

Revenue and Customs Prosecutions Office

Resource Accounts 2005/06

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(For the year ended 31 March 2006)

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Annual Report

INTRODUCTION

These accounts cover the operation of the Revenue and Customs Prosecutions Office (RCPO) for the period 1 April 2005 to 31 March 2006. They have been prepared on an accruals basis in accordance with the Government Resources and Accounts Act 2000 and HM Treasury's Financial Reporting Manual.

RCPO's aim and objectives

The aim of RCPO is as follows:

"The effective and efficient prosecution of cases in accordance with the Code for Crown Prosecutors"

The following objective supports this aim:

- Strengthening the prosecution process – bringing more offenders to justice and recovering proceeds of crime.

As the prosecuting authority for Her Majesty's Revenue and Customs (HMRC), RCPO also supports HMRC in delivery of two of its top-level objectives. These are:

- To improve the extent to which individuals and businesses pay the tax due and receive the credits and payments to which they are entitled.
- To strengthen frontier protection against threats to the security, economic integrity and environment of the United Kingdom in a way that balances the need to maintain the UK as a competitive location in which to do business.

Targets

RCPO contributes towards Public Service Agreement targets in support of the Criminal Justice System. The RCPO Business Plan for 2005/06 contains a range of key performance measures that enables the Department to monitor its operational effectiveness in relation to these targets and to HMRC's objectives above. To 31st March 2006, RCPO was on course to meet its key targets; for example, the Department had attended over 70% of its key Crown Court hearings, and defendants had entered guilty pleas in over 60% of cases prosecuted.

Nature of RCPO's functions

RCPO is one of the Law Officers' Departments, alongside the Attorney General's Office (AGO), the Crown Prosecution Service (CPS) and HM Crown Prosecution Service Inspectorate (HMCPSI), the Serious Fraud Office (SFO) and the Treasury Solicitor's Department (TSD). The Law Officers are the Attorney General and the Solicitor General.

The Department was established by the Commissioners for Revenue and Customs Act 2005 as a specialist and independent government department that receives supply funding from Parliament. RCPO is responsible for carrying out criminal prosecutions for Her Majesty's Revenue and Customs (HMRC) and, from 1 April 2006, plays a role alongside the Crown Prosecution Service in prosecuting cases investigated by the Serious Organised Crime Agency (SOCA).

RCPO is a major Crown Court prosecutor. In addition, it prosecutes a significant number of cases in the magistrates' courts. RCPO's prosecutions include many large and complex cases. The full remit of casework covers a wide range including:

- VAT fraud – from the simplest repayment fraud to complex cases involving multiple traders;

- Direct tax fraud – from large and sophisticated evasion cases on an international scale to less complex shadow economy frauds;
- Tax credit frauds;
- Excise frauds – tobacco, alcohol and fuels;
- Drug smuggling of all kinds, from those carrying goods on or in their person to massive quantities of Class A drugs smuggled by air or sea;
- Money laundering – generally involving the proceeds of fraud or drugs trafficking;
- UN sanctions cases – these usually involve exports to embargoed destinations or export of military or dual use goods;
- Exotic goods – from conflict diamonds to trafficking in endangered species governed by the Convention on International Trade in Endangered Species (CITES);
- Restraint, confiscation and enforcement proceedings undertaken by the Asset Forfeiture Unit.

The RCPO is also involved in a range of initiatives in the criminal justice system, contributing to debate, consultation and policy development.

Company Directorships

None of the board members hold any company directorships or significant interests which may conflict with their responsibilities.

DEPARTMENTAL ORGANISATION AND ACTIVITIES

RCPO Management Board

RCPO was established in April 2005 as an independent government department led by a Management Board. During 2005/06, the Board was chaired by David Green QC and comprised three Heads of Division (two of whom were appointed on a rotating basis), the Chief Operating Officer, the Head of Finance and two Non-Executive Directors. In addition, there is a representative from the Attorney General's Office.

The Management Board sat ten times in the year. It routinely examines strategic and performance issues including but not limited to, operation matters, risk and finance.

Details of the membership and remuneration of the Board are set out in the Remuneration Report.

Audit and Risk Committee

The Audit and Risk Committee is chaired by a Non-Executive Board member and also comprises the other Non-Executive and one Head of Division. The Committee's role is to advise the Accounting Officer and the Board on the adequacy of internal controls, corporate governance, risk management, financial reporting and audit arrangements.

The Audit and Risk Committee sits at least every quarter. It has overseen the development of the risk registers and considers them at each meeting. It also considers the accounts and reports from both external and internal auditors. It commissions such other work as it deems necessary to provide an assurance to the Management Board on governance, internal control and risk issues. It also oversees health and safety issues.

Organisation

The Attorney General appointed David Green QC to be the first Director of the RCPO, with responsibility for leading the Department's prosecution activity, managing all legal issues, and determining policy. He heads an organisation of approximately 240 permanent staff (on a full-time equivalent basis) which includes lawyers, caseworkers and administrators, who are based in London and Manchester.

There are five casework divisions reporting to the Director. Each division has a lead activity, although A-D are multifunctional. They are:

- Division A (Direct Tax)
- Division B (Commercial)
- Division C (Border Detections)
- Division D (Duty and Excise)
- Division E (Serious Organised Crime)

Also reporting to the Director are the International, Policy and Advisory Division, which provides him with support on policy and internal quality assurance, and the Asset Forfeiture Unit, which deals with the restraint of proceeds of crime.

The Director has appointed a Chief Operating Officer, Dave Partridge, to oversee the range of business services required by the RCPO, such as human resources, finance, information systems and the business change programme.

Departmental and Annual Reports

The Departmental Report 2006 contains information about RCPO additional to that shown in these accounts. It sets out the Department's current year's performance and future plans over the Public Expenditure Period 2005/06 to 2007/08, and was published in July 2006 (Cm 6821). The Annual Report is published in accordance with the requirements of Section 1 and Paragraph 3 of Schedule 1 to the Criminal Justice Act 1987. In particular it contains information on the operational work of RCPO and on recent cases. The 2005/06 Annual Report was published in July 2006, and is available on the RCPO website at www.rcpo.gov.uk.

RCPO's spending plans were set out in HM Treasury's Main Estimate 2005/06 (pages 263 to 272), and in HM Treasury's Winter Supplementary Estimate 2005/06 (pages 193 to 202). Both of these documents are available on the HM Treasury website at www.hm-treasury.gov.uk/Documents.

Future developments

From 2006/2007 RCPO will benefit from a change to the Asset Incentivisation Scheme. This scheme is intended to allow government bodies which are part of the criminal justice system to benefit from the seizure of criminal assets. Previously, although the RCPO had a target to seize assets it did not receive income in respect of its asset forfeiture activity. The target for 2006/2007 is £22.5m of which RCPO will be allowed to keep £3.5m.

Derivatives

Details about RCPO's policies regarding derivatives and other financial instruments are included in the notes to these accounts.

Pensions

Details about the Department's pensions are included in the notes to these accounts.

Information provided to employees

The main route to deliver news and information to RCPO staff is the intranet, which also serves as an electronic library for legal guidance and internal policy documents. When very urgent or important, the intranet announcement is backed up by a mass e-mail message, but this route is used sparingly. The Communications team arranges occasional meetings in London and Manchester for the Director and COO to address all staff, and holds monthly focus groups which have no agenda but allow any current concerns to be reported back to senior management. A newsletter is planned for launch in January 2007.

Diversity

The Department is a member of the Attorney General's Equality and Diversity Action Group. We monitor our HR Policies to ensure that we meet our commitments to diversity set out in the 10-point plan agreed between the Cabinet Secretary and the Civil Service Management Board. This plan emphasizes the importance of treating everyone equally with dignity and respect, irrespective of race, disability or belief.

RCPO is committed to treating all applicants to the Department fairly and reasonably irrespective of their ethnic or national origin, age, gender, marital status, sexual orientation, religion or disability. RCPO is similarly committed to treat all its employees fairly. Shortly following the period of these accounts RCPO established a Diversity Committee under the chairmanship of a Non-Executive Director.

Sustainability Report

RCPO has contributed to the Government's Sustainable Development policies by;

- Working with its partner Departments in the Law Officers Group to share best practice as well as with our estates services providers (HMRC and Mapeley);
- Establishing systems to monitor the RCPO's impact on the environment in order to set 2005/06 as the baseline year for future continual improvement targets, against which performance can be measured and monitored.

RCPO will gain the benefit of measures that HMRC and its estates partners are introducing to improve their environmental performance. These include:

- Conserving energy, water, paper and other resources, whilst providing a comfortable working environment;
- Contributing to reducing carbon dioxide emissions by 12.5 per cent by 2010/11 relative to 1999/2000 through increasing energy efficiency of the buildings we occupy by 15 per cent by 2010/11 relative to 1999/2000;
- Reducing waste through reduction, re-use and recycling and reducing the waste going to landfill;
- Reducing water consumption to 7.7m³ per year (7.0m³ for new builds and refurbishment works);
- Phasing out ozone depleting and other hazardous substances and those with a high global warming potential.

