

# **Assets Recovery Agency**

## **Resource Accounts 2006-07**

**(For the year ended 31 March 2007)**

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**(For the year ended 31 March 2007)**

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## Annual Report

### Background

The Assets Recovery Agency (ARA) was formed in February 2003 as a Non-Ministerial Department to contribute to the fight against crime by taking assets out of the criminal economy. The Agency's main offices are in London; we also have a Northern Ireland branch and the Accounting Officer consults with the Secretary of State for Northern Ireland on aspects of ARA's annual plan concerning Northern Ireland. The Accounting Officer reports to the Home Secretary.

The Proceeds of Crime Act 2002 (POCA) is the result of the Government's aim to take the profit out of crime and dismantle and disrupt organised crime empires by removing the money that is their motivation and their major source of income. It brings together previous legislation, such as the Drug Trafficking Act 1994 and Part VI of the Criminal Justice Act 1988, with the changes recommended in a comprehensive report of a study conducted by the Performance and Innovation Unit of the Cabinet Office in 2000. POCA strengthens the legislation around cash seizures, money laundering, investigation powers and restraint and confiscation procedures. The setting up of the Assets Recovery Agency was a key aspect of the legislation and the goals it aims to achieve.

Legislation is being brought forward to merge the activities of the Agency with those of the Serious Organised Crime Agency (SOCA) and the National Police Improvement Agency (NPIA). The proposed merger date is 1st April 2008. The Going Concern note on Page 9 provides further information on this issue.

### Departmental Aims and Objectives

#### The Assets Recovery Agency is here to make sure that Crime Does Not Pay

##### We do this by

- Working in close **partnership** with the law enforcement community;
- Fully using all our unique **powers** firmly and fairly;
- And promoting **professionalism** and the highest standards amongst all those involved in asset recovery.

If we are to achieve our challenging targets, we need to live by a set of common values. We are all committed to:

- Working together to **deliver results**;
- Always acting with high standards of **integrity, honesty and professionalism**;
- Continuously improving the **quality** of our work, through **innovation** and managed risk taking;
- Supporting **learning and skill development** to help us do our jobs better;
- **Promoting diversity**, celebrating success and valuing the contribution of everyone.

### Strategic Aims

We have three strategic aims:

- 1 To disrupt organised criminal enterprises through the recovery of criminal assets, thereby alleviating the effects of crime on communities.
- 2 To promote the use of financial investigation as an integral part of criminal investigation, within and outside the Agency, domestically and internationally, through training and continuing professional development.
- 3 To operate the Agency in accordance with its vision and values.

**Priorities**

In agreeing the Business Plan, we have identified a number of priorities which relate to the key performance indicators we are setting:

- To adopt and conduct confiscation, civil recovery and taxation investigations under the provisions of the Proceeds of Crime Act 2002, that lead to a reduction in criminal activity.
- To promote and support the use of the powers conferred by the Proceeds of Crime Act 2002 through the successful training of financial investigators and to provide such support and expertise to the law enforcement community as may otherwise be required.
- Continuous development of staff and working practices and moving towards Best Practice standards in all aspects of the Agency.

The Agency is required to produce a statutory Business Plan and Annual Report which for 2006/07 was laid before Parliament in May 2007. It sets out full details of the Agency's performance against the targets established in the Business Plan, as well as details of partnership working, future legislative changes and planned developments for the medium term.

The Business Plan and Annual Report is available at [www.assetsrecovery.gov.uk](http://www.assetsrecovery.gov.uk).

**Where the money goes**

Monies from assets recovered, less amounts incurred on court-appointed receivers (as specified in Section 280 (3) of the Proceeds of Crime Act) are payable to the Consolidated fund, via the Home office. The Home Office Recovered Assets Incentivisation Scheme (RAIS) allows a portion of these recovered assets paid over to the Home Office to be remitted back to the Agency and to the referring Law Enforcement Agencies (LEAs). These incentivisation receipts enable the relevant parties to build their asset recovery capacity and provide an incentive for them to contribute further to the Home Office asset recovery targets.

Subsequent parliamentary approval through the Estimates process enables the Home Office to return excess receipts for use via the Recovered Assets Incentivisation Fund (RAIF) and other Home Office spending. This finances specific projects, including those which support the Asset Recovery Strategy, the Anti Drugs Strategy, local crime and disorder reduction partnerships and community regeneration projects.



**Management Commentary**

The following table contains a summary of outturn against key Estimate financial limits.

Key Financial Limits	2006/07			2005/06		
	Estimate	Outturn	Surplus (Deficit)	Estimate	Outturn	Surplus (Deficit)
	£000s	£000s	£000s	£000s	£000s	£000s
Net Resources	15,553	13,518	2,035	16,748	23,527	(6,779)
Gross Administration Costs	3,972	3,962	10	4,011	3,542	469
Capital	-	312	(312)	361	473	(112)
Net Cash Requirement	17,063	14,430	2,633	16,775	21,845	(5,070)
<b>Net Operating Costs</b>	<b>15,553</b>	<b>13,518</b>	<b>2,035</b>	<b>16,658</b>	<b>16,496</b>	<b>162</b>

For 2006/07, the Agency had an Estimate provision of £15,553k. This provision was all scored under *Resource* Departmental Expenditure Limits (DEL). Of this Estimate, £312k was used, with HM Treasury's permission, to meet an overspend on capital, for which no Capital DEL provision had been made. Consequently no Capital DEL total is shown to match against capital expenditure. This is reflected in the (£312k) deficit in Capital shown above. As such, the underspend on Net Resources of £2,035k reflects in part the Net Operating Cost compared to the total Estimate provision but also includes the £312k which has been utilised for Capital spend. Other reasons for the underspend include delays filling vacant posts, lower forensic fees than expected, lower rent and rates than budgeted figures. In addition, training and incentivisation income was higher than budgeted.

The Net Cash Requirement shows an underspend of £2,633k which principally reflects the underspend on Net Resources of £1,635k against an increase in working capital of £993k (see Note 4). The Estimate had included the previous year's Assets in enforcement debtor of £2,331k, which was not included in the 2006-07 Outturn for the Net Cash Requirement.

Progress against targets over 2006-07 has been marked by notable successes and important learning points. In many instances targets have been exceeded but we have also learned much from our experience over the past four years, in particular regarding the timescales over which we can expect cases to progress.

There are no specific Public Service Agreement (PSA) targets on asset recovery, but there was a Home Office commitment to recover £125m during 2006-07 throughout the asset recovery community.

**Key Performance Indicators**

Targets were set by the agency to disrupt organised criminal enterprises through the recovery of criminal assets, thereby alleviating the effects of crime on the community. In key instances, these targets were achieved, such as:

- Disrupt 90 to 125 criminal enterprises – 114 disrupted
- Adopt a further 110 to 160 cases – 109 adopted
- Early restraint of assets to the value of £49m to £65m – £73.6m restrained

The impact of legal challenges, whilst inevitable with such complex and new legislation, has delayed the progress of our cases in the High Court. This had an adverse impact on the KPIs from the latter stages of the civil recovery process, particularly when realising receipts from cases. £15.9m was realised in 06-07 (see Note 28).

Progress in a number of our current cases is at an advanced stage and we expect to complete claims for Recovery Orders in these cases before the High Court during 2007-08

As at 31st March 2007, the Agency has 143 cases in litigation, involving assets valued at £145.8 million.

The Agency has three distinct operational functions: civil recovery, criminal confiscation and taxation. The civil recovery and taxation powers are unique to the Agency as designated under POCA.

*Note, the Key Performance Indicators have been collated on advice of key operational and legal staff, in conjunction with details held on the Joint Asset Recovery Database*

### Civil Recovery and Taxation

The civil recovery function enables the Agency to recover in civil proceedings before the High Court property which is, or represents property obtained through unlawful conduct in England, Wales and Northern Ireland – in Scotland, this power is exercised by the Civil Recovery Unit of the Crown Office. The following progress has been made on cases over the last two years, for civil and taxation cases only:

	2006/07		2005-06	
	Volume	Value (£m)	Volume	Value (£m)
<b>Referrals</b>	<b>137</b>	<b>–</b>	<b>167</b>	<b>–</b>
<b>Cases adopted</b>	<b>109</b>	<b>–</b>	<b>90</b>	<b>–</b>
<b>Disruption</b>	<b>82</b>	<b>£58.6m</b>	<b>73</b>	<b>£49.7m</b>
• Freezing Order/ Mareva	2	£0.9m	14	£10.2m
• Interim Receiving Order	7	£11.6m	25	£27.7m
• Property Freezing Order	48	£43.1m	5	£1.3m
• Settlement	4	£0.4m	13	£2.2m
• Voluntary Undertaking	15	£2.2m	5	£6.2m
• Assessment (Tax)	6	£0.5m	11	£2.1m
<b>Concluding Action</b>	<b>40</b>	<b>£16.6m</b>	<b>24</b>	<b>£4.6m</b>
• Recovery Order	9	£1.4m	2	£0.2m
• Settlement	24	£14.8m	20	£4.2m
• Tax Settlements	7	£0.5m	2	£0.2m
<b>Enforcement</b>	<b>–</b>	<b>£15.6m*</b>	<b>–</b>	<b>£4.1m</b>

\* The £15.6m figure is included in the £15.9m total recoveries figure for 2006-07. See Note 28 for further details

The Agency has enjoyed another successful year disrupting criminal enterprises across all its workstreams further increasing the assets in the pipeline, the benefits of which will be realised in future years.

### Getting cases through to disruption

The introduction of Property Freezing Orders (PFOs) in January 2006 has considerably increased the effectiveness of the Agency, in particular by reducing its reliance on interim receivers (whose specialist expertise inevitably comes at a significant price). Interim receivers, however, continue to be an important tool at the disposal of the Agency and perform an important function on behalf of the court in complicated cases.

The reliance by the Agency on interim receivers has reduced markedly in the last year and they now represent 9% of its disruption activity in 2006/07 against PFOs which represent 66%. In contrast, in 2005/06 IROs represented 41% of the Agency's disruption activity. The availability of PFOs has significantly enhanced the options available to the Agency for effecting disruptions according to the size and nature of the property it is investigating.

In the past year there has also been an increase in the Agency's use of voluntary undertakings in smaller cases. They represent 15% of the Agency's disruption activity in the past year. A voluntary undertaking is used in a smaller case where the respondent voluntarily agrees not to dissipate specified assets without the need for a Court Order. This has reduced the time and cost of progressing cases. It has also helped reduce the impact on the Agency of difficulties in obtaining court time, by making more time available for final hearings by reducing the time needed in the Administrative Court earlier in proceedings.

### **Getting cases through to completion**

As cases have progressed through the pipeline in the past year, the Agency has increasingly focussed on pushing cases through to completion; so that the monies that it has been starting to take out of the criminal economy through disruption are permanently removed. The Agency has thereby been proving how Civil Recovery can have an impact where previously criminal powers had enjoyed little or limited success.

