Presented pursuant to National Savings Bank Act 1971, c.29, s.19 as amended by section 162 of the Finance Act 1998

National Savings Ordinary Deposits Account 2004-2005

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Foreword

Background

The National Savings Bank Act 1971 (the 1971 Act) sets out the arrangements for the operation of the National Savings Bank, including the receipt and repayment of Ordinary deposits. The National Savings Bank is part of National Savings and Investments which is the Government's retail savings agency.

The Department for National Savings was established in 1969, having previously been part of the Post Office. In 1996, National Savings was also established as an Executive Agency of the Chancellor of the Exchequer. In February 2002 National Savings launched its new name and corporate identity and is now known as 'National Savings and Investments' (NS&I).

The Director of Savings, who is also National Savings and Investments' Chief Executive, is the Accounting Officer responsible for administering National Savings and Investments' products including the Ordinary Account.

Ordinary Deposits

Ordinary Deposits are invested in Ordinary accounts. The Ordinary Account is an instant access passbook account where customers were able to deposit or withdraw cash by using the passbook at the Post Office. Withdrawals of up to £100 on demand per day could have been made at any post office on presentation of the passbook.

Management of Ordinary Deposits

NS&I is responsible for the collection of deposits from investors, the calculation and addition of interest to customer accounts and the repayment of funds to investors. It also maintains customer records and deals with correspondence and enquiries. NS&I is also responsible for transferring the balance of deposits remaining after withdrawals to the Commissioners for the Reduction of the National Debt (the Commissioners) under Section 17(1) of the 1971 Act.

There are eight Commissioners

- the Chancellor of the Exchequer;
- the Governor and both Deputy Governors of the Bank of England;
- the Speaker of the House of Commons;
- the Master of the Rolls;
- the Accountant General of the Supreme Court; and
- the Lord Chief Justice.

Section 17 (2) of the 1971 Act authorises the Commissioners to invest the balance of Ordinary deposits remaining after withdrawals by depositors and the payment of expenses, in those securities listed in Section 18 of the 1971 Act. Section 20 of the 1971 Act requires the payment into the Consolidated Fund of any surplus of interest earned on the Commissioners' investments, after deduction of interest paid or credited on Ordinary deposits, of expenses incurred and of any amount determined by the Treasury to provide for depreciation in the value of investments. It also provides for the Consolidated Fund in any period in which there is a deficiency of interest, to make good the deficiency. The Commissioners have appointed the Secretary and Comptroller General and the Assistant Comptroller to discharge their day to day responsibilities in this regard and to present accounts in respect of their investments annually. The Secretary and Comptroller General is responsible for the propriety, regularity and for the keeping of proper records with regard to this account.

Preparation of the accounts

Section 19 of the 1971 Act, as amended by section 162 of the 1998 Finance Act (the 1998 Act), requires the Director of Savings and the Commissioners to prepare a statement for the year ended 31 March 2005 showing

1 sums received and repaid in respect of Ordinary deposits, and interest paid or credited to depositors during the year;

2 the interest accrued on investments made by the Commissioners and the amount of expenses incurred during the year;

3 aggregate liabilities and the nominal value of the investments held by the Commissioners at the end of the year;

and, before the end of August 2005, to transmit it to the Comptroller and Auditor General who shall examine, certify and report on it and lay copies of it, together with copies of his report, before Parliament.

These statements and related notes meet these requirements and provide additional information about the relationship between the Ordinary deposit transactions, administrative costs and the investment activities of the Commissioners under sections 17, 18 and 20 of the 1971 Act. They have been prepared on an accruals basis and give a true and fair view of transactions with investors and transactions with the Commissioners for the Reduction of the National Debt, and associated balances held in respect of Ordinary Deposits at the end of the year.

Results

The Finance Act 2003 amended the 1971 Act to enable the closure of Ordinary deposit accounts. Following this Act the product was removed from sale in January 2004. Ordinary accounts were closed to subsequent deposits in July 2004 and payments on demand at the Post Office ceased in September 2004. Investors were actively encouraged to close their Ordinary Deposit accounts and this is reflected during 2004-2005 in the reduction by £775m of the liability to investors to £364m.

