

Presented pursuant to, c.45, s.409(4) of the Insolvency Act 1986

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# Insolvency Act 1986 Accounts 2004-2005

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# Foreword

## 1 Statutory background

The Insolvency Act 1986 (the Act) requires the preparation of two financial statements

- i The Secretary of State is required to prepare a statement of sums received and paid out by him through the Insolvency Services Account (the ISA) for each year ending 31 March, in such form and manner as the Treasury may direct (Section 409(2) of the Act); and
- ii The Commissioners for the Reduction of the National Debt (CRND) are required to prepare a statement of the sums debited and credited to the Insolvency Services Investment Account (the Investment Account) for each year ending 31 March, in such form and manner as the Treasury may direct (Section 409(1) of the Act).

### **The Insolvency Services Account (the ISA)**

The Insolvency Regulations 1994, as amended, (the Regulations) require Official Receivers and insolvency practitioners to pay into the ISA at the Bank of England money received by them in the course of their administration (Regulations 5 and 20). Regulation 5(2) was amended with effect from 1 April 2004 to remove the obligation on voluntary liquidators to deposit funds into the ISA. The Regulations also provide for payments from the ISA of disbursements, expenses and distributions to creditors and to contributories in company liquidations (Regulations 7, 8, 22 and 23). The Regulations further provide that trustees and liquidators may request investment in Government Securities of estate moneys not required for immediate purposes (Regulation 9(1) & 23A).

Excess cash balances in the ISA that are not required for the time being to meet payments or to be invested at the request of the trustee or liquidator are transferred to the Investment Account (Section 403(2) of the Act).

### **The Insolvency Services Investment Account (the Investment Account)**

This account is kept by CRND at the Bank of England. CRND may invest any money standing to the credit of the Investment Account in accordance with the Trustee Investments Act 1961 and Treasury directions.

Income earned on these investments is used to pay interest and tax under the Regulations to individual estates. Investments are realised to make repayments to the ISA to meet the demands in respect of bankrupts' or companies' estates.

## 2 General background

The Official Receiver deals with the administration and investigation of all personal and corporate (including partnership) insolvencies arising through orders made by the court (compulsory insolvencies). Creditors, or the Secretary of State, may appoint an insolvency practitioner to take over the insolvency from the Official Receiver to act as trustee in bankruptcy (personal insolvency) or liquidator (corporate insolvency). In either case, the Official Receiver or insolvency practitioner must pay any receipts arising in the insolvency into the ISA.

In addition to insolvencies arising through orders made by the court, an insolvency practitioner may also be appointed to administer a voluntary liquidation. This can be a members' voluntary liquidation (for solvent companies) or a creditors' voluntary liquidation (for insolvent companies). Voluntary liquidations do not involve the Official Receiver or the courts. Insolvency practitioners appointed to administer voluntary liquidations may make payments into the ISA although the Regulations differ from those governing the payments made by trustees and liquidators of compulsory insolvencies.

The ISA is administered by the Insolvency Practitioners' Banking Section (IP Banking), part of the Banking Directorate of The Insolvency Service.

### 3 Aims and objectives

In providing banking and investment services for bankruptcy and liquidation estate funds, IP Banking embraces the “Modernising Government” agenda and has in particular

- aimed to deliver a high standard of service to all users of the ISA;
- listened to the views of users about the administration of the ISA;
- made use of new technology to improve efficiency and extend the range of services provided; and
- sought to minimise the regulatory burden on users of the ISA, within the statutory framework.

The aims and objectives of CRND are

- to maintain sufficient liquid funds to meet expected payments;
- to maintain capital (nominal) cover over the Investment Account’s liability to The Insolvency Service;
- to invest in securities that mature within one month; and
- income earned must, over time, be sufficient to cover the interest due to trustees and liquidators on money deposited with the ISA.

### 4 Review of activities

#### Level of insolvencies

The total number of new insolvencies – bankruptcies and compulsory and voluntary liquidations – rose from 45,807 in 2003-2004 to 52,638 in 2004-2005. There was a 6% decrease in new voluntary liquidation cases to 10,599; bankruptcy cases increased by 27% to 37,562; and compulsory cases decreased by 8% to 4,477. Following a change in legislation, voluntary liquidators are no longer under obligation to deposit funds in the ISA (see below) and as such not all new voluntary liquidations in 2004-2005 have opened accounts in the ISA.

Estate accounts held in the ISA decreased in 2004-2005 by 8% for bankruptcies and compulsory liquidations to 47,907 whilst the value of these estates fell by 4% to £407 million. With a reduced number of voluntary liquidations together with the removal of the obligation on voluntary liquidators to maintain accounts in the ISA, voluntary liquidation accounts fell by 48% to 8,959 at the end of the year. Voluntary liquidations have historically accounted for around two thirds of the funds held in the ISA/ISIA and the value of voluntary liquidation estate accounts has fallen by 50% from £1.02 billion to £517 million during 2004-2005.

#### Transactions

##### *The Insolvency Services Account*

Receipts into the ISA decreased in 2004-2005 by £712 million to £1,352 million. This is primarily attributable to a decrease in realisations of assets (£754 million) and a decrease in the realisation of Government Securities (£7 million) against increases in transfers from the Investment Account (£42 million), receipts from unclaimed dividend (£2 million) and interest received (£6 million).

Payments decreased from £2,053 million to £1,354 million due to decreases in transfers to the Investment Account (£642 million) and payment requests by liquidators and Trustees (£54 million).

During the year aggregate receipt and payment volumes decreased when compared to 2003-2004: receipts decreased by 24% and payment requests by 10%. Balance statements requested by IPs decreased by 24% due to the increasing number of insolvency practitioners using the on-line access facility.

