Assets Recovery Agency

Resource Accounts 2005-06

(For the year ended 31 March 2006)

Ordered by
The House of Commons
to be printed

London: The Stationery Office
HC 1341

24 July 2006
£11.00

Assets Recovery Agency

Resource Accounts 2005-06

(For the year ended 31 March 2006)

Ordered by
The House of Commons
to be printed

London: The Stationery Office
HC 1341

24 July 2006
£11.00

Contents

Annual Report

Background

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

The Proceeds of Crime Act 2002 (POCA) is the result of the Government's aim to take the profit out of crime and dismantle and disrupt organised crime empires by removing the money that is their motivation and their major source of income. It brings together previous legislation, such as the Drug Trafficking Act 1994 and Part VI of the Criminal Justice Act 1988, with the changes recommended in a comprehensive report of a study conducted by the Performance and Innovation Unit of the Cabinet Office in 2000[1]. POCA strengthens the legislation around cash seizures, money laundering, investigation powers and restraint and confiscation procedures. The setting up of the Assets Recovery Agency was a key aspect of the legislation and the goals it aims to achieve.

Departmental Aims and Objectives

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

We do this by

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

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

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

1 Published in November 2000. See http://www.number-10.gov.uk/su/criminal/recovering/contents.htm.

STRATEGIC AIMS

We have three strategic aims:

1 To disrupt organised criminal enterprises through the recovery of criminal assets, thereby alleviating the effects of crime on communities.

2 To promote the use of financial investigation as an integral part of criminal investigation, within and outside the Agency, domestically and internationally, through training and continuing professional development.

3 To operate the Agency in accordance with its vision and values.

PRIORITIES

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

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

The Agency is required to produce a statutory Business Plan and Annual Report which for 2005/06 was laid before Parliament in June 2006. It sets out full details of the Agency's performance against the targets established in the Business Plan, as well as details of partnership working, future legislative changes and planned developments for the medium term.

The Business Plan and Annual Report is available at www.assetsrecovery.gov.uk.

WHERE THE MONEY GOES

Monies from assets recovered, less amounts incurred on court-appointed receivers (as specified in Section 280 (3) of the Proceeds of Crime Act) are paid to the Consolidated fund, via the Home office.

These excess amounts are allocated to the Home Office for use via the Recovered Assets Incentivisation Fund (RAIF) and other Home Office spending. This finances specific projects, including those which support the Asset Recovery Strategy, the Anti Drugs Strategy, local crime and disorder reduction partnerships and community regeneration projects.

MANAGEMENT COMMENTARY

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

Key Financial Limits	2005/06			2004–05		
	Estimate	Outturn	Surplus (Deficit)	Estimate	Outturn	Surplus (Deficit)
	£000s	£000s	£000s	£000s	£000s	£000s
Net Resources	16,748	23,527	(6,779)	17,609	14,017	3,592
Gross Administration Costs	4,011	3,542	469	4,431	3,142	1,289
Capital	361	473	(112)	182	101	81
Net Cash Requirement	16,775	21,845	(5,070)	17,506	13,744	3,762
Net Operating Costs	16,658	16,496	162	17,609	14,017	3,592

The overspend on Net Resources of £6,779k has been met in full through proceeds from recovered assets and Home Office funding for Recovered Assets Incentivisation Fund projects. It was understood during 2005-06 that 'net accounting' principles could be applied following communication with HM Treasury and the National Audit Office. However, it later transpired that although 'net accounting' was appropriate in substance, Parliamentary approval would still be required to incur both the expenditure on Receivers' Fees and treat the proceeds from recovered assets as income. Similarly, it was not recognised that Parliamentary approval would be required for the Home Office funded RAIF projects.

The overspend of £112k on capital projects was due to the capitalisation of software licences, additional security costs and investments in information technology.

Although Net Operating Costs reflect a £162k surplus, the Net Cash Requirement has been exceeded as a result of Parliamentary approval issues for RAIF and recovered assets. In addition to the overspend on Capital, until the year end, it had also been understood that recovered assets from taxation and criminal cases could also be applied against receivers' fees, which contributed to the under forecast of cash requirements.

Progress against targets over 2005-06 has been marked by notable successes and important learning points. In many instances targets have been exceeded but we have also learned much from our experience over the past three years, in particular regarding the timescales over which we can expect cases to progress. There are no specific Public Service Agreement (PSA) targets on asset recovery, but there was a Government manifesto commitment in 2001 to recover £60m by 2004-2005. The Home Office has a number of commitments in the area of asset recovery, within which the achievement of the Agency's targets is key.

Key Performance Indicators

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

- Disrupt 70 criminal enterprises – 100 disrupted
- Adopt a further 100 cases – 108 adopted
- Early restraint of assets to the value of £25m – £85.7m

The impact of legal challenges, whilst inevitable with such complex and new legislation, has delayed the progress of our cases in the High Court. This had an adverse impact on the KPIs from the latter stages of the civil recovery process, particularly when realising receipts from cases. £3.86m was realised in 05-06, with a further £2.33m awaiting enforcement as at 31st March 2006. Progress in a number of our current cases is at an advanced stage and we expect to complete claims for Recovery Orders in these cases before the High Court during 2006-07

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

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

Civil Recovery

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

	2005/06		2004–05	
	Number	Value (£m)	Number	Value (£m)
Referrals	167	96.1	103	39.0
Cases adopted	90	50	51	31.6
Freezing Order/Mareva	28	19.1	6	1.4
Interim Receivers Orders	10	18.6	20	10.8
Recovery Orders	3	0.3	12	5.6
Settlement	22	3.9	–	–
Receipts	–	4.2	–	4.7

The number of referrals to the agency rose from 103 in 2004-05 to 167 in 2005-06 – a 61.2% rise on the previous year's figure. The agency's adoptions rose from 51 cases to 90 adopted cases in 2005-06. Similarly, the number of cases which progressed to litigation also increased from 26 to 38 over the same period. These figures highlight the continuously improving performance of the agency in carrying out its stated aims.

Furthermore, the value of civil recovery cases has increased significantly since 2004-05. Referrals for civil recovery to the agency rose dramatically in value from £39m in 2004/05 to £96.1m in 2005-06, an increase of 147.2%. Those adopted by the agency increased from £31m to £49.7m, representing an increase of 60.3% on last year. The total value of disruptions, including Freezing Orders, Interim Receivers Orders and settlements was £41.6m, compared to £12.2m in the previous year, equating to a 241% increase.

These figures represent a greater amount of funds frozen, and therefore a greater number of criminal enterprises disrupted by the Agency by depriving the criminal economy of funds that can be re-invested in further criminal activities. The amount of funds recovered by way of recovery order may have fallen due to the greater number of respondents prepared to settle out of court. This reflects the robust approach taken by the Agency when litigating cases.

On 1 January 2006 the amendments to POCA 2002 enacted in the Serious and Organised Crime and Police Act (SOCPA) 2005 came into force. This has given the Agency the ability to apply for Property Freezing Orders (PFOs) under POCA, where there is a risk of dissipation of the assets. Such orders prevent those who own potentially recoverable property from dealing with their assets in any way, whilst the investigation into whether or not the property is recoverable continues. Prior to this amendment to the legislation, ARA could not apply for investigative orders under POCA whilst property was subject to a freezing order or Mareva injunction under Part 8 of the Civil Procedure Rules. The Agency was quick to use this new power, and in January 2006 successfully obtained PFOs in two cases which together restrained nearly £800,000 worth of assets, whilst the investigations continue. In the last quarter of 2005/06 a total of £1,421,445 was restrained in six different cases using PFOs.

Regulations allowing for the provision of funds to cover the legal expenses of respondents from frozen assets in civil recovery claims pursued by the Agency also came into force with the amendments to POCA on 1 January 2006. The new regulations provide a framework which should alleviate the delays in litigation experienced by ARA so far in terms of problems with funding the legal representation of respondents. This represents a significant development for the Agency and should reduce some of the delays in litigating cases in the High Court. From the 1st July 2005, amendments to POCA also allowed receivers' fees on civil cases to be netted off against civil recoveries. See Note 26 for further information on this issue.

Criminal Confiscation

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

At the financial year end we were assisting in or conducting a total of 38 investigations. A total of 272 investigative orders were obtained from the courts in the course of these investigations and assets to the value of £35.9m have been restrained in accordance with 12 restraint orders obtained. Twenty-three cases have been concluded during the reporting period, which have produced confiscation orders to the value of £7.2m obtained on behalf of, and in partnership with, prosecuting authorities. These proceedings have resulted in default prison sentences of 46.5 years being given to the respective defendants

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

Taxation

The Agency carries out taxation investigations in England, Wales, Scotland and Northern Ireland under Part 6 of POCA in cases where the Director has reasonable grounds to suspect that an income gain or profit which is chargeable to the relevant tax has arisen from criminal conduct. The relevant taxes include, but are not limited to, income tax, capital gains tax, corporation tax and inheritance tax.

When a case is adopted for Part 6 purposes, the Director serves a notice on the Board of Inland Revenue which enables her to carry out the normal taxation functions of the Inland Revenue for the period specified. In particular, the Director must apply all interpretations of the law and concessions published by the Board of Inland Revenue.

During the year the Agency had three full-time tax investigators, supported by one full-time and one part-time tax lawyer. As at 31 March 2006 they had 24 working investigations, more than twice the number at the start of the year. In addition further cases were under review for possible adoption.

Estimated assessments were issued in 12 cases on profits etc of £8,722,697 and the tax and National Insurance Contributions thereon totalled £3,202,070. Payments on account of outstanding liabilities in cases not finally settled of £30,000 were received during the year. Payments in respect of settlement offers accepted by the Agency amounted to £200,000.

Success was achieved at the first contested case to be heard in full by the Special Commissioners, a specialist tax tribunal that has jurisdiction to hear Part 6 appeals against assessments, where criminal profits of £186,598 were determined. Seven Freezing orders have been granted in a total of five cases, all prior to the issue of tax assessments, where it was adjudged that there was a strong risk that the funds to settle any tax liability may be dissipated, typically overseas.