The Commissioners' investment remit was changed during 2003-2004 to focus on gilts with a shorter period to maturity and, generally, higher coupon rates. Interest on investments was reduced to £87m (previous period £113m) as a result of reducing the fund's investments over the course of the year. During the year the investments incurred a dealing loss comprising a realised £26m loss on disposal of investments (previous period profit of £216m) and an unrealised loss of £11m (previous period £266m) from the movement in market value of investment holdings.

Audit

These accounts have been audited by the Comptroller and Auditor General whose Certificate and Report appear on pages 11 and 12.

Events since the end of the year

There have been no other significant events since 31 March 2005 which would affect the transactions for the year or the assets and liabilities at the year end.

Alan Cook
Director of Savings
National Savings and Investments

25 August 2005

Jo Whelan
Secretary and Comptroller General
Commissioners for the Reduction of the National Debt

25 August 2005

Statement of Accounting Officer's responsibilities

The Director of Savings and the Commissioners for the Reduction of the National Debt (CRND) are required to prepare the Ordinary Deposits White Paper account for the year ended 31 March 2005 and to transmit it to the Comptroller and Auditor General by 31 August 2005.

The Ordinary Deposits White Paper account is prepared on an accruals basis and must give a true and fair view of the product's balances at the year end, and of the transactions with investors and Income and Expenditure for the year.

In preparing the Ordinary White Paper account, the Accounting Officer is required 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 have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going concern basis.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable and for keeping proper records, are set out in the Accounting Officer's 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 National Savings and Investments' (NS&I's) policies, aims and objectives, set by the Economic Secretary to the Treasury, who is the Treasury Minister with prime responsibility for NS&I; whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting. Although, as Accounting Officer, I retain sole responsibility for the system of internal control within NS&I, I am assisted in discharging this responsibility by the NS&I Board, which, in addition to me and the other NS&I executive directors, comprises four independent non-executive directors and two representatives of HM Treasury, who provide the key assurance link back to Treasury Ministers.

The Minister, whilst maintaining accountability, has delegated day-to-day dealings with NS&I to HM Treasury's Debt and Reserves Management (DRM) team. The NS&I Board has assumed overall responsibility for monitoring the effectiveness of the Agency's risk management processes. In addition, my Finance Director and I have regular quarterly meetings with representatives of DRM to discuss progress of the business, including any major risks and a monthly performance report is sent to the Financial Secretary to the Treasury. I and my senior staff also hold regular briefing meetings with other relevant HM Treasury teams.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives. It enables management to evaluate the likelihood of those risks being realised and the impact should they be realised; and to manage them efficiently, effectively and economically to an overall level acceptable to NS&I. The system of internal control has been in place in NS&I for the year ended 31 March 2005 and up to the date of approval of the accounts, and accords with Treasury guidance.

Capability to handle risk

NS&I has a risk management strategy, a risk management policy and agreed risk management reporting protocols which have been endorsed by the Board, the Audit Committee and me. This risk framework has been reviewed during the year by the Board to ensure the processes and responsibilities for the management of risk it supports remain relevant to the agency, and are in line with the latest 'Orange Book' guidance from the Treasury.

The Board, including independent non-executive members, considers the plans and strategic direction of NS&I and provides advice and challenge to assist me in discharging my responsibility to manage risk across the whole of the NS&I business.

The risk management process is led by the Executive Management Team comprising the executive directors and the Siemens Business Services Director responsible for the NS&I account, who are responsible for implementation of the risk management strategy; for developing and overseeing the risk management policy; for identifying and evaluating strategic risks; and designing, operating and monitoring a suitable system of internal control. The responsibility for the management of each key risk is assigned to an Executive Management Team member. As part of the process of embedding risk management within the agency, management of the sub-risks which support each of the key risks, where not retained at EMT level, has been delegated to individual Business Unit Leaders.

An Audit Committee, chaired by an independent director, is responsible for providing assurance to the Board on the existence and effectiveness of the overall processes for managing risk within NS&I and within that part of Siemens Business Services concerned with NS&I business.

NS&I's business model means that we are critically reliant on our business partner Siemens Business Services (SBS) for the delivery of our strategic objective. Consequently, we have established joint processes with Siemens Business Services to manage the partnership as one business. These include reciprocal SBS representation at the NS&I Executive Management Team (EMT) meetings and NS&I representation at SBS NS&I Account senior management team meetings; joint working between project offices; joint project teams; and a Joint Audit and Risk Management Committee (JARMC). The JARMC updates the Audit Committee on the management of risks to the joint business.

