

# **Revenue and Customs Prosecutions Office**

## **Resource Accounts 2006-07**

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# Revenue and Customs Prosecutions Office

*Ordered by the House of Commons to be printed  
26 July 2007*

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## Annual Report

### Introduction

These accounts cover the operation of the Revenue and Customs Prosecutions Office (RCPO) for the period 1 April 2006 to 31 March 2007. They have been prepared on an accruals basis in accordance with the Government Resources and Accounts Act 2000 and HM Treasury's Financial Reporting Manual.

### Strategic aim and objectives

#### *RCPO strategic aim*

- To continue as an effective and independent prosecuting authority which commands the confidence of the public, the judiciary and the legal profession.

#### *RCPO objectives*

- To prosecute cases efficiently, fairly and effectively in accordance with the Code for Crown Prosecutors.
- To prioritise the seizure of criminal assets.
- To maintain and enhance effective working relationships with HMRC, SOCA and other criminal justice partners.
- To contribute effectively to the wider objectives of the Law Officers' Departments and the Criminal Justice System.
- To maintain RCPO as an employer of choice.

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

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

### Nature of RCPO's functions

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

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

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

- VAT fraud – from the simplest repayment fraud to complex cases involving multiple traders;
- Direct tax fraud – from large and sophisticated evasion cases on an international scale to less complex shadow economy fraud;
- Tax credit fraud;

- Excise fraud – tobacco, alcohol and fuels;
- Drug smuggling of all kinds, from those carrying goods on or in their person to massive quantities of Class A drugs smuggled by air or sea;
- Money laundering – generally involving the proceeds of fraud or drugs trafficking;
- UN sanctions cases – these usually involve exports to embargoed destinations or export of military or dual use goods;
- Exotic goods – from conflict diamonds to trafficking in endangered species governed by the Convention on International Trade in Endangered Species (CITES);
- National Minimum Wage; and
- Restraint, confiscation and enforcement proceedings undertaken by the Asset Forfeiture Division.

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

### **Company Directorships**

None of RCPO's board members hold any company directorships or significant interests that could conflict with their management responsibilities, with the exception of the Chief Operating Officer whose interest as a company secretary in UK People Business Ltd which provided HR consultancy services to RCPO in 2006, has been disclosed in the accounts (Note 26).

## Departmental Organisation and Activities

### RCPO Management Board

RCPO was established on 18 April 2005 as an independent government department led by a Management Board. During 2006/07, the Board was chaired by David Green QC and comprised senior managers, the Chief Operating Officer, the Head of Finance and two Non-Executive Directors. In addition, there is a representative from the Attorney General's Office.

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

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

### Audit and Risk Committee

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

The Audit and Risk Committee sits at least every quarter and in 2006/07 they met five times. It has overseen the development of the risk registers and considers them at each meeting. The Committee also considers the accounts and reports from both external and internal auditors. It commissions other work as it deems necessary to provide an assurance to the Management Board on governance, internal control and risk issues. It also oversees health and safety issues.

### Organisation

The Attorney General appointed David Green QC as the Director of RCPO in December 2004, with responsibility for leading the Department's prosecution activity, managing all legal issues, and determining policy. He heads an organisation of approximately 257 permanent staff (on a full-time equivalent basis) which includes lawyers, caseworkers and administrators, who are based in London and Manchester.

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

- Division A (Direct Tax)
- Division B (Commercial)
- Division C (Border Detections)
- Division D (Duty and Excise)
- Division E (Serious Organised Crime)
- Asset Forfeiture Division (Restraint and Seize Criminal Assets)

Also reporting to the Director is the International, Policy and Advisory Division, which provides him with support on policy and internal quality assurance, and the Chief Operating Officer who is responsible for HR, IT, accommodation and other corporate services.

### Departmental and Annual Reports

The Law Officers' Departments' Departmental Report 2007 contains information about RCPO additional to that shown in these accounts. It sets out the Department's current year's performance and future plans over the Public Expenditure Period for 2006 to 2009, and was published in May 2007 (House of Commons CM 7114).

RCPO's Annual Reports are published in accordance with the requirements of Section 1 and Paragraph 3 of Schedule 1 to the Criminal Justice Act 1987 and contain information on the full range of RCPO's work as well as a number of case studies. The 2006/07 Annual Report was published on 17 July 2007 and is available on RCPO's website at [www.rcpo.gov.uk](http://www.rcpo.gov.uk).

RCPO's spending plans were set out in HM Treasury's Main Estimate 2006/07 (pages 285 to 294), and in HM Treasury's Spring Supplementary Estimate 2006/07 (pages 241 to 250). Both of these documents are available on the HM Treasury website at [www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk).

### **Derivatives**

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

### **Pensions**

Details of RCPO's pension arrangements are included in the Remuneration Report and also the notes to these accounts.

### **Information provided to employees**

The main route by which news and information is provided to RCPO staff is the intranet, which also serves as an electronic library for legal guidance, internal policy and procedural documents. Important or urgent messages are communicated by global e-mail messaging. The Communications team arranges occasional meetings in London and Manchester for the Director and COO to address all staff, and holds monthly focus groups which have no agenda but allow any current concerns to be reported back to senior management. At the beginning of 2007, a new newsletter called "RCPO Review" was launched. The newsletter will serve to provide staff with regular updates on operational and organisational matters.

### **Diversity**

RCPO is committed to equality of opportunity in all areas of employment. We aim to treat all staff fairly, with dignity and respect regardless of any factor which is unrelated to their performance in their current or future role. Policies are in place to ensure that no job applicant or member of staff receives less favourable treatment on grounds of gender, gender re-assignment, age, marital/civil partnership status, racial or ethnic origin, disability, religion or belief, sexual orientation, domestic responsibilities, part time working, trades union membership and/or activities or any other condition or requirement which cannot be shown to be justifiable.

Diversity is also fundamental to the way in which we carry out prosecutions and other aspects of our business. We are reviewing our policies, procedures and records to understand the impact of our work on different groups. We are also working to ensure that when we consult we include all those who have an interest including minority groups. We are working to develop better links with stakeholders to inform our policies and actions.

RCPO is a member of the Attorney General's Equality and Advisory Group; has an active Diversity Committee and has published its Equality Scheme, Diversity Statement and Equality Action Plan on the internet. An important part of our Scheme is the introduction of Equality Impact Assessments which will enable us to measure and assess the effect of existing policies and the potential impact of new ones.

### **Disability**

The policy statement above affirms RCPO's commitment to equality of opportunity in employment and ensuring that diversity is fundamental to the way in which we carry out our prosecutions and other areas of our business. We are particularly aware of the Disability General Duty under the Disability Discrimination Act 2005 and have incorporated our statutory duty into our Equality Scheme.



RCPO is committed to the employment and development of people with disabilities. We guarantee an interview to anyone with a disability whose application meets the minimum criteria and standard for the job for which they are applying.

RCPO has a culture of inclusiveness and is working towards removing barriers and promoting positive attitudes to achieve full diversity.

### **Sustainability Report**

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

- Working with its partner Departments in the Law Officers Group to share best practice as well as with our estates services providers (HMRC and Mapeley);
- Establishing systems to monitor the RCPO's impact on the environment, against which performance can be measured and monitored.

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

- Conserving energy, water, paper and other resources, whilst providing a comfortable working environment;
- Contributing to reducing carbon dioxide emissions by 12.5 per cent by 2010-11 relative to 1999-2000 through increasing energy efficiency of the buildings we occupy by 15 per cent by 2010-11 relative to 1999-2000;
- Reducing waste through reduction, re-use and recycling and reducing the waste going to landfill;
- Reducing water consumption to 7.7m<sup>3</sup> per year (7.0m<sup>3</sup> for new builds and refurbishment works);
- Phasing out ozone depleting and other hazardous substances and those with a high global warming potential.

### **Payment of Suppliers**

RCPO aims to pay all bills in accordance with agreed contractual conditions, or where no such conditions exist, within 30 days of receipt of goods and services or receipt of a valid invoice, whichever is the latter. On average, 71% of bills were paid within terms, from April 2006 to March 2007. This is significantly higher than the equivalent figure for last year and reflects new counsel fees arrangements. Further refinements to the payment process and the development of IT systems will enable RCPO to make further progress towards achieving its target of 100% of undisputed invoices paid within 30 days of receipt in 2007-08.

### **Auditors**

RCPO's accounts are audited by the Comptroller and Auditor General. The audit opinion and report of the Comptroller and Auditor General are included with the Statement of Accounts. The notional cost of providing external audit services was £72,000. There was no auditor remuneration (actual or notional) for non-audit work.

In addition, RCPO incurred £38,683 (excluding VAT) of actual audit cost for internal audit work carried out by HMRC's internal auditors.

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

## Management Commentary

### Introduction

RCPO's core business is the effective and efficient prosecution of criminal casework in accordance with the Code for Crown Prosecutors. In building on the achievements of its first year, RCPO identified six key areas as being fundamental to its success during 2006/07. These were:

- Improving performance
- Early prosecutorial involvement
- Asset recovery
- Close management of fees paid to counsel
- IT services
- Pay

In explaining how RCPO has met its key challenges this Commentary will place particular emphasis on these areas.

### Review of the year

#### *Casework statistics and prosecutor support*

RCPO focused on sustained performance against three key casework indicators during 2006/07.

- **Conviction rates**  
Proceedings in the Magistrates and Crown Courts resulted in 1,392 defendant convictions, from a total of 1,645 prosecutions. This represents a conviction rate of 85%, compared to a rate of 80% in 2005/06. Convictions were obtained in 1,193 cases from a total of 1,318 cases prosecuted, which represents a case conviction rate of 91%, compared to a rate of 88% in 2005/06.
- **Guilty pleas in the Crown Court**  
1,207 defendants were prosecuted in the Crown Court, of which 531, or 44%, offered guilty pleas. These defendants appeared in 961 cases, of which 438, or 46%, resulted in case guilty pleas.
- **Judge directed acquittals**  
Of all defendants prosecuted by RCPO in the Crown Court during 2006/07, only 8 received a judge directed acquittal.

A policy and advisory function exists to support prosecutors on legal issues concerning casework policy, and to provide training and guidance. A Best Practice Group has been established to manage procedural change and an editorial board maintains the Prosecution Manual, enabling staff to keep pace with developing requirements in casework. The function has conducted regular quality assurance reviews to encourage continued effective performance amongst operational staff.

#### **Development of management information**

In 2006/07 a new management information system was introduced to ensure the provision of timely and robust casework statistics. The system reports current caseload information and the outcomes of trials concluded during the month. It also records information and outcomes against case complexity, assisting the Department in its resource planning activities and the measurement of performance against key efficiency targets. Operational divisions have supported its introduction by establishing robust data capture processes, and divisional managers have conducted regular assurance activity to ensure compliance with all data quality requirements.

