business responsibilities which are normally the remit of a CEO. The appointment of a CEO would alleviate pressure on the Director's time and provide an additional layer of scrutiny and challenge at board level.

3.45 The board operating framework needs to be refreshed, particularly after any restructure of the board, and should clearly set out the responsibilities and decision-making levels of the board, the executive and committees. Board roles should be clarified so that there is a clear understanding of individual responsibilities in the governance framework.

3.46 Any restructure should also consider appropriate training of existing board members and comprehensive induction of new members. Whilst diversity at board and executive level is a concern, and is acknowledged by the board, developing an action plan of how the board seeks to address its concerns would be a positive step forward.

3.47 Overall, the board's work has significantly improved the reputation of the SFO externally and provided much needed inclusiveness and direction internally. Much of this effort was directed towards 'fire-fighting' and dealing with continuing legacy issues which existed prior to 2012. After four years the board should now take the opportunity of entering a new stage of maturity which better reflects best practice governance arrangements.

²⁶ For example the extra cost of a CEO could be offset by reducing the number of SCS grades.

4 Board effectiveness

Principles

The SFO Management Board should provide leadership to ensure strategic and operational functions are effective, efficient and delivered in an ethical manner. This will include:

- *strategic clarity, including the setting of the SFO's vision, direction and values is clearly communicated*
- *the board should be appropriately supported to ensure it is provided with management and performance information in a form and of a quality that enables the board to discharge its duties effectively*
- *there is sufficient challenge by all board members to decision proposals considered by the board*
- *there is sound financial management and scrutiny in order to achieve business objectives. There is effective allocation of resources, which also demonstrates value for money*
- *the board demonstrates it is a learning organisation*
- *governance arrangements for case acceptance and casework are clear and accord with the SFO's business objectives (dealt with separately in chapter 5)*
- *set the SFO's risk 'appetite' ensuring that controls are in place to identify, manage and monitor strategic risks to which the organisation may be exposed (dealt with separately in chapter 6).*

Overview and context

4.1 The SFO Management Board is collectively responsible for providing leadership by directing and supervising effective controls. The board should set the SFO's strategic aims, ensuring there is adequate management information and financial and human resources to meet these objectives. In addition the board is responsible for promoting a collective vision of its purpose, culture and the behaviours it wishes to promote internally and externally.

4.2 The effectiveness of the board and the SFO's success as an organisation is dependent on the alignment between organisational culture and strategy. The board should ensure that there is an open and transparent culture, which encourages leadership and communication, and has clear boundaries with regard to accountability and responsibility.

4.3 The SFO's board operating framework sets out core values, a governance overview, membership and roles and responsibilities. Particular attention is paid to the role of the non-executive directors. It states that the board aims to reach decisions by consensus but that a decision may be taken by the Director alone as he has personal responsibility as Accounting Officer. The board operating framework includes the process by which committees will report to the board but does not include the processes for casework acceptance and decisions, as these are separate to the main function of the board and committees.

Findings

Setting direction

4.4 The Strategic Statement changed from a Mission Statement to a Statement of Purpose in 2013:

“The SFO’s purpose is to investigate and, where appropriate, prosecute cases of serious or complex fraud, bribery and corruption. In addition, we recover the proceeds of those crimes we investigate and assist overseas jurisdictions in their investigations into serious or complex fraud, bribery and corruption.”

4.5 In considering whether to take on an investigation the Director applies a Statement of Principle which replaced previous case acceptance criteria (see paragraph 5.7). The Statement of Principle is underpinned by similar strategic objectives to the Statement of Purpose:

- Investigate and, where appropriate, prosecute serious or complex fraud, bribery and corruption cases fairly and effectively
- Recover the proceeds of serious or complex fraud, bribery and corruption fairly and effectively
- Develop, and strengthen, constructive relationships with partners both in the UK and internationally
- Build and maintain an effective workforce, treating our staff fairly and with respect and dignity
- Provide value for money in everything we do.

4.6 The combination of purpose, strategic objectives, values and Statement of Principle form the strategic direction of the SFO. Since 2012 the restructuring of the organisation which has occurred has been made in support of these strategic aims. These aims have also been robustly underpinned by consistent messages from the Director both internally to staff, externally to stakeholders and also to businesses, media and Parliament. The change of strategic emphasis is evident in the more complex types of cases currently under investigation by the organisation.

4.7 It is clear that the SCS Group supports this strategic direction and messages from the board are cascaded through their team meetings, some more successfully than others. The Director’s practice of meeting each new member of staff also sets the tone from the top.

4.8 The Civil Service autumn 2015 People Survey results give a clear indication that the senior management team have set a consistent message of the SFO’s purpose: clear understanding of SFO’s purpose, 92%; clear understanding of SFO’s objectives, 90%; and understanding how work contributes to SFO’s objectives, 90%. All these results are better than the Civil Service high performers (the top 25% for each question). These results are impressive, particularly as contract and temporary staff, not just permanent members, are also included in staff surveys (although surveys exclude disclosure counsel employed for individual cases).

4.9 Our own survey results of grade 6 managers are slightly less positive, although the findings demonstrate a much better position than experienced a few years ago: 68% agree that the SFO board communicates its activities on a regular basis; 62% believe the board clearly communicates its objectives for the business year; and 50% feel that board minutes are easily accessible to staff.

Core values

4.10 Values within an organisation should underpin the way in which it achieves its strategic aims. The SFO board's role is to ensure these values are embedded and that they become part of a positive culture within the organisation. It is important that senior managers are seen to actively promote and abide by the same values. The SFO has four key values which are captured in the board operating framework and business plan:

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

4.11 There was significant engagement with staff to develop the values but it seems that less has been done to promote them and develop the characteristics of what they actually mean to individuals and the organisation collectively. Not all staff are aware of the values, how to challenge inappropriate behaviour or how they would be supported, even though the dignity at work policy gives guidance on what might constitute unacceptable behaviour. This would suggest that the profile of values needs to be raised. Likewise the equality and diversity action plan needs to be updated and this is being taken forward by the People and Culture Committee.

4.12 Inspectors noted that there were no visible signs of SFO values displayed in offices. Values did not appear as a screen saver on the internal intranet and are not included on the SFO's website or annual report. Whilst these issues may appear to be 'window dressing' they are nonetheless important components of a broader strategy to embed values and demonstrate to stakeholders what the key SFO values are. The SFO is currently engaging in new leadership and management training which may afford the opportunity to raise the profile of values throughout the organisation.

4.13 Whilst most of the latest People Survey results are above the Civil Service highest performers, key questions around values are worse than the highest performers. These include inclusivity, fairness, discrimination and bullying, although these are still significantly better than the 2011 SFO results (a summary and comparison of People Survey results from 2011 and 2015 is at annex C). It is of particular concern that 14% of staff felt that they had been bullied and discriminated against in the previous 12 months. These are important issues for the board to address particularly as the professional make-up of the organisation is so diverse comprising investigators, lawyers, forensic accountants, IT specialists and support staff. The staff make-up is further complicated by a mix of permanent, contract and temporary staff.

Recommendation

Development of a strategy to embed existing values throughout the organisation.

Business plan

4.14 The Business Plan for 2015-16 contains the SFO's purpose, strategic objectives, core values and Statement of Principle. The board operating framework contains core values but not the SFO's purpose, objectives or Statement of Principle. The Annual Report for 2014-15 outlines what cases it will accept (Statement of Principle) but does not contain an explanation of core values and is vague as to the SFO's purpose. The SFO's website has links to its annual report and outlines the Statement of Principle, but does not mention core values, have any reference to its business plan and does not contain board minutes. Attention should be paid to ensure that the purpose, objectives and core values of the SFO are consistently approached in the various forums available for staff internally and stakeholders externally.

4.15 The AGO does not participate in the planning process or get sight of the business plan in advance. Stakeholders are not consulted about the business plan. Similarly staff have little involvement in its development. The plan lacks detail on the operating model and case acceptance criteria and does not include details of the key performance indicators upon which to measure success. Significantly, the business plan does not indicate how the SFO will be held accountable or how it provides value for money.

4.16 The business plan exists without being discussed and approved by the board and there is little discussion at board level involving how the organisation is progressing against the plan. It should set out how the SFO is going to achieve its goals and the issues it is likely to tackle in the forthcoming year. The 2014-15 Business Plan is limited. For example it makes no reference to the ongoing Autonomy project²⁷ which is currently

²⁷ Autonomy is an IT project (formally known as the Digital Review System Replacement Project) intended to replace the existing case management system. It is costly and involves critical risks for future operations of the SFO.

a fixed agenda item at board meetings. Whilst most of the SFO's business is static, as it is statutorily embodied to investigate top tier fraud and bribery and corruption, the plan should define goals and business for the year, the steps needed to reach them and how the board will discharge its obligations to the plan.

Decisions and reporting

4.17 It is important for the board to discuss issues upon which it can influence the organisation's strategic direction. There has been little discussion at board level about the business plan or annual report, which are core organisational documents. It is also of concern that the strategic risk register is not examined at board level. Discussion and risk concerning casework is rarely brought to the attention of the board (discussed further at paragraph 5.3). In addition the profile of media related issues should also be raised at board level (see paragraph 7.15).