Across the whole business, directors and operational managers are responsible for embedding risk identification and management within the design, documentation and operation of business processes, in line with agreed risk tolerances.

The risk process

An analysis of key risks and the consequent sub-risks has been established through an ongoing programme of individual and collective discussion with the executive directors. With very few exceptions where sub-risks have been retained by the Directors, all sub-risks have been allocated to Business Unit Leaders. An organisation wide risk register is being maintained which records all significant risks identified, links lower level risks through to the key risks, records mitigating controls and named risk managers. The board reviews the key risks annually to ensure they remain valid and complete in the light of business plans for the coming year.

For each key and sub-risk identified, the assessment and scoring of the probability and impact both before and after mitigating controls is performed using a consistent methodology on a risk matrix. The results of this are considered against our agreed organisation risk appetite as approved annually by the Board. Reviews of risks and their risk scores are performed regularly, and at least quarterly by executive directors, Business Unit Leaders, and the Executive Management Teams.

Where further action is necessary to reduce exposure, the action, and its intended effect on the status of the risk, is logged; responsibility allocated; and a completion date agreed. Progress on the action is tracked and missed completion dates on residually red risks are reported monthly through to the Executive Management team and bi-monthly to the board via the Corporate Balanced Scorecard. Missed dates on other risks are reported to the relevant EMT member via the Business Unit Balanced Scorecards.

Risks where exposure remains unacceptably high despite controls are flagged as Red, and are reviewed quarterly by Business Unit Leaders, the Executive Management Team and the Audit Committee, and bi-annually by the board.

As part of the annual planning cycle, Business Unit Leaders were required to identify the significant risks which could impact on the achievement of each main element of their proposed business plans for 2005-2006. These risks were then compared with the existing risk register, which was amended as necessary. This process now forms an integral part of future business planning.

Contingency plans are in place for all sub-risks where exposure is inherently unacceptable.

Our management of risk is embedded in policymaking, planning and delivery by executive directors and Business Unit Leaders who are responsible for ensuring the proper management of risks; and cascading implementation of the risk management strategy and policy within their directorates and teams respectively. Business Unit Leaders are responsible for implementation of self assessment processes. A programme management function ensures that all projects are subject to formal project management disciplines including an assessment of inherent and residual risks.

Business Unit Leaders provide written sign offs to the relevant executive directors that they are satisfied that all their sub-risks are either adequately controlled, or that plans are in place to provide that control. In addition, Executive Management Team members provide me with equivalent written sign offs for the key risks for which they have responsibility. Executive directors also provide written assurance that an adequate system of internal control operates within their directorates, and that, to the best of their knowledge their staff comply with all relevant legal and regulatory requirements.

These approaches continue to be refined to further embed risk management within NS&I's business.

During 2004-2005, considerable progress continued to be made on developing our business continuity plans, to the point where all identified resilience gaps in the IT infrastructure are being addressed to the Audit Committee's satisfaction. During 2005-2006 further work will be done to strengthen other areas of business continuity. The Audit Committee will continue to monitor progress on this area closely.

The work to update and automate Evidence of Identity checking procedures foreshadowed in my 2003-2004 Statement on Internal Control culminated in the introduction in January 2005 of a new automated system of identity checking. This system has now bedded in, and is working satisfactorily; and in my opinion ensures that NS&I continues to be compliant with current Money Laundering Regulations.

Review of effectiveness

As Accounting Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive directors and managers within the department and Siemens Business Services, who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports.

We are continuing the process of strengthening internal controls across all systems and products based on the new standards for control in the business which were enabled by the launch of the Easy Access Savings Account on a purpose designed system. In addition we will continue our ongoing process for assessing internal control against best practice.

The Board satisfies itself on the adequacy of the risk management process and reviews the management of each key residually red risk at least annually by examining evidence of performance against objectives and targets, the timely identification and assessment of significant risks, the prioritisation of risks and the allocation of resources to address areas of exposure, the ability of NS&I to learn from its experiences and the commitment and speed with which corrective actions are implemented. The Board also reviews the internal and external risk profile for the coming year and considers if current internal control arrangements are likely to be effective.

The Executive Management Team conducts quarterly reviews of the risk register and reports on residually red and amber risks to the Audit Committee, which in turn reviews residually red risks each quarter, and reviews annually the assurance on the overall system of internal control provided by the Head of Internal Audit; and advises the Board of its assessment of the internal control system.

