



# **Annual Report and Accounts 2005-2006**

Presented to Parliament by the Secretary of State in pursuance of paragraphs 5.3 and 21A of the Police Act 1997.

National Criminal Intelligence Service Annual Report and Accounts 2005-2006  
(For the year ended 31 March 2006)

Ordered by the House of Commons to be printed on 19 July 2006. HC 1379.

The Service Authority Annual Report, the National Criminal Intelligence Service Annual Report and the Statement of Accounts are published on behalf of the NCIS Service Authority and the Director General by the NCIS Corporate Communications Branch.

**© Crown Copyright 2008**

The text in this document (excluding the Royal Arms and other departmental or agency logos) may be reproduced free of charge in any format or medium providing it is reproduced accurately and not used in a misleading context. The material must be acknowledged as Crown copyright and the title of the document specified.

Where we have identified any third party copyright material you will need to obtain permission from the copyright holders concerned.

For any other use of this material please write to Office of Public Sector Information, Information Policy Team, Kew, Richmond, Surrey TW9 4DU or e-mail: [licensing@opsi.gov.uk](mailto:licensing@opsi.gov.uk)

## Contents

### **ANNUAL REPORT 2005/06**

Service Authority Annual Report	3
NCIS Functions and Strategic Aims	7
Review of Operations	8
Performance Information	9
Management Commentary	16
Remuneration Report	20

### **STATEMENT OF ACCOUNTS 2005/06**

Statement of Responsibilities	22
Statement on Internal Control	23
Certificate and Report of the Comptroller and Auditor General	26
Income and Expenditure Account	28
Statement of Total Recognised Gains and Losses	28
Balance Sheet	29
Cash Flow Statement	30
Notes to the Accounts	31

## Service Authority Annual Report

### Introduction

This is the eighth and final annual report from the Service Authority for the National Criminal Intelligence Service (NCIS). NCIS personnel have now migrated into the Serious Organised Crime Agency (SOCA), which came into being on 1 April 2006. The NCIS Service Authority ceased to exist from that date except for finalising the 2005-2006 Annual Report and Accounts. This report reviews the performance of the past year and also reflects upon the achievements of NCIS over the past eight years.

The preparatory work required to launch SOCA has had a significant impact upon the NCIS during 2005/06. There were further additional pressures placed upon the NCIS following the terrorist attacks in Central London. Despite these factors, NCIS's annual performance, as set out in this annual report, demonstrates a high level of delivery against target.

The integration of NCIS and the National Crime Squad (NCS) has progressed systematically throughout 2005/06, with several functions having been successfully merged and co-located. The two Service Authorities, for the NCIS and NCS have held six joint meetings during the year. These joint meetings have assisted in the facilitation of the progressive integration of the two agencies. The full list of the NCIS Service Authority Members can be found elsewhere in this document.

The NCIS Service Authority is required to ensure that NCIS is efficient and effective. We are responsible for setting some of the objectives and agreeing the targets that underpin them. We submit the budget statement, publish the annual Service Plan and have closely monitored the budget and performance throughout the year.

The purpose of this report is to provide a critical and balanced analysis of NCIS's performance in 2005/06. In this report, we will only make reference to some of the targets for 2005/06; full details of all the objectives and targets are discussed by the Director General in his report.

### Serious Organised Crime Agency

The Serious Organised Crime Agency came into being on 1 April 2006 and received considerable endorsement from the Prime Minister and Home Secretary during its launch on Monday 3rd April. This will be a step change in the containment and reduction of the activities of organised criminals, bringing together staff from the National Criminal Intelligence Service and NCS, together with investigatory staff from Her Majesty's Revenue and Customs and the Immigration and Nationality Department. The merger of these staff groups from the four precursor agencies, dovetailing operational and intelligence functions under a single strategic leadership, will create an agency that has the capacity to disrupt and dismantle the very fabric of organised crime, both nationally and internationally. SOCA will seek to work collaboratively with many partner organisations. It is an initiative that has had our full support since its proposal. SOCA is well placed to develop a 360 degree approach to the increasingly complex problem of organized crime and in so doing reduce the harm to our society.

### Overview of NCIS achievements in 2005/06

NCIS achieved all of its objectives for 2005/06, with the exception of its target for directly employed minority ethnic staff. The percentage of directly employed minority ethnic staff had increased from 12% to 14% over the past year, but had not achieved the target of 16%. On reflection, the target was a particularly challenging one; NCIS had a positive outcome in increasing the proportion of directly employed minority ethnic staff over the year. By comparison, in April 2004 there was only 8.2% of staff in the Civil Service from a minority ethnic background. It should also be noted that NCIS achieved sound results against its other diversity targets. The representation of women in the workforce achieved annual targets. Women (against a target of 12%) held 20% of Senior Management posts and 49% of directly employed staff were women (against a target of 48%). The Equal Opportunities Commission reported, in 2004, that women's average representation in top jobs in the public and voluntary sectors was 21%, a figure very similar to that achieved by NCIS.

It has been a sound year for the performance of NCIS in relation to: the interagency CIDA Class A drugs strategy; the interagency Reflex strategy, in targeting people smuggling and human trafficking; the CICFA strategy in relation to the proceeds of crime; the firearms strategy, as well as other threats. The quality of products has continued to improve, with all target profiles leading to operational activity and quality feedback scores from stakeholders continuing to increase. Fundamental to the success of this work has been the establishment and maintenance of close working partnerships. The European Arrest Warrant, a vast improvement over previous arrangements, has resulted in the Sirene National Central Bureau (undertaken by NCIS) dealing with nearly 8,000 requests. Members were particularly pleased to learn of the results of partner operations, where NCIS has contributed, resulting in cocaine seizures of 30,000 kilos over the year, 131% of the 2004/05 total.

### Financial Performance

NCIS have reported an overspend of £2.7m (3%) against its Resource DEL available and £1.9m (38%) on its Capital DEL control position in 2005/06. Whilst prima facie this indicates an over-expenditure and is therefore of concern, the position is very good when allowance is made for the fact that

- a) Expenditure reported includes a £2.2m write-off of expenditure on the Schengen Information System Phase 1(SIS 1) because the project has been abandoned by the Home Office as part of a wider review of this project and other related costs within Home Office.
- b) NCIS and NCS have taken on board project expenditure as part of a joint project with the Home Office SOCA Transitional ProgrammeTeam (SOCAPT). As the following analysis shows, the NCIS outturn is part of a very satisfactory budget result achieved by the three parties working together. Overall, across the three agencies, a net underspend of £3.6m (1.4%) on resource budgets and £1.7m (5.5%) on capital budgets despite the fact that SOCA implementation costs exceeded the budget available by £6.3m resource and £5.3m capital.

#### NCS/NCIS/SOCAPT FINANCIAL OUTTURN SUMMARY 2005/06 CORE BUDGETS

Agency	Resource Budget Outturn			Capital Budget Outturn		
	Funding £m	Outturn £m	Variance £m	Funding £m	Outturn £m	Variance £m
NCS*	156.7	155.6	-1.1	21.0	19.2	-1.8
NCIS	91.4	94.1	2.7	5.0	6.9	1.9
SOCAPT	11.8	6.6	-5.2	5.0	3.3	-1.7
	<u>259.9</u>	<u>256.3</u>	<u>-3.6</u>	<u>31.0</u>	<u>29.3</u>	<u>-1.7</u>

#### Notes

1 Provisional figures - NCS accounts not finalised at time of writing.

2 NCS Outturn 2005/06 excludes write back of a provision to

AME

3 NCS outturn includes £5.8m Resource and £2.4m Capital on SOCA implementation costs.

4 NCIS outturn includes £5.7m Resource and £4.6m Capital on SOCA implementation costs.

## Efficiency and Effectiveness

Through the rationalisation of resources and process re-engineering primarily within the UK and International Divisions, the NCIS has realised a resource budget saving in 2005/06 which was sufficient to make a £3m contribution to SOCA preparation costs excluding the overspend reported above, this after absorbing the cost of a £2.2m write off of SIS I expenditure.

## Service Authority Work

This has been an intensive year for the work of the NCIS Service Authority. The Authority has met jointly with the NCS Service Authority on a bi-monthly basis, rotating with joint meetings of the Audit and Risk Management Committees. These joint meetings have helped to promote the progressive integration of the two agencies, in preparation for SOCA.

Given that this has been the last year of operation, the levels of attendance at joint meetings have been consistently good. Members' vigilance and constructive questioning have remained at a high standard.

Bentley Jennison continued as the internal auditors to the Authority, as did the National Audit Office as the external auditor. Both reported regularly to the Authority's Audit and Risk Management Committee throughout the year.

In fulfilment of the statutory requirement placed upon the NCIS Service Authority to engage in consultation about NCIS' services (Sections 3 and 41 of the Police Act 1997, as amended), Members agreed to undertake visits to a sample of NCIS stakeholders. Nine visits were undertaken, to seven Police Forces, to the Security Service and to HM Revenue and Customs. Over the nine visits 42 people were met, including : 8 ACPO rank police officers; 18 Detective Chief Superintendents or Detective Superintendents; and 12 Members or Officers of Police Authorities. A range of views were expressed during these visits but, in particular where there were good systematic local communications in place, particularly positive responses were made about the services received from the NCIS. A typical comment was : 'NCIS intelligence reports are very useful; we can learn a lot from what has gone on elsewhere and this gives us a steer on what to look for here'. Support in dealing with law enforcement agencies abroad was cited as being particularly helpful. In dealing with critical matters of extortion and kidnap, the role of NCIS was seen as vitally important. The provision of access to the database of exceptional financial activity reports was welcomed by Police Forces.

The Service Authority also undertook a limited review of a sample of feedback sheets provided by partners in response to their receipt of Current Intelligence Assessments and Problem Profile intelligence products. The average usefulness score for Problem Profiles was not as high as that for Current Intelligence Assessments, with the latter giving a good average score. When the respondent considered the product to have either operational or strategic application, for both Problem Profiles and Current Intelligence Assessments, the 'usefulness' score gave a high value.

In his Statement of Internal Control the Director General has made reference to a matter that came to the notice of the Service Authority, concerning a procurement under single tender procedures (during a previous year), that gave cause for concern. Authorisation for this single tender should have been sought at Ministerial level, but was overlooked. I am pleased to report that this matter was fully investigated, the procurement in question put on a sound footing, and Service Authority Members accepted the Director General's assurances that such an occurrence would not be repeated during the remaining lifetime of the National Criminal Intelligence Service. Both internal auditors and the National Audit Office have indicated their satisfaction with the operation of procurement policies and practices during the final year of the National Criminal Intelligence Service.

## **Conclusion and a look ahead**

At 1 April 2005 I embarked upon my eight year as a Member of the Service Authority for the National Criminal Intelligence Service, having been temporary Chairman from September 2003 and then formally appointed by the Home Secretary with effect from 1 April 2004. Throughout this period I have been impressed by the commitment and determination of all those involved with NCIS to refine its methods of working in order to assist partners more effectively to undermine and eliminate serious organised crime. As I learnt from my consultation visits to Police Forces during the past year, the support services provided by NCIS can have a substantial and profound influence upon the impact of operational activities against organised criminals. NCIS has provided many sound foundation stones upon which SOCA, in part, will develop. It has been my pleasure to be associated with all those who worked for the National Criminal Intelligence Service. I give my best wishes to David Bolt, the former Deputy Director General who is the Executive Director Intelligence for SOCA, and also to Peter Hampson, as outgoing Director General of NCIS. Both Peter and David have worked closely with the Service Authority over recent years. I have no doubt that the leadership of SOCA will steer it forward to become the world's leading law enforcement agency, having a substantial and lasting impact upon organised criminal enterprises.

