

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

Insolvency Act 1986 Accounts 2006-2007

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Commissioners for the Reduction of the National Debt

Insolvency Services Investment Account

Foreword

Introduction

These accounts have been prepared by the Commissioners for the Reduction of the National Debt (CRND). The accounts, which cover the year ended 31 March 2007, have been prepared under a direction issued by the Treasury in accordance with section 409(1) of the Insolvency Act 1986 (the Act).

Brief history and background of the Insolvency Services Investment Account

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arising from company bankruptcies and liquidations under the Insolvency Services (Accounting and Investment) Act 1970 (repealed by the 1986 Act).

By virtue of section 403 of the Act, on days when the Secretary of State has excess cash in the Insolvency Service Account (the ISA) the excess amount is remitted to CRND for investment; on days when the balance in the ISA is insufficient to meet demands, CRND make good the shortfall. The investments so made are held in the ISIA.

Section 404 of the Act empowers CRND to invest all the monies in the ISIA, in accordance with directions given by HM 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(1)(a) of the Act enables HM Treasury to make payments from the Consolidated Fund to the ISIA and section 408(4) of the Act enables CRND to pay sums (excess interest) from the ISIA to the Consolidated Fund.

The Enterprise Act 2002 amended the Insolvency Services Act 1986 to allow the Secretary of State to set the interest rates payable to liquidators administratively rather than by secondary legislation in order to facilitate more frequent changes in the interest rate paid in response to changing rates of return on investments. In parallel, the legislation established that, for a given year, a surplus of interest received from investments over interest payable to liquidators would not routinely be paid to the Consolidated Fund as it had been previously. Instead, the surplus would be retained in the ISIA and would be available to be paid over to insolvency estate in future years.

The resources that have been used to deliver CRND's objectives are accounted for within the Debt Management Office's (DMO) agency vote and reported in the Debt Management Office Report and Accounts 2006-2007. The cost of managing the ISIA is recharged to the Insolvency Service; in 2006-2007, this amounted to £92,000 (2005-2006: £91,000).

Commissioners for the Reduction of the 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 Secretary and Comptroller General and Assistant Comptroller, who are appointed by and act on behalf of the Commissioners, make the day-to-day decisions. There is no legislation that determines the specific responsibilities of the Secretary and Comptroller General and the Assistant Comptroller. However, in practice the role of the Secretary and Comptroller General is considered analogous to acting as the Accounting Officer for CRND. Therefore, the Secretary and Comptroller General takes responsibility for preparing and signing the accounts on behalf of the Commissioners.

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.

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.

The Secretary and Comptroller General has taken all the steps that she ought to have taken to make herself aware of any relevant audit information and to establish that ISIA's auditors are aware of that information. So far as she is aware, there is no relevant audit information of which the ISIA's auditors are unaware.

Management Commentary

Results for 2006-2007

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 (DMA) Deposit Facility. This arrangement remained in place throughout 2006-2007.

The amendment to the Act by the Enterprise Act 2002 has led to generally declining operating surpluses as rates payable to liquidators have been revised more frequently so that they correspond more closely to interest rates achieved on investments.

During 2006-2007, the ISIA made a net operating surplus from funds invested of nil (2005-2006: £5.1 million). This comprised interest earned of £63.9 million (2005-2006: £53.9 million) less interest payable to liquidators of £63.9 million (2005-2006: £48.8 million). The increase in interest receivable compared to the previous year was mainly due to the increasing trend of interest rates over the year.

The Insolvency Service advanced £284 million (net of withdrawals) into the ISIA over the course of the year (2005-2006: net advance of £132 million). Mainly as a result of this, assets held by ISIA increased to £1,399 million at the year-end (2005-2006: £1,115 million).

CRND expect to continue the current investment strategy throughout 2007-2008 and beyond. Investment in deposits with the DMA Deposit Facility enables the ISIA to earn a rate of interest that is closely related to current short-term interest rate levels whilst protecting its capital position.

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

12 July 2007

Statement of Secretary and Comptroller General's responsibilities

- 1 Section 409(1) of the Insolvency Act 1986 requires CRND to prepare accounts for each financial year in the form and on the basis determined by HM Treasury.
- 2 The ISIA annual accounts are prepared on an accruals basis, as directed by HM Treasury and must give a true and fair view of the financial position of the ISIA at the year end and of the surplus or deficit and the cash flows for the financial year.
- 3 The Commissioners have appointed the Secretary and Comptroller General to discharge their statutory responsibilities, 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 an 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 accounts. 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 ensuring the operation of a sound system of internal control that supports the achievement of CRND's targets, policies and objectives in managing client investment portfolios whilst safeguarding the public funds for which I am accountable, in accordance with the responsibilities assigned to me.