The Head of Internal Audit provides the Audit Committee with regular reports on internal audit activity, including his independent opinion on the adequacy and effectiveness of the system of internal control, together with recommendations for improvement.

The wider remit given to Deloitte following their re-appointment as NS&I's internal auditors has enabled the production of one overall audit plan and audit process for the NS&I business, led by Deloitte. In my opinion, and that of the Audit Committee, this has resulted in an appreciable enhancement of the internal audit process, and hence of the value of the internal audit assurance.

The approach to reviewing effectiveness and plans to ensure the continuous improvement of the systems in place will be further refined in 2005-2006.

Alan Cook
Director of Savings
National Savings and Investments

25 August 2005

Statement on Internal Control by the Commissioners for the Reduction of the National Debt

Scope of responsibility

The Commissioners for the Reduction of the National Debt (CRND) are responsible for preparing the account. They have appointed me as Secretary and Comptroller General of CRND to discharge their responsibilities in this regard. As Secretary and Comptroller General, I also have responsibility for maintaining a sound system of internal control that supports the achievement of CRND's targets, policies and objectives in managing client investment portfolios as well as reviewing the effectiveness of the system of internal controls.

CRND and the Debt Management Office (DMO) were merged in July 2002. CRND is a separate business entity managed within the control framework of the DMO. While I am responsible for CRND's system of internal control, the Accounting Officer of the DMO is responsible for the wider control framework within which CRND is managed. In discharging my own control responsibilities I take assurance of the continued sound maintenance of the wider control framework from the Statement of Internal Control for the DMO, although I understand that only reasonable and not absolute assurance can be given that risks have been controlled.

It is also my responsibility to ensure that all CRND fund management activities are conducted with due regard to value for money and operated in line with client instructions. I have put arrangements in place to ensure that there is a proper evaluation of the balance of cost and risk in our operations.

The purpose of the system of internal control

The system of internal control is designed to manage risk to an acceptable level, balancing the impact of potential risks with the resources required to manage them, rather than to eliminate all risk. 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 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.

Since the merger, relevant elements of the DMO system of internal control have been implemented for CRND. The system of internal control has been in place for the year ended 31 March 2005 and up to the date of approval of this account, and accords with Treasury guidance. Not all components of the current system of internal control were in place throughout the whole of the financial year 2004-2005 because additions have been made to the system of internal control over the course of the year.

Capacity to handle risk

The DMO has a formal risk management strategy and policy, which includes CRND activities. The DMO has produced a Risk Management Assurance Strategy comprehensively documenting its risk management processes.

The DMO Managing Board is responsible for setting strategic direction and considering high-level operational issues. An executive sub committee of the Managing Board meets weekly. The terms of reference of these committees and those of the Fund Management Committee and Risk Committee were redefined to improve clarity of their roles and responsibilities and to strengthen the capability of the organisation to consider issues and make relevant decisions at the appropriate level.

Staff have attended presentations on the DMO's risk management framework. These have covered specific issues such as anti-money laundering, whistle-blowing, fraud and personal dealing in order to ensure a good level of awareness of DMO's risk policies and controls. All members of staff have job descriptions, including specific key risks to be addressed.

Management in each business function is responsible for ensuring that the operations within their area are compliant with plans, policies, procedures and legislation. Most functional managers are responsible for maintaining compliance arrangements across the DMO in their area of specialism. The Risk Management Unit has issued guidance to the CRND Portfolio Manager on those sections of the Financial Services Authority handbook that are most pertinent to CRND activities in order to support him in meeting his responsibilities in this regard.

The risk and control framework

An independent actuary has reviewed all CRND Funds. The review's scope was to look at the funds' governance, mandates and investments. As a result of that review clearer, more formal arrangements were introduced, the mandates were updated and the investments (assets) held by the funds were tailored to better match their liabilities. An up-to-date memorandum of understanding is in place with all clients, outlining the respective responsibilities of CRND and the client. A passive style of fund management has been adopted, pending conclusion of the most appropriate style of fund management for each client. CRND has established effective communication channels with each of its clients to help in the development of the most appropriate style of fund management in the context of the fund objectives and risks.

The DMO has various formal mechanisms for managing CRND's risks but it is recognised that the most important aspect is that a strong risk management culture pervades the organisation at all levels. This is embedded in both regular operations and the approach taken to new business initiatives. The DMO includes risk management considerations as part of normal business management. The DMO is making on-going efforts to embed a strong risk management culture in every part of the organisation.