### Accommodation

A key priority for RCPO at its inception was the development of its office space to provide an environment that was more conducive to legal work. To address this, a major project to refurbish RCPO's London office was completed during the year resulting in a greatly improved working environment for legal and support staff. In addition, improved storage facilities have been made available, and case preparation is supported now by high quality reprographics machines and high speed DVD/CD duplicators. Improvements will continue to be made during 2007-08, with the refurbishment of the office space in Manchester, and further work in London on the recently acquired 3rd floor of New Kings Beam House.

### Human Resource policies

During 2006/07 RCPO developed policies and procedures to cater for the requirements of managers and staff across the full range of Human Resource issues, such as recruitment, diversity, and training and development.

- **Recruitment** RCPO held 10 external recruitment campaigns for staff over a wide range of administrative and managerial levels. All external recruitment was carried out on the basis of fair and open competition and selection on merit in accordance with the provisions of the Civil Service Commissioners' Recruitment Code and was subject to an internal compliance check. Candidates from all campaigns were selected in accordance with equal opportunities principles.
- **Diversity** RCPO has developed an Equality Plan and supporting Action Plan. The organisation is continuing to work through these to ensure it meets all equality requirements as set out in the 10-point Plan agreed between the Cabinet Secretary and the Civil Service Management Board. This Plan emphasizes the importance of treating everyone equally with dignity and respect, irrespective of race, disability or belief.
- **Training and Development** A fully-equipped Learning Centre was launched in August 2006 to support the delivery of RCPO's learning and development strategy. This strategy meets the needs of the Department in reflecting its training and development plan, and providing focus to its training priorities, which are: Induction training; continuing professional development; management skills training; and, grievance and mediation training.

### Communications

The main route to deliver news and information to RCPO staff is the intranet, which also serves as an electronic library for legal guidance and internal policy documents. The Communications team arranges meetings in London and Manchester for the Director to address all staff, and held monthly focus groups to allow any concerns to be reported back to senior management. A regular staff newsletter, RCPO Review, was launched in March 2007.

### Financial control environment

The finance function has introduced new processes that have significantly improved RCPO's financial control environment. Robust and comprehensive month end procedures have been implemented which include detailed reconciliations of the balance sheet and checks on income and expenditure. In addition, new financial information systems have been brought online to improve processes for the control and speed of payments and the monitoring of budgets. The procedures for authorising expenditure within the organisation have also been reviewed and tightened. Further information about the financial control environment is provided in the Statement on Internal Control.

### Management of counsel fees

RCPO introduced a new and more robust system for managing its expenditure on counsel fees to tighten control over this major area of its expenditure. From 01 September 2006 all RCPO work conducted by external counsel have been categorised to one of three fee regimes: standard (1-3 day trials); fixed fee (3-15 day trials); or hourly rate, where preparation time is agreed in advance between counsel and prosecutor and paid according to set rates.

There has been a positive response to this initiative and the number of aged counsel fees outstanding has reduced substantially. Since the introduction of this new regime, the volume of counsel fees received and processed for payment has increased significantly.

### **Asset Recovery Incentivisation Scheme**

2006/07 was the first year of the Asset Recovery Incentivisation Scheme. Under the Scheme RCPO is able to retain one-sixth of the assets it recovers to fund its asset forfeiture activity. To reflect the growing importance of this area of work, the Asset Forfeiture Unit was expanded to a full Division within the organisation. A new SCS Head of Division was appointed and new lawyers and case managers have joined the team.

These measures have led to an improved performance in 2006/07, and the Division recovered £24.2 million in criminal assets against confiscation orders, compared to the £21.5 million that was reported in the previous year's accounts.

### **Attorney General's Unified List of approved counsel**

The RCPO is responsible for managing the Unified List, which comprises advocates who have been approved to conduct work for RCPO and other central government departments, such as the Department for Trade and Industry and the Department for Work and Pensions. This ensures that all advocates who work for these departments are of a consistent standard. The recruitment process for the current list began in autumn 2005 and runs on a three year cycle. RCPO conducted a rigorous and exacting recruitment exercise over the course of last summer, and successful applicants were placed on the list at the end of August 2006.

### **Pay**

A three year pay deal was agreed in November 2006, following negotiations with HM Treasury and the Trades Unions. As a key factor in maintaining staff morale, and in continuing to recruit and retain staff of the highest calibre, it was important to make significant progress in harmonising pay scales with those current in HM Revenue and Customs. The agreement that was reached with HM Treasury acknowledged the exceptional circumstances faced by RCPO in having to address pay differentials arising from the majority of its staff transferring from precursor bodies.

### **Efficiency**

Under its SR2004 settlement RCPO has a target to make efficiency savings of £2.5m by the end of 2007-08. Greater value in the procurement of legal services and reductions in expenditure on administration are the main areas of focus. To 31 March 2007 RCPO had realised efficiency savings of £1.9m and it is on track to achieve the full commitment by the end of 2007/08.

### **Looking ahead**

The priorities for RCPO going forward will be the servicing of criminal casework from HMRC and SOCA to the highest standard, the development of our relationships with these two organisations and increased asset recovery.

### **Prosecutor charging**

During the latter part of the year RCPO and HMRC worked together to introduce round-the-clock access to prosecutors for HMRC investigators through the provision of a Duty Prosecutor service staffed by lawyers. This was so that RCPO could fulfil its responsibility, effective from April 2007, to make the charging decisions in all cases referred to it by HMRC, in line with CPS and police practice. The service provides early prosecutorial involvement and ensures that the right individuals are correctly charged at the earliest opportunity.

The scheme is similar to that run successfully by the RCPO's SOCA Division which has provided a 24 hour charging and advice service to SOCA since March 2006.

**Financial reporting**

During 2006/07 the number of professionally qualified personnel in the finance function was increased and all staff undertook training and development to increase their skills. Another critical development was the enabling of direct access to the finance system for finance staff from September onwards. These developments, together with the introduction of a full month end process, mean that the financial information being used to inform business decisions is now based on fully reconciled, accurate and reliable data.

In 2007-08, new financial reports will be written in RCPO's reporting application (Crystal Reports) to reduce further the manual intervention required to generate standard reports, graphs and charts. This will enable the provision of more effective financial management information at all levels of the organisation.

**Information Technology Services**

RCPO completed a procurement exercise for its IT services in April 2007 when a contract was signed with a new supplier for the future provision of IT and telephony services. The new contract will deliver modern, flexible IT services that meet the needs of an organisation of RCPO's size at a price that represents good value for money. A Service Level Agreement which forms part of the contract will ensure a more responsive service and that the service provider is accountable for its delivery. A project to manage the transition of services to the new supplier began immediately after the contract was signed. It is anticipated that this project will be completed with the new service going live in the autumn of 2007.

**Electronic preparation and presentation of evidence**

RCPO is fully engaged with work that is being taken forward across the Criminal Justice System in the area of Electronic Preparation and Presentation of Evidence. This programme of work will ultimately lead to all of our largest cases using electronic preparation and presentation of evidence tools. It will also ensure consistency of approach across the CJS and that best practice and value for money is achieved. RCPO is also considering the establishment of a disclosure suite within its offices, with enhanced facilities for providing defence counsel with copies of our court documents.

**Comprehensive Spending Review**

The Law Officers' Departments' (LODs) settlement under the 2007 Comprehensive Spending Review, which covers the period 2008 to 2011, was announced at the end of March 2007 and, as anticipated, reflected general restraint on public sector expenditure. Although the allocation of the LODs settlement has not been finalised it is certain that RCPO will come under greater budgetary pressure and will have to develop new strategic approaches that maximise efficiency.

## Corporate Governance

### Management Board

The Management Board is responsible for:

- Setting RCPO's strategic aims, standards and business objectives
- Allocation and oversight of RCPO's financial and human resources
- Monitoring the department's performance and departmental spend
- Maintaining a transparent system of effective internal controls
- Assessing and managing risk
- Leading and overseeing the process of change, encouraging innovation to enhance RCPO's capacity to deliver.

### *Membership*

David Green QC	Director, Chair
Dave Partridge	Chief Operating Officer
Sarah Brown	Non Executive Director
Paul White	Non Executive Director
Kristin Jones	Head of IPAD
Justin Freebairn	Head of Finance
Bruce Butler	Head of Division A
Mathew Wagstaff	Head of Division B
David Richardson	Head of Division C
Elizabeth Bailey	Head of Division D
Greg McGill	Head of Division E
Alun Milford	Head of Asset Forfeiture Division

A representative from the Attorney General's Office

The independent members are the two non-executive directors, Sarah Brown and Paul White.

The Board sits monthly, except in August, and at other times if required. At each meeting, it considers reports on finance and on case management performance, including comparing outcomes with targets. It oversees the preparation of the Business Plan and reviews performance against it. It monitors the budget, which is held centrally, and takes any major investment decisions. About twice a year, it reviews the strategic risk register. It considers the annual accounts, the reports from the National Audit Office and the annual report from the Audit and Risk Committee. It undertakes an annual review of the effectiveness of internal controls.

Last autumn, the Board undertook a review of its own effectiveness. Following the review, it was agreed that all Heads of Division should become members of the Board and a Board secretary was appointed.

At the end of 2006, the RCPO's internal auditors carried out a review of corporate governance. This confirmed that all the main required elements were in place. It recommended that a third non-executive director should be appointed to create a better balance between executive and non-executive members of the Board and to widen the range of outside experience. This recommendation has been accepted and an appointment will be made in 2007/08. Action is in hand to implement the other recommendations.

The Board has two sub-committees: the Audit and Risk Committee and the Diversity Committee.



### **Audit and Risk Committee**

The committee's role is to advise the Accounting Officer and the Board on the adequacy of internal controls, corporate governance, risk management, financial reporting, audit arrangements and health and safety.

#### ***Membership***

Sarah Brown (Chair)	Non Executive Director
Paul White	Non Executive Director
Elizabeth Bailey	Head of Division D

In addition the following officers are invited to attend meetings:

Chief Operating Officer  
Head of Finance  
Representatives from NAO  
Representatives from Internal Audit.

The Committee met five times in 2006/07.

During the year the Committee oversaw the development of the three subsidiary risk registers which supplement the strategic risk register. These were:

- Operational;
- International, Policy, Advisory and Communications; and
- Corporate Services.

At each meeting, the Committee considers the strategic risk register and one of the other risk registers on a rolling programme.

The Committee considered the accounts and reports from the National Audit Office and the action being taken to deal with the issues identified. It carried out a review of the effectiveness of internal controls and advised on the Statement on Internal Control. The Committee also considered the work of RCPO's quality assurance team.

The Committee reported to the Board after each meeting, and also submitted an annual report.

