

Serious Fraud Office

Resource Accounts 2005-06

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(For the year ended 31 March 2006)

*Ordered by the House of Commons to be printed
20 July 2006*

Contents

	Page
Foreword	3-13
Statement of Accounting Officer’s Responsibilities	14
Statement on Internal Control	15-17
Certificate and Report of the Comptroller and Auditor General	18-19
The Accounting Schedules:	
Statement of Parliamentary Supply	20
Operating Cost Statement, and Statement of Recognised Gains and Losses	21
Balance Sheet	22
Cash Flow Statement	23
Statement of Operating Costs by Departmental Aim and Objectives	24
Notes to the Accounts	25-39

Foreword

Scope

Basis of Accounts

These accounts have been prepared in accordance with directions given by HM Treasury in pursuance of the Government Resources and Accounts Act 2000.

Brief History of the Department

The Serious Fraud Office (SFO) was established by the Criminal Justice Act 1987, following the 1986 Roskill Report. Under that Act its role is to investigate and prosecute cases of serious or complex fraud in England, Wales and Northern Ireland and thus contribute to deterring such fraud. The SFO is headed by the Director, Robert Wardle, who acts under the superintendence of the Attorney General.

The SFO is part of the Criminal Justice System (CJS) and is affected by changes and developments in that system. To achieve its aim and objectives it must take into account and be part of developments in the wider world of law enforcement and financial regulation.

Aim and Objectives

The aim of the Serious Fraud Office is to contribute to:

- reducing fraud and the cost of fraud;
- the delivery of justice and the rule of law; and
- maintaining confidence in the UK's business and financial institutions.

The objectives of the SFO are to take on appropriate cases and:

- investigate them and bring them to a successful conclusion as quickly as individual circumstances allow; and
- when a decision to prosecute is made, to prosecute fairly and in a way that enables the jury to understand the issues.

In carrying out its aim and objectives, the SFO will:

- work effectively and efficiently;
- co-operate with other agencies and overseas jurisdictions; and
- ensure that its activities, and the way they are reported, contribute to deterring fraud.

The SFO seeks to deter fraud. It is therefore important that its public credibility is maintained and the basis on which it has to work is well understood. The small size of the caseload means that the picture in any one year may be distorted by the results of one or two cases. Even though the prosecution was properly brought and the case well handled convictions may not be obtained. In these circumstances changes in the pattern of case results and trends over time will provide better information about the performance of the SFO.

The key targets to be achieved in 2005-06 were:

- seek to achieve reductions in investigation and prosecution times for cases; and
- maintain a caseload of 85 active cases (including appeals) within allocated resources. The caseload at 31 March 2006 was 93 (including appeals).

Additionally the following baseline measure is reported on:

- the long run rate showing defendants successfully prosecuted. This provides a quality check over time. At 31 March 2006 the long run rate was 69 per cent; the figure at 31 March 2005 was also 69 per cent. Although there is no 'right' long run rate, a reasonable expectation based on past performance is in the 70 per cent range.

The SFO is committed to reduce the length of investigation and prosecution phases by being more effective in those areas which it can more closely control. These include:

- rigorous vetting of cases referred to the SFO;
- terminating investigations which are not likely to lead to a prosecution as quickly as possible;
- focusing the investigation on key offenders and key charges to avoid over-burdening the investigation and prosecution;

- transferring cases as quickly as possible to the Crown Court;
- ensuring cases are presented fairly, concisely and understandably and continuously improving value for money;
- using information technology to speed up the investigative process; and
- collaboration and joined up working with partners within the CJS.

Corporate Governance

The Director reviewed and approved structural changes to senior management and the Board during the year. A new Deputy Director and a new Head of Resources and Planning role were created and the single Management Board was replaced by a Strategic Board and an Operational Board. The Strategic Board comprises the Director, three independent Non-Executive Directors, the Deputy Director, the Head of Resources and Planning, the Head of Policy and the Head of Accountancy. The Operational Board comprises members of the Strategic Board and the five Assistant Directors in charge of operational divisions.

Each Board has clearly defined terms of reference and membership and meets monthly to set the strategic direction of the SFO and monitor performance and progress in meeting plans. Key risks facing the SFO are reviewed, identified and prioritised. The most significant risks are assigned to individual Board members who take ownership and responsibility for them. The principal risks and uncertainties facing the SFO relate to the Department's continuing ability to investigate and prosecute serious and complex fraud and respond to changing demand and the volatile environment in which it operates. Key areas identified include meeting targets and maintaining quality, compliance with legal requirements and responsibilities, adequate resourcing and support, recruitment and retention of staff, adoption and implementation of business change to support the Departmental aim and the consequences of reputation/confidence loss in the SFO. Systems for risk management are in place and regular reviews take place at the relevant levels within the organisation.

During the year a number of significant projects were conducted, including the lease of additional accommodation, refurbishment to Elm House headquarters building, the continuing development of the evidence management systems (DOCMAN project) and a change in our IT service provider. These were managed under the SFO's project methodology (based on PRINCE2) which requires all project sponsors and managers to identify risks and include risk management in their plans. Regular progress reports on key projects were provided to project boards and the Boards.

The Boards delegate some aspects of their work to committees, chaired by a Board member. There are Committees for Audit, Health and Safety, Equality and Diversity which operate to defined terms of reference and regularly report back to the relevant Board.

The Audit Committee, which promotes and provides support on key overall corporate governance issues to the Boards and Director, is chaired by a Non-Executive Director and meets at least five times a year. The membership of the Committee comprises three Non-Executives Directors and one divisional Assistant Director and is directly supported by the Head of Resources and Planning, the Head of Accountancy and the internal and external auditors. The Committee has clearly defined terms of reference and has an established work programme. During the year the Committee reviewed compliance with the Code on Corporate Governance. The SFO substantially conforms to the principles of the Code but there are a number of areas that the Committee is reviewing including assessment of Board performance, potential skill gaps on the Boards, planning for succession Board members and senior management and the consistent treatment of risk.

Company directorships

None of the board members hold any company directorships or significant interests which may conflict with their senior management responsibilities.

REMUNERATION REPORT

Ministers and Senior Officers

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

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

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

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

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

Remuneration Committee

Board members' remuneration is determined in accordance with the report of the Senior Salaries Review Body. The SFO's SCS Pay Committee meets annually to consider pay increases and bonus payments in accordance with the above recommendations. The Committee consists of the Director and Non-Executive Directors, advised by the Head and Deputy Heads of Personnel.

At Risk Pay

For grades below the SCS, there are annual performance-related bonuses based upon appraisal and achievement of objectives. Instant bonuses can also be awarded by divisional heads to individuals or teams for completion of a task under challenging circumstances. To assess performance, the SFO uses a competency framework consisting of seven multi-level competencies. Each role within the Department is measured against the appropriate level of each competency. A formal review of performance is conducted at least once a year. In 2005-06, bonuses totalled £69,275 (0.04 per cent of the paybill).

Service Contracts

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

Unless otherwise stated below, the officials covered by this report hold appointments which are open-ended until they reach the normal retiring age of 60. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

The Director, Robert Wardle, was appointed by the Attorney General on a 2 year contract commencing on 21 April 2003 which was subsequently extended for a further 2 years.

Information Provided to Employees

The SFO provides information to its employees in a variety of formats, including:

- Office Notices provide information on a variety of subjects, e.g. changes in policies, vacancies, appraisals;
- Pay Bulletins are issued after the pay negotiations and detail the elements of the annual pay deal;
- Director's Monthly Bulletins provide details of starters and leavers, training courses, as well as case updates; and
- the SFO Intranet provides information on a variety of topics, including the Trove electronic library, operational handbook, emergency instructions, access to the Corporate Change Programme and useful websites.

Salary and Pension Entitlements

The following sections provide details of the remuneration and pension interests of the most senior officials of the department.