### **Paul Lever**

Chairman for the  
Service Authority for the National Criminal Intelligence Service

13 July 2006



## NCIS Functions and Strategic Aims

The Police Act 1997 established NCIS and, subject to amendments and additions in the Criminal Justice and Police Act 2001 and the Police Reform Act 2002, sets out its functions and governance. In discharging those statutory functions, NCIS aims:

***To provide leadership and excellence in criminal intelligence to combat serious and organised crime***

### The UK Threat Assessment

NCIS's highest level strategic contribution to tackling serious and organised crime is the *United Kingdom Threat Assessment of Serious and Organised Crime* (UKTA), which is revised annually. The UKTA describes how serious and organised criminals operate and assesses the threat posed by each 'sector' of serious and organised criminal activity.

### Working in partnership

The principal law enforcement agencies and departments come together, with other organisations involved, under the chairmanship of the Home Office, in order to agree the response to the threats set out in the UKTA. The partnership approach has led to the creation of inter-agency strategies for tackling Class A drugs (the Concerted Inter-agency Drugs Action group, known as CIDA), Organised Immigration Crime (the Reflex group), Criminal Finances and the Proceeds of Crime (the Concerted Inter-agency Criminal Financial Assets group, known as CICFA) and criminal use of Firearms (the Strategic Criminal Use of Firearms, known as SCUF). The development of similar strategic approaches for the 'designated threats' has been pursued in a further 7 specific areas of criminality.

### Outputs

NCIS delivers outputs of three main kinds in support of the inter-agency strategies and collaborative projects:

- i) intelligence assessments that ensure that the extent of criminal threats and the nature of criminal business methods are properly understood and that law enforcement and policy makers learn the lessons of experience;
- ii) operational intelligence on major criminals and their organisations;
- iii) a range of coordination services that support the multi-agency law enforcement operations against serious and organised crime and the development of criminal intelligence.

### Outcomes

NCIS does not carry out arrests, seize illicit material or mount prosecutions. NCIS works, together with partner agencies, to diminish the risk of harm to the UK from criminal activity and increase the risk to the criminal; to remove opportunities for criminal activity and improve opportunities for law enforcement intervention; to identify the proceeds of criminal activity and provide information leading to the seizure of related criminal assets. Each year NCIS is set objectives and targets by the Home Secretary and the NCIS Service Authority which are published in a Service Plan. The objectives and targets are designed to secure these outcomes.

### NCIS's values

NCIS aims for the highest standards by creating and maintaining an environment which values staff; maintains high professional standards, recognises achievement; and uses resources efficiently and effectively.

## Review of Operations

### Introduction by Director General

I am very proud of the contribution made by all of NCIS staff, during a year full of challenges. Working in close partnership with their colleagues in Law Enforcement, Government and Commerce, both in the UK and overseas, they have ensured that NCIS has delivered its business commitments whilst working towards the effective commencement of SOCA.

These achievements have required the highest level of dedication from everyone. We have delivered all of the Products as set out in the Service Plan for 2005-06. Along the way we have, in consultation with our partners, found more effective and co-operative methods of working.

We have also successfully delivered against the development priorities laid down in the 'Quality Programme' which were aimed at enhancing the capabilities of NCIS whilst adding value to what we were taking forward into SOCA.

During the year NCIS has continued to provide input in areas of business beyond those described in the business plan; NCIS provided significant support to the investigations that followed the July Bombings; my staff were able to provide timely support to Project Telco; The Serious Sex Offenders Unit has delivered training courses throughout the year of the highest calibre, both in the UK and Overseas.

### Corporate resources and plans – 2005/06

NCIS' operational objectives and corporate development plan, the 'Quality Programme', were published in the Service Plan for 2005/06.

In order to support NCIS operations and permit development in line with the Quality Programme 2005/06, the Home Office and other government bodies provided resource funding of £98.1m and capital funding of £6.7m.

In addition to delivery against the Service Plan a key contribution has been made to the development of SOCA. This has seen a significant effort in respect of capability building, partnership working, training personnel and capital investment. Building on the work of last year NCIS personnel have continued to make a key contribution to the development of SOCA. Of late NCIS has provided a welcoming base for many of the new business areas, whilst ensuring that responsibility for areas of business not falling within the SOCA portfolio have been clearly defined.

These have all been delivered within the budget allocated to NCIS for the year; details of the level of SOCA expenditure have been captured under the requirements of FRS 3

All Capital investment business cases have been appraised to ensure the benefits provided have a SOCA focus. Key investments have been made in respect of our Network Security, Technical Collection Services and Overseas connectivity. Investment in IT has been made to provide our Law Enforcement partners with access to the SARs database and the development of the Public Access System for the submission of SARs over the Internet. Additionally the NCIS HQ site has been extensively developed; increasing capacity by 300 workstations, this is part of a programme which will continue under SOCA.

## Performance Information

### The performance regime

As in previous years, this review of NCIS' operations is principally based upon the four key areas of operational business, supplemented by a review of progress in the corporate development plan, known as the Quality Programme.

Each of the 2005/06 performance objectives that relate to sectors of threat, as well as those that monitor organisational health and development, have seen significant progress and some creditable results have been achieved during the year. NCIS has focused on the delivery of quality intelligence products that inform the decisions of those responsible for setting strategic priorities and carrying out operations

NCIS has a well established 'balanced scorecard' performance regime that embraces objectives and targets for both key business areas and the developmental priorities for the Quality Programme. The following tables show output and trend related performance in seven key areas. They are followed by a summary of the impact of NCIS activity during 2005/06.

### NCIS BALANCED SCORECARD – KEY PERFORMANCE OUTCOMES 2005/06

#### General comments

The strategic and operational support to all sector partners was maintained at a high level in year; this, together with product feedback resulted in a strongest showing since inception, confirming that the NCIS contribution to the pre SOCA agenda has been one of growing significance.

#### Support To The Government's Harm Reduction Strategy On Class A Drugs - CIDA

	Objective 1(i)	Comment
Tactical Assessments		
• Deliver 8 to time & quality		
Problem Profiles		
• 32 delivered in Year		Against baseline 32
Target Profiles		
• 79 delivered in Year		
• 100% leading to target operations		Against baseline of 80%
Intelligence Reports		
• 11079 disseminated		Focus on quality not numbers
• 99% relating to Level 2 & 3 criminality		Against target of 95%
Quality monitoring		
• Quality feedback on CIDA Products		83% usefulness against target of 80%

**Support To The Government's Harm Reduction Strategy On Organised Immigration Crime - REFLEX**

Objective 1(ii)

Comment

Tactical Assessments

- Deliver 12 to time & quality

Problem Profiles

- 6 delivered in Year

Target Profiles

- 42 delivered in Year
- 100% leading to target operations

Intelligence Reports

- 6174 disseminated
- 100 % relating to Level 2 & 3 criminality

against target of 85%

Quality monitoring

- Quality feedback on REFLEX Products

83% usefulness against target of 80%

**Support To The Government's Harm Reduction Strategy On Money Laundering & Criminal Finance – CICFA**

Objective 2(i)

Comment

Problem Profiles

- 14 delivered in Year

Target Profiles

- 64 delivered in Year
- 100% leading to target operations

Against baseline of 47  
Against baseline of 80%

Intelligence Reports

- 3501 disseminated
- 99% relating to Level 2 & 3 criminality

Against target of 85%

ELMER database

196,000 SARs entered

Consents under POCA

- Service Standard Compliance

95% against baseline of 85%

Quality monitoring

- Quality feedback on CICFA Products

95% usefulness against target of 80%

**Support To The Government's Harm Reduction Strategy On The Disruption of Criminal Enterprises - Firearms & Other Threats**

	Objective 2(ii)	Comment
Strategic assessments		
• Deliver UK to time and standard		Baselines delivered in mid January 2006
Regional assessments		
• 22 delivered in Year		
Problem profiles		
• 26 delivered in year		
Target Profiles		
• 29 delivered in Year		Against baseline of 29
• 100% leading to target operations		Against target of 80%
Intelligence Reports		
• 6811 disseminated		Focus on quality not numbers
• 80% relating to Level 3 criminality		Against target of 60% at L3
Quality monitoring		
• Quality feedback from Strategic Partners		80% usefulness against target of 80%

**Improved Inter-Agency working**

	Objective 3	Comment
Support formation of SOCA		Proto SOCA invoked Jan 2006
SOCA Intelligence Doctrine promoted		
Management of NIR		
Support to ACPO/ACPOS led Regional Tasking and Coordination		

**Provision of Co-ordination Services**

	Objective 4	Comment
International assistance (Interpol)		
• Urgent Requests delivered to Service Standards		100% against target of 97%
RIPA Compliance		
• Pre-authorisation checks completed to service standard		100% against target of 50%
Source Registration		
• Checks completed within service standards		100% against target of 97%
ELEMENTARY		
• 97% Flagging applications registered within 24hrs		Against target of 97% transactions 2166 <sup>1</sup>
• 97% Urgent searches within 2 hours		Against target of 97%
• 97% Routine searches within 36 hours		Against target of 97%

<sup>1</sup> Process modified in consultation with partners

<b>Meet Organisational Development Priorities</b>	Objective 5	Comment
Maximise Joint Working with NCS Support Areas		Joint Finance, Procurement, HR and Governance work through out year.
Intelligence Training Skills Requirements		Intelligence Management Training Exceeded planned scope
Development of JEGS		JEGS process taken into SOCA
Corporate Health Indicators (Diversity)		
<ul style="list-style-type: none"> <li>• 20% Senior Management Post held by females</li> </ul>		Against target of 12%
<ul style="list-style-type: none"> <li>• 49% Proportion of directly employed staff – female</li> </ul>		Against target of 48%
<ul style="list-style-type: none"> <li>• 14% Proportion of directly employed staff – visible ethnic minority</li> </ul>		Against target of 16% (figure achieved is 2% above last year)

NCIS is accredited to the ✓✓ Scheme; through the period of review the level of registered disabled staff directly employed by the organisation averaged 2.47%.

**Impact in key business areas**

**CIDA – Class A drugs**

**The CIDA strategy** – The aim of the interagency CIDA Class A drugs strategy is to reduce availability of those drugs which cause the most harm by making access to the market more risky and less profitable, and to support international action to reduce drug production by attacking the trade and those responsible for it in production and transit regions.

**The NCIS contribution** – The strategic focus this year has been on disrupting the supply of Cocaine and this has been reflected in the subject matter of the intelligence products delivered by NCIS. NCIS involvement throughout the year has been in the main delivered by resources from the UK Division, Technical Services, the International Division and the Financial Intelligence Branch. All of these resources have combined to provide comprehensive support to the delivery of intelligence products and operations by partners. The scope of this operational activity has ranged from the well received Street Level Up initiative to the Colombian Co-Ordination Project. A key intelligence product delivered in the period being a Class A baseline assessment for CIDA Zones 6-8.

NCIS has initiated projects with its main European partners (Spain, Netherlands and Turkey) seeking to develop levels of co-operation through contributions to strategic assessments, identification of key areas of mutual interest and where appropriate exchanges of intelligence. Each of these projects has been supported by NCIS key law enforcement partners in the UK; HMRC, NCS and Police Forces.