Payment of Suppliers

RCPO aims to pay all bills in accordance with agreed contractual conditions, or where no such conditions exist, within 30 days of receipt of goods and services or the presentation of a valid invoice, whichever is the latter. Figures for the first seven months of the reporting year are not available because the finance system in use during that period did not report payment performance figures for RCPO separately. In the period from November 2005 to March 2006 just 37% of bills were paid within terms. This low outturn was principally due to the practice of negotiating the majority of counsel fee notes. New arrangements have removed the need to negotiate fee notes and payment performance measures have improved significantly.

Auditors

RCPO's accounts are audited by the Comptroller and Auditor General. The audit opinion and report of the Comptroller and Auditor General are included with the Statement of Accounts. The notional cost of providing external audit services was £60,000. There was no auditor remuneration (actual or notional) for non-audit work.

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

MANAGEMENT COMMENTARY

Review of RCPO's Activities

The priorities for RCPO's first year have been the servicing of criminal casework for HMRC and SOCA to the highest standard, the development of our new relationship with HMRC and the establishment of RCPO as a new component of the criminal justice system.

The RCPO Annual Report 2005/06, which was published in July 2006, sets out the Department's key casework statistics. Principal among the activities were:

- The prosecution of some 1700 cases involving over 2200 defendants, and resulting in the conviction of at least one defendant in 89% of the cases.
- Challenges posed by the growth in Missing Trader Intra-Community (MTIC) Fraud. This represents a major threat to the public revenue and prosecutions are long and complex. Historically over 110 defendants have been convicted, and RCPO has obtained confiscation orders totaling £60 million.
- The growth also in organised tax credit fraud involving identity theft. RCPO is currently dealing with over 30 such cases, and we are working closely with HMRC to provide a coordinated response.
- Preparation for the launch, on 1 April 2006, of the Serious Organised Crime Agency. RCPO has worked in close partnership with the CPS Organised Crime Division to ensure the provision of a high quality service to SOCA, bringing our established expertise in the prosecution of large-scale drug importation, related money laundering and the confiscation of criminal assets to the service of the new agency.
- Confiscation of criminal assets. During 2005/06 RCPO obtained and enforced confiscation orders amounting to £21.5 million and our Asset Forfeiture Unit had made a significant contribution to the developing case law in this area. Income in respect of confiscation orders in 2005/2006 was collected by the Home Office and does not form part of these accounts.
- Contribution to the work of external bodies, such as the Whitehall Prosecutors' Group, the Criminal Procedure Rule Committee, the Concerted Inter-Agency Criminal Finance Action group and the High Cost Cases Review Board.
- The proper application of RCPO's disclosure obligations in the criminal process. The Department has worked with HMRC to ensure that the necessary guidance and training is in place to emphasise the direction given by the Attorney General and the Judiciary.
- Internal organisation improvements. RCPO has implemented an accommodation programme that has improved the workspace for legal staff by bringing about a quieter environment and one that is more conducive to legal work. Improvements have also been made to storage as well as case preparation facilities. We have also developed our own appraisal, development and training policies. RCPO introduced new financial systems and prepared for the introduction of enhanced control procedures (particularly in relation to the management of fees paid to counsel) to take effect from 2006/07 onwards. A major recruitment effort has resulted in the filling of some long standing vacancies.

Financial Commentary

The following is a summary of the main financial information:

Operating costs summary	2005/06	2004/05
	£000	Restated £000
Income		
Court Costs recovered	(81)	–
Expenditure		
Administration costs	15,506	14,093
Programme costs	18,965	21,158
Cost of capital	(487)	–
Net Operating Cost	33,903	35,251

The comparatives for 2004/2005 for income or expenditure are based on RCPO's precursor bodies, principally the Customs and Excise Prosecution Office.

The main elements of the RCPO's expenditure in 2005/2006 were staff costs and counsel fees. Other significant items included spending on IT services and rent. Income for the year was £81K. In 2005/2006 the office was not able to keep receipts in respect of confiscated assets but this will provide a significant income stream in 2006/2007.

Net total resource requirement was £1.076 million less than the estimate, representing 2.84% of net estimated provision. Within RCPO's administration budget the main difference is represented by some slippage in staff recruitment programmes. The difference in other expenditure reflects the number of prosecution cases and levels of activity on them being lower than planned. Net total cash requirement was £6.326 million less than the estimate, representing 16.7% of net estimated provision. Besides the expenditure variances referred to above, this difference also reflects the large number of counsels' fee notes which had not been submitted to RCPO prior to year-end.

The balance sheet shows negative net current assets of £12,214K made up of current assets amounting to £8,821K offset by current liabilities of £21,035K. The figure for current liabilities includes year end accruals of £11,783K, a creditor to the Consolidated Fund of £6,349K and other creditors of £2,903K. As RCPO is a Government Department funded by Parliament, its balance sheet position does not indicate insolvency and does not impact on the view that RCPO is a 'going concern'.

The RCPO holds no fixed assets.

Accounting Boundary

RCPO does not exercise in-year budgetary control over any other public or private body. It is a single entity department whose entire operations are within the accounting boundary reflected in these accounts.

Going concern

The balance sheet at 31 March 2006 shows a negative Taxpayers' Equity of £12.214 million. This reflects the inclusion of liabilities falling due in future years, which are to be financed by drawings from the UK Consolidated Fund. Such drawings will be from grants of Supply approved annually by Parliament, to meet RCPO's Net Cash Requirement. Under the Government Resources and Accounts Act 2000, no money may be drawn from the Fund other than required for the service of the specified year or retained in excess of that needed. All unspent monies, including those derived from RCPO's income, are surrenderable to the Fund.

In common with other government departments, the future financing of RCPO's liabilities is accordingly to be met by future grants of Supply and the application of future income, both to be approved annually by Parliament. Such approval for amounts required for 2006/07 has already been given. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

Remuneration Report

Ministers and Senior Officers

The Attorney General (Rt. Hon. The Lord Goldsmith QC) superintended the work of the Revenue and Customs Prosecutions Office during the period covered by these accounts. The information given below relates to the Director and senior managers of the Revenue and Customs Prosecutions Office.

Information relating to both the Attorney General and Solicitor General is given in the Resource Accounts of the HM Procurator General and Treasury Solicitor.

The Prime Minister sets the remuneration of senior civil servants (SCS) following independent advice from the Review Body on Senior Salaries.

In reaching its recommendations, the Review Body has regard to the following considerations:

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

The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations.

Board Members' Remuneration is determined in accordance with the report of the Senior Salaries Review Body. The Director, with the advice of his non-executive directors, considers pay increases and bonus payments in accordance with the recommendations of this report.

At Risk Pay

Each senior civil servant participated in a bonus scheme which is in line with the Senior Salaries Review Body recommendations. The bonus is based on the individual's performance, and such payments are non-consolidated and non-pensionable.

For grades below the SCS, there are annual performance-related pay awards based upon appraisal of competency and achievement of objectives. A formal review of each individual's performance is conducted at least once a year. Pay awards are measured against affordability criteria and are set within the bounds of the HM Treasury remit. Divisional managers can also award bonuses to individuals or teams for exceptional performance. In 2005/06 these managers' rewards to non-SCS staff totalled £1,026.

Service Contracts

Civil service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointment to be on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made.

Unless otherwise stated below, the officials covered by this report hold appointments that are open-ended until they reach the normal retiring age of 60. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation scheme. During the year one member of the Management Board, John Brighouse, left RCPO, and early termination payments of £55,834 were made.

The Director, David Green QC, was appointed by the Attorney General on a 3 year contract commencing in December 2004.

The Chief Operating Officer, Dave Partridge, was appointed by the Director on a 3 year contract commencing in September 2005.

The two Non-Executive Board members were appointed by the Director on a 3 year contract commencing in July 2005.

Salary and Pension entitlements

The salary and pension entitlements in kind of the most senior managers of RCPO during 2005/06 are set out below. Prior year comparatives are not available as these have not been provided to the RCPO by HMRC.

Remuneration

Officials	2005/06 Salary £000	2005/06 Pension entitlement/ allowances £000	2005/06 Benefits In Kind £000
David Green QC <i>Director</i>	190-195	–	–
Dave Partridge <i>Chief Operating Officer (from 26 September 2005)</i>	40-45 <i>(80-85 full year equivalent)</i>	–	–
John Brighthouse <i>Head of Operations (until 31 December 2005)</i>	55-60*	–	–
Kristin Jones <i>Head of IPAD</i>	75-80	–	–
Justin Freebairn <i>Head Of Finance (from 20 March 2006)</i>	0-5 <i>(55-60 full year equivalent)</i>	–	–
Bruce Butler <i>Head of Division A</i>	75-80	–	–
Matthew Wagstaff <i>Head of Division B</i>	75-80	–	–
David Richardson <i>Head of Division C</i>	65-70	–	–
Elizabeth Bailey <i>Head of Division D</i>	60-65	–	–
Gregor McGill <i>Head of Division E</i>	55-60	–	–

No member of the senior management team received benefits-in-kind.

*In addition to the salary indicated, an payment in respect of early retirement amounting to £55,834 was made to John Brighthouse.

A bonus payment of £5,000 was paid to Suzanne McCarthy, the interim Chief Executive Officer, who served a period of secondment from the Home Office between January and August 2005. The Home Office paid all other remuneration to her during her period within RCPO.

'Salary' includes gross salary; performance pay or bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation.