4.18 The board operating framework does not identify those matters which should be dealt with by the board. Pickavance, in his review of the SFO board's effectiveness, observed that it was "*unclear what the board was actually meant to decide*". Since that review three committees have been formed to advise the board on a broad range of issues, but reporting and decision-making remains vague.

4.19 Any restructure of the board should take into account that the board operating framework needs to be refreshed with clear guidance about the board's role in decisions and reporting in accordance with the Cabinet Office Code of Practice.

Board support

4.20 The board should be appropriately supported to ensure it is provided with management and performance information in a form and of a quality that enables the effective discharge of its duties. The Governance Unit provides secretarial support to the board and sub-committees.

4.21 The Pickavance review highlighted that papers to the board were often poorly written, did not contain any clear analysis or recommendation, and were not produced in sufficient time. As a result of the review's recommendations there is now a sharper agenda at board meetings and papers are submitted on a standard template. In advance of scheduled board meetings the Governance Unit monitors and evaluates the papers that are to be discussed and will ask for a re-submission if the quality, purpose and analysis are not made clear. This new quality assurance intervention ensures that the rationale for the board paper is clearer and the issues upon which the board will be asked to decide are identified. Narrative and analysis of the issues have also improved in the last six months. Results from our survey and interviews also indicate a marked improvement in the quality and timing of papers to the board.

4.22 The Governance Unit is also working on a forward agenda to ensure that the timing of committees and other commitments synchronise more effectively around fixed dates for Management Board meetings. This will give a degree of certainty regarding the agenda for the year, make planning more efficient and papers more timely, while retaining flexibility to build important or urgent matters into the agenda.

4.23 Although the quality of minutes has also recently improved they do not capture the result of actions made in the previous meeting. We observed that actions from the previous meeting were addressed in a verbal update, but this was very brief and there was no discussion as to whether the actions had been effective. Any discussion should be captured in the minutes and a log kept of any outstanding actions not addressed. These issues should be remedied without delay.

Challenge provided by board members

4.24 An effective board should not necessarily be a comfortable place. Challenge, as well as teamwork, is an essential feature of effectiveness. The board operating framework outlines the operating mechanism of the board. It states that the board aims to reach decisions by consensus but that in exceptional circumstances a decision may be taken by the Director alone, because of the Director's ultimate personal responsibility for the SFO as Accounting Officer.

4.25 A review of the minutes shows no documented dissensions to issues or proposals presented at board meetings and, whilst there were many discussions recorded, there were relatively few challenges documented. The only recorded challenges have come from NEDs. This evaluation runs contrary to the board members' survey in which all board members stated that they regularly make relevant and appropriate challenges to proposals put before the board. It is understandable that the minutes will not be able to capture every debate, although the more important the issue the better narrative there should be.

4.26 There is a perception among some external stakeholders that there is insufficient internal challenge to the Director, although this is not borne out by interviews or surveys conducted. Board members surveyed indicated that: 93% felt the chair encourages board members to express their views frankly; all felt that they make relevant and appropriate challenges to proposals put before the board; 93% said they made challenges without fear of any disadvantage; and 93% agreed that the board composition generates sufficient challenge to provide the organisation with objective direction.

4.27 The majority of interviewees suggested that the Director's behaviour was inclusive, discussion was encouraged and that he wanted to reach a consensus about decisions. Overall, the board culture is described as open, purposeful and committed, with high levels of mutual respect. NEDs are uninhibited and forthright in their debate given the size of the board and the finite time to discuss issues.

4.28 Whilst it is clear the current Director operates in an inclusive and collegiate manner, the role of Director within the SFO's current governance arrangements means that there is a potential for a lack of challenge. This exists not just because of the broad spectrum of the Director's responsibilities, chairmanship and decision-making accountabilities, but also because the majority of persons who are in a position to challenge the Director are also line managed by him. This lack of challenge, real or perceived, may be mitigated in several ways. These include:

- appointment of a CEO (see paragraph 3.22)
- appointment of a lead NED or CEO to chair the Management Board
- clear expectations and lines of reporting to the AGO (see paragraph 7.7)
- introduction of independent oversight and challenge at the case acceptance and case review stages (see paragraph 5.26)
- appointment (through the AGO) of a line manager for the Director
- development of feedback, through the NEDs and SCS members about the Director's performance as chair
- development of a formal mechanism of personal appraisal of the Director's performance as chair of the board.

4.29 None of these measures seek to undermine the independence of either the Director or the organisation, or compromise the Director's statutory role. The measures seek to provide an additional layer of scrutiny, viewpoint and transparency to the role of Director and give assurances to external stakeholders that mechanisms of challenge are robust.

Transparency

4.30 Some of the papers presented to the board are prepared by non-board members, although most of the time they are presented by an appropriate SCS member. It would also assist with board transparency if the author of the paper could present his or her findings, which may also improve the quality and timeliness of decision-making.

4.31 No observers are invited to either the Management Board or SCS Group meetings. Inviting observers of all grades (one or two at each meeting) will provide better transparency of board functions, as well as informing staff about how decisions are made at a corporate level. It could also improve the diversity of board meetings. There is an appetite from staff to observe at meetings with 64% of all the grade 6 staff who responded to our survey stating that they would like to observe Management Board meetings if this was available to them.

Financial management

4.32 The board is presented with a comprehensive financial update with supporting annexes at every meeting. It provides a narrative and overview of both core funding and blockbuster funding (see below) and a more in-depth analysis of each division's position. Examination of the financial position and discussion around finances and resources are robustly addressed, both at board level and within the SCS Group meeting. Management Board minutes indicate many of the decisions made at this level revolve around finance. The Pickavance review concluded that too much emphasis was placed upon finance at board level and not enough on strategy, although there is currently a better balance being achieved.

4.33 Interviews reveal that the financial information and narrative provided has improved with the appointment of a new Chief Financial Officer to the board, in line with Cabinet Office best practice. Budgets are allocated to heads of division and thresholds for spend and authorisation levels established. There appears to be a collegiate approach to sharing resources corporately and an agreement of measures to ensure that the current overspend is brought under control before the year end.

4.34 Representatives of the National Audit Office (NAO) attend every Audit and Risk Committee meeting to provide reassurance that the accounts, which are represented in the annual report, comply with Parliamentary regulations. The SFO's publicly available annual report provides comprehensive detail of spend in any given year.

Funding model

4.35 The SFO budget comprises two streams of funding: the core budget, which is approved in advance each year and blockbuster funding, which is additional funding for certain cases. With regard to core funding, the AGO presents the SFO's funding requirement to the Treasury. Blockbuster funding is separately approved by the Treasury direct, although the AGO is copied into any business case. The AGO does not have an input regarding the merits of whether any particular case should be blockbuster funded.

4.36 The procedure and business case process to access blockbuster funding from the Treasury appears to be robust, but relies heavily on trust between the SFO and Treasury. Inspectors are concerned that there has been no independent evaluation of the process, its accuracy or whether blockbuster funding provides value for money to the public.

4.37 The core budget for the SFO has been agreed (after the latest Government Comprehensive Spending Review) at approximately £35m each year from 2016-17 for four years. With the addition of blockbuster funding the SFO's budget has been around £50m per annum over the last seven years, with highs of £54m in 2008-09 and £58m in 2014-15, and a low of £39m in 2011-12. Whilst the variance in budget in any one year demonstrates the need for flexibility in the organisation's funding, the addition to the core budget has been increasing in recent years and the need for additional funding is likely to continue for some time.

4.38 Blockbuster funding is applied for when it is expected that the costs to investigate and potentially prosecute a case exceed 5% of the SFO's core budget (at present, cases likely to exceed £1.7m). The ability to have recourse to additional funding for very large cases was agreed with the Chief Secretary to the Treasury in October 2012 and this funding model is supported by the Attorney General. Blockbuster funding however remains a controversial issue with other criminal justice partners, who do not have similar access to funds, and with the media.

4.39 The logic behind blockbuster funding is that it provides funds to deal with large complicated cases of economic crime, such as the LIBOR investigation, which fall to the SFO to investigate but which cannot be predicted in any one financial year. Without such access to funding, cases already under investigation could stall or the Director would need to make a decision not to take on cases purely because of budgetary constraints. Neither is desirable and the Director has reinforced his pledge that the SFO will never turn down any investigation simply on grounds of cost.

4.40 Whilst blockbuster funding therefore allows the SFO to flexibly expand and contract its investigative and prosecutorial workforce, it also brings significant staffing concerns. New blockbuster cases may leave gaps in staffing and skills in other ongoing investigations so, according to need, these may also be backfilled with contract or temporary staff. At the time of our inspection 21% of SFO staff were non-permanent. There is therefore an inherent lack of consistency in teams, which becomes particularly problematic because of the lengthy nature of SFO investigations. This disruption increases the risk of delay in cases and may weaken the investigative strategy going forward.

4.41 Buying in contract and temporary staff is a constant drain on HR and makes developing a reliable staffing strategy elusive. Also, a significant amount of time is spent by the SFO finance team and the Treasury agreeing the administrative processes to enable additional funds to be released.