Remuneration

Officials	2005-06		2004-05	
	Salary £'000	Benefits in kind (to nearest £100)	Salary £'000	Benefits in kind (to nearest £100)
Robert Wardle Director	155-160	0	150-155	0
Bob Evans Head of Resources and Planning (from 1 November 2005)	40-45	0	0	0
James Kellock Deputy Director (from 23 December 2005) Head of Policy (to 22 December 2005)	90-95	0	30-35	0
Stephen Low Head of Accountancy	85-90	0	75-80	0
Vicki O'Keeffe Head of Policy (from 30 January 2006)	15-20	0	0	0
Philip Lewis Assistant Director	75-80	0	70-75	0
Helen Garlick Assistant Director	75-80	0	70-75	0
Graham More Assistant Director	80-85	0	70-75	0
Philip Blakebrough Assistant Director	75-80	0	25-30	0
Tricia Howse (seconded to Fraud Review)	85-90	0	85-90	0
John Benstead Assistant Director (From 7 November 2005)	25-30	0	0	0
Dave Partridge (Until 30 September 2005)	40-45	0	75-80	0
Peter Kiernan (Until 6 January 2006)	Consent to disclosure withheld	Consent to disclosure withheld	Consent to disclosure withheld	Consent to disclosure withheld

Non-Executive Directors

The Non-Executive Directors of the Serious Fraud Office received fees amounting to £65,657 during the year. Individual amounts are disclosed in the table below:

Non-Executive Director	£
Alan Graham	£18,300
Harriett Maunsell OBE	£18,018
Dame Elizabeth Neville QPM	£29,339

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 employer and treated by the Inland Revenue as a taxable emolument.

Pension Benefits

Officials

	Accrued pension at age 60 as at 31/3/06	Related lump sum at 31/03/06	Real increase in pension at age 60	Related real increase in lump sum at age 60	CETV at 31/3/06	CETV at 31/3/05	Real increase in CETV	Employer contribution to partnership pension account
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	Nearest £100
Robert Wardle <i>Director</i>	50-55	160-165	0-2.5	5-7.5	1,021	787	37	nil
Bob Evans <i>Head of Resources and Planning</i> (from 1 November 2005)	40-45	0	42.5-45	0	678	0	677	nil
James Kellock <i>Deputy Director</i> (from 23 December 2005)	20-25	55-60	2.5-5	2.5-5	412	288	37	nil
Stephen Low <i>Head of Accountancy</i>	20-25	65-70	0-2.5	5-7.5	401	284	31	nil
Vicki O'Keeffe <i>Head of Policy</i> (from 30 January 2006)	10-15	30-35	0-2.5	2.5-5	258	183	25	nil
Philip Lewis <i>Assistant Director</i>	15-20	40-45	0-2.5	0-2.5	420	358	22	nil
Helen Garlick <i>Assistant Director</i>	20-25	70-75	0-2.5	2.5-5	484	370	19	nil
Graham More <i>Assistant Director</i>	5-10	15-20	0-2.5	5-7.5	117	67	20	nil
Philip Blakebrough <i>Assistant Director</i>	20-25	70-75	0-2.5	5-7.5	381	256	37	nil
Tricia Howse <i>(seconded to Fraud Review)</i>	25-30	85-90	0-2.5	0-2.5	625	500	5	nil
John Benstead <i>Assistant Director</i> (From 7 November 2005)	5-10	15-20	0-2.5	0-2.5	86	59	2	nil
Dave Partridge (Until 30 September 2005)	35-40	105-110	0-2.5	0-2.5	864	714	16	nil
Peter Kiernan (Until 6 January 2006)	Consent to disclosure withheld	Consent to disclosure withheld	Consent to disclosure withheld	Consent to disclosure withheld	Consent to disclosure withheld	Consent to disclosure withheld	Consent to disclosure withheld	Consent to disclosure withheld

Civil Service Pensions

Pension benefits are provided through 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 per cent of pensionable earnings for classic and 3.5 per cent for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there

is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly in the same way as in classic.

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

Cash Equivalent Transfer Values

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

Please note that the factors used to calculate the CETV were revised on 1 April 2005 on the advice of the Scheme Actuary. The CETV figure for 31 March 2005 has been restated using the new factors so that it is calculated on the same basis as the CETV figure for 31 March 2006.

Real Increase in CETV

This 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 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.

Partnership Pensions

None of the Senior Management team participate in partnership pension arrangements (see note 8).

DEPARTMENTAL ACTIVITIES AND OPERATIONS

The SFO has five operational divisions. Each operational division is made up of lawyers, accountants and other specialist investigators and support staff. Multi-disciplinary teams, each headed by a case controller, are formed to deal with cases and given delegated case budgets. Management information systems provide the Director with information on case budgets, expenditure, timetables and he meets with each division monthly to discuss the cases and their progress.

The SFO operates a delegated budgeting system to encourage value for money, and budgeting rounds are held two or three times a year. Case budgets are delegated to case controllers and are reviewed as necessary in the light of changes in case plans and the SFO undertakes monthly reviews of expenditure throughout the financial year to ensure that expenditure stays within provision. Working procedures and management information needs are part of the regular strategic reviews conducted within the SFO.

The SFO already deals with money laundering offences arising out of investigations into serious and complex fraud and is able to investigate any offence which involves such fraud. Offences such as laundering and corruption feature in both current investigations and past prosecutions. The Enterprise Act 2002 criminalised anti-competitive behaviour by individuals and the SFO shares responsibility with the Office of Fair Trading (OFT) for the conduct of criminal prosecutions under this legislation. The Anti-Terrorism, Crime and Security Act 2001 clarified the law relating to the bribery of foreign officials by UK nationals or companies. The SFO

has taken responsibility for the initial review of all allegations received in this area. Where sufficient evidence exists the SFO will expect to begin an investigation. If the case should not for some reason fall within the SFO criteria, then the SFO will endeavour to ensure that it is still dealt with by another law enforcement or regulatory body. In order to meet additional responsibilities such as maintaining the register of complaints of suspicion of corruption overseas and an increasing number of applications to restrain the proceeds of crime the SFO has established two small units specialising in these areas.

The SFO and the City of London Police Economic Crime Department have built on the initiatives to enable closer collaboration and mutual understanding to tackle fraud within London and the South East. Joint working discussions focussing on effectiveness, efficiency and logistics to support change have continued and positive advances have been made. The development of a joint mobile forensic laboratory capability to enable more computer-based material to be accessed at the scene of a search rather than having to remove the hardware to a remote laboratory will allow computer owners to have some equipment returned more quickly and will make the material available to investigators in a much shorter time.

In London the SFO works primarily with the City of London Police. A Memorandum of Understanding (MOU) with the Association of Chief Police Officers (ACPO) sets out the agreed approach to SFO investigations, and who will be responsible for different aspects of the work with all Police Forces. Each operational division has an alignment with police forces in an operational area although all take cases from the Metropolitan and City Police forces. The Police Force Structures Review and proposed consolidation of individual forces may have a significant impact on resources, relationships and the way the SFO works with the Police. A review of the arrangements for preventing, detecting, investigating and prosecuting fraud is due to be presented to Ministers. Recommendations made in that review may enhance capability of police forces to deal with fraud.

A case may be referred to the SFO by the police, the Department of Trade and Industry, another government body or regulator, or sometimes by a liquidator or other statutory office holder. Each case is now considered by the Vetting Team to decide whether it fulfils the statutory criteria for acceptance. In some cases a preliminary investigation is conducted to establish whether the case will come within the criteria and whether there is a realistic prospect of the investigation resulting in a prosecution. Early referral of cases is encouraged. The SFO is a member of the Joint Vetting Committee (JVC) which includes representatives from a number of organisations in the Criminal Justice System. Its purpose is to decide which is the most appropriate body to investigate a suspected fraud. To reflect the changes brought about by the creation of the Financial Services Authority (FSA) and Assets Recovery Agency (ARA), the committee has been expanded to include representatives from these organisations. In addition the committee includes representatives from the Crown Prosecution Service (CPS), Metropolitan Police Service (MPS), City of London Police (CoLP), Association of Chief Police Officers (ACPO) (on behalf of the other police forces), OFT, HM Revenue and Customs (HMRC) and the Department of Trade and Industry (DTI) (Investigations Branch). The JVC is also a forum for discussing matters of mutual interest.

