

Presented pursuant to Chapter 2, Section 45 of the Administration of Justice Act 1982

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# Funds in Court in England and Wales Account 2003-2004

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# The Accountant General's Accounts (Account A) of his transactions under Section 38 of The Administration of Justice Act 1982 and presented under Section 45 of the same Act.

## Foreword

### Accountant General's accounts

The Accountant General's Accounts (Account A) cover the year ended 29 February 2004. They have been prepared in accordance with the direction given by the Treasury in pursuance of Section 45(2) of the Administration of Justice Act 1982 (the Act). The Accounts record dealings in cash and securities held in court. Deposits under the various enactments referred to in Section 40 of the Act are not segregated in the Accounts.

### The Court Funds Office

The Court Funds Office conducts dealings in cash and securities on behalf of the Accountant General. It manages funds 'held in Court' on behalf of clients who may be

- suitors involved in a civil legal action where money is paid into the Court Funds Office. These are cases either in a County Court in England or Wales or in the High Court of Justice. The Court Funds Office will hold such monies until authorised to release them on completion of the case. The Court Funds Office holds these monies in its Basic Account, which during the 2003-2004 accounting period paid interest at a rate of 4% gross with instant access;
- patients, under the Court of Protection, who are not able to manage their property and affairs and as a result use the services of the Protection and Receivership activities of the Public Guardianship Office. The investment strategy for patients' funds, is determined by the respective court either on a Capital Appreciation or High Income basis or a mixture of both and reviewed annually. The investment strategy determined by the court is implemented by the Investment Division of the Public Guardianship Office, either in stocks and certain unit and investment trusts, or placed with the Court Funds Office on its Special Account. During the 2003-2004 accounting period the Special Account paid interest at a rate of 6% gross with instant access; and
- children for whose benefit funds are paid into Court and held until attaining majority on their 18th birthday, unless the court order instructs otherwise. The investment strategy for the children's funds is determined by the respective court either on a Capital Appreciation or High Income basis or a mixture of both. The investment strategy is implemented by the Investment Division of the Official Solicitor and Public Trustee either in stocks and certain unit and investment trusts, or placed with the Court Funds Office on its Special Account. During the 2003-2004 accounting period the Special Account paid interest at a rate of 6% gross with instant access.

The Court Funds Office is also responsible for the Unclaimed Balances Account. This Account consists of

- money paid into court which has not been claimed by beneficiaries after ten years from the last point of activity on the account; and
- money paid to the Court Funds Office where the rightful owner cannot be found, and which therefore cannot be returned.

The Unclaimed Balances register is available at the Court Funds Office at 22 Kingsway, London WC2B 6LE and is open to the public.

The Court Funds Office is controlled by the Rules of the Supreme Court and the Court Funds Rules which provide the authority to accept payments 'into Court' under certain circumstances and to hold these funds until instructed

## Court Funds Office investment criteria

Under section 38(2) of the Act, the Accountant General maintains an account at the Bank of England. From time to time money on that account in excess of an average working balance at an agreed level is remitted to the Commission for the Reduction of National Debt (CRND) for investment, drawings being made when additional money is required to meet payments out of Court. The level of working balance is £800,000 and the Accountant General meets the Bank's cost of servicing this account. This arrangement is being reviewed as part of the wider review of investment and banking activities within the Department for Constitutional Affairs.

The Basic and Special Accounts are operated by the Accountant General. The monies held in Court may be paid into either account in accordance with the Court Funds Rules. The rates of interest paid on these accounts are prescribed from time to time by direction made by the Lord Chancellor, with the concurrence of the Treasury.

During the year (1 March 2003 to 29 February 2004), the percentage rates were

Basic	4%
Special	6%

Interest earned by the Accountant General's deposits with the CRND pays the interest due on Basic and Special Accounts.

## Results for the year ended 29 February 2004

The Accounts on pages 11 to 15 report cash lodgements during the year ending 29 February 2004 of £2.0 billion (2003: £2.3 billion), with cash payments and transactions out of Court of £1.9 billion (2003: £1.8 billion). This net inflow of cash, plus interest earned of £193 million, were the main reasons for overall cash balances held increasing to £3.96 billion (2003: £3.67 billion) at 29 February 2004.