4.42 Contracted and temporary staff are often more expensive to employ than permanent staff, which means the taxpayer is not getting the best value for money. Contract and temporary workers may also be paid more than permanent staff for doing the same job, which causes some resentment with permanent staff feeling less valued. In addition, some staff perceive that additional resources are more easily available on blockbuster cases whereas core funded cases are strictly controlled. This perception is disputed by heads of division, who maintain that efficiencies are maintained across all investigations. Unfortunately there is not a sophisticated time recording system so an evaluation of casework efficiency across the teams and across core and blockbuster funded cases cannot be tested with any reliability (see paragraph 4.47).

4.43 Another disadvantage of the current funding model is that contract and temporary staff are brought in but then subsequently leave with valuable experience and skills which are lost to the SFO. The advantage of increasing core funding would be to build capability and experience within teams. Building this capability by increasing permanent staff would enable the SFO to build better resilience for future needs, be more cost effective and less disruptive organisationally.

4.44 Inspectors consider that the current funding model is not providing the best value for money and more efficiency could be achieved by raising core funding, whilst retaining the ability and flexibility to draw on blockbuster funding for exceptional cases. If core funding is increased then, as a direct consequence, the cost level at which blockbuster funding could be applied for would also increase and the need to resort to additional funds would reduce significantly.

4.45 Whilst the blockbuster funding model also draws criticism that there is a perceived lack of independence from Government, we found no evidence whatsoever that funding would be withheld because of political interference.

Recommendation

Further consideration should be given to pursue a change to the funding model in order to build future SFO capability and provide better value for money.

Value for money

4.46 Value for money (VFM) is a core value and strategic objective of the SFO, however there is no detail in the business plan of how it is achieved. Whilst the annual report provides a set of accounts and financial statements to allow comparison of the SFO's activities and costs, it does not explicitly address VFM. Interviewees described VFM in general terms of tackling complex fraud and bringing offenders to justice, or protecting the financial markets. Specific examples of how the SFO has achieved VFM outputs were few.

4.47 Time recording for casework and other activities carried out has not been sophisticated, therefore cost activity on particular cases has not been accurate. This means an inability to rationalise the cost of one investigation against another. A new time recording system is to be introduced in April 2016 which will enable better comparison of work across investigations and divisions. This will also help appropriately cost and task new cases and achieve a better workload balance between teams.

4.48 Inspectors consider that the principles of VFM are not widely understood and/or are not being recognised.²⁸ In order to address some of these issues it would be helpful if a statement is included in the annual report concerning how the SFO has achieved VFM throughout the year, whilst also capturing this activity within business planning.

Summary

4.49 There has been a positive transformational change to the direction and purpose of the SFO led by the Director and board, supported by the SCS Group and other senior managers. This change is clearly evident in the comparison of People Survey results of 2011 and 2015.

4.50 The survey results also indicate a much better approach to staff engagement and core values since 2011. However, whilst staff have been engaged in defining core values there is little evidence that there is a proactive approach to them. Core values need to be better defined internally and externally.

4.51 There is an inconsistent mix of information about values, the Statement of Principle, Statement of Purpose and strategic objectives which appear in some documents but not others; this needs clarifying. The business plan is also weak and there is little evidence that it is actively reviewed.

4.52 There appears to be a good level of challenge at board meetings with the chair being described as inclusive and the board as collegiate. However, the perception is that additional layers of challenge could be introduced. Observers at board and executive meetings would add to the transparency of the decision-making process.

4.53 The blockbuster funding model is not representing value for money and it prevents the SFO building future capability and capacity. Whilst it provides flexibility in funding, temporary and contract staff are more expensive than permanent staff and managing surge capacity is a constant drain on HR and other staff. Increasing core funding would provide the SFO with the ability build capacity and capability in-house and lead to less reliability on blockbuster funding.

4.54 Generally, value for money is not understood as well as it could be, even though it is a core value. More should be done to set out what the SFO approach to value for money is.

²⁸ For example deferred prosecution agreements (DPAs) could yield substantial fines which will be paid directly into the Treasury. In addition, whilst the SFO receives £2.5m per annum to pursue proceeds of crime, the total sums recovered in 2014-15 was £13.8m and in April to November 2015 £17.6m. The SFO does not derive any additional income from either DPA or proceeds of crime outcomes.



5 Casework governance

Principles

Governance arrangements for case acceptance and casework progression are clear and accord with the SFO's business objectives. Risks are identified and mitigated appropriately. Lessons from casework and other sources are captured and shared within the organisation.

Overview and context

5.1 The SFO, by design, tackles the most complex fraud, bribery and corruption cases, consequently there are inherently higher risks that cases will fail. This is particularly so because it is continually exploring the boundaries of law and case law, dealing with complex issues of legal privilege, and gathering evidence internationally through sometimes unco-operative corporations and individuals.

5.2 Such investigations can be resource-intensive and lengthy. The majority of cases have a significant international dimension and involve large amounts of material and digital data. For example in one current case the investigative team has processed over five million documents. Despite these inherent difficulties and risks the conviction rate over the period April 2009 to March 2015 has been relatively favourable at around 80%.²⁹ At the time of the inspection there were 56 live cases either under investigation or awaiting trial.

Findings

Board scrutiny

5.3 Despite the low number of cases, and casework being the core business of the SFO, decisions over whether to accept cases or the examination of case direction, investigation and prosecution, all remain outside of Management Board oversight. Only the Director, through his statutory duty, can actually decide which cases will be accepted.

5.4 Whilst casework poses the highest reputational risk to the organisation these risks are not currently examined at board level. Only a short overview of existing cases is given at board meetings and it is only recently, at the request of an NED, that General Counsel is now providing the NEDs with a broader knowledge of casework under investigation. These meetings are of an informing nature rather than a critical challenge to the strategy of investigations.

5.5 It is rare for a management board, in any organisation, not to take decisions and evaluate risks about its core business. Whilst there are various levels of quality control built into evaluating cases for acceptance and examining ongoing cases which involve members of the board, it remains that there is no direct independent challenge by NEDs to the core business of the SFO. Instead, the governance of cases accepted and case strategy are scrutinised by the Case Evaluation Board and Case Review Panel respectively.

29 Data obtained from the SFO's annual reports 2009-10 to 2014-15.

Casework acceptance

5.6 When we first inspected SFO casework practices in 2012 the acceptance criteria for casework was not consistently applied, in some cases by-passed, and only limited records of decisions for accepting cases were kept. The 2012 report also reflected stakeholder concerns that the SFO had taken on cases which were not sufficiently complex or serious to justify its involvement. We also found a lack of transparency around the case acceptance process, which affected staff morale as well as relationships with stakeholders.

5.7 Since our 2012 report the acceptance criteria has changed. The Director has vigorously steered the SFO back to investigating the type of cases that the Roskill report³⁰ envisaged: those requiring a multi-disciplinary approach of investigators, lawyers and accountants for complex, large scale fraud and corruption cases. The Director has published a Statement of Principle³¹ which underpins the Roskill ethos. The change in casework direction has not been easy to achieve, necessitating a change of culture within the organisation, developing an experienced and skilled senior management team, expanding the intelligence function and building in new and robust quality assurance controls. This has been achieved against a backdrop of continuing with legacy cases accepted under previous criteria.

5.8 The process for casework acceptance undergoes a rigorous journey of control from referral to acceptance. The Intelligence Unit will filter out any referrals which do not match the requirements of the Statement of Principle and work on cases, referred to as projects, which have the potential for SFO investigation. Once the Head of Intelligence assesses that a project is ready for an SFO team to investigate it is passed to the Chief Investigator and, if he believes that the case is sufficiently developed for investigation, the project file will pass to General Counsel for further quality checking. At this stage, General Counsel may send the project back to the Intelligence Unit for further development before presenting it to the Case Evaluation Board (CEB).

30 *Fraud Trials Committee Report* (Roskill Report); HM Stationery Office; 1986.
www.sfo.gov.uk/publications/corporate-information/sfo-historical-background-powers/

31 The SFO investigates and, where appropriate, prosecutes cases of serious or complex fraud (including cases of domestic or overseas bribery and corruption) which, in the opinion of the Director of the SFO, call for the multidisciplinary approach and legislative powers available to the SFO. In deciding what cases to adopt, the Director will consider all the circumstances of the case including: the scale of loss (actual or potential); the impact of the case on the UK economy; the effect of the case on the UK's reputation as a safe place to do business; the factual or legal complexity and the wider public interest. The decision to accept a case for investigation lies solely with the Director.

5.9 If General Counsel believes a case is viable for investigation a report is presented to the CEB to discuss whether it should be accepted as an investigation. The CEB is usually attended by General Counsel, the Special Advisor, relevant head of division and other invitees according to the circumstances. This board checks and challenges whether the case is appropriate for investigation and, if it is, General Counsel makes a written recommendation to the Director. The Director has a statutory duty to accept or decline an investigation and this decision lies solely with the Director. If the Director agrees with the CEB's decision to investigate a case he endorses the file supporting the investigation and nature of the investigation against named parties. Where the Director declines to accept a case for investigation a full narrative is made setting out the rationale for his decision.

5.10 We examined 11 examples of reports provided to the CEB for consideration. The papers included a narrative by General Counsel with reasons as to whether the case should be accepted and the manner in which the case should proceed if accepted. We noted that two cases were passed by General Counsel back to the Intelligence Unit for further review. In one example General Counsel provided a narrative supporting the opening of an investigation but the Director declined, providing a full narrative of his rationale.

