

Foreign and Commonwealth Office

Resource Accounts 2005-06

(For the year ended 31 March 2006)

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Contents

	Page
Annual Report	3
Statement on Internal Control	16
Statement of Accounting Officer Responsibilities	19
Certificate of the Comptroller and Auditor General	20
Accounts	
Statement of Parliamentary Supply	22
Operating Cost Statement	23
Statement of Recognised Gains and Losses	24
Balance Sheet	25
Cash Flow Statement	26
Statement of Operating Costs by Aim and Objectives	27
Notes to the accounts	28
Report of the Comptroller and Auditor General	
Theft and Misuse of Satellite Phones in Iraq	57

Annual Report

These accounts have been prepared in accordance with directions given by HM Treasury in pursuance of the Government Resources and Accounts Act 2000.

1. Scope

1.1 Entities within the Departmental Accounting Boundary

The Foreign and Commonwealth Office (FCO) includes Wilton Park Executive Agency within its Departmental Accounting Boundary and the accounts of this agency are consolidated within these Resource Accounts.

1.2 Associated Public Corporations and Non-Departmental Public Bodies (NDPB) outside the Departmental Accounting Boundary

FCO programmes include payments to:

- BBC World Service (Public Corporation).
- British Council (Charity established by Royal Charter, Public Corporation).
- The Westminster Foundation for Democracy (Executive NDPB).
- The Marshall Aid Commemoration Commission (Executive NDPB).
- Certain other small Non-Departmental Public Bodies (NDPBs).

Further details are included in the Notes to the Accounts.

2. Management Commentary

2.1 The role of the FCO

The FCO is a network of people working in the UK and in over 250 diplomatic Posts abroad. Its purpose is to work for UK interests in a safe, just and prosperous world. To do that the FCO:

- develops and delivers the Government's international policies through its global network of posts and close co-operation with other government departments.
- identifies and influences developments overseas which affect the UK's international priorities and the Government's domestic policy objectives.
- provides consular, visa and commercial services to British nationals, business and others.

2.2 FCO priorities

The FCO White Paper "Active Diplomacy for a Changing World: The UK's International Priorities" was published on 28 March 2006. The full document is available on www.fco.gov.uk/international/priorities. Building on the FCO's strategy of 2003, the Paper analysed the changes we are likely to see in the world over the next decade and the UK's role in the international system; and it identified the international priorities for the UK over that period. The Strategic International Priorities (SPs) were further updated in June 2006, with the addition of an SP on climate change. The FCO's settlement under the 2007 Comprehensive Spending Review will determine the resource levels that the FCO is able to bring to bear on the longer-term delivery of these priorities. Following wide consultation across Government (and beyond), the current Strategic Priorities were readdressed and the following were identified as being the highest international priorities for the UK over the next five to ten years:

- SP 1: Making the world safer from global terrorism and weapons of mass destruction.
- SP 2: Reducing the harm to the UK from international crime, including drug trafficking, people smuggling and money laundering.
- SP 3: Preventing and resolving conflict through a strong international system.
- SP 4: Building an effective and globally competitive EU in a secure neighbourhood.

- SP 5: Supporting the UK economy and business through open and expanding global economy, science and innovation and secure energy supplies.
- SP 6: Achieving climate security by promoting a faster transition to a sustainable, low carbon global economy.
- SP 7: Promoting sustainable development and poverty reduction underpinned by human rights, democracy, good governance and protection of the environment.
- SP 8: Managing migration and combating illegal immigration.
- SP 9: Delivering high-quality support for British nationals abroad, in normal times and in crises.
- SP 10: Ensuring the security and good governance of the UK's Overseas Territories.

The FCO Board of Management is responsible for delivering the Strategic Priorities and Directors General are responsible for making progress towards individual targets. In turn, the FCO's Strategic Priorities determine objectives and business plans throughout the organisation in the UK and overseas.

The international events and foreign policy developments which affected the FCO's performance in 2005-2006 included the UK's Presidencies of the EU and G8, Iraq's reconstruction and political transition, negotiations with Iran over its nuclear programme, and our response to major terrorist and consular incidents, including the bombings in Egypt and Hurricane Katrina. More information can be found in the FCO's Departmental Report for 1 April 2005 to 31 March 2006 – see Chapter 1, Highlights of the Year, for an overview.

2.3 Key relationships

The key relationships of the FCO are with:

- foreign governments and international organisations, who we seek to influence and work in partnership with in order to promote UK interests.
- Parliament, and especially the Foreign Affairs Select Committee, which takes a close interest in our work.
- other UK government departments – the March 2006 White Paper represents a clear cross – government agenda.
- customers of services provided by the FCO – these include British nationals travelling or living overseas, UK companies seeking to do business abroad and foreign nationals seeking to enter the UK.
- partners in service delivery – key among these are UKvisas, UK Trade and Investment (UKTI), public diplomacy partners (e.g. BBC World Service, British Council) and consular partners (travel industry, insurance industry, certain Non-Governmental Organisations (NGO's)).
- broader stakeholders – including international NGOs, faith communities, the media and the wider public.

2.4 Public Service Agreements

The FCO publishes progress reports twice yearly on meeting its Public Service Agreement (PSA) targets:

- The Autumn Performance Report 2005 (Command Paper 6709) contained a summary of progress between April and September 2005 and was published in December 2005. The report is available at www.fco.gov.uk.
- The Departmental Report 2005-06 (Command Paper 6823) was published in May 2006 and contained progress assessments for all PSA targets the FCO was working towards between April 2005 and March 2006. The report is available at www.fco.gov.uk.
- Between March 2005 and April 2006, the FCO was working towards two different sets of PSA targets. These were the twelve targets set during the 2002 spending review (SR 2002) covering 2003-2006 which overlap with the nine targets set during the 2004 spending review (SR 2004) covering 2005-2008.

- Progress assessments were made using scorecards. These are developed from PSA technical notes which detail the full PSA text and contain background information and performance indicators for all PSA targets. There are separate technical notes for the 2002 and 2004 targets; unclassified versions can be viewed at www.fco.gov.uk.
- Progress assessments for the nine 2005-2008 PSA targets were all rated as On course – Amber.

2.5 Comparison of 2005-06 Outturn against Estimate

The FCO is voted resources under two main headings, Request for Resources 1 (RfR1): Promoting internationally the interests of the UK and contributing to a strong world community, and Request for Resources 2 (RfR2): Conflict prevention.

Net total resources expended was £1,900,852,000 against the Estimate of £2,019,224,000, resulting in an overall underspend of resources of £118,372,000. RfR 1 was underspent by £55,906,000 and RfR 2 was underspent by £62,466,000.

Note 2 to the Accounts shows the expenditure by Estimate line. Explanations of underspends exceeding 10% on individual lines are shown below.

- Expenditure on RfR1 Line D: Accruals consequences of DEL programmes: administration was £42,306,000 below Estimate. This is due to the fact that there were £34,950,000 of impairment reversals, a figure which could not have been known at the time the Estimate was calculated. The Estimate assumed that all the expenditure on capital works in Iraq would be written off in 2005-06. However, it has since been agreed that it is more appropriate to write off this expenditure over three years.
- Non-budget expenditure RfR1 Line G: Re-imburement of certain duties, taxes and licence fees was £1,845,000 below Estimate due to the FCO receiving fewer claims than forecast.
- Expenditure on RfR2 Line C: Sub-Saharan Africa – Peacekeeping was £23,516,000 below Estimate. This was largely due to underspends on UN peacekeeping missions in the Sudan and the Democratic Republic of Congo.
- Expenditure on RfR2 Line D: Global – Peacekeeping was £34,756,000 below Estimate. This was due to underspends on peacekeeping missions in the Balkans.

Capital expenditure was £41,207,000 below Estimate. This was due to slippage on Estate and ICT projects, in particular the Future Firecrest project.

2.6 Resources available to the FCO

Financial

- The FCO has the following agreed budgets for 2006-07 and 2007-08. The 2006-07 Conflict Prevention figure is likely to increase by around £100m in the Spring Supplementary Estimate. The 2007-08 figure does not include any of the transfers between Global Conflict Prevention Pool Partners (FCO, MOD & DfID) which will take place in 2007-08 or the peacekeeping funds which will be allocated by Treasury in-year.

	2006-07		2007-08	
	Resource £m	Capital £m	Resource £m	Capital £m
<i>RfR1</i>				
FCO Administration	827	110	833	108
FCO Programme	300	–	302	–
BBC World Service	209	31	215	31
British Council	180	8	185	8
Departmental Unallocated Provision	54	1	72	1
<i>RfR2</i>				
Conflict Prevention	248	–	74	–
Total Resource	<u>1,818</u>	<u>150</u>	<u>1,681</u>	<u>148</u>

Assets

- The FCO's Departmental Investment Strategy was published in April 2005 (available at www.fco.gov.uk.) It gives details of the FCO's Asset base and our strategies for the Estate, Information & Communication Technology (ICT) and Security investment.
- The present home estate includes buildings in London (Main Building and Old Admiralty Building), Croydon (Apollo House) and Milton Keynes (Hanslope Park).
- The current overseas estate consists of some 4,600 properties, ranging from Embassy buildings to staff accommodation and other facilities. The overseas estate accommodates not only FCO staff, but also personnel from other government departments and public sector organisations.
- The FCO use Key Performance Indicators (KPIs) to inform our estate decisions including the balance between leased and owned properties. In terms of capital value, an estimated 60% of our overseas estate is owned and 40% leased.

People

- The FCO has a total staff of around 16,000, of whom 6,000 are recruited in the UK and 10,000 recruited overseas. We plan to make efficiency savings of 310 UK staff over the period from 2005 to 2008. Staff numbers are planned to increase overall because there is an expected increase of 500 over the same period in staff from consular and visa services. These services are expected to be self-funded across Government as a whole. Information on Human Resources policies can be found in Chapter 9 of the FCO Departmental Report.

2.7 Risk

The FCO's Risk & Control Framework is described in the Statement of Internal Control.

2.8 Key Contractual Arrangements

The FCO has the following business contracts which are considered to be essential to the running of our business:

Company	Type of Contract
3M – Ait	Biometric passports
American Express	Travel
Atkins	Programme management office (UKvisas)
Cap Gemini	Prism (FCO's financial, HR, procurement & payroll system)
Computacenter/Sun	Hardware and software support (UKvisas)
Control Risks Group	Security guarding services for certain overseas Posts
DDAO (DHL)	Airfreight and logistics contract
Fujitsu	Software and hardware support (UKvisas)
Global Crossing UK	Provision of FTN (telecommunications network)
Hewlett Packard	Future Firecrest (ICT infrastructure)
International SOS	Healthcare management
Pegasus	Security guarding services in the UK
SPSL	Vignettes for visas
Steria Limited	Hardware and software (UKvisas)

The FCO's largest ICT project is the contract with Hewlett Packard (HP) for the management, support and development of its global ICT desktop infrastructure, 'Future Firecrest'. Under the 7-year contract, the private sector partner will have overall responsibility for the end-to-end delivery of the desktop services to a pre-agreed level of performance.

2.9 Contingent Liabilities

Note 31.1 to the Resource Accounts states that the FCO has £21,708,000 of contingent liabilities which are disclosed under parliamentary reporting requirements but which are not disclosed under FRS12 as the likelihood of payment resulting is remote. These relate to the indemnity cover for British Council exhibitions overseas. The present arrangements for government indemnities for works of art loaned to British Council overseas were agreed with the Treasury and the British Council in 2003 with the aim of minimising risk to the government reserve and ensuring alignment of such activities with overall UK public diplomacy priorities. The key features of the arrangement are:

- The maximum total liability available to the Council at any one time is £50 million.
- The £50 million limit does not include “high value” exhibitions (i.e. single exhibitions valued at £30 million or over), which are treated separately. In the case of “high value” exhibitions the Council will submit proposals at least two years in advance.
- For all exhibitions the Council will have to show evidence of having approached the government of the host country for cover and of having sought sponsorship for commercial insurance.

2.10 Sustainable Development Strategy

The FCO Sustainable Development Strategy was published in March 2005. It set out how the FCO will help deliver UK’s international priorities on sustainable development through its network of diplomatic Posts overseas; through working with international organisations such as the EU, UN and G8; through international partnerships; through working with the governments of the UK’s Overseas Territories; and through the FCO’s own corporate activities and estate management. It set sustainable development targets for the FCO for 2005-06, and longer term objectives for 2005 to 2008.

In March 2006 the FCO carried out a review of progress towards meeting the targets and objectives in the Strategy. For many of the achievements listed the FCO is not the lead government department, but it plays a crucial role – through its network of Posts overseas – in building support for UK positions on sustainable development issues. The full text of the Sustainable Development Strategy and a paper summarising the key achievements so far is available at www.fco.gov.uk/sustainabledevelopment.

2.11 Post Balance Sheet Events

FCO Services, the arm of the FCO supplying goods and services to the FCO and other organisations, was established as an Executive Agency within the FCO Accounting Boundary with effect from 1 April 2006, with the intention of moving to Trading Fund status by 1 April 2008.

3. Corporate Governance

3.1 The role of the FCO Board is to provide corporate leadership to the Department in delivering the policies and services decided by Ministers by:

- Ensuring the organisation delivers the Strategic Priorities and service delivery targets set by Ministers.
- Ensuring effective allocation and management of resources, in line with the Strategic Priorities.
- Communicating the FCO’s purpose, Strategic Priorities and vision to staff and other stakeholders.
- Monitoring and improving performance and accountability.
- Protecting and enhancing the FCO’s reputation for professionalism, effectiveness, integrity and efficiency.

3.2 The Board is made up of 12 members: the Permanent Under-Secretary of State (PUS), 5 Directors General, the Directors for Finance, Human Resources, and Strategy & Information, the Chief Executive of UKTI, and two independent Non-Executive Directors. Board members are appointed by the No 1 Board (senior appointments process). A Non-Executive director sits on the No 1 Board, whose decisions are ratified by the Secretary of State.

3.3 The Board agrees opening budget allocations and, as financial management systems improve with Prism, has begun reviews of monthly Key Performance Reporting (including budgets, expenditure-to-date, resource accounting and position management), and financial performance at mid year and year end.