The table, below, showing drug seizures in cases where NCIS has contributed to partner operations at home and abroad, reflects the strategic focus on Cocaine trafficking:

- 30,000 kilos of Cocaine – approx. 131% of the 2004/05 total;
- 575 kilos of Heroin – approx. 53% of the 2004/05 total;
- 3.20 million Ecstasy tablets – about 67% of the 2004/05 total

## Reflex – human trafficking and people smuggling

**The Reflex strategy** – The interagency Reflex strategy aims to target criminal activity behind organised people smuggling and human trafficking by reducing the profits made by criminal gangs, raising the risks they must take and reducing the opportunities for them to harm and exploit their victims.

**The NCIS contribution** - NCIS performance in support of Reflex partners has seen a further sustained effort in 2005/06. Throughout the year, intelligence flows have exceeded by 11.2% the baseline set in 2004/05. During this period 42 Target Profiles were delivered, all resulting in an operational uptake. In addition, 4 Problem Profiles first delivered in 2004/05 have been updated and 3 Baseline Assessments; Trafficking of People, People smuggling and Associated Illegal Working and False Documents have been produced in preparation of the UKTA.

NCIS has continued to work with its law enforcement partners on various initiatives: in particular Operation Pentameter, which is an ongoing UK wide operation against People Smuggling. A significant effort has also been delivered in respect to the use of forged documentation in the facilitation of people smuggling. This work has involved close working with agencies, both in the UK and Overseas.

## CICFA – proceeds of crime

**The CICFA strategy** – This year has seen an increased recognition of the importance of the Suspicious Activity Reporting regime, together with wider financial intelligence in supporting asset recovery, as a key facet of CICFA strategy for the disruption of serious organised crime.

**The NCIS contribution** – During this year NCIS has delivered 14 Problem Profiles against a 2004/05 baseline of 12 and increased the delivery of Target Profiles by 96% over the baseline. The delivery of quality intelligence has seen successful money laundering operations both in the UK and Overseas.

Considerable work has been undertaken to provide evidence to support HMT in implementing the 3<sup>rd</sup> Money Laundering Directive which is soon to be issued through publication in the European Journal. NCIS was tasked to produce a number of assessments (on Estate Agency; Bookmakers; Company Service Providers; and Trusts) to inform amended Money Laundering Regulations which are to be issued in 2006. The net effect of this work will be to strengthen the UK defences to Money Laundering. NCIS personnel sit on most of half a dozen working groups led by HMT to develop implementation plans.

NCIS has continued to work with HMT and law enforcement partners against international corruption. Seven Current Intelligence Assessments were delivered during the period which stimulated enforcement investigations and contributed to government policy of mitigating international debt and corruption.

In managing the Suspicious Activity Reporting regime NCIS has worked with its partners both in commerce and Law Enforcement, to ensure the potential of this device is maximised. The levels of reporting continue to rise with a total of 196,000 being submitted this year, an increase of 27% on last years figure. Two key initiatives have been introduced by NCIS to improve the effectiveness of the regime. Firstly; secure direct access to the relevant database has been provided to our Law Enforcement partners; there are to date 1033 registered users with a further 99 in the process of finalising registration. The second initiative has seen the introduction of an internet based reporting facility for the commercial sector. Both initiatives have provided significant opportunities to law enforcement which would not have been realisable earlier in the year.

**Other threats** - NCIS continues to play a major role in supporting and guiding the development of national strategies across the remaining sectors of threat and some significant developments have been taken forward throughout the year, with particular emphasis being given to ensure full support to partners taking responsibility for areas of business not being transferred to the SOCA portfolio.

**The Firearms Strategy** – NCIS has continued to provide support to ACPO, which has the national lead for the firearms strategy. As well as delivering the key Problem Profile ‘Guns and Gangs – The Threat to the UK from the Criminal Use of Firearms and updating the EU Firearms Threat assessment, NCIS has also continued to support operations both in the UK and Overseas.

**The ‘Other Threats’ strategies** – As well as working with partners to ensure business continuity post April 2006, NCIS has continued to deliver well received intelligence products, including 26 Problem Profiles and 29 Target Profiles.

The Football Intelligence Unit which has been working with various parties towards effective policing of this years World Cup; this Unit has now been transferred to the Home Office and will continue to deliver effective intelligence and co-ordination activities in this area.

The Serious Sex Offenders Unit has continued to provide support to partners both at home and abroad, mainly through training and liaison. This unit will be incorporated into the newly formed Child Exploitation and On-line Protection Centre (CEOP).

### **The Quality Programme**

As in past years the 2005/06 Service Plan outlined the ongoing Quality Programme highlighting the five key development areas for NCIS, as:

- consistently high performance;
- productive partner relationships;
- first class information and joined up systems;
- quality training and staff development;
- an estate fit for purpose.

Within the aims of the ‘Quality Programme’ and through its development projects NCIS also identified specific activities which would have a positive impact on the NCIS contribution to the success of SOCA; these were:

To improve the knowledge base of serious organised crime and criminal activities, through the development of NCIS systems and business processes, and by extending IT connectivity to more partner agencies wherever possible

To exploit the improved knowledge base to increase the impact of NCIS intelligence products in support of CIDA, Reflex, and other national strategies for tackling serious organised crime.

Achievement: significant efforts have been directed to developing the Knowledge which will enable SOCA to make full use of its resources from 1 April 2006. The Atlas Programme has seen the rebuilding of the National Intelligence Database focusing on quality intelligence as a key element in the disruption of Serious and Organised Crime. Latterly this work has seen the same quality assurance process applied to the information being bought into SOCA from the other pre-cursor agencies. This has been achieved with the cooperation of external partners.

As well as establishing the baseline knowledge, work on developing the Tasking and Co-ordination processes for SOCA has progressed in order that SOCA can deliver its Knowledge led doctrine.

In addition to the previously mentioned access developments, another connectivity project provided access to Interpol I/247 for Police Forces. In addition NCIS has invested heavily in providing upgraded security aspects to its Network, which will enable greater connectivity in the future.



The final element of the Quality programme called for added value to NCIS co-ordination services, and progress on those areas not already included in this report:

Significant re-engineering of process has been undertaken for intercept services, with the purpose of proving, with our partners, the effectiveness of the process in delivery of SOCA commitments. This has been supplemented by capital investment in developing the technical capabilities of the service.

An in house Intelligence Management Training Programme aimed at raising the professionalism of career Intelligence Officers, and consolidation of the 'SOCA Doctrine' for tackling serious organised crime, has been completed.

NCIS has reviewed many of its service provision processes throughout the year, with a view to enhancing the capabilities of SOCA. With regard to UK Law Enforcement partners this work has had a significant impact on the nature of the collection processes and the products that flow from this exercise. In discussion with our colleagues in UK Police forces the Flagging Process has been reviewed and the resulting "Flagging Lite" has improved the quality of the intelligence received from the process at the same time as reducing the reporting burden on our partners. Delivery of the 22 Regional Strategic Assessments has been a more co-operative venture this year with many forces playing a lead role in their development.

Our work with overseas partners, through the Overseas Crime Liaison Officer (OCLO) network has delivered significant operational success across all four strategic crime sectors. NCIS also provides National Central Bureaux (NCB) facilities to meet many UK treaty obligations, particularly, Interpol, Sirene and Europol. The Interpol NCB created 20,408 cases this year and received 161,058 messages; mention has already been made of the provision of I/247 to UK Law Enforcement to facilitate UK response to Interpol business. The Sirene NCB has dealt with 7,942 requests under European Arrest Warrants as well as managing the response to the other relevant articles of the Schengen Convention. NCIS has played a key role, particularly during the UK Presidency of the EU, in formulating, with other member states, new approaches to intelligence work within Europol

In summary I feel the organisation has fully achieved the final element of the Quality Programme; that of playing a significant role in the development of SOCA and delivering enhanced intelligence capabilities for its initial operations.

## Management Commentary

NCIS became a non-departmental public body on 1 April 2002. The accounts for the year ended 31 March 2006 report a small deficit for the year of £3.1m, and show decrease in net assets from £20.1m to £16.6m.

Full details are set out in the Statement of Accounts on Pages 28 to 52.

### Introduction

The National Criminal Intelligence Service (NCIS) was established as an independent organisation on 1 April 1998 by the Police Act 1997 (the Act). Prior to that date it operated as part of the Home Office.

The NCIS Service Authority was also created with effect from 1 April 1998, and it is the Service Authority that is the legal entity, as opposed to NCIS itself. This is the same as for a Police Force with regard to its Police Authority.

Up to 31 March 2002 NCIS was funded by a levy on the Police Authorities of England and Wales together with contributions from HM Customs and Excise (HMCE), the Scottish Home and Health Department and the Northern Ireland Office.

The Criminal Justice and Police Act 2001 amended the funding arrangements and re-designated NCIS as an Executive Non-Departmental Public Body (NDPB). Since 1 April 2002 NCIS has been financed primarily by Grant-in-aid from the Home Office, continued funding and support from HMCE, the Scottish Executive and the Police Service of Northern Ireland together with additional specific project funding from the Home Office, other government departments and similar bodies.

Section 21A of the Police Act 1997 requires the Service Authority to prepare a Statement of Accounts for each financial year in the form and on the basis directed by the Secretary of State, with the consent of the Treasury. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of NCIS at the year-end and of its income and expenditure, statement of total recognised gains and losses, and cash flows for the financial year.

### Principal activities

NCIS exists to provide and develop quality criminal intelligence to combat serious and organised crime. Details of activities and operational performance during the year are set out in the body of the Annual Report. Performance against targets set by the Home Office and the Authority are set out in the Annual Report.

### Results for the year and financial position

The activities of NCIS have been transferred to the Serious Organised Crime Agency on 1<sup>st</sup> April 2006; therefore in accordance with Financial Reporting Standards NCIS accounts have been prepared on a going concern basis.

The accounts for the year ended 31 March 2006 report a deficit for the year of £3.1m (2004/05: £2.3m surplus) and a decrease in Government Reserves / Net Assets in the year from £20.1m to £16.6m.

The deficit of £3.1m for the year arose because of the need to spend £5.8m of resource budget on SOCA preparation works. Grant funding, was used to fund both NCIS activities and SOCA Transition resource and capital costs. Home Office approval for the additional spend has been obtained.

NCIS deficit in the statutory accounts of £3.1m differs with the £2.7m resource deficit detailed below in the **NCIS - Position Statement on Home Office Approvals with Expenditure** because the statutory accounts excludes the notional cost of capital and funding of capital expenditure, which is capitalised and depreciated. The capital expenditure of £8.6m is included as part of tangible fixed assets in note 10 of the accounts.