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 on 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.

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 2007 and up to the date of approval of this account, and accords with Treasury guidance. The DMO has made additions 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, set by the DMO Managing Board. The DMO has a Risk Management Assurance Strategy documenting its risk management processes.

The 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 relevant elements of 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

During the year, responsibility for supporting me as Secretary and Comptroller General in matters relating to oversight of the governance, internal control and risk management processes was brought under the supervision of the Exchequer Funds Audit Committee. The Exchequer Funds Audit Committee performs this role for the Accounting Officers of each of the Exchequer Funds which are the Commissioners for the Reduction of the National Debt, Debt Management Account, Public Works Loan Board, Exchange Equalisation Account, National Loans Fund, Consolidated Fund and the Contingencies Fund. Members of the Committee are appointed for periods of up to three years, extendable by no more than one additional three-year period. The Chair of the Committee reports to me on matters relating to the CRND. The current membership of the Committee is

- Colin Price, Chair, non-executive member of the DMO's Managing Board, until December 2006 Chair of the Lord Chancellor's Strategic Investment Board and formerly Global Pension Fund Adviser/Finance Director at Shell Pensions Management Services Limited;
- Brian Larkman, non-executive member of the DMO's Managing Board and formerly Global Head of Money Markets at the Royal Bank of Scotland PLC; and
- Mark Clarke, Director General Finance and Strategy at the Department of Trade and Industry.

The Exchequer Funds Audit Committee met for the first time on 23 January 2007 and again on 29 March 2007, and will meet four times a year.

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. In support of this Internal Audit and an external risk consultancy firm have carried out reviews on operational risk management during the year. Work is in hand to implement recommendations from these reviews.

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. Progress has been made in documenting main team objectives with comprehensive coverage planned during 2007-2008. This is intended to promote a clear understanding of the ownership of each risk within the organisation.

Heads of business units and functional teams assess regularly whether risks to their operations are being managed effectively. The DMO has Senior Risk Owners who undertake a cross-functional moderation process to promote better prioritisation of operational risks across the organisation. Project teams use risk registers to monitor and manage identified risks for each DMO project. Managing Board has 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, progress on treatment actions, and exceptions are documented in a quarterly report produced by the Risk Management Unit for the Senior Risk Owners 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. In particular segregation of duties takes place between front and back office duties. All teams have documented procedures for their main activities and there are clearly defined authorisation levels for committing the DMO externally.

An up-to-date memorandum of understanding is in place with each client, outlining the respective responsibilities of CRND and the client. CRND has adopted a passive style of fund management for each client. CRND has established effective communication channels with each of its clients.

The DMO has policies on anti-fraud measures, money laundering and whistleblowing that cover CRND activities. An independent review of the DMO's money laundering controls was undertaken in 2006-2007. Recommendations to move to a risk based approach in line with market practice will be implemented in 2007-2008. The DMO has its own anti-money laundering handbook. DMO staff report on anti-money laundering developments and process to the Managing Board.

The DMO's Business Continuity Plan (BCP), including disaster recovery site and other arrangements, is subject to continual review and update with the Senior Risk Owners taking a more active role during the year in progressing BCP improvements. The DMO tested the main elements of the BCP during the year by use of both internal and market-wide test exercises with external stakeholders. 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, my review of the effectiveness of the system of internal control is informed by the work of executive managers in the DMO who have been delegated responsibility for the development and maintenance of the internal control framework, and by the reports and comments made by the internal and external auditors. I have been supported by the Audit Committee and risk owners in addressing weaknesses and ensuring continuous improvement of the system is in place. The Exchequer Funds Audit Committee considered the 2006-2007 accounts in draft and provided me with its views before I formally signed the accounts.