The Agency has learnt from some of the delays that it has experienced in the past and has developed new strategies to avoid such delays in the future. This year the Agency has been especially innovative in its approach to completing cases, with lawyers and investigators alike exploring all appropriate avenues. This year is significant in that there have been increasing numbers of cases moving through to completion either via settlement or trial, with 61 cases moving through to final action. This year, there has been an increasing number of respondents who have previously challenged the Agency's actions at every stage reaching settlement in cases once appeal routes had been exhausted.

The Agency remains committed to taking the profit out of crime. Whilst this is necessarily a lengthy process, it is one in which it is finally beginning to reap the rewards. In progressing cases through to settlement and mediation it is important that the Agency remains true to its commitment to taking the profit out of crime and in its settlement policy this is offset by it being able to limit the legal and other associated costs in such cases.

### **Settlement**

The Agency's settlement policy most keenly demonstrates the difficult balance to be struck between economics and ethics. Unlike typical settlements in conventional civil proceedings, whereby negotiations typically settle at a much lower value, the Agency takes a firm line in its negotiations: placing its public duty to recover assets ahead of any desire for a quick win so as to achieve an early recovery of the proceeds. Whilst this year the Agency has made a concerted effort to move appropriate cases through to settlement, it will not settle in a way that undermines its crime and harm reduction agenda and will not accept a no publicity clause.

### **Criminal Confiscation**

Confiscation, linked directly to a criminal prosecution, is dealt with on conviction and assesses both the benefit derived from the criminal activity and the assets available to the offender (which need not actually represent the benefit so identified) in order to repay the benefit to the Government. It is increasingly becoming an integral part of criminal investigation and the following progress has been made:

At the financial year end we were assisting in or conducting a total of 68 investigations. A total of 262 investigative orders were obtained from the courts in the course of these investigations and assets to the value of £12.8m have been restrained in accordance with 16 restraint orders obtained. Twenty one successful cases have been concluded during the reporting period, which have produced confiscation orders to the value of £3.6m obtained on behalf of, and in partnership with, prosecuting authorities. These proceedings have resulted in default prison sentences of 45 years being given to the respective defendants.

The value of any assets available to the offender (from any source whatsoever and which need not actually represent the benefit so identified) up to and equal to the benefit (proceeds) certified by the court must then be made the subject of a confiscation order requiring the individual to repay that amount to the Government within a defined period or serve a prison sentence in default.

### **Training**

The Financial Investigation Centre of Excellence provides the Agency with the capacity to deliver on its statutory obligations, for the provision of training and accreditation, and its strategic objectives by promoting the use of financial investigation as an integral part of criminal investigation. During 2006-07, the Centre continued to make significant contributions in building capacity for asset recovery across

the whole law enforcement community, domestically and internationally, through ongoing development and delivery of the Financial Investigation Training Programme, bespoke training packages for other countries and associated procedures. In 2006-07 the Centre provided training for 724 new financial investigators and enhanced training for over 783 financial investigators. Training was delivered to 812 others from across the law enforcement community who attended supporting courses. The Financial Investigation Management (FIM) course, for middle managers not trained as FIs, has been attended by 612 managers.

The training was delivered by the Centre supported by its training partners – Greater Manchester Police, HM Revenue & Customs, the Metropolitan Police Service, Merseyside Police, Police Service for Northern Ireland and SOCA.

In addition to the training provided to police forces and HMRC, the Centre continued to meet its commitment to widen the training to a growing community of other law enforcement agencies which have access to the accredited powers under POCA. During 2006-07, 64 new FIs from these organisations were trained, making the total 220 since the Agency began.

Following on from the successful application to Edexcel in 2004 for assessment centre status for BTEC awards, the Centre offered three vocational awards in financial investigation equivalent to the National Vocational Qualification (NVQ) Level 4. During 2006/07, a total of 289 awards were made.

The Director's statutory responsibility for the accreditation and monitoring of FIs is met using the Financial Investigation Support System (FISS). As part of the monitoring process FIs are required to undertake Continuing Professional Development (CPD) activities enabling them to maintain, develop and demonstrate competence in their role.

### Financing

The Agency is financed by HM Treasury, through the Public Expenditure System (PES) [see: <http://www.knowledgenetwork.gsi.gov.uk/psg/psg.nsf> for further details]. In the SR 2004 review, HM Treasury guaranteed £15.5m annually for the three years, commencing 1st April 2004. As per PES, this is reviewed annually to cater for any changes to funding requirements.

In addition, from 1st July, 2005 HM Treasury agreed that total receivers' fees may be deducted from total proceeds before they are paid, via the Home Office, to the Consolidated Fund. As receivers' fees comprise a significant proportion of the Agency's expenditure (£7.8m in 06-07), this will have a significant impact on our funding requirements from HM Treasury.

From 1st April, 2006 the Agency has been participating in the Home Office's incentivisation scheme. The aim of this scheme is an incentive to develop the business of the department. On a quarterly basis, the Agency remits excess recovered assets to the Home Office. Of this amount remitted, 50% is paid back in the subsequent quarter to be split between the Agency and the referring Law Enforcement Agency (LEA). The recovered assets paid over to the Home Office are net of amounts incurred against receivers' fees. Consequently, incentivisation amounts receivable for 2006-07 amount to £2.0m.

To ensure efficient treasury management, proceeds from recovered assets are placed in an interest-bearing bank account before they are paid over to the Consolidated Fund, via the Home Office, within the relevant timescales.

It is a specified aim of the Agency to be self-funding. As it is difficult to reliably predict the length of time it takes for a case to be completed, we have to make informed estimates about our future cash-flows from successful asset recovery, although these estimates must be treated with some caution.

Recovered assets in 2006-07 totalled £15.9m, a sum that exceeds the amount of money which Treasury grants to the Agency to spend, and reflects the first time that the Agency has met its cost recovery target.

**Going Concern**

The balance sheet at 31 Mar 2007 shows an increase in Taxpayers Equity, giving a negative balance of (£541k) at year-end. This reflects the inclusion of liabilities falling due in future years which are to be financed [mainly] by proceeds from recovered assets and drawings from the UK Consolidated Fund. Such drawings will be from grants of Supply approved annually by Parliament, to meet the ARA's Net Cash Requirement. Under the Government Resources and Accounts Act 2000, no money may be drawn from the Fund other than required for the service of the specified year or retained in excess of that need. All unspent monies, including those derived from the Department's income, are surrenderable to the Fund.

In common with other government departments, the future financing of ARA's liabilities is accordingly to be met by future grants of Supply and the application of future income, both to be approved annually by Parliament. Such approval for amounts required for 2006-07 has already been given and there is no reason to believe that future approvals will not be forthcoming.

In a Written Ministerial Statement on 11 January 2007, the Parliamentary Under-Secretary of State for the Home Department (Mr Vernon Coaker) announced that the Government would be bringing forward legislation to merge the Assets Recovery Agency with SOCA and the NPIA, and to extend to a number of prosecutors the power to launch Civil Recovery action under POCA. The Statement went on to note that:

*There are significant synergies in merging ARA with SOCA, as SOCA builds its understanding of organised crime and widens the toolkit used to tackle it.*

*In recognition of the high profile, public confidence and success achieved by ARA in Northern Ireland in tackling organised crime and dealing with organised criminals, SOCA will have a designated officer responsible for asset recovery work in Northern Ireland, and there will be no diminution in the resources available for assets recovery work there.*

*ARA's Centre of Excellence, which trains and accredits Financial Investigators, will be moved to the new National Policing Improvement Agency.*

*Extending the power to launch Civil Recovery proceedings to prosecutors will enable us to broaden the range of cases where these powers are used, and help us take performance to the next level.*

Subsequently the Serious Crime Bill, with provisions to effect these changes, was introduced to Parliament. As the Bill has yet to be ratified by Parliament, the ARA/SOCA merger is not certain.

As explained further on Page 12, the assumption is that the Agency's activities will continue from 2008-09 within both SOCA and the NPIA.

It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

**Accounting Officer of the Agency and Management Board**

The Accounting Officer and members of the Management Board during 2006-07 were:

Jane Earl	–	Accounting Officer (to 30th April 2007)
Alan McQuillan	–	Deputy Director, Operations (Accounting Officer with effect from 1st May 2007)
Charlie Dickin	–	Deputy Director, Services
Sue Edwards	–	Head of Legal Services (left March 2007)
Ivor Johnston	–	Head of Finance & Procurement
Robert McCann	–	Non-Executive Director & Chair of Audit Committee
Reshard Auladin	–	Non-Executive Director (left March 2007)

### **Appointment of Accounting Officer and Management Board**

The Accounting Officer, Deputy Director of Operations and Head of Legal Services are appointed in line with section 5.1 of the Civil Service Management Code. The Deputy Director of Services is on a 5-year secondment from Avon and Somerset Constabulary, following open competition. All other members of the Management Board were appointed via open competition under permanent staff terms. The remuneration of the Accounting Officer and the other members of senior management is informed by the Senior Salaries Review Body. In accordance with section 2 of the Civil Service (Management Functions) Act 1992, the ARA can appoint staff as members of the Home Civil Service without the approval of the Minister for the Civil Service. Details on the costs, remuneration and pension arrangements for the ARA's management and staff can be found in Note 2 of the Resource Accounts.

Details of Management Board reallocation of roles subsequent to the Balance Sheet date are explained on Page 16.

Employees' pension benefits are provided through the Principal Civil Service Pension Scheme (PCSPS). This is an unfunded, statutory scheme, which provides benefits on a "final salary" basis at normal retirement age of 60. From 1 October 2002, there were significant changes to the operation of the scheme. Under the original scheme benefits accrue at the rate of 1/80th of pay. Members pay contributions of 1.5% of pensionable earnings. Under the revised arrangements, members contribute a higher rate of 3.5% of pensionable pay in order to receive a higher pension based on 1/60th of final pensionable pay together with a range of related additional benefits. All members were required to opt to remain in the old scheme or to join the new scheme or a third, intermediate scheme (retaining characteristics of the other main schemes) by Autumn 2002. Under both schemes, pensions are increased in payment in line with the Retail Prices Index.

### **Prompt Payment Policy**

The Assets Recovery Agency is committed to the prompt payment of bills for goods and services received in accordance with the Government's Better Payments Practice Code and British Standard BS 7890 "Achieving Good Payment Performance in Commercial Transactions". Unless otherwise stated in the contract, payment was due within 30 days of the receipt of the goods or services or presentation of a valid invoice or similar demand, whichever is later. Assets Recovery Agency paid 74% of all invoices within 30 days of the date on which they were registered for payment during the period. No interest payments were made as result of late payments to creditors. The relatively low prompt payment performance in 2006/07 was partly due to the further development of systems and financial procedures during the year. Also, there were a large number of invoices which have been queried, with their payment delayed accordingly. In particular, the resolution of queries in relation to receivers' fees takes a significant time to resolve, due to the complexity of work performed.