### NCIS – Position Statement on Home Office Approvals with Expenditure

RESOURCE	CORE £000	PROJECTS £000	TOTAL £000
Resource funding approved (ring fenced to actual spend for projects)	91,435	6,623	98,058
Resource spend net of operating income	(94,130)	(6,623)	(100,753)
<b>Overspend for year</b>	<b>(2,695)</b>	-	<b>(2,695)</b>
Excluding SOCA Transition resource costs (FRS 3 costs)	5,753	-	5,753
<b>Net resource underspend for year excluding FRS3 costs</b>	<b>3,058</b>	-	<b>3,058</b>
CAPITAL	CORE £000	PROJECTS £000	TOTAL £000
Capital funding approved (ring fenced to actual spend for projects)	5,000	1,702	6,702
Capital spend for year	(6,891)	(1,702)	(8,593)
Overspend for year	(1891)	-	(1891)
Excluding SOCA Transition capital costs	(4,616)	-	(4,616)
<b>Net capital underspend for year excluding SOCA capital costs</b>	<b>2,725</b>	-	<b>2,725</b>

### Changes in fixed assets

Details of changes in fixed assets are shown in notes 9 and 10 to the accounts. In particular:

- Reduction in fixed assets of £1.3m during the year occurred because the cost of disposals and depreciation of £9.8m exceeded the capital additions of £8.6m. Capital expenditure during the year included £4.6m of SOCA Transition capital costs.
- Assets under Construction for this year were £2.4m, this expenditure relates to the costs of a number of SOCA development projects that will be completed next year
- Revaluation of fixed assets resulted in a small diminution in value of £0.45m using the information provided by the Price Index Numbers for Current Cost Accounting published by the Office for National Statistics.
- Write off of £2.2m software design costs. Home office approval for the loss has been obtained.

### Assurance Statement on financial results for the year

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

### **Remuneration of the External Auditors**

During the year the external auditors, NAO, were not paid for any work of a non-audit nature. Auditor's remuneration for NAO is disclosed in Note 8 of the accounts.

### **Compliance with Public Sector Payment Policy**

NCIS policy, in line with Government requirements, is to pay all invoices within 30 days of receipt, unless a longer payment period has been agreed or the amount billed is in dispute. For 2005/06, on average, 84.9% (2004/05: 83.7%) of invoices were paid within 30 days of receipt. NCIS monitors its statistics monthly with all departments, taking action as necessary.

During 2005/06, NCIS paid £94 (2004/05 £2,971) interest to suppliers, under the Late Payment of Commercial Debts (Interest) Act 1998.

### **Environmental policy**

NCIS is committed to reducing its impact on the environment by improving the environmental performance of its operations and its properties and endeavours to ensure that such improvement is continuous. NCIS also aims to educate, train and motivate staff to work in an environmentally responsible manner and to play a full part in developing new ideas and initiatives.

NCIS continues to improve its environmental performance as well as raising staff awareness of environmental issues.

### **Equality and diversity policy**

NCIS is committed to providing a working environment in which people feel valued, respected and able to contribute fully to the success of the organisation. NCIS acknowledges and respects individual differences, enhancing success within NCIS by encouraging the creativity, innovation and productivity of all its employees.

NCIS will ensure that there is no unfair discrimination on the grounds of gender, marital status, race or ethnic origin, sexual orientation, gender reassignment, age, religious belief, physical or mental disability or any other unjustifiable criterion against any eligible person whether in recruitment, training, appraisal, promotion, career development, and allocation of duties or in any other way which affects the working relationships.

### **Staff involvement and development**

NCIS has a range of formal and informal methods of communicating and consulting with staff. Knowledge seminars provide for staff to be informed about developments in particular aspects of NCIS activities; the staff internal newspaper 'Sword' contains regular features on NCIS, and staff are involved in a variety of project boards and working parties. The intranet informs on a daily basis news items, policy documents, bulletin boards and social pages. It also provides a research basis for knowledge items.

Health, safety and security issues are communicated as part of the comprehensive staff induction programme and via publications on the intranet. The Health and Safety Committee meets on a quarterly basis to discuss health and safety issues and ensure that adequate health and safety arrangements are in place and implemented.

### **Post balance sheet events – Serious Organised Crime Agency**

On 7 April 2005 the Serious Organised crime and Police Act 2005 received Royal Assent. The bill establishes the Serious Organised Crime Agency (SOCA) from 1 April 2006 and also abolishes the National Criminal Intelligence Service and National Crime Squad from a date to be agreed by the Secretary of State.

On the 14th February 2006, the Secretary of State, after a full consultation process with all relevant parties, in exercise of the powers conferred on him by Schedule 3 to the Serious Organised Crime and Police Act 2005 agreed the terms of the Transfers To SOCA Scheme 2006, with effect from the 15th February 2006. The scheme enabled the two agencies assets, liabilities, structures and roles to be absorbed into SOCA, together with some staff from HM Revenue and Customs and the UK Immigration Service.

During the year, the pre-cursor organisations made various changes to their structures and incurred costs (reported as exceptional items under FRS3 ) to enable the smooth transition to SOCA

SOCA comprises approximately 4,200 staff, is intelligence led, and has as its core objective the reduction of harm caused to the UK by organised crime.

### **Way Forward**

From the 1 April 2006 NCIS ceases to exist with its assets, liabilities and staff transferring to the Serious Organised Crime Agency.

**Peter Hampson CBE QPM LLB AKC**  
Director General and Accounting Officer  
National Criminal Intelligence Service

13 July 2006

## Remuneration Report

### Service Authority Members

Service Authority Members are appointed under the Act for periods of up to 4 years. During the year ended 31 March 2006 the Authority Members were:

Member	Position	Appointed by	Date of changes
<b>CORE MEMBERS</b>			
Paul Lever	Chairman, Independent Member	Home Secretary	Chairman from 1 April 2004
Caroline Burton	Independent Member	Home Secretary	
Jennifer Harvey	Independent Member	Home Secretary	
Peter Storr	Director, Organised Crime, Home Office	Home Secretary	From 1 April 2004
Mike Elland	Director Law Enforcement, HM Customs and Excise	Commissioners for HM Customs & Excise	From 1 October 2004
James Hart QPM	City of London Police	ACPO	
Councillor Bob Jones	Association of Police Authorities	Association of Police Authorities	
John Christensen	Association of Police Authorities	Association of Police Authorities	From 25 January 2005
<b>NON-CORE MEMBERS</b>			
•	Representative of the Security Service	Security Service	
Ian Latimer	Chief Constable, Northern Constabulary	ACPOS	From 1 October 2004
Hugh Orde OBE	Chief Constable, Police Service of N.Ireland	Police Service of Northern Ireland.	

- Details relating to the Representative of the Security Service have been excluded from the table for security reasons.

All members were appointed on 1 April 2002 unless otherwise specified.

The annual allowances received by Service Authority members during the year were as follows:

	<b>2005/06</b>	2004/05
	<b>£'000</b>	£'000
<b>Core Members</b>		
Paul Lever – Chairman	<b>30</b>	29
Caroline Burton	<b>6</b>	5
Jennifer Harvey	<b>6</b>	5
Peter Storr	<b>0</b>	0
Mike Elland	<b>0</b>	0
James Hart QPM	<b>0</b>	0
Councillor Bob Jones	<b>6</b>	5
John Christensen	<b>6</b>	1
<b>Non-Core Members</b>		
• Representative of the Security Service	<b>0</b>	0

Andrew Brown QPM	0	0
Hugh Orde OBE	0	0
Ian Latimer	0	0

- Details relating to the Representative of the Security Service have been excluded from the table for security reasons.

The above core members are also members of the National Crime Squad Service Authority. The allowances disclosed above cover duties for the NCIS Service Authority.

In addition to the above annual allowances, members are reimbursed business expenses relating to Service Authority matters.

No pension or other benefits are provided for members.

### Directors of NCIS

During the year ended 31 March 2006 the Directors were:

Name	Current Position	Date of Appointments/Retirements in year
Peter Hampson	Director General	Director General from 22 March 2003
David Bolt	Deputy Director General and Director – Corporate Governance Division	Director from 1 April 2002
Neil Bailey	Director - Intelligence Services Division	Director from 1 Feb 2004, resigned on 31 January 2006
Keith Bristow	Director - UK Division and Human Resources	Appointed as Director of Human Resources from 19 July 2004, resigned on 3 April 2005
Ian Cruxton	Acting Director - UK Division	Acting Director from 19 July 2004
Nicholas Beard	Director - Resources Division	Director from 1 April 2002
Malcolm Cornberg	Director - Finance and Administration Division	Director from 27 April 2005
Robert Wainwright	Director - International Division	Director from 23 May 2003

Directors are appointed through open and fair competition; such appointments are sometimes filled by means of fixed term secondments from other organisations.

In the interest of security all the Directors of NCIS have withheld consent to publish details of their age, remuneration or pension entitlement. Details of Pension schemes available to all NCIS staff are disclosed under note 7 of the accounts.

During the year ended 31 March 2006 none of the Directors or Authority Members, or parties related to them, entered into any transactions with NCIS.

**Peter Hampson CBE QPM LLB AKC**  
 Director General and Accounting Officer  
 National Criminal Intelligence Service

13 July 2006

## Statement of the NCIS Service Authority's and Accounting Officer's Responsibilities

### NCIS Service Authority's responsibilities

Under the Cabinet Office's guidance on Codes of Best Practice for Board Members of Public Bodies, the Service Authority is responsible for ensuring propriety in its use of public funds and for the proper accounting for their use. Under Section 21A of the Police Act 1997, the Service Authority is required to prepare annually a statement of accounts in the form and on the basis determined by the Secretary of State, with the consent of the Treasury. The accounts are to be prepared on an accruals basis and must give a true and fair view of the state of affairs of NCIS at the year end and of its income and expenditure, statement of total recognised gains and losses and cash flows for the financial year.

In preparing the accounts the Service Authority is required to:

- observe the Accounts Direction issued by the Secretary of State with the approval of the 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 have been followed and disclose and explain any material departures in the financial statements; and
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that NCIS will continue in operation.

### The Accounting Officer's responsibilities

The Accounting Officer for the Home Office has appointed the Director General as the Accounting Officer for the NCIS Service Authority. His relevant responsibilities as Accounting Officer, including his responsibilities for the propriety and regularity of the public finances and for the keeping of proper records, are set out in the Non-Departmental Public Bodies' Accounting Officer Memorandum issued by the Treasury and published in Government Accounting.

**Peter Hampson CBE QPM LLB AKC**  
Director General and Accounting Officer  
National Criminal Intelligence Service

13 July 2006



## Statement on Internal Control

### Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the policies, aims and objectives for the National Criminal Intelligence Service (NCIS), including those set by the Home Office and the NCIS Service Authority, whilst safeguarding the public funds and the organisation's assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *Government Accounting*.

### 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 NCIS' 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 NCIS 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.

### Capacity to handle risk

Leadership on risk management is provided by the NCIS Board of Directors, Assistant Directors and other key senior managers across the organisation. The Board monitors delivery against key objectives. Significant risks are identified and escalated to the Board and reported in the NCIS Strategic Risk Register. The key assurance mechanisms to manage those risks are set out clearly within the register and published in the NCIS Service Plan 2005/06. The objectives for 2005/06 have all been met with the exception of the diversity target. This I have discussed with the Commission for Race Equality and they have assured me that NCIS has exceeded the achievements of most law enforcement organisations.

I have personal responsibility managing some of the key strategic risks to ensure that the resources available are managed as effectively as possible to meet risks and corporate governance standards e.g. I chair the Workforce Planning Group responsible for making decisions relating to our Establishment List and the Programme Management Board responsible for investment decisions and monitoring delivery of the development schemes.

The NCIS Executive Audit & Risk Committee (EARC) monitors and reviews the processes for managing risk, control, governance and assurance across NCIS. This is chaired by one of my executive directors with attendance of the National Audit Office and our internal auditors. The NCIS Service Authority Audit & Risk Management Committee (ARMC) also provides independent oversight of the processes.

My senior managers and I continue to meet regularly with stakeholders at ministerial and other levels in the Home Office and our Service Authority to discuss performance and other key strategic issues. We also meet frequently with partners to confer and share risk issues both nationally and internationally and have made significant progress with other pre-cursor agencies in the process to create the Serious Organised Crime Agency.