- 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 met periodically to review issues affecting the DMO's system of internal control (including CRND), recommend actions to management and to implement changes where appropriate. The controls team comprises senior representatives of the DMO teams responsible for finance, risk, control, compliance and internal audit. The controls team reports periodically to the Audit Committee on progress to improve the internal control system during the year.
- 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.
- The DMO's Risk Management Unit conducts monthly Controls and Compliance testing providing the executive sub-committee of Managing Board with independent assurance on the effectiveness of operational controls and compliance with relevant FSA rules in the dealing and settlements areas.
- During the period of this Statement on Internal Control, Internal Audit has provided reports on the effectiveness of the risk management, control and governance processes for the DMO, including those covering CRND, to the Audit Committee throughout the period. The audits make a series of recommendations that are addressed as part of our focus on continuous improvement in this area. The Internal Audit work programme is approved by the Audit Committee at the start of the year.
- Internal Audit attended each meeting of the Audit Committee to report the results of audit work and the results of follow-up work to confirm that appropriate management action had been taken to address audit recommendations.
- Internal Audit's view was that assurance could be given over the risk management, control and governance arrangements relevant to the accounts. There are no matters arising from the work of Internal Audit in the period that would give rise to a separate comment in the Statement on Internal Control.

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

12 July 2007

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

I certify that I have audited the financial statements of the Insolvency Services Investment Account for the year ended 31 March 2007 under the Insolvency Services Act 1986. These comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

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 pages 2 and 3 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 Services 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. These responsibilities are set out in the Statement of Comptroller General'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 have been properly prepared in accordance with the Insolvency Services Act 1986 and HM Treasury directions made thereunder. I also report whether in all material respects the financial transactions of the Insolvency Services Investment Account conform to the authorities which govern them.

I also report to you, if in my opinion, proper accounting records have not been kept or if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities is not disclosed. I read the other information contained in the Foreword and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

I review whether the Statement on Internal Control reflects the Commissioners for the Reduction of the National Debt's compliance with HM Treasury's guidance, and I report if it does not. 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 or 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 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 in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Comptroller in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Insolvency Services Investment Account'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 are free from material misstatement, whether caused by fraud or error and that in all material respects the financial transactions conform with the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinions

Audit opinion

In my opinion

- the financial statements give a true and fair view, in accordance with the Insolvency Services Act 1986 and directions made thereunder by Treasury, of the financial position of the Insolvency Services Investment Account as at 31 March 2007 and of the deficit and cash flows for the year ended 31 March 2007; and
- the financial statements have been properly prepared in accordance with the Insolvency Services Act 1986 and directions made thereunder by Treasury.

Audit opinion on regularity

In my opinion, in all material respects the transactions of the Insolvency Services Investment Account conform to the authorities which govern them.

Report

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

20 July 2007

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Income and Expenditure Account for the year ended 31 March 2007

	Notes	2007 £000	2006 £000
Interest receivable	2	63,944	53,886
Investment income		63,944	53,886
Interest payable to liquidators	3	(63,947)	(48,821)
Operating (deficit)/surplus		(3)	5,065

The notes on pages 13 to 16 form part of these accounts

Balance Sheet as at 31 March 2007

	Notes	2007 £000	2006 £000
Assets			
Loans and advances	4	1,487,474	1,196,505
Accrued interest	5	6,531	2,398
Total assets		<u>1,494,005</u>	<u>1,198,903</u>
Liabilities			
Client funds	6	1,399,000	1,115,000
Accumulated net profits on disposals	7	45,990	45,990
Retained interest	8	14,167	14,170
Other liabilities	9	34,848	23,743
Total liabilities		<u>1,494,005</u>	<u>1,198,903</u>

The notes on pages 13 to 16 form part of these accounts

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

12 July 2007

Cash Flow Statement for the year ended 31 March 2007

	Notes	2007 £000	2006 £000
Net cash flow from operating activities	10	(284,000)	(132,000)
Financing	10	284,000	132,000
Increase/(decrease) in cash		0	0

The notes on pages 13 to 16 form part of these accounts

Notes to the Accounts for the year ended 31 March 2007

1 Accounting policies

These accounts have been prepared in accordance with a direction made by HM Treasury under section 409(1) of the Insolvency Services Act 1986.

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 ISIA 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.

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.
- 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 Administrative 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 is included in the operating statement on an accruals rather than a cash basis.

1.7 Ways and Means

End of day cash surpluses that have not been invested in other ways are swept daily to the National Loans Fund (NLF) and are repayable on demand while the NLF makes good any daily shortfall in monies on the ISIA. These investments are known as Ways and Means. The ISIA receives interest on monies swept up to the NLF and pays interest on shortfalls covered by the NLF.