### *The Insolvency Services Investment Account*

Funds invested by CRND at 31 March 2005 were £983 million, a decrease of £474 million. The net accrued surplus interest from these investments (after meeting interest under Regulation 9 (6) of the Regulations 1994 and associated income tax), together with interest earned on the ISA working balances, was £9.1 million (2003-2004: £29.8 million) The surplus interest earned is lower than previous years' due to an increase in the rate of interest paid to insolvency estates after 1 April 2004. The surplus interest earned has been retained in the ISIA (see below) following amendments to the legislation.

### **The Enterprise Act 2002 and other legislative reforms**

The Enterprise Act 2002 introduced a number of legislative reforms affecting the operation of the ISA and ISIA and levels of fees applicable to insolvency estates after 1 April 2004.

#### *Voluntary liquidations*

Prior to 1 April 2004, voluntary liquidators were obliged under Regulation 5(2) of the Insolvency Regulations 1994 to deposit funds in the ISA. This Regulation was amended with effect from 1 April 2004, and the obligation to deposit all funds into the ISA was removed.

#### *Interest*

Section 271 of the Enterprise Act introduced provisions enabling the Secretary of State to change the rate of interest paid on sums deposited in the ISA without the need to change legislation. On 1 April 2004 the rate was increased from 3.50% to 4.25% under Regulation 9 (6) of the Insolvency (Amendment) Regulations 2004, and on 1 August 2004 to 4.75% following a notice published in the London Gazette pursuant to Regulation 9 (6B).

Prior to 1 April 2004, interest accrued on funds in the Investment Account in excess of interest entitled to be paid to insolvency estates was, under Section 405 of the Insolvency Act 1986, paid to the Consolidated Fund. This Section was repealed with effect from 1 April 2004. The rate of interest set after 1 April 2004 was raised to increase returns to estates, leaving a smaller amount of surplus accrued interest than in previous years to protect the solvency of the ISIA (see above). The rate of interest is subject to regular review by Banking Directorate and the Debt Management Office.

#### *Fees*

The Banking Directorate is responsible for ensuring that the correct fees are charged and collected on bankruptcies, compulsory liquidations and any voluntary liquidations holding an account in the ISA. The Enterprise Act changes have reformed the fee structure. From 1 April 2004, The Insolvency Practitioners and Insolvency Services Account (Fees) Order 2003 introduced a banking fee of £15 per quarter for bankruptcies and compulsory liquidations and £20 per quarter for voluntary liquidations where an account is maintained in the ISA. Banking fees charged to estates during 2004-2005 totalled £3.6 million. In addition the Order raised the cheque issue fee to £0.80 per cheque (from £0.65) and introduced a BACS transaction fee of £0.15. Cheque and BACS fees totalling £156,000 were charged to estates during the year.

The Insolvency Proceedings (Fees) Order 2004 revoked most of the fees prevailing prior to 1 April 2004, and introduced a streamlined set of fewer fees for Official Receiver and Secretary of State administration costs. The Order revoked the Secretary of State fee applicable on deposits into the ISA from voluntary liquidations, and removed the fee from the first £2,000 of estate receipts for bankruptcy and compulsory liquidation cases. The Secretary of State fee applicable on receipts over £2,000 (up to a maximum of £100,000) was increased from 15% to 17% for new insolvency cases after 1 April 2004.

### *Frequent Petitioner Accounts*

Rule 4.7 of the Insolvency (Amendment) Rules 2004 allows the creation of accounts for those creditors authorised by the Secretary of State who present high volumes of insolvency petitions that are subsequently dismissed or withdrawn. Frequent Petitioner accounts were set up for The Inland Revenue and HM Customs and Excise during 2004-2005. These creditors maintain an account with The Insolvency Service sufficient only to cover deposits on cases where a bankruptcy order or winding-up order is subsequently made. This has reduced the number of deposit receipts processed by 10,000 and the number of returned deposits payable on dismissal or withdrawal of the petition by 4,000. During 2004-2005, 3,200 bankruptcy and winding-up orders were made on petitions presented under this scheme.

### **Key performance indicators**

All of the key performance indicators were achieved or exceeded, except for the target to process 95% of receipts on the day received or the day following account set-up if later. This target was missed by 3% due to late receipt of post by IP Banking on a number of days during the year.

BACS payments increased by 2% over the previous year, representing 16% of all payments against a target of 13%.

### **On-line services**

During the year, an additional 110 insolvency practitioners signed up to use the on-line facility, enabling them to view estate accounts via the internet and print off account statements, bringing the total number of IPs registered for this service to 769 at 31 March 2005.

## 5 Forward look

In July 2004 the Bank of England announced its intention to withdraw from retail banking activities within 2-3 years. This move will affect the day-to-day operation of the ISA. Following this announcement the Banking Directorate consulted the Office of Government Commerce (OGC) and a decision has been made to move the retail banking operation of the ISA to the Office of HM Paymaster General (OPG). From summer 2005, OPG will provide transaction-processing services to support the Banking Directorate handling of ISA receipts and payments.

The existing financial systems used by the Banking Directorate were scheduled to be replaced in 2004-2005 by the CAMEO system. Project delays have led to the further development of existing systems to meet the ongoing requirements of the new financial regime.

As explained in last year's accounts, to coincide with the new regime from 1 April 2004, the Fund's gilt holdings were disposed of during February 2004 and the proceeds of the sales were placed as short-term deposits with the Debt Management Account Deposit Facility. This arrangement, which enabled the Fund to earn a rate of interest that is more closely related to current short-term interest rate levels, has continued into 2005-2006.

## 6 Preparation and audit

The financial statements are prepared by The Insolvency Service (an Executive Agency of the Department of Trade and Industry), responsible for administering the accounts on behalf of the Secretary of State and by CRND. The costs of administering the accounts are borne by The Insolvency Service.

The financial statements are audited by the Comptroller and Auditor General.