'Pension entitlement/allowances' relates to an allowance paid to senior staff who have chosen to take extra salary to invest in a pension scheme of their own choice rather than participate in a Civil Service pension.

The non-executive Directors received the following fees in 2005/06

	£
Sarah Brown	7,500
Paul White	7,200

In addition to the fees shown above, Non-Executive Directors are also entitled to receive expenses.

Pension Benefits

Officials

	Accrued pension at age 60 as at 31/3/06	Related lump sum at 31/3/06	Real increase in pension at age 60	Related real increase in lump sum at age 60	CETV at 31/3/06	CETV at 31/3/05	Real increase in CETV	Employer contribution to partnership pension account Nearest £100
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
David Green <i>Director</i>	0-2.5	0	0-2.5	0	39	7	23	nil
Dave Partridge <i>Chief Operating Officer (from 26 September 2005)</i>	35-40	115-120	2.5-5	5-10	934	714	73	nil
John Brighthouse <i>Head of Operations (until 31 December 2005)</i>	30-35	90-95	5-10	15-20	603	404	128	nil
Kristin Jones <i>Head of IPAD</i>	15-20	40-45	0-2.5	0-2.5	300	207	20	nil
Justin Freebairn <i>Head of Finance (from 20 March 2006)</i>	0-2.5	0	0-2.5	0	1	0	0	nil
Bruce Butler <i>Head of Division A</i>	35-40	105-110	2.5-5	5-10	855	658	57	nil
Matthew Wagstaff <i>Head of Division B</i>	10-15	20-25	0-2.5	0-2.5	123	72	17	nil
David Richardson <i>Head of Division C</i>	10-15	35-40	0-2.5	5-10	178	117	57	nil
Elizabeth Bailey <i>Head of Division D</i>	10-15	30-35	0-2.5	2.5-5	179	121	16	nil
Gregor McGill <i>Head of Division E</i>	10-15	35-40	0-2.5	2.5-5	185	119	18	nil

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (classic, premium, and classic plus). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, and classic plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly in the same way as in classic.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a selection of approved products. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

Further details about the Civil Service pension arrangements can be found at the website www.civilservice-pensions.gov.uk

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003/04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements and for which the CS Vote has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.



David Green
Accounting Officer
16 January 2007

Statement of Accounting Officer's Responsibilities

1. Under the Government Resources and Accounts Act 2000 the Revenue and Customs Prosecutions Office is required to prepare resource accounts for each financial year, in conformity with a Treasury direction, detailing the resources acquired, held, or disposed of during the year and the use of resources by the Department during the year.
2. The resource accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Department the net resource outturn, resources applied to objectives, recognised gains and losses, and cash flows for the financial year.
3. HM Treasury has appointed the Director of the Revenue and Customs Prosecutions Office as Accounting Officer of the Department with responsibility for preparing the Department's accounts and for transmitting them to the Comptroller and Auditor General.
4. In preparing the accounts, the Accounting Officer is required to comply with the Government Financial Reporting Manual prepared by the Treasury and in particular to:
 - a. observe the relevant Accounts Direction issued by the Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
 - b. make judgements and estimates on a reasonable basis;
 - c. state whether applicable accounting standards, as set out in the Government Financial Reporting Manual, have been followed, and disclose and explain any material departures in the accounts; and
 - d. prepare the accounts on a going-concern basis.
5. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding the Department's assets, are set out in the Accounting Officers' Memorandum issued by HM Treasury and published in Government Accounting.

Statement on Internal Control

Scope of Responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of RCPO policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

A Chief Operating Officer, the RCPO Management Board, and an advisory Audit and Risk Committee support me in managing the RCPO and its key risks.

The RCPO operates under the ministerial superintendence of the Attorney General, with whom I meet regularly to discuss progress in implementation of government policy initiatives regarding the criminal justice system. I also meet with other Heads of Law Officers' Departments to consider key issues of common interest including the issues and risks involved in meeting key inter-departmental objectives.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

This has been the RCPO's first year as a separate department. It was set up in April 2005 bringing together the prosecution functions of the former Inland Revenue and Customs and Excise Departments. The system of internal control has been developed over the year in accordance with Treasury guidance, concentrating particularly on the risk management system, business change programmes, HR policies and financial control. Good progress has been made in all these areas although at the end of the financial year more work was required to strengthen financial controls, create the operational risk registers, improve IT systems and set up an internal audit function.

Capacity to handle risk

As Accounting Officer I am ultimately responsible for the effective management of RCPO business and for ensuring that there are adequate risk management arrangements and a sound system of internal control.

Divisional Heads are responsible for the management of risk within their areas of command and for ensuring compliance with the procedures set out in the Risk Management Strategy, while operational managers ensure that everyone in their unit understands their risk management responsibilities and that they are clear as to the extent to which they are empowered to take risks. Risk management is an integral part of the prosecution process.

All staff are encouraged to report risks that impact upon the protection of our business and operations. The process of learning lessons, particularly as part of our casework procedures, contributes to business improvements and the sharing of good practice.

The risk and control framework

The RCPO has developed a risk management strategy that links to the aims and objectives set out in the departmental Business Plan and to the identification and control of the risks associated to them. This helps to ensure that all aspects of our business are covered within a comprehensive programme of risk management. By the end of the financial year, a strategic risk register had been prepared but work on operational risk registers had not been completed (see below).

Control framework

A control framework that includes the following elements underpins the strategy:

- A clearly defined 'Statement of Accounting Officer's Responsibilities', that forms part of these Resource Accounts.
- A Management Board that owns the departmental Risk Management Strategy, and is responsible for ensuring that strategic risks are properly managed, and requires regular reports from the Audit and Risk Committee to support this function. A Management Information System provides my Board and me with regular updates relating to casework activity and outcomes. The Management Board examines the performance of each Division and Support Service area against key targets in the Business Plan. It also reviews in-year expenditure against forecasts to ensure effective financial control of RCPO resources.
- An Audit and Risk Committee includes two non-executive Directors, one of whom serves as the Chair. This Committee assists me in fulfilling my oversight responsibilities, and is authorised to review, and where necessary advise on, the RCPO's Annual Accounts, Internal and External Audit, Risk Management, Corporate Governance, Financial Discipline and Control, and Health and Safety.
- An internal audit function, effective from July 2006, conducts an ongoing programme of specific reviews drawn up on a risk analysis basis.
- A system of risk registers designed to provide the RCPO with an effective and reliable tool for the management of risk (see below).
- A clear structure of delegated responsibility.
- A framework of financial regularity and propriety contained in the RCPO Finance Manual.
- A Prosecutions Manual provides detailed guidance to staff on handling cases.
- A staff appraisal process that incorporates personal objectives and key performance indicators to support the RCPO's strategic objectives.
- The development of individuals, including formal training, are considered where necessary to ensure everyone can contribute fully to this approach.
- A Confidential Reporting Policy that protects individuals who believe that the RCPO has fallen below its standards, policies, and practices.
- A Business Change Programme that delivers projects that support the essential drive for business re-engineering and improvement.
- A set of Human Resource policies and supporting guides.
- A system of regular reviews of counsel nominations and fee levels.

It has become apparent that some of these controls, notably those relating to finance, did not work as effectively as they should throughout the reporting year. This is discussed further below.

Risk registers

Risk registers underpin the RCPO's approach to risk management. A strategic risk register is used to record and monitor high-level risks to our business and operations. This is supported by divisional risk registers for:

- Operations (the casework divisions);
- The Chief Operating Officer's command; and
- Policy and Assurance.

The strategic risk register was in place by the end of the financial year; the other risk registers have been developed since then.

All key staff have been involved in the process of identifying risks, and the RCPO has taken a wide view to consider support services as well as operational activities.

A consistent approach is being developed and applied to the management of each risk register. The effectiveness of risk registers will be reviewed on a quarterly basis, while we measure the overall success of our controls through regular monitoring and update them where necessary. The context of the registers is revisited periodically to identify any new risks and to confirm that existing risks are being actively managed.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the executive managers within the RCPO who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Management Board and the Audit and Risk Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The Management Board sat ten times in the year and comprised the key senior executive managers, a representative of the Attorney General's office and two non-Executive Directors. The Board routinely examines strategic issues including but not limited to, operational matters, risk and finance.

The Audit and Risk Committee sits every quarter and reviews operational and strategic risk registers. It also considers reports from both external and internal auditors and commissions such other work as it deems necessary to provide an assurance to the Management Board on governance, internal control and risk issues.

The International, Policy and Advisory Division conducts internal quality assurance on my behalf and, over the last 12 months, it has focussed on several significant areas in support of effective risk management.

Significant control issues

RCPO came into existence in April 2005. Since that date much progress has been made to address a number of weaknesses, particularly in areas relating to casework. However, control issues relating to information technology systems and financial management have taken longer to address.