5.11 Our follow-up report in 2014 found that the new CEB process was transparent, robust and effective and that the Statement of Principle is well applied in general terms. The whole process is properly set out in the operational handbook which is available to all staff. The changes made by the SFO in the case acceptance criteria and its process have clearly had a positive effect with regard to staff engagement and transparency, with only 8% of grade 6 staff we surveyed feeling that the acceptance criteria for casework lacked clarity.

5.12 Whilst stakeholders feel that there has been a vast improvement in the clarity of what the SFO will investigate there remains some criticism that the Statement of Principle is too loose, which leads to some lack of consistency and hampers clear strategic and operational co-operation, particularly around tasking and co-ordination.³² Unfortunately the lack of clarity around tasking different types of frauds to a variety of investigative agencies, who have a diversity of independent powers and processes, continues to persist and is not unique to the SFO.

³² It is widely recognised that serious co-ordination problems exist between agencies. The Cabinet Office recognises the difficulty and frustrations of agencies concerning the tasking and co-ordinating of fraud and bribery cases nationally and will make recommendations in the summer of 2016.

Casework review and risk

5.13 Once cases are accepted for investigation they are subject to various levels of control and quality assurance until the end of the case. Not all investigations will end in a prosecution.³³ Cases are managed by a case controller who has ownership of them. The case controller holds team meetings to progress and plan the investigative strategy. In addition the head of division holds monthly meetings to assess the overall investigative plan and challenge the team about its approach, identifying any further risks for that case which will be included in the case risk register held by the head of division.

5.14 Independent counsel is usually assigned to the case and is involved in this process. Counsel provides an essential element of external review and oversight which is independent of the investigative team. Our 2012 report indicated that the involvement of counsel generally offers added value to this process, although we evidenced some weak advices and that teams too readily accepted the advice of counsel. While counsel provided added value around technical issues and legalities, they had less involvement regarding overall strategic direction of the investigation, which may be regarded as a critical factor to the success or otherwise of an investigation.

5.15 Casework risks are recorded in a risk log for each individual case. The log is comprehensive, detailing key personnel involved in the case, case specific risks, impact assessments, status, strategy and contingency. It also captures additional supporting information such as a case summary and search, arrest, interview and disclosure factors. General Counsel also keeps a master risk register for those risks specific to casework.

5.16 Since 2013 Case Review Panels (CRPs) have added an additional layer of challenge and quality assurance. CRPs are often comprised of General Counsel, the Special Advisor, head of division, case controller, principal investigator and other team members. External counsel and the Director may also attend. All cases under investigation, pre and post-charge, are subject to review and include those which are working towards a deferred prosecution agreement (DPA) as a possible conclusion. Whilst every case will be reviewed, they will be prioritised according to risk and need. General Counsel chairs the CRP and normally decides, based on factors such as risk, which cases will be called for panel review.

5.17 The CRP adds a valuable layer of quality control, although our follow-up report acknowledged that any layers of quality control are vulnerable to the ability of casework staff to identify and communicate genuine risk.³⁴

³³ For example the extensive investigation into Forex, which began in July 2014 following allegations of price rigging in the foreign exchange market, did not meet the evidential test to prosecute, therefore the investigation was discontinued in March 2016.

³⁴ For example our 2014 report identified that divisional case risk registers did not always refer to or identify disclosure related risks, which impacted on the level of assurance provided to the Case Review Panel.

5.18 We examined the documentation presented to the CRP for review in ten recent cases. Briefings varied slightly in terms of presentation, but they all captured questions and challenges required as the cases progressed. Some briefings were excellent but quality often depended on the individual case controller. Case specific risks were included in the briefing and the better ones included counter-measures to mitigate risks identified. These were later captured in the case risk register maintained by General Counsel. Discussions with General Counsel and the Director are captured in the notes including discussions and challenges about risks.

Organisational learning

5.19 It is important for the SFO to demonstrate that it is a 'learning' organisation, either by learning from its own successes or failures or from other similar organisations. Learning takes place at different levels throughout the SFO involving both operational and non-operational practices.

5.20 The failure of the Tchenguiz case led to an organisational re-think of the way searches and intelligence gathering was conducted. It led to more layers of quality control being introduced, a better direction over the intelligence function and focussed training for staff.

5.21 We were provided with examples of learning lessons from individual cases and the various mechanisms for sharing those lessons across other teams and divisions. Each case has a casework 'wash-up' panel at the end of the process, but as that can be many years on from the start of the case, it might be useful to build in more formal learning mechanisms at identified points in the life of a case. There is also low level information sharing across divisions through CRPs and various SCS meetings, which make connections between cases so that there is a consistency of approach and lessons learned.

5.22 The SFO's operational handbook is the formalised method of capturing organisational learning and turning it into corporate memory. It is a facility that staff can access through the intranet. Issues which should be included are processed through the handbook editorial board. To be effective, learning needs to be disseminated quickly and some staff felt that capturing it in the handbook was a long process. Others felt the process was not as inclusive as it could be, although the SFO has made it clear that information belongs to the organisation not the individual.

5.23 Capturing and disseminating lessons with partner agencies nationally and internationally has improved over the past two years, which is as a direct result of the SFO's better collaboration at a strategic level. For example the SFO has recently shared its experience of the LIBOR case with the Financial Conduct Authority, which was well received.

5.24 Most organisational learning will not have board scrutiny or oversight, however a data loss incident in 2011-12 led to the Management Board commissioning a review of the way the SFO handles data. The board took the recommendations from the review seriously and set up an implementation board to take this learning forward and embed new procedures. The Management Board was regularly informed of the progress of the implementation board, which operated for 12 months.

5.25 Overall, capturing lessons learned and turning those lessons into corporate memory which is easily accessible to all staff is not as formalised as it could be, although processes have significantly improved within the last three years. A more formal, holistic, approach would be more effective and could include structured meetings to share and capture learning from casework and stakeholder engagement.

Role of the Special Advisor

5.26 The role of Special Advisor was introduced by the current Director who had concerns about the lack of challenge in the casework process. A retired judge who had a wealth of experience presiding over fraud cases was chosen for the role, although he has since left the SFO. The Special Advisor added another layer of oversight and challenge to the casework process and his contribution was regarded as significant in providing case teams, General Counsel and the Director with a judicial perspective, particularly about trial strategy. There is evidence that the Special Advisor provided this challenge at the highest level on numerous occasions. He also attended Management Board meetings.

5.27 The SFO is in the process of finding a replacement for this vacant position. The terms of reference for the previous Special Advisor's role were brief and unsatisfactory and his activities grew to involve advice on training and investigation. Attention should be paid to ensure that any new appointment to this role is given better defined parameters to their involvement, emphasising the need to provide independent levels of assurance from case acceptance through to trial. Inspectors do not see the need for the Special Advisor to also be a member of the board.

Role of General Counsel

5.28 The role of General Counsel is similar in remit to that of the Special Advisor, but offers advice from a legal rather than judicial perspective. General Counsel is not encumbered with line management of divisional heads and is not a budget holder. This means that he is able to independently probe, challenge and expose gaps and weaknesses in cases. This is a key strength to the casework governance process.

5.29 He ensures that any new cases pass the Statement of Principle test and are fit for investigation, which aligns with the SFO's strategic aims. He oversees the risks for each case and chooses which cases should be reviewed by the CRP. He provides a key role in ensuring that the Director has all available information so that he can discharge his statutory function effectively. Whilst providing this assurance to the Director, it is clear General Counsel also provides a good degree of challenge to the Director.

Casework conviction rates

5.30 The conviction rate is calculated per defendant, which is the same calculation the Crown Prosecution Service (CPS) uses for its cases (conviction rates are at annex E). During our inspection it was proposed that the SFO calculate its conviction rate per case rather than per defendant. We disagree with this proposition as it is likely to result in perverse performance outcomes and will lack consistency and evaluation with previous performance figures.³⁵

5.31 The 2015-16 conviction rate was only 31.6% and, whilst the SFO is disproportionately affected by small numbers of cases in any one year, these results will inevitably raise concerns as to whether it has suffered a run of bad luck, the risk appetite has been set too high, or case review processes are not robust enough. Nevertheless the conviction rate remained fairly high in 2013-14 (84.6%) and 2014-15 (78.2%).

5.32 Whilst the conviction rate is a key indicator of success, deferred prosecution agreements are not calculated within the conviction rate. This is a successful measure which is not yet included within the SFO's key performance indicators, although there may well be relatively few DPAs over the course of a year. The SFO secured the first UK approved DPA in November 2015.³⁶ The work to secure a successful DPA can be just as resource-intensive as an investigation. Conviction rates should not therefore be regarded as the only measure of success for the SFO.

³⁵ For example if three cases were brought to trial with five defendants in each case and one defendant was convicted in each of the cases, the conviction rate would be calculated as 100%, despite 12 of the 15 defendants being acquitted.

³⁶ In November 2015 Standard Bank Plc, now called ICBC Standard Bank Plc, was the first entity in the UK to enter into a DPA. Financial orders payable to the Treasury totalled US\$25.3m and costs to the SFO of £330,000 were also awarded in respect of their investigation and subsequent resolution.