2 Interest receivable

	2007	2006
	£000	£000
Interest receivable on deposits given	63,885	53,049
Interest receivable on Ways and means	59	249
Transferred from money employed account	0	588
	<u>63,944</u>	<u>53,886</u>

3 Interest payable to liquidators

	2007	2006
	£000	£000
Gross interest (including tax £5.715 million) paid to the Insolvency Services Account for the half year to 30 September	(29,096)	(25,078)
Gross interest (including tax £6.875 million) due to be paid to the Insolvency Services Account for the half year to 31 March	(34,851)	(23,743)
	<u>(63,947)</u>	<u>(48,821)</u>

4 Loans and advances

	2007	2006
	£000	£000
Fixed rate deposits given to DMA	0	963,000
Call notice deposits given to DMA	1,487,473	228,500
Ways and means	1	5,005
	<u>1,487,474</u>	<u>1,196,505</u>

5 Accrued interest

	2007	2006
	£000	£000
Accrued interest on deposits	6,531	2,384
Accrued interest on Ways and means	0	14
	<u>6,531</u>	<u>2,398</u>

6 Client funds

	2007	2006
	£000	£000
Prior year Client Funds	1,115,000	983,000
Financing	284,000	132,000
Current year Client Funds	<u>1,399,000</u>	<u>1,115,000</u>

7 Accumulated net profits on disposals

	2007 £000	2006 £000
Accumulated net profits at start of period	45,990	45,990
Profit/(loss) realised on disposal of securities	0	0
Accumulated net profits at end of period	45,990	45,990

8 Retained interest

	2007 £000	2006 £000
Interest receivable in the year	63,944	53,886
Interest payable	(63,947)	(48,821)
Retained interest in period	(3)	5,065
Retained interest as at start of period	14,170	9,105
Retained interest as at end of period	14,167	14,170

Prior to 2004-2005, surplus interest was payable to the Consolidated Fund and not retained by the ISIA.

9 Other liabilities

	2007 £000	2006 £000
Interest and tax due to be paid	34,848	23,743
	34,848	23,743

10a Reconciliation of operating profit to net cash flow from operating activities (indirect method)

	2007 £000	2006 £000
Operating (deficit)/surplus	(3)	5,065
(Increase)/decrease in loans and advances (inc. Ways and Means) given	(290,969)	(138,101)
(Increase)/decrease in accrued interest	(4,133)	(251)
Increase/(decrease) in other liabilities	11,105	1,287
Net cash flow from operating activities	(284,000)	(132,000)

Financing

Advanced by the client	659,000	753,500
Withdrawn by the client	(375,000)	(621,500)
	284,000	132,000

10b Reconciliation of operating profit to net cash flow from operating activities (direct method)

	2007	2006
	£000	£000
Loans and advances (inc. Ways and Means) given	(6,685,940)	(13,379,787)
Loans and advances (inc. Ways and Means) received	6,394,971	13,241,687
Gross interest (including tax £10,290,663) paid to the Insolvency Services Account for the period to March 2006 and for the period to September 2006	(52,842)	(47,535)
Interest received	59,811	53,635
Net cash flow from operating activities	<u>(284,000)</u>	<u>(132,000)</u>

Financing

Advanced by the client	659,000	753,500
Withdrawn by the client	<u>(375,000)</u>	<u>(621,500)</u>
	<u>284,000</u>	<u>132,000</u>

11 Related parties

CRND is a separate entity within the UK Debt Management Office (DMO). CRND conducts a fund management service for a range of governmental clients. On behalf of HM Treasury, DMO undertakes Government debt and cash management activities and operates the Debt Management Account (DMA). 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 DMA via the DMO cash management desk. The DMA gilt desk from time to time undertakes gilt purchases and sales 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 £6,686 million (2005-2006: £13,380 million). The value of deposits held with the DMA as at the balance sheet date was £1,487 million (2005-2006: £1,192 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 and subsequent financial years comprising
 - 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.
 - 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 FCA
Head of Central Accountancy Team,
Her Majesty's Treasury

10 November 2004

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 of bankruptcies and compulsory liquidations. Voluntary liquidators may 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). Estate monies deposited in the ISA are generally transferred to the Investment Account (Section 403(2) of the Act) although the Regulations provide that trustees and liquidators may request investment in Government Securities of estate monies not required for immediate purposes (Regulation 9(1) & 23A).