The DMO's risk management strategy seeks to achieve a strong risk management culture by linking organisational objectives to the business planning process. Organisational objectives cascade down to individual objectives and job descriptions. This is intended to promote a clear understanding of the ownership of each risk within the organisation. There has been substantial progress in development of performance measures in the year, in particular through a review of cash management operations.

Heads of business units and functional teams assess regularly whether risks to their operations are being managed effectively. The DMO held risk workshops for operational staff on specific risk issues. New risks, and risks with an increased likelihood of occurrence, are highlighted and actions identified to ensure all risks will be effectively managed. Teams responsible for delivering each key project used risk registers. Senior managers have reviewed during the year the high level risks that the organisation faces, and the adequacy of the relevant controls. This process is supported by the maintenance of exception logs, which identify control weaknesses and resultant actions to improve controls. Key risks and exceptions are documented in a regular report produced by the Risk Management Unit for the Risk Committee and the Managing Board.

A key component of the CRND control framework is the segregation of duties to promote independent checking and avoid concentration of key activities or related controls in individuals or small groups of staff.

All teams have documented procedures for their main activities. The DMO has policies on anti-fraud and whistle-blowing that cover CRND activities. Seminars have been held to raise staff awareness of these issues. In establishing controls to deter money laundering the DMO has followed best practice, guidance in the Financial Services Authority's handbook and the joint money laundering steering group.

The DMO's Business Continuity Plan, including disaster recovery site and other arrangements, is subject to continual review and update. The DMO tested the main elements of the BCP during the year. Assessment of business continuity requirements is a specific requirement for new projects and major business initiatives.

Review of effectiveness

As Secretary and Comptroller General, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is a continuous process. It is informed by the work of the managers who have responsibility for the development and maintenance of the internal control framework, work of the internal auditors and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by Managing Board, the Audit Committee, the Risk Committee and the controls team and a process to address weaknesses and ensure continuous improvement of the system is in place.

- the Fund Management Committee, comprising CRND managers, other senior managers and DMO specialist staff, meets regularly to review CRND operational issues. In particular it monitors and advises on development of CRND governance mechanisms;
- a controls team was formally established at the beginning of the 2003-2004 financial year to assess actions to maintain and improve the DMO's system of internal control including CRND. The team comprises the Head of the DMO's Risk Management Unit, the Controls and Compliance Manager, the Head of Internal Audit and the Finance Manager. The team has met regularly to identify weaknesses in the control environment, recommend actions to management and to lead the implementation of changes where appropriate;
- the DMO's Audit Committee reviews the adequacy and effectiveness of the DMO's management of risk and internal controls, including those covering CRND;
- the DMO's Risk Management Unit provides control advice on risks throughout the DMO. In the DMO's management reporting structure the risk management unit is separate and independent of the DMO's trading operations. The risk management function also conducts risk analysis and provides an operational, market and credit risk capability for the DMO; and
- the DMO's Internal Audit team evaluates the effectiveness of the DMO's processes for risk management, control and governance in order to provide an independent and objective opinion to the DMO's Accounting Officer. This evaluation also encompasses CRND processes. Compliance testing is a component of each operational review undertaken by Internal Audit.

In my opinion, CRND's system of internal control was effective throughout the financial year 2004-2005 and remains so on the date I sign this statement.

Jo Whelan
Secretary and Comptroller General to the
Commissioners for the Reduction of the National Debt

25 August 2005

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

I certify that I have audited the financial statements on pages 13 to 19 under the National Savings Bank Act 1971 (as amended by the Finance Act 1998 and 2003). These financial statements have been prepared under the historical cost convention, in accordance with the National Savings Bank Act 1971 (as amended by the Finance Act 1998 and 2003) and the accounting policies set out on page 16.