Independent oversight

5.33 Although good levels of assurance have been embedded into the case acceptance and case review processes, views persists both internally and externally that more independence and challenge needs to be built into the process. Several interviewees remarked about the danger of groupthink enveloping investigative teams, particularly in prolonged investigations. The lack of any real independent alternative viewpoint in the case progression process increases the risk of groupthink, particularly when the responsibility for investigation and prosecution rests within the same team. Whilst there is no evidence groupthink exists within the SFO it is a potential risk,³⁷ which can be mitigated by taking one or more of these steps:

- include an existing or new NED at the case acceptance and case progression stages
- develop a system of internal peer review of cases within the SFO
- develop a system of external peer review of cases with another agency, such as the National Crime Agency.

5.34 Introducing further proportionate independence into these processes, particularly in high risk and high profile cases, will give further assurance to stakeholders that every possible measure has been taken to ensure only those cases that are likely to result in conviction are brought before the courts.

Summary

5.35 Although casework is not being managed at board level, the existing processes provide a good level of assurance to the board. Since 2012 new layers of challenge from senior managers, General Counsel, the Special Advisor and the Director have been built into casework processes which have added significant value, oversight and viewpoint.

5.36 Despite the high level of scrutiny the processes still lack any independent oversight or opinion. The SFO is in an unusual, but not unique, position of prosecuting and investigating its own cases, which demands greater objectivity in its decision-making. Introducing some independent oversight would greatly enhance transparency and challenge.

5.37 Organisational learning has progressed well but a more formalised approach would be more effective and inclusive.

³⁷ It is acknowledged that groupthink played a part in the collapse of the Royal Bank of Scotland in 2008, even though there was no evidence of formal governance failings. *The failure of the Royal Bank of Scotland*; Financial Services Authority; December 2011. www.fca.org.uk/your-fca/documents/fsa-rbs

6 Risk management

Principles

The SFO Management Board assures itself that the effectiveness of the risk management system and procedures for its internal controls is established and maintained. The board is supported by an Audit and Risk Committee and there is an internal audit function operating to the government internal audit standards published by the Treasury.

Overview and context

6.1 Risk management is critical to effective decision-making, although risks cannot be entirely eliminated. The Woods review in 2013 examined the SFO risk structures and reported that the handling of risk within the SFO had long been seen as a “*bit of a fringe activity*”. The report made several recommendations including the setting up of a separate group to the Audit and Risk Committee (ARC) in order to look more closely at individual risks. The Management Board approved the creation of a Risk Management and Moderation Group (RMMG) which has been tasked to ensure that the strategic risk register (SRR) captures the correct strategic risks, ensures risks are still relevant, and also captures new and emerging risks.

6.2 The totality of risks is managed at different levels:

Strategic risk	Audit and Risk Committee and Risk Management and Moderation Group oversee the strategic risk register
Operational risks	Risk Management and Moderation Group and divisional risk registers
Casework risks	General Counsel maintains a register of casework risks and individual casework risks are maintained by the investigative team (see chapter 5)
Projects	Each project has its own risk register and is overseen by the Oversight and Governance Board
Security and data	Managed by the Senior Information Risk Owner (SIRO)

Findings

Strategic risk management

6.3 The governance of risk is managed through a number of meetings, primarily the ARC and RMMG. An outline of the SFO's approach to risk management is also reported upon in the business plan and annual report. A designated SIRO post exists, with responsibilities around managing the risks for data and security.

6.4 The SFO has implemented a Risk Management Maturity Model (RMMM) and is working towards level 4 of the model, where risk is embedded into the day-to-day process. The SFO has produced a risk management strategy but it is very generic in nature and has not been reviewed for three years. Whilst the totality of risk works within a framework, a comprehensive overarching risk management strategy which draws all these elements together is needed. Such a strategy would be helpful to set out the current approach to managing risk across the organisation, the layers of responsibilities, set the risk appetite and capture escalation procedures of risk. It should provide a common understanding, guidance and raise the profile of assessing risk. Inspectors consider responsibility for the implementation and continuing oversight of the strategy would be more effective if given to a member of the SCS Group, who should report the effectiveness of risk control to the Management Board periodically.

Recommendation

Production of a comprehensive risk management strategy.

Board scrutiny of risks

6.5 The board should be sighted on the key risks facing the SFO. There is no overall discussion of risk at board level, even though the annual report indicates that the board agenda includes risk identification and management. This is of concern and is recognised and shared by a number of interviewees. Instead, discussions on risk are confined to specific topics on the agenda, such as the Autonomy IT project and finance. There has been periodic reporting in the past to the board, however the SRR has not formed part of the board papers for a number of months, meaning that members could be unsighted on key risks. This situation should be rectified without delay.

6.6 Inspectors were able to observe issues being discussed at board level and there was little discussion concerning risk. Although performance statistics were available at the January 2016 board meeting indicating that the SFO's conviction rate was only 44%, this issue was not raised as a potential reputation risk. The conviction rate subsequently worsened to 31.6% at year end (March 2016).

Audit and Risk Committee

6.7 The committee is long established. It is chaired by an experienced NED and its formal membership includes all three NEDs. A quorum of two NEDs is required for each ARC meeting and there has only been one occasion, in 2014, where the minimum quorum was not met. Two internal auditors from HMRC and two external auditors from the NAO attend each ARC meeting, with senior SFO officers attending as invitees. There are often a number of other SFO staff invited to the meeting to report on their area of business, such as finance. Additionally the RMMG chair attends to discuss the SRR.

6.8 The SIRO is not an invitee to the ARC and does not routinely receive the minutes. Although the risk leaflet produced for staff (see paragraph 6.18) indicates that the SIRO is responsible for providing guidance to senior leaders in the SFO and takes the lead on ensuring the risk management policy is effective, it is difficult to see how this function can be carried out effectively without his attendance at ARC meetings.

6.9 The meeting discusses key issues on risk management and controls. There are commonly reports on the SRR, finance, quality assurance, and from internal and external audit. There is full interaction between the NEDs and SFO executives, external and internal audit. There is evidence of clear challenge being made in meetings by the NEDs. However the links between the ARC, RMMG and Management Board are not entirely clear, particularly around the type of risks which should be escalated.

6.10 In 2013-14 the ARC undertook a self-assessment of its effectiveness in accordance with NAO guidelines³⁸ to see whether its five good practice principles were being met. Given the SFO's small size, the ARC considered only the main checklist points. Inspectors agree with this approach and we would consider it good practice to repeat the process as soon as practicable after any restructuring has taken place.

6.11 The ARC, and in particular the NEDs, spend considerable time and attention on production of the annual report and the Governance Statement contained within it. There are various layers of quality control, scrutiny and challenge before the report is submitted to the Accounting Officer and Chief Financial Officer for endorsement. Consideration should, however, be given to ensuring that the report is discussed at board level.

³⁸ *Audit Committee self-assessment checklist*; National Audit Office; January 2012.
www.nao.org.uk/report/audit-committee-self-assessment-checklist-2-2/

Risk Management and Moderation Group

6.12 The ARC is supported by the RMMG, a small group of senior managers formed to deal with the regular management of the strategic risk register and subsidiary risk registers for the casework divisions and support departments. It aims to promote consistency of risk management across the SFO and identify emerging risks.

6.13 Formation of the RMMG is a commendable approach and serves to raise the profile of risk, although we identified several weaknesses in the process itself. Our observations of the RMMG raised some concerns that review of the divisional registers was relatively limited. There was also some lack of understanding about risk. Most discussion tended to be reactive rather than proactive and it was unclear why some risks were being reviewed while others were not. There were also weaknesses in the review of previous actions and little effective evaluation of existing mitigating measures. There was no discussion at the meeting as to whether risks on the SRR should be raised at either the ARC or Management Board.

6.14 Inspectors were also concerned that the correct level of risk is not being accurately identified at this meeting. For example staff retention and recruitment was graded as 'green' (low risk) despite these issues being highlighted as critical in our interviews and surveys and identified in other divisional risk registers. Sickness was graded as 'red' (high risk) despite sickness levels being below the Civil Service average and the low conviction rate remained unidentified as a reputational risk.

Divisional risk registers

6.15 Subsidiary operational risks are captured in individual risk registers for each division (casework and support). Despite some differences in appearance the registers detailed status, owners, actions and progress. These registers are co-ordinated at the RMMG and it is this group who make recommendations to heads of division about where the risk should sit. It is unusual for owners of the casework divisional registers to be asked to attend the RMMG in respect of their register. We consider it would be better practice if they attended so that the detail of the risk can be explored and be more appropriately assessed.

6.16 There are a number of duplicated risks amongst the subsidiary registers. Where the same risk impacts on a number of divisions, consideration needs to be given to ascertaining the cumulative effect of these risks, which then may be more appropriate for inclusion into the SRR. For example shared cross-divisional risks included a shortage of skilled staff. These issues are important because whilst cross-divisional risks common to the organisation have been assigned owners, the risk should be addressed at an organisational level. Inclusion of these issues in the SRR would allow the board to consider its workforce staffing strategy more closely.

Project management

6.17 Projects also have their own individual registers and are reviewed by the Oversight and Governance Board. These registers follow similar templates to the subsidiary registers and include risk description, status, strategy, actions and progress. These are discussed at project meetings and are not included in the general risk control and mechanisms. However any risks which might have an impact on the organisation as a whole should be highlighted in the subsidiary registers or escalated to the SRR for consideration. Large risk projects such as the Autonomy IT project feature at nearly every Management Board meeting.