3.4 We use external agencies to recruit independent non-executive Board members openly and transparently. They are appointed by the PUS, after the approval of the Secretary of State. Our Non-Executive Directors are involved in a range of FCO corporate activities: one chairs the Audit and Risk Committee and the other sits on the No1 Board. Both have also visited a range of Posts.

3.5 Improved induction procedures are in place for new Board members, including non-executives, and for newly appointed members of FCO senior management.

3.6 FCO Ministers' portfolios and responsibilities are set out in regular all-staff communications. The Foreign Secretary, joined by other Ministers as appropriate, holds quarterly meetings with the Board, to set strategic direction.

3.7 The Board has agreed and published a schedule of reserved decisions. The Board has five sub-committees on Human Resources, Finance, Departmental Change, Investment and Audit & Risk. These act as a filter for the Board, taking executive decisions on issues that do not need to go to the Board, and advising on issues that do. All Board sub-committees are chaired by a full Board member and have published terms of reference setting out their delegated authority. The Board receives a monthly record of sub-committee decisions, and Board sub-committee chairs regularly brief the full Board on the work of their committees. Directors are executive members of the sub-committees. There are also meetings for all Directors with the whole Board at least quarterly.

3.8 The Board reports on how it operates through the Board Assessment, piloted in June 2005. It will now run annually, measuring performance against published objectives and business indicators. The Board regularly considers the FCO's corporate governance structures as a whole: these were reviewed and substantially changed in mid-2005, and then examined and endorsed by the Internal Audit Department (IAD) at the end of that year.

3.9 The Audit and Risk Committee (ARC) was created in 2002 to provide support to the Board. It is chaired by an independent Non-Executive Director and maintains a balance of executive/non-executive members. The committee's remit is strategic as well as technical and accounts based. It has an important responsibility in reviewing the work of IAD and the National Audit Office (NAO) and providing advice on the adequacy of controls in place – both to the Board and personally to the PUS as the FCO's Accounting Officer. The ARC takes the lead on counter-fraud measures (e.g. whistleblowing) and the work of the FCO's dedicated counter-fraud teams, the Financial Compliance Unit (FCU) and UKvisas Operational Integrity Section (OIS). The ARC encourages an appropriate and proportionate approach to handling risks of all kinds, that balances the extent of the controls with the magnitude of the risk they are designed to address. Formal terms of reference for the ARC are available on FCO web site (www.fco.gov.uk) together with the Committee's membership.

3.10 A Senior Leadership Forum (SLF), made up of the Board, the most senior Heads of Mission, and a representative of small Posts, meets every six months to discuss strategic and corporate policy issues, and also comments on Board papers. The purpose of the SLF is to promote corporate leadership within the FCO network.

3.11 The Board holds regular meetings with the Boards of key partner Government Departments. A Board member meets regularly with senior representatives of the British Council and BBC World Service to maintain strategic and financial oversight of the largest FCO Non-Departmental Public Bodies.

4. Senior Management

4.1 Ministers

The Secretary of State for Foreign and Commonwealth Affairs is supported by five Ministers of State. Ministerial portfolios and responsibilities during the year were as follows:

Foreign Secretary: The Rt Hon Jack Straw MP

Overall responsibility for the work of the Foreign and Commonwealth Office; Communications; Parliamentary Relations; Strategy and Information; Legal Advisers; Information Management; Research Analysts; Honours; Whitehall Liaison Department.

Minister of State: The Rt Hon Baroness Symons of Vernham Dean, Liz Symons (to May 2005).

Middle East; International security; Defence; Consular; Human Resources.

Minister for Africa, Americas and Consular: Lord Triesman (from May 2005)

Responsibility for all FCO business in the House of Lords; Africa; Latin America, the Caribbean and Overseas Territories; the Commonwealth; UKvisas; Migration Policy; Consular Policy (casework to be handled according to geographical responsibilities); Public Diplomacy, including the British Council and BBC World Service.

Minister of State: Rt Hon Douglas Alexander MP
Trade and Investment (UKTI); Trade policy (DTI); Export Credits Guarantee Department; Economic policy; South East Asia; South Asia; North America.

Minister for the Middle East: Dr Kim Howells MP (from May 2005)
Middle East and North Africa; Gulf States, Iran, Afghanistan and South Asia; Iraq; Engaging with the Islamic World; UN; Drugs and International Crime; Counter-Terrorism; Counter-Proliferation.

Minister for Trade, Investment and Foreign Affairs: Ian Pearson MP (from May 2005)
Trade and Trade Policy; UKTI; Economic Policy, including Science and Technology; Global Issues (including sustainable development, energy, climate change); Human Rights; North America; South East Asia, East Asia (China and Japan) and Oceania.

Minister of State: Dr Denis MacShane MP (to May 2005)
European Union; EU neighbourhood: Balkans; Ukraine, Belarus, Moldova.

Parliamentary Under-Secretary: Bill Rammell MP (to June 2005)
Afghanistan; International crime and drugs; UN issues and conflict prevention; Russia, Central Asia and South Caucasus; East Asia and the Pacific; Global issues; Latin America and the Caribbean; Overseas Territories; London 2012 Olympic bid.

Parliamentary Under-Secretary: Chris Mullin MP (to May 2005)
Africa; Commonwealth; Migration policy (including immigration and asylum); UKvisas; Public diplomacy.

4.2 Senior Officers

The composition of the FCO's Board of Management during the year was as follows:

Sir Michael Jay
Chairman of the Board, Permanent Under-Secretary and Head of the Diplomatic Service

Andrew Cahn (from March 2006)
Chief Executive, UK Trade and Investment

Sir Stephen Brown (until December 2005)
Chief Executive, UK Trade and Investment

John Sawers
Director General – Political

Richard Stagg
Director General – Corporate Affairs

Martin Donnelly
Director General – Economic

David Richmond
Director General – Defence and Intelligence

Nicola Brewer
Director General – Europe

Anne Pringle
Director – Strategy and Information

David Warren
Director – Human Resources

Ric Todd
Finance Director

Alistair Johnston
Non-Executive Director

Alison Platt
Non-Executive Director

Lucy Neville-Rolfe (to April 2005)
Non-Executive Director

4.2 Senior Official Appointments

The Permanent Under-Secretary of State and Head of the Diplomatic Service was appointed by the Prime Minister with the concurrence of the Secretary of State and on the recommendation of the Diplomatic Service Appointments Board. Other members of the Board of Management were appointed by the Secretary of State on the advice of the Permanent Under-Secretary and the Appointments Board. The Executive appointments are for an indefinite term: the rules for termination are set out in chapter 11 of the Civil Service Management Code. Non-Executive Directors are appointed for two years, once renewable.

5. Remuneration report

5.1 Remuneration policy

Ministers' remuneration is set by the Ministerial and Other Salaries Act 1975 and the Ministerial and Other Pensions and Salaries Act 1991.

The salaries of the Permanent Under-Secretary and the Chief Executive of UK Trade and Investment are set by the Prime Minister on the recommendation of the Permanent Secretaries' Remuneration Committee. The Committee's membership and terms of reference were announced by the then Prime Minister on 9 February 1995.

The salaries of the next ten most senior Diplomatic Service Officers are set by the Secretary of State on advice from the Grade 1 Ambassadors' Remuneration Committee.

The salaries of other members of the Management Board are determined by the Secretary of State on advice from the Review Body on Senior Salaries and the Permanent Under-Secretary.

5.2 Salary and pension entitlements of Ministers and senior management

The information given above relates to the Ministers and senior managers of the FCO. Equivalent information relating to the Wilton Park Executive Agency is given in its own accounts.

Remuneration

Ministers

	2005-06		2004-05	
	Ministerial Salary <i>£000</i>	Benefits in kind <i>£000</i>	Ministerial Salary <i>£000</i>	Benefits in kind <i>£000</i>
The Rt Hon Jack Straw MP	70-75	–	70-75	–
The Rt Hon Baroness Symons of Vernham Dean				
Liz Symons	10-15	–	105-110	–
Lord Triesman	55-60	–	–	–
The Rt Hon Douglas Alexander MP	35-40	–	15-20	–
Dr Kim Howells MP	30-35	–	–	–
Ian Pearson MP	30-35	–	–	–
Dr Denis MacShane MP	0-5	–	35-40	–
Bill Rammell MP	0-5	–	25-30	–
Chris Mullin MP	0-5	–	25-30	–

In addition to the above, severance payments were made to Liz Symons, Denis MacShane and Chris Mullin.

Members of the Board of Management

	2005-06		2004-05	
	Salary	Benefits in kind	Salary	Benefits in kind
	£000	£000	£000	£000
Sir Michael Jay	220-225	–	195-200	–
Andrew Cahn*	–	–	–	–
Sir Stephen Brown	100-105	–	130-135	–
John Sawers	140-145	–	135-140	–
Richard Stagg	165-170	–	140-145	–
Martin Donnelly	115-120	–	110-115	–
David Richmond	105-110	–	70-75	–
Nicola Brewer	100-105	–	60-65	–
Anne Pringle	90-95	–	45-50	–
David Warren	100-105	–	90-95	–
Ric Todd	120-125	–	110-115	–
<i>Non-Executive:</i>				
Alistair Johnston	10-15	–	0-5	–
Alison Platt	10-15	–	0-5	–
Lucy Neville-Rolfe (to April 2005)	–	–	–	–

*Andrew Cahn is remunerated by the Department of Trade and Industry and relevant disclosures can be found in the Resource Accounts of that Department for 2005-06.

Salary

'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.

This report is based on payments made by the Department and thus recorded in these accounts. In respect of Ministers in the House of Commons, departments bear only the cost of the additional ministerial remuneration; the salary for their services as an MP and various allowances to which they are entitled are borne centrally. However, the arrangement for Ministers in the House of Lords is different in that they do not receive a salary but rather an additional remuneration, which cannot be quantified separately from their ministerial salaries. This total remuneration, as well as the allowances to which they are entitled, is paid by the Department and is therefore shown in full in the figures above.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Inland Revenue as a taxable emolument. There were no benefits in kind for the year.

Pension benefits**Ministers**

	Accrued pension at age 65	Real increase in pension at age 65	CETV at 31 March 2006	CETV at 31 March 2005	Real increase in CETV
	£000	£000	£000	£000	£000
The Rt Hon Jack Straw MP	15-17.5	0-2.5	250	211	23
The Rt Hon Baroness Symons of Vernham Dean					
Liz Symons	12.5-15	0-2.5	131	126	1
Lord Triesman	2.5-5	0-2.5	41	23	11
The Rt Hon Douglas Alexander MP	2.5-5	0-2.5	31	24	3
Dr Kim Howells MP	5-7.5	0-2.5	89	70	12
Ian Pearson MP	2.5-5	0-2.5	33	25	4
Dr Denis MacShane MP	2.5-5	0-2.5	38	36	1
Bill Rammell MP	0-2.5	0-2.5	16	15	1
Chris Mullin MP	2.5-5	0-2.5	29	28	1

Ministerial pensions

As the House of Commons and House of Lords meet the Exchequer contribution to the cost of pension provision for Ministers, the pension details are included on a 'for information' basis.

Pension benefits for Ministers are provided by the Parliamentary Contributory Pension Fund (PCPF). The scheme is statutory based (made under Statutory Instrument SI 1993 No 3253, as amended).

Those Ministers who are members of Parliament are also entitled to an MP's pension under PCPF. The arrangements for Ministers provide benefits on an 'average salary' basis with either a 1/50th or 1/40th accrual rate, taking account of all service as a Minister. (The accrual rate has been 1/40th since 15 July 2002 but Ministers, in common with other members of the PCPF, can opt to increase their actual rate from 5 July 2001, or retain the former 1/50th accrual rate and the lower rate of employee contribution).

Benefits for Ministers are payable at the same time as MPs' benefits become payable under the PCPF or, for those who are not MPs, on retirement from ministerial office on or after age 65. Pensions are increased annually in line with changes in the Retail Prices Index. Members pay contributions of 6% of their ministerial salary if they have opted for the 1/50th accrual rate. Those members who have opted for the 1/40th accrual rate are required to pay an increased contribution. The rate was increased from 9% to 10% from 1 April 2004. There is also an employer contribution paid by the Exchequer representing the balance of cost. This is currently 24% of the ministerial salary.

The Cash Equivalent Transfer Value (CETV)

This 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. It 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 pension benefits they have accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total ministerial service, not just their current appointment as a Minister. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

The factors used to calculate the CETV were revised with effect from 1 April 2005 on the advice of the scheme actuary. The CETV figure for 31 March 2005 has been recalculated and restated using the new factors on the same basis as the CETV figure for 31 March 2006.

The real increase in the value of the 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 Minister (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.

Members of the Board of Management

	Accrued pension at age 60 at 31 March 2006	Related lump sum at 31 March 2006	Real increase in pension at age 60	Related lump sum at age 60	CETV at 31 March 2006	CETV at 31 March 2005	Real increase in CETV
	£000	£000	£000	£000	£000	£000	£000
Sir Michael Jay	95-100	295-300	5-7.5	17.5-20	2,414	2,237	142
Andrew Cahn*	–	–	–	–	–	–	–
Sir Stephen Brown	70-75	–	2.5-5	–	1,518	1,413	69
John Sawers	45-50	135-140	2.5-5	7.5-10	933	818	62
Richard Stagg	35-40	110-115	2.5-5	7.5-10	759	664	52
Martin Donnelly	35-40	105-110	0-2.5	2.5-5	653	586	28
David Richmond	30-35	100-105	0-2.5	0-2.5	742	681	16
Nicola Brewer	25-30	80-85	0-2.5	2.5-5	537	478	26
Anne Pringle	30-35	90-95	0-2.5	5-7.5	648	566	45
David Warren	40-45	–	0-2.5	–	804	771	30
Ric Todd	25-30	75-80	0-2.5	2.5-5	457	404	26
<i>Non-Executive:</i>							
Alistair Johnston	–	–	–	–	–	–	–
Alison Platt	–	–	–	–	–	–	–
Lucy Neville-Rolfe (to April 2005)	–	–	–	–	–	–	–

*Andrew Cahn is remunerated by the Department of Trade and Industry and relevant disclosures can be found in the Resource Accounts of that Department for 2005-06.

5.3 Pensions

Details of the FCO's pension and early departure cost policies are included in the notes to the accounts. Present and past UK-based employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). Liability for payment of future benefits is a charge to the PCSPS and there is a separate scheme statement for the PCSPS as a whole. Pension arrangements for locally engaged staff have been established at certain posts overseas, and details of these schemes are included in the notes to the accounts.