### **Internal Audit**

During 2006 a service level agreement was signed with HMRC under which an internal audit service is supplied to RCPO.

### **Diversity Committee**

The Diversity Committee held its first meeting in August 2006. It includes both board members and volunteers from across the staff.

#### ***Terms of reference***

The aim of the Committee is to encourage positive action in the organisation to enable it to meet its vision for diversity and fulfil the requirements placed on it by the law and Ministers.

#### ***The Committee:***

- is the co-ordinating point for equality and diversity activities in RCPO;
- puts to the Management Board proposals that require Board support or approval; and
- provides assurance to the Management Board that the Office is treating equality and diversity issues appropriately.

The Committee will achieve its aim by:

- taking responsibility for the advancement and monitoring of RCPO's Race Equality and Diversity Action Plans;
- being the first point of contact for equality and diversity issues;
- ensuring that RCPO keeps appropriate data for the improvement of equality and diversity;
- taking responsibility for the communication processes relating to diversity including specifically the action plans and the Race Equality Scheme;
- ensuring that all staff are trained appropriately in equality and diversity;
- ensuring that new policies and amendments to existing policies are assessed for race and diversity impact; and
- reporting quarterly to the Management Board.

Committee members represent their teams or divisions but also act as representatives for other groups or individuals who may feel their views on diversity issues are not heard through formal channels.

The Committee will normally meet quarterly.

### ***Membership***

Paul White (Chair)	Non-Executive Director
Raj Barot	Division A & TUS Representative
Lloydette Bola-Williams	Division C
Sarah Brown	Non-Executive Director
Sheila Chalklen	HR
Tessa Dias	HR
Jas Garcha	Communications
Roger Mankanjuola	Division B
Greg McGill (Champion)	Division E
Kate Skinner	Division D
Pam Yoofoo	IPAD

RCPO is a member of the Attorney General's Equality and Diversity Action Group.



## Financial Commentary

### Introduction

RCPO's Voted expenditure for 2006/07 was £37.187 million. Of this total it transferred £0.82 million to the Attorney General's Office bringing the final departmental expenditure limit to £36.367 million. Against voted expenditure the net resource outturn for the year was £34.531 million creating a surplus of £2.656 million (7.1%).

Net total cash requirement was £1.062 million lower than the original estimate, representing 2.4% of net estimated provision. The variance between the outturn and estimated net cash requirement was mainly due to higher than forecast closing creditors balance (£8.082 million).

At the year end, the balance sheet showed negative net current assets of £4.473 million made up of current assets amounting to £3.609 million offset by current liabilities of £8.082 million. The figure for current liabilities included year end programme accruals of £2.573 million, administration accruals of £0.385 million, trade creditors of £1.761 million, an overdraft of £0.476 million and unspent supply payable to the Consolidated Fund of £1.062 million. RCPO's overall bank balance as at 31 March 2007 was £1.080 million. RCPO's balance sheet position does not indicate insolvency and does not impact on the view that RCPO is a 'going concern' (see page 17).

A major review exercise on counsel fee accruals was carried out at the end of 2005/06. Following the review, a new system to manage counsel fees was introduced. This new system has effected a significant improvement in the timeliness with which fee notes are submitted to RCPO. As a consequence programme accruals fell by £10.972 million from £13.545 million in 2005/06 to £2.573 million in 2006/07.

RCPO holds neither tangible or intangible fixed assets.

The following is a summary of RCPO's Operating Cost Statement:

	<u>2006-07</u>	<u>2005-06</u>
	£000	£000
<b>Income</b>		
Operating income	(4,263)	(81)
<b>Expenditure</b>		
Administration costs	19,116	15,341
Programme costs	17,404	20,892
Cost of capital	(251)	(487)
<b>Net Operating Cost</b>	<u><b>32,006</b></u>	<u><b>35,665</b></u>

The main elements of RCPO's expenditure in 2006/07 were staff costs (33.7%) and counsel fees (41.2%). The rise in reported administration costs between 2005/06 and 2006/07 was £3.775 million. This increase was due to a number of key factors including: an increase in staffing structure to strengthen RCPO's work in particular in the area of asset recovery (£2.264 million), the revision of Value Added Tax (VAT) on service charges payable to HMRC (£0.460 million), additional refurbishment and security cost (£0.237 million) and IT service charges for additional work (£0.168 million). This was off set by a fall in programme cost of 16.7% on the previous year.

Operating income in 2006/07 increased from £0.081 million to £4.263 million following the introduction of the Asset Recovery Incentivisation Scheme which allows agencies within the criminal justice system to benefit from the seizure of criminal assets.

Under the scheme RCPO removed £ 24.2 million of assets from criminals against a target of £ 22.7 million and was permitted to retain 16.67% of this (£ 4.028 million). Of this total RCPO treated £ 3.5 million as Appropriations in Aid of its Vote. The remainder will be surrendered to the Consolidated Fund but will be available to RCPO in future years through End Year Flexibility arrangements.

The Assets Forfeiture Division has set a target for 2007-08 to recover assets to the value of £ 26.5 million through confiscation orders – an increase of £ 3.800 million (16.7% ) on the previous year.

### Accounting Boundary

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

### Going concern

The balance sheet at 31 March 2007 shows a negative Taxpayers' Equity of £ 4.473 million. This reflects the inclusion of liabilities falling due in future years, which are to be financed by drawings from the UK Consolidated Fund. Such drawings will be from grants of Supply approved annually by Parliament to meet RCPO's Net Cash Requirement. Under the Government Resources and Accounts Act 2000, no money may be drawn from the Fund other than required for the service of the specified year or retained in excess of that needed. All unspent monies, including those derived from RCPO's income, are surrenderable to the Fund.

In line with other government departments, the future financing of RCPO's liabilities is accordingly to be met by future grants of Supply and the application of future income, both to be approved annually by Parliament. Such approval for amounts required for 2007-08 has already been given. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

### Future Caseload

RCPO's case load, in terms of volume and complexity, has been maintained at a steady state over recent months. The level of activity is demand led, and is dependent on referrals from HMRC & SOCA. Increased emphasis on early prosecutorial involvement is expected to increase the number of new advice cases by about 10% from the beginning of 2007-08. However, forecasts of future case load levels are subject to a significant degree of uncertainty.

### Reconciliation of resource expenditure between Estimates, Accounts and Budgets

	<u>2006-07</u>	<u>2005-06</u>
	£000	£000
<b>Net Resource Outturn (Estimates)</b>	<b>37,187</b>	<b>37,885</b>
Adjustments to additionally include:		
Non-voted expenditure in the OCS	(1,762)	(1,121)
Consolidated Fund Extra Receipts in the OCS	(763)	(23)
Other adjustments	(2,656)	(1,076)
<b>Net Operating Cost (Accounts)</b>	<b>32,006</b>	<b>35,665</b>
Adjustments to additionally include:		
Other Consolidated Fund Extra Receipts	763	23
Unallocated resource provision	2,656	1,076
Other adjustments	942	1,121
<b>Resource Budget Outturn (Budget) of which</b>		
Departmental Expenditure Limits (DEL)	<u><b>36,367</b></u>	<u><b>37,885</b></u>

**Explanation for variance between Actuals, Budget and Estimates**

The difference between net resource estimate and resource budget outturn was £0.820 million. This difference is due to the transfer of administration resources to HM Treasury Solicitors, to help fund the provision of administrative services in the Attorney General's Office. This together with £1.762 million of 2006/07 prior period adjustment makes up net other adjustments of £0.942 million shown between operating cost and budget. The prior period adjustment in 2006/07 of £1.762 million was to correct the counsel fees expenditure reported in 2005/06. This amount arrived from further review work carried out in 2006/07 on counsel fees expenditure and accruals.

The difference between net resource outturn and estimate was £2.656 million. This is due to a transfer of £0.820 million from RCPO's administration budget to HM Treasury Solicitors and lower than forecast programme cost (£1.308 million).

The non-voted expenditure in the OCS for 2005/06 represents the net impact of 2005/06 and 2006/07 prior period adjustments of £2.883 million and £1.762 million respectively (Note 28).

## Remuneration Report

### Ministers and Senior Officers

The Attorney General (Rt. Hon. The Lord Goldsmith QC) superintended the work of RCPO during the period covered by these accounts. The information given below relates to the Director and senior managers of RCPO. Information relating to both the Attorney General and Solicitor General is given in the Resource Accounts of the HM Procurator General and Treasury Solicitor.

### Remuneration Policy

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

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

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

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

Further information about the work of the Review Body can be found at [www.ome.uk.com](http://www.ome.uk.com)

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

### At Risk Pay

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

For grades below the SCS, there are annual performance-related pay awards based upon appraisal of competency and achievement of objectives. A formal review of each individual's performance is conducted at least once a year. Pay awards are measured against affordability criteria and are set within the bounds of the HM Treasury remit. Divisional managers can also award bonuses for extra effort to individuals or teams under our Recognition Scheme arrangements. In 2006/07 awards to non-SCS staff totalled £3,323.

### Service Contracts

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

Unless otherwise stated below, the officials covered by this report hold appointments that are open-ended until they reach the normal retiring age of 65. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation scheme.

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

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

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

### Salary and Pension entitlements

The salary and pension entitlements of the most senior managers of RCPO during 2006/07 are set out below. This information has been subject to audit.

#### Remuneration

Officials	2006-07	2006-07	2005-06	2005-06
	Salary	Benefits In Kind	Salary	Benefits In Kind
	£000	£000	£000	£000
David Green QC <i>Director</i>	195-200	-	190-195	-
Dave Partridge <i>Chief Operating Officer (from 26 September 2005)</i>	90-95	-	40-45 <i>(80-85 full year equivalent)</i>	-
John Brighthouse <i>Head of Operations (until 31 December 2005)</i>	-	-	55-60	-
Kristin Jones <i>Head of IPAD</i>	80-85	-	75-80	-
Justin Freebairn <i>Head of Finance (from 20 March 2006)</i>	55-60	-	0-5 <i>(55-60 full year equivalent)</i>	-
Bruce Butler <i>Head of Division A</i>	80-85	-	75-80	-
Matthew Wagstaff <i>Head of Division B</i>	75-80	-	75-80	-
David Richardson <i>Head of Division C</i>	75-80	-	65-70	-
Elizabeth Bailey <i>Head of Division D</i>	65-70	-	60-65	-
Gregor McGill <i>Head of Division E</i>	70-75	-	55-60	-
Alun Milford <i>Head of Asset Forfeiture (from 4 January 2007)</i>	15-20 <i>(70-75 full year equivalent)</i>	-	-	-

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

'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.