Taxation cases are now expected to take 18 months to 2 years to reach settlement (and where appropriate, recovery action), particularly where the subject chooses to exercise their rights of appeal. The Agency's settlement policy applies to taxation cases.

Training

The Financial Investigation Centre of Excellence provides the Agency with the capacity to deliver on its statutory obligations, for the provision of training and accreditation, and its strategic objectives by promoting the use of financial investigation as an integral part of criminal investigation. During 2005-06, the Centre continued to make significant contributions in building capacity for asset recovery across the whole law enforcement community, domestically and internationally, through ongoing development and delivery of the Financial Investigation Training Programme, bespoke training packages for other countries and associated procedures. In 2005-06 the Centre provided training for 644 new financial investigators and enhanced training for over 749 financial investigators. The training was delivered by the Centre supported by its training partners – Greater Manchester Police, HM Revenue & Customs, the Metropolitan Police Service and the National Crime Squad.

The Centre's training programme has undergone a thorough review, which has incorporated the recommendations of an independent report, and the Centre is working with law enforcement agencies to ensure that the recommendations of the report are implemented.

Such recommendations adopted are provision of a new Financial Investigation Management (FIM) course and review of the mentoring programme.

In addition to the training provided to police forces and HMRC, the Centre continued to meet its commitment to widen the training to a growing community of other law enforcement agencies which have access to the accredited powers under POCA. On 1 April 2005, Order 2005/382 extended the list of organisations with such access which now number 61 and, in 2005/06, training was delivered to 50 new FIs from these organisations.

Following on from the successful application to Edexcel in 2004 for assessment centre status for BTEC awards, the Centre offered three vocational awards in financial investigation equivalent to the National Vocational Qualification (NVQ) Level 4. During 2005/06, a total of 378 awards were made.

Following a wide-ranging consultation with FIs and other users, in August 2005 the Centre launched the second phase of the Financial Investigation Support System (FISS). This e-Learning and support system for trainee and experienced FIs supports the training, accreditation and monitoring of FIs, enabling the Director's statutory duty to be met.

FINANCING

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

In addition, from 1st July, 2005 HM Treasury agreed that total receivers' fees may be deducted from total proceeds before they are paid, via the Home Office, to the Consolidated Fund. As receivers' fees comprise a significant proportion of the Agency's expenditure (£6.9m in 05-06), this will have a significant impact on our funding requirements from HM Treasury.

This "netting off" process was initially applied during 05-06 but unfortunately it was later deemed that this process was inappropriate as Parliamentary approval had not been obtained for the expenditure to be incurred on receivers, or the proceeds from recovered assets to be treated as income. This has resulted in an excess of expenditure and net cash requirement against Estimate in the Statement of Parliamentary Supply, although the net operating cost results in a saving against Estimate. It should be noted that this issue would have been avoided through reflecting the gross expenditure and related income in the Estimates process, instead of showing the net figure.

Furthermore, from 1st April, 2006 the Agency will be able to reclaim 50% of net proceeds from the Home Office on a quarterly basis. The aim of this scheme is an incentive to develop the business of the department. Of this 50%, the Agency will be able to pay a proportion of this amount to the referring agency.

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

It is a specified aim of the Agency to be self-funding. As it is difficult to reliably predict the length of time it takes for a case to be completed, we have to make informed estimates about our future cash-flows from successful asset recovery, although these estimates must be treated with some caution. We are now in a better position to estimate the extent to which the Agency will be self-funding, the principal problem being that cases have thus far had a longer than expected life-span.

GOING CONCERN

The balance sheet at 31 March 2006 shows a decrease in Taxpayers Equity (£8,465k in 05-06). This reflects the inclusion of liabilities falling due in future years which are to be financed [mainly] by proceeds from recovered assets and drawings from the UK Consolidated Fund. Such drawings will be from grants of Supply approved annually by Parliament, to meet the ARA's Net Cash Requirement. Under the Government Resources and Accounts Act 2000, no money may be drawn from the Fund other than required for the service of the specified year or retained in excess of that need. All unspent monies, including those derived from the Department's income, are surrenderable to the Fund.

It should be noted that the decrease in Taxpayers Equity since 2004-05 has been the result of the application of the accounting treatment of recovered assets against receivers' fees, and the inconsistency of how this was applied in the Estimates process.

In common with other government departments, the future financing of ARA's liabilities is accordingly to be met by future grants of Supply and the application of future income, both to be approved annually by Parliament. Such approval for amounts required for 2005-06 has already been given and there is no reason to believe that future approvals will not be forthcoming. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

Accounting Officer of the Agency and Management Board

The Accounting Officer and members of the Management Board during 2005-06 were:

Jane Earl	–	Accounting Officer
Adrian Brenton	–	Assistant Director, Operations to 30.03.06
Alan McQuillan	–	Assistant Director, Northern Ireland
John Tanner	–	Assistant Director, Business Delivery (on loan from Department for Constitutional Affairs (DCA)) to 30.11.05
Sue Edwards	–	Head of Legal
Sandra Grant	–	Head of Human Resources & Services
Ivor Johnston	–	Head of Finance & Procurement
Charlie Dickin	–	Head of Training, Centre of Excellence (from 1.12.05, took over John Tanner's areas of responsibility)
Robert McCann	–	Non – Executive Director & Chair of Audit Committee
Reshard Auladin	–	Non – Executive Director

Appointment of Accounting Officer and Management Board

The Accounting Officer, Assistant Directors, Heads of Legal and Training are appointed in line with section 5.1 of the Civil Service Management Code. The Assistant Director, Business Delivery, was on a 3-year loan from the Department for Constitutional Affairs to 30/11/05 and the Head of Training, Centre of Excellence, is on a 3-year secondment from Avon and Somerset Constabulary, following open competitions. All other members of the Management Board were appointed via open competition under permanent staff terms. The remuneration of the Accounting Officer and the other members of senior management is informed by the Senior Salaries Review Body. In accordance with section 2 of the Civil Service (Management Functions) Act 1992, the ARA can appoint staff as members of the Home Civil Service without the approval of the Minister for the Civil Service. Details on the costs, remuneration and pension arrangements for the ARA's management and staff can be found at Note 2 to the Resource Accounts.

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

Prompt Payment Policy

The Assets Recovery Agency is committed to the prompt payment of bills for goods and services received in accordance with the Government's Better Payments Practice Code and British Standard BS 7890 "Achieving Good Payment Performance in Commercial Transactions". Unless otherwise stated in the contract, payment was due within 30 days of the receipt of the goods or services or presentation of a valid invoice or similar demand, whichever is later. Assets Recovery Agency paid 82% of all invoices within 30 days of the date on which they were registered for payment during the period. No interest payments were made as result of late payments to creditors. The relatively low prompt payment performance in 2005/06 was due to the further development of systems and financial procedures during the year and this is expected to improve significantly during the current year, with the aim of 95% invoices paid within 30 days.

Interest Rate and Currency Risk

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

Fixed Assets

Details of the movement in fixed assets are set out in Notes 12 and 13 to the Financial Statements.

Health and Safety

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

Equality and Diversity

The Agency is committed to a policy which values equality and diversity, being one of its five core values. The Agency will provide not only a working environment that is free from discrimination, harassment or victimisation, where everyone will receive fair and equal treatment related to effective performance in their job, but also where the Agency harnesses the different perspectives and skills of everyone, and makes full use of them in its work. The Agency has created an ethos in which it responds to the needs of its staff and customers, where diversity is truly valued and where everyone is treated with dignity and respect.

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

Employment of Disabled Persons

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

Employee Relations and Development

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

Quality Assurance

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

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

Freedom of Information

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

Public Perceptions

ARA’s KPI 4 is to ‘maintain public confidence in the professionalism and integrity of the work of the Agency’. To measure this, the Agency commissioned YouGov Ltd to undertake an on-line survey in late January into public attitudes in England, Scotland and Wales towards crime and the recovery of assets by the Agency. A similar survey was conducted by MORI in Northern Ireland in late March.

Social and Community Issues

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

Environmental issues

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

Key Stakeholders

The Agency has a key relationship with other Law Enforcement Agencies (LEA's), through whom cases are referred. This is a mutually beneficial arrangement, as from 1st April 2006, these LEA's will be entitles to a percentage of the assets recovered. See Note 1.13 for further details on incentivisation. In addition to the referrals, these LEA's also provide a significant proportion of the attendees to courses provided by the Agency's Centre of Excellence training department.

Auditors

Under the Government Resources and Accounts Act 2000, the Assets Recovery Agency's accounts are audited by the National Audit Office, on behalf of the Comptroller and Auditor General. The notional audit fee for 2005/06 was £72,000.

The Future

Cost commitments

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

Our knowledge of the costs of litigating cases has now developed and 2006/07 will begin with a significant number of cases wherewe await final hearings and where we have incurred costs in 2005/06 and 2004/05.

We have learned much from our experience over the past three years, particularly regarding the timescales of cases. We now have better information to suggest that the average length of cases is likely to take up to two and a half years, which is the result of the various legal processes and safeguards in the Proceeds of Crime Act. Cases being investigated, or adopted, for civil recovery in 2005-06, may therefore accrue costs, whether they be in terms of the interim receivers' costs or the legal and enforcement costs, which will run on into 2006-07, 2007-08 and perhaps 2008-09.

A number of the powers granted to the Director under POCA were challenged in cases brought by the Director during 2005/06. These were in relation to the civil recovery proceedings contained in Part 5 of POCA and awaiting decisions in each of these cases had a significant impact on the lifetime of both these and other cases. This was because firstly the Courts would not allow a case to be continued until the preliminary legal points had been resolved, and secondly because judges in other cases were not prepared to allow those cases in which the same points were to be raised to progress until the Courts of Appeal had ruled on those points in cases in which the challenges had already been brought. Of the challenges where decisions have now been reached, each has fallen in support of the legislation that civil recovery proceedings were properly classified as civil. Each appeal decision is significant in the development and understanding of the powers exercised by the Director, create important case law and serves to strengthen the position of the Agency in future challenges.