Management of counsel fees

Fees to members of the criminal bar accounted for over half of RCPO's expenditure in 2005/2006. Management of this area of expenditure was problematic because of the practice of fee notes being submitted several months or even years after the work was performed and the practice of negotiating both rates and hours after the event. The result was an inability to give a precise figure for total expenditure on counsel fees or to assess accurately the accrued balance at year end. Indeed, it became apparent during the latter part of the year that RCPO's accrued liabilities were much greater than originally indicated in HMRC's accounts for 2004/2005 and this affected our opening balance sheet for 2005/2006. Following the year end a large amount of work has been carried out to assess both the opening and closing accruals balances. The benefit of this work is that the opening balance sheet for these accounts is now considerably more accurate than it would otherwise have been and in-year expenditure is more accurately reported. As significantly, we have improved the systems inherited from HMRC to ensure there will be no repeat of the problem and that the payment of fees is properly authorised and that there is a clear audit trail. We have also implemented a new regime for counsel fees with published standard rates, agreed fees prior to the completion of work and a requirement to submit fees promptly and in an agreed format.

Nevertheless, the Comptroller and Auditor General (C&AG) has given a qualified opinion on these accounts owing to difficulties in accurately assessing the total accrual in respect of counsel fees. Further details are contained in his report that is contained within these accounts.

Opening balance sheet

Before independence CEPO was audited as part of HM Customs and Excise. Being a small part of the larger whole its numbers were largely immaterial and, in effect, untested at a detailed level. Independence required more effective controls and records. However, the implications of this were not fully understood or appropriately acted upon by RCPO during the financial year. The new organisation's opening balance sheet was not substantiated and reconciled at the moment of separation. When it was examined during the interim audit in November material inaccuracies and weaknesses in controls were uncovered with a concomitant impairment in budgetary control. It has taken some time and a very considerable effort to identify and resolve the resulting problems.

Management information systems

The legacy case management information systems and reporting tools initially available within RCPO were inadequate to meet the needs of a separate and effective prosecuting authority. During the year a new mechanism for the production of management information was agreed so that accurate, consistent, robust and timely information could be provided about our cases. This mechanism was implemented successfully and the information generated has been recently migrated to a new database that now enables a broad range of statistics relating to the full range of our casework activity to be generated automatically.

This information will allow senior managers to monitor key performance indicators arising from our operations, and to identify wider trends in the volume and types of criminal cases referred to RCPO by both HMRC and SOCA. Whilst the new database is still in its 'early days' it is clear that these developments will have a real impact on the ability of RCPO to manage cases effectively, allowing RCPO to respond rapidly to the changing demands placed on it.

Accounting system

Immediately following its creation, RCPO continued to use the Custom and Excise's in-house accounting software. However, this custom built package was not suitable for our needs and a decision was taken to replace it. Accordingly, in November RCPO entered an agreement with the Treasury Solicitor's Department (TSOL) to use a common finance system and for them to undertake transaction processing on our behalf.

However, whilst in principle, this 'shared service' was workable certain problems have arisen. The links between the RCPO and TSOL's IT systems were inadequate, the RCPO team was unfamiliar with the reporting package and no reconciliation was performed on the closing balances in the old finance system and the opening balances on the new system.

The consequence was that RCPO's ability to generate reliable financial information during the financial year and at the year end was impaired seriously. No standard month end reconciliations were performed and, in effect, nothing was done to prepare the organisation for the production of its first set of resource accounts.

Following the year end the links to the finance system have been strengthened and a new reporting package implemented. However, because of networking and security considerations it has not yet proved possible to link networked PCs directly to the finance system. To provide this critical functionality other options, including the possible repatriation of the finance system are being considered.

IT infrastructure

Since inception RCPO has continued to receive IT services provided by HM Revenue and Customs under their contract with Fujitsu. This has not been a satisfactory arrangement. HMRC's system is designed to meet very different circumstances and changes to meet RCPO's needs are difficult to obtain. Historic service levels agreed between HMRC and Fujitsu that were in place throughout the

financial year did not reflect and were not adequate for RCPO's needs. Indeed, the 'shared service' provided by the larger department did not represent value for money to RCPO and is a significant drag on efficiency.

Following the year end HMRC signed a new contract with ASPIRE to provide its IT infrastructure and services. However, RCPO was not party to contract negotiations and has yet to achieve an assurance that its revised 'Statement of Service Requirement' can be met in a reasonable timescale and at a competitive cost. Because of this we are also investigating alternative options to share services with other Government Departments.

Procurement policy

Although the RCPO had a procurement policy during the financial year, it was at a very high level of generality. This resulted in some uncertainties about how to apply it in particular circumstances. More detailed procedures are now being developed, particularly for appointing consultants and temporary staff.

Changes since year end

Since the end of the financial year an intense effort has been made to address the control issues outlined above. Management information systems and financial reporting have been strengthened. A transformed system for the management and payment of counsel fees has been introduced. The finance team has been augmented. Payment performance has been improved dramatically. Nevertheless, there is much still to do, particularly in terms of financial reporting. Work is in hand to complete these tasks well before the year end and it is envisaged that the controls in place by the end of the current reporting year will be robust and consistent with the highest standards of governance.

I, together with the RCPO Audit and Risk Committee, will actively monitor progress to ensure that the financial control environment is significantly strengthened and to enable the RCPO to be in a position where it can deliver timely and accurate financial accounts in line with HM Treasury's faster closing initiative.

David Green
Accounting Officer
16 January 2007

Revenue and Customs Prosecutions Office**THE CERTIFICATE OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS**

I certify that I have audited the financial statements of the Revenue and Customs Prosecutions Office for the year ended 31 March 2006 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the Statement of Operating Costs by Departmental Aim and Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

The Accounting Officer is responsible for preparing the Annual Report and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, if the Department has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 15 to 19 reflects the Department's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the introduction, Departmental organisation and activities, management commentary, financial commentary and the unaudited part of the Remuneration Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with auditing standards issued by the United Kingdom Auditing Practices Board, except that the scope of my work was limited as explained below.

My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Department's circumstances, consistently applied and adequately disclosed.

I planned my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

The scope of my audit was limited in respect of the programme accruals balance of £11,783,000 at 31 March 2006 and the associated expenditure of £15,676,000 as the Revenue and Customs Prosecution Office was unable to provide sufficient evidence that the balance was materially complete and had not been understated. In addition, the Revenue and Customs Prosecution Office were unable to provide sufficient evidence to verify the completeness of the prior year comparative figures in respect of the 2004/05 programme accruals balance of £9,099,000 and the corresponding expenditure of £20,055,000.

Qualified Opinion arising from a Limitation of Scope

In my opinion:

- Except for any adjustments that may have been found to be necessary had I been able to obtain sufficient evidence concerning the completeness of:
 - the programme accruals balance at 31 March 2006;
 - the corresponding programme expenditure in respect of counsel fees during 2005/06; and
 - the comparative figures for the programme accruals balance and corresponding programme expenditure in respect of counsel fees.

the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by H M Treasury, of the state of the affairs of the Revenue and Customs Prosecution Office as at 31 March 2006 and the net cash requirement, net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the year then ended;

- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with H M Treasury directions issued under the Government Resources and Accounts Act 2000; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In respect alone of the limitation on my work relating to the programme accruals balance at 31 March 2006 and corresponding expenditure, and to the programme accruals balance at 31 March 2005 and corresponding expenditure:

- I have not obtained all the information and explanations that I considered necessary for the purposes of my audit; and
- I was unable to determine whether proper accounting records had been maintained.

Details of these matters are set out in my Report on pages 22 to 27.

John Bourn
Comptroller and Auditor General
Date: 30 January 2007

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

Introduction

1. The Revenue and Customs Prosecutions Office (the Department) was established by the Commissioners for Revenue and Customs Act 2005 as a separate government department in April 2005. The Department is responsible for carrying out criminal prosecutions for Her Majesty's Revenue and Customs and the Serious and Organised Crime Agency. The Department's prime objective is to prosecute cases efficiently and effectively in accordance with the Code for Crown Prosecutors.
2. Prior to April 2005, the Department's functions had been carried out by precursor bodies within Her Majesty's Customs and Excise and the Inland Revenue, namely the Customs and Excise Prosecution Office, the Inland Revenue Crime Group and the Asset Forfeiture Unit.

Purpose of Report

3. The purpose of this Report is to explain the background to the qualification of my audit opinion; to report on significant internal financial control weaknesses within the Revenue and Customs Prosecutions Office during 2005/06 and to note the steps taken by the Department to improve financial management and the internal control environment.

My obligations as auditor

4. Under the Government Resources and Accounts Act 2000 (the Act), I am required to examine and certify all departmental Resource Accounts received under the Act. I am required, under International Standards on Auditing (UK and Ireland), to obtain evidence to give reasonable assurance that the Department's financial statements are free from material misstatement. In forming my opinion I examine, on a test basis, evidence supporting the disclosures in the financial statements and assess the significant estimates and judgements made in preparing them. I also consider whether the accounting policies are appropriate, consistently applied and adequately disclosed. I have qualified my opinion on the Revenue and Customs Prosecutions Office's 2005/06 financial statements due to a limitation in the scope of my audit and because I was unable to reach an opinion on significant elements of the Department's prior year Accounts.

Audit Opinion

Qualified opinion owing to a limitation in scope arising in respect of the 31 March 2006 accruals balance and corresponding expenditure

5. During 2005/06, the Department spent £15.7 million (46% of total annual expenditure) on payments of fees to legal counsel. The Department has found it difficult to manage this expenditure because counsel often submit their fee notes many months or even years after work has been done on cases. For example, during October 2006 alone, the Department received fee notes totalling £344,000 and £226,000 for work done in 2005/06 and 2004/05 respectively. This required the Department to adjust its Accounts as it had not accrued for this expenditure previously.