The 2003-2004 Accounts also reported a £22.96 million (2003: £10.42 million) decrease in the nominal value of securities held, with a closing balance of £19.3 million reported at 29 February 2004. The number of Common Investment Fund units held decreased by 1.3 million with 3.9 million units held at 29 February 2004. Further details of the Common Investment Funds are provided in note 5 and Part C of the Accounts.

The administrative costs of the Court Funds Office fall outside the scope of these accounts. Instead, the costs for the year ending 29 February 2004, and their reimbursement from funds held by the CRND, are reported in the 2003-2004 Annual Report and Accounts of the Court Service.

## Audit of accounts

Under Section 45 (3) of the Act, the Comptroller and Auditor General is responsible for examining the Accountant General's Accounts and laying before Parliament a copy of the accounts together with his certificate and report.

## Investment and banking review

The Second Permanent Secretary and Director General of Finance of the Department for Constitutional Affairs, (DCA) commissioned a review of the Department's Investment and Banking activities in the second half of 2003. The findings and recommendations of the review were accepted by the Department's Corporate Board.

The Department subsequently appointed Mr Rab Harley, an experienced financial services professional, to a new position of Head of Investment and Banking with responsibilities for implementing the recommendations from the review and for bringing together the relevant activities in the Public Guardianship Office, the Court Funds Office and the Office of the Official Solicitor and the Public Trustee.

The overriding aim is to improve the level of service to clients, reduce risk and increase accountability. This work includes developing a strategic plan, in conjunction with the Accountant General, for the future provision of Investment and Banking services.

*Peter Handcock*  
Accountant General of the Supreme Court

16 November 2004

## Statement of the Accountant General's responsibilities

### Management and Investment of Funds in Court

As set out in section 38 of the Administration of Justice Act 1982 (the Act), the Accountant General of the Supreme Court is responsible for the management and investment of the Funds in Court.

### Statement of Accounts

Under section 45 (1) of the Act, the Accountant General is required to prepare a statement of accounts for each financial year in the form and on the basis as directed by the Treasury. The accounts must show receipts and payments and transactions in securities and must properly present the balances held at the year-end.

### Appointment of the Accountant General

The Secretary of State and Lord Chancellor has, under section 97(2) of the Supreme Court Act 1981 as amended by the Public Trustee and Administration of Funds Act 1986, appointed Peter Handcock as Accountant General of the Supreme Court on 13 February 2003. The Permanent Secretary of the Department for Constitutional Affairs has also appointed the Accountant General as the Accounting Officer for Funds in Court. His relevant responsibilities as Accounting Officer, including his responsibilities for the propriety and regularity of the funds for which he is answerable and for the keeping of proper records, are set out in the Accounting Officer's Memorandum issued by the Treasury and published in 'Government Accounting'.

# Statement on Internal Control

## Scope of responsibility

As Accounting Officer for the Funds in Court Part A Accounts, I acknowledge my responsibility for ensuring that an effective system of internal control is maintained and operated by the Court Funds Office.

## The purpose of the system of internal control

The Court Funds Office system of internal control is designed to manage, rather than eliminate, the risk of failure to meet business objectives and can only provide reasonable, but not absolute assurance that assets are safeguarded, transactions are authorised and properly recorded, proper accounting records are maintained and that material errors or irregularities are either prevented or would be detected within a timely period.

## Capacity to handle risk

The risk management process requires the Court Funds Office to maintain a risk register, which is a complete record of the risks the Court Funds Office faces and management's response to these risks, including the adequacy of the controls in place to manage risks and any actions planned to strengthen these controls. The more significant of these risks is reported upwards and incorporated into the Risk Registers of the Court Service and DCA.

The Court Funds Office and the DCA Corporate Governance team have developed a schedule of key risk and operational controls. This new control framework embedded risk management processes in the operations of the Court Funds Office during the financial year ending February 2004.

## The risk and control framework

In the Court Funds Office, the main processes in place for identifying, evaluating and managing risks are

- Management Board meetings to discuss exception planning and risks to the business;
- adherence to the DCA risk strategy;
- a register of Key Risks and Operational controls that is reflected as a responsibility for all team section managers; and
- seminars on Corporate Governance and risk management.

The system of internal control is based on a framework of regular management information, financial regulations, administrative procedures including segregation of duties, and a system of delegation and accountability.

## Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the work of Internal Audit and the management team, who have responsibility for the development and maintenance of the internal control framework, and comments made by the National Audit Office in their management letter and other reports.