*Desmond Flynn*  
The Insolvency Service  
2 November 2005

*Jo Whelan*  
Commissioners for the Reduction of the National Debt  
2 November 2005

## Statement of Chief Executive's and Comptroller General's responsibilities

Accounting Officers must ensure that financial statements for which they are responsible are prepared in accordance with Treasury directions and guidance. The responsibilities of an Accounting Officer, including the preparation of the financial statements, are set out in the Accounting Officer's Memorandum issued by the Treasury and published in "Government Accounting". The Inspector General and Chief Executive of The Insolvency Service is the Accounting Officer for the ISA. The Insolvency Service's total income and expenditure as an Executive Agency is accounted for in separate accounts. The Comptroller General to the Commissioners for the Reduction of the National Debt is responsible for the propriety, regularity and the keeping of proper records with regard to the Investment Account.



# Statement on Internal Control

## 1 Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control in respect of the administration of the Insolvency Services Account. I am advised and supported by

- the Agency Steering Board whose role is to advise the Secretary of State, generally through the Director General for Services Group (DTI), on governance of the Agency, its corporate plan, targets and performance. It meets at least four times a year to review plans, strategic direction and performance of the Agency. The Board comprises senior officials from the Agency and DTI, as well as five independent members;
- the Directing Board meets twice monthly and during the year reviews management accounts prepared by the Banking Directorate which has day to day responsibility for the management and administration of the Insolvency Services Account;
- an Audit Committee chaired by an independent member of the Steering Board that meets three times a year and receives reports from both internal and external auditors on risk and other audit issues; and
- the Corporate Governance Group considers the overall risks to the Agency's objectives, the management and control of those risks, including those in relation to the Insolvency Services Account, and review and monitoring of the Agency's risk register and reports to the Audit Committee.

## 2 The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk: it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks in relation to the administration of the Insolvency Services Account, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. This system of internal control had been in place at 1 April 2004 and was progressively improved upon during the year ended 31 March 2005 and up to the date of approval of the annual account, and accords with Treasury guidance.

## 3 Capacity to handle risk

The Directing Board sets the policies on risk management and internal control. It also promotes and supports the development of risk management and internal control activity.

The Corporate Governance Section reviews the adequacy and effectiveness of the Banking Directorate's systems of internal control on a risk based audit programme. Internal audit operates to Government Internal Audit Standards. The work of internal audit is informed by an analysis of the risks to which the Agency is exposed. The analysis of risk and internal audit plans are endorsed by the Agency's Audit Committee and approved by me.

Training has been provided to key managers and staff in risk identification, evaluation and management. Written guidance on risk management and evaluation is published on the Agency's intranet system to which all staff have access.

Systems are in place to identify any significant risk or control weaknesses to ensure that appropriate action is taken to manage the risk and implement improvements to internal controls to reduce reoccurrence. Procedures are in place for the planning, monitoring and reporting on all major projects. Furthermore, all key projects in the Agency are subject to Gateway Review, which includes an assessment of the key risks they face.

#### 4 The risk and control framework

A risk appetite matrix has been issued against which risk at all levels is assessed. An Agency wide risks register is aligned to the key objectives of the Agency. The risk register format requires the identification of risk against business objectives. That ensures the risks are evaluated by type (financial, reputational, operational) and by level of exposure (likelihood and impact).

All key risks have been evaluated and allocated to appropriate managers and include those relating to the Insolvency Services Account. Risk registers are maintained for the Units in the Finance, Banking and Resources Directorate and have been reviewed half-yearly and updated as necessary during 2004-2005.

Risk Management is tied to the business planning process at all levels and ensures that top down and bottom up risks are communicated and managed at the appropriate level.

#### 5 Review of effectiveness

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

The effectiveness of the system of internal control is reviewed by my Directors who each provide me with a Statement on Risk Management and Internal Control and Corporate Governance Representation for their Directorate.

The Corporate Governance Group advises on embedding risk management within the organisation. The Audit Committee advises on the Internal Audit work programme and the Chairman also sits as an Independent Board Member on the Steering Board.

Internal Audit operates to Government Internal Audit Standards. Their audit programme is focussed around the Agency's key risks including any relating to the administration of the Insolvency Services Account. They submit regular reports on the adequacy and effectiveness of internal control together with recommendations for improvement. The Director of Internal Audit provides me with an Annual Report, which contains an independent opinion on the adequacy and effectiveness of internal control.

A key risk for The Service was the delivery of the CAMEO IT project intended to replace the existing IT system for banking, work on which was suspended in December 2004. The Service has agreed to undertake, on a without prejudice basis, a joint project review. An interim solution ensures the performance and reliability of the existing system.

There were no significant internal control issues during the course of 2004-2005, but where weaknesses in the control environment are identified, action to strengthen control has been taken or is planned.

*Desmond Flynn*  
Accounting Officer

2 November 2005

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

I certify that I have audited the financial statements on pages 11 to 17 under the Insolvency Act 1986. These financial statements have been prepared by The Insolvency Service, an agency of the Department of Trade and Industry, on behalf of the Secretary of State in the form and on the basis determined by the Treasury.

## Respective responsibilities of the Agency, the Chief Executive and Auditor

As described on page 6, the Accounting Officer is responsible for the preparation of the financial statements in accordance with the Insolvency Act 1986 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the Foreword. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements properly present the receipts and payments and are properly prepared in accordance with sections 409 (2) and (3) of the Insolvency Act 1986 and the directions made thereunder by the Treasury, and whether in all material respects the receipts and payments have been applied to the purposes intended by Parliament and conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if The Insolvency Service has not kept proper accounting records in respect of the Insolvency Services Account, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on pages 7 to 8 reflects The Insolvency Service's compliance with HM Treasury's guidance 'Corporate governance: statement on internal control'. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of The Insolvency Service's corporate governance procedures or its risk and control procedures.

## Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the receipts and payments 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.