My Quality Assurance and Risk Management Team is responsible for ensuring that appropriate guidance, support and training on risk management is available to staff. There is a corporate training programme in place which includes risk management. We continue to develop our formal assessment, review and reporting processes using best practice across government.

## **The risk and control framework**

Risk management has well-established business planning, performance reporting and decision-making processes with ownership established at both strategic and sector risk levels. The embedded nature of risk management or risk appetites allows for business exposure and tolerance levels to be judged at key levels by the appropriate management within the control framework. These occur, for example, at the strategic level by Directors (ongoing review of Corporate Risks); within business areas by Assistant Directors and within programmes and projects by respective managers. In practice, key judgements are based on knowledge of the business and the resources that are in place to manage controls for each risk.

Risk identification, evaluation is designed into strategic and business planning and performance reporting. NCIS has a well-established programme of reporting and review meetings and I review key risks that are escalated, collectively and individually with my Directors at monthly performance and Board meetings.

We have carried out three quarterly risk based reviews of the overall business and have identified and managed risks relating to the transition to the Serious Organised Crime Agency (SOCA) in joint working with the Home Office Sunsetting Programme Team and Service Authority.

Relationships with partners continue to be developed, both in Government, Law Enforcement and non-government organisations. My Deputy Director General and I have met with various Chief Constables throughout the period and the Service Authority visited five forces during the year in meeting their statutory responsibility to consult with stakeholders Opportunities identified in the 'Key Stakeholder Project', to which I referred last year, have been developed. One example being the embedding of NCIS Intelligence Officers to support the work of Forces identified as key partners.

## **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 and the executive managers of NCIS, who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors and qualified consultants in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and the NCIS Executive (EARC) and plan to address weaknesses and ensure continuous improvement of the system is in place.

The EARC and ARMC receive regular reports on internal audit and inspection reviews and consider the Internal Audit Annual Assurance opinion on effectiveness of risk management, control and governance. The assessment of the control environment is also informed by the programme of external audits and inspections undertaken by the National Audit Office and the Commissioner for Surveillance. These views are shared with the Board.

In giving his annual opinion, the Head of Internal Audit (HIA) drew positive conclusions in relation to NCIS' risk management and corporate governance processes whilst drawing attention to some areas where improvements or changes had been required to control systems and processes during the course of the year. My review this year is further supported by an annual assurance statement and report on effectiveness from each Director and Assistant Director.

## **Significant Issue**

During an independent review this year by ex-Treasury official John Gant, a previous year breach of ministerial approval for a single tender action came to light. This was subject to a thorough review internally and robust external review by the ARMC, Home Office Audit & Assurance Unit, Internal Auditors and the National Audit Office. The breach was addressed in year and a compliance questionnaire was completed by each of the Assistant Directors and reviewed by the Quality Assurance Team and Procurement to ensure that there were no other hidden issues.

## Transition to SOCA

Under the Serious Organised Crime and Police Act 2005, SOCA came into being on 1 April 2006. This brought together the National Criminal Intelligence Service (NCIS); the National Crime Squad (NCS); elements of Her Majesty's Customs & Revenue's (HMRC) and the Immigration Service.

My staff continued to provide significant input to the development of the new organisation along with colleagues from the other pre-cursor agencies. The SOCA Board at their December meeting set a clear strategy for the most effective way of implementing proto-SOCA to ensure all pre-cursor agencies were fully prepared for the launch of SOCA on 1 April. The approach was to run as Proto-SOCA from 1 January 2006 to 1 April 2006. This was achieved by using the resources and powers of the existing precursor agencies to commence the transition into the new SOCA ways of working and changes in responsibilities. At the same time this avoided a 'big bang' effect on 1 April.

Proto-SOCA included a mixture of immediate essential work (such as the Executive Directors engaging full time on SOCA business, precursor agencies adopting the SOCA Intelligence Doctrine with the testing of these principles in an operational environment and work to commence the longer implementation of the three year strategy published in January. Much of the work to be taken forward and concluded during Proto-SOCA was completed ahead of schedule. All of the NCIS commitments were delivered with no negative impact on the core delivery of core services.

In order to support the creation of SOCA, I have taken personal responsibilities for some areas of the business as described earlier to ensure that those of my senior staff who needed to be relieved of some the NCIS responsibilities could be released to do so. Costs for the year in relation to transition work have been reported in our accounts under Financial Reporting Standard 3 (FRS3).

**Peter Hampson CBE QPM LLB AKC**  
Director General and Accounting Officer  
National Criminal Intelligence Service

13 July 2006

## The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the National Criminal Intelligent Service for the year ended March 31<sup>st</sup> 2006 under Section 21A of the Police Act 1997 (as amended by the Criminal Justice and Police Act 2001). These comprise the Income and Expenditure Account, the Balance Sheet, the Cashflow Statement and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them.

### Respective responsibilities of the NCIS Service Authority, the Accounting Officer and Auditor

The Service Authority of the National Criminal Intelligence Service and Accounting Officer are responsible for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with Section 21A of the Police Act 1997 (as amended by the Criminal Justice and Police Act 2001) and directions made thereunder by the Secretary of State with the consent of Treasury, and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of the Service Authority's and Accounting Officer's Responsibilities.

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with Section 21A of the Police Act 1997 (as amended by the Criminal Justice and Police Act 2001) and directions made thereunder by the Secretary of State with the consent of Treasury. 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 National Criminal Intelligence Service 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 relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 23 to 25 reflects the Service'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 form an opinion on the effectiveness of the Service'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 NCIS Functions and Aims, Review of Operations and Performance Information. 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 Service Authority of the National Criminal Intelligence Service and Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Service'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 Section 21A of the Police Act 1997 (as amended by the Criminal Justice and Police Act 2001) and directions made thereunder by the Secretary of State with the consent of Treasury, of the state of the National Criminal Intelligence Service's affairs as at 31st March 2006 and of its deficit 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 Section 21A of the Police Act 1997 (as amended by the Criminal Justice and Police Act 2001) and directions made thereunder by the Secretary of State with the consent of Treasury; 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.

I have no observations to make on these financial statements.

### **John Bourn**

Comptroller and Auditor General

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

## Income and Expenditure Account

For the year ended 31 March 2006

		<b>2005/06</b>	2004/05
<b>Income</b>	Note	<b>£'000</b>	£'000
Grant-in-aid and other funding	4	96,075	95,482
Fees and charges		577	712
Rents and service charges		1,207	1,880
Other operating income	5	116	59
Total operating income		<u>97,975</u>	<u>98,133</u>
<b>Expenditure</b>			
Employment costs	6	(46,916)	(48,876)
Other operating costs	8	(38,700)	(38,524)
Depreciation and amortisation	9,10	(7,343)	(5,404)
Loss on asset revaluation	10,16	(455)	(3,713)
Notional cost of capital		(637)	(699)
Total expenditure		<u>(94,051)</u>	<u>(97,216)</u>
<b>Operating surplus/(deficit) for the year</b>		3924	917
Notional cost of capital reversal		637	699
Exceptional Item FRS 3 Disclosure	2	(5,753)	0
Interest and investment income		314	324
Tax on interest		0	177
Write off cost of software system	10,23	(2194)	0
Profit on sale of fixed assets		16	200
<b>Retained surplus/ (deficit) for the year</b>	16	<u>(3,056)</u>	<u>2,317</u>

The results for the year all relate to continuing operations.

## Statement of Total Recognised Gains and Losses

For the year ended 31 March 2006

		<b>2005/06</b>	2004/05
	Note	<b>£'000</b>	£'000
Retained Surplus/(Deficit) for the financial year		(3,056)	2,317
Actuarial gains on pension	7,16	926	(417)
Gain on asset revaluation	16	154	680
Realisation of asset revaluation		(124)	(102)
Total recognised gains/(losses) for the financial year		<u>(2,100)</u>	<u>2,478</u>
Statement of Accounts		<u>(2,100)</u>	<u>2,478</u>

The Notes on pages 31 to 52 form part of these Accounts.

**Balance Sheet**

As at 31 March 2006

		<b>2005/06</b>	<b>2004/05</b>
	Note	<b>£'000</b>	<b>£'000</b>
<b>Fixed Assets</b>			
Intangible fixed assets	9	1,490	2,285
Tangible fixed assets	2,10,	16,702	17,255
		<u>18,192</u>	<u>19,540</u>
<b>Current Assets</b>			
Debtors and prepayments	2,11	9,970	11,596
Cash at bank and in hand	12	4,437	1,749
		<u>14,407</u>	<u>13,345</u>
<b>Creditors: amounts falling due within one year</b>	2,13	(12,743)	(8,828)
		<u>1,664</u>	<u>4,517</u>
<b>Net Current Assets</b>			
		19,856	24,057
<b>Total Assets less Current Liabilities</b>			
Provisions for liabilities and charges	14	(361)	(500)
FRS17 Pension Liability	7	(2,858)	(3,498)
		<u>16,637</u>	<u>20,059</u>
<b>Total Assets less all Liabilities</b>			
<b>Capital and Reserves</b>			
Income and Expenditure Reserve	16	(2,008)	868
Pension Asset (Reserve)	16	679	(247)
Government Grant Reserve	16	17,966	19,438
		<u>16,637</u>	<u>20,059</u>
<b>Government Reserves</b>			

The Notes on pages 31 to 52 form part of these Accounts.

**Peter Hampson CBE QPM LLB AKC**  
 Director General and Accounting Officer  
 National Criminal Intelligence Service

13 July 2006

## Cash Flow Statement

for the year ended 31 March 2006

		2005/06	2004/05
	Note	£'000	£'000
<b>Net cash (outflow)/inflow from operating activities</b>	17a	<b>2,212</b>	<b>(1,289)</b>
<b>Returns on investments and servicing of finance</b>			
Interest and investment income received		<b>314</b>	<b>324</b>
<b>Capital expenditure and financial investment</b>	17b	<b>(8,431)</b>	<b>(7,445)</b>
<b>Net cash outflow before use of liquid resources and financing</b>		<b>(5,905)</b>	<b>(8,410)</b>
<b>Financing</b>			
Grant-in-aid and other funding for capital expenditure	4	<b>8,593</b>	<b>5,212</b>
<b>Increase (Decrease) in cash</b>	17c	<b>2,688</b>	<b>(3,198)</b>

The Notes on pages 31 to 52 form part of these Accounts.



## Notes to the Accounts

### for the year ended 31 March 2006

#### **1 Accounting policies**

##### **1 a) Basis of preparation**

The statement of accounts set out on pages 28 to 30, together with the notes on pages 31 to 52, have been prepared on an accruals basis in accordance with the Accounts' Direction given by the Secretary of State for the Home Office with the consent of the Treasury, under Section 21A of the Act.

The accounts have been prepared using the historical cost convention, as modified for revaluation of fixed assets, and have been prepared in accordance with:

- the accounting and disclosure requirements of the Companies Act 1985 to the extent that such requirements are appropriate to NCIS and are in line with the requirements of the Accounts' Direction;
- applicable accounting standards issued by the Accounting Standards Board;
- disclosure and accounting requirements of HM Treasury; and
- the requirements of the Accounts' Direction and the Financial Memorandum issued to NCIS by the Secretary of State for the Home Office.

##### **1 b) Grant-in-aid and income recognition**

Grant-in-aid and other contributions received for revenue expenditure on core activities are credited to income in the year to which they relate. Grant-in-aid is recognised only to the extent that it is within the limit set for the year by the Home Office and on the basis of payments made in the year that qualify for grant support rather than on accrued expenditure.