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 to those governing the payments made by trustees and liquidators of compulsory insolvencies.

The ISA is administered by the Estate Accounts Directorate of The Insolvency Service. Following a restructuring that took place on the 5 June 2006, the Banking Directorate became known as the Estate Accounts Directorate. The restructure brought together teams performing similar functions instead of dividing resources between services to official receivers and services to insolvency practitioners. This reorganisation has produced a front office operational and customer enquiries section and a back office accounting and business support section.

3 Aims and objectives

The Estate Accounts Directorate seeks to be a centre of excellence in providing estate accounting and investment services for bankruptcy and liquidation estate funds by

- Delivering a high standard of service to all users of the ISA;
- Listening to the views of users about the administration of the ISA;
- Making use of new technology to improve efficiency and extend the range of services provided;
- Minimising the regulatory burden on users of the ISA, within the statutory framework; and
- Ensuring the correct application and recovery of insolvency fees.

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 69,882 in 2005-2006 to 80,836 in 2006-2007. There was a slight increase in new voluntary liquidation cases to 10,897; bankruptcy cases increased by 21% to 64,610; and compulsory cases decreased by 5% to 5,329.

Estate accounts maintained for insolvency practitioners decreased in 2006-2007 to 39,601 (2005-2006 43,804), for bankruptcies and compulsory liquidations, while estate accounts maintained for official receivers increased in 2006-2007 to 78,322 (2005-2006 62,421). Voluntary estate accounts maintained for insolvency practitioners decreased in 2006-2007 to 4,723 (2005-2006 5,966).

The value of bankruptcies and compulsory liquidations estate accounts decreased to £251 million (2005-2006 £272 million), but the value of voluntary liquidation estate accounts has risen to £966 million during 2006-2007 (2005-2006 £673 million) as voluntary liquidators have taken advantage of the increased rate of interest paid on funds in the ISA.

Transactions

The Insolvency Services Account

Receipts into the ISA decreased in 2006-2007 by £275 million to £1,643 million.

Payments also decreased by £277 million to £1,655 million.

During the year aggregate receipt and payment volumes decreased when compared to 2005-2006: receipts volumes were 135,000 in 2006-2007 (2005-2006 135,000) and payment requests were down to 200,000 in 2006-2007 (2005-2006 227,000). Balance statements requested by IPs decreased by 43% due to the increasing number of insolvency practitioners using the on-line internet access facility.

The Insolvency Services Investment Account

Funds invested by CRND at 31 March 2007 were £1,399 million, an increase of £284 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 £14.2 million (2005-2006 £14.2 million). Surplus interest earned is retained in the ISIA.

Banking

Following the Bank of England's withdrawal last year from retail banking activities, Office of HM Paymaster General (OPG) has continued to process retail banking transactions for the ISA. OPG's payable order system for paper-based payments has again delivered a high level of security for such payments through the ISA. BACS and CHAPS payments are used for payments when sufficient account data is provided.

Interest paid to estates

The rate of interest paid on sums deposited in the ISA was increased on 1 October 2006 from 5.25% to 6.00% and further increased on 1 February 2007 to 6.50%. Both amendments followed notices published in the London Gazette pursuant to Regulation 9 (6B). The rate of interest is subject to regular review by Estate Accounts Directorate and the CRND.

Fees

The Estate Accounts Directorate is responsible for ensuring that the correct fees are charged and collected on bankruptcies, compulsory liquidations and any voluntary liquidation holding an account in the ISA. Banking Fees for the year have remained unchanged at £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 2006-2007 totalled £2.8 million (2005-2006 £3.2 million). There has also been no change to the cheque issue fee at £0.80 per cheque and BACS transaction fee of £0.15. Cheque and BACS fees totalling £119,000 (2005-2006 £148,000) were charged to estates during the year.

Case administration fees also remained at 2005-2006 levels during 2006-2007.

Key performance indicators

All of the key performance indicators were achieved or exceeded; in particular 99.1% (2005-2006 98.5%) of Insolvency Services Account payments were actioned within four days of receipt.

On-line services

During the year, an additional 66 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 977 at 31 March 2007 (911 at 31 March 2006).