Civil Service Pension

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 as per 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 CSP 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 Civil Service Vote has received a transfer payment commensurate to 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.

The factors used to calculate the CETV were revised with effect from 1 April 2005 on the advice of the scheme actuary. The CETV figure for 31 March 2005 has been recalculated and restated using the new factors on the same basis as the CETV figure for 31 March 2006.

Employees joining after 1 October 2002 could opt to open a partnership pension account, a stakeholder pension with an employer contribution. Two individuals retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £1,769.

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.

Other information

Pension benefits are provided through the Principal Civil Service Pension Scheme (PCSPS) which is an unfunded multi-employer defined benefit scheme but the FCO is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2003. Details can be found in the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk). For 2005-06, contributions of £38,296,497 were payable to the PCSPS (2004-05: £27,326,339) at one of four rates in the range of 16.2% to 24.6% of pensionable pay, based on salary bands. Rates will remain the same for the next year, subject to revalorisation of the salary bands. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

6. Public interest and other matters

6.1 Employment of People with a Disability

The Foreign and Commonwealth Office follows the Civil Service Code of Practice on the employment of people with a disability, which aims to ensure that there is no unfair discrimination on the grounds of disability and that access to employment and career advancement is based solely on ability, qualifications and suitability for the work.

6.2 Equal Opportunities

The Foreign and Commonwealth Office is an equal opportunities employer. Policies are in place to guard against unfair discrimination or barriers to employment and advancement. The Foreign and Commonwealth Office Equal Opportunity policy states that no staff should be exposed to unfair discrimination, including harassment, bullying or victimisation on any grounds, particularly gender, marital status, race, disability, religion or sexual orientation. The FCO aims to provide all staff with equality of opportunity in all aspects of their work. Employment and promotion are on merit. Staff

whose working patterns are atypical are assessed on exactly the same basis as those working full time. Equal opportunity considerations are at the core of FCO personnel policies.

6.3 Payment of Suppliers

The Foreign and Commonwealth Office follows the CBI Prompt Payment Code and aims to settle suppliers' accounts within 30 days. During 2005-06, this was achieved in 93% of cases (2004-05: 68%), which represents a return towards target (97%) after a temporary fall last year whilst a new IT system was being implemented. Figures are not available for overseas suppliers.

6.4 Disclosure of relevant audit information

There is no relevant audit information of which the auditors are unaware. As Accounting Officer I have taken all the steps appropriate to ensure that I am aware of relevant audit information, and to establish that the entity's auditors are aware of the information.

7. Auditors

The Comptroller and Auditor General is the statutory auditor for the accounts of the Foreign and Commonwealth Office.

Michael Jay
Accounting Officer
13 July 2006

Statement on Internal Control

1. Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the FCO's 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.

I discharge this responsibility in conjunction with Directors-General, Directors and Sub-Accounting Officers (SAOs) who head the FCO's overseas missions. The Department's Executive Agency and Non-Departmental Public Bodies (NDPBs) are also headed by Accounting Officers and overseen by FCO Directors as follows:

Sponsored Body	Accounting Officer	Responsible FCO Director
Wilton Park	Colin Jennings/Adam Noble	Anne Pringle
British Council	Sir David Green	Anne Pringle
BBC World Service	Nigel Chapman	Anne Pringle
Westminster Foundation for Democracy	David French	Philippa Drew/Stephen Pattison
Great Britain-China Centre	Calum MacLeod	Sebastian Wood
British Association for Central & Eastern Europe	Nicholas Jarrold	Dominick Chilcott/Anthony Smith
Marshall Aid Commemoration Commission	Jonathan Taylor	Steve Williams

My relationship with these Accounting Officers and Sub-Accounting Officers is set out in statements contained in the respective letters of delegation, Framework Document and Financial Memoranda.

The Foreign Secretary chairs quarterly meetings with the Board to set the strategic direction of the Office. These meetings have ad hoc agenda, but can be used for either Ministers or the Board to raise any risk management issue of concern. The Foreign Secretary can appoint a Minister to act as sponsor of specific major FCO projects or programmes.

2. 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 FCO 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. The system of internal control has been in place in the FCO for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

3. Capacity to handle risk

The FCO Risk Management Framework approved by the Board in 2003 aims to meet the risk management requirements of the Statement on Internal Control and to implement relevant recommendations in the Cabinet Office Strategy Unit's November 2002 report on "Risk: Improving government's capability to handle risk and uncertainty".

The FCO Risk Management Framework has been designed to spread best practice throughout the Department in a way that is relevant to the FCO, drawing on existing mechanisms, while also maintaining adequate audit trails.

In the last year the FCO has continued to make good progress in establishing and embedding risk management throughout the office. There is explicit leadership from senior management and the FCO's framework for managing risks has further evolved and improved. Conscious risk management

is becoming an increasingly integral part of how FCO business is done, in both policy and operational areas, and staff expertise is growing. Significant examples of progress include further development of the FCO's Top Risks Register, particularly work to rationalise and re-focus the strategic and operational risks presented to the FCO Board, and the establishment of the Risk in the Network structure and reporting cycle to improve capture and consideration of operational risks across the FCO's global network.

4. The risk and control framework

The system of internal control in the FCO is based on a framework of regular management information, financial regulations, administrative procedures including segregation of duties, and a system of delegation and accountability. In particular, it includes:

- a Board which meets regularly to consider the strategic direction of the FCO and the operational requirements for meeting its strategic objectives;
- reports from the Audit and Risk Committee advising me on a number of aspects of internal control and risk management;
- regular reports from managers on performance against key strategic performance targets and the management of key risks to achieving these;
- comprehensive budgeting systems with annual budgets;
- procedures to review and agree the budgets, which include efficiency savings; and
- clearly defined capital investment control guidelines.

In addition, the FCO Risk Management Framework has five main components:

1. A Top Risks Register (TRR) for which named Board-level owners of top risks complete risk assessments (High / Medium / Low) for the risks for which they are responsible. The Audit and Risk Committee and FCO Board now review the register regularly;
2. Subsidiary Risk Registers, underpinning the TRR, which have been incorporated into the FCO's Business Planning system and into Programme and Project Management, and are regularly reviewed and updated;
3. Internal Audit Department (IAD) facilitates a Home and Overseas Self-Audit package of control risk self-assessment for all FCO Directorates and a large number of overseas Posts;
4. Risk management modules are delivered on relevant training courses. Financial Planning and Performance Department (FPPD) has developed a core script from which course presenters may draw, to ensure consistency of vocabulary and approach; and
5. A standard "risks" paragraph heading in the FCO Submission Template. This is to help ensure that risks are adequately addressed in policy submissions.

The Finance Director, supported by Financial Planning and Performance Department, works with the Audit and Risk Committee and Board on the practical application of risk management across the FCO's implementation planning, both to achieve strategic objectives and carry out projects with a Department-wide impact. This work includes determining risk tolerance levels where appropriate. The generic risk priorities for the period covered by this Statement on Internal Control were: financial control systems, security (both of staff and physical assets); ICT project risk; and responsiveness to international crises, whether consular (e.g. tsunami) or political in nature.

The FCO's exposure to foreign currency risk can be significant because of the nature of its business and geographical presence. Net expenditures denominated in foreign currency constitute a minor part of total expenditures. To manage exposure risks, the FCO has an Overseas Price Movements (OPM) mechanism that is designed to maintain its purchasing power at a level equivalent to that of Home Departments. Further details are provided in Note 29 to these accounts.

Building on the work begun with Africa Directorate's Posts "at risk" register Director General Corporate Affairs has developed a regular, coherent system of capturing and managing operational risks from all overseas posts. This Risk in the Network initiative requires posts to report top operational risks in specified categories to regional directors on a quarterly basis. Directors review,

adjust and submit consolidated returns to the centre. The first returns, from January and April 2006, indicate that the system is working well and has helped to highlight risks that may otherwise have received less attention.

5. 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 internal auditors, other assurance providers, the executive managers within the FCO 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 by the Board and the Audit and Risk Committee on the implications of the result of my review of the effectiveness of the system of internal control and plans to address identified weaknesses and ensure continuous improvement of the system is in place.

The FCO Internal Audit Department operates to Government Internal Audit Standards. The work of Internal Audit is informed by an analysis of the risk to which the FCO is exposed, and annual internal audit plans are based on this analysis. The analysis of risk and the internal audit plans are endorsed by the FCO's Audit and Risk Committee and approved by me. The FCO Audit and Risk Committee also regularly reviews the Board's Top Risks Register. The Committee is chaired by a Non-Executive Director and will achieve a majority non-executive membership in 2006-07. The committee discharges its responsibilities in accordance with approved terms of reference, which are available on the FCO web site at www.fco.gov.uk

The Head of Internal Audit reports to me, at least annually, on internal audit activity in the FCO. The report includes the Head of Internal Audit's independent opinion on the adequacy and effectiveness of the FCO's systems of governance, risk management and internal control, together with recommendations for improvement.

The FCO also has a Financial Compliance Unit and a UKvisas Operational Integrity Section. Their main role is to investigate actual or suspected irregularity or fraud. Various other functional departments perform a compliance-monitoring role with regard to their respective areas of responsibility.

In addition to this, the Board has an Assurance Map of services, both internal and external to the FCO, which contribute to the review of the effectiveness of the system of internal control, but which are outside of the scope of the Audit and Risk Committee. These include: health and safety, security and public appointments. Where appropriate, reports arising from these assurance providers are considered by the Board.

Following the 2003 bombing of the Consulate General at Istanbul, the FCO board commissioned a review of the way the FCO manages security at our overseas Posts. In line with the review's recommendations, the FCO developed a more effective risk management process tool that takes into account the threat from terrorism, the vulnerabilities of the Post and the assets held at Post. Each Post is given a security score and as further security measures are completed, the score is adjusted.

My review of the effectiveness of the system of internal control this year identified that further work was required to ensure the FCO has adequate UK business continuity planning arrangements in place by 31 March 2007, as part of the FCO's contribution to Continuity of Government.

My review has also highlighted the need for some improvement in compliance with established procurement procedures, using the IT system (Prism) to enforce these controls wherever possible, and for further improvements in the management of capital expenditure budgets, including quarterly monitoring by the Board's Investment Committee.

The issues that I reported last year in relation to the irregularity under investigation in respect of satellite mobile phones are the subject of a report from the Comptroller and Auditor General to the House of Commons and forms part of these Resource Accounts.

Michael Jay
Accounting Officer
13 July 2006

Statement of Accounting Officer Responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed the FCO to prepare for each financial year Resource Accounts detailing the resources acquired, held or disposed of during the year and the use of resources by the department during the year. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the FCO and of its net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year.

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

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

HM Treasury has appointed the Permanent Under-Secretary as Accounting Officer of the FCO. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the FCO's assets, are set out in the Accounting Officers' memorandum issued by HM Treasury and published in Government Accounting.

The Certificate of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of the Foreign and Commonwealth 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 part of the Financial Statements and 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 16 to 18 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 unaudited part of the Remuneration Report, and the Management Commentary. 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 International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. 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 judgments 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 and performed 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.

Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Department's affairs as at 31 March 2006 and the net cash requirement, net resource outturn, resources applied to objectives, recognised gains and losses and cashflows 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 HM 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.

Theft and Misuse of Satellite Phones in Iraq

My report on "Theft and Misuse of Satellite Phones in Iraq" is attached to these financial statements.

John Bourn
Comptroller and Auditor General

18 July 2006

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

Statement of Parliamentary Supply

Summary of Resource Outturn 2005-06 (£000s)

Request for resources	Note	2005-06 Estimate			2005-06 Outturn			Net total outturn compared with Estimate: Saving/ (excess)	2004-05 Outturn Net Total
		Gross expenditure	A-in-A	Net Total	Gross expenditure	A-in-A	Net Total		
RfR 1	2	1,981,334	(320,831)	1,660,503	1,925,428	(320,831)	1,604,597	55,906	1,470,605
RfR 2	2	358,721	–	358,721	296,255	–	296,255	62,466	291,418
Total resources	3	2,340,055	(320,381)	2,019,224	2,221,683	(320,831)	1,900,852	118,372	1,762,023
Non-operating cost A-in-A				(18,015)			(18,015)	–	(11,674)

Net cash requirement 2005-06 (£000s)

	Note	2005-06 Estimate	2005-06 Outturn	2005-06 Net total outturn compared with Estimate: Saving/ (excess)	2004-05 Outturn
Net cash requirement	4	1,966,510	1,859,283	107,227	1,668,083

Summary of income payable to the Consolidated Fund (£000s)

In addition to appropriations in aid shown above, the following income relates to the Department and is payable to the Consolidated Fund.

	Note	Forecast 2005-06		Outturn 2005-06	
		Income	Receipts	Income	Receipts
Non-supply income	5	3,601	3,601	10,410	10,410
Operating income – excess A-in-A	5	–	–	8,310	–
Non-operating income – excess A-in-A	5	–	–	156	–
		3,601	3,601	18,876	10,410

Cash receipts are shown in italics.

Further details of variances between Estimates and outturn are given in Note 2 to the accounts and explanations are in the Management Commentary.

The notes on pages 28 to 56 form part of these accounts.

Operating Cost Statement

for the year ended 31 March 2006 (£000s)

		2005-06			2004-05	
	Note	Staff costs	Other costs	Income	Total	Total
Administration costs						
Staff costs	7.1	454,349	–	–	454,349	417,090
Other administration costs	8	–	733,237	–	733,237	631,262
Operating income	10	–	–	(132,608)	(132,608)	(92,586)
Consular and UKvisas allocated to programme	8, 10	–	(299,774)	35,758	(264,016)	(208,143)
		<u>454,349</u>	<u>433,463</u>	<u>(96,850)</u>	<u>790,962</u>	<u>747,623</u>
Programme costs						
Request for Resources 1						
Expenditure	9	–	1,037,616	–	1,037,616	888,566
Income	10	–	–	(236,297)	(236,297)	(170,868)
Request for Resources 2						
Expenditure	9	–	296,255	–	296,255	291,419
Income	10	–	–	(6,404)	(6,404)	(5,217)
		–	<u>1,333,871</u>	<u>(242,701)</u>	<u>1,091,170</u>	<u>1,003,900</u>
Totals		<u>454,349</u>	<u>1,767,334</u>	<u>(339,551)</u>		
Net operating cost	3, 11				<u>1,882,132</u>	<u>1,751,523</u>

The notes on pages 28 to 56 form part of these accounts.