Respective responsibilities of the Director of Savings, the Commissioners and Auditor

As described on page 4, the Director of Savings and the Commissioners are responsible for the preparation of the financial statements in accordance with the National Savings Bank Act 1971 (as amended by the Finance Act 1998 and 2003) and for ensuring the regularity of financial transactions. They are also responsible for preparation of the Foreword. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the National Savings Bank Act 1971 (as amended by the Finance Act 1998 and 2003), and whether in all material respects the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if National Savings and Investments or the Commissioners for the Reduction of the National Debt have not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statements on pages 5 to 10 reflect National Savings and Investments' and the Commissioners for the Reduction of the National Debt's compliance with the Treasury's guidance on the Statement on Internal Control. I report if they do not meet the requirements specified by the Treasury, or if the statements are misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Director of Savings' and the Commissioners' Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of National Savings and Investments' and the Commissioners for the Reduction of the National Debt's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes the examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of the financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by National Savings and Investments and the Commissioners for the Reduction of the National Debt in the preparation of the financial statements, and of whether the accounting policies are appropriate, 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 are free from material misstatement, whether caused by error, or by fraud or other irregularity and that, in all material respects, 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.

Opinion

In my opinion

- the financial statements give a true and fair view of the balances held in respect of National Savings and Investments' Ordinary Deposits as at 31 March 2005 and of National Savings and Investments' transactions with investors and the income and expenditure of the Commissioners for the Reduction of the National Debt for the year then ended, and have been properly prepared in accordance with the National Savings Bank Act 1971 (as amended by the Finance Act 1998 and 2003); and
- in all material respects the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

25 November 2005

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National Savings and Investments

Ordinary Deposits

Transactions with investors for the year ended 31 March 2005

	2004-2005 £000	2003-2004 £000
Received from investors	**130,211**	626,189
Interest earned by investors	**4,285**	4,313
	134,496	630,502
Paid to investors	**(909,818)**	(868,385)
Decrease in liability to investors	**(775,322)**	(237,883)
Funds invested at beginning of year	**1,138,922**	1,376,805
Funds invested at end of year	**363,600**	1,138,922

The notes on pages 16 to 19 form part of these accounts.

Alan Cook
Director of Savings
National Savings and Investments

25 August 2005

Commissioners for the Reduction of the National Debt

Ordinary Deposits

Income and Expenditure Statement for the year ended 31 March 2005

	Notes	£000	2004-2005 £000	Restated 2003-2004 £000
Income				
Interest on investments	1		**86,648**	112,958
Realised net (losses)/profits on investment disposals			**(25,648)**	216,294
Unrealised (losses) on investments			**(10,865)**	(265,719)
			50,135	63,533
Expenditure				
Interest earned by investors	1	**(4,285)**		(4,313)
Administration expenses	2	**(47,216)**		(54,758)
Net losses	3	**(178)**		(235)
			(51,679)	
			(1,544)	4,227
Surplus for the year				
Surplus due to the Consolidated Fund	4		**(34,969)**	(53,652)
(Decrease) in reserves			**(36,513)**	(49,425)
Reserves				
Brought forward from previous year			**633,277**	682,702
(Decrease)/increase in reserves			**(36,513)**	(49,425)
Reserves carried forward			**596,764**	633,277

The notes on pages 16 to 19 form part of these accounts.

Jo Whelan 25 August 2005
Secretary and Comptroller General
Commissioners for the Reduction of the National Debt

National Savings and Investments and Commissioners for the Reduction of the National Debt

Ordinary Deposits

Balance Sheet as at 31 March 2005

	Notes	**31 March 2005 £000**	31 March 2004 £000
Assets			
Investments	5	**956,784**	1,813,431
Cash at bank and in hand		**43,743**	50,929
Debtors	6	**0**	7
		1,000,527	1,864,367
Creditors	7	**(40,163)**	(92,168)
Net assets		**960,364**	1,772,199
Liabilities			
Liability to investors	8	**363,600**	1,138,922
Reserves		**596,764**	633,277
		960,364	1,772,199

The notes on pages 16 to 19 form part of these accounts.

Alan Cook
Director of Savings
National Savings and Investments

25 August 2005

Jo Whelan
Secretary and Comptroller General
Commissioners for the Reduction of the National Debt

25 August 2005

Notes to the accounts

1 Accounting policies

These accounts have been prepared in accordance with section 19 of the National Savings Bank Act 1971 as amended by the 1998 Finance Act. They comply with the accounting and disclosure requirements contained in the resource accounting manual issued by the Treasury and UK generally accepted accounting practice (UK GAAP) to the extent that it is meaningful and appropriate to do so.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Ordinary Deposits accounts.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention with the revaluation of investments to market value.

1.2 Receipts from investors

An Ordinary deposit is recognised as a liability when the payment instrument for a valid investment is received by National Savings and Investments or one of its agents.