## Opinion

In my opinion

- the account properly presents the receipts and payments of The Insolvency Service in respect of the Insolvency Services Account for the year ended 31 March 2005 and the balances held at that date and have been properly prepared in accordance with sections 409 (2) and (3) of the Insolvency Act 1986 and the directions made thereunder by the Treasury; and
- in all material respects the payments and receipts 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

22 November 2005

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## Receipts and Payments for the year ended 31 March 2005

	2004-2005	2003-2004
	Notes £000	£000
<b>Receipts</b>		
Realisation of assets of estates in compulsory insolvencies and voluntary liquidation	<b>659,230</b>	1,413,439
Frequent petitioner	12 <b>1,582</b>	0
From the Investment Account	2 <b>640,500</b>	599,000
Realisation of Government Securities at the request of liquidator and Trustees	3 <b>5</b>	7,199
Unclaimed dividends	7 <b>9,209</b>	6,915
Interest received	4 <b>41,528</b>	35,662
Costs met by DTI	5 <b>408</b>	1,320
	<b>1,352,462</b>	2,063,535
<b>Payments</b>		
Payments requested by liquidators and Trustees of estates in compulsory insolvency and voluntary liquidation and reissued dividends	6 <b>1,120,672</b>	1,174,832
<i>To the Investment Account</i>		
Excess cash balances on the ISA	2 <b>166,500</b>	808,000
Interest on ISA working balances	4 <b>603</b>	319
Investments in Government Securities at the request of liquidators and Trustees	3 <b>0</b>	3,275
To the Consolidated Fund	8 <b>3,169</b>	3,295
To The Insolvency Service (Department of Trade and Industry 2003-2004)	5 <b>62,907</b>	57,084
Loss on exchange	11 <b>372</b>	6,067
	<b>1,354,223</b>	2,052,872
Excess of payments over receipts	<b>1,761</b>	(10,663)

*The notes on pages 13 to 17 form part of this account*

## Statement of Balances as at 31 March 2005

	Notes	2005 £000	2004 £000
<b>Balances</b>			
The Investment Account	2	<b>983,000</b>	1,457,000
Government Securities	3	<b>1,093</b>	1,099
Cash at bank	10	<b>16,511</b>	18,272
		<b>1,000,604</b>	1,476,371
<b>Representing</b>			
Insolvency Estates	11	<b>958,389</b>	1,439,648
Frequent petitioners	12	<b>49</b>	0
Fees due to The Insolvency Service (Department of Trade and Industry 31 March 2004)	5	<b>12,536</b>	9,710
Amounts due to the Investment Account	2	<b>11</b>	1
Unclaimed Dividends	7	<b>28,967</b>	26,571
Amount due to the Consolidated Fund	8	<b>14</b>	0
Amounts due to the Treasury Solicitor (BV)	9	<b>374</b>	369
Interest on foreign currency deposits	4	<b>264</b>	72
		<b>1,000,604</b>	1,476,371

Desmond Flynn  
The Insolvency Service  
Accounting Officer

2 November 2005

*The notes on pages 13 to 17 form part of this account.*

## Notes to the Accounts

### 1 Accounting policies

- i The account has been prepared on a cash basis as directed by HM Treasury.
- ii US\$ transactions are accounted for as follows
  - receipts and payments are translated at the exchange rate at the date of the transaction; and
  - balances are translated using the year end exchange rate.

The resulting notional profit/loss on exchange is credited/charged to the account in the appropriate period.

### 2 The Investment Account

The Act requires excess cash balances on the ISA to be transferred for investment to the Investment Account; and for the Investment Account to realise investments and transfer appropriate funds to meet the needs of the ISA. The balance on the Investment Account, excluding interest, represents the liability of the Investment Account to the ISA.

	<b>2004-2005</b>	2003-2004
	<b>£000</b>	£000
Balance at 1 April	<b>1,457,000</b>	1,248,000
Excess cash balances transferred to the Investment Account	<b>166,500</b>	808,000
	<b>1,623,500</b>	2,056,000
<i>Less transfers to ISA</i>	<b>(640,500)</b>	(599,000)
<b>Balance at period end 31 March</b>	<b>983,000</b>	1,457,000

There is a further amount of £11,000 due to the Investment Account in relation to interest earned on foreign currency deposits (see Note 4).

### 3 Government securities

The Regulations allow the investment of surplus balances, from liquidations and bankruptcies, in Government Securities (Treasury Bills or Government Stocks) for the benefit of the individual estates. These securities are realised at the request of liquidators and trustees.

	<b>2004-2005</b>	2003-2004
	<b>£000</b>	£000
Balance at 1 April	<b>1,099</b>	5,059
Amounts invested in the period	<b>0</b>	3,275
Amounts realised in the period	<b>(5)</b>	(7,199)
Net gain/(loss) on Government Securities	<b>(1)</b>	(36)
<b>Balance at 31 March at cost</b>	<b>1,093</b>	1,099

#### 4 Interest received

Interest is received on Government Securities, working cash balances held at the Bank of England and foreign currency deposits as follows

	<b>2004-2005</b> <b>£000</b>	2003-2004 £000
On Government Securities	<b>67</b>	164
On investments	<b>40,518</b>	34,854
On working balances*	<b>409</b>	454
On foreign currency deposits**	<b>534</b>	190
	<b><u>41,528</u></b>	<u>35,662</u>

\* £603,000 of interest received on working balances was paid to the Investment Account during the period of which £328,000 related to interest received in 2003-2004 and £275,000 related to interest received in 2004-2005.

\*\* The interest received but not distributed on this account at the year-end was £275,000, of which £264,000 is due to Estates and £11,000 to the Investment Account.

#### 5 Fees

Prior to 1 April 2004 fees charged to insolvent estates (including VAT), were required to be surrendered to the DTI when there were sufficient funds in the estate to pay them. Since 1 April 2004 fees charged to insolvent estates (including VAT) are required to be paid to The Insolvency Service to fund the administration of insolvency estates and to discharge the costs of providing banking and estate accounting services. Prior to 1 April 2004 The DTI funded disbursements in estates administered by Official Receivers where there were insufficient proceeds from the estate. Since 1 April 2004 the administration fee has covered non asset related disbursements. However, there remains a need for the DTI to fund disbursements charged to estates where there are insufficient funds.