The Agency works alongside the Police and other investigating agencies and prosecutors. The over-arching national policy for asset recovery is contained in the Home Office Strategic Plan, which includes 'recovering more criminal assets' as part of their Commitments to law abiding citizens'. The Home Office commitment is also echoed in the National Policing Plan for 2004-2008, which commits the Police Service to action in this area, and which is supported by the incentivisation scheme which will enable all agencies to receive 50% of the value of assets recovered. Section 280, Subsection 3 of the revised Proceeds of Crime Act, which had a commencement date of 1 July 2005, enables the Director to meet the costs of an appointed Interim Receiver from sums received from civil recovery proceedings in a way which directly mirrors the provisions in criminal confiscation cases in Parts 2 and 4 of POCA. As mentioned previously, it was understood that the costs of interim receivers could be "netted off" against aggregate proceeds during 2005-06. However, it has subsequently been determined that Parliamentary approval must also be obtained, through the Estimates process, to fully enable this primary legislation to be applied. The ability to "net off" the costs of receivers against appropriate income from asset recoveries will therefore fall within the main and supplementary estimates process in future years.

Serious Organised Crime and Police Act

The Agency has worked extensively with the Home Office, the Department for Constitutional Affairs (DCA), the Northern Ireland Court Service, the Legal Services Commission and the Northern Ireland Legal Services Commission to develop a package of amendments to the Proceeds of Crime Act, which have been included in the Serious Organised Crime and Police Act 2005, which received Royal Assent in April 2005. These are detailed in the ARA Annual Report 2005-06. Included in the amendments is provision for legal aid to remain an option for those respondents who are unable to access restrained assets and the Lord Chancellor's direction has been welcomed which disapplies the normal civil legal aid exclusion of business-related cases in POCA cases. The new provisions will be implemented and applied as soon as possible in conjunction with the DCA and Northern Ireland Courts Service to ensure that there are no unjustified delays in the progress of civil recovery cases.

International

The Agency expected that the necessary subordinate legislation to enable Part 11 of the Act to be brought into force effectively would be in place by 2004, with implementation taking place in 2005/06. Although the Home Office, which is responsible for drafting the necessary Orders in Council, has remained in consultation with the Agency and other interested parties, only limited progress has been made in drafting the necessary provisions. This is, in part, due to the extreme complexity of this area of the law; and the Agency's concern remains not only that there should be a broad measure of consistency between the domestic and overseas regimes, but also that the procedures for overseas cases should be fully workable. However, the Home Office now has the necessary subordinate legislation partly in place.

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

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

Declarations, as defined in Companies Act

1) As far as I am aware, there is no relevant audit information of which the auditors are not aware.

2) I have taken all steps that I ought to have taken to make myself aware of any relevant audit information.

Jane Earl
Accounting Officer

19th July 2006

Remuneration Report

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

	Salary, including Performance Pay	Real increase in pension & related lump sum at age 60	Total accrued pension at age 60 at 31/3/06 and related lump sum	CETV at 31/3/05 ***	CETV at 31/3/06	Real increase in CETV after adjustment for inflation and changes in market investment factors	Employer contribution to partnership pension account including risk benefit cover
	2005–06 *(2004–05)* £000	2005–06 £000	£000	Nearest £000	Nearest £000	Nearest £000	Nearest £000
Jane Earl*, Accounting Officer	135–140 *(135–140)*	0–2.5 plus lump sum of 0–2.5	5–7.5 plus lump sum of 0–2.5	43	84	27	N/A
Adrian Brenton**, Assistant Director, Operations- left 31.03.06	90–95 *(85–90)*	0–2.5 plus lump sum of 12.5–15	42.5–45 plus lump sum of 132.5–135	932	1074	18	N/A
Alan McQuillan,* Assistant Director, Northern Ireland	90–95 *(90–95)*	0–2.5	2.5–5	41	76	24	N/A
John Tanner, Assistant Director, Business Delivery Unit (on loan from DCA)- left 30.11.05	50–55 *(70–75)*	0–2.5 plus lump sum of 2.5–5	17.5–20 plus lump sum of 55–57.5	340	413	31	N/A
Sue Edwards**, Head of Legal	90–95 *(90–95)*	0–2.5	27.5–30 plus lump sum of 67.5–70	502	635	27	N/A
Sandra Grant*, Head of Human Resources	60–65 *(60–65)*	0–2.5	2.5–5	15	35	13	N/A
Ivor Johnston, Head of Finance	55–60 *(50–55)*	0–2.5 plus lump sum of 2.5–5.0	15–17.5 plus lump sum of 47.5–50	156	224	13	N/A
Charlie Dickin, Head of Training, Centre of Excellence (on secondment from Avon and Somerset Constabulary)	75–80 *(75–80)*	N/A	N/A	N/A	N/A	N/A	N/A

Notes:

* opted to join Premium

** opted to join Classic Plus

*** difference to CETV at 31/03/05 in 2004-05 accounts, as these values are updated as per APAC return and the CETV criteria changed this year

Two Non Executive Directors were appointed on 31 August 2004 and were remunerated in the range £5-10k during 2005/06.

Salary

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

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the Agency and treated by the Inland Revenue as a taxable emolument. There were no qualifying benefits in kind made to any member of the Management Board during 2004/05 nor in 2005/06.

Civil Service Pensions

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

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

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

Further details about the Civil Service Pension arrangements can be found at the website www.civilservice-pensions.gov.uk

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

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

Pay Committee

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

The membership of the two committees are as follows:

SCS Pay Committee	**Staff Pay Committee**
Reshard Auladin (chair)	Reshard Auladin (chair)
Geoff Brown	Geoff Brown
Ivor Johnston	Ivor Johnston
Robert McCann (Non-executive Director)	Robert McCann (Non-executive Director)
Jane Earl	Charlie Dickin

Policy on remuneration of Senior Managers

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

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

SCS members are also currently subject to awards from the SCS bonus pot. In 05-06 the amount awarded was divided equally amongst all SCS members of ARA. There were no non-cash packages given to Senior Managers in 05-06.

Performance Management

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

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

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

Senior Management Contracts

Details of contracts for senior managers in the year 2005-06 are shown in the table below:

	Contract type	*Contract end date*	*Early Termination Awards*
Jane Earl	Fixed term	2/28/2008	N/A
Adrian Brenton	Permanent	3/30/2006	N/A
Alan McQuillan	Permanent	N/A	N/A
John Tanner	Seconded	11/30/2005	N/A
Sue Edwards	Permanent	N/A	N/A
Sandra Grant	Permanent	N/A	N/A
Ivor Johnston	Permanent	N/A	N/A
Charlie Dickin	Seconded	12/31/2008	N/A

The policy on duration of contracts for SCS is in line with SSRB recommendations. The standard recommended duration for this is a 4-year “tour of duty” per role, by which time, it is anticipated that the SCS will progress into another position, either sideways or above. ARA policy is that both the Deputy Directors of Operations and Services post-holders are to rotate after an 18 month period with effect from 1st April 2006.

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

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

Jane Earl
Accounting Officer

19th July 2006

STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

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

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

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

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

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

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

STATEMENT ON INTERNAL CONTROL

Scope of Responsibility

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

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives: it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Agency's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Assets Recovery Agency for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

Risk management is a key component of the internal control framework and the Agency have further developed risk management arrangements during 2005/06 following a review of the Agency's risk management systems by the Policy and Performance team. This led to the development of a new risk management framework which more fully recognises the role that each member of staff plays in risk management on a daily basis. Through working closely with Management Board and Internal Audit, a Risk Managers Group was established representing all Agency Business Units. The new system introduced risk management into the annual business planning and 6-monthly performance management cycles. A clear escalation structure, reporting structure and audit trail reinforces the Agency's commitment to risk management. The creation of the Risk Managers Group has created a new layer of management of risk in addition to the Management Board (corporate risk) and the Audit Committee (overall internal control). The revised system was introduced across the Agency from March 2006 in advance of full implementation from 1 April 2006. ARA is therefore committed to the principles of risk management, and in supporting those principles will:

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

A Corporate Risk Register has been maintained throughout 2005/06 to support the original risk framework and managers at all levels have received risk awareness training.

THE RISK AND CONTROL FRAMEWORK

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

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

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

As part of the review and revision of the risk management system, a series of new documents have been drawn up to help maintain an audit trail of risk management and will also serve as tools for more direct and active management of risk:

- Business Plans – this includes an additional risk column to help formalise the process whereby emerging risks are identified and fed into the risk management process;
- Performance Agreements – these now record updates on risk controls and emerging risks (as and when required) as a mechanism to update the risk register and risk logs;
- Risk hierarchy and escalations – the interaction between the different risk registers;
- Risk matrix – contains the step by step process under which all identified risks are rated.
- Corporate Risk Register – contains the corporate risks identified by the MB, plus those risks directly managed by the MB, requested permanent business level risks (under an identified criteria) , ad hoc project risks and escalated risks. These are reported quarterly to the Audit Committee;
- Business Risk Register – contains the Business Unit Risks, ie those risks which have been delegated down by the MB for management at Business Unit level together with identified generic risks that are managed across all teams. They are specific to the Business Unit;

- Team Risk Log – contains a record of all the controls that are or will be in place against any identified risk together with an action list and identified action owners;
- Risk Stewardship Statement – produced by all risk managers for use at the Risk Managers Group assurance meeting;
- Risk Reporting – a 6 monthly report to be completed by Risk Managers, which will form the basis of a meeting with the (Non-Executive) Chair of the Audit Committee.

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

Review of effectiveness

As Accounting Officer for ARA, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the system of internal control was informed by the work of our Internal Auditors (Deloitte and Touche LLP) and the executive managers within the Agency, who have responsibility for the development and maintenance of the internal control framework, and comments made by the National Audit Office in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Management Board, the Audit Committee and Risk Managers Group and a plan to ensure continuous improvement of the system is in place.