All income and expenditure are derived from continuing operations.

Statement of Recognised Gains and Losses

for the year ended 31 March 2006 (£000s)

	Note	2005-06	2004-05
Net change on revaluation of assets:			
Net gain on revaluation of tangible fixed assets	21.1	206,731	27,375
Net loss on revaluation of intangible fixed assets	21.1	(5)	–
Revaluation of donated fixed assets	21.2	9,886	38
Change in valuation of current assets	20	1,675	(371)
Retirement benefits actuarial gain/(loss)	28	849	(2,397)
		219,136	24,645

The notes on pages 28 to 56 form part of these accounts.

Balance Sheet*as at 31 March 2006 (£000s)*

	Note	<u>2006</u>	<u>2005</u>
Fixed assets			
Tangible Assets	12	1,479,302	1,254,059
Intangible Assets	13	409	516
		<u>1,479,711</u>	<u>1,254,575</u>
Current assets			
Stocks	15	7,547	8,731
Debtors	16.1	232,427	225,916
Cash at bank and in hand	17	117,315	76,047
		<u>357,289</u>	<u>310,694</u>
Creditors: amounts falling due within one year	18.1	<u>(299,052)</u>	<u>(250,012)</u>
Net current assets		<u>58,237</u>	<u>60,682</u>
Total assets less current liabilities		<u>1,537,948</u>	<u>1,315,257</u>
Creditors: amounts falling due after more than one year	18.1	<u>(32,629)</u>	<u>(32,495)</u>
Provisions for liabilities and charges	19	<u>(67,248)</u>	<u>(66,018)</u>
Net assets before net retirement benefit schemes liability		<u>1,438,071</u>	<u>1,216,744</u>
Net retirement benefit schemes liability			
Retirement benefit schemes asset	28	352	299
Retirement benefit schemes liability	28	(4,825)	(4,279)
		<u>(4,473)</u>	<u>(3,980)</u>
Net assets		<u>1,433,598</u>	<u>1,212,764</u>
Taxpayers' equity			
General fund	20	831,825	821,021
Revaluation reserve	21.1	541,817	340,730
Donated asset reserve	21.2	59,956	51,013
		<u>1,433,598</u>	<u>1,212,764</u>

Michael Jay
Accounting Officer

13 July 2006

The notes on pages 28 to 56 form part of these accounts.

Cash Flow Statement*for the year ended 31 March 2006 (£000s)*

	Note	2005-06	2004-05
Net cash outflow from operating activities	22.1	(1,754,680)	(1,583,240)
Capital expenditure	22.2	(94,334)	(73,667)
Payments of amounts due to the Consolidated Fund		(9,469)	(4,313)
Financing	22.4	1,898,258	1,698,708
Net change in cash balances	22.5	39,775	37,488

The notes on pages 28 to 56 form part of these accounts.

Statement of Operating Costs by Aim and Objectives (Strategic Priorities)

for the year ended 31 March 2006 (£000s)

		Gross	2005-06 Income	Net
Aim: To work for the United Kingdom's interests in a safe, just and prosperous world				
Strategic Priorities (SP):				
SP1	A world safer from global terrorism and weapons of mass destruction (WMD).	181,180	(11,017)	170,163
SP2	Protection of the UK from illegal immigration, drug trafficking and other international crime.	86,840	(3,550)	83,290
SP3	An international system based on the rule of law, which is better able to resolve disputes and prevent conflicts.	624,342	(40,430)	583,912
SP4	An effective EU in a secure neighbourhood.	291,777	(9,137)	282,640
SP5	Promotion of UK economic interests in an open and expanding global economy.	359,958	(24,456)	335,502
SP6	Sustainable development, underpinned by democracy, good governance and human rights.	287,563	(11,293)	276,270
SP7	Security of UK and global energy supplies.	28,603	(1,929)	26,674
SP8	Security and good governance of the UK's Overseas Territories.	61,646	(1,442)	60,204
Consular	High quality Consular services to British nationals abroad. Effective regulation of entry to, and settlement in, the UK in the interests of sustainable growth and social inclusion.	112,521	(46,796)	65,725
UKvisas	Entry clearance through UKvisas.	187,253	(189,501)	(2,248)
Net Operating Costs		2,221,683	(339,551)	1,882,132
Comparative figures				
		Gross	2004-05 Income	Net
Aim: To work for the United Kingdom's interests in a safe, just and prosperous world		2,006,589	(255,066)	1,751,523
Net Operating Costs		2,006,589	(255,066)	1,751,523

Notes

1. Objectives were revised this year in order to more closely realign them with the FCO Strategic Priorities. It is not considered appropriate to restate prior year figures.

2. Administration costs in respect of UK Trade and Investment included in SP5 above are further analysed:

Staff costs	44,872	-	44,872
Other administration costs	88,869	(17,750)	71,119
Depreciation	21,729	-	21,729
Capital costs	4,796	-	4,796
	160,266	(17,750)	142,516

3. See Note 23 for an analysis of Programme costs by objective.

4. Income includes consular, visas and other income. Other income (e.g. receipts from other departments) is administration income and is allocated across all SPs based on weighted headcount.

5. Gross costs include both direct costs (e.g. visa vignettes) and indirect costs (e.g. overheads). Direct costs are allocated to the appropriate SP. Indirect costs are allocated across all SPs based on a derivative of weighted headcount, including weighted space utilised by staff working to SPs.

The notes on pages 28 to 56 form part of these accounts.

Notes to the accounts

1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2005–06 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 Costs by Aim and Objectives and supporting notes analyse the Department's income and expenditure by our Strategic Priorities (SP) 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 Department 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 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets, and stocks where material, at their value to the FCO by reference to their current costs.

1.2 Basis of consolidation

These accounts comprise a consolidation of the accounts of the FCO and Wilton Park Executive Agency, which falls within the Departmental boundary as defined in the FReM issued by HM Treasury. Transactions between the entities included in the consolidation are eliminated.

1.3(a) Tangible fixed assets

Land and buildings are stated at the lower of replacement cost and recoverable amount using periodic professional valuations. The overseas estate is subject to a three-to-five-year rolling revaluation programme and interim annual review. Antiques and works of art are grouped and valued on a market value basis by professional valuers and are included where the valuations equate to or exceed £3,000. Other tangible fixed assets are stated at current value using appropriate indices. The minimum level for capitalisation of a single tangible asset is £3,000, subject to grouping conventions where appropriate. With effect from the current year, furniture and fittings are no longer capitalised. On initial recognition tangible fixed assets are measured at cost including any costs such as installation directly attributable to bringing them into working condition. Assets are included in the accounts at the cost or valuation applicable as at the balance sheet date; any movements in valuation during the year are taken to the revaluation reserve or treated as impairments where appropriate.

1.3(b) Intangible fixed assets

Purchased computer software licences are capitalised as intangible fixed assets where expenditure of £3,000 or more is incurred. Except where reliable evidence of current value cannot be readily ascertained, these are restated to current value each year through the use of indices. Software licences are amortised over the shorter of the term of the licence and the useful economic life.

1.4 Depreciation

Fixed assets are depreciated or amortised at rates calculated to write them down to their estimated residual values on a straight-line basis over their estimated useful lives. Freehold land is not depreciated in view of the length of its estimated useful life. Assets under construction are not depreciated until the asset is brought into use. Asset lives have been set in the following ranges :

Freehold buildings	–	up to 60 years
Leasehold land and buildings	–	term of lease
Vehicles	–	2 to 8 years
Office and technical equipment	–	5 to 8 years
Heavy machinery	–	20 years
Information systems	–	up to 5 years
Communications systems	–	8 years

As noted above, furniture and fittings are no longer capitalised, and a charge for accelerated depreciation to bring the book value of these assets to nil is included in these accounts.

1.5 Donated assets

Donated tangible fixed assets are capitalised at their current value on receipt, and this value is credited to the donated asset reserve. Subsequent revaluations are also taken to this reserve. Each year, an amount equal to the depreciation charge on the asset is released from the donated asset reserve to the Operating Cost Statement. Restricted right-to-use privileges over property granted to HM Government are treated as donated assets and capitalised at existing use value, or value in use, if appropriate. Restrictions prevail over the use and rights of disposal.

1.6 Private Finance Initiative (PFI) transactions

PFI transactions have been accounted for in accordance with HM Treasury and FReM requirements. Where the balance of the risks and rewards of ownership of the PFI property are borne by the PFI operator, the PFI payments are recorded as an operating cost. Where the FCO has contributed assets, a prepayment for their fair value is recognised and amortised over the life of the PFI contract. Where at the end of the PFI contract a property reverts to the FCO, the difference between the expected fair value of the residual on reversion and any agreed payment on reversion is built up over the life of the contract by capitalising part of the unitary charge each year.

Where the balance of risks and rewards of ownership of the PFI property is borne by the FCO, the property is recognised as a fixed asset and the liability to pay for it is accounted for as a finance lease. Contract payments are apportioned between a reduction in the capital obligation and charges to the Operating Cost Statement for service performance and finance cost.

1.7 Investments

The FCO does not currently hold any investments.

1.8 Stocks

Stocks are valued at cost or, where materially different, current replacement cost, and at net realisable value only when they either cannot or will not be used.

1.9 Research and development

Expenditure on research and development is treated as an operating cost in the year in which it is incurred. Fixed assets acquired for use in research and development are depreciated over the life of the associated project, or according to the asset category if the asset is to be used for subsequent normal operating work.

1.10 Operating income

Operating income is income which relates directly to the operating activities of the FCO. It comprises, principally, fees and charges for services provided, on a full cost basis, to external customers as well as public repayment work. It includes both income appropriated-in-aid and income to the Consolidated Fund which HM Treasury has agreed should be treated as operating income. Operating income is stated net of VAT.

1.11 Administration and programme expenditure

The Operating Cost Statement is analysed into administration and programme costs. Administration costs reflect the costs of running the FCO. These include both administrative costs and associated operating income. Income is analysed in the notes between that which, under the administrative cost-control regime, is allowed to be offset against gross administrative costs in determining the outturn against the administrative cost limit, and that operating income which is not. Programme costs reflect non-administration costs, including payments of grants and other disbursements by the FCO, as well as certain staff costs where they relate directly to service delivery. The classification of expenditure and income as administration or as programme follows the definition of administration costs set by HM Treasury.

1.12 Capital charge

A charge, reflecting the cost of capital utilised by the FCO, is included in operating costs. The charge is calculated at the real rate set by HM Treasury (currently 3.5%) on the average carrying amount of all assets and liabilities, except for donated assets and balances with the Office of the Paymaster General, where the charge is nil.

1.13 Foreign exchange

Transactions which are denominated in foreign currency are translated into sterling at the exchange rate ruling on the date of each transaction, except where rates do not fluctuate significantly, in which case an average rate for the period is used. Monetary assets and liabilities denominated in foreign currency at the balance sheet date are translated at the rates ruling at that date. Differences on translation are dealt with in the Operating Cost Statement.

1.14 Pensions

Past and present UK-based employees are covered by the provisions of the Principal Civil Service Pension Schemes (PCSPS) which are described in Note 2. PCSPS defined benefit schemes are unfunded. The FCO recognises the expected cost of providing pensions on a systematic and rational basis over the period during which it benefits from employees' services by payment to the 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 FCO recognises the contributions payable for the year.

1.15 Early departure costs

The FCO meets the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts annually to the PCSPS over the period between early retirement and normal retirement date. The FCO provides for this in full when the early retirement programme becomes binding on the Department by establishing a provision for the estimated payments discounted by the Treasury discount rate of 2.2% in real terms (2004-05: 3.5%). In past years the FCO paid some of its liability for early retirement in advance by making a payment to the Paymaster General's Account at the Bank of England for the credit of the Civil Service Superannuation Vote. The balance remaining is a prepayment.

1.16 Terminal benefits for locally engaged staff

The FCO is required to observe local employment laws regarding the payment of pensions, gratuities and terminal benefits at its overseas posts. Where state or other trustee schemes exist, the FCO discharges its obligation in-year by the payment of accrued contributions. Where the final gratuity or terminal benefit has to be met by the FCO, the full cost has been provided for in the accounts. The FCO has adopted the requirements of Financial Reporting Standard 17: 'Retirement Benefits' in respect of its overseas pension schemes.

1.17 Leases

Where substantially all risks and rewards of ownership of a leased asset are borne by the FCO, the asset is recorded as a tangible fixed asset and a liability is recorded to the lessor of the minimum lease payments discounted by the interest rate implicit in the lease. The interest element of the finance lease payment is charged to the operating cost statement over the period of the lease at a constant rate in relation to the balance outstanding. Other leases are regarded as operating leases and the rentals are charged to the operating cost statement over the term of the lease.

1.18 Grants payable

Grants payable are recorded as expenditure in the period that the underlying event or activity giving entitlement to the grant occurs. Where the period for which peacekeeping payments are to be applied is clearly defined the appropriate resource adjustments are made.

1.19 Provisions

The FCO provides for legal and constructive obligations which are of uncertain timing or amount at the balance sheet date on the basis of best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the Treasury discount rate of 2.2% in real terms (2004-05: 3.5%).

1.20 Value Added Tax

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

1.21 Third party assets

The FCO holds monies for disbursement on behalf of the United Nations Compensation Commission. These are not recognised in the accounts, since neither the Department nor the government more generally has a direct beneficial interest in them, but they are shown separately in the Notes to the accounts.