1.3 Payments to investors

Payments are recognised on the date of the payment instrument. Where payment instruments are not paid within their stipulated time limit the liability to the investor is reinstated.

1.4 Investors interest

Interest is deemed to capitalise when it starts earning further interest in accordance with the terms and conditions applicable to Ordinary deposits. Capitalised interest is included within interest earned in the transactions with investors statement and is included within principal in the liability to investors in the balance sheet. Interest is accrued from the date of receipt or most recent capitalisation to the end of the accounting period.

1.5 Recognition of investment income

Income is recognised within the accounts on the following bases

- interest on investments is recognised as it accrues rather than on a cash received basis;
- realised gains and losses on trading activities are taken to the Income and Expenditure Account in the period in which they arise; and
- valuation gains and losses on dealing securities are recognised in the Income and Expenditure Account in the same way as realised gains and losses and are included within the carrying value of those securities on the balance sheet.

1.6 Gains and losses on trading operation

Gains and losses on trading operations are calculated as the difference between the Sales proceeds (excluding interest) and the cost of the stock, which is calculated on a First in First Out basis (FIFO).

2 Administration expenses

Expenses incurred by the Director of Savings in connection with the Ordinary deposits are paid out of the National Savings and Investments Vote. Under section 17 of the National Savings Bank Act 1971 a sum determined by the Treasury to be equal to the amount of the expenses incurred during the period is paid into the Consolidated Fund by the Commissioners for the Reduction of the National Debt. The expenses incurred by the Director of Savings and the Commissioners were as follows

	31 March 2005 £000	31 March 2004 £000
Director of savings expenses	**47,145**	54,684
Commissioners expenses	**71**	74
	47,216	54,758

The Director of Savings expenses include £21,260,400 for Post Office charges (previous period £30,753,253) and audit fees of £58,000 (previous period £58,000).

3 Net losses

Losses recognised in the period in respect of theft, fraud and irrecoverable payments were £677,321 (previous period £929,460). During the period £ 205,619 (previous period £266,530) was recovered from individuals. The Post Office paid £293,571 (previous period £427,256) to cover the balance of its agreed liability for losses. This resulted in a net loss of £178,131 (previous period £235,674).

4 Surplus due to the Consolidated Fund

Under section 20 of the National Savings Bank Act 1971 the Treasury may arrange for an amount to be provided for depreciation in the value of investments held by the Commissioners for the Reduction of the National Debt, but no provisions have been deemed necessary since 1994. If after allowing for any such provision, the interest earned by the securities held by the Commissioners exceeds the total of interest costs, management expenses and net losses, then the excess is payable to the Consolidated Fund. The surplus comprises

	31 March 2005 £000	31 March 2004 £000
Interest on investments	**86,648**	112,958
Expenditure	**(51,679)**	(59,306)
Surplus due to the consolidated fund	**34,969**	53,652

5 Investments

	31 March 2005 £000	31 March 2004 £000
Cost		
At beginning of year	**1,801,741**	1,790,372
Purchases	**792,503**	3,423,630
Disposals	**(1,617,101)**	(3,412,261)
At end of year	**977,143**	1,801,741
Market value		
At beginning of year	**1,813,431**	2,053,725
Purchases	**792,503**	3,423,630
Disposals at cost	**(1,617,101)**	(3,412,261)
Increase/(decrease) in accrued interest during the year	**(21,184)**	14,056
Movement in market value adjustment	**(10,865)**	(265,719)
At end of year	**956,784**	1,813,431
Nominal value	**917,220**	1,712,865

All securities held throughout the year were held under section 18(a) of the National Savings Bank Act 1971.

6 Debtors

	31 March 2005 £000	31 March 2004 £000
Other debtors	**0**	7
	0	7

7 Creditors

	31 March 2005 £000	31 March 2004 £000
Surplus to be surrendered to the Consolidated Fund	**34,995**	53,652
Other Commissioners for the Reduction of the National Debt creditors	**4,781**	11,636
Amounts due to National Savings and Investments agents	**228**	14,650
Other National Savings and Investments creditors	**159**	12,230
	40,163	92,168

8 Liability to investors

	31 March 2004 £000	31 March 2003 £000
Principal	**362,589**	1,137,935
Accrued interest	**1,011**	987
	363,600	1,138,922

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