	<b>2004-2005</b> <b>£000</b>	<b>2004-2005</b> <b>£000</b>	2003-2004 £000	2003-2004 £000
Balance at 1 April		<b>9,710</b>		10,812
Fees on unclaimed dividends		<b>3</b>		22
Cost met by DTI	<b>408</b>		1,320	
Unrecovered disbursements	<b>(52)</b>	<b>356</b>	(1,450)	(130)
Fees and VAT recovered from estates		<b>65,374</b>		56,090
Net fees and VAT paid from ISA		<b>(62,907)</b>		(57,084)
<b>Balance at 31 March</b>		<b><u>12,536</u></b>		<u>9,710</u>



## 6 Payments requested by liquidators and trustees of estates in insolvency and voluntary liquidation

The Act provides for

- the repayment to liquidators and trustees of necessary disbursements made and expenses properly incurred in the course of their administration of companies' and bankrupts' estates out of any money standing to the credit of the estate in the ISA; and
- the payment of dividends to creditors in respect of debts owed to them by companies in liquidation and bankrupts, and distributions to contributories in company liquidations.

It is the responsibility of the trustee or liquidator concerned to ensure that any requisitions for expenses or disbursements relate to amounts which are properly due and payable and that payments of dividends relate to claims of creditors which have been established as being owed by the insolvent estate.

## 7 Unclaimed dividends

After a period determined by the Treasury (currently seven years) creditors' unclaimed dividends are required to be surrendered to the Consolidated Fund.

	2004-2005 £000	2003-2004 £000
Balance at 1 April	26,571	25,929
Receipts	9,209	6,915
Payments to creditors	(3,533)	(3,416)
Fees	(3)	(22)
Transfers from estates	157	158
Transfers to estates	(640)	(432)
Paid to the Consolidated Fund (Note 8)	(2,794)	(2,561)
<b>Balance at 31 March</b>	<b>28,967</b>	<b>26,571</b>

## 8 Surrenders to the Consolidated Fund

The Act also requires unclaimed monies and amounts which are too small to be divided among the persons entitled to them to be surrendered to the Consolidated Fund

	2004-2005 £000	2003-2004 £000
Balance at 1 April	0	0
Unclaimed dividends (Note 7)	2,794	2,561
Undistributed balances	389	734
	<b>3,183</b>	<b>3,295</b>
Paid to the Consolidated Fund	(3,169)	(3,295)
<b>Balance at 31 March</b>	<b>14</b>	<b>0</b>

## 9 Amounts due to the Treasury Solicitor (BV)

Regulation 18 of the Regulations requires liquidators (or former liquidators) of dissolved companies to pay into the ISA any unclaimed or undistributed company money in their hands. S654 of the Companies Act 1985 provides that, on the dissolution of a company, such money is deemed to be bona vacantia and accordingly accrues to the Crown.

The Treasury Solicitor (BV) receives bona vacantia money on behalf of the Crown and amounts held in the ISA are remitted periodically to the Treasury Solicitor (BV) by arrangement with the Banking Directorate.

	<b>2004-2005</b> <b>£000</b>	2003-2004 £000
Balance at 1 April	<b>369</b>	356
Money from dissolved companies	<b>179</b>	408
Payments to Treasury Solicitor	<b>(174)</b>	(395)
<b>Balance at 31 March</b>	<b><u>374</u></b>	<u>369</u>

## 10 Cash at bank

The ISA is maintained at the Bank of England.

	<b>2004-2005</b> <b>£000</b>	2003-2004 £000
Balance at 1 April	<b>18,272</b>	7,609
Excess receipts over payments	<b>0</b>	10,663
Excess payments over receipts	<b>(1,761)</b>	0
<b>Balance at 31 March</b>	<b><u>16,511</u></b>	<u>18,272</u>

## 11 Insolvency estates

Insolvency estates are the funds held 'in trust' in respect of companies and individuals undergoing liquidation or bankruptcy proceedings.

	<b>2004-2005</b> <b>£000</b>	2003-2004 £000
Balance at 1 April	<b>1,439,648</b>	1,223,479
Net realisations/(payments)	<b>(456,277)</b>	242,399
Net Interest	<b>40,722</b>	35,318
Other payments/adjustments	<b>(10)</b>	(849)
Loss on exchange*	<b>(372)</b>	(6059)
Unrecovered disbursements	<b>52</b>	1,450
Fees and VAT recovered	<b>(65,374)</b>	(56,090)
<b>Balance at 31 March</b>	<b><u>958,389</u></b>	<u>1,439,648</u>

\* The total loss on exchange was £372,000 which was the notional loss on estates held in foreign currencies at the year-end.

## 12 Frequent petitioner accounts

Frequent Petitioner accounts were introduced on 1 April 2004 to assist those creditors who issue large volumes of petitions that are subsequently dismissed or withdrawn. Under current legislation a deposit must be paid to the court before a petition can be filed, unless the court has written notice from the Secretary of State that a suitable alternative method of payment has been arranged. If a petitioner sets up an approved account with The Insolvency Service they are only required to fund the account to a level sufficient to pay a deposit on any petition where a bankruptcy or winding-up order is subsequently made.

	<b>2004-2005</b>	2003-2004
	<b>£000</b>	£000
Balance at 1 April	<b>0</b>	0
Funds received from Frequent Petitioners	<b>1,582</b>	0
Deposits credited to Insolvency Estates	<b>(1,533)</b>	0
<b>Balance at 31 March</b>	<b>49</b>	0

*Desmond Flynn*  
The Insolvency Service  
Accounting Officer

2 November 2005

# Insolvency Services Investment Account

## Foreword

### Background

The Insolvency Services Investment Account (ISIA) was opened in 1970 as part of the rationalization of procedures for the funds arising from company bankruptcies and liquidations under the Insolvency Services (Accounting and Investment) Act 1970 (amended 1986).