My review of the effectiveness of the system on internal control is informed by the following

- introduction of a more rigorous data input validation to ensure quality control at input stage thus reducing the scope for errors;
- the introduction of weekly exception reporting in the lodgements, suitors, funds, Court of Protection and Securities areas to ensure that any deviations from planned activity are addressed promptly;
- improvement of communication with all stakeholders, e.g. the Public Guardianship Office, the Official Solicitor and Public Trustee and the Courts to ensure a seamless flow of information;
- individual accountability written into Personal Development Plans of business section managers to reflect the need for specific compliance functions to be carried out weekly and certificated monthly;
- regular reports by line managers on the adequacy and effectiveness of the internal management control system in the main operational areas. These reports are then submitted to the Head of Court Funds Office and Deputy Accountant General for verification and certification;
- the Court Funds Office Management Board's ongoing review of the Court Funds Office process for formally identifying, evaluating and managing the significant risks to the achievement of its objectives;
- the undertaking of daily and monthly reconciliation to ascertain and agree the balances held with the Bank of England and the CRND, who hold funds on behalf of the Accountant General;
- the existence of an appropriate control environment, such as clearly defined management responsibilities and evidence of reaction to control failures such as action plans to address Internal Assurance recommendations and the Corporate Governance Branch healthcheck;
- regular reviews of an annual budget covering the costs of administering the Court Funds Office, which is agreed by the Court Service Board; and
- for client funds invested via the Common Investment Fund, review of performance undertaken via quarterly reports submitted to the Strategic Investments Board.

The DCA has an Internal Assurance Division, which operates to the standards defined in the Government Internal Audit Manual and provides an internal audit service for the Court Funds Office. The work of Internal Audit is informed by an analysis of the risks to which the Department are exposed and annual internal audit plans are based on this analysis. The analysis of risk and the internal audit plans for the year ending 29 February 2004 were endorsed by the Court Service Audit Committee and Management Board.

## Internal control

The Internal Assurance Division carried out a review of accounting procedures at the Court Funds Office in June 2003 and identified weaknesses in suspense accounts, reconciliations and overdrawn accounts. As a result of Internal Assurance Division's recommendations, an action plan was put in place to address those weaknesses identified. Progress in achieving this action plan was reported monthly to the Accountant General until December 2003. Since this date, further remedial work now forms an integral part of the integrated action plan that is being taken forward following the Investments and Banking review.

## Children's Fund Accounts

The CFO manages cases relating to Children's Funds, which may be invested either in

- capital growth, where no funds are anticipated to be required during the lifetime of the fund;
- capital appreciation with some income where some payments may be required during the lifetime of the fund; and
- high income where payments may be required on time-to-time basis.

A special project team is currently undertaking remedial work to improve the database of beneficiaries where contact had been lost. This exercise improves the controls that prevent accounts becoming Unclaimed Balances.

## Annual reconciliation of security holdings

The annual reconciliation of the Accountant General security holdings at the financial year ending 29 February 2004, is usually carried out by comparing the Client holdings on the CFO's Funds Accounting System (FAS) records against those held at the Bank of England. This year a more accurate and comprehensive reconciliation of the FAS holdings was implemented whereby comparisons with the holdings at the Registrars and Unit Managers was also made.

## Strategic review of the accounts

A post year-end review has been undertaken to examine the future role of the Accounts for the Court Funds Office. More meaningful accounts in line with Generally Accepted Accounting Principles (GAAPs) will be introduced. The rigour of implementing this recommendation will contribute to overall accountability, governance and control being improved.

*Peter Handcock*  
Accountant General of the Supreme Court

16 November 2004

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

I certify that I have audited the Accounts on pages 11 to 15 under section 45 (3) of the Administration of Justice Act 1982. These financial statements have been prepared in the form and on the basis determined by Treasury.

## Respective responsibilities of the Accountant General and Auditor

As described on page 5, the Accountant General is responsible for the preparation of the financial statements in accordance with section 45 (1) (a) of the Administration of Justice Act 1982 and Treasury directions made there-under and for ensuring the regularity of financial transactions. The Accountant General is also responsible for the preparation of the foreword and the statement on internal control. My responsibilities as independent auditor are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements properly present the receipts and payments, transactions in securities and balances at the period end, and are properly prepared in accordance with section 45 (1) (a) of the Administration of Justice Act 1982 and Treasury directions made thereunder and whether, in all material respects, the receipts and payments and transactions in securities 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 proper accounting records have not been kept, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on pages 6 to 8 complies with Treasury's guidance on the 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 corporate governance procedures or the risk and control procedures.