6. The Department inherited financial processes and controls which were appropriate for the two larger precursor departments, but which required development to ensure they met the needs of a small department. Financial management requirements were limited mainly to providing information to the central accounting function of its precursor bodies. During 2005/06 and earlier years, the Department and its precursor bodies accrued for counsel fees on the basis of estimates made by its lawyers of the unbilled work on their cases. For the two larger departments any variances between estimated and actual costs were not material, but for the new Department, a more detailed method for monitoring the costs of cases in progress, before the fee notes were received from counsel, was required. In addition, before 1 September 2006 the Department did not agree hours to be worked or fee rates with counsel at the outset of cases. Instead payments to counsel were negotiated by the Department and counsels' clerks after the submission of fee notes. In May, August and again in September 2006 the Department wrote to all counsel on the approved list of the Attorney General¹, asking them to submit all outstanding fee notes for cases completed prior to 31 March 2006. Despite this, the Department continued to receive fee notes for cases closed several years ago. As a result, the Department could not estimate with the required degree of accuracy the value of its accruals² at 31 March 2006 and its expenditure on counsel for 2005/06.
7. The following table demonstrates the scale of this issue and outlines the total value of invoices received in the first seven months of 2006/07. The liability relating to this expenditure was only recognised and the accounts adjusted when the Department received the fee notes from counsel.

Month in which invoice for counsel fee expenditure was received	Expenditure relating to 2005/06 (£)	Expenditure relating to 2004/05 (or earlier) (£)
April 2006	4,024,520	99,752
May 2006	1,312,705	123,632
June 2006	1,633,338	130,774
July 2006	744,250	141,548
August 2006	795,643	261,056
September 2006	753,148	157,323
October 2006	343,707	226,150
Total	<u>9,607,311</u>	<u>1,140,235</u>

8. The exclusion of any additional accruals may have a significant impact on the Department's financial results for the year. The Department's Statement of Parliamentary Supply indicates that during 2005/06 it spent £36,809,000 against a net resource limit of £37,885,000. The Department is not able to establish whether it has breached its net resource limit as it had no effective systems in place to assess the value of outstanding accruals for unrepresented counsel fee notes relating to 2005/06 expenditure.
9. As a result of these factors, the Revenue and Customs Prosecutions Office has been unable to provide sufficient evidence that counsel fee expenditure for 2005/06 (£15.7 million) and accruals at 31 March 2006 (£11.8 million) were not materially understated. My opinion on the 2005/06 Resource Accounts is, therefore, qualified in respect of the Statement of Parliamentary Supply, Operating Cost Statement, Balance Sheet, Statement of Operating Costs by Departmental Aim and Objectives and their associated Notes.
10. The Department does not propose to revise these disclosures in preparing its 2006/07 Accounts, so my audit opinion will be qualified in respect of the corresponding prior year comparative figures in the Department's 2006/07 Resource Accounts.

¹ The Revenue and Customs Prosecutions Office (RCPO) is one of the Law Officers' Departments. RCPO administers an approved list of counsel for one of the Law Officers, the Attorney General, from which the smaller central government prosecutors select their representation.

² Accruals are liabilities to pay for goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with the supplier.

2004/05 accruals and expenditure figures

11. The uncertainty over expenditure on counsel also leads to an uncertainty over the value of accruals at 31 March 2005 and expenditure during 2004/05. When the Department was established, Her Majesty's Revenue and Customs agreed the estimated accruals for counsel expenditure of some £4.2 million, based on levels of counsel activity known at that time. Based on fee notes received subsequently, the Department's latest estimate is that this figure has increased by £4.9 million to £9.1 million. It will continue to increase as the Department is still receiving fee notes from counsel for old cases.
12. The additional expenditure of £4.9 million is reflected in the Department's Operating Cost Statement for 2004/05. The net effect of this additional expenditure and other prior year adjustments is recognised in the current year's Statement of Parliamentary Supply. This approach is adopted for the purposes of parliamentary control and it ensures that the resource and cash transactions are properly reported to Parliament. Similarly, any further expenditure relevant to 2005/06 and earlier years will need to be reflected as in-year expenditure in the Department's Statement of Parliamentary Supply for 2006/07.
13. At the date of signature of the financial statements, the Revenue and Customs Prosecutions Office could not demonstrate that counsel fee expenditure for 2004/05 of £20.1 million (57% of total annual expenditure) and accruals at 31 March 2005 (£9.1 million) were not materially understated. My opinion on the 2005/06 Resource Accounts is, therefore, qualified in respect of the 2004/05 Operating Cost Statement, Balance Sheet, Statement of Operating Costs by Departmental Aim and Objectives and their associated Notes.

Control weaknesses**Management of counsel fee expenditure**

14. During 2005/06, none of the work completed by counsel on the Department's cases was based on rates agreed by both parties in advance. Instead, final payment was subject to negotiation between both parties after fee notes had been sent by counsel to the Revenue and Customs Prosecutions Office. A number of the adjustments made to initial fee notes were substantial; in October 2006, the Department received a fee note for £991,000 which, when challenged, was reduced to £550,000.
15. My audit indicated that, whilst the Department reached a mutually agreeable settlement with counsel in all cases, there was little transparency in the process. For example, in a number of cases, fee notes were adjusted manually and this revised amount paid by the Department rather than requesting that counsel submit a corrected fee note. The Department's ability to challenge fee notes robustly also reduces with the passage of time and my staff were unable to form an independent judgement on the reasonableness of amounts paid for counsel fees because of the unavailability of supporting documentation.
16. The Department's Statement on Internal Control³ recognises that there was an unclear audit trail for payments to counsel under these arrangements. It has implemented a new regime for the payment of counsel fees with effect from 1 September 2006, with published fixed fee rates and hours agreed fees prior to the commencement of work and monitored through to completion. There is also a requirement for counsel to submit fees monthly and in an agreed format. The new arrangements are broadly comparable to those in place at the Serious Fraud Office, the other specialist prosecutor within the Law Officers' Departments. This will assist the Department in managing this expenditure in the future, but there remain a number of cases that ended prior to 1 September 2006 where the Department cannot estimate its potential liabilities with accuracy. This will continue to be an issue in estimating the value of accruals at 31 March 2007 and expenditure for its 2006/07 Accounts.

³ Statement on Internal Control, pages 15 to 19

Procurement practices

17. As indicated in the Note to the Accounts on related parties⁴, the Department engaged the Chief Operating Officer's spouse as a consultant to review and implement the Department's requirements for Human Resources policies, including employment contracts and discipline, misconduct and poor performance procedures. In the Department's view the requirement was urgent and the existing Human Resources team were unable to provide the necessary level of expertise.
18. In October 2005, with the consent of the Director (the Accounting Officer for the Department), the Chief Operating Officer completed all of the steps that led to the appointment of his spouse as a consultant alongside another Human Resources consultant to form a job share team. This included identifying the business need for an external consultant; determining who to invite to tender for the work; evaluating some 20 applications; deciding on the successful candidate and agreeing the rate of pay at £550 per day. Total payments to the Chief Operating Officer's spouse during 2005/06 were £27,775 (excluding VAT).
19. HM Treasury Officer of Accounts provides guidance⁵ to Accounting Officers on regularity, propriety and value for money. The guidance uses the definition of propriety used in Government Accounting:

"Propriety is the further requirement that expenditure and receipts should be dealt with in accordance with Parliament's intentions and the principles of Parliamentary control, including the conventions agreed with Parliament (and in particular the Public Accounts Committee)."⁶
20. The guidance aims to illustrate what is and is not "proper" behaviour in the stewardship of public funds. It sets out some basic dos and don'ts, which include:
 - Don't allow a conflict of interest to affect, or appear to affect, decisions
 - Do put in place and follow clear and up to date procedures
 - Do seek approval, if needed, first from the right person
21. The guidance also suggests that the Accounting Officer should be comfortable that, before spending public funds, they could satisfactorily defend the expenditure both in public and before the Public Accounts Committee.
22. The Nolan Committee provided further guidance on the issue of propriety in its first report⁷, defining it as "...not only financial rectitude, but a sense of the values and behaviour appropriate to the public sector". The Committee also set out seven core principles inherent in the ethics of public service that should reflect the expected values and behaviour for the operation of the public sector. These principles, which have been endorsed by the Government, include the following:

Selflessness

Holders of public office should take decisions solely in terms of the public interest. They should not do so in order to gain financial or other material benefits for themselves, their family, or their friends.

⁴ Note 24, page 44

⁵ "Regularity, Propriety and Value for Money" – Treasury Officer of Accounts handbook – November 2004

⁶ "Government Accounting 2000" – HM Treasury

⁷ "Standards in Public Life" First report of the Nolan Committee on Standards in Public Life (May 1995)

Objectivity

In carrying out public business, including making public appointments, awarding contracts, or recommending individuals for rewards and benefits, holders of public office should make choices on merit.

Openness

Holders of public office should be as open as possible about all the decisions and actions that they take.