Section 403 of the Insolvency Act 1986 (the Act) requires that monies deemed to be surplus to the Insolvency Service's immediate requirements be transferred to the Commissioners for the Reduction of the National Debt (CRND) for investment.

Section 404 of the Act empowers CRND to invest all the monies in the ISIA, in accordance with directions given by the Treasury, in those securities specified in Part II of Schedule 1 to the Trustee Investments Act 1961 (currently restricted to paragraphs 1, 2, 3, 8, 9 and 9A).

By virtue of rules made under paragraph 16 of Schedule 8 to the Act, income earned on the investments is used to pay interest and tax to individual insolvency estates.

Section 408 of the Act (as amended) enables the Treasury to make payments from the Consolidated Fund to the ISIA and to direct CRND to pay sums from the ISIA to the Consolidated Fund.

### Commissioners for the Reduction of National Debt

CRND's main function is the investment and management of major Government funds. The investment powers differ from Fund to Fund, but basically investments are restricted to central and local government securities.

There are eight Commissioners, but the Comptroller General and the Assistant Comptroller, who are appointed by and act on behalf of the Commissioners, make the day-to-day decisions.

In July 2002, responsibility for the administration of CRND activity was transferred from the National Investment and Loans Office (NILO) to the UK Debt Management Office (DMO). Since then, CRND has operated as a business unit of the DMO from shared office accommodation.

CRND's administrative expenditure is accounted for within the DMO's agency vote. The cost of managing the ISIA is recharged to the Insolvency Service; in 2004-2005, the cost amounted to £93,000 (2003-2004: £73,100).

The arrangements made between CRND and the Insolvency Service in respect of the investment service provided by CRND are set out in a Memorandum of Understanding, which describes how CRND intend to achieve the agreed investment objectives.

### Preparation of the accounts

The Account covers the year ended 31 March 2005. It is prepared on an accruals basis in accordance with HM Treasury direction.

## Results for 2004-2005

Historically the investments made by CRND included gilt-edged securities with periods to maturity of up to 10 years. However, under a new regime introduced by the Enterprise Act 2002, voluntary liquidators were, from 1 April 2004, able to invest and divest from the ISIA at will and this fundamentally changed the outlook for the Fund's stability. In those circumstances, continuing to invest in gilts would have given rise to a significant liquidity risk factor.

To reflect this change in circumstances, it was agreed with the Insolvency Service to modify the investment profile of the ISIA so that the interest rate earned by the ISIA is more closely related to current short-term interest rate levels. As a consequence, the ISIA's gilt holdings were disposed of during February 2004 and the proceeds of the sales were placed as short-term deposits with the Debt Management Account Deposit Facility. This arrangement remained in place during 2004-2005 and continues into 2005-2006.

During 2004-2005, the ISIA made a net operating surplus from funds invested of £9.1 million (2003-2004: a deficit of £30.2 million).

Assets held by the Commissioners fell by £495 million to £1,061 million at the year-end.

## Audit arrangements

Section 409(1) of the Act requires the Commissioners to send accounts prepared by them to the Comptroller and Auditor General.

Under section 409(4) of the Act, the Comptroller and Auditor General examines, certifies and reports on the accounts and lays copies of them with this report before each House of Parliament.

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

2 November 2005

## Statement of Accounting Officer's responsibilities

- 1 Section 409(1) of the Insolvency Act 1986 requires the Commissioners to prepare an account for each financial year in the form and on the basis determined by HM Treasury.
- 2 The Insolvency Services Investment Account is prepared on an accruals basis, as directed by HM Treasury and must give a true and fair view of the state of affairs of the Board and the cash flows for the financial year.
- 3 The Commissioners have appointed the Secretary and Comptroller General to discharge the residual statutory responsibilities of the Commissioners, a role that is analogous to acting as an Accounting Officer. Therefore the Secretary and Comptroller General has responsibility for preparing the annual accounts and for transmitting these to the Comptroller and Auditor General.
- 4 In preparing the accounts the Accounting Officer is required to observe the applicable accounting standards and generally accepted accounting practice in so far as they are relevant to the Account, and apply suitable accounting policies on a consistent basis.
- 5 The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, and for the keeping of proper accounting records, are set out in the Accounting Officers' Memorandum issued by HM Treasury and published in 'Government Accounting'.

# Statement on Internal Control

## 1 Scope of responsibility

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

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

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

## 2 The purpose of the system of internal control

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

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

## 3 Capacity to handle risk

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

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

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

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

#### 4 The risk and control framework

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

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

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

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

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

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

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



## 5 Review of effectiveness

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

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

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

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

2 November 2005

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

I certify that I have audited the financial statements on pages 26 to 33 under the Insolvency Services (Accounting and Investment) Act 1970 (amended 1986). These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain investments and the accounting policies set out on page 12.

## Respective responsibilities of the National Debt Commissioners, the Secretary and Comptroller General to the Commissioners for the Reduction of the National Debt and the Auditor

As described in the Foreword on page 18 the Commissioners have a statutory duty to prepare accounts in respect of their transactions. They have appointed the Secretary and Comptroller General to discharge their responsibilities for the preparation of financial statements in accordance with the Insolvency Act 1986 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Secretary and Comptroller General is also responsible for preparation of the other contents of the accounts. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Insolvency Services (Accounting and Investment) Act 1970 (amended 1986) and Treasury directions made thereunder, and whether in all material respects the transactions conform to the authorities which govern them. I also report, if in my opinion, the Foreword is not consistent with the financial statements, if the Commissioners for the Reduction of the National Debt have not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on pages 21 to 23 reflects the Commissioners for the Reduction of the National Debt's compliance with the Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by the Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Secretary and Comptroller General's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Commissioners for the Reduction of the National Debt's corporate governance procedures or its risk and control procedures.

## Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of the transactions with investors included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Secretary and Comptroller General in the preparation of the financial statements, and of whether the accounting policies are appropriate, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In my opinion

- the financial statements give a true and fair view of the balances held in respect of Insolvency Services Fund Investment Account as at 31 March 2005 and of the deficit and cash flows for the year then ended; and have been properly prepared in accordance with the Insolvency Act 1986 and directions made thereunder by Treasury; and
- in all material respects the transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General

22 November 2005

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

## Income and Expenditure Account for the year ending 31 March 2005

	Notes	2005 £	2004 £
Interest receivable	2	<b>58,611,548</b>	76,838,840
Interest payable	3	<b>(49,506,080)</b>	(47,049,982)
Net interest income		<b>9,105,468</b>	29,788,858
Surplus income payable to Consolidated Fund	10	<b>0</b>	(29,788,858)
Net interest income after deduction of surplus income payable		<b>9,105,468</b>	0
Dealing (losses)/profits	4	<b>0</b>	(30,220,285)
<b>Operating surplus/(deficit)</b>		<b>9,105,468</b>	(30,220,285)

## Balance Sheet as at 31 March 2005

	Notes	2005 £	2004 £
<b>Assets</b>			
Loans and advances	5	<b>1,049,000,000</b>	1,543,835,000
Cash	6	<b>9,404,401</b>	10,693,827
Other assets: accrued income	7	<b>2,147,293</b>	1,007,198
<b>Total assets</b>		<b>1,060,551,694</b>	1,555,536,025
<b>Liabilities</b>			
Client funds	11	<b>1,038,095,185</b>	1,502,989,717
Other liabilities: creditors	8	<b>22,456,509</b>	52,546,308
<b>Total liabilities</b>		<b>1,060,551,694</b>	1,555,536,025

*Jo Whelan* 2 November 2005  
 Secretary and Comptroller General  
 to the Commissioners for the Reduction of the National Debt

## Cash Flow Statement for the year ended 31 March 2005

	Note	2005 £	2004 £
	9		
Net cash flow from operating activities		<b>472,710,574</b>	(207,048,971)
Financing		<b>(474,000,000)</b>	209,000,000
<b>Increase/(decrease) in cash</b>		<b><u>(1,289,426)</u></b>	<u>1,951,029</u>

# Notes to the Accounts

## 1 Accounting policies

These accounts have been prepared in accordance with section 409 of the Insolvency Act 1986, which states that the accounts of the Insolvency Services Fund shall be prepared under direction of HM Treasury.

### 1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified by the inclusion of certain investments at market valuation, and in accordance with applicable Generally Accepted Accounting Practice in the United Kingdom (UK GAAP) in so far as is appropriate to the Fund. Securities transactions are included in the accounts on a trade date accounting basis.

### 1.2 Valuation of Securities (UK Government Gilts)

All securities held by Commissioner for the Reduction of National Debt (CRND) on behalf of the Fund have been included in the balance sheet at market value.

### 1.3 Gains and losses on trading operation

Gains and losses on trading operations are calculated as the difference between the sale proceeds (excluding interest) and the cost of the stock, which is calculated on a first in, first out basis. Trades between CRND Funds are conducted on an arm's length basis.

### 1.4 Income recognition

Income is recognised within the accounts on the following bases

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

### 1.5 Administration expenditure

The administrative costs recovered from clients are accounted for in the UK Debt Management Office Agency Account.

### 1.6 Other expenditure

Interest and associated tax due to the Insolvency Services Account, and Surplus Income payable to the Consolidated Fund are included in the operating statement on an accruals rather than a cash basis.

### 1.7 Ways and means

Surplus monies in the Fund ('Ways and Means') are swept daily to the NLF and are repayable on demand. Any daily shortfall in monies on the Fund is made good by the NLF. The Fund receives monthly interest on monies swept up to the NLF.

## 2 Interest receivable

	2005 £	2004 £
<b>Debt securities</b>		
Gilt edged securities	0	55,832,209
Other securities	0	209,507
Interest receivable on deposits given	<b>57,513,291</b>	20,148,384
Interest receivable on cash	<b>493,956</b>	303,160
Transferred from money employed account	<b>604,301</b>	345,580
<b>Total interest receivable</b>	<b><u>58,611,548</u></b>	<u>76,838,840</u>

## 3 Interest payable

	2005 £	2004 £
Gross interest (including tax £5,053,247.29) paid to Insolvency Services Account for the half year to 30 September 2004	<b>(27,049,571)</b>	(24,292,532)
Gross interest (including tax £4,126,558.05) payable to Insolvency Services Account for the half year to 31 March 2005	<b>(22,456,509)</b>	(22,757,450)
	<b><u>(49,506,080)</u></b>	<u>(47,049,982)</u>

## 4 Dealing (losses)/profits

	2005 £	2004 £
Profit/(loss) realised on disposal of securities	0	16,887,140
Valuation movement on gilts	0	(47,107,425)
<b>Total dealing (losses)/profits</b>	<b><u>0</u></b>	<u>(30,220,285)</u>

## 5 Loans and advances

	2005 £	2004 £
Fixed Rate Deposits given to DMA	<b>855,000,000</b>	1,239,535,000
Call Notice Deposits given to DMA	<b>194,000,000</b>	304,300,000
<b>Total loans and advances</b>	<b><u>1,049,000,000</u></b>	<u>1,543,835,000</u>

## 6 Cash

	2005 £	2004 £
Ways and means	<b><u>9,404,401</u></b>	<u>10,693,827</u>



**7 Other assets: Accrued income**

	2005 £	2004 £
Accrued interest on Deposits	<b>2,126,003</b>	986,753
Accrued interest on Cash	<b>21,290</b>	20,445
	<b><u>2,147,293</u></b>	<u>1,007,198</u>