## Basis of audit opinion

I conducted my audit in accordance with Auditing Standards issued by the Auditing Practices Board of the United Kingdom and the Republic of Ireland. 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 Accountant General in the preparation of the Accounts.

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 and transactions in securities have been applied to the purposes intended by Parliament and 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 and transactions in securities of the Accountant General of the Supreme Court for the year ended 29 February 2004 and the balances held at that date and have been properly prepared in accordance with section 45 (1) (a) of the Administration of Justice Act 1982 and Treasury directions made there under; and
- in all material respects the receipts and payments and transactions in securities have been applied to the purposes intended by Parliament and conform to the authorities which govern them.

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General

8 December 2004

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# Accounts of the Receipts and Payments and Transactions in Securities of the Accountant General under the Court Funds Rules for the year ended 29 February 2004

	Receipts and Payments for the year ended 29 February 2004			Receipts and Payments for the year ended 28 February 2003		
	Cash £	Securities nominal value £	Common investment Fund Units	Cash £	Securities nominal value £	Common investment Fund Units
<b>Receipts and transfers into court</b>						
<i>Cash</i>						
Lodgements by suitors	1,996,443,436			2,258,562,401		
Sales of Common Investment Fund (CIF) units and other securities	44,716,560			103,834,057		
Dividends	13,469,440			17,429,533		
Interest credited to court accounts	193,221,360			175,714,024		
<i>Securities</i>						
Lodged		665,709	689,379		4,531,331	10,500
Purchased		11,163,439	238,310		21,352,185	5,409
<b>Total receipts and transfers into court</b>	<b>2,247,850,796</b>	<b>11,829,148</b>	<b>927,689</b>	<b>2,555,540,015</b>	<b>25,883,516</b>	<b>15,909</b>
<b>Less payments and transfers out of court</b>						
<i>Cash</i>						
Payments to suitors	(1,897,085,307)			(1,798,889,843)		
Cost of purchase of CIF units and other securities	(53,226,077)			(128,000,278)		
Transfer of fees etc to the Department for Constitutional Affairs (Note 8)	(4,739,288)			(4,438,553)		
<i>Securities</i>						
Transferred and delivered		(30,674,124)	(1,269,511)		(22,012,582)	(10,500)
Sold		(4,110,809)	(943,309)		(14,294,827)	(868,657)
<b>Total payments and transfers out of court</b>	<b>(1,955,050,672)</b>	<b>(34,784,933)</b>	<b>(2,212,820)</b>	<b>(1,931,328,674)</b>	<b>(36,307,409)</b>	<b>(879,157)</b>
<b>Net movement in year</b>	<b>292,800,124</b>	<b>(22,955,785)</b>	<b>(1,285,131)</b>	<b>624,211,341</b>	<b>(10,423,893)</b>	<b>(863,248)</b>

The notes on pages 13 to 15 form part of these accounts.

## Statement of Balances at 29 February 2004

	Notes	Cash	Securities nominal value	Common investment Fund
<b>Balance as at 1 March 2003</b>	2	3,666,417,073	42,247,380	5,139,741
<i>Add/(deduct)</i>				
Net movement in year		292,800,124	(22,955,785)	(1,285,131)
<b>Balances as at 29 February 2004</b>	2	<u>3,959,217,197</u>	<u>19,291,595</u>	<u>3,854,610</u>

*The notes on pages 13 to 15 form part of these accounts.*

# Notes to the Accounts

## 1 Preparation of accounts

The accounts have been prepared in accordance with a Treasury direction dated 31 July 1991. This requires the accounts to be prepared on a cash basis.

## 2 Cash balances

a The cash balances for which the Accountant General is liable are

	<b>29 February 2004 £</b>	28 February 2003 £
<b>Cash balances representing</b>		
Court Funds (including interest) placed on basic account	<b>1,116,556,514</b>	1,140,678,757
Court Funds (including interest) placed on special account	<b>2,696,694,273</b>	2,375,662,740
Unclaimed Balances	<b>40,994,968</b>	34,746,873
Other Suitors' monies deposited in the Supreme Court	<b>84,837,986</b>	85,845,146
Suitors' monies held as foreign currency	<b>20,133,456</b>	29,483,557
	<b>3,959,217,197</b>	3,666,417,073
<b>The balances were held</b>		
Bank of England	<b>13,931,716</b>	12,831,496
Money held as foreign currency (note 3)	<b>20,133,456</b>	29,483,557
National Debt Commissioners (Note 2 b and c)	<b>3,945,933,972</b>	3,635,660,142
Amounts awaiting banking	<b>1,225,260</b>	6,016,604
	<b>3,981,224,404</b>	3,683,991,799
<i>Less cheques issued prior to 1 March and not yet cashed</i>	<b>(22,007,207)</b>	(17,574,726)
	<b>3,959,217,197</b>	3,666,417,073