They should give reasons for their decisions and restrict information only when the wider public interest clearly demands.⁸

23. In undertaking all of the main stages of the recruitment process that led to the appointment of his spouse as a consultant at the Department, the Chief Operating Officer put himself in a position where the propriety of the selection process could be called into question. After appointing his spouse the Chief Operating Officer made the Accounting Officer aware of the decision. In my opinion, however, it would have been more appropriate and proper for the Chief Operating Officer to have disqualified himself from the selection process because of his potential conflict of interest.
24. When my staff became aware of the circumstances of this transaction, they informed the Revenue and Customs Prosecutions Office that they considered it to be "novel and contentious". Under Government Accounting principles, departments have no delegated authority to incur such expenditure without prior approval from HM Treasury. The Department's Director wrote to HM Treasury to request retrospective approval for this expenditure on 13 November 2006. HM Treasury gave their retrospective authorisation for the payments on 1 December 2006, commenting that:

"We have no real problems with this payment as long as it can be demonstrated that the process was above board, the payment provided value for money and conflicts of interest were notified and this appears to be the case. Although as a new department, RCPO did not have the benefit of systems in place to ensure that the relevant procedures were followed, RCPO do appear to have sufficient defensive information to demonstrate that the payment was within the bounds of regularity and propriety".
25. HM Treasury also welcomed the fact that, when the Department extended its contract with the Chief Operating Officer's spouse in July 2006 for a further three months, this followed a more independent tendering exercise which reported to the Accounting Officer.
26. Although the Department had a one-page procurement policy in place during 2005/06, this did not provide sufficient detail about how to apply these principles in particular circumstances. In November 2006, the Department asked its internal audit team to review its procurement policy and practices with a view to enhancing the guidance available for future procurement exercises.

Preparation of the 2005/06 resource accounts

27. In November 2005, my staff agreed a timetable for the preparation and audit of the Department's 2005/06 Resource Accounts, which envisaged certification by the Comptroller and Auditor General in July 2006. My staff's review of the opening balance sheet constructed by the Department, however, indicated significant concerns about the completeness of counsel fee accruals and the extent to which other balances transferred from Her Majesty's Revenue and Customs could be reconciled back to supporting documentation held by the Department.

⁸ The other four principles are integrity, accountability, honesty and leadership

28. Also in November 2005, the Department decided that the accounting software it was using, inherited from Her Majesty's Revenue and Customs and suitable for a body of that size and complexity, did not meet its business needs and entered into an agreement with the Treasury Solicitor's Department to use a common finance system. The Department did not perform a reconciliation between the balances transferring between the two systems and did not perform any standard month end reconciliations or generate meaningful financial information from this new system for the remainder of the financial year.
29. As well as poor financial management systems during the year, the Department's finance team lacked accounting experience and skills and had a limited understanding of the routine duties involved in basic financial accounting and a poor appreciation of the requirements of preparing a set of resource accounts. As a result, the draft financial statements submitted to my staff on 19 June 2006 included a significant number of errors: balances in the Accounts did not agree to those in the Department's underlying general ledger or to figures previously audited by my staff; there was no Cash Flow Statement; Notes to the Accounts were incomplete and the Accounts did not follow the format required by the Treasury's Financial Reporting Manual. The Department's quality assurance processes were ineffective in ensuring the robustness of the financial statements before they were passed to my staff for audit.
30. The Department subsequently engaged a number of additional finance staff to review counsel fee accruals and to aim to resolve errors and inconsistencies in the financial statements, notably in the General Fund and Provisions Notes, and this work continued up to the end of November 2006. A more robust set of draft Accounts was passed to my staff on 23 November 2006. Further and material amendments were required to these accounts before the Department submitted signed Accounts on 30 November 2006.

Actions taken or proposed to be taken by the Department to help prevent a recurrence

31. Since the year end, the Department has taken a number of steps to tackle the control issues raised in my Report and in the Statement on Internal Control. In particular, the new regime for payment of counsel fees should improve the Department's ability to manage this key element of its expenditure. The establishment of an internal audit function in June 2006 (none was in operation during 2005/06) should also assist the Department's management in obtaining an assessment of the Revenue and Customs Prosecutions Office's internal control environment. In addition, the Department are developing a programme of month end processes, including balance sheet reconciliations and management accounts, which my staff will be reviewing shortly as part of my audit of the Department's 2006/07 resource accounts.
32. The Department faces a significant challenge in improving its financial management capabilities. Senior management within the Revenue and Customs Prosecutions Office recognise that there needs to be a sustained focus on improving the financial control environment within the Department, driven by its Management Board. This will require a better understanding of financial reporting requirements throughout the organisation and a significant strengthening of the current finance team.

John Bourn
Comptroller & Auditor General
30 January 2007

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Statement of Parliamentary Supply Summary of Resource Outturn 2005/06

Request for Resources 1	Note	2005/06 Estimate			2005/06 Outturn			Net total outturn compared with Estimate saving/ (excess) £000	2004/05 Prior-year Outturn £000
		Gross Expenditure	A in A	Net Total	Gross Expenditure	A in A	Net Total		
		£000	£000	£000	£000	£000	£000		
The effective and efficient prosecution of cases in accordance with the Code for Crown Prosecutors	2	37,944	(59)	37,885	36,867	(58)	36,809	1,076	35,251
Total Resources	2	37,944	(59)	37,885	36,867	(58)	36,809	1,076	35,251
Non Operating A-in-A		-	-	-	-	-	-	-	-

Net Cash Requirement 2005/06

Net cash requirement	Note	2005/06		Net total outturn compared with Estimate saving/ (excess) £000	2004/05 Prior-year Outturn £000
		Estimate	Outturn		
		Net Total £000	Outturn £000		
	4	37,788	31,462	6,326	30,297

Summary of income payable to the Consolidated Fund

In addition to appropriations in aid, the following income relates to RCPO and is payable to the Consolidated Fund

Total	Note	Forecast 2005/06		Outturn 2005/06	
		Income	Receipts	Income	Receipts
	5	-	-	23	23

The Statement of Parliamentary Supply records the information required for Parliamentary control of resource consumption and compares net resource outturn against the supply expenditure voted by Parliament. The additional liabilities recognised as a result of the prior period adjustment of £2,882,513 are reflected in the Statement of Parliamentary Supply. Further information on the impact of the prior period adjustment is provided in Note 27.

Explanations of the variation between Estimate and outturn

- i Net total resource requirement was £1.076 million less than the estimate, representing 2.84% of net estimated provision. Within RCPO's administration budget, the main difference is represented by some slippage in staff recruitment programmes. The difference in other expenditure reflects the number of prosecution cases and levels of activity on them being lower than planned.
- ii Net total cash requirement was £6.326 million less than the estimate, representing 16.74% of net estimated provision. Besides the expenditure variances referred to in (i) above, this difference reflects the large number of counsels' fee notes which had not been submitted to RCPO prior to year-end.

The notes on pages 34 to 45 form part of these accounts

Operating Cost Statement

For the year ended 31 March 2006

	Notes	<u>Staff Costs</u> £000	<u>2005/06 Other Costs</u> £000	<u>Income</u> £000	<u>2004/05 Restated</u> £000
Administration costs					
Staff costs	7	9,941	–	–	9,465
Other administration costs	8	–	5,078	–	4,628
Programme Costs					
Programme Costs	9	–	18,965	–	21,158
Less: Programme income	10	–	–	(81)	–
Totals		<u>9,941</u>	<u>24,043</u>	<u>(81)</u>	<u>35,251</u>
Net Operating Cost	3			<u>33,903</u>	<u>35,251</u>

All income and expenditure are derived from continuing operations.

Statement of Recognised Gains and Losses

for the year ended 31 March 2006

	Note	<u>2005/06</u> £000	<u>2004/05</u> £000
Prior Period Adjustment	27	(2,883)	–
Total recognised losses for the year		<u>(2,883)</u>	<u>–</u>

The notes on pages 34 to 45 form part of these accounts

Balance Sheet

as at 31 March 2006

	Note	31 March 2006		31 March 2005 Restated	
		£000	£000	£000	£000
Current Assets:					
Debtors	12	2,472		30	
Cash at bank and in hand	13	6,349		–	
		<u>8,821</u>		<u>30</u>	
Creditors (amounts falling due within one year)	14	<u>(21,035)</u>		<u>(9,353)</u>	
Net current assets			(12,214)		(9,323)
			<u>(12,214)</u>		<u>(9,323)</u>
Taxpayers Equity:					
General Fund	16	(12,214)		(9,323)	
			<u>(12,214)</u>		<u>(9,323)</u>

David Green
Accounting Officer
16 January 2007

The notes on pages 34 to 45 form part of these accounts

Cash Flow Statement

for the year ended 31 March 2006

		31 March 2006	31 March 2005
		<u>£000</u>	<u>Restated</u> £000
Net cash outflow from operating activities	Note 17a	(31,439)	(30,297)
Capital Expenditure & Financial Investment		-	-
Financing	17d	37,788	30,297
Increase/(Decrease) in cash in the period		<u>6,349</u>	<u>0</u>

The notes on pages 34 to 45 form part of these accounts

Statement of Operating Costs by Departmental Aim and Objective for the year ended 31 March 2006

	2005/06			2004/05 Restated		
	Gross	Income	Net	Gross	Income	Net
	£000	£000	£000	£000	£000	£000
Aim:						
The effective and efficient prosecution of cases in accordance with the Code for Crown Prosecutors						
Objective	33,984	(81)	33,903	35,251	-	35,251
Net Operating Costs	33,984	(81)	33,903	35,251	-	35,251

The Department's objective was as follows:

Strengthening the prosecution process – bringing more offenders to justice and recovering proceeds of crime.