### **Interest Rate and Currency Risk**

The Assets Recovery Agency has no borrowings and relies primarily on departmental grants for its cash requirements, and is therefore not exposed to liquidity risks. All material assets and liabilities are determined in sterling, so are not exposed to currency risk. Proceeds from recovered assets are placed in an interest-bearing bank account, whilst awaiting payment over to Consolidated Fund, via the Home Office.

### **Fixed Assets**

Details of the movement in fixed assets are set out in Notes 10 and 11 to the Financial Statements.

### **Health and Safety**

The Agency is committed to providing for staff an environment that is as far as possible safe and free from risk to health. In line with this commitment, the relevant legislation was complied with.

### **Equality and Diversity**

The Agency is committed to a policy which values equality and diversity, being one of its five core values. The Agency will provide not only a working environment that is free from discrimination, harassment or victimisation, where everyone will receive fair and equal treatment related to effective

performance in their job, but also where the Agency harnesses the different perspectives and skills of everyone, and makes full use of them in its work. The Agency has created an ethos in which it responds to the needs of its staff and customers, where diversity is truly valued and where everyone is treated with dignity and respect.

The Agency's policies incorporate all relevant employment law, legislation and best practice to ensure that the Agency does not discriminate against anyone who works for the Agency or comes into contact with the Agency.

### **Employment of Disabled Persons**

The Agency follows the Civil Service Code of Practice on the Employment of Disabled People. The Code aims to ensure that there is no discrimination on the grounds of disability and that access to employment and career advancement is solely based on the competencies required for the job and the individual ability. The Agency is also signed up to the "two ticks" Disability Symbol programme.

### **Employee Relations and Development**

The Agency is committed to creating and maintaining good industrial relations, both directly between line managers and their staff, and between management and the recognised trade unions. The Agency fosters a spirit of co-operation and partnership between all concerned, in the interests of efficiency and the well being of all Agency staff. This means recognising the responsibilities of managers to manage, the need for good communications with staff and their representatives, and proper consultation wherever appropriate on issues affecting staff and their conditions of service.

### **Quality Assurance**

The Agency achieved Investor in People (IIP) accreditation in Dec 2004, with this updated according to the new standard in March 2006. As an organisation committed to continuous improvement, the Agency has undertaken to be reassessed every 12 months, rather than every 3 years to ensure that we consistently strive to achieve the highest standards.

The Legal Services Team (LST) London was awarded the Lexcel accreditation in December 2004. The accreditation was awarded with no non-compliances, which is a significant achievement for the LST and the Agency. Lexcel is the Law Society's excellence standard for legal practices in their practice management standards. It is a standard which applies to the administrative work carried out in a legal team, and ensures clarity and consistency in the teams work.

### **Freedom of Information**

The Freedom of Information Scheme went live on 1 January 2005, and the ARA is committed to the move towards greater transparency and increased openness in government decision making.

### **Public Perceptions**

ARA's KPI 4 is to 'maintain public confidence in the professionalism and integrity of the work of the Agency'. To measure this, the Agency commissioned YouGov Ltd to undertake an on-line survey into public attitudes in England, Scotland and Wales towards crime and the recovery of assets by the Agency. A similar survey was conducted by MORI in Northern Ireland. During 2006, the Agency also completed two small-scale local impact research projects. Both projects showed that there is widespread support for asset recovery and that targeted communications in local media raise the profile of asset recovery.

### **Social and Community Issues**

The Agency has a wide range of cases involving criminality including housing benefit fraud, mortgage fraud, importing drugs and drug trafficking, money laundering and counterfeit goods amongst others. By disrupting these activities, the Agency alleviates the effects of crime on communities. Furthermore, of the assets recovered, the Home Office will reallocate amounts each year on schemes to benefit communities.

**Environmental issues**

Office waste which contains sensitive material is currently shredded before it leaves the premises and subsequently burnt due to security issues. Other non-sensitive material is regularly recycled. With regards to emissions to air, the Agency's offices would produce a normal level of greenhouse gases as befits standard air-conditioned offices. The use of videoconference equipment is also widely encouraged as a first option through which to hold meetings, which would otherwise require travel.

**Key Stakeholders**

The Agency has a key relationship with other Law Enforcement Agencies (LEA's), through whom cases are referred. This is a mutually beneficial arrangement, as from 1st April 2006, these LEA's are entitled to a percentage of the assets recovered. See Note 1.12 for further details on incentivisation. In addition to the referrals, these LEA's also provide a significant proportion of the attendees to courses provided by the Agency's Centre of Excellence training department.

**Auditors**

Under the Government Resources and Accounts Act 2000, the Assets Recovery Agency's accounts are audited by the National Audit Office, on behalf of the Comptroller and Auditor General. The notional audit fee for 2006/07 was £81,000.

*The Future***Cost commitments**

The work of the Agency in pursuing assets through civil recovery and taxation breaks completely new legal ground in many areas. It was therefore always recognised that it would be almost impossible to develop accurate cost estimates for cases for the first two years of the Agency's life. This is especially true as the Agency is currently working on a number of cases and appeals that will set the legal precedents for future development of the law in these areas.

Our knowledge of the costs of litigating cases has now developed and 2007/08 will begin with a significant number of cases where we await final hearings and where we have incurred costs from 2004/05 to 2006/07.

We have learned much from our experience over the past four years, particularly regarding the timescales of cases. We now have better information to suggest that the average length of cases is likely to take up to two and a half years, which is the result of the various legal processes and safeguards in the Proceeds of Crime Act. Cases being investigated, or adopted, for civil recovery in 2006-07, may therefore accrue costs, whether they be in terms of the interim receivers' costs or the legal and enforcement costs, which will run on into 2007-08 and perhaps 2008-09.

A number of the powers granted to the Director under POCA were challenged in cases brought by the Director during 2006/07. These were in relation to the civil recovery proceedings contained in Part 5 of POCA and awaiting decisions in each of these cases had a significant impact on the lifetime of both these and other cases. This was because firstly the Courts would not allow a case to be continued until the preliminary legal points had been resolved, and secondly because judges in other cases were not prepared to allow those cases in which the same points were to be raised to progress until the Courts of Appeal had ruled on those points in cases in which the challenges had already been brought. Of the challenges where decisions have now been reached, each has fallen in support of the legislation that civil recovery proceedings were properly classified as civil. Each appeal decision is significant in the development and understanding of the powers exercised by the Director, create important case law and serves to strengthen the position of the Agency in future challenges.

The Agency works alongside the Police and other investigating agencies and prosecutors. The overarching national policy for asset recovery is contained in the Home Office Strategic Plan, which includes 'recovering more criminal assets' as part of their Commitments to law abiding citizens. The Home Office commitment is also echoed in the National Policing Plan for 2004-2008, which commits the Police Service to action in this area, and which is supported by the incentivisation scheme which will enable



all agencies to receive 50% of the value of assets recovered. Section 280, Subsection 3 of the revised Proceeds of Crime Act, which had a commencement date of 1 July 2005, enables the Director to meet the costs of an appointed Interim Receiver from sums received from civil recovery proceedings in a way which directly mirrors the provisions in criminal confiscation cases in Parts 2 and 4 of POCA.

### **Serious Organised Crime Agency (SOCA)**

As specified in the Going Concern paragraph on Page 9, the Serious Crime Bill was introduced to Parliament in early 2007. It is proposed that the Agency merges with SOCA and the National Police Improvement Agency (NPIA). Parliament still has to approve this Bill, before any decisions are made regarding future operational and support strategies and structures. In 2007-08, the Agency will be carrying out its current operations as before. From 2008-09 onwards, this report assumes that the activities of the Asset Recovery Agency will continue within both SOCA and the NPIA. This assumption also applies to the scenario where the merger takes place on 1st April 2008, as the intention will be to keep all existing ARA functions and staff.

### **International**

The Camden Assets Recovery Inter-Agency Network (CARIN) is an informal international network in respect of tracing, seizure and confiscation of the proceeds from crime. The aim of CARIN is to increase the effectiveness of members' efforts, individually and collectively, on a multi-agency basis, in depriving criminals of their illicit profits, through its key objectives. CARIN is not a substitute for, or an alternative, to the formal and legal structures which already exist, for example, for the exchange of financial intelligence; for the gathering or exchange of evidential material; or for the provision of mutual legal assistance. CARIN and its network of contact points can help financial investigators and others to make requests under these arrangements in the right way and put you in contact with people in other countries who can help you make requests. The Agency provides, in collaboration with the Scottish Drugs Enforcement Agency, the UK's contact points for CARIN.

In 2006-07, the Agency has provided active support and co-operation to its partners internationally, including:

- providing support and advice to jurisdictions, including Jamaica and Croatia, looking to develop and establish Civil Recovery regimes
- providing support to Australian colleagues, including through contributing to their review of their Proceeds of Crime regime
- hosting visits from colleagues from around the world, including Bulgaria, Kenya, Australia, China, Spain, Afghanistan, Panama Malaysia, Russia, Vietnam, Romania and Croatia; and
- building international co-operation through Repatriation Orders and worldwide Freezing Orders

The Centre of Excellence continues to support the development of financial investigation capacity in the international community through the training of FIs and in developing and implementing sustainable training strategies in other jurisdictions.

### **Declarations, as defined in Companies Act**

- 1) As far as I am aware, there is no relevant audit information of which the auditors are not aware.
- 2) I have taken all steps that I ought to have taken to make myself aware of any relevant audit information.

Alan McQuillan  
Accounting Officer

17th July 2007

## Remuneration Report

The senior management of the Agency were as follows (as audited by the National Audit Office):

	Salary, including Performance Pay	Real increase in pension & related lump sum at age 60	Total accrued pension at age 60 at 31/3/07 and related lump sum	CETV at 31/3/06***	CETV at 31/3/07	Real increase in CETV after adjustment for inflation and changes in market investment factors	Employer contribution to partnership pension account including risk
	2006-07 (2005-06) £000	2006-07 £000	£000	Nearest £000	Nearest £000	Nearest £000	Nearest £000
Jane Earl*, <i>Accounting Officer</i>	140-145 (135-140)	0-2.5 plus lump sum of 0-2.5	7.5-10 plus lump sum of 0-2.5	85	113	23	N/A
Alan McQuillan*, <i>Deputy Director, Operations</i>	100-105 (90-95)	0-2.5	5-7.5	76	111	29	N/A
Charlie Dickin, <i>Deputy Director, Services</i>	100-105 (75-80)	N/A	N/A	N/A	N/A	N/A	N/A
Sue Edwards**, <i>Head of Legal Services (left 19.03.07)</i>	90-95 (90-95)	0-2.5	30-32.5 plus lump sum of 70-72.5	635	684	19	N/A
Ivor Johnston, <i>Head of Finance</i>	55-60 (55-60)	0-2.5 plus lump sum of 2.5-5.0	17.5-20 plus lump sum of 55-57.5	247	264	13	N/A

### Notes:

\* opted to join Premium

\*\* opted to join Classic Plus

\*\*\* difference to CETV at 31/03/06 in 2005-06 accounts, as these values are updated as per APAC return and the CETV criteria changed this year

Two Non Executive Directors were appointed on 31 August 2004 and were remunerated in the range £5-10k during 2006/07. One of the Non Executive Directors resigned on 27 March 2007 and was replaced by one of the Non Executive Directors of SOCA.