Criteria for referral of cases of mutual interest have been agreed between the FSA, the SFO, DTI, police, CPS and their counterparts in Scotland and Northern Ireland. Agreed guidelines provide a framework for dealing with cases where regulatory or administrative penalties rather than criminal prosecution appear more appropriate. The Financial Services and Markets Act 2000 included a number of criminal offences specifically designed to deal with investment fraud as well as administrative penalties for market manipulation. The SFO and FSA will continue to work closely together to prevent, deter and punish financial frauds in these areas.

The statutory criteria for accepting cases are interpreted in the light of published criteria agreed by the Law Officers. The key criterion for the SFO to take on a case is that the suspected fraud was such that the direction of the investigation should be in the hands of those who will be responsible for the prosecution.

The factors that would need to be taken into account include:

- the sum at risk is estimated to be at least £1 million. (This is simply an objective and recognisable mark of seriousness and likely public concern, rather than the main indicator of suitability);
- the case is likely to give rise to national publicity and widespread public concern. Such cases include those involving government departments, public bodies, the governments of other countries and commercial cases of public interest;
- the case requires a highly specialist knowledge of, for example, financial markets and their practices;
- the case has a significant international dimension;
- there is a need for legal, accountancy and investigative skills to be brought together as a combined operation; and
- the suspected fraud appears to be complex and one in which the use of Section 2 powers (Criminal Justice Act 1987) might be appropriate.

None of those factors, taken individually, should necessarily be regarded as conclusive.

Working with Bodies Overseas

The SFO has a small unit of five investigators dealing exclusively with mutual legal assistance (MLA) work. The unit is advised by a senior lawyer and assisted by forensic investigators when necessary. During the year 2005-06, assistance was given to 23 countries in the investigation of their cases. These include Israel, South Africa, Zambia, India, Hong Kong, Mexico, USA, St Vincent and the Grenadines and Australia. European countries continue to provide the largest amount of requests coming into the Unit with requests from Germany, Italy, Czech Republic, France, The Netherlands, Latvia and Switzerland.

From January 2006, through the Proceeds of Crime Act 2002, the SFO has been able to assist countries in matters of restraint and confiscation. In total 41 requests and 40 supplementary requests have been registered at the year end.

MLA Activity

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
New requests referred	52	56	39	30	35	41
Requests accepted	37	46	35	30	30	40
Under consideration (at the end of year)	7	7	3	2	4	1
Supplementary requests ¹	24	50	26	33	41	40
No. of countries making Requests	22	23	27	30	31	23
Section 2 Notices issued for MLA	141	262	181	261	206	274
Search warrants executed	0	0	2	10	8	0

¹ These requests were triggered by findings from the initial request

Frauds perpetrated throughout the world are becoming more complex and multi-national. Criminals are crossing international boundaries in an attempt to perpetrate frauds and hide the proceeds of crime. It is therefore no surprise to see that the level of assistance requested from overseas authorities this year has been more extensive, requiring greater in depth participation by members of the MLA Unit. Apart from using our domestic powers to obtain evidence on behalf of overseas authorities, the MLA Unit also offers advice to Prosecutors when there is a need to seek evidence in other jurisdictions.

During the year, the MLA Unit has continued to work closely with other law enforcement agencies in the UK including HMRC, the CPS and the FSA. Both National Criminal Intelligence Service (now part of Serious Organised Crime Agency) and the Metropolitan Police Service continue to offer support when requested. Liaison with lawyers and senior police officers from these agencies is encouraged and annual MLA meetings at the Home Office foster greater collaboration on an inter agency level. Such co-operation reflects the increasing desire among law enforcement agencies to respond to overseas requests in a professional and organised manner which will enhance the reputation of the UK in the area of international mutual legal assistance.

MANAGEMENT COMMENTARY

Going Concern Note

The balance sheet at 31 March 2006 shows negative Taxpayers' Equity of £878K. This reflects the inclusion of liabilities falling due in future years, which are to be financed by drawings from the UK Consolidated Fund. Such drawings will be from grants of Supply approved annually by Parliament, to meet the SFO'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 SFO's income, are surrenderable to the Fund.

In common with other government departments, the future financing of the SFO's liabilities is accordingly to be met by future grants of Supply and the application of future income, both to be approved annually by Parliament. Such approval for amounts required for 2006-07 has already been given and there is no reason to believe that future approvals will not be forthcoming. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

General

Net operating cost for the year has increased by £7,060K over the previous year, a 22 per cent increase. This increase largely reflects case activity changes. Total staff costs rose by £3,448K, a 27 per cent increase on the previous year, to enable the SFO to sustain and support its case activity. Permanent employed staff numbers have increased to 288, compared to 259 in 2004-05 and total staff employed has risen to 399 (2004-05: 357). Future recruitment plans reflect a strategy to reduce the reliance on agency and temporary staff and increase permanent staffing levels.

Non-staff administration costs increased by £1,087K, an 11 per cent increase, which included main items of:

- a £670K increase in non-cash items mainly from increased depreciation, notional rent and the provision for dilapidations and a decrease in revaluation charges;
- an increase in year for the provision for doubtful debt;
- a £185K increase in accommodation related costs and £205K net increase in rentals mainly related to additional office space taken on by the SFO during the year; and
- a £175K increase in general administration mainly relating to increased costs spread evenly across all areas of activity and as a result of the two large blockbuster cases.

Total Programme costs (which includes external counsel and accountants) increased by £2,458K, a 24 per cent increase. Case activity has increased during the year including some significant new cases.

During 2005-06 the general fund position moved from £890K in deficit to £878K in deficit, a net movement of £12K. The net book values of tangible fixed assets increased by £1,603K from £2,116K to £3,719K and intangible assets increased by £47K from £168K to £215K.

During the year cash at bank and in hand decreased by £2,029K from £1,667K to an overdrawn position of £362K. The overdrawn position was caused by payments to suppliers at 31 March 2006. Cash drawdown was managed during the year to ensure adequate cash funding in the Paymaster General account and reduce carrying balances.

The net debtor position increased by £414K. This was largely caused by an increase in VAT debtor of £75K and recognition of the Consolidated Fund debtor of £418K. There was a decrease in costs awarded in year from £75K to £13K. An assessment as to the likelihood of receipts from costs awards debtors was made and a bad debt provision of £50K was subsequently increased to £124K with a net outstanding debtor balance of £150K.

Creditors increased by £1,524K excluding the effect of Consolidated Fund creditors. This was mainly caused by an increase in activity later in the year and timing differences on physical payment.

Additional provisions of £25K were made for dilapidations, £189K for notional rent and £76K was utilised for early departure costs, causing a net increase in the provision balance from £209K to £347K.

Accounting Policies

There were no changes to accounting policies adopted for the accounting year.

Net Outturn

The resources available to the SFO are determined by Parliament and published in Estimates – more details are available in the relevant Law Officers' Departments' Departmental Report (CM6821).

During 2005-06 additional funding was provided for two exceptionally large cases outside normal financing arrangements for the SFO. However, actual expenditure was lower than planned as detailed in these accounts with a net cash outturn of £39,855K, compared to the net cash requirement in the Estimate of £47,831K. Monitoring of in year resource consumption and necessary cash supply continued but cash reserves at the balance sheet date decreased by £2,029K from £1,667K to an overdrawn position of £362K. Net resource consumption was £39,869K compared to a provision of £44,375K and spending on administration was £358K below the administration cost limit. The resulting overall underspend against plans demonstrates the volatility inherent in actual events compared to planning assumptions used by the SFO and was mostly a direct result of case activity changes.