The notes on pages 34 to 45 form part of these accounts

REVENUE AND CUSTOMS PROSECUTIONS OFFICE

Notes to the departmental resource accounts

1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2005–2006 *Government Financial Reporting Manual (FReM)* issued by HM Treasury. The accounting policies contained in the *FReM* follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

In addition to the primary statements prepared under UK GAAP, the *FReM* also requires the Department to prepare two additional primary statements. The *Statement of Parliamentary Supply* and supporting notes show outturn against Estimate in terms of the net resource requirement and the net cash requirement. The *Statement of Operating Cost by Departmental Aim and Objectives* and supporting notes analyse the Department's income and expenditure by the objectives agreed with Ministers.

Where the *FReM* permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the Revenue and Customs Prosecutions Office (RCPO) for the purpose of giving a true and fair view has been selected. The Department's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Basis of Accounting and Consolidation

These accounts have been prepared under the historical cost convention. The RCPO does not have any entities either within or without the departmental boundary to consolidate.

1.2 Tangible fixed assets

The RCPO does not own any tangible fixed assets. It has no freehold land and buildings, and its Information Technology infrastructure is owned by the service provider. Those assets transferred to the Department on its creation have been written off due to their age.

1.3 Intangible fixed assets

The RCPO does not own any intangible fixed assets.

1.4 Costs awarded to RCPO

The RCPO may be awarded costs against convicted defendants at the discretion of the judge or magistrate. Responsibility for recording, enforcing and collecting these costs rests with the appropriate court which is also responsible for forwarding collected monies to the RCPO. Accordingly, RCPO records these receipts on a cash basis.

1.5 Costs awarded against RCPO

Any costs awarded against RCPO are included under prosecution costs for the year in which the awards are made.

1.6 Administration and Programme expenditure

The Operating Cost Statement is analysed between administration and programme costs. The classification of expenditure as administration or as programme follows the definition of administration costs set by HM Treasury.

Administration costs reflect the costs of running the RCPO as defined under the administration cost control regime. Programme costs reflect operating costs relating to prosecution, including the employment of counsel.

1.7 Accruals

These accounts have been prepared on the accruals basis of accounting. Where known, the non-cash effects of counsel fees and other transactions have been reflected in the accounts in the year in which the service or goods have been supplied, and not in the year in which any cash involved is received or paid.

1.8 Capital charge

A charge, reflecting the cost of capital utilised by RCPO, is included in operating costs. The charge is calculated at the real rate set by HM Treasury (currently 3.5 per cent) on the average carrying amount of all assets less liabilities, except for:

- a. cash balances with the Office of the Paymaster General, where the charge is nil;
- b. liabilities for amounts to be surrendered to the Consolidated Fund, where the credit is nil.

1.9 Foreign Exchange

Transactions which are denominated in a foreign currency are translated at the rate of exchange ruling on the date of the transaction.

1.10 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pensions Scheme (which are described in Note 7). The defined benefit schemes are unfunded and are non-contributory except in respect of dependants' benefits. The RCPO recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, the Department recognises the contributions payable for the year.

1.11 Operating leases

Rentals due under operating leases are charged to the Operating Cost Statement over the lease term on a straight-line basis, or on the basis of actual rentals payable where this fairly reflects the usage.

1.12 Provisions

The RCPO's policy on provisions follows FRS 12: Provisions, Contingent Liabilities and Contingent Assets. Accordingly, it has made no provision for legal or constructive obligations, given the levels of uncertainty as regards amount of these obligations at the balance sheet date.

1.13 Contingent liabilities

In addition to contingent liabilities disclosed in accordance with FRS 12, the department will disclose for parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the transfer of economic benefit is remote, but which have been reported to Parliament in accordance with the requirements of Government Accounting.

Where the time value of money is material, contingent liabilities that are required to be disclosed under FRS 12 will be stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by FRS 12 will be stated at the amounts

reported to Parliament.

1.14 Value Added Tax

Input tax is recoverable on certain services procured by the RCPO, and in such circumstances the amounts are stated net of VAT. Irrecoverable VAT is charged to the relevant expenditure category.

1.15 Third Party Assets

The RCPO seized monetary assets during 2005/06 on behalf of other government agencies, and are not part of the department's accounts.

1.16 Prior Year Comparatives

The comparatives for 2004/2005 for income and expenditure are based on RCPO's precursor bodies, principally the Customs and Excise Prosecution Office.

2. Analysis of net resource outturn by section

	2005/06					Estimate		2004/05 Restated
	Outturn			A in A	Net Total	Net Total	Net total Outturn compared with Estimate	Prior-year Outturn
	Admin	Other Current	Gross resource expenditure					
	£000	£000	£000	£000	£000	£000	£000	
Request for Resources 1								
1A Administration Costs	15,019	–	15,019	–	15,019	19,412	4,393	14,093
1B Prosecutions	–	21,848	21,848	(58)	21,790	18,473	(3,317)	21,158
Resource Outturn	15,019	21,848	36,867	(58)	36,809	37,885	1,076	35,251

Key to Request for Resources

Request for Resources 1 – The effective and efficient prosecution of cases in accordance with the Code for Crown Prosecutors

NOTE:

The outturn figure was lower than estimated because of the uncertainty in forecasting expenditure in a demand-led environment with the result that case numbers and expenditure/activity on them was lower than planned. Furthermore, RCPO was operating below its full staff complement during 2005/2006.

Prior Period Adjustment

A prior period adjustment to prosecution costs reflect two amendments which were made to comparative figures to ensure that comparable information was provided to reader of the accounts (see Note 27).

3. Reconciliation of outturn to net operating cost and against Administration Budget**3(a) Reconciliation of net resource outturn to net operating cost**

		2005/06		Outturn compared with	2004/05
		Outturn	Supply Estimate	Estimate	Outturn
	Note	£000	£000	£000	£000
Net Resource Outturn	2	36,809	37,885	1,076	35,251
Prior Period Adjustment	27	(2,883)	–	2,883	–
Non-Supply Income (CFERs)	5	(23)	–	23	–
Net operating cost		<u>33,903</u>	<u>37,885</u>	<u>3,982</u>	<u>35,251</u>

3(b) Outturn against final Administration budget

	2005/06		2004/05
	Budget	Outturn	Outturn
	£000	£000	£000
Gross Administration Budget	19,413	15,019	14,093
Income allowable against the Administration Budget	(1)	–	–
Net outturn against final Administration Budget	<u>19,412</u>	<u>15,019</u>	<u>14,093</u>

4. Reconciliation of resources to cash requirement

		Estimate	Outturn	Net total outturn compared with estimate: saving/(excess)
	Note	£000	£000	£000
Resource Outturn	2	37,885	36,809	1,076
Prior Period Adjustment	27		(2,883)	2,883
Accruals adjustments:				
Non-cash items	8	(97)	427	(524)
Changes in working capital other than cash		–	(2,891)	2,891
Net Cash Requirement		<u>37,788</u>	<u>31,462</u>	<u>6,326</u>

NOTE:**Explanation of variation between Estimate and Outturn**

The outturn figure was lower than estimated principally because of slippages in staff recruitment programmes, and case numbers and expenditure/activity on them being lower than planned.

5. Analysis of income payable to the Consolidated Fund

In addition to appropriations in aid, the following income relates to the Department and is payable to the Consolidated Fund (cash receipts being shown in italics)

	Forecast 2005/06		Outturn 2005/06	
	Income	Receipts	Income	Receipts
	£000	£000	£000	£000
Operating income and receipts – excess A in A	-	-	23	23
Total income payable to the Consolidated Fund	-	-	23	23

6. Reconciliation of income recorded within the Operating Cost Statement to operating income payable to the Consolidated Fund

	Note	2005/06 £000
Operating Income	10	81
Income authorised to be appropriated-in-aid		(58)
Operating income payable to the Consolidated Fund		23

7. Staff numbers and related costs

Staff costs comprise:

	2005/06			2004/05
	Total	Permanently employed staff	Others	Total
	£000	£000	£000	£000
Wages and salaries	7,783	7,567	216	7,678
Social security costs	656	656		650
Other pension costs	1,502	1,502		1,137
Total net costs	9,941	9,725	216	9,465

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but RCPO is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

Included in the figure for other pension costs are employer's contributions of £1,502,178 payable to the PCSPS at one of four rates in the range 16.2 to 24.6 percent (2004/05: 12 to 18.5 per cent) of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. The salary bands and contribution rates were revised for 2005/06 and will remain unchanged until 2008/09. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees can opt to open a partnership pension account with an employer contribution. During 2005/06, no employer contributions of this kind were paid to appointed stakeholder pension providers.

The salary and pension entitlements of the most senior members of the Revenue and Customs Prosecutions Office comprising the Director and his Management Board, and Divisional Heads, are disclosed in the Remuneration Report.

Average number of persons employed

The average number of whole-time equivalent persons employed during the year is shown in the table below.