Awareness of risk

6.18 The SFO has produced a risk management booklet for staff which explains what risk is, the different levels of risk, and how different parts of the organisation interlink, and outlines certain responsibilities. It is generic in nature but provides a very good basis of understanding of how individuals also play a part in identifying risks. It is particularly helpful for new staff joining the organisation.

6.19 There was generally good awareness of risk across the SFO. In our survey a large majority of grade 6 staff (62%) agreed/strongly agreed that the SFO identifies the most appropriate risks to the organisation. Grade 6 staff made reference to a number of risks, the majority of which were included in either the SRR or subsidiary registers, including the handling of digital material, loss of data, lack of skilled staff, staff retention problems and an over reliance on temporary staff. Whilst risk awareness was good, the grade 6 survey indicated that only 30% believed there is good cross-divisional dialogue so that risks could be managed co-operatively.

6.20 Few senior managers have had specific risk management training as part of their role and it was evident that there was a range of understanding and ownership of risk. The RMMG chair, who carries out most of the work on strategic risk, is not a member of the board, neither does he report directly to the board on risk. Risk owners should be given adequate training as part of the overall strategic management of risk.

Internal Audit

6.21 Internal Audit treads a delicate balance between the need for executive trust, transparency and co-operation, and the ability to provide assurance by remaining independent, objective and constructively critical, with the legitimacy to facilitate change and provide advice. The SFO's Internal Audit service is provided by HMRC on a contractual basis and consists of 70 days' audit work per annum.

6.22 Internal Audit meets with the Director and members of the senior management team to identify the key areas of risk for review. There is liaison with the Head of Strategic Relations, whose department also undertakes some internal compliance and assurance checks. This collaboration ensures a co-ordinated programme of audit and assurance for the Director. The ARC approves the audit plan and has made changes to the suggested work programme. The draft programme is also finalised with the Director. Internal Audit report the progress of their plan on a quarterly basis to the ARC.

6.23 Although our survey of Management Board members indicated that 78.6% thought the internal audit function is effective and examining the right issues, it is unclear how the audit work is helping to identify risks to the organisation and some clarity on this approach would be beneficial.

6.24 The NAO is responsible for external audit of the SFO. Members attend the ARC and RMMG and its role is to provide reassurance to the ARC chair and the Director that the accounts which are represented in the annual report accord with Parliamentary regulations.

Summary

6.25 The SFO suffered from a number of legacy issues which were addressed with risk management tightened up. Good improvement has been made and the strands for effective risk management are largely in place, but these could be greatly strengthened by more effective co-ordination at board level. The formation of the RMMG has been positively received and the combination of Internal Audit and quality assurance work is collaborative and comprehensive.

6.26 A framework of risk is in place for the SFO, with controls and mechanisms so that risks can be identified and managed. This framework is not underpinned by an up to date comprehensive written risk strategy. Effective risk training should be addressed and there remains a lack of clarity over roles and ownership of risk, including the SIRO. Overall, our findings indicate that the SFO has made significant strides to improve its approach to risk, but still has work to do if it is to embed risk management across the organisation successfully.

7 Stakeholder engagement and accountability

Principles

The SFO Management Board makes clear, to itself and its staff, to whom it is accountable and for what. The SFO engages stakeholders and staff in a positive and transparent way which inspires confidence and informs the board's decision-making.

Overview and context

7.1 The SFO has a complex and demanding stakeholder and accountability landscape. It is populated with conflicting and changing agendas which require careful interpretation and management. It is also the subject of intense political and media scrutiny and comment.

7.2 The SFO operates globally, working within a complex legal and jurisdictional landscape. A substantial part of the Director's role, along with several senior colleagues, is externally facing, raising its national and international profile, accountability and communication. This management of key stakeholder relationships is critical to its success but demands significant time, experience and protocol in order to build trust and understanding internally and externally. In recognition of stakeholder importance, the Director created a Strategic Relations Division whose role has expanded to include international assistance, communications, co-ordination of victim and witness issues, and issues of quality assurance.³⁹

Findings

Engagement with the Attorney General's Office

7.3 There is a protocol with the Attorney General's Office (AGO) which was agreed in 2009 and covers the Attorney General's superintendence and exercise of functions with the SFO and Crown Prosecution Service (CPS). It outlines the cases upon which the Attorney General should be consulted, dealing with ministerial representations on public interest, policy, media and complaints. The protocol is quite general in nature and not specific on day-to-day expectations.

7.4 The statutory relationship of superintendence between AGO and the two prosecuting agencies of the CPS and SFO is constitutionally unique. Superintendence does not give control over the SFO and, other than in the very limited circumstances set out in the protocol, the Attorney General has no power to direct the SFO. Nevertheless, the Attorney General is responsible to Parliament for the actions of the Director. Whilst the relationship of superintendence has worked successfully for many years, it does depend heavily on good working relationships at different levels within the SFO and AGO. It is perhaps not surprising that a lack of clarity around relationship expectation can emerge from time to time.

³⁹ In addition Strategic Relations has a number of lines of reporting and acts as a 'catch-all' division for many issues.

7.5 Although the Director and other senior staff meet with the Attorney General on a regular basis, the meetings are not as effective as they should be. The agenda tends to be agreed in advance between the SFO's Private Office and the AGO. The SFO usually chooses the casework that will be discussed at the meeting although inspectors are not sure how much added value is provided by this, other than information giving. Other than core funding the AGO is little sighted on finances, although the office is copied into correspondence between the SFO and the Treasury. In addition neither the business plan or annual report are discussed in any detail.

7.6 The Attorney General has recently started to meet with the NEDs which is an important step because it will allow an independent perspective of how the SFO are operating and allows the NEDs to raise concerns if necessary.

7.7 It is clear from evidence taken through interviews that there is a need for clear expectations to be agreed so that there is clarity of the relevant matters the AGO should be sighted on. Clarity of expectation will also lead to increased transparency and help prevent any of the damaging reputational issues evidenced prior to April 2012. There needs to be greater clarity on the following:

- more formal reporting mechanisms
- a clear expectation of what should come to the AGO, which issues should be reported and shared
- sighting the AGO on all projects as part of normal business, proportionate to risk
- advance notice of issues to ensure that the AGO is not blind-sided in terms of accountability to Parliament
- notification and discussion of the business plan and annual report
- agreement of a forward agenda
- information concerning the potential for blockbuster funding
- updates on how the SFO is achieving value for money
- separate expectation with regard to meeting with the SFO's NEDs.

Recommendation

Clear relationship expectations should be agreed between the Attorney General's Office and the SFO.

Information for victims and external stakeholders

7.8 The SFO website (www.sfo.gov.uk) provides comprehensive information for victims and witnesses on the standards and communication they can expect from the organisation during a case and what is expected of those who will be witnesses in a case. This information is also provided in hard copy format by way of a leaflet. This work was developed from specific victim and witness workshops that involved operational staff in its development.

7.9 In active cases, witness care officers liaise between the case teams and victims and witnesses providing them with updates and other relevant information. The SFO have established a victim and witness working group and further work is ongoing with Victim Support to provide additional capacity and capability to support victims of fraud. The SFO have also recently adopted a victims' right to review (VRR) scheme which complies with the Victims' Code⁴⁰ and allows victims a right to challenge SFO decisions not to charge or to discontinue a case.

7.10 The website also contains information for the public about how the SFO conducts a case, including the criteria it uses to determine whether to investigate or not and information on VRR.⁴¹ The website contains some information about each case that the SFO has accepted to investigate and includes updates when an event happens and a link to all press releases. There is also information for external whistleblowers to report fraud and bribery to the SFO, as well as advice on prevention against falling victim to 'pension scams'.

7.11 Overall, there has been a much more effective approach to informing and supporting victims and witnesses and efforts continue to improve their experiences.

External engagement

7.12 The Strategy Committee, which reports to the Management Board, takes responsibility for mapping key relationships with the SFO and engagement with the City. There is a sub-group responsible for development of the Corporate Engagement Protocol which will provide further guidelines for companies to self-report suspicious behaviour.

7.13 As expected, the breadth of stakeholder engagement is extensive and includes work with other law enforcement agencies, banks and corporations, nationally and internationally. There are currently 15 memoranda of understanding providing formal agreements with others bodies about how the SFO will work together with them and share information. Some of these are old and should be revisited to ensure they are still relevant.

40 *Code of Practice for Victims of Crime* [Victims' Code]; Ministry of Justice; October 2015. www.gov.uk/government/uploads/system/uploads/attachment_data/file/476900/code-of-practice-for-victims-of-crime.PDF

41 www.sfo.gov.uk/publications/information-victims-witnesses-whistleblowers/

7.14 The SFO also works collaboratively with UK Government departments including the Home Office, Cabinet Office and Ministry of Justice, and with overseas partners such as the US Department of Justice, on matters where there is a common interest. The SFO is a partner in Project Bloom, which is a multi-agency campaign to combat scams where people are encouraged to move or cash in their pension pots at great financial risk or loss.