1.22 Contingent liabilities

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

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

2. Analysis of net resource outturn by section

	Admin	Other current	Grants	Gross resource expenditure	A-in-A	Outturn Net Total	Estimate Net Total	2005-06 Outturn compared with Estimate	2004-05 Outturn Net Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
RfR 1: Promoting internationally the interests of the UK and contributing to a strong world community									
Spending in Departmental Expenditure Limits (DEL)									
Central Government spending									
A: Administration, international organisations programmes and BBC Monitoring subscriptions	740,706	115,939	475,169	1,331,814	(320,831)	1,010,983	1,022,738	11,755	917,302
B: BBC World Service Broadcasting	–	–	208,143	208,143	–	208,143	208,143	–	194,143
C: British Council	–	–	181,410	181,410	–	181,410	181,410	–	172,065
D: Accruals consequences of DEL programmes: administration	147,106	–	–	147,106	–	147,106	189,412	42,306	140,813
E: BBC World Service – Capital grant	–	–	31,000	31,000	–	31,000	31,000	–	31,000
F: British Council – Capital grant	–	–	7,800	7,800	–	7,800	7,800	–	–
Non-budget									
G: Reimbursement of certain duties, taxes and licence fees	–	–	18,155	18,155	–	18,155	20,000	1,845	15,282
Total	887,812	115,939	921,677	1,925,428	(320,831)	1,604,597	1,660,503	55,906	1,470,605
RfR 2: Conflict prevention									
Spending in Departmental Expenditure Limits (DEL)									
Central Government spending									
A: Sub-Saharan Africa – Programme expenditure	–	–	2,203	2,203	–	2,203	2,206	3	13,401
B: Global – Programme expenditure	–	–	42,167	42,167	–	42,167	46,358	4,191	52,358
C: Sub-Saharan Africa – Peacekeeping	–	–	164,517	164,517	–	164,517	188,033	23,516	140,952
D: Global – Peacekeeping	–	–	87,368	87,368	–	87,368	122,124	34,756	84,707
Total	–	–	296,255	296,255	–	296,255	358,721	62,466	291,418
Resource outturn	887,812	115,939	1,217,932	2,221,683	(320,831)	1,900,852	2,019,224	118,372	1,762,023

Explanations are given in the Management Commentary in the Annual Report.

3. Reconciliation of outturn to net operating cost and against Administration Budget**3.1 Reconciliation of net resource outturn to net operating cost**

	Note	Outturn £000	Supply Estimate £000	2005-06 Outturn compared with Estimate £000	2004-05 Outturn £000
Net Resource Outturn	2	1,900,852	2,019,224	118,372	1,762,023
Excess cash receipts surrenderable to the Consolidated Fund	5	(8,310)	–	8,310	–
Non-supply income (CFERs)	5	(10,410)	–	10,410	(10,500)
Net operating cost		1,882,132	2,019,224	137,092	1,751,523

3.2 Outturn against final Administration Budget

	Budget £000	2005-06 Outturn £000	2004-05 Outturn £000
Gross Administration Budget	933,908	887,812	826,604
Income allowable against the Administration Budget	(108,231)	(96,850)	(73,697)
Net outturn against final Administration Budget	825,677	790,962	752,907

4. Reconciliation of resources to cash requirement

	Note	Estimate £000	Outturn £000	2005-06 Saving/ (excess) £000	2004-05 Outturn £000
Resource Outturn	2	2,019,224	1,900,852	118,372	1,762,023
Capital					
Acquisition of fixed assets	12	153,712	112,505	41,207	85,341
Non-operating A in A					
Proceeds of fixed asset disposals	6.2	(18,015)	(18,015)	–	(11,674)
Accruals adjustments					
Non-cash items	8	(188,411)	(147,105)	(41,306)	(140,812)
Changes in working capital other than cash	22	–	3,637	(3,637)	(30,613)
Changes in creditors falling due after more than one year	18.1	–	(134)	134	676
Use of provisions	19	–	16,502	(16,502)	4,955
Retirement benefit schemes	28	–	(493)	493	(1,813)
Excess cash receipts surrenderable to the Consolidated Fund	5	–	(8,466)	8,466	–
Net cash requirement		1,966,510	1,859,283	107,227	1,668,083

Explanations are given in the Management Commentary in the Annual Report.

5. Analysis of income payable to the Consolidated Fund

In addition to appropriations in aid the following income and cash receipts relate to the Department and is payable to the Consolidated Fund:

	Forecast 2005-06		Outturn 2005-06	
	<i>Income</i>	<i>Receipts</i>	<i>Income</i>	<i>Receipts</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Other operating income and receipts – not classified as A-in-A	3,601	3,601	10,410	10,410
Operating income and receipts – excess A-in-A	–	–	8,310	–
Non-operating income and receipts – excess A-in-A	–	–	156	–
Total income payable to the Consolidated Fund	3,601	3,601	18,876	10,410

6. Analysis of total income**6.1 Reconciliation of income recorded within the Operating Cost Statement to operating income payable to the Consolidated Fund**

	2005-06	2004-05
	<i>£000</i>	<i>£000</i>
Gross operating income	339,551	255,066
Income authorised to be appropriated-in-aid	(320,831)	(244,565)
Operating income payable to the Consolidated Fund	18,720	10,501

6.2 Analysis of non-operating income – excess Appropriations in Aid

Proceeds of fixed asset disposals	18,171	11,674
Income authorised to be appropriated-in-aid	(18,015)	(11,674)
Non-operating income – excess A in A	156	–

7. Staff numbers and related costs**7.1 Staff costs comprise:**

	Permanent staff				2005-06		2004-05	
	Others	Ministers	Special advisers	Total	Total			
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	
Salaries	372,773	12,239	299	127	385,438	358,224		
Social Security costs	13,724	–	16	7	13,747	13,477		
Other pension costs	56,540	–	–	10	56,550	46,898		
Sub total	443,037	12,239	315	144	455,735	418,599		
Less: recoveries in respect of outward secondments	(1,386)	–	–	–	(1,386)	(1,509)		
Total net costs	441,651	12,239	315	144	454,349	417,090		

7.2 The average number of whole-time equivalent persons employed:

(Including senior management, Ministers, special advisers and staff on secondment)

	Permanent staff			Others	Ministers	Special advisers	2005-06	
	Local staff	UK staff	Total				Total	
SP 1	52	500	552	30	1	1	584	
SP 2	71	202	273	12	–	–	285	
SP 3	125	953	1,078	57	1	1	1,137	
SP 4	278	796	1,074	47	1	1	1,123	
SP 5	3,264	985	4,249	58	1	–	4,308	
SP 6	288	493	781	29	–	–	810	
SP 7	54	59	113	4	–	–	117	
SP 8	27	189	216	11	–	–	227	
Consular	1,840	571	2,411	34	1	–	2,446	
UKvisas	3,619	1,302	4,921	77	1	–	4,999	
Total	9,618	6,050	15,668	359	6	3	16,036	

Local staff numbers shown represent snapshots of numbers per in-year returns of staff employed at the date requested from Posts.

The comparable whole-time equivalent totals for 2004-05 were 9,826 local staff and 6,197 UK staff.

As noted on the Statement of Operating Costs by Aim and Objectives, the FCO Strategic Priorities (Objectives) were revised in the year and consequently it is not considered appropriate to restate prior year figures.

8. Other administration costs

	2005-06	2004-05
	£000	£000
Rentals under operating leases		
Hire of plant and machinery	11,007	12,631
Property rentals	65,237	62,171
	<u>76,244</u>	<u>74,802</u>
Interest charges		
Finance leases	20	25
On-balance sheet PFI contracts	2,634	2,587
	<u>2,654</u>	<u>2,612</u>
PFI service charges		
Off-balance sheet contracts	26,924	27,634
Service element of on-balance sheet contracts	3,077	4,647
	<u>30,001</u>	<u>32,281</u>
Non-cash items		
Depreciation:		
Tangible fixed assets	66,834	66,590
Accelerated on furniture no longer capitalised	41,738	–
Amortisation:		
Intangible fixed assets	103	516
(Gain)/loss on disposal of fixed assets	(1,498)	4,159
Impairment losses arising on fixed asset revaluation	12,721	23,358
Impairment reversals arising on fixed asset revaluation	(34,950)	(20,421)
Cost of capital charge at 3.5%	44,155	42,225
Auditors' remuneration and expenses (no non-audit work)	270	270
Provisions:		
Provided in year	16,372	175
Unwinding of discount on provisions	1,360	(536)
	<u>147,105</u>	<u>116,336</u>
Other expenditure		
Training, medical, travel and other allowances	117,126	107,846
Estate and capital related costs	131,469	100,868
IT and communications	109,797	72,471
(Gain)/loss on exchange	(2,121)	1,110
Other	120,962	122,936
	<u>477,233</u>	<u>405,231</u>
	<u>733,237</u>	<u>631,262</u>
Administration cost of Consular and UKvisas operations worldwide allocated to programme as frontline service	<u>299,774</u>	<u>221,748</u>

9. Programme costs**Current grants and other current expenditure :**

	2005-06	2004-05
	<i>£000</i>	<i>£000</i>
Subscriptions to International Organisations	115,939	106,392
FCO programmes (including non-cash)	170,323	140,864
Consular and UKvisas operations	299,774	221,748
Re-imburements	18,155	15,282
BBC Monitoring Service	5,072	7,072
	<u>609,263</u>	<u>491,358</u>
BBC World Service	239,143	225,143
British Council	189,210	172,065
Conflict Prevention/Peacekeeping	296,255	291,419
	<u>1,333,871</u>	<u>1,179,985</u>
Less: Programme income (Note 10)	(242,701)	(176,085)
Net programme costs	<u>1,091,170</u>	<u>1,003,900</u>
Subscriptions include the following over £1 million:		
UN Regular Budget	57,610	53,104
Council of Europe	18,660	18,091
NATO	18,611	17,154
OECD	12,249	8,751
Commonwealth Secretariat	4,504	3,606
OSCE	2,312	-
Western European Union	1,858	2,077
Other (in total)	135	3,609
	<u>115,939</u>	<u>106,392</u>

10. Income

Income recorded in the Operating Cost Statement is analysed as follows:

	2005-06	2004-05
	£000	£000
RfR 1		
<i>Administration income</i>		
General	51,101	28,893
Fees and charges to external customers	279	3,177
Fees and charges to other departments	80,782	60,180
External interest	446	336
	<u>132,608</u>	<u>92,586</u>
Allocated to Consular and Ukvisas programme income below	<u>(35,758)</u>	<u>(13,605)</u>
	<u>96,850</u>	<u>78,981</u>
<i>Programme income</i>		
Consular and Ukvisas	<u>236,297</u>	<u>170,868</u>
RfR 1	<u>333,147</u>	<u>249,849</u>
RfR 2		
<i>Programme income</i>	<u>6,404</u>	<u>5,217</u>
Total	<u>339,551</u>	<u>255,066</u>

An analysis of income and fee-bearing costs from services provided to external customers, provided for fees and charges purposes only, not for SSAP25 purposes, is as follows :

	2005-06			2004-05		
	Income	Full cost	Surplus/ (deficit)	Income	Full cost	Surplus/ (deficit)
	£000	£000	£000	£000	£000	£000
Passport and consular fees	46,796	(47,030)	(234)	40,220	(40,422)	(202)
Visa fees	189,501	(187,253)	2,248	130,648	(122,410)	8,238
	<u>236,297</u>	<u>(234,283)</u>	<u>2,014</u>	<u>170,868</u>	<u>(162,832)</u>	<u>8,036</u>

11. Analysis of net operating cost by spending body

	2005-06		2004-05	
	Budget	Outturn	Budget	Outturn
	£000	£000	£000	£000
Foreign and Commonwealth Office	1,203,087	1,137,303	1,056,450	1,045,007
Wilton Park	699	713	699	586
Government Hospitality Fund	3,290	2,685	3,290	166
BBC World Service	239,143	239,143	225,143	225,143
BBC Monitoring Service	5,074	5,072	7,074	7,072
British Council	189,210	189,210	172,065	172,065
Others (including international organisations in respect of conflict prevention)	378,721	308,006	332,536	301,484
	<u>2,019,224</u>	<u>1,882,132</u>	<u>1,797,257</u>	<u>1,751,523</u>

12. Tangible fixed assets

	Non-residential land and buildings £000	Residential land and buildings £000	Information technology £000	Transport equipment £000	Plant and machinery £000	Antiques and works of art £000
Cost or valuation						
At 1 April 2005	502,522	555,175	84,437	40,990	23,498	19,221
Additions	361	–	52	1,138	190	–
Disposals	(9,459)	(7,180)	(92)	(2,868)	(10)	(210)
Impairments	7,035	16,795	(3,592)	137	177	–
Revaluation	67,355	133,077	(6,910)	204	83	833
Reclassification	50,256	198	25,640	3,442	4,696	3
At 31 March 2006	618,070	698,065	99,535	43,043	28,634	19,847
Depreciation						
At 1 April 2005	10,037	1,670	44,639	19,748	9,375	–
Charge for the year	26,179	13,187	16,368	7,541	2,749	–
Charge for the year – donated assets	79	685	–	–	–	–
Impairments	(8)	–	(1,672)	77	19	–
Disposals	(920)	(131)	(78)	(2,022)	(7)	–
Revaluation	(9,080)	(12,937)	(86)	110	29	–
Reclassification	–	2	(2)	–	–	–
At 31 March 2006	26,287	2,476	59,169	25,454	12,165	–
Net book value						
At 31 March 2006	591,783	695,589	40,366	17,589	16,469	19,847
At 31 March 2005	492,485	553,505	39,798	21,242	14,123	19,221
Asset financing:						
Owned	375,711	526,010	40,366	17,589	16,193	19,847
Leased	204,987	169,579	–	–	276	–
On-balance-sheet PFI contracts	11,085	–	–	–	–	–
Net book value						
At 31 March 2006	591,783	695,589	40,366	17,589	16,469	19,847

12. Tangible fixed assets (continued)

	Furniture and fittings £000	Assets under construction £000	Subtotal tangible assets £000	Wilton Park tangible assets £000	Total tangible assets £000
Cost or valuation					
At 1 April 2005	128,581	70,534	1,424,958	3,659	1,428,617
Additions	–	110,470	112,211	294	112,505
Disposals	(128,581)	–	(148,400)	(153)	(148,553)
Impairments	–	–	20,552	(3)	20,549
Revaluation	–	–	194,642	39	194,681
Reclassification	–	(84,235)	–	–	–
At 31 March 2006	–	96,769	1,603,963	3,836	1,607,799
Depreciation					
At 1 April 2005	86,598	–	172,067	2,491	174,558
Charge for the year	41,983	–	108,007	565	108,572
Charge for the year – donated assets	–	–	764	–	764
Impairments	–	–	(1,584)	–	(1,584)
Disposals	(128,581)	–	(131,739)	(138)	(131,877)
Revaluation	–	–	(21,964)	28	(21,936)
Reclassification	–	–	–	–	–
At 31 March 2006	–	–	125,551	2,946	128,497
Net book value					
At 31 March 2006	–	96,769	1,478,412	890	1,479,302
At 31 March 2005	41,983	70,534	1,252,891	1,168	1,254,059
Asset financing:					
Owned	–	96,769	1,092,485	505	1,092,990
Leased	–	–	374,842	385	375,227
On-balance-sheet PFI contracts	–	–	11,085	–	11,085
Net book value					
At 31 March 2006	–	96,769	1,478,412	890	1,479,302

12. Tangible fixed assets (continued)**Wilton Park tangible assets comprise:**

	Building enhancements	Equipment and furniture	Transport equipment	Plant and machinery	Assets under construction	Total tangible assets
	£000	£000	£000	£000	£000	£000
Cost						
At 1 April 2005	2,427	1,043	18	163	8	3,659
Additions	53	122	5	110	4	294
Disposals	(51)	(94)	–	(8)	–	(153)
Impairments	–	(3)	–	–	–	(3)
Revaluation	31	4	–	4	–	39
At 31 March 2006	2,460	1,072	23	269	12	3,836
Depreciation						
At 1 April 2005	1,724	689	10	69	–	2,492
Charge for the year	366	164	5	30	–	565
Disposals	(40)	(92)	–	(7)	–	(139)
Revaluation	25	2	–	1	–	28
At 31 March 2006	2,075	763	15	93	–	2,946
Net book value						
At 31 March 2006	385	309	8	176	12	890
At 31 March 2005	704	354	8	94	8	1,168

Notes to tangible fixed assets

The valuations of the home estate and properties in the European Union and Wider Europe were carried out by Colliers CRE. The effective valuation date was 30 June 2005. Desk reviews for revaluation purposes were carried out by in-house valuers on 31 March 2006. The valuations of properties in the Americas were carried out by CB Richard Ellis. The effective valuation date was 30 June 2005. Desk reviews for revaluation purposes were carried out by in-house valuers on 31 March 2006.