Grant-in-aid for capital expenditure is credited to a Government Grant Reserve. Each year an amount equal to the depreciation and amortisation charge on fixed assets acquired through Grant-in-aid and any deficit on their revaluation in excess of the balance on any Revaluation Reserve, will be released from the Government Grant Reserve to the Income and Expenditure Reserve.

Funding received solely for use in specific projects is transferred to deferred income and released to the Income and Expenditure Account over the project period to match the related costs incurred.

##### **1 c) Pensions Reserve**

In accordance with government accounting advice, actuarial gains/losses on pension scheme liabilities are recognised in the Statement of Recognised Gains and Losses. The net gain/loss is shown in a new reserve - the Pensions Reserve.

**1 Accounting policies (continued)****1 d) Fixed Assets**

Expenditure on the acquisition of capital assets, or expenditure which adds to the value of existing assets is capitalised as fixed assets, provided that the fixed assets give benefit to the organisation for a period of more than one year.

Intangible and tangible assets are capitalised when the purchase price per item exceeds £6,000. In addition, expenditure on IT assets and leasehold improvements is capitalised if the cost of similar items grouped by invoice or project exceeds £10,000.

**1 e) Depreciation and amortisation**

Depreciation or amortisation is provided on all fixed assets in use on a straight-line basis to write off the cost or valuation evenly over the asset's anticipated useful life as follows:

Asset type	Useful life
Improvements to leasehold buildings	duration of lease or anticipated useful life of improvements, subject to maximum period of 10 years
Motor vehicles	3 – 5 years
Plant and equipment	5 years
Furniture and fittings	5 years
IT equipment and software	3 – 5 years
Intangible fixed assets – IT licences	3 – 5 years

A full year's depreciation or amortisation is provided in the year of acquisition or first use. No depreciation or amortisation is provided in the year of disposal. No depreciation is provided on Assets under Construction until the first financial year they are brought into use.

**1 f) Revaluation**

Where any revaluation is considered to be material to the accounts, fixed assets are revalued at current replacement cost by using the Price Index Numbers for Current Cost Accounting published by the Office for National Statistics. Any surplus on revaluation relating to assets funded by Government Grant is credited to the Government Grant Reserve. A deficit on revaluation is debited to the Income and Expenditure Account if the deficit exceeds the balance on the Government Grant Reserve.

**1 g) Foreign currency**

Transactions which are denominated in a foreign currency are translated into sterling at the rate of exchange ruling on the date of each transaction, except where rates do not fluctuate significantly, where 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, or if appropriate, at the contracted rate. Any translation differences arising are dealt with in the Income and Expenditure Account.

**1 Accounting policies (continued)****1 h) Operating leases**

Payments made under operating leases on land and buildings and equipment are charged to expenditure as incurred.

**1 i) Rental and service charges income**

NCIS sub-lets a small percentage of its rented accommodation to other organisations on a commercial basis, ensuring that full occupancy is maintained on rented property in use. Rents and other property income received are identified as income.

**1 j) Notional charges**

As required by the Treasury, a charge is made to the Income and Expenditure Account for the notional cost of capital. The notional capital charge, which reflects the cost of financing capital employed, is calculated, at 3.5% of average net assets employed during the year excluding cash balances held by HM Paymaster General. In accordance with Treasury guidance the notional charge should be credited back to the Income and Expenditure Account before determining the surplus or deficit for the year.

**1 k) Pension costs**

Employer contributions to the Principal Civil Service Pension Scheme and the Local Government Pension Scheme are charged to the Income and Expenditure Account as incurred at the relevant percentage of employees' pensionable pay as specified by the pension scheme administrators. The annual charge is designed to reflect the cost of pension benefits over the employee's service life.

The cost of providing unfunded pension benefits for senior ACPO officers is charged to the Income and Expenditure Account over the qualifying service life of the officer. The qualifying service for these pension benefits includes prior service with a police force in addition to service with NCIS, although no funding is received from the officer's previous employer in relation to this past service. The annual charge to the Income and Expenditure Account is calculated so that the balance sheet provision reflects the proportion of the future pension liability relevant to accumulated qualifying service at the balance sheet date.

**1 l) Value Added Tax**

NCIS is registered for VAT but can only recover a small proportion of VAT on purchases calculated by reference to certain taxable supplies such as training. Income is shown net of any VAT and expenditure and fixed asset additions are shown inclusive of any irrecoverable input tax.

**1 j) Reorganisation costs.**

The activities of NCIS have been transferred to the Serious Organised Crime Agency on 1st April 2006. The financial cost of changes in NCIS structure and specific costs in preparation for SOCA have been separately identified and reported in the accounts as an exceptional cost in accordance with Financial Reporting Standard 3.

## 2 Exceptional Item and SOCA related Costs–

During the year NCIS made various changes in its structure and incurred specific costs in preparation for SOCA. Details are analysed below

### (a) Resource costs in preparation for SOCA

	<b>2005/06</b>	2004/05
	<b>£'000</b>	£'000
<b>Income and Expenditure Account</b>		
Staff costs associated with reviewing records	1567	
NCIS staff seconded to SOCA projects	1149	
Compensation costs	497	
<b>Employment Costs</b>	<b>3213</b>	
<b>Other Operating Costs (mainly office expenses)</b>	<b>2540</b>	
Total costs.	<b>5753</b>	

### (b) Balance Sheet assets included in preparation for SOCA

	<b>2005/06</b>	2004/05
	<b>£'000</b>	£'000
Purchase of fixed assets (mainly IT systems expenditure)	<b>4,617</b>	

### (c) Other significant items included in preparation for SOCA

	<b>2005/06</b>	2004/05
	<b>£'000</b>	£'000
Capital Commitments	<b>1413</b>	

## 3 Financial targets

After allowing for £5.7m of SOCA transition expenditure incurred during the year NCIS underspent by £3.0m against its core budget of £91.4m. NCIS delivered on all its key objectives whilst achieving the efficiency targets aimed for.

**4 Grant-in-aid and other funding**

	<b>2005/06</b>	2004/05
	<b>£'000</b>	£'000
Home Office Grant-in-aid	78,678	76,571
Scottish Executive contribution	5,496	5,496
Northern Ireland contribution	1,356	1,316
HM Revenue and Customs contribution	673	730
Other Home Office funding	34	15
Grants and funding receivable for Externally Funded Projects (Note 15)	8,336	7,603
	<u>94,573</u>	<u>91,731</u>
Transfer to deferred income (Note 15)	(8,336)	(7,603)
Released from deferred income (Note 15)	8,453	7,649
Transfer to Government Grant Reserve for fixed asset additions (Note 16)	(8,593)	(5,212)
Transfer from Government Grant Reserve for depreciation and disposals (Note 16)	9,521	5,204
Transfer from Government Grant Reserve for asset devaluation (Note 16)	457	3,713
Total	<u>96,075</u>	<u>95,482</u>

**5 Other operating income**

	2005/06	2004/05
	£'000	£'000
Other income	116	59
Total	<u>116</u>	<u>59</u>

**6 Employment costs****(a) Analysis**

	2005/06	2004/05
	£'000	£'000
Salaries and emoluments	38,146	36,906
Social security costs	2,971	2,885
Other pension costs	5,032	5,167
Indirect employee expenses	3,980	3,918
<b>Employment costs before FRS3 Adjustment</b>	<b>50,129</b>	<b>48,876</b>
<b>Less FRS 3 Adjustment (see note 2)</b>	<b>(3,213)</b>	<b>0</b>
<b>Total</b>	<b>46,916</b>	<b>48,876</b>

**(b) Staff numbers before**

	2005/06	2004/05
	No.	No.
Service Authority	4	4
Corporate Governance Division	97	70
Intelligence Services Division	231	230
International Division	230	221
Resources Division	69	69
United Kingdom Division	378	400
Finance and Administration Division	19	20
<b>Total</b>	<b>1,028</b>	<b>1,014</b>

During the year NCIS restructured internally and the information including last year's comparatives has been shown using the revised divisional structure. The figures for both years are shown as at 31 March, a close approximation to the yearly average, agreed to NCIS records, with the comparatives for the previous year reinstated to reflect changes within the United Kingdom and Resources Divisions.

SOCA preparation work resulted in some movement of staff from mainly the United Kingdom Division to Home Office and an increase in staff into the Corporate Governance Division. From February 2006 a further 27 SOCA staff were appointed and paid By NCIS. The cost of all staff involved on SOCA work has been disclosed as an FRS3 item in Note 2 of the accounts.

In addition to the above directly employed, NCIS had an average 81 attached staff (2004/05: 124) from other organisations which are excluded from the above figures as they do not form part of NCIS establishment. NCIS is not charged for the attached staffs that are considered to be working for the benefit of their employers. It is estimated that the cost of employing the attached staff to NCIS in 2005/06 would have been £3.5m.

## **7 Pension benefits**

### **(a) Principal Civil Service Pension Scheme (PCSPS)**

Prior to 1 April 2002 a number of NCIS staff who had transferred from the Home Office on 1 April 1998, or who were on secondment from the Home Office, had the option of remaining with the PCSPS. During 2002-2003 financial years because of the change to NDPB status the majority of directly employed staff in the Local Government Pension Scheme (LGPS) chose to transfer to the PCSPS. The transfer of members was agreed in August 2002 and the financial settlement finalised in December 2005.

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

For 2005/06 employer contributions of £5.163m (2004/05 £3.372m) were payable to PCSPS at one of four rates in the range between 16.2% and 24.6% (2004/05:12% and 18.5%) of pensionable pay, based on salary bands. The Government Actuary reviews employer contributions every four years following a full scheme valuation. Rates in 2004/05 remained at 2003/04 levels, subject to revalorisation of the salary bands, but increased significantly in 2005/06. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

In addition, employer contributions of 0.8% of pensionable pay, are payable to PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees. For 2005/06 no contributions were payable to PCSPS in respect of these benefits.

Employees joining after 1 October 2002 could opt to open a partnership pension account, a stakeholder pension with an employer contribution (as below).

### **(b) Partnership and stakeholder schemes**

Employers' contributions for partnership pensions are payable to one or more of a panel of four appointed stakeholder pension providers. These contributions are age-related and range from 3% to 15.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. During 2005/06, NCIS paid employer contributions of £0.033m (2004/05 £0.034m) to stakeholder pension providers.

**(c) Local Government Pension Scheme (LGPS)**

As highlighted above the majority of members of the LGPS transferred to the PCSPS on 1 August 2002. Eight directly employed staff did not exercise the option to transfer to the PCSPS and remained with the LGPS. The LGPS is a multi-employer defined benefit scheme and these eligible NCIS employees participate in a fund managed by the London Pensions Fund Authority (LPFA).

In order to comply with the Executive Non-Departmental Public Bodies: Annual Report and Accounts Guidance, NCIS is required to provide in these accounts for the full value of the expected future pension liabilities to the officers. The LPFA have provided a valuation of the scheme assets as at 31 March 2006 showing assets of £0.6m (2004/05 scheme liabilities of £0.4m), this figure is reflected on the balance sheet.