The non-executive Directors received the following fees in 2006/07

	£
Sarah Brown	14,400
Paul White	8,400

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

## Pension Benefits

### Officials

	Accrued pension at age 60 as at 31/3/07	Related lump sum at 31/3/07	Real increase in pension at age 60	Related real increase in lump sum at age 60	CETV at 31/3/07	CETV at 31/3/06	Real increase in CETV	Employer contribution to partnership pension account Nearest
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£100
David Green <i>Director</i>	0-5	0	0-2.5	0	69	39	24	nil
Dave Partridge <i>Chief Operating Officer</i>	40-45	125-130	0-2.5	2.5-5	1,008	934	30	nil
Alun Milford <i>Head of Asset Forfeiture (from 4 January 2007)</i>	10-15	35-40	0-2.5	0-2.5	163	149	6	nil
Kristin Jones <i>Head of IPAD</i>	20-25	45-50	0-2.5	-2.5-0	319	300	12	nil
Justin Freebairn <i>Head of Finance</i>	0-5	0	0-2.5	0	11	1	8	nil
Bruce Butler <i>Head of Division A</i>	35-40	110-115	0-2.5	0-2.5	896	855	-6	nil
Matthew Wagstaff <i>Head of Division B</i>	10-15	20-25	0-2.5	-2.5-0	136	123	10	nil
David Richardson <i>Head of Division C</i>	10-15	40-45	0-2.5	0-2.5	189	178	8	nil
Elizabeth Bailey <i>Head of Division D</i>	10-15	35-40	0-2.5	0-2.5	193	180	8	nil
Gregor McGill <i>Head of Division E</i>	15-20	45-50	2.5-5	7.5-10	231	185	35	nil

Information on pension benefits have been subject to audit.

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

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on

retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly in the same way as in classic.

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

The accrued pension quoted is the pension the member is entitled to receive when they reach 60, or immediately on ceasing to be an active member of the scheme if they are already 60.

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).

### **Cash Equivalent Transfer Values**

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements and for which the Civil Superannuation 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.

### **Real increase in CETV**

This reflects the increase in CETV effectively funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.



**David Green**  
**Accounting Officer**  
20 July 2007



## Statement of Accounting Officer's Responsibilities

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



## Statement on Internal Control

### Scope of Responsibility

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

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

RCPO's Management Board, and an advisory Audit and Risk Committee support me in managing RCPO and its key risks.

### The purpose of the system of internal control

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

RCPO strengthened its internal control system during the reporting year, introducing an internal audit function and tightening controls on the management of counsel fees. Other improvements include: management accounts, which are reviewed monthly by the Management Board; monthly reconciliations of key account balances in the General Ledger; operational risk registers; revised Human Resource policies; a strengthened procurement policy; and guidance on delegated authorities. The system of internal control has been in place in RCPO 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

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

Divisional Heads are responsible for the management of risk within their areas of responsibility and for ensuring compliance with the procedures set out in the Risk Management Strategy, while operational managers ensure that everyone in their unit understands their risk management responsibilities and that they are clear as to the extent to which they are empowered to take risks. Risk management is an integral part of the prosecution process and a reduction in certain risks is one of the key reasons for early prosecutorial involvement and prosecutor charging.

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

### The risk and control framework

RCPO's risk strategy is linked to aims and objectives set out in the departmental Business Plan. This link is crucial to ensure that all underlying risks which have potential to affect business operations are adequately covered in the risk management process. Throughout this financial year, the strategic risk register has been regularly updated and reviewed quarterly by the Audit and Risk Committee.

Operational risk registers have been in place since July 2006 and these are reviewed in rotation. There are also regular reviews to identify new risks.

### Control framework

A control framework that includes internal and external components underpins the strategy:

- A clearly defined 'Statement of Accounting Officer's Responsibilities', that forms part of these Resource Accounts;
- A Management Board that owns the departmental Risk Management Strategy, and is responsible for ensuring that strategic risks are properly managed, and which receives regular reports from the Audit and Risk Committee to support this function;
- A management information system that provides the Management Board with regular updates relating to casework activity and outcomes;
- Monthly reviews by the Management Board of in-year expenditure against forecasts to ensure effective financial control of RCPO resources;
- Management Board scrutiny of the performance against key targets in the Business Plan;
- A system of risk registers designed to provide RCPO with an effective and reliable tool for the management of risk (see below);
- A clear structure of delegated responsibility;
- A "Prosecutions Manual" that provides detailed guidance to staff on handling cases;
- Regular reviews by Divisional heads of casework quality;
- A staff appraisal process that incorporates individual objectives and key performance indicators to support RCPO's strategic objectives;
- A commitment to the development of individuals, including formal training where necessary to ensure everyone can contribute fully to the work of the department;
- A "Confidential Reporting Policy" that protects individuals who believe that RCPO has fallen below its standards, policies, and practices;
- A set of Human Resource policies;
- A system of regular reviews of counsel nominations and fee levels;
- A system for timely preparation of monthly management accounts and reconciliations; and
- A system that ensures that financial information required by HM Treasury and Parliament is filed within the statutory timeframes.

Assurance of the operation of these internal controls is provided by in-house quality assurance features together with the following independent functions:

- An Audit and Risk Committee that includes two non-executive Directors, one of whom serves as the Chair and which assists me in fulfilling my oversight responsibilities, and which is authorised to review, and where necessary advise on, RCPO's Annual Accounts, Internal and External Audit, Risk Management, Corporate Governance, Financial Discipline and Control, and Health and Safety;
- Statutory inspection by HM Crown Prosecution Service Inspectorate to promote continuous improvement in the efficiency, effectiveness and fairness of RCPO's prosecution services through a process of inspection and evaluation, the provision of advice, and identification of good practice;
- An internal audit function, effective from July 2006, that conducts an ongoing programme of specific reviews drawn up on a risk analysis basis
- Reports from RCPO's external auditors, the National Audit Office.

### **Risk registers**

Risk registers underpin RCPO's approach to risk management and all key staff are involved in the process of identifying the risks contained in these. A strategic risk register is used to record and monitor high-level risks to our business and operations. This is supported by lower level, divisional risk registers for:

- casework divisions;
- corporate services; and
- policy, assurance and communications.

The strategic risk register has been in place since the beginning of this reporting year and has been regularly updated. The other risk registers have been in place since July and are reviewed in rotation.

There is a consistent approach to the management of each risk register. The effectiveness of risk registers is reviewed regularly, while the measurement of the overall success of controls is performed through regular monitoring and is updated where necessary. The context of the registers is revisited periodically to identify any new risks and to confirm that existing risks are being actively managed.

### **Review of effectiveness**

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

The Management Board sat ten times in the year and comprised Divisional Heads, the Head of Finance, a representative of the Attorney General's office and two non-Executive Directors. The Board routinely examines strategic issues including but not limited to, operational matters, risk and finance. In January 2007 the Management Board was expanded to include all operational heads. A fuller description of the work of the Management Board is included in the Management Commentary (page 13).

The Audit and Risk Committee meets at least once a quarter and reviews operational and strategic risk registers. It also considers reports from both external and internal auditors and commissions such other work as it deems necessary to provide an assurance to the Management Board on governance, internal control and risk issues. A fuller description of the work of the Audit and Risk Committee is included in the Management Commentary (page 14).

RCPO's internal audit team has developed an ongoing programme of work to systematically review the control and corporate governance environment and make recommendations as necessary to the Audit and Risk Committee.

The International, Policy and Advisory Division conducts internal quality assurance on my behalf and, over the last twelve months, it has focussed on several significant areas in support of effective risk management. In particular, as part of a wider programme of work, reviews examined performance in relation to the recording of decisions in casework, compliance with the law on disclosure, and the use of procedures for improving the quality of case papers submitted to RCPO.

### **Significant internal control issues in 2005/06 and remedial actions taken in 2006/07**

RCPO's 2005/06 Resource Account was laid before Parliament on 30 January 2007. The accounts were qualified by the Comptroller and Auditor General on the basis that it was not possible to establish the completeness of the programme accruals and related expenditure. Other significant

issues and structural weaknesses in record keeping, resourcing, systems and processes contributed to the delay in presenting the accounts to Parliament.

During 2006/07 these weaknesses were addressed and key controls, processes and policies were introduced and embedded; the finance team within RCPO was greatly strengthened. Details of action taken and updates on control issues identified in last year's accounts are set out below.

### **Management of counsel fees**

At the end of the 2005/06 financial year, RCPO was still working through issues surrounding the management of counsel fees and seeking ways to improve the level of assurance in quantifying counsel fees expenditure and accruals in respect of counsel fees for the year. The finance system and processes in place at that time were unable to provide an accurate and reliable estimate of the total value of counsel fees outstanding, or incurred, during the year.

On 01 September 2006, RCPO implemented a new and more robust system for recording and accounting for counsel fees. A three tier fee regime was published and applied to all work commissioned from counsel. The new system standardised fee rates and set the hours to be completed from the start of each case. The timely submission of counsel fees to RCPO was another key element of the new arrangements and to enforce this rigorous monitoring was carried out to identify overdue counsel fees. This was effective and there has been a significant reduction in late fee notes. Nevertheless further work is still required to ensure that the new processes are securely embedded and that the improvement in the management of counsel fees is sustained.

### **Opening balance sheet**

The opening balance sheet for the 2005/06 accounts was not audited when the department was first formed and material inaccuracies were uncovered at the time of the 2005/06 interim audit, in November 2005. This issue had a significant impact on RCPO's ability to produce timely and accurate accounts. Since then, both opening and closing balance sheets for 2005/06 have been reviewed and audited. In addition, RCPO now has a formal month end process in place that reconciles the balance sheet and assures income and expenditure.

A prior period adjustment of £1.762 million was made in the 2006/07 accounts to correct 2005/06 counsel fees expenditure. The correcting amount is arrived after further intensive review work undertaken in 2006/07 to determine a robust balance for counsel fees accruals and expenditure related to 2005/06. As a result of this adjustment the 2006/07 opening balance for general fund and programme accruals have been restated, by the same amount. All of 2006/07 opening balances were agreed and reconciled to the 2005/06 closing balance sheet and against RCPO's finance system before the restatement.

### **Case management information systems**

In 2006/07 RCPO implemented a new system for recording information relating to cases built around an MS Access database. The data recorded on the database enables the generation of comprehensive information concerning case load, case complexity, case outcomes, timeliness, advices and other work streams. This information is used to compile monthly reports to the Management Board. Case workers and senior lawyers now have a better understanding of the trends in the volume and types of criminal cases referred to RCPO by HMRC and SOCA. The enhanced case information system has enabled the department to compare performance against targets more meaningfully and design appropriate plans to tackle underperforming areas.

Though intended as an interim measure until a new, more comprehensive case management system is introduced, the database will continue to be developed in 2007-08 and the information it generates will be used to augment the monthly casework reports submitted to the Management Board as well as assisting performance management and business planning.