The valuations of properties in Sub-Saharan Africa were carried out by Knight Frank. The effective valuation date was 30 September 2002, with an in-house desk review on 31 March 2006. The valuations of properties in Asia were carried out by Cluttons. The effective valuation date was 30 September 2002 with an in-house desk review on 31 March 2006. The valuations of properties in the Middle East and North Africa were carried out by Cluttons. The effective valuation date was 30 June 2005. Desk reviews for revaluation purposes were carried out by in-house valuers on 31 March 2006. Replacement cost of FCO properties is deemed to be at existing use value subject to the following special assumption: The estate has been valued to provide "value to the business" assessments in accordance with HM Treasury guidelines, on the assumption that all buildings are treated as "non specialised" assets. All properties have been valued on this basis by independent professional firms of valuers in accordance with RICS "Appraisal and Valuation Manual" standards for non specialised properties and have been subject to indexation by FCO chartered surveyors.

Other assets, except for antiques and works of art, have been valued at the lower of existing use and market value.

13. Intangible fixed assets

Purchased software licences	£000
Cost or valuation	
At 1 April 2005	1,612
Disposals	(343)
Revaluation	(3)
At 31 March 2006	1,266
Amortisation	
At 1 April 2005	1,096
Charge for the year	103
Disposals	(343)
Revaluation	1
At 31 March 2006	857
Net book value	
At 31 March 2006	409
<i>At 31 March 2005</i>	<i>516</i>

14. Investments

The FCO held no investments between 1 April 2005 and 31 March 2006.

15. Stocks and work in progress

	2005-06	2004-05
	£000	£000
Stocks	7,547	8,731
	7,547	8,731

16. Debtors**16.1 Analysis by type**

	2005-06	2004-05
	£000	£000
Amounts falling due within one year		
Trade debtors	64,623	66,590
Other debtors	19,121	16,183
Deposits and advances	4,142	3,960
Prepayments and accrued income	140,845	134,915
	228,731	221,648
Amounts falling due after more than one year		
Other debtors	3,696	4,268
Total	232,427	225,916

Included above is £8,465,987.06 that will be due to the Consolidated Fund once the debts are collected.

16.2 Intra-Government Balances

	Amounts falling due within one year 2005-06	2004-05	Amounts falling due after one year 2005-06	2004-05
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Balances with other central government bodies	48,869	72,090	–	–
Balances with public corporations and trading funds	12,567	424	–	–
Total intra-government balances	61,436	72,514	–	–
Balances with bodies external to government	167,295	149,134	3,696	4,268
Total debtors at 31 March	228,731	221,648	3,696	4,268

17. Cash at bank and in hand

	2005-06	2004-05
	<i>£000</i>	<i>£000</i>
Balance at 1 April 2005	75,410	37,922
Net change in cash balances	39,775	37,488
Balance at 31 March 2006	115,185	75,410
The following balances and overdrafts at 31 March are held at:		
<i>Balances</i>		
Office of HM Paymaster General	76,181	33,185
Commercial banks and cash in hand UK and overseas	41,134	42,862
	117,315	76,047
<i>Overdrafts</i>		
Commercial banks overseas (Note 18)	(2,130)	(637)
	115,185	75,410

18. Creditors**18.1 Analysis by type**

	2005-06	2004-05
	<i>£000</i>	<i>£000</i>
Amounts falling due within one year		
Bank overdrafts (note 17)	2,130	637
Other taxation and social security	1,109	4,284
Trade creditors	27,138	34,474
Other creditors	19,207	25,201
Accruals and deferred income	125,254	109,451
Current part of finance leases (note 25.2)	83	88
Current part of imputed finance lease element of on-balance sheet PFI contracts (note 26)	480	467
Total excluding amounts due to the Consolidated Fund	175,400	174,602
Amounts issued from the Consolidated Fund for supply but not spent at year end	107,228	68,395
Excess cash receipts surrenderable to the Consolidated Fund	8,466	–
Consolidated Fund extra receipts due to be paid to the Consolidated Fund	7,958	7,015
	299,052	250,012
Amounts falling due after more than one year		
Finance leases (note 25.2)	88	171
Imputed finance lease element of on-balance sheet PFI contracts (note 26)	32,541	32,324
	32,629	32,495
Total	331,681	282,507

18.2 Intra-Government Balances

	Amounts falling due within one year 2005-06 £000	2004-05 £000	Amounts falling due after one year 2005-06 £000	2004-05 £000
Balances with other central government bodies	23,662	13,779	–	–
Balances with public corporations and trading funds	–	–	–	–
Total intra-government balances	23,662	13,779	–	–
Balances with bodies external to government	275,390	236,233	32,629	32,495
Total creditors at 31 March	299,052	250,012	32,629	32,495

19. Provisions for liabilities and charges

Consolidated	Early departure costs £000	LE staff terminal gratuities £000	Other staff provisions £000	Estate related provisions £000	Total £000
Balance at 1 April 2005	27,866	27,395	5,557	5,200	66,018
Provided in year	9,289	2,183	–	4,900	16,372
Provisions utilised in the year	(14,801)	–	(1,701)	–	(16,502)
Unwinding of discount	1,360	–	–	–	1,360
Balance at 31 March 2006	23,714	29,578	3,856	10,100	67,248

20. General Fund

The General Fund represents the total assets less liabilities of the FCO and Wilton Park to the extent that the total is not represented by other reserves and financing items.

	2005-06 £000	2004-05 £000
General Fund at 1 April	821,021	871,218
Net Parliamentary funding – drawn down	1,898,116	1,699,384
Year end adjustment:		
Supply (creditor)/debtor – current year	(115,694)	(68,394)
Prior year Consolidated Fund creditor	68,394	37,093
Net transfer from Operating Activities:		
Net Operating Cost	(1,882,132)	(1,751,523)
Consolidated Fund Extra Receipts	(7,958)	(7,015)
Income not appropriated in aid paid to Consolidated Fund	(2,453)	(3,485)
Non-cash charges:		
Cost of capital	44,155	42,225
Auditors remuneration	270	270
Current asset revaluation adjustments	1,675	234
Wilton Park consolidation and other adjustments	613	(606)
Transfer from revaluation reserve (note 21.1)	5,639	1,620
Transfer from donated asset reserve (note 21.2)	179	–
	10,804	(50,197)
General Fund at 31 March	831,825	821,021

21. Reserves**21.1 Revaluation reserve**

The revaluation reserve reflects the unrealised element of the cumulative balance of indexation and revaluation adjustments (excluding donated assets).

	2005-06	2004-05
	<i>£000</i>	<i>£000</i>
Balance at 1 April	340,730	314,975
Unrealised gain on revaluation of fixed assets	206,726	27,375
Transfer to general fund of realised element of revaluation reserve	(5,639)	(1,620)
Balance at 31 March	<u>541,817</u>	<u>340,730</u>

21.2 Donated assets reserve

The donated asset reserve reflects the net book value of assets donated to the FCO.

	2005-06	2004-05
	<i>£000</i>	<i>£000</i>
Balance at 1 April	51,013	51,671
Unrealised gain on revaluation of fixed assets	9,886	38
Transfer to general fund of realised element of donated assets reserve (Note 20)	(179)	–
Release to the Operating Cost Statement	(764)	(696)
Balance at 31 March	<u>59,956</u>	<u>51,013</u>

22. Notes to the Cash Flow Statement**22.1 Reconciliation of operating cost to operating cash flows**

	2005-06	2004-05
	<i>£000</i>	<i>£000</i>
Net Operating Cost	1,882,132	1,751,523
Adjustments for non-cash transactions	(147,106)	(140,812)
Increase/(decrease) in stock	(1,184)	691
Increase/(decrease) in debtors	6,510	85,610
<i>Less movements in debtors relating to items not passing through the OCS</i>	(2,383)	–
(Increase)/decrease in creditors	(49,174)	(117,284)
<i>Less movements in creditors relating to items not passing through the OCS</i>	49,876	370
Use of provisions	16,502	4,955
Retirement benefit schemes	(493)	(1,813)
Net cash outflow from operating activities	<u>1,754,680</u>	<u>1,583,240</u>

22.2 Analysis of capital expenditure and financial investment (all RfR1)

	2005-06	2004-05
	<i>£000</i>	<i>£000</i>
Tangible fixed asset additions	79,360	36,717
Additions to assets in the course of construction	33,145	48,624
Proceeds from disposal of fixed assets	(18,171)	(11,674)
Net cash outflow from investing activities	<u>94,334</u>	<u>73,667</u>

22.3 Analysis of capital expenditure and financial investment**Request for resources 1**

	Capital expenditure	A in A	Net total
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Total 2005-06	<u>112,505</u>	<u>(18,171)</u>	<u>94,334</u>
Total 2004-05	<u>85,341</u>	<u>(11,674)</u>	<u>73,667</u>

22.4 Analysis of financing

	2005-06	2004-05
	<i>£000</i>	<i>£000</i>
From the Consolidated Fund (Supply) – current year	1,966,510	1,699,384
Payment to the Consolidated Fund in respect of unspent prior year Supply	(68,394)	–
Advances from the Contingency Fund	130,000	–
Repayments to the Contingency Fund	(130,000)	–
Capital element of payments in respect of on-balance sheet PFI contracts	142	(676)
Net financing	<u>1,898,258</u>	<u>1,698,708</u>

22.5 Reconciliation of net cash requirement to net change in cash balances

	2005-06	2004-05
	<i>£000</i>	<i>£000</i>
Net financing		
Net cash requirement	(1,859,283)	(1,668,083)
From the Consolidated Fund (Supply) – current year	1,966,510	1,699,384
Payment to the Consolidated Fund in respect of unspent prior year Supply	(68,394)	–
Amounts due to the Consolidated Fund received in a prior year and paid over	(7,016)	(829)
Amounts due to the Consolidated Fund received and not paid over	7,958	7,016
Net change in cash balances	<u>39,775</u>	<u>37,488</u>

23. Notes to the Statement of Operating Costs by Aim and Objectives (Strategic Priorities)**23.1 Programme grants and other current expenditures have been allocated as follows:**

	2005-06
	<i>£000</i>
Strategic Priorities (SP):	
SP1	12,296
SP2	13,444
SP3	320,122
SP4	17,089
SP5	25,530
SP6	92,083
SP7	158
SP8	1,922
BBC World Service	239,143
British Council	189,210
Consular and UKvisas	63,477
Unspecified	116,696
	<u>1,091,170</u>

Objectives were revised this year in order to more closely realign them with the FCO Strategic Priorities. It is not considered appropriate to restate prior year figures. The total allocated in 2004-05 amounted to £1,003,900,000.

23.2 Capital employed by aim and objectives

The FCO's capital is employed in the administration of the Department, including Consular and UKvisas activity shown under programme expenditures. In practice, its distribution between Strategic Priorities is therefore not markedly different from the proportion of the related costs.

24. Capital commitments

Contracted capital commitments at 31 March for which no provision has been made:

	2006	2005
	<i>£000</i>	<i>£000</i>
Estates projects	95,170	59,261
IT infrastructure	77,000	83,000
Other	568	250
	<u>172,738</u>	<u>142,511</u>

The FCO awarded a contract to Hewlett Packard in February 2005 to become the FCO's strategic partner for the provision of its global IT infrastructure. The capital commitment as shown above is estimated at £77 million over the remaining six years of the total value of the contract of £186 million, the balance to be expensed when incurred.

25. Commitments under leases**25.1 Operating leases**

Commitments under leases to pay rentals during the year following the year of these accounts are given in the tables below, analysed according to the period in which the lease expires.

	2006	2005
	<i>£000</i>	<i>£000</i>
Obligations under operating leases comprise		
Land and buildings:		
Expiry within 1 year	13,976	12,379
Expiry after 1 year but not more than 5 years	27,640	27,929
Expiry thereafter	9,076	11,269
	<u>50,692</u>	<u>51,577</u>
Other:		
Expiry within 1 year	486	618
Expiry after 1 year but not more than 5 years	489	932
Expiry thereafter	–	129
	<u>975</u>	<u>1,679</u>

25.2 Finance leases

	2006	2005
	<i>£000</i>	<i>£000</i>
Obligations under finance leases comprise		
Other:		
Rentals due within 1 year	93	93
Rentals due after 1 year but within 5 years	98	191
Rentals due thereafter	–	–
	<u>191</u>	<u>284</u>
Less: interest element	(20)	(25)
	<u>171</u>	<u>259</u>

26. Commitments under PFI contracts**26.1 Off-balance sheet***Global Crossing*

The contract is in respect of the provision of a worldwide telecommunications network for a term of ten years from 10 May 2000. The estimated capital value of the contract is £200 million but it is considered by the Board that the equipment brought into use under the contract is not an asset of the Department. The present unitary payment charged to the Operating Cost Statement is £24 million per annum, increasing as the contract advances.