Internal Audit concluded that the overall control environment in operation within the ARA during 2005/06 had acquired a reasonable level of assurance. Where Internal Audit have raised recommendations, these have been accepted by management and action plans agreed. ARA continues to strengthen its control environment by implementing new systems including financial management and human resource systems, control awareness training for staff and enhanced management checks.

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

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

An Audit Committee which met quarterly during 2005/06, Chaired by a Non-Executive Director, to advise the Accounting Officer on the adequacy of risk management and internal control arrangements in the Agency and on the implications of assurances on risk and control. The Committee's role supports the annual Statement on Internal Control and monitors the ARA's risk management and internal controls on a regular basis with a full risk and control assessment reported on the year ending 31 March 2006. Risk management is fully incorporated into the corporate planning and decision-making processes of the organisation;

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

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

The Agency operates a professional standards policy;

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

The Agency was reviewed by HM Treasury in October 2005 as part of the wider Financial Management Reviews across Central Government Departments. All recommendations made as a result of the review have now been successfully implemented. In addition, the NAO facilitated a Corporate Governance workshop in October 2005, which we used to assess the Agency against the Code of Good Practice. All recommendations made have also now been implemented.

WORKING IN PARTNERSHIP

The Concerted Inter-agency Criminal Finance Action Group (CICFA), a group comprising HM Revenue & Customs, Association of Chief Police Officers (ACPO), National Criminal Intelligence Service (NCIS), the National Crime Squad, the Crown Prosecution Service, Financial Services Authority, Northern Ireland Office, Department of Public Prosecutions (NI) and the Department of Constitutional Affairs (DCA), as well as the Agency, was established in June 2002. The group meets monthly to monitor and manage its programme and to drive achievement of asset recovery targets. CICFA has already delivered:

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

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

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

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

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

Excess Vote

In 2005-06, there was a change in accounting process relating to how the Agency treated recovered assets. The original POCA legislation required that all recovered asset monies were surrendered to the Consolidated Fund. Consequently, recovered assets were treated as third party assets and therefore excluded in their entirety from the Agency's 2003-04 and 2004-05 Resource Accounts. However, an amendment was made to this legislation (Section 280, subsection 3), which enabled the Agency to apply recovered assets receipts against the costs of court appointed interim receivers incurred with effect from 1st July 2005 for civil cases. Subsequently, all civil receivers' fees incurred post 1st July were matched against the proceeds from recovered assets. This amendment has the effect of bringing civil recovery cases more into line with the legislation applying to receivers' fees incurred on criminal cases.

When the primary legislation changed to provide for me (as Director of the Agency) to apply recovered assets funds to meet the costs of interim receivers, the Agency sought the agreement of HM Treasury and NAO to apply 'net accounting' principles in respect of these items. The Agency understood that the same 'net accounting' principles could similarly be applied in accounting for these items through the Estimates process. As a result, the Agency submitted Supply Estimates that budgeted for these transactions on a net basis, with income from recovered assets offsetting the costs of receivers. However, in line with Government Accounting's principle of 'gross' control, it was subsequently determined that the Agency should have constructed its Estimate so as to seek an increase in both its gross expenditure and matching Appropriations in Aid.

As explained in the full Comptroller and Auditor General's report, during 2005-06, £6,186k of assets were recovered which were intended to be applied to the payment of an equal amount of receivers' fees. However, based on the understanding that 'net accounting' could be applied, the Agency did not appreciate the need to regularise this treatment through the Estimates process until March 2006 - two months after the deadline submission of Supplementary Estimates for 2005-06. These circumstances have resulted in an excess of £6,047k, which contributes to the overall excess of £6,779k.

Each year, the Agency undertakes certain activities to promote assets recovery through the Recovered Assets Incentivisation Fund. These include conference organising, training of financial investigators from non law enforcement bodies and maintenance and development of the Joint Assets Recovery Database. In previous years, the Agency received funding through a transfer from the Home Office's own Supply Estimate to the Agency. In 2005-06, however, the Home Office changed the funding mechanism to reimburse actual expenditure incurred on a quarterly basis. Following correspondence with the Home Office, it was understood that the expenditure would be accounted for through the Home Office's Supply Estimates and Resource Accounts and hence did not need to reflected in ARA's own Supply Estimate. The Agency did not therefore secure the required parliamentary approval through the Supply Estimates process to allow the Home Office funding to be treated as Appropriations in Aid to meet the expenditure on these particular activities. This resulted in an excess of £732k, which contributes to the overall excess of £6,779k.

There was an excess cash requirement of £5,070k during 05-06. This was principally due to the recovered asset and RAIF issues, as detailed above, which totalled £3,855k and £732k respectively. The other excess cash requirements of £483k related to the increase in capital expenditure, and establishing at year-end that recovered assets from taxation and criminal cases could not be applied against receivers' fees.

The Agency has undertaken a review of its management of the Estimates preparation process to change to 'gross' rather than 'net' accounting. In addition, the implications of all subsequent legislative and procedural changes will be fully discussed with HM Treasury. In preparing the Supplementary Estimates in 2006-07, the Agency will seek to secure parliamentary approval to apply recovered asset proceeds to meet the costs of interim receivers. The Agency will also seek to secure approval to incentivisation funding received from the Home Office to meet the cost of financed activities. In preparing the Agency Business Plan, a range of targets have been provided to reflect the uncertainty surrounding delays in the judicial process. This uncertainty will be reflected in future Estimates submissions.

Jane Earl 19th July 2006
Accounting Officer

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

I certify that I have audited the financial statements on pages 22 to 41 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 Statement of Operating Costs by Departmental Aim and Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 22, the Accounting Officer is responsible for preparing the Annual Report and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officers' Responsibilities.

My responsibility is to audit the financial statements in accordance with the 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 issues under the Government Resources and Accounts Act 2000. I also report whether in all material respects the expenditure and income have been applied to the purposes indented by Parliament and the financial transactions conform to the authorities which govern them. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, if the Agency has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 23 to 28 reflects the Assets Recovery Agency's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report it if it does not. I am not required to consider whether the Accounting Officers' statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report, which includes the Management Commentary and the unaudited part of the Remuneration Report, and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

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

Qualified opinion arising from expenditure in excess of amounts authorised

As explained more fully in the report on pages 31 to 35, Parliament authorised a Request for Resources and a net cash requirement for the Agency in the Appropriation Acts 2005 and 2006. Net resources of £16.7 million were authorised for the Request for Resources and £16.8 million authorised for the Net Cash Requirement. Against these authorised limits, the Agency incurred net resource expenditure of £23.5 million and an actual Net Cash Requirement of £21.8 million as shown in the Statement of Parliamentary Supply within the Resource Accounts for 2005-06, and have thus exceeded both of these authorised limits.

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 Agency's affairs as at 31 March 2006 and the net cash requirement, net resource outturn, resources applied to objectives, recognised gains and losses and cashflows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000;
- except for net resource expenditure of £6.8 million in excess of the amount authorised for the Request for Resources and Net Cash expenditure of £5.1 million in excess of the authorised NCR referred to in paragraph 9 of my report, 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.

John Bourn
Comptroller and Auditor General

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

20th July 2006

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

Assets Recovery Agency 2005-06 Resource Accounts

Excess Vote

Introduction

1. The Assets Recovery Agency (the Agency) was formed in February 2003, under the Proceeds of Crime Act 2002, as a Non-Ministerial Department. The Agency's objective is to reduce crime by recovering the proceeds of crime through criminal confiscation, civil recovery and taxation. The Accounting Officer reports to the Home Secretary.

2. This report describes the background and circumstances leading to the qualification of my audit opinion on the Agency's 2005-06 Resource Accounts.

Summary

3. Changes to primary legislation during 2005-06 meant that the Agency could, for the first time, use amounts from civil recoveries to meet its expenditure on receivers' fees. A further change arose to the manner in which the Home Office channelled funding for asset recovery incentivisation activities to the Agency.

4. While having no impact on the Agency's overall net operating cost, as income was available to offset costs, Government Accounting required the Agency to increase substantially its gross expenditure and income projections. As the changes were not reflected in the Agency's Supply Estimates, the Agency expended more resources and required more cash than Parliament had authorised, notwithstanding that it was acting in accordance with the intentions of primary legislation.

Purpose of Report

5. By expending more resources and cash than had been approved in its Estimate, the Agency breached Parliament's control of expenditure and incurred what are termed "excesses" for which further parliamentary authority is required. I have qualified my opinion on the Agency's 2005-06 Resource Accounts in this regard. The purpose of this report is to explain the reasons for this qualification and to provide information on the extent and nature of the breach to inform Parliament's further consideration.

My responsibilities with regard to the breach of regularity

6. As part of my audit of the Asset Recovery Agency's financial statements, I am required to satisfy myself that, in all material respects, the expenditure and income shown in the Resource Accounts have been applied to the purposes intended by Parliament and conform to the authorities which govern them; that is, they are "regular". In doing so, I have had regard, in particular, to parliamentary authority and the Supply limits Parliament has set on expenditure. By incurring expenditure that is unauthorised and is thus not regular, the Agency has breached Parliament's controls.

Background to Parliamentary Approval of Income and Expenditure

7. Parliament authorises and sets limits on departmental expenditure on two bases – ‘resources’ and ‘cash’. Such amounts are set out in Supply Estimates for which Parliament’s approval and authority is given in annual Appropriation Acts. By this means, Parliament has authorised a Request for Resources for the Agency. It thereby authorises amounts for current expenditure which are net of forecast income, known as operating Appropriations in Aid. Parliament sets limits on the amount of operating Appropriations in Aid that can be applied towards meeting expenditure. The amounts authorised for the Request for Resources and Appropriations in Aid together represent a limit on the gross current expenditure that may be incurred under the Request for Resources.

Limits

8. The limits described above for the Agency were set out in the Main Supply Estimate for 2005-06 (HC 2, 2005-06) as amended by the Winter Supplementary (HC 672, 2005-06). The limit on the Request for Resources for the Agency was set at net expenditure of £16,748,000 together with a limit on Appropriations in Aid of £90,000. The Appropriations in Aid limit was the Agency’s estimation of the amounts that would be recovered from the delivery of specialist training courses to law enforcement agencies. The Agency’s net cash limit for the year, which adjusts the resource limit for capital expenditure and accruals accounting transactions such as depreciation, was £16,775,000. The breaches reported below are against these limits.