Investment in the Future

All current and capital expenditure supports core operational functionality and is planned, as far as possible, to take account of changing circumstances which may affect these operations, in advance of their occurrence. The SFO continues to seek value for money on all procurements and contracts. Given the small size of the SFO, this is most effectively carried out through maximising use of framework contracts set up by the Office of Government Commerce and continuing partnerships with other public sector organisations that have dedicated resources working in these areas. The SFO is also looking at ways of obtaining better value for money through sharing of common services with other Law Officers' Departments.

Historically, the SFO has not been asset rich. Headquarters office space is occupied on a full repairing lease and there is a programme of current maintenance expenditure to support and improve the fabric of the property has been agreed. With the planned increase in SFO permanent staff, Elm House has become incapable of supporting the SFO's total space needs. The SFO has leased additional office space close to Elm House. The additional capital provision available from 2004-05 was a step change and provided the opportunity for the SFO to reconsider its investment plans and to seek to provide the tools to further promote effectiveness and efficiency.

The Department has introduced a computerised evidence management system (DOCMAN) that will speed up and improve the quality of the investigative and prosecution phases of cases. The system is being implemented progressively and will continue to undergo further development to contribute to the efficient and effective conduct and management of case activity.

Departmental and Annual Reports

The Departmental Report 2006 contains information about the SFO additional to that shown in these accounts. It sets the current year's performance and future plans over the Public Expenditure Period 2005-06 to 2007-08 and was published May 2006 (CM 6821). The Annual Report is published in accordance with the requirements of Section 1 and Paragraph 3 of Schedule 1 to the Criminal Justice Act 1987. In particular, it contains information on the operational work of the SFO and on recent cases. The 2005-06 Annual Report is published in late July 2006.

Pensions and Early Departure costs

Details about the Department's pensions and early departure policies are included in the notes to these accounts. The pre-funded scheme concluded in 2003-04.

Accommodation

During the year the SFO signed a lease for additional accommodation at 200 Grays Inn Road. Located in close proximity to the headquarters building at Elm House, it will provide space for an expanded SFO and allow work to continue on the upgrade of the working environment and maintenance of Elm House. Negotiations to surrender the lease at Verulam Gardens started during the year and were successfully concluded after the year end.

Environmental Declaration

The SFO is part of the Law Officers' Departments (LOD) which have a number of targets to comply with central government initiatives on sustainability. Within the SFO, energy saving features have been incorporated in the upgraded accommodation wherever possible, with proximity lighting installed on all the upgraded floors. Further to this, dual flush toilets and spray taps minimise water consumption and hand dryers have been included in the design to gradually eliminate the use of paper towels.

Derivatives

Details about the Department's policies regarding derivatives are included in the notes to these accounts.

Disability

The SFO's Dignity at Work policy emphasises and embraces the importance of treating everyone equally with dignity and respect, irrespective of race, disability or belief. Inappropriate behaviour or discrimination is identified as being unlawful and/or unacceptable and the policy offers guidance on what to do if unacceptable behaviour occurs. The upgrade of the headquarters building at Elm House includes plans to improve disabled access and facilities. The average number of disabled staff during 2005-06 was 11.8 persons.

Equal Opportunities

The SFO is committed to treating all applicants fairly and reasonably irrespective of their ethnic or national origin, sex, marital status, sexual orientation, religion or disability. Processes are kept under regular review to ensure that any indicators of bias are highlighted and tackled. The SFO is similarly committed to treat all its employees fairly. During the year the SFO has reissued its policy documents on Equality and Diversity, and Dignity at Work.

Payment of Suppliers

Current payment policy is to pay bills in accordance with agreed contractual conditions, or where no such conditions exist, within 30 days of receipt of goods and services or the presentation of a valid invoice, whichever is the later. SFO's payment performance for the period was 91.4 per cent. The target for all government departments is 100 per cent.

Auditors

The Comptroller and Auditor General is the statutory auditor for the SFO's accounts. The notional audit fee for 2005-06 was £57,000 (2004-05: £56,000).

- So far as I am aware, there is no relevant audit information of which the SFO's auditors are unaware, and
- I have taken all the steps that ought to have been taken to make myself aware of any relevant audit information and to establish that the SFO's auditors are aware of that information.

No further assurance or other advisory services were provided by the auditors.

Robert Wardle
Accounting Officer
14 July 2006

Statement of Accounting Officer's Responsibilities

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

Statement on Internal Control

Scope of Responsibility

This statement is given in respect of the resource accounts for the SFO for the year ended 31 March 2006. As Accounting Officer for the SFO I have responsibility for maintaining a sound system of internal control which supports the achievement of the SFO's policies, aim and objectives whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level, rather than eliminate all the risk of failure to achieve policies, aim 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 principal risks to the achievement of the SFO's policies, aim and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them effectively and economically. The system of internal control has been in place in the SFO for the year ended 31 March 2006 and up to the date of approval of the foreword and accounts, and accords with Treasury guidance.

Capacity to Handle Risk

The SFO actively considers and identifies potential risk to the organisation. We have a well defined and developed strategy to identify and counter risks to the organisation. This is based on clear senior management leadership and responsibility, delegation to appropriate levels of authority and functional areas of the Department and the availability of relevant training and information within the SFO.

The Risk and Control Framework

Risk Management

I am fully committed to further embedding risk management throughout the SFO. The development of risk management systems continued during the year ended 31 March 2006 and to date (and up to the date of approval of the foreword and accounts) we have made significant progress as follows:

- we have a developed risk management strategy;
- the Management Boards have reviewed, identified and prioritised the risks facing the SFO;
- we have assigned a departmental risk manager and ownership together with responsibility for managing the most significant risks to individual Board members, and assignment of responsibility for managing them to individual managers;
- the Audit Committee has risk management as a standing agenda item and receives appropriate reports to assess the effectiveness of risk management systems;
- our project methodology requires all project sponsors and managers to identify risks and include risk management in their plans. Regular progress reports on key projects are provided to project boards, and summary reports are finalised and reviewed by the Management Boards;
- we are continuing to improve risk management techniques and procedures across all parts of the SFO; and
- details of the strategy, procedures and responsibilities are available to all staff on the SFO Intranet.

Control Environment

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. The main elements of the Department's control framework include:

- a clearly defined 'Statement of Accounting Officer's Responsibilities' (which forms part of these Resource Accounts);
- Management Boards with clear terms of reference and defined memberships, including three independent non-executive members, which meet regularly to consider the plans and strategic direction of the SFO;
- an Audit Committee chaired by one of three Non-Executive Directors, which is a sub-committee of the Management Boards and which meets at least five times a year. The membership of the Committee comprises three non-executives and one divisional assistant director and is directly supported by the Head of Resources and Planning and Head of Accountancy;
- a dedicated internal audit resource that conducts an annual programme of specific reviews drawn up on a risk analysis basis, agreed by the Audit Committee and the Management Boards;
- a detailed guide on standards of behaviour and conduct contained in the revised staff manual, including a clear corporate policy to combat fraud;
- a clear structure of delegated responsibility;
- clearly defined capital investment control guidelines; and
- a framework of financial regularity and propriety contained in the finance manual.

Control Activities

In principle we have an established framework of procedures covering all aspects of the conduct of business. Significant work has taken place during the year to improve effectiveness in business and strategic planning and further development will take place. In particular, the systems include:

- annual budgets for each division which are examined, challenged and agreed by the Management Boards;
- regular reviews by the Management Boards of in-year expenditure against the forecasts;
- systems to identify resource commitments against plans;
- setting targets to measure achievement of objectives; and
- the application of formal project management disciplines, as appropriate.

In addition, information relating to costs awards made to the SFO is maintained and regularly reviewed, although the collection of such awards is outside the control of the SFO.