### Salary

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

### Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the Agency and treated by the Inland Revenue as a taxable emolument. There were no qualifying benefits in kind made to any member of the Management Board during 2005/06 nor in 2006/07.

### Civil Service Pensions

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

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

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

Further details about the Civil Service Pension arrangements can be found at the website [www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk).

Columns 4 & 5 of the above table show the Management Board member's cash equivalent transfer value (CETV) accrued at the beginning and the end of the reporting period. Column 6 reflects the increase in CETV effectively funded by the Agency. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service Pension arrangements and for which the Civil Service Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries. The real increase in CETV reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

### Pay Committee

There are two committees within the Agency that deal with issues of salary on an executive basis for the management board. The ARA SCS Pay Committee meets at an annual event chaired by a NED to discuss SCS members' pay. The ARA Staff Pay Committee, also chaired by a NED, meets at least quarterly to review any exceptional, individual pay awards and clear market rating recommendations.

The membership of the two committees during 2006-07 were as follows:

**SCS Pay Committee**

Reshard Auladin (chair)  
Ivor Johnston  
Robert McCann (Non-executive Director)  
Jane Earl

**Staff Pay Committee**

Reshard Auladin (chair)  
Ivor Johnston  
Robert McCann (Non-executive Director)  
Charlie Dickin

### Policy on remuneration of Senior Managers

The current and future policy on remuneration of senior managers who are classified as Senior Civil Servants (SCS) is in line with the work and recommendations of the Senior Salaries Review Body. The senior managers have their pay reviewed by the Pay Committee. Currently, salaries of SCS members are subject to an annual increase between 0-9%, depending on reaching their performance objectives. Progression target rates are also factored into this calculation.

There are proposals that in future, progression target rates may be removed to ensure a more performance-driven appraisal of senior managers.

SCS members are also currently subject to awards from the SCS bonus pot. In 06-07 the amount awarded will be divided equally amongst all SCS members of ARA.

There were no non-cash packages given to Senior Managers in 06-07.

### Performance Management

The Agency has a Performance Management System in place, through which assessments may be made to ensure that performance conditions are met. This method was developed following a wide consultation exercise with team members at workshops and in individual discussions.

The main components of the current system are as follows, although it should be noted that this is constantly being reviewed:

- Recorded monthly 1:1 meetings are held to discuss progress against day to day tasks and PA objectives
- Six monthly deadlines for submission of documentation are strictly adhered to.
- Where requested by the team member, more regular evaluation takes place (for career development or any other purposes).
- Where there are concerns regarding performance, the Team Leader/Manager may request more regular evaluation

**Senior Management Contracts**

Details of contracts for senior managers in the year 2006-07 are shown in the table below:

	<i>Contract type</i>	<i>Contract end date</i>	<i>Early Termination Awards</i>
Jane Earl	Fixed term	30/4/07	N/A
Alan McQuillan	Permanent	N/A	N/A
Charlie Dickin	Seconded	31/12/08	N/A
Sue Edwards	Permanent	N/A	N/A
Ivor Johnston	Permanent	N/A	N/A

The policy on duration of contracts for SCS is in line with SSRB recommendations. The standard recommended duration for this is a 4-year "tour of duty" per role, by which time, it is anticipated that the SCS will progress into another position, either sideways or above. Jane Earl ended her contract on 30th April 2007. The Deputy Director of Operations has been appointed as the Interim Director and Accounting Officer for 2007-08. The Deputy Director of Services has transferred to Operations for 2007-08. The Head of Finance has subsequently transferred as the Deputy Director of Services with effect from 8th May 2007. An Interim Head of Finance was appointed on 14th May 2007. Sue Edwards left the Agency in March 2007.

There are no amounts payable to third parties in relation to the services of senior management, other than standard salary costs incurred for those members on secondment.

There are no fixed rates regarding the proportion of pay that is subject to performance conditions.

Alan McQuillan  
Accounting Officer

17th July 2007

## STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

Under the Government Resources and Accounts Act 2000, the Assets Recovery Agency is required to prepare resource accounts for each financial year, in conformity with a Treasury direction, detailing the resources acquired, held, or disposed of during the year and in the use of resources by the agency during the year.

The resource accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Agency, the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year.

The Treasury has appointed the Director as Accounting Officer of the Agency with responsibility for preparing the Agency's accounts and for transmitting them to the Comptroller and Auditor General.

In preparing the accounts, the Accounting Officer is required to comply with the Resource Accounting Manual prepared by the Treasury, and in particular to:

- Observe the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- Make judgements and estimates on a reasonable basis;
- State whether applicable accounting standards, as set out in the Resource Accounting Manual, have been followed, and disclose and explain any material departures in the accounts;
- Prepare the accounts on a going concern basis.

The responsibility of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding the Agency's assets, are set out in the Accounting Officers' Memorandum, issued by the Treasury and published in Government Accounting.

## STATEMENT ON INTERNAL CONTROL

### Scope of Responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Asset Recovery Agency's policies, aims and objectives, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting. Although Jane Earl was the Accounting Officer during 2006-07, I am content to sign off the accounts on the understanding that the controls referred to below were actually in place.

### 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 the Agency's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Assets Recovery Agency for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

### Capacity to handle risk

Risk management is a key component of the internal control framework and the Agency have further developed risk management arrangements during 2006/07 following a review of the Agency's risk management systems by the Policy and Performance team. This led to the development of a new risk management framework which more fully recognises the role that each member of staff plays in risk management on a daily basis. Through working closely with Management Board and Internal Audit, a Risk Managers Group was established representing all Agency Business Units. The new system introduced risk management into the annual business planning and 6-monthly performance management cycles. A clear escalation structure, reporting structure and audit trail reinforces the Agency's commitment to risk management. The creation of the Risk Managers Group has created a new layer of management of risk in addition to the Management Board (corporate risk) and the Audit Committee (overall internal control). The revised system was introduced across the Agency from March 2006 in advance of full implementation from 1 April 2006. ARA is therefore committed to the principles of risk management, and in supporting those principles will:

- Support responsible, well thought through risk taking and innovation;
- Encourage staff at all levels to innovate, contribute ideas and raise concerns;
- Support the concept that 'Risk management is good management' and forms part of the every day activities of all staff;
- Provide guidance, training and tools to skill staff in managing risk and ensuring that responsibilities are clear;
- Provide support when things go wrong and taking action on lessons learned.

A Corporate Risk Register has been maintained throughout 2006/07 to support the original risk framework and managers at all levels have received risk awareness training.

### The risk and control framework

Business risks arise not only from possible threats to the Agency, but also from failure to take advantage of possible opportunities. There are four main categories of risk that the Agency considers and seeks to manage:

- External risks to ARA – such as changes in economic or political circumstances;

- Financial risks – which are those events and actions which have a direct financial impact on ARA leading to increased expenditure (e.g. claims for compensation) or nugatory spending (e.g. the costs of a failed project);
- Activity risks- which are those events or actions which could disrupt our ability to provide a service or which could result in ARA acting in a way contrary to its objectives; and
- Human Resource risks – which are events having a direct impact on staff.

As an innovative organisation, ARA seeks to maximise its opportunities to deliver improved levels of service to its stakeholders. Risk is inherent in that approach and part of managing that risk is assessing the amount of risk to which the organisation is prepared to be exposed before it judges action to be necessary. The tolerable level of risk will vary. Assessments of tolerable levels of risk across ARA include not only individual risk to high level objectives or priorities but also the cumulative effect of lower level risks on objectives or the organisation as a whole. Therefore the goal of risk management is not to eliminate all risks, but rather to focus on the significant risks and implement controls or responses only if the benefits of doing so outweigh the costs. A considered decision may be taken not to control some of the business risks identified, whilst a cost-benefit analysis should ensure that resources are concentrated on the management of significant risks.

The following documents maintain an audit trail of risk management and also serve as tools for more direct and active management of risk:

- Business Plans – this includes an additional risk column to help formalise the process whereby emerging risks are identified and fed into the risk management process;
- Performance Agreements – these record updates on risk controls and emerging risks (as and when required) as a mechanism to update the risk register and risk logs;
- Risk hierarchy and escalations – the interaction between the different risk registers;
- Risk matrix – contains the step by step process under which all identified risks are rated.
- Corporate Risk Register – contains the corporate risks identified by the MB, plus those risks directly managed by the MB, requested permanent business level risks (under an identified criteria) , ad hoc project risks and escalated risks. These are reported quarterly to the Audit Committee;
- Business Risk Register – contains the Business Unit Risks, ie those risks which have been delegated down by the MB for management at Business Unit level together with identified generic risks that are managed across all teams. They are specific to the Business Unit;
- Team Risk Log – contains a record of all the controls that are or will be in place against any identified risk together with an action list and identified action owners;
- Risk Stewardship Statement – produced by all risk managers for use at the quarterly Senior Management Team meeting;
- Risk Reporting – randomly selected business unit risk register is to be reviewed at each quarterly audit committee.

The Agency's Management Information System is being further developed and a replacement finance system has been implemented. A new Human Resource Management System has also been implemented and these measures will enable managers to effectively control the resources under their particular areas of responsibility.

### **Review of effectiveness**

As Accounting Officer for ARA, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the system of internal control was informed by the work of our Internal Auditors (Deloitte and Touche LLP) and the executive managers within the Agency, who have responsibility for the development and maintenance of the internal control framework, and comments made by the National Audit Office in their management letter and other reports. I have been advised on



the implications of the result of my review of the effectiveness of the system of internal control by the Management Board, the Audit Committee and Risk Managers Group and a plan to ensure continuous improvement of the system is in place.

Internal Audit concluded that the overall control environment in operation within the ARA during 2006/07 had acquired a reasonable level of assurance. Where Internal Audit have raised recommendations, these have been accepted where appropriate by management and action plans agreed. ARA continues to strengthen its control environment by developing new systems in financial management and human resource systems, control awareness training for staff and enhanced management checks. In response to Internal Audit recommendations, the Agency has also developed a Business Continuity Plan (BCP) which is now in place and which will be tested accordingly during early 2007/08.