	2005/06			2004/05
	Total	Number Permanently employed staff	Others	Number Total
Request for Resources 1	257	241	16	231
	<u>257</u>	<u>241</u>	<u>16</u>	<u>231</u>

8. Other Administration Costs

	2005/06	2004/05
	£000	£000
IT & Telecoms	1,656	2,044
Travel and Subsistence	231	284
Consultancies	480	203
Landlord service charges & rates	1,586	1,242
Estates maintenance	563	-
Printing & stationery	111	241
Recruitment & training	154	139
Rentals under Operating Leases	80	68
Postage & other carriers	265	178
Management fees and other service charges	197	195
Library services	114	-
Other	68	10
Non-cash items		
Depreciation	-	17
Auditors' remuneration and expenses*	60	-
Loss on disposal/revaluation of assets	-	5
Cost of capital charges	(487)	2
	<u>5,078</u>	<u>4,628</u>

*There was no auditor remuneration for non-audit work.

9. Programme Costs

	2005/06	2004/05
	£000	Restated £000
Counsel fees	15,676	20,055
Costs payable	1,679	-
Transcription fees	140	-
Electronic presentation of evidence	711	-
Other expenditure	759	1,103
	<u>18,965</u>	<u>21,158</u>

10. Income

Request for Resources 1	2005/06
	Total
	£000
Court costs recovered	81
	81

11. Fixed assets

The Revenue and Customs Prosecutions Office does not own any tangible or intangible fixed assets of value.

The comparative figures for 2004/05 include a depreciation charge of £17,159. This represents the final write-off of assets belonging to the Inland Revenue Crime Group.

12. Debtors**12(a) Analysis by type**

	2005/06	2004/05
	£000	£000
Amounts falling due within one year*:		
VAT Debtor	872	–
Other Debtors	1,585	17
Prepayments	15	13
	2,472	30

*Included within the debtors there is nil amount due to the Consolidated Fund.

12(b) Intra-Government Balances

	2005/06
Balances with other central government bodies	2,431
Balances with bodies external to government	41
At 31 March	2,472

RCPO has no debtor balances falling due after more than one year.

13. Cash at bank and in hand

	<u>2005/06</u>
	£000
Balance at 1 April	–
Net change in cash balances	6,349
Balance at 31 March	<u>6,349</u>
The following balances at 31 March are held at:	
Office of HM Paymaster General	6,289
Commercial banks and cash in hand	60
Balance at 31 March	<u>6,349</u>

The RCPO had no cash balances at 01 April 2005.

14. Creditors**14(a) Analysis by type**

	<u>2005/06</u>	<u>2004/05</u>
	£000	Restated £000
Amounts falling due within one year:		
Payroll Creditor	1,402	–
Other taxation and social security	413	–
Trade Creditors	471	–
Other Creditors	–	254
Accruals: Administration	617	–
Accruals: Programme	11,783	9,099
Amounts issued from the Consolidated Fund for supply but not spent at year end	6,326	–
Consolidated Fund excess receipts due to be paid to the Consolidated Fund – received	23	–
	<u>21,035</u>	<u>9,353</u>

14(b) Intra-Government Balances

	<u>2005/06</u>
	£000
Balances with other central government bodies	8,164
Balances with bodies external to government	12,871
At 31 March	<u>21,035</u>

RCPO has no creditor balances falling due after more than one year.

15. Provisions for liabilities and charges

RCPO has not provided amounts to cover legal costs payable as a result of adverse court judgements.

16. General Fund

	<u>2005/06</u>
	£000
Balance at 1 April 2005	(9,323)
Net Parliamentary Funding Drawn Down	37,788
Year End Adjustment Supply Creditor/(Debtor) – current year	(6,326)
Net Transfer from Operating Activities Net Operating Cost CFERs repayable to Consolidated Fund	(33,903) (23)
Non cash charges Cost of Capital Auditor's remuneration	(487) 60
Balance at 31 March 2006	<u>(12,214)</u>

17. Notes to the Cash Flow Statement**17(a) Reconciliation of operating cost to operating cash flows**

	Notes	<u>2005/06</u>
		£000
Net operating cost	3	(33,903)
Adjustments for non-cash transactions	8	(427)
Increase in debtors	12a	(2,442)
Increase in creditors	14a	11,682
Less: movements in creditors relating to items not passing through OCS	14a	(6,349)
Net cash outflow from operating activities		<u>(31,439)</u>

17(b) Analysis of capital expenditure and financial investment

The Department did not make any capital or financial investments during 2005/06.

17(c) Analysis of capital expenditure and financial investment by Request for Resources

The Department did not make any capital or financial investments during 2005/06.

17(d) Analysis of financing

	<u>2005/06</u>
	£000
From the Consolidated Fund (Supply) – current year	37,788
Net financing	<u>37,788</u>

17(e) Reconciliation of Net Cash Requirement to increase/(decrease) in cash

		<u>2005/06</u>
		£000
Net Cash Requirement	4	(31,462)
From the Consolidated Fund (Supply) – current year	17d	37,788
Amounts due to the Consolidated Funds received but not paid over		23
Increase in cash		<u>6,349</u>

18. Commitments under leases**18.1 Operating leases**

	<u>2005/06</u>
	£000
Obligations under operating leases comprise:	
Land and buildings	–
Other:	
Expiry within one year	13
Expiry after 1 year but not more than 5 years	66
Expiry thereafter	–
	<u>79</u>

18.2 Finance leases

RCPO has no obligations under finance leases.

19. Commitments under PFI contracts

The Revenue and Customs Prosecution Office is not party to any PFI contracts.

20. Losses and Special payments**20(a) Losses Statement**

There are no material losses.

20(b) Special Payments

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

21. Financial instruments

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the largely non-trading nature of its activities and the way in which government departments are financed, RCPO is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. RCPO has very limited powers to borrow or invest surplus funds. Financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the department in undertaking its activities.

As permitted by FRS 13, debtors and creditors which mature or become payable within 12 months from the balance sheet date have been omitted from the currency profile.

Liquidity risk

The RCPO's net revenue resource requirements are financed by resources voted annually by Parliament. RCPO is not therefore exposed to significant liquidity risks.

Interest rate and foreign currency risk

RCPO is not exposed to any significant interest rate or foreign currency risks.

22. Contingent liabilities disclosed under FRS 12

As at 31 March 2006, the RCPO has identified 20 cases where the Department may face liability for legal costs and compensation to defendants and 3rd parties. Receivership costs may also be incurred in those cases which have involved the forfeiture of assets. The RCPO has estimated that these cases may, subject to the Judge's ruling, result in overall settlements of £5,786,000.

Costs awarded against the Department may be contested on appeal.

23. Contingent Liabilities not required to be disclosed under FRS12 but included for parliamentary reporting and accountability

There were no contingent liabilities of this nature at year-end.

24. Related Party Transactions

There have been a small number of transactions with other government departments and other central government bodies. The majority of these transactions have been with HM Revenue and Customs and relate to the provision of payroll, information technology and accommodation services.

During the year the RCPO paid Mrs M Partridge, an external consultant, £27,775 to undertake a review of the RCPO's requirements for HR policies and systems and to implement changes to these where necessary. Mrs Partridge is the spouse of RCPO's Chief Operating Officer. The Chief Operating Officer manages the Department's corporate services, overseeing the range of business services required by RCPO, such as human resources, finance and information systems.

None of the remaining Board members, key managerial staff or other related parties undertook any material transactions with the RCPO during the year.

25. Post Balance Sheet Events

The RCPO suffered neither adjusting nor non-adjusting post balance sheet events.

26. Machinery of Government

The creation of RCPO in April 2006 was a Machinery of Government change. It provided for the full continuity of those prosecuting services that had previously been conducted by HM Customs & Excise and the Inland Revenue.

27. Prior Period Adjustments

The prior period adjustments shown in Note 3 and Note 4 reflect two amendments which were made to comparative figures to ensure that comparable information was provided to the reader of the accounts.

The RCPO undertook a detailed review of outstanding counsel fee liabilities. This included an extensive exercise to identify additional liabilities which had not been invoiced by legal chambers and which had not been recognised by the RCPO or its precursor bodies. As a result, the opening balance in respect of the counsel fee accrual has been adjusted to reflect this additional information and to provide comparative information. The counsel fee accrual at 31st March has been increased from £4,166,596 to £9,099,109. A corresponding increase is recorded in the comparative balances on the operating cost statement.

In addition, the RCPO reviewed the accounting treatment adopted in respect of potential court costs awarded against the RCPO. The RCPO considered these costs in accordance with FRS 12: 'Provisions, Contingent Liabilities and Contingent Assets'. As a result of this consideration, it was decided that on the basis of the opinion of experts, the RCPO did not have a present obligation as a result of past event and for which a reliable estimate of the amount of the obligation could be identified. Therefore, it was not considered appropriate to record a provision in respect of potential court costs awarded against the RCPO. These are disclosed as contingent liabilities. In the previous year, the precursor bodies had established a similar provision for which it was agreed that the RCPO would make a cash settlement. A cash settlement of £2,050,000 was made during 2005/06 and the corresponding expenditure has been recorded in the operating cost statement. An opening provision has not been recorded.

The net impact of the prior period adjustments is £2,882,513. The resource implications of these prior period adjustments are included with the net resource outturn as current year transactions. This approach is for the purposes of parliamentary control and it ensures that the resource and cash transactions are properly reported to Parliament.

28. Third-party assets

RCPO held no monetary assets in interest bearing accounts at the balance sheet date.

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