Amount of Excesses

Breach of Limit on Request for Resources

9. The Statement of Parliamentary Supply in the accounts shows net expenditure on the Request for Resources of £23,526,610.06 which is £6,778,610.06 (40%) in excess of the amount authorised by Parliament.

10. Operating income arising from the delivery of specialist training courses to law enforcement agencies and authorised to be appropriated in aid of expenditure on the Request for Resources was limited to £90,000, which was wholly earned and applied. The Agency also earned an additional £113,652.92 from its training activities, shown within income payable to the Consolidated Fund in the Statement of Parliamentary Supply. It is proposed to ask Parliament to increase the limit on Appropriations in Aid by this amount to allow it to be applied towards meeting the excess on this Request for Resources, and to authorise the balance of £6,664,957.14 as additional use of resources by an Excess Vote.

Breach of limit on Net Cash Requirement

11. The Statement of Parliamentary Supply in the accounts also shows that the Agency’s Net Cash Requirement was £21,844,659.79 which is £5,069,659.79 (30%) in excess of the amount authorised. It is proposed to ask Parliament to make good the shortfall by:

- approving the application of additional cash receipts of £113,652.92 (currently disclosed as excess operating Appropriations in Aid); and
- authorising an additional grant of Supply from the Consolidated Fund of £4,956,006.87 by an Excess Vote. (Although the Agency generated cash receipts of £4,586,940.65 in total from the liquidation of recovered assets, it is not permissible to use this amount to meet the excess, as this source of income was not covered by the Agency’s Appropriations in Aid Estimate).

Details and Causes

Resource Excess

12. There are two factors which have resulted in the excess expenditure of £6,778,610.06:

    £6,046,561.55 is due to the Agency's lack of parliamentary approval to apply receipts from recovered assets to meet expenditure on receivers' fees;

    £732,048.51 relates to the Agency's lack of parliamentary approval to apply funding received from the Home Office out of the Recovered Assets Incentivisation Fund towards the cost of Incentivisation activities.

Cash Excess

13 The total excess cash requirement is £5,069,659.79.

- The two matters referred to above, which resulted in the resource excess, meant that the agency was not allowed to use the cash received. This resulted in an excess cash requirement of £4,586,940.65, which contributes to the overall excess of £5,069,659.79.

The residual cash excess of £482,719.14 has arisen as a result of under forecasting other cash expenditure.

Receivers' fees

14. The Serious Organised Crime and Police Act 2005 (the 2005 Act) amended certain provisions within the Proceeds of Crime Act 2002. With effect from 1 July 2005, the 2005 Act permits the Director of the Agency to apply sums received by her, from civil recoveries, to meet the remuneration and expenses of any interim receiver appointed in the proceedings for the recovery order.

15. When the primary legislation changed to provide for the Director of the Agency to apply recovered assets funds to meet the costs of the interim receivers, the Agency did not appreciate that it required additional approval to do so through the Supply process. As a result, the Agency submitted Supply Estimates that budgeted for these transactions on a net basis, with income from recovered assets offsetting the costs of receivers' fees. However, in line with Government Accounting's principle of "gross" control, the Agency should have constructed its estimate so as to seek an increase in both its gross expenditure and matching Appropriations in Aid.

16. The net accounting approach used by the Agency may only be used where it has been specifically authorised by Parliament through the Estimates procedures, which was not the case here. In practice, the Agency did use retained proceeds from civil recoveries to meet the costs of receivers' fees during 2005-06. The absence, however, of appropriate parliamentary authority for this income, through the Estimates process, means that the Agency should have remitted these monies to the Consolidated Fund in their entirety, in line with Government Accounting requirements.

17. During 2005-06, £6,186,000.00 of receivers' fees would have been eligible to have been met by the Agency out of the proceeds of recovered assets. However, the Agency did not appreciate the need to regularise this treatment through the Estimates process until March 2006 - after the deadline for submission of Supplementary Estimates for 2005-06.

Payments received from the Recovered Assets Incentivisation Fund

18. Monies from assets recovered by the assets recovery community, including the Agency, are payable to the Consolidated Fund. Following agreement with HM Treasury, a proportion of sums payable are allocated to the Home Office's Recovered Assets Incentivisation Fund (RAIF). The RAIF is used to finance projects that support the Agency and other bodies within the assets recovery community to increase the recovery of the proceeds of crime.

19. Each year, the Agency to undertake a range of specific Incentivisation activities whose costs are met by the Home Office from RAIF monies. These include conferences, training and maintenance of the Joint Assets Recovery Database. In 2004-05, the Agency received funding through a transfer from the Home Office's own Supply Estimate to the Agency. In 2005-06, however, the Home Office changed the mechanism by which it made the funds available to the Agency. Instead of a Supply Estimate transfer, the Home Office reimbursed the Agency quarterly in arrears, based on the Agency's accounting returns.

20. The Agency understood that the change in funding mechanism would have no impact on its own Supply Estimate, but this was not the case. The Agency did not therefore secure the required parliamentary approval through the Supply Estimates process. This would have allowed it to apply the funding from the Home Office as Appropriations in Aid to meet the expenditure on RAIF activities. This has contributed £732,048.51 to the overall excess of £6,778,610.06.

Actions taken or proposed to be taken by the Agency to help prevent a recurrence

21. The Agency has undertaken a review of its management of its Estimates preparation process to change to 'gross' rather than 'net' accounting. In addition, the implications of all subsequent legislative and procedural changes will be fully discussed with HM Treasury, NAO and any other bodies directly impacted by the changes.

22. In preparing its Supplementary Estimates for 2006-07, the Agency will seek to secure parliamentary approval to apply recovered asset proceeds to meet the cost of interim receivers. The Agency will also secure approval for Incentivisation funding received from the Home Office to meet the cost of financed activities. The Agency will also monitor levels of receivers' fees and the cost of incentivisation activities during the year. In preparing the Agency Business Plan, a range of targets were provided to reflect the uncertainty surrounding delays in the judicial process. This will be reflected in future Estimates submissions.

Summary and Conclusions

23. During 2005-06 primary legislation allowed the Agency to apply amounts from civil recoveries to meet its expenditure on receivers' fees in recovery cases. A further change arose to the manner in which the Home Office channelled funding for incentivisation activities to the Agency. While having no impact on the Agency's net expenditure, these changes required the Agency to increase substantially its gross expenditure and Appropriations in Aid and Net Cash Requirement projections. The Agency's Supply Estimates did not reflect the effects of these changes, and the Agency did not recognise their impact until after the deadline had passed for the submission of a Supplementary Estimate. As a result the Agency has incurred an Excess Vote on resource expenditure of £6,778,610.06, which will require retrospective approval. Approval will allow the Agency to use income from recovered assets in accordance with the wishes of Parliament, as set out in the primary legislation. In addition, approval

will be sought to apply the RAIF funding from the Home Office to meet the costs of Home Office assets recovery activities.

24. Arising from the matters outlined above and from an under forecast of cash expenditure, the Agency has incurred an excess cash requirement of £5,069,659.79 which also requires retrospective approval. Approval will be sought to apply the excess operating Appropriations in Aid cash receipts of £113,652.92, and to authorise an additional grant of Supply from the Consolidated Fund of £4,956,006.87 by an Excess Vote.

25. I am satisfied that the Agency has taken steps to ensure that its Supply Estimates are properly constructed in future. The Agency will continue to monitor closely its financial position carefully throughout the year, in order that it can submit a Supplementary Estimate if required. This will be particularly relevant due to the volatility of case behaviour and the timing of settlements, which will often be outside the Agency's control.

John Bourn

Comptroller and Auditor General

National Audit Office

20th July 2006

Statement of Parliamentary Supply

Summary of Resource Outturn 2005-06

	2005-06 Estimate			2005-06 Outturn			2005-06		2004-05 Outturn
	Gross expenditure	Appropr-iations in Aid	Net Total	Gross expenditure	Appropr-iations in Aid	Net Total	Net total outturn compared with Estimate saving/ (excess)		Net Total
	1	2	3	4	5	6	7		
	£000	£000	£000	£000	£000	£000	£000		£000
Request for Resources 1	16,838	90	16,748	23,617	90	23,527	(6,779)	**	14,017
Total Resources (Note 10)	16,838	90	16,748	23,617	90	23,527	(6,779)	**	14,017
Non Operating – Cost A-in- A	–	–	–	–	–	–	–	–	–

*** As stated in the Statement of Internal Control, in accounting terms the excess expenditure has been matched against income in the Operating Cost Statement, from recovered assets and RAIF. However, this expenditure and income was not subsequently regularised through the Parliamentary Estimates process and hence it has been disregarded in the above Statement.*

See also Notes 5, 8, 26 and 28 for further clarification of this issue.

Net cash requirement 2005-06		**2005-06**			**2004-05**
		£000s	**£000s**	**£000s**	**£000s**
	Note	**Estimate**	**Outturn**	**Net total outturn compared with Estimate saving/(excess)**	**Outturn**
Net Cash Requirement	9	16,775	21,845	(5,070)	13,744

Summary of income payable to the Consolidated Fund

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

		2005-06 Forecast		2005-06 Outturn	
	Note	Income	Receipts	Income	Receipts
		£000	£000	£000	£000
TOTAL	5	–	–	7,031	4,701

The Agency has incurred an Excess of £5,070k because expenditure was matched against income from recovered assets and RAIF, without appropriate approval in the Parliamentary Estimates process. The Agency will seek Parliamentary approval by way of an Excess Vote in the next Appropriation Act.

Explanations of variances between Estimate and outturn are given in Note 10 and in the Management Commentary.