I have the following procedures in place necessary to implement Treasury guidance on Corporate Governance:

A Management Board which meets monthly to consider management and strategic issues (the Board comprises the senior members of the Agency). The Board regularly reviews the Agency's priorities and the arrangements for their delivery, and establishes a strategic framework within which detailed business planning takes place. The Management Board includes two Non Executive Directors to support and develop independent governance for the future;

An Audit Committee which met quarterly during 2006/07, chaired by a Non-Executive Director, to advise the Accounting Officer on the adequacy of risk management and internal control arrangements in the Agency and on the implications of assurances on risk and control. The Committee's role supports the annual Statement on Internal Control and monitors the ARA's risk management and internal controls on a regular basis with a full risk and control assessment reported on the year ending 31 March 2007. Risk management is fully incorporated into the corporate planning and decision-making processes of the organisation;

Pay Committees to deal with issues of salary on an executive basis for the Management Board. The ARA Senior Civil Service Pay Committee meets at an annual event chaired by a Non-Executive Director to discuss SCS pay. The ARA Staff Pay Committee, also chaired by a NED, meets at least quarterly to review any exceptional, individual pay awards and makes pay recommendations to the Board on Agency wide pay reviews.

An information security policy and procedures aligned with BS7799 and a regular programme of independent external reviews to ensure that information security and related risk management is effective and consistent with BS7799;

The Agency operates a professional standards policy;

The Agency is in the process of establishing regular Health and Safety Audits, conducted jointly with the TUS H&S representative. As a result of these audits, the Agency H&S Officer will make an annual report to the Management Board. This will include formal fire safety risk assessments.

During 2006-07, the Agency was subject to a Value for Money review by the National Audit Office (NAO). Their report recognised that the Agency had exceeded all of its disruption targets but pointed out that there were areas where improvements could be made on some of its systems. The Agency has started to address a number of the aspects identified in the report, and will be working with the Serious Organised Crime Agency (SOCA) and the National Police Improvement Agency (NPIA) to develop other aspects of the NAO report as the plans for the mergers develop.

### **Working In Partnership**

The Concerted Inter-agency Criminal Finance Action Group (CICFA), a group comprising HM Revenue & Customs, Association of Chief Police Officers (ACPO), Serious Organised Crime Agency (SOCA), the Crown Prosecution Service, Financial Services Authority, Northern Ireland Office, Public Prosecution

Service (NI) and the Department of Constitutional Affairs (DCA), as well as the Agency, was established in June 2002. The group meets monthly to monitor and manage its programme and to drive achievement of asset recovery targets. CICFA has already delivered:

- strong inter-agency commitment to the delivery of challenging financial targets;
- use of the Joint Asset Recovery Database (JARD) to better manage performance and enforcement;
- promulgation of best practice through the POCA Update and Money Laundering newsletters with over 5000 regular recipients;
- development of the assets recovery communications strategy;
- use of the 'payback' branding for all asset recovery activity; and
- a programme of events to build support for asset recovery as a mainstream tool for reducing harm and crime.

The JARD was developed by ARA to provide a central repository of information covering all aspects of the asset recovery process. It encompasses cash seizure, asset restraint, criminal confiscation, civil recovery and criminal taxation cases flowing from POCA and all its predecessor legislation. JARD enables financial investigators, prosecutors, Magistrates' and Sheriffs' Courts across the asset recovery community to manage the end to end process of a case as it passes through the justice process. It is a cross-Government and cross-law enforcement database used by in excess of 3,000 individuals in over 300 locations throughout the United Kingdom.

The Agency's work on developing Memoranda of Understanding with key stakeholders and other organisations has progressed and these are regularly reviewed to ensure that all arrangements outlined are still operationally beneficial and relevant to both parties. There have also been regular liaison meetings between the Agency and partner agencies, including the Home Office, HM Revenue & Customs. These have served to ensure joint working between organisations.

ARA's senior management plays a full part in the Concerted Inter-agency Criminal Finances Action group (CICFA).

Under Schedule 1, Section 1 Part 6 of the Proceeds of Crime Act, I prepare an annual plan for the Secretary of State's approval and report on progress against the plan on a quarterly basis.

Alan McQuillan  
Accounting Officer

17th July 2007

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

I certify that I have audited the financial statements of the Assets Recovery Agency for the year ended 31st March 2007 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the Statement of Operating Costs by Departmental Aim and Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

### Respective responsibilities of the Accounting Officer and Auditor

As described on page 18, the Accounting Officer is responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, certain information given in the Annual Report, which comprises the Management Commentary, is consistent with the financial statements. 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.

In addition, I report to you if the Department has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

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

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

### Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Department's circumstances, consistently applied and adequately disclosed.

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

## Opinions

### Audit Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Department's affairs as at 31 March 2007, and the net cash requirement, net resource outturn, net operating cost, operating costs applied to objectives, recognised gains and losses and cashflows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- information given within the Annual Report, which comprises the Management Commentary, is consistent with the financial statements.

### Audit Opinion on Regularity

In my opinion, 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.

## Report

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

18th July 2007

The maintenance and integrity of the Assets Recovery Agency website is the responsibility of the Accounting Officer; the work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

## Statement of Parliamentary Supply

### Summary of Resource Outturn 2006-07

	2006-07 Estimate			2006-07 Outturn			2006-07	2005-06
	Gross expenditure	Appropriations in Aid	Net total	Gross expenditure	Appropriations in Aid	Net total	Net total outturn compared with Estimate saving/ (excess)	Outturn
	£000	£000	£000	£000	£000	£000	£000	£000
Request for Resources 1	27,978	(12,425)	15,553	24,927	(11,409)	13,518	2,035**	23,527
Total Resources (Note 2)	27,978	(12,425)	15,553	24,927	(11,409)	13,518	2,035**	23,527
Non Operating – Cost A-in- A	–	–	–	–	–	–	–	–

### Net cash requirement 2006-07

	Note	2006-07		2005-06
		£000s	£000s	£000s
		Estimate	Outturn	Net total outturn compared with Estimate saving/ (excess)
Net Cash Requirement	4	17,063	14,430	2,633
				Outturn
				21,845

## Summary of income payable to the Consolidated Fund

The Agency has no income which is payable to the Consolidated Fund.

\*\* Explanations of variances between Estimate and outturn are given in the Management Commentary

The notes on pages 30 to 48 form part of these accounts

## Operating Cost Statement for the year ended 31 March 2007

	Note	2006-07 £000			2005-06 £000
		Staff Costs	Other Costs	Income	
<b>Administration Costs</b>					
Staff costs	7	917			749
Other administration costs	8		3,045		2,794
Operating income	6			(73)	–
		917	3,045	(73)	3,543
<b>Programme Costs</b>					
Staff costs	7	8,100			6,732
Other programme costs	9		12,865		13,342
Operating Income	6			(11,336)	(7,121)
		8,100	12,865	(11,336)	12,953
<b>Totals</b>		9,017	15,910	(11,409)	16,496
<b>Net Operating Cost</b>	3			13,518	16,496

All income and expenditure is derived from continuing operations

### Statement of Recognised Gains and Losses

	Note	2006-07	2005-06
Net gain/(loss) on revaluation of tangible fixed Assets	10	11	(125)
Net gain/(loss) on revaluation of intangible fixed Assets	11	(2)	(4)
<b>Recognised gains and losses for the financial year</b>		<u>9</u>	<u>(129)</u>

The notes on pages 30 to 48 form part of these accounts

**Balance Sheet as at 31 March 2007**

	Note	31-Mar-07		31-Mar-06	
		£000	£000	£000	£000
<b>Fixed Assets</b>					
Tangible assets	10		<b>1,580</b>		<b>1,657</b>
Intangible assets	11		<b>11</b>		<b>36</b>
<b>Debtors falling due after 1 year</b>	13		–		–
<b>Current Assets</b>					
Debtors	13	3,304		3,690	
Cash at bank and in hand	14	3,080		77	
		<u>6,384</u>		<u>3,767</u>	
<b>Creditors (amounts falling due within one year)</b>	15	<u>(8,427)</u>		<u>(13,661)</u>	
<b>Net Current Liabilities</b>			<b>(2,043)</b>		<b>(9,894)</b>
<b>Total Assets less Current Liabilities</b>			<b>(452)</b>		<b>(8,201)</b>
<b>Creditors (amounts falling due after more than one year)</b>	15	(89)		(262)	–
<b>Provisions for liabilities and charges</b>	16	–	<b>(89)</b>	(2)	<b>(264)</b>
			<u>(541)</u>		<u>(8,465)</u>
<b>Taxpayers' Equity</b>					
General Fund Deficit	17		(642)		(8,540)
Revaluation reserve	18		101		75
			<u>(541)</u>		<u>(8,465)</u>

Alan McQuillan  
Accounting Officer

17th July 2007

*The notes on pages 30 to 48 form part of these accounts*

**Cash Flow Statement for the year ended 31 March 2007**

	Note	<u>2006-07</u>	<u>2005-06</u>
		£000	£000
Net cash outflow from operating activities	19 a)	(14,118)	(16,585)
Capital expenditure and financial investment	19 b)	(312)	(473)
Payments of amounts due to the Consolidated Fund		–	–
Financing	19 d)	<u>17,433</u>	<u>16,775</u>
(Decrease)/Increase in cash in the period	19 e)	<u>3,003</u>	<u>(283)</u>

*The notes on pages 30 to 48 form part of these accounts*



## Statement of Operating Costs by Departmental Aim and Objectives for the year ended 31 March 2007

	<b>Gross</b>	<b>2006-07 Income</b>	<b>Net</b>
	<u>£000</u>	<u>£000</u>	<u>£000</u>
<b>Aim: to reduce crime by recovering the proceeds of crime</b>			
Objective 1:	23,196	(10,925)	12,271
Objective 2:	1,731	(484)	1,247
<b>Net Operating Costs</b>	<u>24,927</u>	<u>(11,409)</u>	<u>13,518</u>

## Operating Costs by Departmental Aim and Objectives for the year ended 31 March 2006

	<b>Gross</b>	<b>2005-06 Income</b>	<b>Net</b>
	<u>£000</u>	<u>£000</u>	<u>£000</u>
<b>Aim: to reduce crime by recovering the proceeds of crime</b>			
Objective 1:	21,992	(6,918)	15,074
Objective 2:	1,625	(203)	1,422
<b>Net Operating Costs</b>	<u>23,617</u>	<u>(7,121)</u>	<u>16,496</u>

Note: Administration Costs have been allocated to objectives on the basis of average headcount. The Objectives above are consistent with the ARA's 2006/07 Business Plan, which were agreed with the Home Secretary and Secretary of State for Northern Ireland. It was deemed inappropriate to allocate capital employed across the above objectives for 2005/06 and 2006/07.

Objective 1: to reduce crime by recovering the proceeds of crime through criminal confiscation, civil recovery and taxation

Objective 2: to promote the use of financial investigation as an integral part of criminal investigation through training and continuing professional development.

*The notes on pages 30 to 48 form part of these accounts*

## Notes to the Accounts

### 1. Statement of accounting policies

The financial statements have been prepared in accordance with the 2006-07 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. The particular accounting policies adopted by the ARA are described below.

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

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

#### 1.1 Accounting convention

The financial statements have been prepared in accordance with the historical cost convention, modified to include the revaluation of fixed assets at their value to the business by reference to their current costs.