**Accounting system**

RCPO encountered a number of critical operational issues related to the accounting systems used in 2005/06. In particular, there were inadequate links between the RCPO and the Treasury Solicitor's Department who hosted the finance database and processed payments on RCPO's behalf. Also, the RCPO team was untrained on the finance system and unfamiliar with the financial reporting package.

These issues have now been resolved and a new reporting package has been implemented. The confidence and knowledge of the finance team in using the accounting system has improved. The team is now able to prepare full monthly management accounts and perform monthly reconciliations for account balances in the finance system. A programme for month end processes has been drawn up to ensure all necessary processes are carried out at the close of each month's accounts.

Since the introduction of the new reporting package (Crystal Reports), a number of standard reports have been written which has automated the production of key financial and budgetary information including the monthly Management Board Finance Report.

The new processes in place and the enhanced visibility of the financial information have increased confidence in the accuracy of the financial information generated by RCPO's systems. Greater reliance can be placed on the accounting system with a commensurate impact on effective and efficient financial monitoring.

**IT infrastructure**

RCPO's present IT service is provided by HMRC as a shared service. Whilst suitable for the needs of a much larger organisation, service levels under the contract do not fulfill RCPO's requirements. Accordingly, in February 2007 RCPO initiated an exercise to tender for new IT services to deliver and support RCPO's future IT infrastructure and applications. This exercise was successful and RCPO signed a contract with SunGard Plc on 24 April 2007. The transition period is now well underway and it is intended that the new service will 'go live' early in the autumn. The new contract represents greatly improved value for money to RCPO.

**Procurement policy**

Following extensive consultation a comprehensive procurement policy was published in April 2007. Additional work will be carried out in the next twelve months to ensure that the policy remains up to date and continues to cover the full range of services procured by the department.

**Delegation of Authorities**

There is now an operating framework for the Delegation of Authorities, which is posted on RCPO's intranet. The guidance provides a clear line for authorisation level and signatory holders required for various commitments entered by staff on behalf of the department.

## Further developments planned for 2007-08

### Counsel fees

As noted above there has been a significant reduction in the number of counsel fees submitted late and the practice of negotiating fees post facto has been eradicated. These two changes have improved control over this area of expenditure but some fee notes are still received more than a month following completion of the work. RCPO is continuing to engage with counsel's chambers in these cases and improvements are still being made.

### IT transition

RCPO signed a contract with a new supplier for the provision of IT services in April 2007. The transition to the new supplier has been identified as an operational risk and is being managed closely. A project board for the transition has been established and the project has its own register of risks which is reviewed and updated regularly.

### Code of Conduct

RCPO published a comprehensive code of conduct in June 2007. This provides detailed guidance and advice to staff on a wide range of issues and ensures that the values, practices and standards expected of staff are known throughout the organisation.

### Equality Scheme and Action Plan

RCPO published an Equality Scheme and Action Plan in May 2007. This comprehensive document revised and updated the existing scheme and fully satisfies the statutory duty to develop measures and actions to ensure that discrimination on the grounds of race, disability and gender does not occur and to positively promote equality on these grounds. RCPO decided to adopt a single Equality Scheme positively promoting equality in its widest sense to also include age, religion and sexual orientation. The Equality Scheme included a Diversity Statement summarising RCPO's position on diversity and equality and is underpinned by an Action Plan. It also introduced Equality Impact Assessments which provide a framework for testing assumptions about the effect of existing policies and the potential effect of new ones.

A Diversity Committee acts as the primary focus for equality and diversity within RCPO. This Committee reports to the Management Board which retains overall responsibility for ensuring the implementation of the Equality Scheme and related actions.

### Business continuity

The completion of the first phase of RCPO's business continuity planning was completed in October 2006 with the publication of a high level business continuity and disaster recovery plan. Lower level plans for teams within RCPO will be published in 2007-08. Business continuity planning for IT services will be provided under the new IT services contract and implemented as part of the transition to the new supplier.

### Business Planning

RCPO published its Business Plan for 2007-08 in April 2007. The Plan set out RCPO's priorities and objectives for the year ahead and communicates these to staff and managers. The Plan establishes additional case handling targets, notably on timeliness, and higher asset recovery targets. Although this year's Plan was published earlier than last year, the planning cycle will be advanced further in 2007-08 to start in October with the aim of publishing the 2008-09 plan in February 2008.

### Budgetary Control

RCPO's budget is held and managed centrally but within the finance system budgets are disaggregated by cost centre, account and period. Budget variances are generated for each of these, analysed and discussed with Divisional Heads each month.



**Development of Audit and Risk functions**

In order for the Audit and Risk Committee to become wholly independent of its executive, RCPO will appoint a third non-executive director to sit on the Committee. This will allow the resignation of the single executive member of the Audit and Risk Committee and bring RCPO in line with best practice.

In 2007-08 consideration will also be given to creating a separate Risk Committee and appointing a risk manager.

**Summary and conclusion**

In the last twelve months very considerable effort has been focused on RCPO's financial and other controls and this has brought about a significant improvement in the accuracy, completeness and, above all, transparency of RCPO's financial reporting: including its ability to produce timely and robust annual accounts.

Work continues and future developments in the control environment, improved performance management and more fully developed approaches to risk management, budgeting and cost control will assist RCPO in taking on the new challenges that lie ahead.

A handwritten signature in black ink that reads "David Green". The signature is written in a cursive style with a long horizontal stroke at the end.

**David Green**  
**Accounting Officer**  
**20 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 Revenue and Customs Prosecutions Office 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 Objective 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**

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 sections entitled Company Directorships, Departmental and Annual Reports, Pensions, Auditors, Management Board and Accounting Boundary, 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 opinions**

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 sections entitled Company Directorships, Departmental and Annual Reports, Pensions, Auditors, Management Board and Accounting Boundary, 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.

See also my report on pages 33 to 36.

**John Bourn**  
**Comptroller and Auditor General**  
**23 July 2007**

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

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

### Introduction

1. The Revenue and Customs Prosecutions Office (the Department) was established by the Commissioners for Revenue and Customs Act 2005 as a new, independent government department in April 2005. The Department is responsible for carrying out criminal prosecutions for Her Majesty's Revenue and Customs and the Serious and Organised Crime Agency. The Department's prime objective is to prosecute cases efficiently and effectively in accordance with the Code for Crown Prosecutors.

### Purpose of Report

2. The purpose of this Report is to provide details on how the Department has addressed the underlying causes of the qualification of my audit opinion on its 2005/06 Resource Accounts and restated these results, enabling me to provide an unqualified opinion on the 2006/07 Resource Accounts. The Report also notes progress made during the year to address the significant internal financial control weaknesses highlighted in my Report accompanying the 2005/06 annual accounts (HC 273, 2006/07) and sets out the further steps taken by the Department to improve its financial management and the internal control environment.

### My obligations as auditor

3. Under the Government Resources and Accounts Act 2000 (the Act), I am required to examine and certify all departmental Resource Accounts received under the Act. I am required, under International Standards on Auditing (UK and Ireland), to obtain evidence to give reasonable assurance that the Department's financial statements are free from material misstatement. In forming my opinion I examine, on a test basis, evidence supporting the disclosures in the financial statements and assess the significant estimates and judgements made in preparing them. I also consider whether the accounting policies are appropriate, consistently applied and adequately disclosed.

### Audit Opinion

#### Unqualified audit opinion

4. I qualified my opinion on the Revenue and Customs Prosecutions Office's 2005/06 financial statements due to a limitation in the scope of my audit, because the Department was unable to provide sufficient evidence that counsel fee expenditure of £15.7 million included in the financial statements for 2005/06 (46% of total annual expenditure) and the related liability at 31 March 2006 of £11.8 million were not materially understated.
5. The Department found it difficult to manage counsel fees expenditure because counsel often submit their fee notes many months or even years after work has been done on cases and historic records relating to cases were not sufficiently detailed. As a result, the Department was unable to estimate its outstanding liabilities at that time.
6. In the Statement of Parliamentary Supply for 2005/06 the Department disclosed that it had spent £36,809,000 against a net resource limit of £37,885,000, an underspend of £1,076,000. My audit work on the Department's 2006/07 resource accounts has identified expenditure of some £1,762,000 for counsel fee notes received after the Accounting Officer had submitted the 2005/06 financial statements for audit on 30 November 2006. If the Department had included this expenditure in the 2005/06 financial statements, the Department's net resource limit for 2005/06 would have been exceeded. My audit opinion on the 2005/06 financial statements would have been further qualified on the grounds of irregularity, because the Department had incurred expenditure without Parliamentary authority. The understatement of accruals for counsel fee expenditure therefore had a significant impact on the Department's financial results for 2005/06.

7. Following my report of 2005/06, the Department revised its systems for managing counsel fee expenditure. It has also undertaken a substantial amount of work to establish the completeness of expenditure and outstanding liabilities in respect of counsel fees disclosed in both the 2005/06 and 2006/07 Resource Accounts. As a result of this work, the Department has restated its prior year results and provided my staff with sufficient evidence to support the completeness of the revised figures for in-year expenditure for 2005/06 and outstanding liabilities at 31 March 2006. I am therefore able to provide an unqualified audit opinion on the Department's 2006/07 Resource Accounts.

#### **Improvement in the management of counsel fee expenditure**

8. During 2005/06, I noted that the work completed by counsel on the Department's cases was not based on rates agreed by both parties in advance. Instead, final payments were subject to negotiation between both parties after the fee notes had been sent by counsel to the Department. These negotiations could result in substantially reduced fees. Whilst the process resulted in a mutually agreeable settlement, it did not provide a transparent internal control environment for payments to counsel in many cases.
9. The Department implemented a new regime for counsel fee expenditure with effect from 1 September 2006. As a result, for all cases commencing on or after this date, fees payable to counsel were based on published fixed fee rates. In complex cases anticipated hours for each month are agreed in advance. This system is comparable to that in place at the Serious Fraud Office, the other specialist prosecutor within the Law Officers' Departments. The system is more transparent and allows the Department to estimate with greater accuracy its outstanding liabilities. In addition, the Department required that appointed counsel submit all fee notes on a monthly basis rather than at the conclusion of the case.
10. In respect of cases commencing prior to 1 September 2006, the Department now agrees the hours to be worked for the following month in advance with counsel. The rates paid to counsel are as previously negotiated, however, and my staff could not agree these to supporting documentation in all cases. The financial impact of this control weakness is, however, reducing with the passage of time.
11. On 24 February 2007 the Department's Head of Finance wrote to all counsel on the approved list of the Attorney General<sup>1</sup>, reminding them of the importance of submitting timely fee notes. This exercise resulted in additional invoices being submitted relating to the 2006/07 financial year and earlier and prompted the more timely submission of invoices in respect of current work.
12. On 24 May 2007, the Department wrote again to all counsel on the Attorney General's approved list requiring that they submit a certificate stating that all invoices relating to 2006/07 and earlier had been submitted. The Department has now received certificates covering 99.7% of in-year counsel fee expenditure. My staff tested invoices received following this exercise, to assess the robustness of the returns, and concluded that the returns submitted were materially accurate.
13. The following table records the value of counsel fee notes received by the Department in the three months after the financial year end for both 2005/06 and 2006/07. The Table demonstrates the progress made by the Department in pursuing fee notes. The Department's expenditure on counsel fees fell by £2,483,000 (14%) between 2005/06 and 2006/07, however late accruals during the three month period fell by £5,272,000 (72%):