Significant internal control problems

There were no significant control problems during the year but the volatile demand-led nature of the business will continue to expose potential weakness in our financial management and planning information systems and also with the responsiveness of the Parliamentary Supply process. I have continued to emphasise proactive budgeting disciplines and during the year reviewed and made improvements to the timing and relevance of monthly management accounts. I have also introduced more effective business and strategic planning systems that I will continue to develop. I continue to hold monthly meetings with all responsibility areas to consider progress against planned activity and any changes required. These and further planned changes, and relevant training, will improve our financial management and increase support to our delegated budget holders, thus better informing our management of resources and ability to respond and make effective decisions.

Review of effectiveness and monitoring

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the SFO who have responsibility for the development and maintenance of the internal control framework. I also take into account the management letters and other reports by the external auditors.

Measures in place in the SFO include:

- regular reports by the internal auditors in line with Government Internal Audit Standards, which include the Head of Internal Audit's assurance on the overall adequacy and effectiveness of the SFO's systems for risk management, control and governance, together with any recommendations for improvement;
- regular reports are distributed to members of the Management Boards on operational, financial, staffing and IT issues and performance, as appropriate. I am improving the quality of these reports;
- improved business and strategic planning processes;
- periodic reports from the chair of the Audit Committee, who is an independent Non-Executive Director, to myself and to the Management Boards; and
- I have been advised on the implications of the result of my review and of the effectiveness of the system of internal control by the Boards, Audit Committee and senior managers. Whilst areas for improvement have been identified and recommendations made accordingly, none significantly impact on the overall adequacy and effectiveness of risk management, control and governance. I have received a reasonable assurance on risk management, control and governance in the SFO from the Internal Audit Annual Report for 2005-06.

Robert Wardle
Accounting Officer
14 July 2006

Certificate and Report of the Comptroller and Auditor General

I certify that I have audited the financial statements of the Serious Fraud Office for the year ended 31 March 2006 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the Statement of Operating costs by Departmental Aim and Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and Auditor

The Accounting Officer is responsible for the preparation of the Foreword and financial statements in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report to you if, in my opinion, the Foreword is not consistent with the financial statements, if the Department has not kept proper accounting records, if I have not received all the information and explanation 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 15 to 17 reflect the Department's compliance with HM Treasury's guidance on the Statement on Internal Control and I report if it does not. I am not required to consider whether the Accounting Officer's Statement on Internal Control covers all risks and controls, or form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Foreword, and consider whether it is consistent with the audited financial statements. This other information comprises departmental history, aim and objectives, corporate governance, activities and operations, future investment, the unaudited part of the Remuneration Report and the Management Commentary. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information

Basis of 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 appropriate to the Department's circumstances, consistently applied and adequately disclosed.

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

Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of affairs of the Serious Fraud Office at 31 March 2006 and of the net cash requirement, net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

18 July 2006

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

Statement of Parliamentary Supply

Summary of Resource Outturn 2005-06

		2005-06 Estimate			2005-06 Outturn			2005-06	2004-05
		Gross Expenditure	A-in-A	Net Total	Gross Expenditure	A-in-A	Net Total	Net Total Outturn compared with and Estimate: saving/ (excess)	Net Total
		£000	£000	£000	£000	£000	£000	£000	£000
Request for Resources	Note								
1 <i>Reducing fraud and the cost of fraud and delivering justice and the rule of law</i>	2	44,425	(50)	44,375	39,882	(13)	39,869	4,506	32,864
Total Resources		44,425	(50)	44,375	39,882	(13)	39,869	4,506	32,864
Non-operating Cost A-in-A		-	-	-	-	-	-	-	-

Net Cash Requirement 2005-06

		2005-06		2004-05
		Estimate	Outturn	Net Total Outturn compared with Estimate: saving/ (excess)
		Note	£000	£000
Net Cash Requirement	4		47,831	39,855
				7,976
				32,285

Summary of income payable to the Consolidated Fund

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

	Note	2005-06 Forecast		2005-06 Outturn	
		Income	Receipts	Income	Receipts
		£000	£000	£000	£000
Total	5	-	-	35	56

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

The notes on pages 25 to 39 form part of these accounts.

Operating Cost Statement
for the year ended 31 March 2006

		Staff Costs	Other Costs	Income	2005-06 Total	2004-05 Total
	Note	£000	£000	£000	£000	£000
Administration Costs						
Staff Costs	8	16,264	–	–	16,264	12,816
Other administration costs	9	–	10,753	–	10,753	9,666
Operating income	11	–	–	(1)	(1)	(6)
Programme Costs						
Programme costs	10	–	12,865	–	12,865	10,407
Income	11	–	–	(13)	(13)	(75)
Totals	3, 12	16,264	23,618	(14)	39,868	32,808
Net Operating Cost					39,868	32,808

Statement of Recognised Gains and Losses
for the year ended 31 March 2006

	2005-06 £000	2004-05 £000
Net (loss)/gain on revaluation of Tangible Fixed Assets	(7)	5
Recognised (losses) and gains for the financial year	(7)	5

The notes on pages 25 to 39 form part of these accounts.

Balance Sheet
as at 31 March 2006

	Note	2005-06		2004-05	
		£000	£000	£000	£000
Fixed Assets					
Tangible assets	13	3,719		2,116	
Intangible assets	14	215		168	
			3,934		2,284
Debtors falling due after more than one year	15		63		62
Current Assets					
Debtors	15	1,597		1,184	
Cash at bank and in hand	16	–		1,667	
		1,597		2,851	
Creditors (Amounts falling due within one year)	17	(6,125)		(5,871)	
Net Current Assets			(4,528)		(3,020)
Total Assets less Current Liabilities			(531)		(674)
Provisions for Liabilities and Charges	18		(347)		(209)
			(878)		(883)
Taxpayers' Equity					
General fund	19		(878)		(890)
Revaluation reserve	20		–		7
			(878)		(883)

Robert Wardle
Accounting Officer
14 July 2006

The notes on pages 25 to 39 form part of these accounts.

Cash Flow Statement

For the year ended 31 March 2006

		<u>2005-06</u>	<u>2004-05</u>
	Note	<u>£000</u>	<u>£000</u>
Net cash outflow from operating activities	21a	(37,596)	(29,927)
Capital expenditure and financial investment	21b	(2,259)	(2,060)
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities		56	–
Payments of amounts due to the Consolidated Fund		(230)	(68)
Financing	21d	<u>38,000</u>	<u>33,000</u>
(Decrease)/increase in cash in the period	21e	<u>(2,029)</u>	<u>945</u>

The notes on pages 25 to 39 form part of these accounts.

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

The Serious Fraud Office's aim is to contribute to:

- reducing fraud and the cost of fraud;
- the delivery of justice and the rule of law; and
- maintaining confidence in the UK's business and financial institutions.

The objectives of the Serious Fraud Office are to take on appropriate cases and:

	<u>Gross</u>	<u>Income</u>	<u>2005-06</u>	<u>Gross</u>	<u>Income</u>	<u>2004-05</u>
	<u>£000</u>	<u>£000</u>	<u>Net</u>	<u>£000</u>	<u>£000</u>	<u>Net</u>
			<u>£000</u>			<u>£000</u>
Objectives						
1. Investigate cases and bring them to a successful conclusion as quickly as individual circumstances allow.	31,614	(1)	31,613	24,979	(6)	24,973
2. When a decision to prosecute is made, to prosecute fairly and in a way that enables the jury to understand the issues.	<u>8,268</u>	<u>(13)</u>	<u>8,255</u>	<u>7,910</u>	<u>(75)</u>	<u>7,835</u>
Net Operating Costs	<u>39,882</u>	<u>(14)</u>	<u>39,868</u>	<u>32,889</u>	<u>(81)</u>	<u>32,808</u>

The net operating costs of the Office have been apportioned according to the average number of cases being investigated and prosecuted during the year. On average there were 65 cases under investigation and 17 cases under prosecution.