#### 1.2 Tangible fixed assets

Tangible fixed assets are stated at the lower of replacement cost and recoverable amount. Expenditure on tangible fixed assets of over £2,000 is capitalised. In addition, items such as IT hardware systems, which are under a single management control and do not exceed £2,000 individually but total at least £25,000 (including VAT) on a grouped basis, are also capitalised.

On initial recognition they are measured at cost including any costs such as installation directly attributable to bringing them into working condition. All tangible fixed assets are restated to current value each year. Buildings are restated to current value using professional valuations in accordance with FRS 15 every five years and in the intervening years by the use of HM Treasury published indices appropriate to the type of building. Non-property operational assets are revalued to open market value where obtainable, or on the basis of depreciated replacement cost where market value is not obtainable. Published indices appropriate to the category of asset are normally used to estimate value.

#### 1.3 Depreciation

Depreciation is on a straight line basis and the rates are as follows:

Building Enhancements	–	10 years
Office Equipment	–	5 to 10 years
Office Furniture	–	10 years
IT & Communications	–	3 to 10 years
Security Equipment	–	5 to 10 years

The estimated useful lives of fixed assets are reviewed regularly.

#### 1.4 Intangible Assets

Purchased computer software licences are amortised over the period of the licence duration. If unspecified, they are amortised over a period of 3 years.

#### 1.5 Research and development

Expenditure on research is not capitalised. Development expenditure is capitalised if it meets the criteria specified in the *Financial Reporting Manual (FRM)*, which are adapted from SSAP 13 to take account of the not-for-profit context. Expenditure which does not meet the criteria for capitalisation is treated as an operating cost in the year in which it is incurred. Fixed assets acquired for use in research and development are depreciated over the life of the associated project, or according to the asset category if the asset is to be used for subsequent production work. Two software development programmes have been capitalised in the Agency. These are the Joint Assets Recovery Database (JARD) and the Financial Investigators Support System (FISS), each of which meet the criteria outlined in SSAP 13 and will be depreciated over a five year period.

#### 1.6 Operating income

Operating income is income which relates directly to the operating activities of the Agency. It comprises fees and charges for services provided on a full-cost basis to external customers, together with income from recovered assets and from the Home Office incentivisation policy. It includes not only income appropriated in aid of the Estimate but also income to the Consolidated Fund, which in accordance with the FRM is treated as operating income. Operating income is stated net of VAT. See Note 6 for further details.

#### 1.7 Administration and programme expenditure

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

#### 1.8 Capital charge

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

- a) tangible and intangible fixed assets where the cost of capital charge is based on opening values, adjusted pro rata for in-year:
  - additions at cost
  - disposals as valued in the opening balance sheet (plus any subsequent capital expenditure prior to disposal)
  - impairments at the amount of the reduction of the opening balance sheet value (plus any subsequent capital expenditure)
  - depreciation of tangible and amortisation of intangible fixed assets;
- b) donated assets, and cash balances with the Office of the Paymaster General (OPG), where the charge is nil

## 1.9 Leases

Where substantially all risks and rewards of ownership of a leased asset are borne by the Agency, the asset is recorded as a tangible fixed asset and a debt is recorded to the lessor of the minimum lease payments discounted by the interest rate implicit in the lease. The interest element of the finance lease payment is charged to the Operating Cost Statement over the period of the lease at a constant rate in relation to the balance outstanding. Other leases are regarded as operating leases and the rentals are charged to the Operating Cost Statement on a straight-line basis over the term of the lease.

## 1.10 Pensions

Direct employees of the ARA are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS), which is a defined benefit scheme and is unfunded and non-contributory. The ARA recognises the expected cost of providing pensions on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. There is a separate scheme statement for the PCSPS as a whole.

## 1.11 Value Added Tax

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

## 1.12 Confiscated Assets

The Agency's operational role under the Proceeds of Crime Act 2002 gives rise to criminal confiscation, civil recovery and taxation of income related to crime. As a result, confiscated and seized assets are generated. Amounts recovered were formerly surrendered to the Consolidated Fund in their entirety, once the proceeds had been delivered to the Agency from the Court or Interim Receivers, as the recoverable amounts are not certain until the point of transfer.

From 1st July, 2005 HM Treasury agreed that total receivers' fees may be deducted from total proceeds before they are paid, via the Home Office, to the Consolidated Fund. Any receivers' fees incurred on a civil case which has its final recovery order made by the courts subsequent to the 1st July 2005, have been paid from amounts recovered from confiscated assets. In addition to actual cash received from the proceeds of recovered assets, amounts may also be applied from assets in enforcement. These are assets which are in the process of being liquidated, with sufficiently reliable estimated recoverable amounts.

Any excess of recovered assets over allowable receivers' costs is paid over to the Home Office. As the final amount of receivers fees is not known until the year-end, the Agency finalises the excess payments on a yearly basis, once the accounts have been finalised. A payment on account is paid over, where appropriate, for the other quarters during the year.

From 1st April, 2006 the Agency is able to reclaim a proportion of net proceeds from the Home Office on a quarterly basis, with a share also going to the referring body. The aim of this scheme is an incentive to develop the business of the Agency. Although allowable receivers' fees may be deducted from total proceeds on an aggregate basis, the Agency maintains internal records to ensure that the referring agency will receive the appropriate proportion of the proceeds from the relevant case. In other words, in civil cases, the referring agency receives 25% of the residual value once total receivers fees per case have been deducted from the total proceeds of the case.

In accordance with the Financial Reporting Manual, the surplus income generated from these assets (that is not utilised against Receivers' fees) is outside the scope of Resource Accounting, and is surrendered to the Consolidated Fund. The Agency includes a Memorandum Note at Note 29 showing the proceeds received after such asset realisations. The details of confiscation investigations, civil recovery cases and taxation cases, along with estimated recoverable asset values, are published each year in the Agency's Annual Report, available at [www.assetsrecovery.gov.uk](http://www.assetsrecovery.gov.uk).

### 1.13 Contingent Liabilities

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

## 2. Analysis of net resource outturn by section

	2006-07						Estimate	Net total outturn compared with Estimate
	Admin.	Other current	Grants	Gross resource expenditure	A-in-A	NET TOTAL		
	£000	£000	£000	£000	£000	£000		
Request for Resources: Central Government Spending								
Section A: Helping to reduce crime	3,962	20,965	–	24,927	(11,409)	13,518	15,553	2,035
<b>Total</b>	<b>3,962</b>	<b>20,965</b>	<b>–</b>	<b>24,927</b>	<b>(11,409)</b>	<b>13,518</b>	<b>15,553</b>	<b>2,035</b>

### Reconciliation to Operating Cost Statement

Gross Operating Expenditure	24,927		
Operating Income		(11,409)	
Net Operating Cost			13,518

	2005-06						Estimate	Net total outturn compared with Estimate
	Admin.	Other current	Grants	Gross resource expenditure	A-in-A	NET TOTAL		
	£000	£000	£000	£000	£000	£000		
Request for Resources 1: Central Government Spending	3,542	20,075	–	23,617	(90)	23,527	16,748	(6,779)
<b>Total</b>	<b>3,542</b>	<b>20,075</b>	<b>–</b>	<b>23,617</b>	<b>(90)</b>	<b>23,527</b>	<b>16,748</b>	<b>(6,779)</b>

### Reconciliation to Operating Cost Statement

Gross Operating Expenditure	23,617		
Operating Income		(90)	
Net Operating Cost			23,527

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

				<b>2006-07</b>	<b>2005-06</b>
	Note	Outturn	Supply Estimate	Outturn compared with Estimate	Outturn
		<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Net Resource Outturn	2	13,518	15,553	2,035	23,527
Prior Period Adjustments	-	-	-	-	-
Non-supply income (CFERs)	6			-	(7,031)
Non-supply Expenditure	-	-	-	-	-
Net operating cost		<b>13,518</b>	<b>15,553</b>	<b>2,035</b>	<b>16,496</b>

Net operating cost is the total of expenditure and income appearing in the operating cost statement (Schedule 2). Net resource outturn is the total of those elements of expenditure and income that are subject to parliamentary approval and included in the Agency's Supply Estimate. The outturn against the Estimate is shown in the summary of resource outturn (Schedule 1).

**3(b) Outturn against final Administration Budget**

		<b>2006-07</b>	<b>2005-06</b>
	Budget	Outturn	Outturn
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Gross Administration Budget	3,972	3,962	3,837
Income allowable against the Administration Budget	(75)	(73)	-
Net outturn against final Administration Budget	<b>3,897</b>	<b>3,889</b>	<b>3,837</b>

**4. Reconciliation of resources to cash requirement**

	Note	Budget £000	Outturn £000	Net total outturn compared with Estimate saving/excess £000
<b>Resource Outturn</b>		15,553	13,518	2,035
Capital:				
Acquisition of fixed assets	10,11	–	312	(312)
Investments		–	–	–
Non-operating A in A				
Proceeds of fixed asset disposals		–	–	–
Accrual Adjustments:				
Non-cash items				
Cost of Capital Charges	8,9	72	150	(78)
Depreciation of fixed assets	10,11	(413)	(418)	5
Other non-cash items	8,9	(80)	(81)	1
Revaluation of fixed assets	10,11	–	(44)	44
Provisions	16	(2)	–	(2)
Changes in creditors falling due after more than one year		–	–	–
Changes in working capital other than cash	12	1,933	993	940
<b>Net Cash Requirement (Schedule 4)</b>		<b>17,063</b>	<b>14,430</b>	<b>2,633</b>

**5. Analysis of Income Payable to the Consolidated Fund**

The Agency has no income which is payable to the Consolidated Fund.

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

	2006-07	2005-06
	£000	£000
Bank interest	(73)	-
Recovered assets applied against receivers' fees	(7,844)	(6,184)
Incentivisation income	(2,029)	-
RART income (See Note 7)	(300)	-
RAIF income (See Note 30)	(686)	(732)
Training income	(477)	(205)
Adjustments for transactions between RfRs	-	-
Gross income	(11,409)	(7,121)
Income authorised to be appropriated-in-aid	11,409	90
Operating income payable to the Consolidated Fund	-	(7,031)

## 7. Staff numbers and costs

Staff costs comprise:

	Permanently employed staff	Others	Ministers	Special Advisers	2006-07 Total	2005-06 Total
	£000	£000	£000	£000	£000	£000
Wages & salaries	5,703	1,686	-	-	7,389	6,406
Costs	492	-	-	-	492	429
Other pension	1,136	-	-	-	1,136	946
Less recoveries in respect of outward secondments	(300)		-	-	(300)	(300)
<b>Total</b>	<b>7,031</b>	<b>1,686</b>	<b>-</b>	<b>-</b>	<b>8,717</b>	<b>7,481</b>

The Principal Civil Service Pension Scheme (PCSPS), to which most of the Agency's employees are members, is an unfunded multi-employer defined benefit scheme, but the Assets Recovery Agency is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2003 and 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 2006-07, normal employer contributions of £1,138,973.46 were payable to the PCSPS (2005-06 £957,628.40) at one of four rates in the range 16.2 to 24.6 per cent of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions every four years following a full scheme valuation. From 2007-08, the salary bands will be revised. The contribution rates are set to meet the cost of the benefits accruing during 2006-07 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.