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

Month of invoice receipt	2006 Invoices relating to previous year and earlier (£)	2007 Invoices relating to previous year and earlier (£)	Difference (£)
April	4,124,272	1,062,050	(3,062,222)
May	1,436,337	655,887	(780,540)
June	1,764,112	334,299	(1,429,813)
<b>Total (to date)</b>	<b>7,324,721</b>	<b>2,052,236</b>	<b>(5,272,485)</b>

14. The new processes for agreeing counsel fee expenditure and estimating all related accrued liabilities has significantly enhanced the Department's ability to manage this key element of its expenditure, although the Department recognises that further progress on this issue needs to be made with counsel.
15. During the course of their audit my staff identified that for counsel fee invoices received with a value of less than £5,000, the Department's finance team agreed payment to the original nomination letter but did not confirm with case managers before payment was made that work had been completed. This omission increases the risk that erroneous or duplicate payments may be made and my staff identified duplicate payments totalling £10,212 during the course of the audit. When my staff highlighted this risk the practice was stopped and now all fee notes are endorsed by case managers before payment is made. The Department is seeking to recover the duplicate payments from counsel.
16. To further enhance the control regime, the Department should ensure that the anticipated hours in respect of each case are agreed for the forthcoming month by case managers on a consistent and reasonable basis and communicated to the finance team on a timely basis. This approach will allow the Department to assess all outstanding liabilities and facilitate the development of robust, month-end estimates of accrued counsel fees, enhancing the Department's in-year monitoring regime and its ability to manage its resources effectively.

### Procurement practices

17. My report accompanying the 2005/06 accounts highlighted weaknesses in the Department's procurement policies and practices. In particular, I drew attention to the Chief Operating Officer's role in the appointment of his spouse as a consultant to review the Department's Human Resources policies. During 2005/06, payments made to the Chief Operating Officer's spouse were £32,636 (including VAT).
18. As indicated in the Notes to the 2006/07 Resource Accounts<sup>2</sup>, during the year the Department made payments totalling £65,271 (including VAT) to a company wholly owned by the Chief Operating Officer's spouse, of which the Chief Operating Officer is the Company Secretary. The Department's Human Resources director decided to renew this contract in July 2006 after a process conducted by her, with the approval of the Accounting Officer. The contract involved a review of the Department's requirements for HR policies and systems, and implementation of changes to these where necessary.
19. The Department has since revised its procurement practices and procedures to ensure that these are consistent with best practice. A detailed procurement policy was issued in April 2007. In addition, the Department introduced a Code of Conduct in June 2007 to which all staff must adhere. This was developed in consultation with the Department's internal auditors and is based on the standards of expected behaviour set out in "Government Accounting 2000".

<sup>2</sup> Note 26, page 54

**Preparation of the 2006/07 resource accounts**

20. In February 2007 my staff agreed a timetable with the Department for the production and audit of the 2006/07 Resource Accounts. This timetable was designed to allow the Department to lay its audited accounts in Parliament prior to the summer recess. This timetable required an improvement of some six months on the previous year, when the Department's 2005/06 Resource Accounts were presented to Parliament on 30 January 2007.
21. As agreed, the Department submitted its working draft of the Resource Accounts for comment and review by my staff on 18 May 2007, and my staff's comments on the financial statements and the narrative disclosures were fully reflected in the Accounts formally submitted for audit on 4 June 2007, in accordance with the agreed timetable. These Accounts were supported by detailed working papers, and my staff were satisfied that they were of a good quality, robust and materially complete. The year-end accounts production process was assisted by the Department's implementation of month-end financial reporting procedures. These procedures included balance sheet reconciliations and management accounts. The Department is looking to enhance these monthly processes during 2007/08 by improving its budget setting and profiling processes and implementing delegated budgets for divisions.
22. The Department strengthened its finance team during 2006/07 and, as a result, had a greater understanding of the accounts production process. However, some of the additional staff members involved were temporary staff. The Department recognises that it needs to appoint suitably qualified and experienced permanent staff to build longer-term capacity and provide continuity to the Department. The Department is also planning to develop and document detailed policies and procedures in respect of all finance functions and this will further mitigate the risks of reliance on temporary staff.
23. I welcome the significant improvements in the accuracy, quality and timeliness of financial reporting made by the Department. To capitalise fully on these improvements, the Department should build on progress to date by:
  - a) appointing suitably qualified and experienced permanent staff within the finance function
  - b) embedding the process of agreeing the forthcoming hours for all cases accurately for each month in advance and use this information to inform the monthly management accounts. This will allow the Department to reflect counsel fees accurately in its budget monitoring.
  - c) developing robust budgeting and profiling and monitor actively monthly profiled spend against budget.
24. My staff will continue to work with the Department to assist and advise on further improvements to its systems, processes and controls.

**John Bourn**  
**Comptroller & Auditor General**  
**23 July 2007**

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

## Statement of Parliamentary Supply

### Summary of Resource Outturn 2006-07

Request for Resources 1	Note	Estimate			2006-07 Outturn			Net total outturn compared with Estimate saving/ (excess)	2005-06 Prior-year Outturn
		Gross Expenditure	A in A	Net Total	Gross Expenditure	A in A	Net Total		
		£000	£000	£000	£000	£000	£000		
The effective and efficient prosecution of cases in accordance with the Code for Crown Prosecutors	2	40,687	(3,500)	37,187	38,031	(3,500)	34,531	2,656	36,809
<b>Total Resources</b>	<b>2</b>	<b>40,687</b>	<b>(3,500)</b>	<b>37,187</b>	<b>38,031</b>	<b>(3,500)</b>	<b>34,531</b>	<b>2,656</b>	<b>36,809</b>
<b>Non Operating cost A-in-A</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

### Net Cash Requirement 2006-07

	Note	Estimate		2006-07 Outturn		Net total Outturn compared with Estimate saving/ (excess)	2005-06 Prior-year Outturn
		Net Total	Outturn	Net Total	Outturn		
		£000	£000	£000	£000		
Net cash requirement	4	43,513	42,451	1,062	31,462		

### Summary of income payable to the Consolidated Fund

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

	Note	Forecast 2006-07 Income Receipts		Outturn 2006-07 Income Receipts	
		Income	Receipts	Income	Receipts
Total	5	-	-	763	18

The Statement of Parliamentary Supply records the information required for Parliamentary control of resource consumption and compares net resource outturn against the supply expenditure voted by Parliament. The additional liabilities recognised as a result of the prior period adjustment of £1,762K (2005-06: £2,883K) are reflected in the Statement of Parliamentary Supply, see Note 28.

### Explanations of the variance between Estimate and outturn.

Explanation of variances between Estimate and Outturn are given in Note 2 and in the Management Commentary.

*The notes on pages 42 to 55 form part of these accounts*

## Operating Cost Statement

for the year ended 31 March 2007

	Note	Staff Costs £000	2006-07 Other Costs £000	Income £000	2005-06 Restated £000
<b>Administration costs</b>					
Staff costs	7	12,205	–	–	9,941
Other administration costs	8	–	6,660	–	4,913
Less: Administration Income	10	–	–	(1,744)	–
<b>Programme Costs</b>					
Programme Costs	9	–	17,404	–	20,892
Less: Programme income	10	–	–	(2,519)	(81)
<b>Totals</b>		<b>12,205</b>	<b>24,064</b>	<b>(4,263)</b>	<b>35,665</b>
<b>Net Operating Cost</b>	<b>3</b>			<b>32,006</b>	<b>35,665</b>

All income and expenditure are derived from continuing operations.

## Statement of Recognised Gains and Losses

for the year ended 31 March 2007

	Note	2006-07 £000	2005-06 £000
Prior Period Adjustment	28	(1,762)	(2,883)
<b>Total recognised losses for the year</b>		<b>(1,762)</b>	<b>(2,883)</b>

The notes on pages 42 to 55 form part of these accounts

**Balance Sheet***as at 31 March 2007*

	Note	31 March 2007		31 March 2006	
		£000	£000	Restated £000	Restated £000
<b>Current Assets:</b>					
Debtors	12	2,053		2,472	
Cash at bank and in hand	13	1,556		6,349	
		3,609		8,821	
<b>Creditors (amounts falling due within one year)</b>	14	(8,082)		(22,797)	
<b>Net current assets</b>			<b>(4,473)</b>		<b>(13,976)</b>
<b>Provisions for liabilities and charges</b>	15		-		-
			<b>(4,473)</b>		<b>(13,976)</b>
<b>Taxpayers Equity:</b>					
General Fund	16	(4,473)		(13,976)	
			<b>(4,473)</b>		<b>(13,976)</b>

*David Green*  
Accounting Officer  
20 July 2007

*The notes on pages 42 to 55 form part of these accounts*



## Cash Flow Statement

for the year ended 31 March 2007

		<u>2006-07</u>	<u>2005-06</u>
	Note	£000	£000
Net cash outflow from operating activities	17a	(42,433)	(31,439)
Capital Expenditure & Financial Investment		–	–
Payments of amounts due to the Consolidated Fund		(572)	–
Financing	17d	<u>37,736</u>	<u>37,788</u>
*(Decrease)/Increase in cash in the period	17e	<u>(5,269)</u>	<u>6,349</u>

### Note:

\*Reconciliation of change in cash in the period to cash in bank:

(Decrease)/Increase in cash in the period		(5,269)	6,349
Overdraft	14	<u>476</u>	–
Net change in cash balances	13	<u>(4,793)</u>	<u>6,349</u>

The notes on pages 42 to 55 form part of these accounts

## Statement of Operating Costs by Departmental Aim and Objective

for the year ended 31 March 2007

	2006-07			2005-06		
	Gross	Income	Net	Restated Gross	Income	Restated Net
	£000	£000	£000	£000	£000	£000
<b>Aim:</b>						
The delivery of a world-class prosecutions service that commands public and judicial confidence, and plays a major part in the Criminal Justice System.						
<b>Objective</b>	36,269	(4,263)	32,006	35,746	(81)	35,665
<b>Net Operating Costs</b>	<b>36,269</b>	<b>(4,263)</b>	<b>32,006</b>	<b>35,746</b>	<b>(81)</b>	<b>35,665</b>

The Department's objective was as follows:

**To prosecute cases efficiently, fairly and effectively in accordance with the Code for Crown Prosecutors whilst prioritising the seizure of criminal assets.**

*The notes on pages 42 to 55 form part of these accounts*

## Notes to the departmental resource accounts

### 1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2006-2007 *Government Financial Reporting Manual (FReM)* issued by HM Treasury. The accounting policies contained in the *FReM* follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

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

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

#### 1.1 Basis of Accounting

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

#### 1.2 Fixed assets

During the period covered by these accounts RCPO did not own any freehold land or buildings, investments (including investment properties), goodwill, capital grants or any other tangible or intangible assets.