**8 Other liabilities: accruals**

	2005 £	2004 £
Surplus due to the Consolidated Fund for FY 2004-2005	<b>0</b>	29,788,858
Gross interest (including tax £4,126,558.05) payable to Insolvency Services Account for the half year to 31 March 2005	<b>22,456,509</b>	22,757,450
<b>Total other liabilities</b>	<b><u>22,456,509</u></b>	<u>52,546,308</u>

**9a Reconciliation of operating profit to net cash flow from operating activities (indirect method)**

	2005 £	2004 £
Operating surplus	<b>9,105,468</b>	(30,220,285)
(Increase)/decrease in debt securities	<b>0</b>	1,303,114,390
(Increase)/decrease in movement in valuation of debt securities	<b>0</b>	47,107,425
(Increase)/decrease in deposits given	<b>494,835,000</b>	(1,543,835,000)
(Increase)/decrease in other assets: accrued income	<b>(1,140,095)</b>	17,271,443
Increase/(decrease) in other liabilities: creditors	<b>(30,089,799)</b>	(486,944)
<b>Net cash flow from operating activities</b>	<b><u>472,710,574</u></b>	<u>(207,048,971)</u>
<b>Financing</b>		
Advanced by the client	<b>166,500,000</b>	808,000,000
Withdrawn by the client	<b>(640,500,000)</b>	(599,000,000)
	<b><u>(474,000,000)</u></b>	<u>209,000,000</u>

**9b Reconciliation of operating profit to net cash flow from operating activities (direct method)**

	2005 £	2004 £
Cost of purchases of debt securities	0	(149,787)
Proceeds from sales of debt securities	0	1,334,493,985
Loans and advances given out	<b>(14,431,545,999)</b>	(7,778,537,000)
Loans and advances received	<b>14,926,381,000</b>	6,234,702,000
Gross interest (including tax 9,288,962) paid to Insolvency Services Account for period to March 2003 and for period to September 2004	<b>(49,807,021)</b>	(42,536,864)
Interest received	<b>57,471,452</b>	79,767,615
Payment of surplus to Consolidated Fund for FY 2003-2004	<b>(29,788,858)</b>	(34,788,920)
<b>Net cash flow from operating activities</b>	<b><u>472,710,574</u></b>	<b><u>(207,048,971)</u></b>
<b>Financing</b>		
Advanced by the client	<b>166,500,000</b>	808,000,000
Withdrawn by the client	<b>(640,500,000)</b>	(599,000,000)
	<b><u>(474,000,000)</u></b>	<b><u>209,000,000</u></b>

Purchases/Sales of Debt securities are reported gross and include purchased accrued interest of £0 and rebate interest received of £0 (2003-2004: purchased accrued interest £0 and rebate interest received £14,342,668).

**10 Surplus income payable**

	2005 £	2004 £
Interest received in the year	<b>58,611,548</b>	76,838,840
Interest payable	<b>(49,506,080)</b>	(47,049,982)
Total surplus income	<b>9,105,468</b>	29,788,858
Surplus payable to the Consolidated Fund for FY 2004-2005	<b>0</b>	(29,788,858)
<b>Surplus income retained in the Fund</b>	<b><u>9,105,468</u></b>	<b><u>0</u></b>

**11 Client funds**

	2005 £	2004 £
Prior year client funds	<b>1,502,989,717</b>	1,324,210,002
Operating surplus/(deficit)	<b>9,105,468</b>	(30,220,285)
Financing	<b>(474,000,000)</b>	209,000,000
Current year client funds	<b><u>1,038,095,185</u></b>	<b><u>1,502,989,717</u></b>

## 12 Related parties

Commissioners for the Reduction of the National Debt (CRND) is a separate entity within the DMO, which operates the Debt Management Account (DMA), and conducts a fund management service for a range of mostly governmental clients. Although located together and sharing many support services, internal controls and processes exist to ensure CRND and DMA operate independently of one another. Jo Whelan is the Secretary and Comptroller General of CRND and also the Deputy Chief Executive of the DMO. She is involved in determining and agreeing investment policy for both CRND and DMA on a basis that maintains the independence of each. Surplus cash in CRND client accounts is regularly deposited with the DMA cash management desk. The DMA gilt desk from time to time undertakes gilt purchases on behalf of CRND. These transactions are carried out on an arm's length basis and in line with a Memorandum of Understanding between the two entities.

The total amount of cash deposits placed with DMA over the period was £14,432 million (2003-2004: £7,868 million). During the year, there were no purchased or sold NILO gilts from the DMA (2003-2004: Purchases £0 million, Sales £1,063 million). The value of deposits held with the DMA as at the balance sheet date was £1,049 million (2003-2004: £1,544 million).

## Appendix

### Accounts Direction given by the Treasury in accordance with Section 409 (1) of Insolvency Services (Accounting and Investment) Act 1970 (Amended 1986)

- 1 The Commissioners for the Reduction of the National Debt shall prepare accounts for the financial year ended 31 March 2004
  - a a Foreword;
  - b a Statement of Internal Control;
  - c an Income and Expenditure Account;
  - d a Balance Sheet; and
  - e a Cash Flow Statementincluding such notes as may be necessary for the purposes referred to in the following paragraphs.
- 2 The accounts shall give a true and fair view of the income and expenditure, and cash flows for the financial year, and the state of affairs as at the end of the financial year.
- 3 Subject to this requirement, the accounts shall be prepared in accordance with
  - a Generally Accepted Accounting Practice in the United Kingdom (UK GAAP) to the extent that it is relevant. Any departure from UK GAAP is only permissible in the context of providing a true and fair view for this public sector account; and
  - b any other relevant guidance which the Treasury may issue from time to time in respect of accounts which are required to give a true and fair view.
- 4 This direction shall be reproduced as an appendix to the accounts.

*David A Cruden*  
Head of Central Accountancy Team,  
Her Majesty's Treasury

10 November 2005

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