Employees joining the Agency can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer's contributions of £15,809.16 were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £931.36, 0.8 per cent of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

The average number of whole-time equivalent persons was as follows:

Objective	Permanently employed staff	Others	Ministers	Special Advisers	2006-07 Total	2005-06 Total
	£000				£000	£000
Objective 1:	145	39	–	–	184	165
Objective 2:	19	3	–	–	22	26
Staff engaged on capital	–	–	–	–	–	–
<b>Total</b>	<b>164</b>	<b>42</b>	<b>–</b>	<b>–</b>	<b>206</b>	<b>191</b>

Objective 1: to reduce crime by recovering the proceeds of crime through criminal confiscation, civil recovery and taxation

Objective 2: to promote the use of financial investigation as an integral part of criminal investigation through training and continuing professional development

As the Agency is undergoing a gradual expansion, the above numbers do not reflect the actual staff in post at 31 Mar 2007, which were significantly higher. The corresponding numbers at 31 Mar 2007 were as follows:

Objective	Permanently employed staff	Others	Ministers	Special Advisers	2006-07 Total	2005-06 Total
	£000				£000	£000
Objective 1:	148	47	–	–	195	179
Objective 2:	19	7	–	–	26	27
<b>Total</b>	<b>167</b>	<b>54</b>	<b>–</b>	<b>–</b>	<b>221</b>	<b>206</b>

**8. Other administration costs**

	<u>2006-07</u> £000	<u>2005-06</u> £000
Rentals under operating leases:		
Hire of plant and machines	23	–
Other operating leases	2,337	2,215
Non cash items:		
Depreciation of fixed assets	–	–
Provision provided for in year	–	2
Costs of capital change	(206)	(172)
Auditor's remuneration and expenses	81	72
Other expenditure:		
Travel and Subsistence	54	44
Staff Training	32	79
Recruitment, etc	108	139
Specialists' Fees	11	5
Accommodation	236	142
IT & Communications	135	86
Printing and Stationery	127	83
Publicity & Advertising	103	84
Consultancy	4	15
	810	677
<b>Total</b>	<u><b>3,045</b></u>	<u><b>2,794</b></u>

**Note:** No payments were made to the Auditors as these fees were notional.

**9. Other programme costs**

	<u>2006-07</u> £000	<u>2005-06</u> £000
Rentals under operating leases:		
Hire of plant and machines	138	145
Other operating leases	–	–
Non cash items:		
Depreciation of fixed assets	418	355
Devaluation of fixed assets	44	18
Cost of capital charge	56	34
Other expenditure:		
RAIF Communications	686	732
Travel and Subsistence	452	536
Staff Training	582	660
Recruitment, etc	8	33
Specialists' Fees	9,217	7,895
IT & Communications	443	1,043
Printing and Stationery	199	302
Publicity & Advertising	162	152
Forensic/Financial investigation cc	347	1,380
Consultancy	113	57
	12,209	12,790
<b>Total</b>	<u><b>12,865</b></u>	<u><b>13,342</b></u>

**10. Tangible fixed assets (see also notes 1.2-1.5)**

	IT & Comms Equipment	Building Enhance- ments	Security Equipment	Office Furniture	Office Equipment	Total
	£000	£000	£000	£000	£000	£000
<b>Cost or Valuation</b>						
at 1 April 2006	935	866	282	108	124	2,315
additions	171	61	63	-	17	312
disposals	-	-	-	-	-	-
transfers	-	-	-	-	-	-
Revaluations	(54)	68	-	-	(3)	11
<b>At 31 Mar 2007</b>	<b>1,052</b>	<b>995</b>	<b>945</b>	<b>108</b>	<b>138</b>	<b>2,638</b>
<b>Depreciation</b>						
At 1 April 2006	(294)	(251)	(42)	(25)	(46)	(658)
Charged in year	(247)	(84)	(30)	(11)	(23)	(395)
disposals	-	-	-	-	-	-
revaluation	37	(41)	-	-	(1)	(5)
<b>At 31 Mar 2007</b>	<b>(504)</b>	<b>(376)</b>	<b>(72)</b>	<b>(36)</b>	<b>(70)</b>	<b>(1,058)</b>
<b>Net book value</b>						
<b>At 31 March 2007</b>	<b>548</b>	<b>619</b>	<b>273</b>	<b>72</b>	<b>68</b>	<b>1,580</b>
<b>Net book value</b>						
<b>At 31 March 2006</b>	<b>641</b>	<b>615</b>	<b>240</b>	<b>83</b>	<b>78</b>	<b>1,657</b>

Buildings, IT and Office furniture were revalued on the basis of HM Treasury indices for March 2007.

**11. Intangible fixed assets (see also notes 1.2-1.5)**

Intangible fixed assets comprise software licences exclusively.

	2006-07	2005-06
	£000	£000
<b>Cost or Valuation</b>		
at 1 April 2006	51	11
additions	-	44
disposals	-	-
transfers	-	-
Revaluations	(2)	(4)
<b>At 31 Mar 2007</b>	<b>49</b>	<b>51</b>
<b>Depreciation</b>		
At 1 April 2006	(17)	(2)
Charged in year	(23)	(15)
disposals	-	-
revaluation	2	2
<b>At 31 Mar 2007</b>	<b>(38)</b>	<b>(15)</b>
<b>Net book value At 31 March 2007</b>	<b>11</b>	<b>-</b>
<b>Net book value At 31 March 2006</b>	<b>36</b>	<b>36</b>

Intangible assets have only been capitalised with effect from 1st April 2005, due to their immateriality in prior years. Intangible fixed assets were revalued on the basis of HM Treasury indices for March 2007.

**12. Movements in working capital other than cash**

The movements in working capital used in Reconciliation of resources to cash requirement, and the movements in working capital other than cash used in the cash flow statement comprise:

	2006-07	2005-06
	£000	£000
Increase/(Decrease) in debtors	(386)	(78)
Decrease/(Increase) in creditors	1,379	(1,874)
Other movements in working capital other than cash	–	26
	<u>993</u>	<u>(1,926)</u>
Amounts due to the Consolidated Fund	–	–
<b>Net increase/(decrease) in working capital other than cash</b>	<b><u>993</u></b>	<b><u>(1,926)</u></b>

**13. Debtors****13(a) Analysis by type**

	2006-07	2005-06
	£000	£000
Amounts falling due within one year:		
Trade Debtors	617	252
VAT	485	790
Other Debtors	1,652	2,378
Prepayments and accrued income	550	270
	<u>3,304</u>	<u>3,690</u>
Amounts falling due after more than one year:		
Prepayments	–	–
	<u>3,304</u>	<u>3,690</u>

Other Debtors includes £763k for Q4 2006-07 incentivisation payments due from the Home Office and also includes £835k relating to Assets in Enforcement as at 31st March 2007 (See Note 28).

**13(b) Intra-Government Balances**

	Amounts falling due within one year		Amounts falling due after more than one year	
	2006-07	2005-06	2006-07	2005-06
	£000	£000	£000	£000
Balances with other central government bodies	1,368	1,062	–	–
Balances with local authorities	593	364	–	–
Balances with NHS Trusts	–	–	–	–
Balances with public corporations and trading funds	–	–	–	–
Subtotal- intra-government balances	<u>1,961</u>	<u>1,426</u>	<u>–</u>	<u>–</u>
Balances with bodies external to government	1,343	2,264	–	–
<b>At 31st March 2007</b>	<b><u>3,304</u></b>	<b><u>3,690</u></b>	<b><u>–</u></b>	<b><u>–</u></b>

**14. Cash at Bank and in Hand**

	<u>2006-07</u>	<u>2005-06</u>
	<u>£000</u>	<u>£000</u>
Balance at 1 April 2006	77	360
Net Cash Inflow/(Outflow)	3,003	(283)
<b>Balance at 31 March 2007</b>	<b><u>3,080</u></b>	<b><u>77</u></b>
<b>The following balances at 31 March 2007 are held at:</b>		
Office of HM Paymaster General	1,879	75
Commercial Bank Account	1,201	–
Cash in hand	–	2
	<b><u>3,080</u></b>	<b><u>77</u></b>

**15. Creditors****15(a) Analysis by type**

	<u>2006-07</u>	<u>2005-06</u>
	<u>£000</u>	<u>£000</u>
Amounts falling due within one year		
Trade creditors	1,803	4,502
Other creditors	118	1,257
Accruals and deferred income	3,426	434
Consolidated Fund creditor prior year not deemed supply	–	360
Consolidated Fund extra receipts due to be paid to the Consolidated Fund	–	7,031
Amounts issued from the Consolidated Fund for supply but not spent at year end	3,080	77
	<b><u>8,427</u></b>	<b><u>13,661</u></b>
Amounts falling due after more than one year:		
Other creditors	89	262
	<b><u>8,516</u></b>	<b><u>13,923</u></b>

The £3,080k Consolidated Fund figure in 2006-07 (£77k in 2005-06) is excluded from the movement in working capital calculation (Note 13). Consolidated Fund extra receipts of £7,031k is also excluded.

**15(b) Intra-Government Balances**

	Amounts falling due within one year		Amounts falling due after more than one year	
	<u>2006-07</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2005-06</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Balances with other central government bodies	3,753	5,864	–	–
Balances with local authorities	540	155	–	–
Balances with NHS Trusts	–	–	–	–
Balances with public corporations and trading funds	–	–	–	–
Subtotal- intra-government balances	<b><u>4,293</u></b>	<b><u>6,019</u></b>	<b><u>–</u></b>	<b><u>–</u></b>
Balances with bodies external to government	4,134	7,642	89	262
<b>At 31st March 2007</b>	<b><u>8,427</u></b>	<b><u>13,661</u></b>	<b><u>89</u></b>	<b><u>262</u></b>

**16. Provisions for liabilities and charges**

	Early departure costs	Other	Total
	£000	£000	£000
Balance at 1st April 2006	2	–	2
Provided in the year	–	–	–
Provisions not required written back	–	–	–
Provisions utilised in the year	(2)	–	(2)
Unwinding of discount	–	–	–
<b>Balance at 31st March 2007</b>	<b>–</b>	<b>–</b>	<b>–</b>

**17. General Fund**

The General Fund represents the total assets less liabilities of the entity within the accounting boundary, to the extent that the total is not represented by other reserves and financing items.