#### Tangible fixed assets

Assets are capitalised as fixed assets if they are intended for use on a continuing basis and their original purchase cost, on an individual basis is £10,000 or more. For IT expenditure the £10,000 threshold is applied to assets on a grouped basis. Tangible fixed assets are initially measured at cost. Fixed assets are valued at current value.

#### Intangible fixed assets

Intangible fixed assets are valued at current replacement cost by reference to the Price Index Numbers for Current Cost Accounting published by the Office for National Statistics. Intangible fixed assets are initially measured at cost.

#### Revaluation reserve

In accordance with the *FReM* only the unrealised element of the Revaluation Reserve is disclosed in the Balance Sheet. Realised elements are transferred from the reserve to the General Fund. Downward revaluations are only charged to existing balances brought forward for that particular class of asset. If there is no previous balance, the charge is expensed in-year and disclosed in the Operating Cost Statement.

#### 1.3 Depreciation and amortisation

Depreciation and amortisation is provided at rates calculated to write off the valuation of fixed assets by equal instalments over their estimated useful lives.

Tangible fixed assets are depreciated on a straight line basis over their estimated useful lives. Intangible fixed assets are amortised on a straight line basis over their estimated useful lives.

- Computer equipments 3 years
- Furniture and fittings 10 years
- Software licences life of application

#### **1.4 Income from the Asset Incentivisation Scheme**

2006/07 is the first year RCPO operated under the Asset Incentivisation Scheme. Under this scheme RCPO is allowed to retain 16.67% of the total value of assets recovered in the year. Income generated from this scheme is recognised in RCPO's accounts when the Home Office recognises it in their accounts.

Income from the Asset Incentivisation Scheme is intended to offset the costs of asset forfeiture activity. Within RCPO these costs fall under both programme and administration and income is apportioned accordingly.

#### **1.5 Costs awarded to RCPO**

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

#### **1.6 Costs awarded against RCPO**

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

#### **1.7 Administration and Programme expenditure**

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

Administration costs reflect the costs of running the RCPO as defined under the administration cost control regime. Programme costs reflect operating costs relating to prosecution, including the employment of counsel. All RCPO staff costs whether frontline or support are classed as administration costs.

#### **1.8 Accruals**

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

#### **1.9 Capital charge**

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

- a. cash balances with the Office of the Paymaster General and
- b. liabilities for amounts to be surrendered to the Consolidated Fund, where the charge will be at a nil rate.

### **1.10 Foreign Exchange**

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

### **1.11 Pensions**

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

### **1.12 Operating leases**

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

### **1.13 Provisions**

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

### **1.14 Contingent liabilities**

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

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

### **1.15 Value Added Tax**

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

### **1.16 Third Party Assets**

RCPO seized £24.16 million worth of monetary assets during 2006/07 on behalf of other government agencies. Assets confiscation orders are enforced by the HM Court Service and RCPO is appointed to carry out these orders. Seized assets are not departmental assets and are not included in the accounts. Seized assets are recorded in the accounts of the Department for Constitutional Affairs.

## 2. Analysis of net resource outturn by section

	2006-07					Estimate		2005-06
	Outturn			A in A	Net Total	Net total Outturn compared with		Restated
	Admin	Other Current	Gross resource expenditure			Net Total	Estimate	
	£000	£000	£000	£000	£000	£000	£000	
<b>Request for Resources 1</b>								
1A Administration Costs	18,865	–	18,865	(1,500)	17,365	18,713	1,348	14,854
1B Prosecutions	–	19,166	19,166	(2,000)	17,166	18,474	1,308	21,955
<b>Resource Outturn</b>	<b>18,865</b>	<b>19,166</b>	<b>38,031</b>	<b>(3,500)</b>	<b>34,531</b>	<b>37,187</b>	<b>2,656</b>	<b>36,809</b>

## Key to Request for Resources

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

## Explanation of the variance between Estimate and outturn

(i) Net total resource requirement was £2.656 million less than the estimate, representing 7.14% of net estimated provision. The resource outturn figure was lower than estimate because of the uncertainty in forecasting expenditure in a demand-led environment with the result that case numbers and expenditure/activity on them was lower than planned.

Detailed explanations of the variances are given in the Management Commentary.

## Note:

Additional liabilities are recognised in 2006/07 and 2005/06 prosecution costs as a result of prior period adjustment. The amount adjusted in 2006/07 was £1,762K (2005/06: £2,883K), see Note 28.

## 3. Reconciliation of outturn to net operating cost and against Administration Budget

## 3(a) Reconciliation of net resource outturn to net operating cost

	Note	2006-07			2005-06
		Outturn	Supply Estimate	Outturn compared with Estimate	Restated
		£000	£000	£000	Outturn
		£000	£000	£000	£000
Net Resource Outturn	2	34,531	37,187	2,656	36,809
*Prior Period Adjustment	28	(1,762)	–	1,762	(1,121)
Non-Supply Income (CFERs)	5	(763)	–	763	(23)
<b>Net operating cost</b>		<b>32,006</b>	<b>37,187</b>	<b>5,181</b>	<b>35,665</b>

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

	2006-07		2005-06
	Budget	Outturn	Restated Outturn
	£000	£000	£000
Gross Administration Budget	19,393	18,865	14,854
Income allowable against the Administration Budget	(1,500)	(1,744)	–
<b>Net outturn against final Administration Budget</b>	<b>17,893</b>	<b>17,121</b>	<b>14,854</b>

\* 2005/06 prior period adjustment represents £2,883K of 2005/06 adjustments less 2006/07 prior period adjustments of £1,762K

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

	Note	2006-07			2005-06
		Estimate	Outturn	Net total outturn compared with estimate: saving/(excess)	Restated Outturn
		£000	£000	£000	£000
Resource Outturn	2	37,187	34,531	2,656	36,809
* Prior Period Adjustment	28	–	(1,762)	1,762	(1,121)
Accruals adjustments:					
Non-cash items	8	–	179	(179)	427
Changes in working capital other than cash		6,326	9,503	(3,177)	(4,653)
<b>Net Cash Requirement</b>		<b>43,513</b>	<b>42,451</b>	<b>1,062</b>	<b>31,462</b>

**Explanation of variance between Estimate and Outturn**

Net total cash requirement was £1.062 million less than the estimate, representing 2.44% of net estimated provision. The difference in net cash requirement and estimate is mainly due to higher than forecast closing creditors balance plus an overdraft balance due to timing difference in bank account balance transfer at year end.

Detailed explanations of the variances are given in the Management Commentary.

\* 2005/06 prior period adjustment represents £2,883K of 2005/06 adjustments less 2006/07 prior period adjustments of £1,762K



## 5. Analysis of income payable to the Consolidated Fund

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

	2006/07 Forecast		2006/07 Outturn		2005/06 Outturn	
	Income £000	Receipts £000	Income £000	Receipts £000	Income £000	Receipts £000
Operating income & receipts – excess A in A	-	-	745	-	23	23
Other operating income and receipts not classified as A in A	-	-	18	18	-	-
<b>Total income payable to the Consolidated Fund</b>	<b>-</b>	<b>-</b>	<b>763</b>	<b>18</b>	<b>23</b>	<b>23</b>

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

	Note	2006-07 £000	2005-06 £000
Operating Income	10	4,263	81
Income authorised to be appropriated-in-aid		(3,500)	(58)
<b>Operating income payable to the Consolidated Fund</b>		<b>763</b>	<b>23</b>

## 7. Staff numbers and related costs

Staff costs comprise:

	2006/07 Permanently employed staff			2005/06
	Total £000	£000	Others £000	Total £000
Wages and salaries	9,464	9,073	391	7,783
Social security Costs	824	824	-	656
Other pension Costs	1,917	1,917	-	1,502
<b>Total net costs</b>	<b>12,205</b>	<b>11,814</b>	<b>391</b>	<b>9,941</b>

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

Included in the figure for other pension costs are employer's contributions of £1,755,688 (2005/06 £1,502,178) payable to the PCSPS at one of four rates in the range 17.1 to 25.5 percent (2005/06: 16.2 to 24.6 percent) of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. From 2007-08, the salary bands will be revised but the rates will remain the same. 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.

Total early retirement payment of £161,373 was made during the year and this forms part of other pension costs.

Employees can opt to open a partnership pension account with an employer contribution. During 2006/07, no employer contributions of this kind were paid to appointed stakeholder pension providers.

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

### Average number of persons employed

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

	2006-07		2005-06
	Number		Number
	Total	Permanently employed staff	Total
	£000	£000	£000
<b>Request for Resources 1</b>	277	257	257
	277	257	257

### 8. Other Administration Costs

	2006-07	2005-06
	£000	Restated £000
†IT & Telecoms	2,241	1,656
Travel and Subsistence	337	239
††Consultancy	236	127
Service charges & rates	1,866	1,781
Estates maintenance	835	566
Printing & stationery	279	111
Recruitment	80	39
Training	206	111
Rentals under Operating Leases	84	80
Postage & other carriers	250	265
Publicity & Advertising	108	14
Library services	116	114
Internal Audit Fees	39	–
†††Other	162	237
Non-cash items		
Depreciation	–	–
Auditors' remuneration and expenses*	72	60
Loss on disposal/revaluation of assets	–	–
Cost of capital charges	(251)	(487)
	<b>6,660</b>	<b>4,913</b>

†2006/07 IT & Telecoms expenditure is inclusive of VAT, as VAT on IT Service charges provided by HMRC are non-refundable.

††The figure for consultancy in 2005/06 has been restated to exclude Translation fees (£165k) which have been recategorised as programme expenditure in line with HM Treasury definitions (see Note 9).

†††Other includes HMRC administration service charges and miscellaneous cost.

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

#### Note:

Comparative figures have been recoded within the various administration cost headings, in line with the headings used to prepare 2006/07 accounts.

**9. Programme Costs**

	<b>2006-07</b>	<b>2005-06</b>
	<u>£000</u>	<u>Restated</u>
	<u>£000</u>	<u>£000</u>
Counsel Fees	14,955	17,438
Costs Payable	628	1,679
Transcription Fees	241	140
*Translation Fees	161	165
Electronic Presentation of Evidence	697	711
†Other expenditure	722	759
	<b><u>17,404</u></b>	<b><u>20,892</u></b>

\*2005/06 Translation fees have been restated to Programme Costs from Other Administration Cost (see Note 8).