Operating Cost Statement for the year ended 31 March 2006

	Note	Staff Costs	Other Costs	Income	2004-05
			2005-06 £000		£000
Administration Costs					
Staff costs	2	749			577
Other administration costs	3		2,794		2,565
Operating income	6	–	–		
		749	2,794	–	3,142
Programme Costs					
Staff costs	2	6,732			4,710
Other programme costs	4		13,342		6,233
Operating Income	6			(7,121)	(68)
		6,732	13,342	(7,121)	10,875
Totals		7,481	16,136	(7,121)	14,017
Net Operating Cost	8			16,496	14,017

All income and expenditure is derived from continuing operations

Statement of Recognised Gains and Losses

		2005-06	2004-05
Net gain/(loss) on revaluation of tangible fixed Assets	12	(125)	(30)
Net gain/(loss) on revaluation of intangible fixed Assets	13	(4)	–
Recognised gains and losses for the financial year		(129)	(30)

The notes on Pages 42 to 65 form part of these accounts

Balance Sheet as at 31 March 2006

	Note	31-Mar-06 £000	31-Mar-06 £000	31-Mar-05 £000	31-Mar-05 £000
Fixed Assets					
Tangible assets	12		**1,657**		**1,640**
Intangible assets	13		**36**		**–**
Debtors falling due after 1 year	15		–		1
Current Assets					
Debtors	15	3,690		1,438	
Cash at bank and in hand	16	77		360	
		3,767		1,798	
Creditors (amounts falling due within one year)	17	(13,661)		(4,589)	
Net Current Liabilities			(9,894)		(2,791)
Total Assets less Current Liabilities			(8,201)		(1,150)
Creditors (amounts falling due after more than one year)	17	(262)		(352)	–
Provisions for liabilities and charges	18	(2)	(264)	(9)	(361)
			(8,465)		(1,511)
Taxpayers' Equity					
General Fund Deficit	19		(8,540)		(2,261)
Revaluation reserve	20		75		3
Donated Asset Reserve			–		747
			(8,465)		(1,511)

Jane Earl

Accounting Officer

19th July 2006

The notes on Pages 42 to 65 form part of these accounts

Cash Flow Statement for the year ended 31 March 2006

	Note	2005-06	2004-05
		£000	£000
Net cash outflow from operating activities	24 a)	(16,585)	(13,643)
Capital expenditure and financial investment	24 b)	(473)	(101)
Payments of amounts due to the Consolidated Fund	–	–	(18)
Financing	24 d)	16,775	13,511
(Decrease)/Increase in cash in the period	24 e)	(283)	(251)

The notes on Pages 42 to 65 form part of these accounts

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

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

Operating Costs by Departmental Aim and Objectives for the year ended 31 March 2005

	2004-05		
	Gross	Income	Net
	£000	£000	£000
Aim: to reduce crime by recovering the proceeds of crime			
Objective 1:	12,854	–	12,854
Objective 2:	1,231	(68)	1,163
Net Operating Costs	14,085	(68)	14,017

Note: Administration Costs have been allocated to objectives on the basis of average headcount. The Objectives above are consistent with the ARA's 2005/06 Business Plan, which were agreed with the Home Secretary and Secretary of State for Northern Ireland. It was deemed inappropriate to allocate capital employed across the above objectives for 2004/05 and 2005/06.

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

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

The notes on Pages 42 to 65 form part of these accounts

Notes to the Accounts

1. Statement of accounting policies

The financial statements have been prepared in accordance with the 2005-06 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. The particular accounting policies adopted by the ARA are described below.

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

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

1.1 Accounting convention

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

1.2 Tangible fixed assets

Tangible fixed assets are stated at the lower of replacement cost and recoverable amount. Expenditure on tangible fixed assets of over £2,000 is capitalised. In addition, items such as IT hardware systems, which are under a single management control and do not exceed £2,000 individually but total at least £25,000 (including VAT) on a grouped basis, are also capitalised. On initial recognition they are measured at cost including any costs such as installation directly attributable to bringing them into working condition. All tangible fixed assets are restated to current value each year. Buildings are restated to current value using professional valuations in accordance with FRS 15 every five years and in the intervening years by the use of H M Treasury published indices appropriate to the type of building. Non-property operational assets are revalued to open market value where obtainable, or on the basis of depreciated replacement cost where market value is not obtainable. Published indices appropriate to the category of asset are normally used to estimate value.

1.3 Depreciation

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

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

The estimated useful lives of fixed assets are reviewed regularly.

1.4 Intangible Assets

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

1.5 Donated Assets

The donated asset reserve represents the net book value of assets donated to the entity- that is, the opening valuation of an asset adjusted by its revaluation and depreciation. From 2005-06, the Donated Asset Reserve is to be consolidated within the General Fund heading on the Balance sheet. This has been amended accordingly in these accounts.

1.6 Research and development

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

1.7 Operating income

Operating income is income which relates directly to the operating activities of the Agency. It comprises fees and charges for services provided on a full-cost basis to external customers. It includes not only income appropriated in aid of the Estimate but also income to the Consolidated Fund, which in accordance with the FReM is treated as operating income. Operating income is stated net of VAT.

1.8 Administration and programme expenditure

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

1.9 Capital charge

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

tangible and intangible fixed assets where the cost of capital charge is based on opening values, adjusted pro rata for in-year:

- additions at cost
- disposals as valued in the opening balance sheet (plus any subsequent capital expenditure prior to disposal)
- impairments at the amount of the reduction of the opening balance sheet value (plus any subsequent capital expenditure)
- depreciation of tangible and amortisation of intangible fixed assets;

1.10 Leases

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

1.11 Pensions

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

1.12 Value Added Tax

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

1.13 Confiscated Assets

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

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

Any excess of recovered assets over allowable receivers' costs is paid over to the Consolidated Fund. As the final amount of receivers fees is not known until the year-end, the Agency will pay over the excess on a yearly basis, once the accounts have been laid before Parliament.

From 1st April, 2006 the Agency will be able to reclaim 50% of net proceeds from the Home Office on a quarterly basis. The aim of this scheme is an incentive to develop the business of the department. Of this 50%, the Agency will be required to pay a proportion of this amount to the referring agency. Although allowable receivers' fees may be deducted from total proceeds on an aggregate basis, the Agency maintains internal records to ensure that the referring agency will receive the correct proportion of the proceeds from the relevant case. In other words, in civil cases, the referring agency will receive 25% of the residual value once total receivers fees per case have been deducted from the total proceeds of the case.

The policy of paying the excess proceeds to the Consolidated Fund on a yearly basis, will be reviewed during 2006-07 to ensure that the Consolidated Fund receives excess proceeds as soon as possible.

1.14 Contingent Liabilities

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

2. Staff numbers and costs

Staff costs comprise:

	Permanently employed staff	Others	Ministers	Special Advisers	2005-06 Total	2004-05 Total
	£000	£000	£000	£000	£000	£000
Wages & salaries	4,792	1,614	–	–	**6,406**	4,772
Social security costs	429	–	–	–	**429**	305
Other pension costs	946	–	–	–	**946**	510
Less recoveries in respect of outward secondments	(120)	(180)	–	–	(300)	(300)
TOTAL	**6,047**	**1,434**	**–**	**–**	**7,481**	**5,287**

The Principal Civil Service Pension Scheme (PCSPS), to which most of the Agency's employees are members, is an unfunded multi-employer defined benefit scheme, but the Assets Recovery Agency is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2003 and details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2005–06, normal employer contributions of £957,628.40 were payable to the PCSPS (2004-05 £511,595) at one of four rates in the range 16.2 to 24.6percent of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions every four years following a full scheme valuation. From 2006-07, the salary bands will be in the range between 17.1% and 25.5%. The contribution rates reflect benefits as they accrue, not the costs as they are actually incurred, and reflect past experience of the scheme.

Employees joining the Agency can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer's contributions of £13,925.94 were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £677.05, 0.8 per cent of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

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

Objective	Permanently–employed staff	Others	Ministers	Special Advisers	2005-06 Total	2004-05 Total
Objective 1	135	30	–	–	**165**	121
Objective 2:	20	6	–	–	**26**	18
Staff engaged on capital projects	–	–	–	–	–	–
TOTAL	**155**	**36**	**–**	**–**	**191**	**139**

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

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

As the Agency is undergoing a gradual expansion, the above numbers do not reflect the actual staff in post at 31 March 2006, which were significantly higher. The corresponding numbers at 31 March 2006 were as follows:

Objective	Permanently–employed staff	Others	Ministers	Special Advisers	2005-06 Total	2004-05 Total
Objective 1	146	33	–	–	**179**	135
Objective 2:	22	5	–	–	**27**	23
TOTAL	**168**	**38**	**–**	**–**	**206**	**158**

3. Other administration costs

	2005-06		2004-05	
	£000		£000	
Rentals under operating leases:				
Hire of plant and machines		–		–
Other operating leases		2,215		2,133
Non cash items:				
Depreciation of fixed assets		–		–
Loss on disposal of fixed assets		–		–
Provision provided for in year		2		9
Cost of capital charge		(172)		(64)
Auditor's remuneration and expenses		72		64
Other expenditure:				
Travel and Subsistence	44		44	
Staff Training	79		34	
Recruitment, etc	139		71	
Specialists' Fees	5		42	
Accommodation	142		62	
IT & Communications	86		62	
Printing & Stationery	83		66	
Publicity & Advertising	84		23	
Consultancy	15	677	19	423
Total		**2,794**		**2,565**

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

4. Other programme costs

	2005-06		2004-05	
	£000		£000	
Rentals under operating leases:				
Hire of plant and machines		145		207
Other operating leases		–		–
Non cash items:				
Depreciation of fixed assets		355		205
Devaluation of fixed assets		18		62
Cost of capital charge		34		34
Other Expenditure:				
RAIF Communications	732		588	
Travel and Subsistence	536		344	
Staff Training	660		458	
Recruitment, etc	33		11	
Specialists' Fees	7,895		3,109	
IT & Communications	1,043		577	
Printing & Stationery	302		255	
Publicity & Advertising	152		65	
Forensic/Financial Investigation costs	1,380		193	
Consultancy	57	12,790	125	5,725
Total		**13,342**		6,233

5. Analysis of Income Payable to the Consolidated Fund

In addition to appropriations-in-aid, the following income relates to the Assets Recovery Agency and is payable to the Consolidated Fund (cash receipts being shown in italics):

	Note	2005-06 Forecast Income £000	2005-06 Forecast Receipts £000	2005-06 Outturn Income £000	2005-06 Outturn Receipts £000
Operating income and receipts – excess A-in-A		–	–	114	*114*
Other operating income and receipts not classified as A-in-A	7	–	–	6,917	*4,587*
		-	–	7,031	*4,701*
Non-operating income and receipts – excess A-in-A		–	–	–	–
Other non-operating income and receipts not classified as A-in-A		–	–	–	–
Other amounts collectable on behalf of the Consolidated fund		–	–	–	–
Excess cash surrenderable to the Consolidated Fund		–	–	–	–
Total income payable to Consolidated Fund		–	–	7,031	4,701

The actual value of other operating receipts not classified as A-in-A was £3,855k relating to recovered assets and £732k relating to RAIF. These are further clarified in Notes 26 and 28 respectively.