The net scheme assets at 31 March:	2005/06	2004/05	2003/04
	£'000	£'000	£'000
Present value of Assets	1762	1,600	900
Present value of Liabilities	(1148)	(1,200)	(1,000)
Net pension asset/(liability)	614	400	(100)
Balance Sheet Pension Asset / Reserve	679	247	664
Surplus/(Loss) in Balance Sheet	1293	647	554

The main assumptions used by the actuaries Hyman Robertson employed by LPFA were as follows:

The net scheme assets at 31 March:	2005/06	2004/05	2003/04
	%	%	%
Inflation assumption	3.1	2.9	2.9
Rate of salaries increase	4.6	4.4	4.4
Rate of pensions increase	3.1	2.9	2.9
Discount rate	6.0	5.4	6.5

During 2005/06 employer contributions of £0.27m (2004/05 £0.024m) were paid to the LPFA at 14.1% of pensionable pay (2004/05 12.1%). The contribution rate is determined by the Fund actuary based on a three yearly actuarial valuation. Under pension fund regulations the contribution rates must be set to meet the overall liabilities of the Fund. The latest formal valuation of the LPFA pension fund was at 31 March 2005.

Fair value of assets held by the scheme at the beginning of the year and at the end of the year disclosed, analysed into the following classes, together with expected rate of return for each class for the subsequent period:



Fair value of assets	Assets at 31 March 2006 £000	Expected rate of return at 31 Mar 2006	Assets at 31 March 2005 £000	Expected rate of return at 31 March 2005	Assets at 31 March 2004 £000	Expected rate of return at 31 March 2004
Equities	1111	7.3 %	1,260	7.7%	740	7.7%
Bonds	336	6.0%	170	4.8%	110	5.1%
Property	208	6.5%	110	5.7%	30	6.5%
Cash	108	4.6%	60	4.8%	20	4.0%
Total	1762	6.8%	1,600	7.1%	900	7.3%

#### History of experience gains and losses

	2005/06	2004/05	2003/04	2002/03
	£'000	£'000	£'000	£'000
<b>Difference between the expected and actual return on assets</b>				
Amount	259	44	114	(895)
Percentage of assets	14.7%	2.8%	12.7%	(130.0)%
<b>Experience Gains/(Losses) on Liabilities</b>				
Amount	55	685	(10)	379
Percentage of the total value of liabilities	4.8%	58.6%	(1.0)%	42.0%
<b>Total amount recognised in statement of total recognised gains and losses</b>				
Amount	430	495	104	(516)
Percentage of the total value of liabilities	37.5%	42.4%	10.5%	(57.0)%

#### (d) ACPO Members

The Authority maintains a defined benefit pension scheme for Directors or former Directors of ACPO rank. The benefits provided are identical to those they would have received had they remained with a police force. During the officers' period of employment with NCIS they have continued to accrue pensionable service as if they were still serving police officers. NCIS has also assumed liability for payment of pension benefits in respect of past service with a police force, although under ACPO pension scheme arrangements no funds are transferred from the former employer in respect of this assumed liability. The scheme is unfunded and cash requirements will be met from future Home Office funding as lump sum and pension payments fall due.

**7 Pension benefits (continued)**

The Government Actuaries Department has calculated the present value of the scheme liabilities as at 31 March 2006 as £3.472m (2004/05 £3.898m). The liabilities are valued on an actuarial basis using the Projected Unit method. The scheme is an unfunded scheme with no assets and no payment of employer's contribution is made. In accordance with the requirements of Executive Non-Departmental Public Bodies: Annual Report and Accounts Guidance published by HM Treasury, full provision for this liability is reflected in the balance sheet based on the assumptions and information set out below.

<b>Main assumptions</b>		<b>2005/06</b>	2004/05
		<b>% pa</b>	% pa
Inflation assumption		2.5	2.5
Rate of increase in salaries		4.0	4.0
Rate of increase in pensions		2.5	2.5
Rate of discounting scheme liabilities		5.4	6.1

  

<b>Actuarial gains and losses for year</b>	% of liability	<b>2005/06</b>	2004/05
		<b>£'000</b>	£'000
Experience losses (gains)	(27.6)	(959)	55
Effect of changes in demographic and financial assumptions	(0.0)	0	(133)
<b>Total actuarial losses (gains)</b>	<b>(27.6)</b>	<b>(959)</b>	<b>(78)</b>

**(e) Other police officers**

All other police officers are currently seconded to NCIS and their seconding forces remain responsible for their pensions. No charge or provision is included in these accounts in respect of these officers as it is considered unlikely that NCIS would be liable to fund any retirement benefits.

**(f) Changes in Pension Assets and Liabilities for the Year By Scheme**

In compliance with advice from the Home Office, the change in the pension liabilities resulting from operating and finance costs have been charged to the Income and Expenditure Account. This charge is reduced by the contributions receivable in the year from the active members. The actuarial loss calculated by GAD has been reflected in the Balance Sheet (Pension Reserve).

**Changes in Pension Assets and Liabilities for the Year by Scheme**

	<b>2005/06</b>			2004/05
	<b>ACPO</b>	<b>LGPS</b>	<b>Total</b>	ACPO/ LGPS
	£'000	£'000	£'000	£'000
<b>Operating cost:</b>				
Current service cost (For ACPO, net of employee contribution)	0	28	28	57
Impact of curtailments and Settlements		258	258	
<b>Finance cost:</b>				
Interest on pension liabilities	231	70	301	278
Expected return of Employer Assets	-	(114)	(114)	(65)
<b>Net Return</b>	<b>231</b>	<b>242</b>	<b>473</b>	<b>270</b>
<b>Actuarial gain/(loss)</b>				
Experience gain/loss on pension liabilities	959	55	1014	740
Actuarial Return Less Expected Return on Scheme Assets	-	259	259	44
Overnight increases in liabilities (change in real return)	(463)		(463)	
Changes in demographic & financial assumptions		116	116	(367)
<b>Total Actuarial Gain/(Loss) charged to Pension Reserve</b>	<b>496</b>	<b>430</b>	<b>926</b>	<b>417</b>

**Movement in the provision during the year**

	<b>2005/06</b>			2004/05
	<b>ACPO</b>	<b>LGPS</b>	<b>Total</b>	ACPO/ LGPS
	£'000	£'000	£'000	£'000
Net liabilities at start of year	3,898	(400)	3498	3,816
Current service cost	0	28	28	67
Pensions paid in the year	(161)	-	(161)	(157)
Overnight increases in liabilities (change in real return)	463		463	
Employers contribution	-	(26)	(26)	(24)
Impacts of settlement and curtailments	-	258	258	-
Net finance charge	231	(44)	187	213
Actuarial gain	(959)	(430)	(1,389)	(417)
<b>Net liabilities at end of year</b>	<b>3,472</b>	<b>(614)</b>	<b>2,858</b>	<b>3,498</b>

**8 Other operating costs**

	<b>2005/06 To Dec. £'000</b>	2004/05 £'000
Premises costs	<b>12,149</b>	12,271
Transport costs	<b>2,168</b>	1,795
Office expenses	<b>1,339</b>	669
Operational and communication costs	<b>5,345</b>	5,321
IT expenses	<b>8,930</b>	7,473
Europol subscription	<b>5,864</b>	6,193
Interpol subscription	<b>1,585</b>	1,536
Other operating subscriptions	<b>302</b>	505
Internal audit fee	<b>91</b>	100
External audit fee	<b>61</b>	90
Other agency and contracted services	<b>1,969</b>	1,607
Foreign exchange (gain) / loss	<b>4</b>	(4)
Conference set up and running costs	<b>218</b>	157
General expenses	<b>1,215</b>	811
	<b>41,240</b>	38,524
<b>Less FRS 3 Adjustment(see note 2)</b>	<b>2,540</b>	
	<b>38,700</b>	38,524

## 9 Intangible fixed assets

	Purchased software £'000
<b>Cost</b>	
at 31 March 2005	5,058
Additions	141
Disposals	
Transfers	76
<b>at 31 Mar 2006</b>	<b><u>5,275</u></b>
<b>Amortisation</b>	
at 31 March 2005	2,773
Charge for year	1,012
Disposals	-
Transfers	-
<b>at 31 Mar 2006</b>	<b><u>3,785</u></b>
<b>Net Book Value</b>	
<b>at 31 Mar 2006</b>	<b><u>1,490</u></b>
at 31 March 2005	<u>2,285</u>

**10 Tangible fixed assets**

	Improvements to leasehold buildings	Motor vehicles	Plant & equipment	IT Assets	Payments on account & assets under construction	<b>Total</b>
<b>Cost</b>	£'000	£'000	£'000	£'000	£'000	<b>£'000</b>
at 31 March 2005	8,252	2,269	1,076	25,840	1,514	<b>38,951</b>
Additions	868	24	71	5,169	2,319	<b>8,451</b>
Disposals	-	(134)	-	(2,824)	-	<b>(2,958)</b>
Revaluation	126	25	(4)	(448)	-	<b>(301)</b>
Transfers	101	-	30	1,267	(1,475)	<b>(77)</b>
at 31 March. 2006	<u>9,347</u>	<u>2,184</u>	<u>1,173</u>	<u>29,004</u>	<u>2,358</u>	<b><u>44,066</u></b>
<b>Depreciation</b>						
at 31 March 2005	2,875	1,500	642	16,679	-	<b>21,696</b>
Charge for year	1,233	369	203	4,526	-	<b>6,331</b>
Disposals	-	(95)	-	(629)	-	<b>(724)</b>
Revaluation	43	16	2	-	-	<b>61</b>
Transfers	-	-	-	-	-	<b>-</b>
at 31 March. 2006	<u>4,151</u>	<u>1,790</u>	<u>847</u>	<u>20,576</u>	<u>-</u>	<b><u>27,364</u></b>
<b>Net book value</b>						
<b>at 31 March.2006</b>	<b><u>5,196</u></b>	<b><u>394</u></b>	<b><u>326</u></b>	<b><u>8,428</u></b>	<b><u>2,358</u></b>	<b><u>16,702</u></b>
at 31 March 2005	<u>5,377</u>	<u>769</u>	<u>434</u>	<u>9,161</u>	<u>1,514</u>	<u>17,255</u>

**11 Debtors and prepayments**

<b>(a) Amounts falling due within one year</b>	<b>2005/06</b>	2004/05
	<b>£'000</b>	£'000
Trade debtors	<b>1,103</b>	1,908
Deposits and advances	<b>250</b>	228
VAT repayment due	<b>0</b>	51
Prepayments	<b>7,608</b>	8,498
Accrued income and other accounts	<b>1,009</b>	911
	<b>9,970</b>	11,596
	<b>2005/06</b>	2004/05
	<b>£'000</b>	£'000
Balances with central government bodies	<b>1,127</b>	2,406
Balances with police authorities	<b>112</b>	57
Balances with local authorities	<b>0</b>	4
<b>Subtotal: intra-government balances</b>	<b>1,239</b>	2,467
Balances with bodies external to government	<b>8731</b>	9,129
<b>Total Debtors at 31 Dec 2005</b>	<b>9,970</b>	11,596

**12 Cash at bank and in hand**

Cash at bank includes £4.2m (2004/05:£ nil) monies held on overnight money market deposits with NCIS bankers.