7.15 A communication and media strategy has been developed which includes the approach to stakeholder engagement. It lays out the approach to communication with staff and the expectations for the communications team in supporting delivery of the strategy. The SCS Group receive regular media updates but media related issues at board level are infrequent. It is important for the board to discuss and understand how the SFO is perceived by the media. The media strategy should also be approved by the board.

7.16 The SFO is currently reviewing how it approaches external relations. This will be reported back in due course to the board and the strategy revised if necessary. The strategy document has yet to have board approval and this should be agreed as soon as practicable.

7.17 Although our consultation with external stakeholders was limited it was clear that, over the past three years, the depth and transparency of SFO engagement has improved considerably and work continues to further improve its relationships. It is particularly encouraging to see that the SFO has engaged in recent cross-agency organisational learning.

Staff engagement

7.18 The SFO's approach to staff engagement comprises a number of formal and informal groups. This includes the community engagement and charities committee, staff engagement forum,⁴² and the sports and social club. In addition, there are various working groups that draw expertise from the staff contingent on specific projects, for example in relation to IT (Autonomy working group) or to develop a programme of work. It is encouraging that there is proactive engagement in a variety of activities by staff who put themselves forward for roles and groups when expressions of interest are announced. These diverse forums feed into the People and Culture Committee, which reports to the Management Board. This flow of information allows an opportunity for important issues to be raised at board level when necessary.

7.19 The staff engagement forum takes issues forward and action plans have been put in place to progress responses from surveys. A number of initiatives have been proposed by the group that have been implemented, reporting through the People and Culture Committee where appropriate.

⁴² Made up of volunteer members across all grades. There were six meetings between January-July 2015.

7.20 The SFO internal newsletter, referred to as the 'e-magazine', includes articles about staff groups, social events and volunteering elements, as well as covering casework and corporate issues. It also provides a mechanism so that the Director can inform staff of his activities. Whilst the newsletter is seen as a positive means of communicating activities across the organisation there has been inconsistency in the regularity of publication, which has now been addressed.

7.21 The SFO intranet, whilst in need of updating, is a useful communication tool for staff. It is well laid out for staff in terms of engagement and communications activities with links to activities of staff groups, the Equality and Diversity Group, the newsletter and media headlines. There are links to board and sub-committee minutes, although regular updating of these needs to be addressed.

7.22 Whilst core values need further embedding, the Civil Service People Survey has shown a positive trajectory year on year particularly in relation to leadership, managing change and staff engagement. One well received initiative is where members of the senior team have shadowed operational staff to improve understanding of their roles. This helps set the tone from the senior team and raises its visibility and engagement. The Director also makes periodic all staff addresses, which allows him to update staff with current and future issues. The Director's address is followed by an open question and answer session which has been well received by staff.

7.23 A comparative analysis of the Civil Service People Survey results taken in 2011 and 2015 (annex C) demonstrates the commendable effect the Director and senior management team have had with regards to leadership, management, staff engagement and morale. The results are significant and are reflective of not only senior managers but the willingness of all staff to engage in a positive manner.

7.24 Whilst a majority of results from the 2015 survey indicate that the SFO is operating better than Civil Service high performers, the data split in the survey between the organisation's divisions shows some discrepancies in outcomes and leadership styles. These outcomes have been considered at a recent senior managers away day and work agreed to develop separate divisional action plans to address specific identified issues around staff engagement and other matters.

Accountability and scrutiny

7.25 Whilst the SFO remains operationally independent there is external oversight and scrutiny in addition to that provided by the AGO. These include:

- HMCPsi has statutory powers to inspect the SFO to assess if it is providing an effective and efficient service
- Members of Parliament may request a variety of information from the SFO. In 2014-15 the SFO dealt with 169 Parliamentary Questions
- the Interception of Communications Commissioner provides oversight on the use of interception powers and the acquisition of communications data
- the Information Commissioner's Office provides oversight and enforcement of the Data Protection Act, and oversees complaints with regards to Freedom of Information Act (FOI) requests. In 2014-15, the SFO received 93 FOI requests
- the Office of Surveillance Commissioners, which provides oversight of the use of covert surveillance and covert human intelligence sources
- the Investigatory Powers Tribunal can investigate complaints from the public about the use of intrusive powers
- the Director is statutorily responsible for providing evidence of his discharge of his functions through the annual report. The report is compliant with the Cabinet Office requirements on transparency and publication of financial, procurement and staffing data
- the National Audit Office oversees the SFO's accounts and provide a statement of compliance certificate in the annual report which assures spend has complied with Parliamentary regulations
- the SFO is also subject to Parliamentary scrutiny through Select Committees
- the Civil Service Commissioners monitor annually the SFO's compliance with recruitment principles
- the Organisation for Economic Co-operation and Development (OECD) publishes assessments of world wide approaches to bribery and corruption and includes an evaluation of SFO policy.

Summary

7.26 The SFO has a complex and demanding stakeholder and accountability landscape which, overall, is managed well. Engagement with the AGO is less effective than it could be; this stems from the lack of clear expectations which should be addressed.

7.27 External relations and stakeholder feedback has been largely positive and has improved considerably over the past three years. There is evidence of good inter-agency co-operation nationally and internationally and progress on sharing experiences has been positive.

7.28 It is encouraging that a good level of staff engagement exists at a business and social level. The positivity in staff engagement is reflected in the very positive People Survey results, many of which are better than the Civil Service high performing units. The progress the SFO has made with regard to this has been a success story.

7.29 Although the SFO is superintended by the Attorney General and funded by the Treasury it operates independently, but is nevertheless subject to a close degree of scrutiny.



Annexes

A Methodology

The aim of this inspection was to evaluate SFO governance arrangements to ensure its structures, processes for decision-making, leadership, control, accountability and direction are effective and efficient: providing strategic direction to achieve intended outcomes for its stakeholders.

The team

The team comprised of three business inspectors and one legal inspector.

Analysis and surveys

The team reviewed extensive documentation provided by the SFO prior to the fieldwork stage and afterwards. Open source intelligence and media reports were also examined.

Bespoke surveys were sent to each Management Board member (100% response rate) and grade 6 managers (71% response rate). All questions related to governance and how the organisation was run.

Fieldwork

The inspection team visited the SFO from 11 January 2016 for two weeks. All Management Board members and other senior staff were interviewed, separate focus groups of other SFO staff were held, and we also interviewed former SFO board members. Further documentation was examined on-site.

We were able to observe three meetings: the Management Board, SCS Group and the Risk Management and Moderation Group.

Interviews were conducted with some of the principle stakeholders who have a direct influence or effect on governance issues. These included the National Crime Agency, Financial Conduct Authority, Attorney General's Office, National Audit Office and the Treasury.



B Glossary

Acceptance criteria

The criteria used by the SFO to determine whether to investigate an alleged offence. This comprises the statutory test set out under section 1(3) of the Criminal Justice Act 1987, and the Statement of Principle (see separate entry). The test for prosecution is as set out in the Code for Crown Prosecutors.

Autonomy IT project

A case management system to replace the current Autonomy system. It was formally known as Digital Review System Replacement Project.

Blockbuster funding

A means by which the Treasury grants the SFO contingency funding in excess of its agreed allocation, to enable it to carry out investigations where the cost of any individual case will exceed approximately 5% of its core budget.

Case controller

Once a matter is accepted for investigation by the SFO a case team is assembled, headed by a case controller who is responsible for the day-to-day management of the case and reports to the relevant head of division.

Case Evaluation Board (CEB)

The SFO forum which formally considers whether an intelligence project should be accepted for criminal investigation. Following consideration, the CEB submits a recommendation to the Director of the SFO. The Director has the statutory responsibility of accepting.

Case Evaluation Board assessment

A document which assists the CEB in assessing whether an intelligence project meets the SFO's acceptance criteria and highlights other relevant considerations.

Case Review Panel (CRP)

Chaired by General Counsel, the CRP provides that scrutiny and challenge is given to every case. General Counsel decides which cases the CRP will review, based partly on the monthly case risk registers produced by heads of division with their case controllers. The Director reviews papers and attends meetings, as appropriate.

Case team

The SFO members (including investigators, lawyers and accountants) who work on an investigation.

Deferred prosecution agreement (DPA)

Allows prosecutors to suspend a prosecution for an agreed period of time, and then withdraw it. In exchange, companies must pay a fine, repay related profits and assist in the prosecution of any individuals.

General Counsel

General Counsel is responsible for day-to-day casework assurance. He has oversight of all the divisional risk registers and advises the Director on case acceptance. He also chairs the Case Review Panel.

Head of division

A Senior Civil Servant responsible for leading and managing either an operational or non-operational team. All heads of division are currently also Management Board members.

Intelligence Unit

The unit within the SFO with responsibility for receiving, processing and evaluating information from a variety of sources; eg human, corporate and public bodies in the UK and overseas. The unit acts as 'gate-keeper' for cases referred to the SFO. It applies the Statement of Principle and either accepts cases as projects to be worked on, rejects them or passes the case onto the most appropriate other agency.

LIBOR (London Interbank Offered Rate)

The investigation concerns a series of fraudulent actions connected to the LIBOR, which is supposed to reflect the interest rates banks pay for borrowing from other banks. In 2012 it was discovered that banks were submitting false interest rates in order to profit from trades or to make themselves appear more credit worthy.