The Serious Fraud Office's expenditure has been attributed to objectives in proportion to the total number of cases under investigation and prosecution in accordance with the SFO's normal management accounting practices.

Programme income in respect of costs awarded to the SFO has been off-set against prosecution costs only.

See Note 22.

Notes to the departmental resource accounts

1. Statement of accounting policies

These 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.

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 the objectives agreed with Ministers.

Where the *FReM* permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the Department for the purpose of giving a true and fair view has been selected. The Serious Fraud Office accounting policies have been applied consistently in dealing with items considered material in relation to the accounts. The particular accounting policies adopted by the Serious Fraud Office (SFO) are described below.

1.1 Basis of Accounting

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets. The SFO does not have any entities either within or without the boundary of activities.

1.2 Tangible Fixed Assets

The SFO does not own any freehold land and buildings.

Assets are capitalised as fixed assets if they are intended for use on a continuing basis and their original purchase cost, on an individual basis is £2,000 or more. For IT expenditure the £2,000 threshold is applied to assets on a grouped basis. Fixed assets are valued at current replacement cost by reference to the Price Index Numbers for Current Cost Accounting published by the Office for National Statistics.

1.3 Intangible fixed assets

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

1.4 Revaluation Reserve

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

1.5 Depreciation and Amortisation

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

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

DOCMAN development expenditure	5 years
Computer equipment	5 years
Furniture and fittings	10 years

Assets under construction are not depreciated until they are in use.

1.6 Costs awarded to the Serious Fraud Office

Costs may be awarded to the SFO as prosecutor under Section 18 of the Prosecution of Offences Act 1985 following a successful prosecution, or as a result of subsequent appeal proceedings.

Where costs are awarded, they may subsequently be revoked or reduced as a result of a successful appeal by the defendant. The order for costs will be in the terms that the court considers 'just and reasonable'. The court may order that they are not to be recovered without leave of the court, defer recovery until a future date, or subsequently vary the amount and/or timing of recovery or waive it altogether. Responsibility for the recovery of costs awarded rests with the appropriate magistrates' court. The SFO has no powers to recover costs awarded to it.

Where costs are awarded, they are shown as a debtor on the balance sheet. Where they may not be recovered without leave of the court, full provision is made against them until leave is obtained. In other cases, the SFO makes a judgement on the likelihood of costs being recovered based on the circumstances of each case, and may provide accordingly. In practice, full provision is made one year after the debt becomes due except where the defendant is making regular payments to the SFO. Where costs are subject to appeal proceedings, full provision is made against them until all proceedings are finally determined. Subsequent treatment of these debtors and provisions will depend on the outcome of the proceedings.

Costs awarded to the SFO are written off after a period of five years unless there are compelling reasons to believe that payment will be received.

1.7 Costs awarded against the Serious Fraud Office

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

1.8 Operating Income

Any sundry amounts relating to operating income are surrendered to the Consolidated Fund unless HM Treasury has agreed they can be retained. (See note 1.9)

1.9 Administration and programme expenditure

The Operating Cost Statement is analysed between administration and programme income and expenditure. The classification of expenditure and income as administration or as programme follows the definition of administration costs set out by HM Treasury. Administration costs reflect the costs of running the SFO as defined under the administration cost control regime, together with any associated operating income. Income is analysed between that which, under the regime, is allowed to be offset against gross administration costs in determining the outturn against the administration cost limit, and that operating income which is not. Programme costs reflect non-administration costs relating to investigation and prosecution, being payments and receipts properly recognised as operating costs.

1.10 Capital charge

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

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

1.11 Foreign Exchange

Transactions which are denominated in a foreign currency are translated at the rate of exchange ruling on the date of the transaction, except where rates do not fluctuate significantly, in which case an average rate for the period is used.

1.12 Pensions

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

1.13 Early Departure Costs

The SFO is required to meet the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who retire early. The SFO provides in full for this cost when an early retirement programme has been announced and is binding on the Department. Until 31 March 2000 the SFO was, in certain circumstances, able to settle some or all of its liability in advance by making a payment to the Paymaster General's account at the Bank of England for the credit of the Civil Superannuation Vote.

1.14 Other Provisions

The SFO provides for legal and constructive obligations which are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the Treasury discount rate.

1.15 Operating leases

Operating lease rentals are charged to the Operating Cost Statement in equal amounts over the lease term.

1.16 Value Added Tax (VAT)

Most of the activities of the SFO 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 tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

1.17 Third Party Assets

The SFO may seize monetary assets. In most cases these funds will be retained by other government agencies or the police. If the SFO retains any monetary assets, it invests the sums in an interest bearing account. The principal and the interest earned are held on behalf of the third party and are not a part of the SFO's accounts. At 31 March 2006 no such assets were held.

1.18 Contingent liabilities

In addition to contingent liabilities disclosed in accordance with Financial Reporting Standard 12: Provisions, contingent liabilities and contingent assets (FRS 12), the Department 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.

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

2. Analysis of Net Resource Outturn by section

	Outturn					2005-06 Estimate	2004-05 Outturn
	Admin	Programme	Gross Resource Expenditure	A in A	Net Total	Net Total	Net Total
	£000	£000	£000	£000	£000	£000	£000
Request for resources 1:							
<i>Reducing fraud and the cost of fraud and delivering justice and the rule of law</i>							
Section A – administration costs	27,017	–	27,017	–	27,017	27,375	22,482
Section B – investigations and prosecutions	–	12,865	12,865	(13)	12,852	17,000	10,382
Total	27,017	12,865	39,882	(13)	39,869	44,375	32,864
Resource Outturn					39,869	44,375	32,864

Explanation of variation between Estimate and outturn (net total resources):

The outturn figure was lower than expected because of the uncertainty in forecasting expenditure relating to a demand-led environment with the result that case numbers and expenditure/activity on them was lower than planned.

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

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

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

	Note	Outturn	Supply Estimate	2005-06 Outturn compared with Estimate: saving/ (excess)	2004-05 Outturn
		£000	£000	£000	£000
Net Resource Outturn	2	39,869	44,375	4,506	32,864
Non-supply income (CFERs)	5	(1)	–	1	(56)
Net operating cost		39,868	44,375	4,507	32,808

3(b) Outturn against final Administration Budget

	Budget	2005-06 Outturn	2004-05 Outturn
	£000	£000	£000
Gross Administration Budget	27,375	27,017	22,482
Income allowable against the Administration Budget	–	–	–
Net outturn against final Administration Budget	27,375	27,017	22,482

4. Reconciliation of resources to cash requirement

		Estimate	Outturn	2005-06 Net Total Outturn compared with Estimate: saving/ (excess)	2004-05 Outturn
	Note	£000	£000	£000	£000
Resource Outturn	2	44,375	39,869	4,506	32,864
Capital					
Acquisition of Fixed Assets	13, 14	3,500	2,259	1,241	2,060
Accruals adjustments					
Non-cash items	9	(1,744)	(1,659)	(85)	(989)
Changes in Working Capital other than Cash		1,660	(690)	2,350	(1,751)
Use of Provision	18	40	76	(36)	80
Non operating income surrenderable to the Consolidated Fund	19	-	-	-	21
Net cash requirement		47,831	39,855	7,976	32,285

Explanation of variation between Estimate and outturn

Resource Outturn: See Note 2.

Acquisition of Fixed Assets: The outturn was lower than estimated due to planning changes.

Changes in working capital other than cash: a reduction in working capital largely resulted from higher accruals compared to the previous year.