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

	2005-2006 £000	2004-2005 £000
Operating income	(7,121)	(68)
Adjustments for transactions between RfRs	–	–
Gross income	(7,121)	(68)
Income authorised to be appropriated-in-aid	90	
Operating income payable to the Consolidated Fund	(7,031)	–

7. Other operating income not classified as A-in-A

	Income	Receipts
	£000	£000
Civil recoveries	6,185	3,855
RAIF receipts	732	732
Total	**6,917**	**4,587**

The department received £3,855k from recovered assets during the year for 2005-06. A further £732k was received in relation to RAIF expenditure.

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

8 (a) Reconciliation of net resource outturn to net operating cost

				2005-06	2004-05
	Note	Outturn	Supply Estimate	Outturn compared with Estimate	Outturn
		£000	£000	£000	£000
Net Resource Outturn	10	23,527	16,748	(6,779)	14,017
Prior Period Adjustments		–	–	–	–
Non-supply income (CFERs)	5	(7,031)	(90)	6,941	–
Non-supply Expenditure		–	–	–	–
Net operating cost		**16,496**	**16,658**	**162**	**14,017**

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

8 (b) Outturn against final Administration Budget

		2005-06	2004-05
	Budget	Outturn	Outturn
	£000	£000	£000
Gross Administration Budget	4,011	3,837	3,142
Income allowable against the Administration Budget	–	–	–
Net outturn against final Administration Budget	**4,011**	**3,837**	**3,142**

9. Reconciliation of resources to cash requirement

	Note	Estimate £000	Outturn £000	Net total outturn compared with Estimate saving/excess £000
Resource Outturn		16,748	23,527	(6,779)
Capital:				
Acquisition of fixed assets	12, 13	361	473	(112)
Investments		–	–	–
Non-operating A in A				
Proceeds of fixed asset disposals		–	–	–
Accrual Adjustments:				
Non-cash items				
Cost of Capital Charges	3, 4	(6)	138	(144)
Depreciation of fixed assets	12	(325)	(356)	31
Other non-cash items	3	(60)	(72)	12
Revaluation of fixed assets	12, 13	–	63	(63)
Provisions	18	–	(2)	2
Changes in working capital other than cash	14	57	(1,926)	1,983
Net Cash Requirement (Schedule 4)		**16,775**	**21,845**	(5,070)

10. Analysis of net resource outturn by section

2005-06

	Admin.	Other current	Grants	Gross resource expenditure	A-in-A	NET TOTAL	Estimate	Net total outturn compared with Estimate
	£000	£000	£000	£000	£000	£000	£000	£000
Request for Resources: Central Government Spending								
Section A: Helping to reduce crime	3,542	20,075	–	23,617	(90)	23,527	16,748	(6,779)
Total	**3,542**	**20,075**	**–**	**23,617**	**(90)**	**23,527**	**16,748**	(6,779)

The variance comparing total outturn with the estimate is explained by a misinterpretation of the Parliamentary Estimates process. As stated in the Statement of Internal Control, in accounting terms the excess expenditure has been netted against income from recovered assets and RAIF. However, this expenditure and income was not subsequently regularised through the Parliamentary Estimates process and hence it has been disregarded in the above Note. See also Notes 5, 8, 26 and 28 for further clarification of this issue.

2004-05

	Admin.	Other current	Grants	Gross resource expenditure	A-in-A	NET TOTAL	Estimate	Net total outturn compared with Estimate
	£000	£000	£000	£000	£000	£000	£000	£000
Request for Resources:								
Central Government Spending	3,142	10,943	–	14,085	(68)	14,017	17,609	3,592
Total	3,142	10,943	–	14,085	(68)	14,017	17,609	3,592

11. Analysis of capital expenditure, financial investment and associated A-in-A

	2005-06			
	Capital Expenditure	**Loans, etc**	**A-in-A**	**NET TOTAL**
	£000	**£000**	**£000**	**£000**
Request for Resources 1	473	–	–	473
Total 2005-06	473	–	–	473

	2004-05			
	Capital Expenditure	Loans, etc	A-in-A	NET TOTAL
	£000	£000	£000	£000
Request for Resources 1	101	–	–	101
Total 2005-06	101	–	–	101

12. Tangible fixed assets (see also notes 1.2-1.6)

	IT & Comms Equipment	**Building Enhancements**	**Security Equipment**	**Office Furniture**	**Office Equipment**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Cost or Valuation						
at 1 April 2005	**831**	**817**	**222**	**83**	**89**	**2,042**
additions	**270**	**9**	**80**	**24**	**35**	**418**
disposals	–	–	(20)	–	–	(20)
Revaluations*	(166)	40	–	1	–	(125)
At 31 Mar 2006	**935**	**866**	**282**	**108**	**124**	**2,315**
Depreciation						
At 1 April 2005	(171)	(169)	(21)	(16)	(25)	(402)
Charged in year*	(192)	(78)	(24)	(9)	(21)	(324)
disposals	–	–	3	–	–	3
revaluation	69	(4)	–	–	–	65
At 31 Mar 2006	(294)	(251)	(42)	(25)	(46)	(658)
Net book value At 31 March 2006	**641**	**615**	**240**	**83**	**78**	**1,657**
Net book value At 31 March 2005	658	648	201	68	65	1,640

Buildings, IT and Office furniture were revalued on the basis of HM Treasury indices for March 2006.

13. Intangible fixed assets (see also notes 1.2-1.6)

Intangible fixed assets comprise software licences exclusively.

	2005-2006	2004-2005
	£000	£000
Cost or Valuation		
at 1 April 2005	11	–
additions	44	–
donations	–	–
Re-lifed assets	–	–
disposals	–	–
transfers	–	–
Revaluations*	(4)	–
At 31 Mar 2006	**51**	**–**
Depreciation		
At 1 April 2005	(2)	–
Charged in year*	(15)	–
disposals	–	–
revaluation	2	–
At 31 Mar 2006	**(15)**	**–**
Net book value At 31 March 2006	**36**	**–**
Net book value At 31 March 2005	**–**	**–**

Intangible assets have only been capitalised with effect from 1st April 2005, due to their immateriality in prior years.

Intangible fixed assets were revalued on the basis of HM Treasury indices for March 2006.

14. Movements in working capital other than cash

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

	2005-2006	2004-2005
	£000	£000
Increase in debtors	(78)	465
Increase in creditors	(1,874)	(499)
Other movements in working capital other than cash	26	–
	(1,926)	(34)
Adjustment: movement in working capital not related to voted resource consumption:		
Amounts due to the Consolidated Fund	–	–
Net increase/(decrease) in working capital other than cash	(1,926)	(34)

15. Debtors

15(a) Analysis by type

	2005-2006	2004-2005
	£000	£000
Amounts falling due within one year:		
Trade Debtors	252	619
VAT	790	262
Other Debtors	2,378	41
Prepayments and accrued income	270	516
	3,690	1,438
Amounts falling due after more than one year:		
Prepayments	–	1
	3,690	1,439

Included in other debtors is £2,331k that will be due to the Consolidated Fund once the debts are collected.

15(b) Intra-Government Balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	2005-06	2004-05	**2005-06**	2004-05
	£000	£000	**£000**	£000
Balances with other central government bodies	1062	612	–	–
Balances with local authorities	364	269	–	–
Balances with NHS Trusts	-	–	–	–
Balances with public corporations and trading funds	-	–	–	–
Subtotal- intra-government balances	1,426	881	–	–
Balances with bodies external to government	2,264	557	–	1
At 31st March 2006	**3,690**	**1,438**	–	1

16. Cash at Bank and in Hand

	2005-2006	2004-2005
	£000	£000
Balance at 1 April	360	611
Net Cash Inflow/(Outflow)	(283)	(251)
Balance at 31 March	77	360

The following balances at 31 March are held at:

Office of HM Paymaster General	75	359
Cash in hand	2	1
	77	360

17. Creditors

17(a) Analysis by type

	2005-2006	2004-2005
Amounts falling due within one year	**£000**	£000
Trade creditors	4,502	2,495
Other creditors	1,257	648
Accruals and deferred income	434	1,086
Consolidated Fund creditor prior year not deemed supply	360	–
Consolidated Fund extra receipts due to be paid to the Consolidated Fund	7031	–
Amounts issued from the Consolidated Fund for supply but not spent at year end	77	360
	13,661	4,589
Amounts falling due after more than one year:		
Other creditors	262	352
	13,923	4,941

17(b) Intra-Government Balances

	Amounts falling due within one year		**Amounts falling due after more than one year**	
	2005-06	2004-05	**2005-06**	2004-05
	£000	£000	**£000**	£000
Balances with other central government bodies	5,864	1,088	–	–
Balances with local authorities	155	251	–	–
Balances with NHS Trusts	-	–	–	–
Balances with public corporations and trading funds	-	–	–	–
Subtotal- intra-government balances	6,019	1,339	–	–
Balances with bodies external to government	7,642	3,250	262	352
At 31st March 2006	**13,661**	**4,589**	**262**	**352**

18. Provisions for liabilities and charges

	Early departure costs	Other	Total
	£000	**£000**	**£000**
Balance at 1st April 2005	–	9	9
Provided in the year	–	2	2
Provisions not required written back	–	(7)	(7)
Provisions utilised in the year	–	(2)	(2)
Unwinding of discount	–	–	–
Balance at 31st March 2006	**–**	**2**	**2**

The provisions provided in the year consisted of £2.3k for doubtful debts.