5 Forward look

As stated in paragraph 2 above, on 5 June 2006 the Banking Directorate was restructured and renamed as the Estate Accounts Directorate. Operational benefits including improved services, resilience, flexibility and efficiency have been achieved and further gains are expected in 2007-2008 as the opportunities identified are implemented.

While existing financial systems have continued to be upgraded to meet business objectives (and will continue to be fully maintained), the new project to replace the legacy systems with a single system will continue during 2007-2008. The ability to move to a single system has been enhanced by the restructuring. In the next phase of the project, business requirements will be mapped out in greater detail and independent consultants will be engaged to evaluate various system options and recommend which option will provide the optimum value for The Insolvency Service. There will also be a review of the scope of the work of Estate Accounts Directorate following the closure during 2006-2007 of the previous IT project (Cameo).

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.

As far as we are aware, there is no relevant audit information of which the auditors are unaware and we have taken all the steps that we ought to have taken to make ourselves aware of any relevant audit information and to establish that the Agency's and CRND's auditors are aware of that information.

Desmond Flynn
The Insolvency Service
12 July 2007

Jo Whelan
Commissioners for the Reduction of the National Debt
12 July 2007

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 up to five independent members;
- The Directing Board meets twice monthly and during the year reviews management accounts prepared by the Estate Accounts 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 four 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 has been in place for the year ended 31 March 2007 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 Estate Accounts 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 has 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, Resources and Estate Accounts Directorate and have been reviewed half-yearly and updated as necessary during 2006-2007.

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 assisted in 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.

There were no significant internal control issues during the course of 2006-2007, but where weaknesses in the control environment were identified, action to strengthen control has been taken or is planned.

The awareness and application of risk management continues to improve across The Service.

Desmond Flynn
The Insolvency Service
Accounting Officer

12 July 2007

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

I certify that I have audited the financial statements of the Insolvency Services Account 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 22, 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 to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

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 Internal Control reflects The Insolvency Service's compliance with HM Treasury's guidance, and I report if it does not. 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 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. 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 financial statements properly present the receipts and payments of The Insolvency Service in respect of the Insolvency Services Account for the year ended 31 March 2007 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
- the financial statements have been properly prepared in accordance with the Insolvency Services Act 1986 and the directions made thereunder by the Treasury

Audit opinion on regularity

In my opinion, 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.

Report

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

20 July 2007

National Audit Office
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Victoria
London SW1W 9SP

Receipts and Payments for the year ended 31 March 2007

	Notes	2006-2007 £000	2005-2006 £000
Receipts			
Realisation of assets of estates in compulsory insolvencies and voluntary liquidations		1,210,901	1,235,299
Frequent petitioners	12	3,439	3,505
From the Investment Account	2	375,000	621,500
Realisation of Government Securities at the request of liquidators and trustees	3	672	183
Unclaimed dividends	7	9,254	11,699
Interest received	4	44,148	40,237
Profit on exchange	11	0	5,370
		<u>1,643,414</u>	<u>1,917,793</u>
Payments			
Payments requested by liquidators and trustees of estates in compulsory insolvency and voluntary liquidation and reissued dividends	6	903,523	1,109,155
<i>To the Investment Account</i>			
Excess cash balances on the ISA	2	659,000	753,500
Interest on ISA working balances	4	204	412
To the Consolidated Fund	8	1,429	4,031
To the Insolvency Service	5	88,568	64,629
Loss on exchange	11	2,275	0
		<u>1,654,999</u>	<u>1,931,727</u>
Excess of payments over receipts	10	11,585	13,934

The notes on pages 29 to 32 form part of this account.

Statement of Balances as at 31 March 2007

	Notes	2007 £000	2006 £000
Balances			
The Investment Account	2	1,399,000	1,115,000
Government Securities	3	147	901
Cash at bank	10	(9,008)	2,577
		1,390,139	1,118,478
Representing			
Insolvency Estates	11	1,313,117	1,052,393
Frequent petitioners	12	160	119
Fees due to the Insolvency Service	5	36,350	29,934
Amounts due to the Investment Account	2	8	17
Unclaimed dividends	7	39,786	35,143
Amount due to the Consolidated Fund	8	2	15
Amounts due to the Treasury Solicitor (BV)	9	374	400
Interest on foreign currency deposits	4	342	457
		1,390,139	1,118,478

The notes on pages 29 to 32 form part of this account.

Desmond Flynn
The Insolvency Service
Accounting Officer

12 July 2007

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 gain/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.