26.2 On-balance sheet*Arteos*

The contract is in respect of the building, operation and maintenance of the British Embassy in Berlin for a term of 30 years from 23 June 1998 with an option to extend for a further 30 years. Overall, the balance of the risks and rewards of ownership of the property are borne by the Department, and, therefore, the embassy is included in these accounts as a tangible fixed asset. The initial capitalisation of the contract was reflected in the 2002-03 accounts.

The unitary charge which covers the occupation of the building has been discounted over the remaining life of the contract and capitalised. The service element of the contract remains an operating cost. In 2005-06 this amounted to £3,077,000 (2004-05: £4,647,000).

The liability to pay for the property is in substance a finance lease obligation. Contractual payments therefore comprise two elements: imputed finance lease charges and service charges. The imputed finance lease obligation is as follows:

	2006	2005
	<i>£000</i>	<i>£000</i>
Imputed finance lease obligations under on-balance sheet		
PFI contracts comprises:		
Rentals due within 1 year	3,077	3,522
Rentals due within 2 to 5 years	12,310	12,220
Rentals due thereafter	58,609	54,989
	<u>73,996</u>	<u>70,731</u>
Less: interest element	(40,975)	(37,940)
	<u>33,021</u>	<u>32,791</u>

26.3 Charge to the Operating Cost Statement and future commitments

The total amount charged in the Operating Cost Statement in respect of off-balance sheet PFI transactions and the service element of on-balance sheet PFI transactions was £30,001,000 (2004-05: £32,281,000).

The payments to which the department is committed during 2005-06, analysed by the period during which the commitment expires, are as follows:

	2006	2005
	<i>£000</i>	<i>£000</i>
Expiry within 1 year	-	-
Expiry within 2 to 5 years	-	-
Expiry within 6 to 10 years	22,193	22,515
Expiry within 11 to 15 years	-	-
Expiry within 16 to 20 years	-	-
Expiry within 21 to 25 years	1,220	1,238
Expiry within 26 to 30 years	-	-
	<u>23,413</u>	<u>23,753</u>

27. Other financial commitments

The Department has entered into non-cancellable contracts (which are not leases or PFI contracts) for facility management, logistics and computer services. The payments to which the FCO is committed during 2006-07, analysed by the period during which the commitment expires, are as follows:

	2006	2005
	<i>£000</i>	<i>£000</i>
Expiry within 1 year	2,237	1,847
Expiry within 2 to 5 years	8,197	38,710
Expiry thereafter	3,000	–
	<u>13,434</u>	<u>40,557</u>

28. Retirement benefit schemes

As stated in notes 1.14 to 1.16, UK-based employees are covered by the provisions of the Principal Civil Service Pension Scheme and for staff engaged overseas the FCO observes local employment laws regarding the payment of pensions and terminal gratuities.

Defined contribution schemes

The FCO operates defined contribution schemes in: Barbados, Denmark, New Zealand and Zambia. The schemes operated in Belgium and Holland are defined benefit but multi-user, where the individual insurers' assets cannot be identified; these are treated as direct contribution schemes. The value of contributions in 2005/06 was £492,921.

Defined benefit schemes	2006		2005	
	Fair value of assets <i>£000</i>	Present value of future liabilities <i>£000</i>	Fair value of assets <i>£000</i>	Present value of future liabilities <i>£000</i>
Retirement benefits schemes – asset				
Jamaica	499	(329)	346	(217)
Trinidad and Tobago	327	(145)	306	(136)
	<u>826</u>	<u>(474)</u>	<u>652</u>	<u>(353)</u>
Surplus	<u>352</u>	<u>–</u>	<u>299</u>	<u>–</u>
Retirement benefits schemes – liability				
Canada	4,918	(5,432)	4,015	(4,231)
Irish Republic	1,297	(1,451)	776	(932)
Portugal	142	(245)	255	(290)
South Africa	4,244	(4,531)	4,946	(4,946)
USA	26,656	(30,423)	24,276	(28,148)
	<u>37,257</u>	<u>(42,082)</u>	<u>34,268</u>	<u>(38,547)</u>
Deficit		<u>(4,825)</u>		<u>(4,279)</u>
Net deficit		<u>(4,473)</u>		<u>(3,980)</u>

All of the FCO's known defined benefit schemes have been subject to actuarial valuation or review as at 31 March 2005. The schemes in USA, Canada, South Africa, Ireland, Jamaica and Portugal have been reviewed and updated as at 31 March 2006; other posts have been estimated. The scheme in Zimbabwe has been wound up and the staff transferred to a terminal gratuity arrangement. The net pension liabilities in Colombia have been crystallised and an annuity contract agreed with a major insurance company; the full liability against this contract was discharged in March 2006. The scheme in Trinidad and Tobago is now shown in this note. It has also been established that the FCO operates a defined benefits scheme in Mauritius; a complete set of figures is not yet available for this but any surplus or deficit is not thought to be material.

28. Retirement benefit schemes (continued)

Valuations were carried out as at 31 March 2006 by qualified independent actuaries. The major assumptions used by the actuaries were:

	Rate of increase in salaries	Rate of increase in pensions in payment	Discount rate	Inflation assumption
Canada	3.75%	2.75%	5.50%	2.75%
Irish Republic	4.00%	2.50%	4.50%	2.25%
Jamaica	9.00%	3.50%	12.50%	7.00%
Portugal	3.00%	0.00%	4.50%	2.25%
South Africa	5.84%	3.87%	8.30%	4.84%
Trinidad and Tobago	5.50%	0.00%	6.50%	5.50%
USA	4.5%-6%	3.00%	6.00%	2.50%

The assets in the schemes and the expected rate of return were:

Long-term rate of return expected at 31 March 2006

	Equities	Bonds	Other
Canada	6.90%	3.30%	–
Irish Republic	7.00%	4.00%	5.00%
Jamaica	12.50%	–	12.50%
Portugal	–	–	3.50%
South Africa	–	–	9.65%
Trinidad and Tobago	–	–	7.50%
USA	8.16–8.40%	5.03%	–

Value as at 31 March 2006

	Equities	Bonds	Other	Total	Total
	£000	£000	£000	£000	£000
Canada	2,727	2,191	–	4,918	4,014
Irish Republic	946	133	218	1,297	777
Jamaica	75	–	424	499	346
Portugal	–	–	142	142	255
South Africa	–	–	4,244	4,244	4,946
Trinidad and Tobago	–	–	327	327	306
USA	18,502	8,154	–	26,656	24,276
Total market value of assets	22,250	10,478	5,355	38,083	34,920

Present value of scheme liabilities

	2006	2005
	£000	£000
Canada	(5,432)	(4,231)
Irish Republic	(1,451)	(932)
Jamaica	(329)	(217)
Portugal	(245)	(290)
South Africa	(4,531)	(4,946)
Trinidad and Tobago	(145)	(136)
USA	(30,423)	(28,149)
Total present value of scheme liabilities	(42,556)	(38,900)
Net pension liability	(4,473)	(3,980)

28. Retirement benefit schemes (continued)

Analysis of the amount charged to the operating cost statement in 2005-06

	Current service cost	Past service cost	Total operating charge	2004-05 Total operating charge
	£000	£000	£000	£000
Canada	148	–	148	162
Irish Republic	421	–	421	69
Jamaica	26	–	26	13
Portugal	26	–	26	27
South Africa	204	–	204	315
Trinidad and Tobago	9	–	9	8
USA	1,169	–	1,169	850
	2,003	–	2,003	1,444

Analysis of the amount credited to other finance income in 2005-06

	Expected return on pension scheme assets	Interest on pension scheme liabilities	Net return	2004-05 Net return
	£000	£000	£000	£000
Canada	238	(279)	(41)	(65)
Irish Republic	55	(62)	(7)	5
Jamaica	52	(28)	24	6
Portugal	7	(9)	(2)	(1)
South Africa	360	(234)	126	74
Trinidad and Tobago	16	(8)	8	8
USA	1,802	(1,638)	164	263
	2,530	(2,258)	272	290

Analysis of amount recognisable in statement of recognised gains and losses

	Actual return less expected return on pension scheme assets	Experience gains and losses arising on the scheme liabilities	Changes in assumptions underlying the present value of the scheme liabilities	Actuarial gain/(loss) recognised	2004-05 Actuarial gain/(loss) recognised
	£000	£000	£000	£000	£000
Canada	322	–	(704)	(382)	553
Irish Republic	163	36	148	347	(32)
Jamaica	(17)	53	(19)	17	18
Portugal	4	(36)	(10)	(42)	35
South Africa	233	(294)	(146)	(207)	(967)
Trinidad and Tobago	9	(4)	–	5	5
USA	1,595	(1,408)	924	1,111	(2,009)
	2,309	(1,653)	193	849	(2,397)

28. Retirement benefit schemes (continued)**Movement in surplus/(deficit) during the year**

	Surplus/(Deficit) in scheme at beginning of the year	Movement in year	Surplus/(Deficit) in scheme at end of the year
	£000	£000	£000
Canada	(216)	(298)	(514)
Irish Republic	(156)	2	(154)
Jamaica	128	42	170
Portugal	(33)	(70)	(103)
South Africa	–	(287)	(287)
Trinidad and Tobago	170	12	182
USA	(3,873)	106	(3,767)
	(3,980)	(493)	(4,473)

Movement in year

	Current service cost	Contri- butions	Other finance income	Actuarial gain/(loss) recognised	Movement in year
	£000	£000	£000	£000	£000
Canada	(148)	273	(41)	(382)	(298)
Irish Republic	(421)	82	(7)	347	1
Jamaica	(26)	28	24	17	43
Portugal	(26)	–	(3)	(42)	(71)
South Africa	(204)	–	126	(207)	(285)
Trinidad and Tobago	(9)	7	8	5	11
USA	(1,169)	–	164	1,111	106
	(2,003)	390	271	849	(493)

History of experience gains and losses

Difference between the expected and actual return on scheme assets

	2005–06		2004–05	
	Amount	Percentage of scheme assets	Amount	Percentage of scheme assets
	£000		£000	
Canada	322	6.55%	–	0.00%
Irish Republic	163	12.57%	16	2.04%
Jamaica	(17)	–3.41%	23	6.54%
Portugal	4	2.82%	14	5.41%
South Africa	233	5.49%	709	14.34%
Trinidad and Tobago	9	2.75%	8	2.78%
USA	1,595	5.98%	(342)	–1.41%
	2,309		428	

28. Retirement benefit schemes (continued)

Experience gains and losses on scheme liabilities

	2005-06		2004-05	
	Amount	Percentage of the present value of scheme liabilities	Amount	Percentage of the present value of scheme liabilities
	£000		£000	
Canada	–	0.00%	(22)	–0.52%
Irish Republic	36	2.48%	21	2.22%
Jamaica	53	16.11%	(5)	–2.08%
Portugal	(36)	–14.69%	16	5.48%
South Africa	(294)	–6.93%	–	0.00%
Trinidad and Tobago	(4)	–2.76%	(3)	–2.50%
USA	(1,408)	–4.63%	(104)	–0.37%
	(1,653)		(97)	

Total amount recognised in statement of recognised gains and losses

	2005-06		2004-05	
	Amount	Percentage of the present value of scheme liabilities	Amount	Percentage of the present value of scheme liabilities
	£000		£000	
Canada	(382)	–7.03%	553	13.07%
Irish Republic	347	23.91%	(32)	–3.48%
Jamaica	17	5.17%	18	8.33%
Portugal	(42)	–17.14%	35	11.90%
South Africa	(207)	–4.88%	(967)	–19.54%
Trinidad and Tobago	5	3.45%	5	3.75%
USA	1,111	3.65%	(2,009)	–7.14%
	849		(2,397)	

29. Financial instruments

Financial Reporting Standard 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, the FCO is not exposed to the degree of financial risk faced by business entities and a much more limited role in creating or changing risk is played by financial instruments than would be expected in a listed company, to which FRS 13 mainly applies. The FCO has very limited powers to borrow or invest surplus funds and financial assets and liabilities are generated only by day-to-day operational activities and are not held to change the risks facing the FCO 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.

An analysis of non-interest bearing financial assets held overseas by currency is shown where the total held exceeds £1 million. An analysis is not available for the prior year where the total amount of sterling balances held in the UK is included under Sterling and all balances held overseas both in sterling and other currencies are included under Other.

Liquidity risk

The FCO's net revenue and capital resource requirements are financed by resources voted annually by Parliament. The FCO is not therefore exposed to significant liquidity risk.

29. Financial instruments (continued)*Interest-rate risk*

Apart from temporary overdrafts, the FCO has no external borrowings and is not therefore exposed to significant interest-rate risk.

	2006		2005	
	Non-interest bearing financial assets	Non-interest bearing financial liabilities	Non-interest bearing financial assets	Non-interest bearing financial liabilities
Currency	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Sterling	95,283	(27,815)	35,305	(31,967)
US Dollar	3,498	–	–	–
Euro	3,327	–	–	–
Naira	9,515	–	–	–
Baht	4,477	–	–	–
Australian Dollar	1,233	–	–	–
Other	(18)	(41,563)	40,742	(34,688)
Gross financial assets/(liabilities)	117,315	(69,378)	76,047	(66,655)

Foreign currency risk

The FCO's exposure to foreign currency risk can be significant because of the nature of its business and geographical presence. Net expenditures denominated in foreign currency constitute a minor part of total expenditures. To manage exposure risks, the FCO has an Overseas Price Movements (OPM) mechanism that is designed to maintain its purchasing power at a level equivalent to that of Home Departments. The OPM adjustment is based on expenditure incurred in foreign currencies on administration, capital, subscriptions to international organisations and the British Council Grant-in-Aid. Changes in FCO provision are agreed with HM Treasury and, if necessary, Parliamentary approval sought for any increase in provision.

Fair values

Set out below is a comparison by category of book values and fair values of the FCO's financial assets and liabilities as at 31 March.