19. General Fund

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

	2005-2006	2004-2005
	£000	£000
Balance at 1st April 2005	(2,261)	(2,049)
Prior Period Adjustment	–	–
Adjusted Opening Balance	(2,261)	(2,049)
Net parliamentary funding		
Drawn Down	16,775	13,511
Consolidated Fund creditor for cash unspent	(77)	(360)
Previous year Consolidated Fund creditor for cash spent (deemed supply)	–	611
Non-cash Charges:		
Cost of Capital	(138)	(30)
Provision	2	9
Audit fees	72	64
Net Transfer from Operating Activities		
Operating income payable to Consolidated Fund	(7,031)	–
Net operating cost	(16,496)	(14,017)
Transfer from Revaluation Reserve	–	–
Transfer from Donated Assets Reserve	614	–
Balance at 31st March 2006	(8,540)	(2,261)

20. Reserves

20(a) Revaluation Reserve

	2005-2006	2004-2005
	Revaluation Reserve	Revaluation Reserve
	£000	£000
Balance at 1 April 2005	3	–
Transfer from Donated Asset Reserve	31	–
Arising on revaluation during the year (tangible)	41	3
Arising on revaluation during the year (intangible)	–	–
Balance at 31 March 2006	**75**	3

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

20(b) Donated Asset Reserve

	2005-2006	2004-2005
	Donated Asset Reserve	Donated Asset Reserve
	£000	£000
Balance at 1 April 2005	–	807
Donations in year	–	–
Released to operating cost statement	–	(93)
Revaluations	–	33
Balance at 31 March 2006	**–**	**747**

In 2005-06, the Donated Asset Reserve has been consolidated within the General Fund heading on the Balance sheet, as accommodation at a cost of £777k, IT application software at a cost of £27k, video conferencing equipment at a cost of per government accounting requirements.

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

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

	2005-2006	2004-2005
	£000	£000
Objective 1	15,074	12,854
Objective 2	1,422	1,163
Total	16,496	14,017

Capital Employed By Departmental aim and Objectives at 31st March 2006

	2005-2006	2004-2005
	£000	£000
Objectives 1 and 2	473	101
Total	473	101

22. Capital commitments

	2005-2006	2004-2005
	£000	£000
Contracted capital commitments at 31 March 2006 for which no provision has been made	112	13

The Agency had entered into two contracted commitment of a capital natures as at 31st March 2006. Firstly, relating to expenditure committed to Sysco for the new finance system. This amounts to £53,950. There was also a commitment for refurbishment of the server room in the Belfast office which amounted to £58,217.

23. Other financial commitments

The Agency has entered into non-cancellable contracts (which are not leases or PFI contracts), for a managed service provision and the supply and maintenance of IT equipment. The payments to which the Agency is committed during 2005-06, analysed by the period during which the commitment expires are as follows:

	31-Mar-06	31-Mar-05
	£000	£000
Expiry within one year	167	27
Between two and five years	637	628
After 5 years	–	–

24. Notes to the Cash Flow Statement

24(a) Reconciliation of operating cost to operating cash flows

	2005-2006	2004-2005
	£000	£000
Net Operating Cost (Note 8)	16,496	14,017
Adjust for non-cash transactions (Notes 3, 4)	(309)	(301)
Revaluation of fixed assets	63	(30)
Use of Provisions	(2)	(9)
Adjust for movements in working capital other than cash:		
Increase in debtors (Note 14)	(78)	465
less movements in debtors relating to items not passing through the OCS	2,331	–
(Increase) in creditors (Note 14)	(1,874)	(499)
less movements in creditors relating to items not passing through the OCS	(86)	–
Other movements in working capital not relating to cash	44	
Net cash outflow from operating activities (a)	**16,585**	**13,643**

24(b) Analysis of capital expenditure and financial investment

Tangible fixed asset additions (Notes 11,12)	(418)	(101)
Intangible fixed assets cost and additions (Note 13)	(55)	–
Net cash outflow from investing activities	(473)	(101)

24(c) Analysis of capital expenditure by Request for Resources

	Capital Expenditure	Loans, etc	A-in-A	Net total
	£000	**£000**	**£000**	**£000**
Request for resources 1	(473)			(473)
Total 2005-06	(473)			(473)
Total 2004-05	(101)			(101)

24(d) Analysis of financing

From Consolidated Fund (Supply) – current year	16,775	13,511
From Consolidated Fund (Supply) – prior year	–	–
Net financing	16,775	13,511

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

Decrease/(Increase) in cash	283	251
Net cash flows other than financing	17,058	13,762
Adjustments for payments and receipts not related to supply:		
From the Consolidated Fund Supply – previous year	–	–
Amounts due to the Consolidated Fund received and not paid over		
Received and not paid over	75	–
Utilised in anticipation of Excess vote	4,626	–
CFER received in prior year paid over to the Home Office	86	(18)
Net Cash Requirement (Schedule 1)	**21,845**	**13,744**

25. Commitments under Leases

At 31 March 2006, the Agency was committed to making the following payments during the next year in respect of operating leases expiring:

	31-Mar-06	31-Mar-05
Buildings	**£000**	£000
Within one year	–	–
Between two and five years	2,880	2,376
After 5 years	103	103
	2,983	2,479
Other		
Within one year	156	85
Between two and five years	38	12
After five years	–	–
	194	97

26. Recovered Assets Allowable Against Receivers' Fees

Section 280, Subsection 3 of the amended Proceeds of Crime Act (POCA) enables the Director to meet the costs of an appointed Interim Receiver from sums received from Civil Recovery proceedings in a way which directly mirrors the provisions in criminal confiscation cases in Parts 2 and 4 of POCA. This revision applies to all cases where assets were not realised by end June 2005. Receivers' Fees totalling £6,863k were incurred on civil recovery during 2005/06. The commencement date of the provision is 1 July 2005 and thereafter the costs of Interim Receivers and Trustees may be offset against eventual case proceeds.

	2005-2006
	£000
Total receivers' fees in year	6,863
Assets recovered in period	(3,855)
Assets in enforcement applied	(2,331)
Net receivers' fees in year	677
Balance consists of	
April- June 05 invoices	628
Non-allowable receivers post 1st July 05	49
	677

27. Related Party Transactions

The Agency received a transfer of funds from the Home Office amounting to £732,049 during 2005/06. This was related to funding out of the Recovered Assets Incentivisation Fund. The Home Office is considered to be a related party.

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

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

28. Recovered Assets Incentivisation Fund

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

The expenditure and associated Home Office "income" are shown in the Resource Accounts in Notes 4 and 5 respectively.

This represents a departure from last year's policy, whereby the Agency previously had an amount transferred through the Supplementary Estimates process.

The expenditure incurred through RAIF was as follows for 05-06.

	31-Mar-06	31-Mar-05
	£000	£000
Expenditure during year	732	588
Home Office receipts (non A-in-A)	(732)	–
Total	–	**588**

29. Financial instruments

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

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

Liquidity risk

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

Interest rate risk

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

Foreign currency risk

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

Fair Value

Set out below is a comparison by category of book values and fair values of the Agency's financial assets and liabilities as at 31 March 2006.

	Book Value	Fair Value
Primary financial instruments	**£000**	**£000**
Financial assets		
Cash at bank	75	75

30. Losses and special payments

30(a) Losses

	2005-2006	2004-2005
	£000	£000
No losses in year	–	–

30(b) Special Payments

	2005-2006	2004-2005
	£000	£000
Payment in respect of applicant grievance	2	–

31. Seized Assets

The Agency manages an account at the Office of the Paymaster General containing £444,743 relating to ongoing cases. This sum relates to funds seized and is to be transferred into the Consolidated Fund.

	31-Mar-05	Receipts of Recovered Assets	Applied against receivers fees	Other	31-Mar-06
	£000	£000	£000	£000	£000
Monetary assets	268	4,119	(3,855)	(87)	445

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

The £87k adjustment was due to a returned cheque for recovered assets, which was paid over to Consolidated Fund in 04-05 in error.

32. Actual Outturn – Resources and Cash

a)	Request for Resources 1: Actual amount net resource outturn	£23,526,610
	Actual amount of overspend compared with Estimate	£(6,778,610)
b)	Actual Outturn – Cash: Outturn net cash requirement	£21,844,660
	Actual amount of overspend compared with Estimate	£(5,069,660)

Printed in the UK by The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office
ID 5387088 07/06

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

Online
www.tso.co.uk/bookshop

Mail, Telephone, Fax & E-mail
TSO
PO Box 29, Norwich NR3 1GN
Telephone orders/General enquiries 0870 600 5522
Fax orders 0870 600 5533
Order through the Parliamentary Hotline Lo-call 0845 7 023474
E-mail book.orders@tso.co.uk
Textphone 0870 240 3701

TSO Shops
123 Kingsway, London WC2B 6PQ
020 7242 6393 Fax 020 7242 6394
68-69 Bull Street, Birmingham B4 6AD
0121 236 9696 Fax 0121 236 9699
9-21 Princess Street, Manchester M60 8AS
0161 834 7201 Fax 0161 833 0634
16 Arthur Street, Belfast BT1 4GD
028 9023 8451 Fax 028 9023 5401
18-19 High Street, Cardiff CF10 1PT
029 2039 5548 Fax 029 2038 4347
71 Lothian Road, Edinburgh EH3 9AZ
0870 606 5566 Fax 0870 606 5588

The Parliamentary Bookshop
12 Bridge Street, Parliament Square,
London SW1A 2JX
Telephone orders/General enquiries 020 7219 3890
Fax orders 020 7219 3866

TSO Accredited Agents
(see Yellow Pages)

and through good booksellers

ISBN 0-10-294155-6

9 780102 941555