	2006-2007	2005-2006
	£000	£000
Balance at 1 April	1,115,000	983,000
Excess cash balances transferred to the Investment Account	659,000	753,500
	1,774,000	1,736,500
<i>Less transfers to ISA</i>	(375,000)	(621,500)
Balance at period end 31 March	1,399,000	1,115,000

There is a further amount of £7,676 due to the Investment Account in relation to interest earned on foreign currency deposits.

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.

	2006-2007	2005-2006
	£000	£000
Balance at 1 April	901	1,093
Amounts realised in the period	(672)	(183)
Net loss on Government Securities	(82)	(9)
Balance at 31 March at cost	147	901

4 Interest received

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

	2006-2007	2005-2006
	£000	£000
On Government Securities	58	49
On deposits in the ISIA	42,551	38,728
On working balances*	725	277
On foreign currency deposits**	814	1,183
	<u>44,148</u>	<u>40,237</u>

* £204,042 of interest earned on working balances was paid to the Investment Account during the period. £521,014 of interest earned on working balances in the period was due to be paid to the Investment Account at the year end.

** Interest is earned on estate monies held in the US Dollar Account during the period. The balance of accrued interest on foreign currency deposits at the year-end was £342,292.

5 Fees

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 estate accounting and investment services. The DTI continues to fund disbursements charged to estates where there are insufficient funds.

	2006-2007	2005-2006
	£000	£000
Balance at 1 April	29,934	12,536
Fees on unclaimed dividends	(5)	1
Recovered/(Unrecovered) disbursements*	575	(126)
Fees and VAT recovered from estates	94,414	82,152
Net fees and VAT paid from ISA	<u>(88,568)</u>	<u>(64,629)</u>
Balance at 31 March	<u>36,350</u>	<u>29,934</u>

* The DTI recovers from the Insolvency Service recovered disbursements. £575,061 represents funds due from the ISA to the Insolvency Service.

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

	2006-2007 £000	2005-2006 £000
Balance at 1 April	35,143	28,967
Receipts	9,254	11,699
Payments to creditors	(2,990)	(3,749)
Fees	5	(1)
Transfers from estates	62	219
Transfers to estates	(568)	(518)
Paid to the Consolidated Fund (Note 8)	(1,120)	(1,474)
Balance at 31 March	<u>39,786</u>	<u>35,143</u>

8 Surrenders to the Consolidated Fund

The Act 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

	2006-2007 £000	2005-2006 £000
Balance at 1 April	15	14
Unclaimed dividends (Note 7)	1,120	1,474
Undistributed balances	296	2,558
	<u>1,431</u>	<u>4,046</u>
Paid to the Consolidated Fund	(1,429)	(4,031)
Balance at 31 March	<u>2</u>	<u>15</u>

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.

	2006-2007 £000	2005-2006 £000
Balance at 1 April	400	374
Money from dissolved companies	66	136
Payments to Treasury Solicitor	(92)	(110)
Balance at 31 March	<u>374</u>	<u>400</u>

10 Cash at bank

The ISA balance is held at the Bank of England.

	2006-2007 £000	2005-2006 £000
Balance at 1 April	2,577	16,511
Excess payments over receipts	(11,585)	(13,934)
Balance at 31 March	(9,008)	2,577

The balance at 31 March 2007 results from a timing difference and does not reflect the account being overdrawn.

11 Insolvency Estates

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

	2006-2007 £000	2005-2006 £000
Balance at 1 April	1,052,393	958,389
Net realisations	313,853	133,389
Net Interest	43,985	39,616
Other payments/adjustments	150	(2,345)
(Loss)/profit on exchange*	(2,275)	5,370
(Unrecovered)/recovered disbursements	(575)	126
Fees and VAT recovered	(94,414)	(82,152)
Balance at 31 March	1,313,117	1,052,393

* The total loss on exchange was £2,275,453, which was the notional loss on estates held in foreign currencies at the year-end.

12 Frequent petitioner accounts

Frequent Petitioner accounts 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.

	2006-2007 £000	2005-2006 £000
Balance at 1 April	119	49
Funds received from Frequent Petitioners	3,439	3,505
Deposits credited to Insolvency Estates	(3,398)	(3,435)
Balance at 31 March	160	119

Desmond Flynn
The Insolvency Service
Accounting Officer

12 July 2007

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