	2006		2005	
	Book value	Fair value	Book value	Fair value
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Primary financial instruments:				
<i>Financial assets</i>				
Cash at bank and in hand	117,315	117,315	76,047	76,047
<i>Financial liabilities</i>				
Bank overdrafts	(2,130)	(2,130)	(637)	(637)
Provisions	(67,248)	(67,248)	(66,018)	(66,018)
	(69,378)	(69,378)	(66,655)	(66,655)

Where relevant, cash flows in respect of provisions have been discounted at HM Treasury discount rate of 2.2% in real terms.

30. Contingent liabilities disclosed under FRS 12

The nature of the FCO's activities gives rise to certain contingent financial risks. The main ones at the balance sheet date were as follows:

	2006	2005
	<i>£000</i>	<i>£000</i>
Disputed claims for rents payable on overseas properties	851	1,735
Potential overseas national insurance liabilities and other related claims	2,416	555
	3,267	2,290

31. Contingent liabilities not required to be disclosed under FRS 12 but included for Parliamentary reporting and accountability purposes**31.1 Quantifiable**

The FCO has entered into the following quantifiable contingent liabilities by offering indemnities. None of these is a contingent liability within the meaning of FRS 12 since the likelihood of a transfer of economic benefit in settlement is too remote.

	1 April 2005	Increase in year	31 March 2006	Amount reportable to Parliament by Departmental minute
	£000	£000	£000	£000
Indemnities	11,734	9,974	21,708	21,708
	<u>11,734</u>	<u>9,974</u>	<u>21,708</u>	<u>21,708</u>

31.2 Unquantifiable

The FCO has unquantifiable contingent liabilities in respect of various non-statutory guarantees.

32. Losses and special payments

	2005-06		2004-05	
	Number	£000	Number	£000
Losses total	<u>225</u>	<u>1,132</u>	<u>167</u>	<u>5,272</u>
Cash losses	44	104	26	42
Claims abandoned	17	6	35	237
Administrative write-offs	128	30	-	-
Fruitless payments and constructive losses	8	17	2	1,538
Stores losses	13	6	16	376
	<u>210</u>	<u>163</u>	<u>79</u>	<u>2,193</u>
Special payments total	<u>14</u>	<u>375</u>	<u>13</u>	<u>1,596</u>
Losses arising from other causes total	<u>1</u>	<u>594</u>	<u>75</u>	<u>1,483</u>

Details of cases over £250,000:

Included in Special payments are ex gratia payments totalling £360,104 in respect of locally engaged staff early retirement and redundancy costs in Madrid.

Included in Losses arising from other causes total is £594,370 in connection with unauthorised charges for the use of a number of satellite phones in Iraq in 2005. This was reported in the 2004-05 accounts and is subject to the Comptroller and Auditor General report attached to these accounts.

33. Related party transactions

The Foreign and Commonwealth Office is the parent of the Wilton Park Executive Agency and sponsors the BBC World Service and the British Council, as well as the following Executive Non Departmental Public Bodies:

Westminster Foundation for Democracy
 British Association for Central & Eastern Europe
 GB/China Centre
 Marshall Aid Commemoration Commission

These bodies are regarded as related parties with which the FCO has had various material transactions during the year. In addition, the FCO has had regular transactions with other Government Departments and other Central Government bodies. None of the Ministers, Board members, key managerial staff or other related parties has undertaken any material transaction with the FCO during the year.

34. Third-party assets

	2006	2005
	<i>£000</i>	<i>£000</i>
Funds held by the FCO in designated bank accounts for disbursement to individual beneficiaries on behalf of the United Nations Compensation Commission	273	1,280
Funds held within FCO Office of HM Paymaster General balance	–	–
Overall UNCC liability	<u>273</u>	<u>1,280</u>

35. Entities within the departmental boundary

The entities within the boundary during 2005–06 were:

On-Vote agency – Wilton Park Executive Agency
 Non-executive NDPBs – None
 Other entities – None

The annual report and accounts of the Wilton Park Executive Agency are published separately.

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

Theft and Misuse of Satellite Phones in Iraq

Introduction

1. Note 29 to the 2004-05 Resource Accounts for the Foreign and Commonwealth Office (the Department) provided early notification to Parliament of losses estimated at £590,000 caused by apparently unauthorised charges for the use of a number of satellite telephones in Iraq. When the accounts were published, the Department's investigation into the causes of the losses was continuing. The Committee of Public Accounts took evidence from the Department on the 2004-05 Resource Accounts on 15 February 2006. Although the Committee's enquiries focused mainly upon the Report I had appended to the Accounts on the fraud at the British Embassy, Tel Aviv, the Committee also enquired about the losses incurred in Iraq. My staff undertook to report to Parliament on the outcome of the Department's investigation with the 2005-06 Resource Accounts.
2. The investigation was led by the Department's Financial Compliance Unit (FCU), and was completed in May 2006. The FCU reported that the Department's Iraq Policy Unit, based in London, had ordered ten satellite phones in September 2003 for use in Iraq. The phones had been made ready for use before being dispatched. Weaknesses in the controls over the physical location, storage, billing and payment for the phones had led to the loss of two of the phones (together with another that had been rented previously) remaining undetected until June 2005. At that stage, the phone service provider raised concerns about the high charges being incurred on one of the phones and the Department then took action to prevent further charges being incurred. Despite extensive enquiries the FCU have not established who was responsible for the theft and subsequent misuse of the phones, but they have calculated the full extent of the loss at £594,370.

Events leading to the discovery of the losses

3. In more detail, the FCU's investigation showed that:
 - a. Ten Thuraya satellite phones were purchased by the Department, and sent to Iraq in September 2003 by diplomatic bag.
 - b. When the phones were ordered, the Department's Iraq Policy Unit provided FCO Services (the support services arm of the Department) with instructions on how the phone charges were to be accounted for. No bills were received from the telephone service provider until July 2004; subsequently, FCO Services received monthly itemised invoices for each of the phones. These bills were authorised by FCO Services without reference to the Iraq Policy Unit (which held the budget for usage of the phones), or to staff in Baghdad or Basra.
 - c. The Iraq Policy Unit took an inventory of satellite phones during the summer of 2004, and found that a rented phone that had been used officially in September and October 2003 could not be traced: along with other phones that had been rented by the Department, it was barred from service in August 2004.
 - d. In September 2004, a junior member of staff in FCO Services Telephony Section raised concerns about the high cost and usage of satellite phones in Iraq. From the documentary evidence available, neither his superior, nor Iraq Policy Unit staff appear to have acted upon these concerns and FCO Services continued to authorise and pay the monthly bills for the phones.
 - e. One of the remaining phones appears to have stopped working in March 2005.
 - f. On 29 June 2005 the phone service provider contacted FCO Services, and reported that they had concerns over the level of activity logged against one of the satellite phones sent to Iraq. The user had attempted to activate a conference call feature on the handset, in lieu of the normal satellite path. As a precaution, the service provider told FCO Services they had

barred the phone on 24 June, and sought reassurance from the Department that the handset had not been lost or stolen.

- g. On 15 July 2005, following discussions between FCO Services, the Iraq Policy Unit and the FCU, all the Department's active satellite telephones in Iraq were switched off, and the associated line rental agreements terminated.

Results of the FCU Investigation

4. The FCU investigation quickly confirmed that of the ten phones sent to Iraq in September 2003, five were positively accounted for. The call patterns of a further three phones indicated that they also remained within the Department's control. The investigation therefore focused on the remaining two phones that had been purchased, and one of the rented phones that had been barred from service in 2004.
5. Table 1 below details the charges associated with the three phones that were central to the investigation.

Table 1: Costs associated with the three misappropriated phones

Detail, or monthly charge	Notes	Phone 1	Phone 2	Phone 3
		(rented)		
		£	£	£
Rental, and other charges	1	212.68	910.46	910.46
September 2003 to July 2004	2	–	25,254.81	54,877.79
August 2004	3	10,152.59	17,615.54	4,834.27
September 2004		–	14,937.18	9,121.45
October 2004		–	3,165.45	8,291.05
November 2004		–	10,580.38	9,211.10
December 2004		–	7,980.07	9,531.35
January 2005		–	4,672.87	7,653.81
February 2005		–	6,880.07	5,368.38
March 2005		–	33,220.38	6,163.35
April 2005		–	52,833.10	–
May 2005		–	77,803.82	–
June 2005		–	212,188.09	–
Total		<u>10,365.27</u>	<u>468,042.22</u>	<u>115,963.01</u>
Grand Total			<u>594,370.50</u>	

Notes

1. Includes, as appropriate, rental costs, handset, battery and carry case costs, connection fee and insurance.
 2. No bills were received for Phones 2 and 3 until July 2004. The July bills covered the period from September 2003 to July 2004.
 3. Phone 1 for the period between 31 July and 9 August 2004 only.
- Source: FCU Investigation Report, May 2006.

6. The FCU concluded that:
- a. Phone 1, which was rented, and had been barred in August 2004 had probably been stolen in late July 2004. Between 31 July and 9 August, this phone had incurred call charges of £10,153.
 - b. Phones 2 and 3 appeared never to have been issued officially, and it was likely that they had been stolen early in 2004 from the stock of phones held in Baghdad or Basra. This assumption was supported by the fact that, as the two phones were used unofficially for more than a year, it was likely that the handsets and chargers had been stolen at the same time.
 - c. Analysis of the call patterns for Phones 2 and 3 suggested that the phones were used by more than one person. The itemised bills for May and June 2005, when the usage was extraordinarily high, revealed that the phones had been used to call premium rate numbers in the Wallis and Futuna Islands (a French Overseas Territory in the South Pacific) at a cost of £5.94 per minute.

7. The FCU's report also highlighted numerous failures in the Department's internal control system, which had allowed the theft of the phones and their subsequent misuse to continue undetected for a period of some 18 months. These included:
- a. The Department's staff in Baghdad and Basra were not always told that items were being sent to them, so had no way of knowing or confirming that all items that had been sent had arrived safely.
 - b. There was no Management Officer in post in Baghdad or Basra when the phones were dispatched, and there were no records of what equipment had been received or issued to staff. This lack of documentation meant that FCU were unable to determine the location(s) from which the phones had been taken, or precisely when.
 - c. There was a lack of secure storage available in the Iraq posts to store valuable and attractive equipment. This, coupled with rapid turnover of staff and the fact that staff from several countries shared facilities and equipment made for difficulties in the control of assets. It also meant that it proved impossible for the FCU to determine who had had access to the stores and therefore who might have been responsible for the theft of the phones.
 - d. The phones had been activated in the UK, prior to being sent to Iraq in 2003. This meant they could be used by anyone who gained possession of them. Had the phones been sent unactivated, and their SIM cards stored separately, the extent of the losses might have been limited to the cost of the handsets.
 - e. The monthly invoices for call usage had been authorised and paid by FCO Services without reference to the Iraq Policy Unit, or staff in Baghdad or Basra. No credit limits had been established for the phones, and no formal thresholds set on the maximum monthly amounts that might be paid.
 - f. No budget for satellite phone usage in Iraq had been entered on the Department's new accounting system (known as Prism) for 2004-05. The system was introduced in April 2004, and the Department experienced difficulties in obtaining reliable expenditure reports from the system for much of 2004-05 and the early months of 2005-06. Although a manual comparison of the budget with actual expenditure could have been undertaken, there was, in effect, no budgetary control exercised over the costs of the phones throughout the period from September 2003 to June 2005.
 - g. The standard procedure for purchasing goods and services using the Prism system had not been followed. This meant that the key controls within the system which required the receipt of a service to be confirmed ('receipted'), and for the monetary amount detailed in the purchase order, receipt and invoice to be matched before payment, had been circumvented. Had they been in operation, these controls should have given early warning of the escalating call charges.
8. The FCU report also considered whether there was scope for recovery of the losses that had been incurred. As it had proved impossible to identify those who had stolen and subsequently used the phones, there was clearly no scope for pursuing restitution from those directly responsible. They considered whether there might be a case for seeking repayment from the phone service provider of some of the amounts lost. But the Department received legal advice that suggested that they had no redress in law, and that a claim would be unlikely to be successful: the Department had continued to pay the bills when they were received, they had not known the phones had been misappropriated and therefore had not reported their loss, and it had been the service provider that had cut off the phones in June 2005, and raised the alarm. In addition, as the service provider's share of the £5.94 charged per minute for calling premium rate lines was less than £1, the extent to which the service provider had benefited was a relatively small proportion of the total amount lost.

Lessons to be learned, and remedial action

9. The FCU investigation concluded, and the National Audit Office agree, that a number of weaknesses acting together allowed this loss to occur and to remain undetected for so long. The key lessons and, where appropriate, remedial action taken by the Department, were:

- a. When dispatching valuable assets to overseas posts, the sender should alert the intended recipients that such assets have been sent, particularly when the recipients have not asked for such assets to be sent.
- b. Satellite/mobile phones should be sent unactivated to overseas posts, and only activated once receipt has been confirmed by the end user. This recommendation has been acted upon for satellite phones: it is not usually applicable for conventional mobile phones, which are purchased locally by overseas posts.
- c. The Resource Management Unit within each directorate of the Department should be charged with checking that invoices are correct before they are paid. Action was taken quickly on this recommendation, and an appropriate procedure is now in place to ensure that all invoices are automatically referred to the appropriate Resource Management Unit for consideration prior to payment.
- d. Resource Management Units should monitor the expenditure recorded against their budgets using the PRISM system, and investigate unusual or excessive expenditure items.
- e. FCO Services Telephony Section should use a threshold limit above which phones are automatically barred while confirmation is sought that the phone remains in authorised hands. The Department have now negotiated a £1,000 credit limit for all satellite phones.
- f. At overseas posts, a designated officer should maintain a record of the location of assets. This is standard practice, but the process fell into abeyance in Iraq due to the absence of a Management Officer, and the stress under which other staff were working.
- g. On the use of Prism, consideration should be given to adapting the system control framework so that users cannot opt out of using some of the control features within the system. Standard Purchase Orders should be raised at the time services are to be procured rather than when the invoice has been received. Then Purchase Order amounts could be matched both to the notification of the receipt of goods or services, and to the invoice. The Department are aiming to make such 'three-way matching' their standard practice from October 2006.

John Bourn
Comptroller and Auditor General
18 July 2006

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