Special Advisor

The post was generated to provide a layer of challenge to casework from a judicial perspective. The post is currently vacant.

Statement of Principle

In deciding which cases to adopt the Director will consider all the circumstances of the case including: the scale of loss (actual or potential); impact of the case on the UK economy; effect of the case on the UK's reputation as a safe place to do business; factual or legal complexity; and the wider public interest.

Victims' Code

A statutory code of practice for the treatment of victims of crime, with which all criminal justice agencies must comply. Its aim is to improve victim contact with the criminal justice agencies by providing them with the support and information they need.

Victims' right to review (VRR)

Under the scheme a review of the following SFO decisions can be sought: not to charge; to discontinue all charges thereby ending all proceedings; to offer no evidence in all proceedings; and to leave all charges in the proceedings to lie on file. (Lie on file is the term used in circumstances where the prosecutor makes a decision not to proceed and requests that the charges be allowed "to lie on the file" marked "not to be proceeded with without the leave of this Court or the Court of Appeal").

Victim Support

Independent charity supporting victims and witnesses of crime.



C SFO Civil Service People Survey results comparison

High performers are the departments in the top 25% for each question or theme.

Key engagement drivers associated with good governance	2011 Theme score % positive	Better than Civil Service high performers	2015 Theme score % positive	Better than Civil Service high performers
Overall Engagement index	50%	No	66%	Yes
I feel that the SFO as a whole is managed well	14%	No	70%	Yes
Senior managers are sufficiently visible	14%	No	67%	Yes
I believe senior managers are consistent with the SFO's values	13%	No	63%	Yes
I believe that the board has a clear vision for the future of the SFO	11%	No	60%	Yes
Overall, I have confidence in the decisions made by the SFO's senior managers	10%	No	63%	Yes
I feel change is managed well in the SFO	12%	No	41%	Yes
When changes are made in the SFO they are usually for the better	13%	No	40%	Yes
The SFO keeps me informed about matters that affect me	20%	No	64%	No
I have the opportunity to contribute my views before decisions are made that affect me	9%	No	47%	Yes
I think it is safe to challenge the way things are done in the SFO	11%	No	52%	Yes
I have a clear understanding of the SFO's purpose	70%	No	92%	Yes
I have a clear understanding of the SFO's objectives	59%	No	90%	Yes
I understand how my work contributes to the SFO's objectives	62%	No	90%	Yes
My manager motivates me to be more effective in my job	56%	No	70%	No
My manager helps me to understand how I contribute to the SFO's objectives	48%	No	66%	No

Key engagement drivers associated with good governance	2011 Theme score % positive	Better than Civil Service high performers	2015 Theme score % positive	Better than Civil Service high performers
I receive regular feedback about my performance	51%	No	61%	No
Poor performance is dealt with effectively in my team	35%	No	41%	No
There are opportunities for me to develop my career in the SFO	17%	No	43%	No
I am treated fairly at work	58%	No	77%	No
I am treated with respect by the people I work with	75%	No	80%	No
I feel valued for the work I do	45%	No	70%	Yes
I think that the SFO respects individual differences	57%	No	78%	Equal to
I am proud when I tell others I am part of the SFO	52%	No	75%	Yes
I would recommend the SFO as a great place to work	29%	No	62%	Yes
I feel a strong personal attachment to the SFO	48%	No	60%	Yes
The SFO inspires me to do the best in my job	29%	No	58%	Yes
The SFO motivates me to help it achieve its objectives	26%	No	57%	Yes
I believe that senior managers in the SFO will take action as a result of this survey	10%	No	57%	Yes
Senior managers inspire people across the SFO to do their best	Added since 2011	Not applicable	53%	Yes
Senior managers lead the SFO with confidence	Added since 2011	Not applicable	65%	Yes
Senior managers empower teams to deliver	Added since 2011	Not applicable	56%	Yes
Senior managers actively role model the behaviours set out in the Civil Service leadership statement	Added since 2011	Not applicable	48%	Yes

Key engagement drivers associated with good governance	2011 Theme score % positive	Better than Civil Service high performers	2015 Theme score % positive	Better than Civil Service high performers
Are you aware of how to raise a concern under the Civil Service Code	58%	No	64%	No
Are you confident that if you raised a concern under the Civil Service Code it would be investigated properly	38%	No	68%	No
During the past 12 months have you personally experienced discrimination at work	19% (yes)	No	14% (yes)	No
During the past 12 months have you personally experienced bullying or harassment at work	19% (yes)	No	14% (yes)	No



D Documents that have informed the principles of the inspection

Corporate Governance: Improvement and trust in local public services; Audit Commission; October 2003

<http://webarchive.nationalarchives.gov.uk/20150421134146/http://archive.audit-commission.gov.uk/auditcommission/subwebs/publications/studies/studyPDF/3113.pdf>

Corporate governance in central government departments: Code of Good Practice; HM Treasury; July 2011

www.gov.uk/government/publications/corporate-governance-code-for-central-government-departments

Good Governance Standards for Public Services; Chartered Institute of Public Finance and Accountancy (CIPFA) and Office for Public Management Ltd (OPM); 2004

www.cipfa.org/~media/files/publications/reports/governance_standard.pdf

International Framework: Good Governance in the Public Sector; International Federation of Accountants (IFAC) and CIPFA; July 2014

www.cipfa.org/policy-and-guidance/standards/international-framework-good-governance-in-the-public-sector

Integrated Governance Handbook: A handbook for executives and non-executives in healthcare organisations; Department of Health; February 2006

http://webarchive.nationalarchives.gov.uk/20080814090418/dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsPolicyAndGuidance/DH_4128739

Managing Public Money; HM Treasury, July 2013

www.gov.uk/government/uploads/system/uploads/attachment_data/file/454191/Managing_Public_Money_AA_v2_-jan15.pdf

Trust in the Public Sector; Audit Commission; 2003

<http://webarchive.nationalarchives.gov.uk/20150421134146/http://archive.audit-commission.gov.uk/auditcommission/subwebs/publications/studies/studyPDF/3126.pdf>

Report of the Committee on the Financial Aspects of Corporate Governance (the Cadbury Report); Cadbury Committee; December 1992

<http://www.ecgi.org/codes/documents/cadbury.pdf>

Review of the role and effectiveness of non-executive directors (Higgs report); Department of Trade and Industry; January 2003

www.ecgi.org/codes/documents/higgsreport.pdf

First Report of the Committee on Standards in Public Life; The Rt. Hon. the Lord Nolan and his Committee; May 1995

www.gov.uk/government/uploads/system/uploads/attachment_data/file/336919/1stInquiryReport.pdf

Getting better? A report on the NHS; Commission for Health Improvement; May 2003

https://web.archive.org/web/20030512070017/http://www.chi.nhs.uk/eng/about/publications/getting_better/index.shtml

Strong central, strong local?: Inspection of the Governance of Probation Areas by Probation Boards; Her Majesty's Inspectorate of Probation; 2003

Learning from Inspection: Housing Benefit Administration; Audit Commission; October 2001

<http://webarchive.nationalarchives.gov.uk/20150421134146/http://archive.audit-commission.gov.uk/auditcommission/subwebs/publications/studies/studyPDF/2610.pdf>

Achieving the NHS Plan: Assessment of current performance, likely future progress and capacity to improve; Audit Commission; June 2003

<http://webarchive.nationalarchives.gov.uk/20150421134146/http://archive.audit-commission.gov.uk/auditcommission/subwebs/publications/studies/studyPDF/3022.pdf>

Improving Public Satisfaction and Confidence in the Criminal Justice System; Home Office, CPS, Department for Constitutional Affairs; 2003

E SFO conviction rates 2009-10 to 2015-16

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Number of defendants convicted/conviction rate	22 (91.7%)	22 (81.5%)	39 (72.2%)	14 (70%)	11 (84.6%)	18 (78.2%)	6 (31.6%)
Defendants pleading guilty/guilty plea rate	Not recorded	Not recorded	Not recorded	Not recorded	4 (30.8%)	4 (17.4%)	3 (15.8%)
Defendants convicted after trial	Not recorded	Not recorded	Not recorded	Not recorded	7 (53.8%)	14 (60.9%)	3 (15.8%)
Defendants acquitted after trial	2 (8.3%)	5 (18.5%)	15 (27.8%)	6 (30%)	2 (15.4%)	5 (21.7%)	13 (68.4%)
Total number of finalisations during year	24	27	54	20	13	23	19

Data taken from SFO annual reports.



HM Crown Prosecution Service Inspectorate

London Office:

One Kemble Street

London WC2B 4TS

Tel. 020 7210 1187

Fax. 020 7210 1186

York Office:

Foss House, Kings Pool

1-2 Peasholme Green

York, North Yorkshire, YO1 7PX

Tel. 01904 54 5490

Fax. 01904 54 5492

© Crown copyright 2016

You may re-use this information (not including logos) free of charge in any format or medium, under the terms of the Open Government Licence.

To view this licence, visit www.nationalarchives.gov.uk/doc/open-government-licence/

or write to the Information Policy Team, The National Archives, Kew, London TW9 4DU,

or e-mail: psi@nationalarchives.gsi.gov.uk

This document/publication is also available on our website at www.justiceinspectors.gov.uk/hmcpsi