5. Analysis of income payable to the Consolidated Fund

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

	Forecast 2005-06		Outturn 2005-06	
	Income	Receipts	Income	Receipts
	£000	£000	£000	£000
Operating income and receipts – excess A in A	-	-	-	-
Other operating income and receipts not classified as A in A	-	-	1	3
	-	-	1	3
Other amounts collected on behalf of the Consolidated Fund	-	-	34	53
Non-operating income and receipts – excess A in A	-	-	-	-
Total income payable to the Consolidated Fund	-	-	35	56

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

	Note	2005-06 £000	2004-05 £000
Operating income		14	81
Gross income	11	14	81
Income authorised to be appropriated-in-aid		(13)	(25)
Operating income payable to the Consolidated Fund	5	1	56

7. Non-operating income – Excess A in A

	2005-06	2004-05
	£000	£000
Non-operating income – excess A in A	–	56
	–	56

8. Staff numbers and related costs

Staff costs comprise:

	Permanently employed staff		2005-06	2004-05
	Total	Others	Others	Total
	£000	£000	£000	£000
Wages and salaries	13,616	10,849	2,767	10,864
Social security costs	975	975	–	801
Other pension costs	1,980	1,980	–	1,275
Sub Total	16,571	13,804	2,767	12,940
Less recoveries in respect of outward secondments	(307)	(307)	–	(124)
Total net costs	16,264	13,497	2,767	12,816

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

For 2005-06, employer’s contributions of £1,966,881 were payable to the PCSPS (2004-05 £1,257,797) at one of four rates in the range 16.2 to 24.6 per cent (2004-05: 13 to 18.5 per cent) of pensionable pay, based on salary bands. The scheme’s Actuary reviews employer contributions every four years following a full scheme valuation. The salary bands and contribution rates were revised for 2005-06. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Three new pension schemes were introduced in October 2002 – Classic, Premium and Classic Plus. Members pay contributions of 1.5 per cent of pensionable earnings for widow/widower benefits on the Classic scheme. Contributions of 3.5 per cent are paid on the two other schemes. Benefits accrue at the rate of 1/80th (Classic scheme) or 1/60th (Premium and Classic Plus) of pensionable salary for each year of service. Pension payments increase in line with the Retail Prices Index. Full details of benefits can be found at the website address www.civilservice-pensions.gov.uk. Medical retirement is possible in the event of serious ill-health. In this case pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow/widower pensions.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer’s contributions of £12,992 were paid to one of a panel of four appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5 per cent (2004-05: 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 £782 (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. Contributions due to the partnership pension providers at the balance sheet date were £849.

The salary and pension entitlements of the most senior members of the Serious Fraud Office comprising the Director and the Management Boards for 2005-06 are disclosed in the Remuneration Report within the Foreword.

Average number of persons employed

The average number of whole-time equivalent persons employed during the year was as follows:

Objective	2005-06		2004-05
	Total	Permanent staff	Others
1. Investigate cases and bring them to a successful conclusion as quickly as individual circumstances allow.	316	228	88
2. When a decision to prosecute is made, prosecute fairly and in a way that enables the jury to understand the issues.	83	60	23
Total	399	288	111

9. Other Administration Costs

	Note	2005-06		2004-05	
		£000	£000	£000	£000
Rentals under operating leases		2,158		1,764	
Notional rent	18	(189)	1,969	–	1,764
Non-cash items					
Provision for doubtful debts		74		(153)	
Depreciation and amortisation	13, 14	1,105		655	
Revaluation adjustment		240		439	
Cost of Capital Charges		(31)		(8)	
Auditors' remuneration and expenses		57		56	
Provisions provided for in year	18	214		–	
			1,659		989
Other Expenditure					
General Administration		4,144		3,969	
Accommodation		1,535		1,350	
Travel and Subsistence		642		580	
Hospitality		4		6	
Other Support costs		800		1,008	
Total			10,753		9,666

10. Programme Costs

	2005-06	2004-05
	£000	£000
Counsel	4,284	3,748
Accountants	5,683	4,454
Other Programme	2,898	2,205
Total	12,865	10,407

11. Income

	2005-06	2004-05
	£000	£000
Administration income	1	6
Programme Income:		
Costs awarded to the SFO	13	75
	14	81

12. Analysis of net operating cost by spending body

	Estimate	2005-06 Outturn	2004-05 Outturn
	£000	£000	£000
Core department	44,375	39,868	32,808
Net Operating Cost	44,375	39,868	32,808

13. Tangible fixed assets

	DOCMAN Development Expenditure	Computer Equipment	Furniture and Fittings	Assets under Construction	Total
	£000	£000	£000	£000	£000
Cost or valuation					
At 1 April 2005	1,720	1,396	202	–	3,318
Additions	1,169	1,304	340	65	2,878
Disposals	–	–	–	–	–
Revaluations	(113)	(99)	(20)	–	(232)
At 31 March 2006	2,776	2,601	522	65	5,964
Depreciation					
At 1 April 2005	466	663	73	–	1,202
Charged in year	529	476	38	–	1,043
Disposals	–	–	–	–	–
Revaluations	–	–	–	–	–
At 31 March 2006	995	1,139	111	–	2,245
Net book value at 31 March 2006	1,781	1,462	411	65	3,719
Net book value at 31 March 2005	1,254	733	129	–	2,116

Reconciliation of cash flows to tangible fixed asset additions

All capital expenditure supports the aim and objectives of the Serious Fraud Office and is administrative in nature and financed by public expenditure. There was no financial investment or associated A in A during the period.

	2005-06
	£000
Total tangible fixed asset additions	2,878
Tangible fixed asset accrual	(684)
Cash flow for tangible fixed assets (Note 21b)	2,194

14. Intangible fixed assets

	2005-06
	Purchased Software Licences
	£000
Cost or valuation	
At 1 April 2005	261
Additions	124
Disposals	–
Revaluation	(15)
At 31 March 2006	370
Amortisation	
At 1 April 2005	93
Charged in year	62
Disposals	–
Revaluation	–
At 31 March 2006	155
Net book value at 31 March 2006	215
Net book value at 31 March 2005	168

Reconciliation of cash flows to intangible fixed asset additions

	2005-06
	£000
Total intangible fixed asset additions	124
Intangible fixed asset accrual	(59)
Cash flows for intangible fixed assets (Note 21b)	65

15. Debtors

15(a) Analysis by type

	2005-06	2004-05
	£000	£000
Amounts falling due within one year:		
VAT debtor	316	241
Deposits and advances	109	96
Other debtors*	134	102
Prepayments and accrued income	533	584
Costs awarded to the Serious Fraud Office**	211	211
Provision for bad and doubtful debts	(124)	(50)
Amounts due from the Consolidated Fund in respect of supply	418	–
	1,597	1,184

* Included within other debtors is £3K (2004-05: £21K) due to the Consolidated Fund once the debts are collected (see Note 17a)

** Included within the costs awarded debtors is the sum of £245K (2004-05: £248K) due to the Consolidated Fund once the debts are collected (see note 17a).

	2005-06	2004-05
	£000	£000
Amounts falling due after one year:		
Costs awarded to the Serious Fraud Office**	63	62
	63	62

15(b) Intra-Government Balances

	2005-06 Amounts falling due within one year	2004-05 Amounts falling due within one year	2005-06 Amounts falling due after more than one year	2004-05 Amounts falling due after more than one year
	£000	£000	£000	£000
Balances with other central government bodies	734	241	–	–
Subtotal: intra-government balances	734	241	–	–
Balances with bodies external to government	863	943	63	62
Total debtors at 31 March	1,597	1,184	63	62

16. Cash at bank and in hand

	2005-06 £000	2004-05 £000
Balance at 1 April	1,667	722
Net change in cash balances	(2,029)	945
Balance at 31 March (see Note 17a)	(362)	1,667
The following balances at 31 March were held at:		
Office of HM Paymaster General	(362)	1,667
Commercial banks and cash in hand	–	–
Balance at 31 March (see Note 17a)	(362)	1,667