## 13 Creditors –

	2005/06	2004/05
<b>(a) Amounts falling due within one year</b>	<b>£'000</b>	£'000
Trade creditors	6304	2,021
Taxation and social security	1,026	852
Vat payment due	49	0
Other creditors	43	11
Accruals and deferred income	5,321	5,944
<b>Total</b>	<b>12,743</b>	<b>8,828</b>
<b>(b) Intra-government Balances</b>	<b>2005/06</b>	2004/05
	<b>£'000</b>	£'000
Balances with central government bodies	2,966	2,273
Balances with police authorities	548	768
Balances with local authorities	109	29
<b>Subtotal: intra-government balance</b>	<b>3,623</b>	3,070
Balances with bodies external to government	9,120	5,758
<b>Total</b>	<b>12,743</b>	<b>8,828</b>

## 14 Provisions

**(a) Provision for liabilities and charges**

	Balance at 31 March 2005	Payments during year	Movements during the year	Balance at 31 March 2006
	£'000	£'000	£'000	£'000
Pension provision	500	(214)	(286)	-
Legal provision		-	250	250
Other provisions			111	111
	<b>500</b>	<b>(214)</b>	<b>75</b>	<b>361</b>

The provision for liability and charges of £0.36m represents the estimated cost to NCIS of settlement of pending legal cases and early retirement costs. The provisions figure of £0.5m brought forward from 2004/05 represents the funding shortfall upon the 2002/03 Bulk Pension transfer, the transfer has been finalised this year with a payment of £0.21m during the year, consequently £0.28m of provision was no longer required.



**15 Deferred income**

<b>External Project Funding</b>	Balance at 31 March 2005 £'000	Receivable in year £'000	Release to I&E Account £'000	<b>Balance at 31 March 2006 *</b> <b>£'000</b>
<b>Home Office External Project Funding</b>				
SR2002		1560	(1560)	-
Sirene		4715	(4715)	-
Firearms Secretariat & Intel		142	(142)	-
Firearms Secretariat		32	(32)	-
Football Banning Authority		56	(56)	-
ECU Secure Unit		487	(487)	-
Organised Vehicle Crime		412	(412)	-
ELO (Zagreb)		53	(53)	-
<b>Other external project funding</b>				-
Centrex National Int.Model	12	121	(133)	-
EU	42	(56)	14	-
DEFRA	52	109	(161)	-
NCS		328	(328)	-
Rart-Individual Police Forces		126	(126)	-
F&CO	11	251	(262)	-
	<b>117</b>	<b>8336</b>	<b>(8453)</b>	-

**16 Reserves**

	Income & Expenditure Reserve	Pension Reserve	Government Grant Reserve	<b>Total</b>
	£'000	£'000	£'000	<b>£'000</b>
At 1 April 2005	869	(247)	19,437	20,059
Retained deficit for the year	(3,056)	-	-	(3,056)
Actuarial gains on pension (ACPO)	-	496	-	496
Actuarial gains on pension (LGPS)	-	430	-	430
Purchase of fixed assets	-	-	8,593	8,593
Release for depreciation	-	-	(7,343)	(7,343)
Release for backlog depreciation	-	-	(61)	(61)
Release for asset revaluation	-	-	(457)	(457)
Gain on asset revaluation	-	-	154	154
Realisation of asset revaluation	124	-	(124)	-
Loss on asset disposals	-	-	(2178)	(2178)
Proceeds of asset disposals	55	-	(55)	-
<b>At 31 March 2006</b>	<b>(2008)</b>	<b>679</b>	<b>17966</b>	<b>16637</b>

The Pension Reserve balance of £0.181m arises from actuarial gains and losses on ACPO and LGPS pension schemes calculated on implementation of FRS17 (see note 7).

**17 Notes to cash flow statement****(a) Reconciliation of operating deficit for year to net cash inflow from operating activities**

	<b>2005/06</b>	2004/05
	<b>£'000</b>	£'000
Operating surplus/(deficit) for year	<b>3,924</b>	917
Exceptional Item – FRS 3 disclosure	<b>(5,753)</b>	
	<b>(1,829)</b>	917
Depreciation	<b>7,343</b>	5,404
Loss on asset revaluation	<b>458</b>	3,713
Transfer from Government Grant Reserve for depreciation and disposals	<b>(9,978)</b>	(8,917)
Notional cost of capital	<b>637</b>	699
Actuarial (gains) and losses on pension	<b>926</b>	417
Tax payable	<b>0</b>	177
(Increase)/Decrease in debtors and prepayments	<b>1,626</b>	(418)
(Decrease)/Increase in creditors (excl. fixed asset creditors)	<b>3,808</b>	(3,016)
(Decrease)/Increase in provisions for liabilities and charges	<b>(779)</b>	(265)
<b>Cash (outflow)/inflow from operating activities</b>	<b>2,212</b>	(1,289)
<b>(b) Capital expenditure and financial investment</b>	<b>2005/06</b>	2004/05
	<b>£'000</b>	£'000
Purchase of fixed assets	<b>(8,593)</b>	(5,212)
Increase/(Decrease) in fixed asset creditors	<b>107</b>	(2,531)
Sale proceeds of fixed assets	<b>55</b>	298
<b>Net cash outflow</b>	<b>(8,431)</b>	(7,445)
<b>(c) Analysis of movement in cash</b>	<b>2005/06</b>	2004/05
	<b>£'000</b>	£'000
Opening balance – cash at bank and in hand	<b>1,749</b>	4,947
Movement for the year	<b>2,688</b>	(3,198)
<b>Closing balance – cash at bank and in hand</b>	<b>4,437</b>	1,749

**18 Capital commitments**

	<b>2005/06</b>	2004/05
	<b>£'000</b>	£'000
Capital expenditure contracted but not provided for in these accounts	1237	500
Capital expenditure authorised but not contracted for	176	735
Total	<u>1413</u>	<u>1,235</u>

**19 Lease obligations and other financial commitments****(a) Charge for year for operating leases**

Operating expenditure includes £7m in respect of rental of land and buildings.

**(b) Annual commitment for operating leases**

NCIS (SOCA from 1 April 2006) is committed to pay the following operating lease rentals during the next financial year:

<b>Land and buildings</b>	<b>2005/06</b>	2004/05 Restated
	<b>£'000</b>	£'000
On leases expiring:		
Within 1 year	<b>2,095</b>	-
Between 2 and 5 years	<b>41</b>	2,132
Over 5 years	<b>6,227</b>	6,391
Total	<u><b>8,363</b></u>	<u>8,523</u>

The 2004-2005 figures have been restated because rates had previously been included in the annual commitment figures.

**(c) Other Financial Commitments.**

NCIS has an IT support contract with annual commitments of £2.7m until 2008.

**20 Related party transactions**

The Home Office and related bodies, HM Revenue and Customs, the Scottish Executive and the Northern Ireland administration are related parties to NCIS. During the year ended 31 March 2006, these bodies provided NCIS with Grant-in-aid and other funding (see Note 4) including External Project Funding (see Note 15).

Other Government Departments and Agencies which NCIS have transacted with in the normal course of business during the year include the National Crime Squad, Foreign Commonwealth Office and the Department for Environment, Farming and Rural Affairs.

During the year ended 31 March 2006 none of the Directors or Authority Members, or parties related to them, entered into any transactions with NCIS.

## 21 Contingent liabilities

### 21 a) Lease dilapidations

NCIS (SOCA from 1 April 2006) occupies leasehold premises, many of which have been modified to meet specific operational or administration requirements. Common to the leases is the requirement to hand back the premises at the end of the lease period in a good condition. In substance this often obligates NCIS / SOCA to incur further expenditure on returning these premises to their pre-occupation condition.

The costs to NCIS/ SOCA on vacation of leased premises have been estimated as £3,035m (2004/05 £2.735m). This estimate is based on a charge per sq. ft of leased space and allows for the reversal of any changes to the building made by NCIS/ SOCA and the costs of redecoration. This potential liability is currently estimated to fall due as follows:

Year ended 31 March :	£'000
2007	38
2010	897
2011	39
2015	383
2016	328
2017	125
2019	54
2025	1171
	3,035

### 21 b) Pension transfer payment

In December 2005 arrangements related to the bulk transfer agreement was finalised, on advice from the Government Actuary Department (GAD).

### 21 c) Litigation costs

NCIS has a small number of claims from employees and suppliers that may result in compensation payments to be made on settlement. It is unlikely that the cost to NCIS of these actions will exceed the provision of £0.250m already provided.

## 22 Post balance sheet events – Serious Organised Crime Agency

On 7 April 2005 the Serious Organised crime and Police Act 2005 received Royal Assent. The bill establishes the Serious Organised Crime Agency (SOCA) from 1 April 2006 and also abolishes the National Criminal Intelligence Service and National Crime Squad from a date to be agreed by the Secretary of State.

On the 14<sup>th</sup> February 2006, the Secretary of State, after a full consultation process with all relevant parties, in exercise of the powers conferred on him by Schedule 3 to the Serious Organised Crime and Police Act 2005 agreed the terms of the Transfers To SOCA Scheme 2006, with effect from the 15<sup>th</sup> February 2006. The scheme enabled the two agencies assets, liabilities, structures and roles to be absorbed into SOCA, together with some staff from HM Revenue and Customs and the UK Immigration Service.

During the year, the pre-cursor organisations made various changes to their structures and incurred costs (reported as exceptional items under FRS3) to enable the smooth transition to SOCA.

SOCA comprises approximately 4,200 staff, is intelligence led, and has as its core objective the reduction of harm caused to the UK by organised crime.

### **23 Losses and special payments**

NCIS made two special payments during the year that totalled under £0.5m (2004/2005: £0.116m) for compensation payments on early termination of contracts. Also, in April 2006, a decision was made that expenditure on the development of software needed to be written off because of significant system design changes. The cost of software designs totalling £2.2m has been written off in this years account. . Home office approval has been obtained for the above special payments and losses.

### **24 Financial instruments**

Accounting Standard FRS13, 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 it is financed, NCIS is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS13 mainly applies. Financial assets and liabilities are generated by day to day operational activities and are not held to change the risks facing NCIS in undertaking its activities.

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

#### **Liquidity risk**

The net revenue resource requirement of NCIS is financed by Grant-in-aid from the Home Office, as is its capital expenditure. This Grant-in-aid is a fixed yearly cash allocation which NCIS manages on a monthly basis. NCIS is therefore exposed to a liquidity risk which is managed through projected cash flow forecasts and monthly meetings with Home Office.

#### **Interest rate risk**

NCIS does not have any borrowings which may be exposed to interest rate risk. Cash at bank and in hand at 31 March 2006 is primarily held within current accounts at UK commercial banks.

#### **Currency rate risk**

All financial assets and liabilities held by NCIS are based in sterling avoiding any currency rate risk. Foreign currency for operating costs is purchased at a spot exchange rate. Such purchases are a relatively small part of NCIS operations and risk hedging activities are therefore not considered to be worthwhile.



information & publishing solutions

Published by TSO (The Stationery Office) and available from:

**Online**

**[www.tsoshop.co.uk](http://www.tsoshop.co.uk)**

**Mail, Telephone, Fax & E-mail**

TSO

PO Box 29, Norwich NR3 1GN

General enquiries: 0870 600 5522

Order through the Parliamentary Hotline *Lo-call* 0845 7 023474

Fax orders: 0870 600 5533

Email: [customer.services@tso.co.uk](mailto:customer.services@tso.co.uk)

Textphone: 0870 240 3701

**TSO Shops**

16 Arthur Street, Belfast BT1 4GD

028 9023 8451 Fax 028 9023 5401

71 Lothian Road, Edinburgh EH3 9AZ

0870 606 5566 Fax 0870 606 5588

**The Parliamentary Bookshop**

12 Bridge Street, Parliament Square

London SW1A 2JX

**TSO@Blackwell and other Accredited Agents**

ISBN 978-0-10-295375-6



9 780102 953756