	2006-07	2005-06
	£000	£000
Amounts falling due within one year		
Balance at 1st April 2006	(8,540)	(2,261)
Net parliamentary funding		
Drawn Down	17,064	16,775
Prior year Excess Vote surplus	369	–
Consolidated Fund creditor for cash unspent	(3,080)	(77)
Previous year Consolidated Fund creditor for cash spent (deemed supply)	77	–
Net financing from the Contingencies Fund	–	–
Non-cash Charges:		
Cost of Capital	(150)	(138)
Provision	–	2
Audit fees	81	72
Prior year Excess Vote	7,031	–
Net Transfer from Operating Activities		
Operating income payable to Consolidated Fund	–	(7,031)
Net operating cost	(13,518)	(16,496)
Transfer from Revaluation	24	–
Transfer from Donated Assets Reserve	–	614
<b>Balance at 31st March 2007</b>	<b>(642)</b>	<b>(8,540)</b>

**18. Reserves****18(a) Revaluation Reserve**

	2006-07	2005-06
	Revaluation Reserve	Revaluation Reserve
	£000	£000
Balance at 1 April 2006	75	3
Transfer from Donated Asset Reserve	–	31
Arising on revaluation during the year (tangible)	26	41
Arising on revaluation during the year (intangible)	–	–
<b>Balance at 31 March 2007</b>	<b>101</b>	<b>75</b>

The revaluation reserve reflects the unrealised element of the cumulative balance of indexation and revaluation adjustments.

**19. Notes to the Cash Flow Statement****19(a) Reconciliation of operating cost to operating cash flows**

	<u>2006-07</u>	<u>2005-06</u>
	<u>£000</u>	<u>£000</u>
<b>Net Operating Cost (Note 3)</b>	13,518	16,496
Adjust for non-cash transactions (Notes 8, 9)	(349)	(309)
Revaluation of fixed assets (Note 9)	(44)	63
Use of Provisions	–	(2)
Adjust for movements in working capital other than cash:		
Increase in debtors (Note 12)	(386)	(78)
less movements in debtors relating to items not passing through the OCS	–	2,331
Decrease/(Increase) in creditors (Note 12)	1,379	(1,874)
less movements in creditors relating to items not passing through the OCS	–	(86)
Other movements in working capital not relating to cash	–	44
<b>Net cash outflow from operating activities(a)</b>	<u><b>14,118</b></u>	<u><b>16,585</b></u>

**19(b) Analysis of capital expenditure and financial investment**

Tangible fixed asset additions (Notes 10)	(312)	(418)
Intangible fixed assets cost and additions (Note 11)	–	(55)
<b>Net cash outflow from investing activities</b>	<u><b>(312)</b></u>	<u><b>(473)</b></u>

**19(c) Analysis of capital expenditure by Request for Resources**

	<u>Capital Expenditure</u>	<u>Loans, etc</u>	<u>A-in-A</u>	<u>Net total</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Request for resources 1	(312)	–	–	(312)
<b>Total 2006-07</b>	<u>(312)</u>	<u>–</u>	<u>–</u>	<u>(312)</u>
Total 2005-06				(473)

**19(d) Analysis of financing**

From Consolidated Fund (Supply) – current year	17,064	16,775
From Consolidated Fund (Supply) – current year	369	–
Advances from the Contingencies Fund	3,000	–
Repayments to the Contingencies Fund	(3,000)	–
<b>Net financing</b>	<u>17,433</u>	<u>16,775</u>

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

Decrease/(Increase) in cash	(3,003)	283
<b>Net cash flows other than financing</b>	<u>14,430</u>	<u>17,058</u>

**Adjustments for payments and receipts not related to supply:**

Amounts due to the Consolidated Fund received and not paid over		
Received and not paid over	–	75
Utilised in anticipation of Excess vote	–	4,626
CFER received in prior year paid over to the Home Office	–	86
<b>Net Cash Requirement (Schedule 1)</b>	<u><b>14,430</b></u>	<u><b>21,845</b></u>



**20. Notes to the Statement of Operating Costs by Departmental Aim and Objectives**

Programme grants and other current expenditures have been allocated as follows:

	<u>2006-07</u>	<u>2005-06</u>
	<u>£000</u>	<u>£000</u>
Objective 1	12,271	15,074
Objective 2	1,247	1,422
Total	<u>13,518</u>	<u>16,496</u>

**Capital Employed By Departmental aim and Objectives at 31st March 2007**

	<u>2006-07</u>	<u>2005-06</u>
	<u>£000</u>	<u>£000</u>
Objectives 1 and 2	312	473
Total	<u>312</u>	<u>473</u>

**21. Capital commitments**

	<u>2006-07</u>	<u>2005-06</u>
	<u>£000</u>	<u>£000</u>
Contracted capital commitments at 31 March 2007 for which no provision has been made	35	112

**22. Commitments under Leases**

At 31 March 2007, the Agency was committed to making the following payments during the next year in respect of operating leases expiring:

	<u>31-Mar-07</u>	<u>31-Mar-06</u>
	<u>£000</u>	<u>£000</u>
<b>Buildings</b>		
Within one year	–	–
Between two and five years	2,880	2,880
After 5 years	103	103
	<u>2,983</u>	<u>2,983</u>
<b>Other</b>		
Within one year	199	156
Between two and five years	25	38
After five years	–	–
	<u>224</u>	<u>194</u>

**23. Other financial commitments**

The Agency has entered into non-cancellable contracts (which are not leases or PFI contracts), for a managed service provision and the supply and maintenance of IT equipment. The payments to which the Agency is committed during 2006-07, analysed by the period during which the commitment expires are as follows:

	<u>31-Mar-07</u>	<u>31-Mar-06</u>
	<u>£000</u>	<u>£000</u>
Expiry within one year	147	167
Between two and five years	557	637
After 5 years	–	–

## 24. Financial instruments

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

### *Liquidity risk*

The Agency's net revenue resource requirements are financed by resources voted annually by Parliament, just as its capital expenditure largely is. The Assets Recovery Agency is not therefore exposed to significant liquidity risks.

### *Interest rate risk*

All of the Agency's financial assets and financial liabilities carry a minimal rate of interest, and the Agency is not therefore exposed to any significant interest rate risk.

### *Foreign currency risk*

The Agency's exposure to foreign currency risk is negligible. Foreign currency income is negligible and foreign currency expenditure is not significant. The Agency therefore has no standing policy to eliminate currency exposures on high value transactions.

### *Fair Value*

Set out below is a comparison by category of book values and fair values of the Agency's financial assets and liabilities as at 31 March 2007.

	<u>Book Value</u>	<u>Fair Value</u>
	£000	£000
<b>Primary financial instruments</b>		
<b>Financial assets</b>		
Cash at bank	3,080	3,080

## 25. Contingent liabilities disclosed under FRS 12

In December 2006, the government proposed that the ARA merges with the Serious Organised Crime Agency (SOCA) with effect from the 1st April 2008. As the legislative process to approve the merger is at an early stage, it is not deemed appropriate to create a provision for any potential liabilities.

The Agency has indemnified 8 cases in the event where the Respondents or third party claimant in one of the cases comes forward and seeks to litigate a claim or interest in the cash or any part thereof. However, due to the impossibility of quantifying such a claim, and there being no precedents for similar claims, no contingent liability has been raised.

**26. Losses and special payments****26(a) Losses**

	2006-07	2005-06
	£000	£000
Bad debts written off	8	–

**26(b) Special Payments**

	2006-07	2005-06
	£000	£000
Payment in respect of applicant grievance	–	2

**27. Related Party Transactions**

The Agency claimed a transfer of funds from the Home Office amounting to £686k during 2006/07. This was related to funding out of the Recovered Assets Incentivisation Fund. Excess Recovered assets were paid over to the Home Office totalling £7,014k. There is also incentivisation due from the Home Office totalling £1,909k. The Home Office is considered to be a related party.

Other central government parties related through transactions are; HM Treasury, HM Revenue & Customs, Home Office Pay and Pensions Services; Northern Ireland Office, Department of Work and Pensions, Department of Finance and Personnel, Lord Chancellor's Department, Home Office, Department of Enterprise, Investment and Development, Office of HM Paymaster General, Land Registry, Department of Trade and Industry, Serious Fraud Office, SOCA, Crown Prosecution Service, Environment Agency, Cabinet Office, Medicines and Healthcare Products Regulatory Agency, the Attorney-General's Office. and the Central Office of Information.

None of the Board members or key management staff have undertaken any material transactions with the Agency or its related parties during the year.

**28. Seized Assets**

The Agency manages a commercial bank account where recovered assets are deposited. Each quarter, the excess over receivers' fees applied is paid over to the Home Office. At the balance sheet date all third party assets had been paid over to the Home Office. The residual cash balance in the commercial account (see Note 14) relates to recovered assets applied against receivers' fees.

The opening balance of £445k was paid over to the Home Office during 2006-07.

	Monetary Assets
	£000
Seized assets receipts as at 31st March 2006	445
Recovered assets receipts during 2006-07	15,909
Recovered assets receipts relating to 2005-06	(2,331)
Assets in enforcement at 31st March 2007 (see Note 13)	835
Asset recoveries applied against receivers' fees (see Note 29)	(7,844)
Receipts paid to the Home Office during 2006-07	(7,014)
Seized assets as at 31st March 2007	–

There were Recovered Assets totalling £15.9m received during 2006-07. However, £2.3m were applied as assets in enforcement as at 31st March 2006, and were therefore included in the Resource Accounts for 2005-06. The balance of £13,578k is reflected in the figures above.

The assets in enforcement figure of £835k relates to cases where the Agency is entitled to sell the assets, but where the assets are in the process of being sold.

It was not practical to ascribe monetary values to any other significant assets held at the balance sheet date.

**29. Recovered Assets Allowable Against Receivers' Fees**

Section 280, Subsection 3 of the amended Proceeds of Crime Act (POCA) enables the Director to meet the costs of an appointed Interim Receiver from sums received from Civil Recovery proceedings in a way which directly mirrors the provisions in criminal confiscation cases in Parts 2 and 4 of POCA. This revision applies to all cases where assets were not realised by end June 2005. Receivers' Fees totalling £7,844k were incurred on civil recovery during 2006/07. The commencement date of the provision is 1 July 2005 and thereafter the costs of Interim Receivers and Trustees may be offset against eventual case proceeds.

	<u>2006-07</u>
	<u>£000</u>
Total receivers' fees in year	7,844
Assets in enforcement applied	(7,844)
Net receivers' fees in year	<u>-</u>

**30. Recovered Assets Incentivisation Fund**

The Agency facilitates services requested by the Home Office, in the areas of communications, training and maintenance and development of the Joint Assets Recovery Database (JARD).

The expenditure and associated Home Office "income" are shown in the Resource Accounts in Notes 9 and 6 respectively.

The expenditure incurred through RAIF was as follows for 06-07.

	<u>2006-07</u>	<u>2005-06</u>
	<u>£000</u>	<u>£000</u>
Expenditure during year	686	732
Home Office receipts (A-in-A)	(686)	(732)
Total	<u>-</u>	<u>-</u>

**31. Events After the Balance Sheet Date**

The date of issue of the Agency's 2006-07 Resource accounts is 19th July 2007. This disclosure is in accordance with FRS 21.

Alan McQuillan was appointed as the Accounting Officer with effect from 1st May 2007. Other Management Board changes are explained on page 17 of this report.



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