17. Creditors

17(a) Analysis by type

	2005-06 £000	2004-05 £000
Amounts falling due within one year:		
Other taxation and social security	305	284
Trade creditors	1,127	537
Accruals and deferred income	3,079	2,975
Pension providers	205	139
Overdraft	362	–
Fixed Assets accruals	743	–
Amounts issued from the Consolidated Fund for supply but not spent at year end	–	1,437
Consolidated Fund extra receipts due to be paid to the Consolidated Fund:		
Received	56	230
Receivable	248	269
	6,125	5,871

17(b) Intra-Government Balances

	2005-06 Amounts falling due within one year	2004-05 Amounts falling due within one year	2005-06 Amounts falling due after more than one year	2004-05 Amounts falling due after more than one year
	£000	£000	£000	£000
Balances with other Central Government bodies	971	2,220	–	–
Subtotal: intra government balances	971	2,220	–	–
Balances with bodies external to government	5,154	3,651	–	–
Total creditors at 31 March	6,125	5,871	–	–

18. Provisions for liabilities and charges

	Early departure costs	Accommodation Dilapidations	Accommodation Notional Rent	Total
	£000	£000	£000	£000
Balance at 1 April 2005	209	–	–	209
Provided in the year	–	25	189	214
Provisions utilised in the year	(76)	–	–	(76)
Balance at 31 March 2006	133	25	189	347

18.1 Early Departure Costs

The Serious Fraud Office meets the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts annually to the PCSPS over the period between early departure and normal retirement date. The Department provides for this in full when the early retirement programme becomes binding on the Department by establishing a provision for the estimated payments discounted by the Treasury discount rate of 2.2 per cent in real terms. In past years the Department paid in advance some of its liability for early retirement by making a payment to the Paymaster General’s Account at the Bank of England for the credit of the Civil Service Superannuation Vote. There is no balance remaining.

18.2 Accommodation Dilapidations

The lease on a property was surrendered in June 2006 and a provision for dilapidations on surrender was assessed and made.

18.3 Accommodation Notional Rent

A lease on a property was signed in 2005 and included a rent-free period. The provision for notional rent has been created to reflect the apportionment of the rent-free period over the duration of the lease.

19. General Fund

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

	2005-06	2004-05
	£000	£000
Balance at 1 April	(890)	(319)
Adjustment for opening balance CFER debtor	–	(20)
Net Parliamentary Funding:		
Drawn Down	38,000	33,000
Deemed	1,437	722
Year end adjustment:		
Consolidated Fund Debtor/(Creditor) – for cash	418	(1,437)
Net Transfer from Operating Activities:		
Net Operating Cost	(39,868)	(32,808)
CFERs repayable to Consolidated Fund	(1)	(6)
Excess A in A payable to Consolidated Fund	–	(50)
Non Cash Charges:		
Cost of Capital	(31)	(8)
Auditors’ remuneration	57	56
Transferred to General Fund in respect of realised element of revaluation reserve	–	1
Non-operating income due to Consolidated Fund	–	(21)
Balance at 31 March	(878)	(890)

20. Revaluation Reserve

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

	2005-06	2004-05
	£000	£000
Balance at 1 April	7	3
Arising on revaluation during the year (net)	(7)	5
Transferred to general fund in respect of realised element of revaluation reserve	–	(1)
Balance at 31 March	–	7

21. Notes to the Cash Flow Statement

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

		2005-06	2004-05
	Note	£000	£000
Net operating cost	12	39,868	32,808
Adjustments for non-cash transactions	9	(1,659)	(989)
Increase/(Decrease) in Debtors		414	(659)
<i>less movements in debtors relating to items not passing through the OCS</i>		(322)	48
Decrease/(Increase) in Creditors		108	(1,822)
<i>less movements in creditors relating to items not passing through the OCS</i>		(889)	461
Use of provisions	18	76	80
Net cash outflow from operating activities		37,596	29,927

21(b) Analysis of capital expenditure and financial investment

		2005-06	2004-05
	Note	£000	£000
Tangible fixed asset additions	13	2,194	1,975
Intangible fixed asset additions	14	65	85
Net cash outflow from investing activities		2,259	2,060

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

	2005-06	2004-05
	Capital expenditure	Capital Expenditure
	£000	£000
Request for resources 1	3,002	1,978
Net movement in debtors/creditors	(743)	82
Total	2,259	2,060

21(d) Analysis of financing

		2005-06	2004-05
	Note	£000	£000
From the Consolidated Fund (Supply) – current year	19	38,000	33,000

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

		<u>2005-06</u>	<u>2004-05</u>
	Note	£000	£000
Net cash requirement		(39,855)	(32,285)
From the Consolidated Fund (Supply) – current year	21 (d)	38,000	33,000
Amounts due to the Consolidated Fund – received in a prior year and paid over		(230)	–
Amounts due to the Consolidated Fund received and not paid over	5	56	230
(Decrease)/increase in cash		<u>(2,029)</u>	<u>945</u>

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

The Serious Fraud Office’s capital is mainly employed for administration purposes. Its distribution between objectives is therefore not markedly different from the proportion of the gross administration cost.

Administration costs have been attributed to objectives in accordance with the Office’s normal management accounting practices wherever possible. In this year all costs are apportioned by reference to the proportion of active cases split between those in the investigation and prosecution stages which relates to the key objectives of the Serious Fraud Office.

23. Capital commitments

	<u>2005-06</u>	<u>2004-05</u>
	£000	£000
Contracted capital commitments at 31 March for which no provision has been made	–	–

24. Commitments under leases

24.1 Operating leases

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

	<u>2005-06</u>	<u>2004-05</u>
	£000	£000
Obligations under operating leases comprise:		
Land and buildings:		
Expiry within 1 year	–	–
Expiry after 1 year but not more than 5 years	–	239
Expiry thereafter	2,272	1,500
	<u>2,272</u>	<u>1,739</u>
Other:		
Expiry within one year	7	12
Expiry after 1 year but not more than 5 years	65	64
Expiry thereafter	2	–
	<u>74</u>	<u>76</u>

25. Financial Instruments

FRS 13, Derivatives and Other Financial Instruments, requires disclosures of the role that financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the largely non-trading nature of its activities and the way in which government departments are financed, the Serious Fraud Office 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 Serious Fraud Office has very limited powers to borrow or invest surplus funds. Financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the Serious Fraud Office in undertaking its activities.

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

Liquidity risk

The Serious Fraud Office's net revenue resource requirement is financed by resources voted annually by Parliament to the Law Officers' Departments, just as its capital expenditure largely is. It is not, therefore, exposed to significant liquidity risks. However, within the normal Parliamentary supply procedure, the Serious Fraud Office has to budget for resources (both revenue and capital) in the nine-month period preceding the financial year in which it will be granted.

Interest rate risk

100 per cent of the Serious Fraud Office's financial liabilities carry nil or fixed rates of interest, and it is not, therefore, exposed to significant interest rate risk.

26. Contingent liabilities disclosed under FRS 12

There are no contingent liabilities at the balance sheet date.

27. Losses and Special payments

27(a) Losses Statement

There are no material losses.

27(b) Special Payments

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

28. Related-party transactions

The Serious Fraud Office is a government department and has no agencies, non-departmental bodies, trading funds or public corporations. None of the board members, key managerial staff or other related parties has undertaken any material transactions with the Serious Fraud Office during the year. The Serious Fraud Office has had a small number of transactions with other government departments and other central government bodies.

29. Third-party assets

The SFO held no monetary assets (31 March 2005: £24,490) in interest bearing accounts at the balance sheet date. Previously the SFO held monetary assets in respect of funds seized and held for evidential purposes. These were not departmental assets and are not included in the accounts. Details are set out in the table below:

	31 March 2005	Gross inflows	Gross Outflows	31 March 2006
	£000	£000	£000	£000
Monetary assets such as bank balances and monies on deposit	24	–	(24)	–
	24	–	(24)	–

30. Entities within the departmental boundary

There were no entities within the boundary during 2005-06.

31. Post Balance Sheet Events

Negotiations on a contract to provide IT services have been completed. The new service started in July 2006.

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