†Other expenditure includes forensic analysis, expert witness and other direct legal cost.

**10. Income**

	<b>2006-07</b>	<b>2005-06</b>
	<u>Total</u>	<u>Total</u>
	<u>£000</u>	<u>£000</u>
<b>Request for Resources 1</b>		
<b>Programme Income</b>		
Court costs recovered	217	81
*Asset Incentivisation Income	2,302	–
	<u>2,519</u>	<u>81</u>
<b>Administration income</b>		
Interest from bank	18	–
*Asset Incentivisation Income	1,726	–
	<u>1,744</u>	<u>–</u>
	<b><u>4,263</u></b>	<b><u>81</u></b>

\*Refer to Note 1 (1.4)

**11. Fixed assets**

The Revenue and Customs Prosecutions Office does not own any tangible or intangible fixed assets (2005/06: Nil).

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

	<u>2006-07</u>	<u>2005-06</u>
	£000	£000
Amounts falling due within one year:		
VAT Debtor	910	872
*Other Debtors	1,122	1,585
Prepayments	21	15
	<u>2,053</u>	<u>2,472</u>

\*"Other Debtors" includes £745k (2005/06: nil) due to the Consolidated Fund.

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

	<u>2006-07</u>	<u>2005-06</u>
	£000	£000
Balances with other central government bodies	1,923	2,431
Balances with bodies external to government	130	41
<b>At 31 March</b>	<u>2,053</u>	<u>2,472</u>

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

**13. Cash at bank and in hand**

	<u>2006-07</u>	<u>2005-06</u>
	£000	£000
Balance at 1 April	6,349	0
Net change in cash balances	(4,793)	6,349
<b>Balance at 31 March</b>	<u>1,556</u>	<u>6,349</u>
The following balances at 31 March are held at:		
Office of HM Paymaster General	10	6,289
Commercial banks and cash in hand	1,546	60
<b>Balance at 31 March</b>	<u>1,556</u>	<u>6,349</u>

The RCPO had no cash in hand balances at 31 March 2007.

**Note:**

As at 31 March 2007, there was an overdraft balance of £476k (2005/06: Nil) as reflected in Note 14. RCPO's overall cash at bank balance at year end including overdraft was £1,080k.

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

	<b>2006-07</b>	<b>2005-06</b>
	<u>£000</u>	<u>Restated</u>
	<u>£000</u>	<u>£000</u>
Amounts falling due within one year:		
*Payroll Creditor	885	1,402
*Other taxation and social security	177	413
**Overdraft	476	–
Trade Creditors – Administration	203	471
Trade Creditors – Counsel Fees	1,558	–
Accruals: Administration	385	617
Accruals: Programme	2,573	13,545
Amounts issued from the Consolidated Fund for supply but not spent at year end	1,062	6,326
Consolidated Fund excess receipts due to be paid to the Consolidated Fund – received	18	23
Consolidated Fund excess receipts due to be paid to the Consolidated Fund – receivable	745	–
	<u><b>8,082</b></u>	<u><b>22,797</b></u>

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

	<b>2006-07</b>	<b>2005-06</b>
	<u>£000</u>	<u>Restated</u>
	<u>£000</u>	<u>£000</u>
Balances with other central government bodies	3,235	8,164
Balances with bodies external to government	4,847	14,633
<b>At 31 March</b>	<u><b>8,082</b></u>	<u><b>22,797</b></u>

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

\* 2005/06 Payroll Creditor and 2005/06 Other taxation and social security comprise February 06 and March 06 amount which was outstanding as at the end of 31 March 2006. On the other hand, the 2006/07 only consist of March 07 amount outstanding as at the end of 31 March 2007.

\*\* Although the figure of £476k reflects the correct accounting treatment of transfers between bank balances in RCPO's general ledger, it does not indicate a negative bank balance. None of RCPO's bank accounts either singly or in aggregate were overdrawn at any point during the financial year.

**15. Provisions for liabilities and charges**

There are no provisions in RCPO accounts at the balance sheet date. Potential liabilities in respect of legal costs payable are disclosed in Note 24: Contingent Liabilities.

**16. General Fund**

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

	<b>2006-07</b>	<b>2005-06</b>
	<u>£000</u>	<u>Restated</u> £000
Balance at 1 April 2006	(13,976)	(9,323)
Net Parliamentary Funding		
Drawn Down	37,736	37,788
Deemed	5,777	–
Year End Adjustment		
Supply (Creditor)/Debtor-current year	(1,062)	(6,326)
Net Transfer from Operating Activities		
Net Operating Cost	(32,006)	(35,665)
CFERs repayable to Consolidated Fund	(763)	(23)
Non cash charges		
Cost of Capital	(251)	(487)
Auditor's remuneration	72	60
<b>Balance at 31 March 2007</b>	<b><u>(4,473)</u></b>	<b><u>(13,976)</u></b>

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

		<b>2006-07</b>	<b>2005-06</b>
	Notes	<u>£000</u>	<u>Restated</u> £000
Net operating cost	3	(32,006)	(35,665)
Adjustments for non-cash transactions	8	(179)	(427)
Decrease/(Increase) in Debtors	12a	419	(2,442)
(Decrease)/Increase in Creditors	14a	(15,191)	13,444
Less: movements in creditors relating to items not passing through OCS	14a	4,524	(6,349)
<b>Net cash outflow from operating activities</b>		<b><u>(42,433)</u></b>	<b><u>(31,439)</u></b>

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

The Department did not make any capital or financial investments during 2006/07.

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

The Department did not make any capital or financial investments during 2006/07.

**17(d) Analysis of financing**

		<b>2006-07</b>	<b>2005-06</b>
		<u>£000</u>	<u>£000</u>
From the Consolidated Fund (Supply) – current year	16	37,736	37,788
Advances from the Contingencies Fund		3,000	–
Repayments to the Contingencies Fund		(3,000)	–
<b>Net financing</b>		<b><u>37,736</u></b>	<b><u>37,788</u></b>

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

	Notes	<u>2006-07</u> £000	<u>2005-06</u> £000
Net Cash Requirement	4	(42,451)	(31,462)
From the Consolidated Fund (Supply) – current year	17d	37,736	37,788
Amounts due to the Consolidated Fund – received in a prior year and paid over		(572)	–
Amounts due to the Consolidated Fund – received but not paid over	5	18	23
<b>(Decrease)/Increase in cash</b>		<u><b>(5,269)</b></u>	<u><b>6,349</b></u>

**18. Capital commitments**

RCPO has no capital commitments at the balance sheet date (2005/06: Nil).

**19. Commitments under leases****19.1 Operating leases**

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

	<u>2006/07</u> £000	<u>2005/06</u> £000
<b>Obligations under operating leases comprise:</b>		
Land and buildings	–	–
Other:		
Expiry within one year	20	13
Expiry after 1 year but not more than 5 years	9	66
Expiry thereafter	–	–
	<u><b>29</b></u>	<u><b>79</b></u>

**19.2 Finance leases**

RCPO has no obligations under finance leases.

**20. Commitments under PFI contracts**

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

**21. Other financial commitments**

RCPO has no other financial commitments at the balance sheet date (2005/06: Nil).

**22. Losses and Special payments****22(a) Losses Statement**

There are no material losses.

**22(b) Special Payments**

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



### 23. Financial instruments

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

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

#### *Liquidity risk*

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

#### *Interest rate and foreign currency risk*

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

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### 24. Contingent liabilities disclosed under FRS 12

As at 31 March 2007 RCPO has identified 18 cases where the Department may face liability for legal costs and compensation to defendants and 3rd parties. Receivership costs may also be incurred in those cases which have involved the forfeiture of assets. RCPO has estimated that these cases may, subject to the Judge's ruling, result in overall settlements of £3,183,000.

Costs awarded against the Department may be contested on appeal.

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

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

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### 26. Related Party Transactions

There have been a small number of transactions with other government departments and other central government bodies. The majority of these transactions have been with HM Revenue and Customs and relate to the provision of payroll, information technology and accommodation services. Only a few inter government department transactions were with the HM Procurator General and Treasury Solicitor for the provision of RCPO's finance information system and payments processing.

During 2006/07 RCPO employed Mr J Mawson as a casual member of staff between July 2006 and January 2007 and he received £6,933.90 in pay over this period. Mr Mawson is the nephew of Mrs E Bailey, Head of Division D.

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During the year RCPO paid UK People Business Ltd, an external consultancy wholly owned by Mrs M Partridge £65,271 (2005/06: £32,636), inclusive of VAT, to undertake a review of the RCPO's requirements for HR policies and systems and to implement changes to these where necessary. Mr D Partridge, RCPO's Chief Operating Officer is the company secretary of UK People Business Ltd and the spouse of Mrs Partridge.

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

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## 27. Post Balance Sheet Events

The RCPO had no post balance sheet events.

In accordance with the Financial Reporting Standard 21 "Events after the balance sheet date", accounting adjustments and disclosures are considered up to the point where the financial statements are "authorised for issue". This is interpreted as the date on which the financial statements were despatched to the House of Commons on 24 July 2007.

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## 28. Prior Period Adjustments

In 2005/06, RCPO undertook a review of outstanding counsel fee liabilities. This included an extensive exercise to identify additional liabilities which had not been invoiced by legal chambers and which had not been recognised by the RCPO or its precursor bodies. The 2005/06 opening balance in respect of the counsel fee accrual was adjusted to reflect this additional information and to provide comparative information. In consequence, counsel fee accrual at 31st March 2005 was increased from £4,166,596 to £9,099,109. A cash settlement of £2,050,000 was made during 2005/06 and the corresponding expenditure was recorded in the operating cost statement. The remaining balance of £2,883K was included in the 2005/06 accounts as a prior period adjustment.

Further review work continued during 2006/07 to identify 2005/06 counsel fees expenditure excluded from previous year's accounts. Findings from the extended exercise discovered £1,762K of counsel fee invoices received in 2006/07 related to 2005/06 casework. As a result, to establish a correct figure for counsel fees expenditure in 2005/06, a prior period adjustment of £1,762K was required in the 2006/07 accounts.

The 2005/06 prior period adjustment shown in Note 3 and Note 4 represents the net effect of two years prior period adjustment of £2,883K in 2005/06 and £1,762K in 2006/07. The opening balance of 2006/07 general fund was restated by £1,762K as a result of 2006/07 prior period adjustment. The resource implications of both years prior period adjustments were included in the net resource outturn. These disclosures are for the purposes of parliamentary control and ensure that resource and cash transactions are fully reported to Parliament.



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