b The National Debt Commissioners balance of £3,946 million (28 February 2003: £3,636 million) excludes £59 million (28 February 2003: £47 million) of basic and special account interest accrued but not yet credited to Court Funds. The National Debt Commissioner's balance at 29 February 2004 including this accrued interest was £4,005 million (28 February 2003: £3,683 million).

c Further details on the Court Funds Investment Account that is maintained by the National Debt Commissioners are provided in Part B of the Accounts.

### 3 Foreign currency

a Suitors monies held as foreign currencies are deposited by the Accountant General with various foreign commercial banks acting as agents of the Bank of England. Foreign currencies were translated to Sterling at the exchange rates in force on 29 February 2004.

Currency	Balance at 29 February 2004 in foreign currency	Exchange rates	Sterling equivalent at 29 February 2004
AUD	0	2.4043	0
CAD	1,548,562	2.4895	622,037
DKK	1,017	11.1232	91
SEK	5,874	13.8057	425
EUR	112,053	1.4927	75,067
USD	36,065,134	1.8556	19,435,836
JPY	0	202.7834	0
			<b>20,133,456</b>

b Notional gains and losses are calculated on opening and closing end year balances to reflect any gains or losses arising owing to movement in exchange rates. Although in prior years the gain or loss was reported as a separate item on the face of the receipts and payments account, this treatment has been discontinued and this is now netted off against relevant lodgement in Court and transfers out of Court. The comparatives for the prior year have been adjusted to reflect this new approach.

### 4 Contingent liability

The Courts of Justice (Salaries and Funds) Act 1869 (now repealed) enabled various securities held by the Accountant General to be cancelled and a corresponding liability amounting to £2,764,744 was placed on the Consolidated Fund. This initial liability has been reduced by payments made from the Consolidated Fund from time to time, and a liability of £1,632,297 now remains. Treasury lawyers are of the opinion that the Consolidated Fund's liability to make good suitors money in Court was repealed by the Court of Chancery (Funds) Act 1872 and any future repayments would therefore have to be made by the Courts Funds Office, rather than Treasury. This outstanding liability to Suitors of £1,632,297 may need to be repaid at some point in the future and where such claims arise these will need to be met by the Court Funds Office.

### 5 Common investment fund

The 1982 Administration of Justice Act allows the Secretary of State and Lord Chancellor to establish Common Investment Schemes. On 20 July 1999, under Common Investment Scheme 1991 (SI 1991 No. 1209) and the Common Investment (Amendment) Scheme 1999 (SI 1999 No. 551), provision was made for the continuance of two funds known respectively as the Capital Fund and the High Yield Fund (collectively the Common Investment Funds) and the Lord Chancellor appointed JP Morgan Fleming Asset Management (UK) Limited; formerly Fleming Investment Management Limited, to administer these Funds.

As a part of the Department's investment strategy, on the 10 April 2003, the High Yield Fund was merged with the Capital Fund. From 1 September 2003 the resulting Fund was invested in an Equity Index Tracker Fund under the management of Legal & General Investment Management Limited.

The beneficiaries have unit shares in the Fund, which itself consists of a balanced portfolio managed by the Investment Manager in accordance with the investment strategy agreed with the Department.



At the period ended 29 February 2004, there were 3,868,780 units in issue (28 February 2003: Capital Fund 3,535,646 units in issue and High Yield Fund 1,604,095 units in issue) with a net asset value of 785.33 pence per unit (28 February 2003: Capital Fund 627 pence per unit and High Yield Fund 332 pence per unit).

Further details of the Common Investment Funds are provided in Part C of the Accounts.

## 6 Securities under custody

The Bank of England acts as a securities custodian for any securities paid into Court in the name of the Accountant General. Any foreign securities are held by the Bank of England with their sub-custodian Euroclear in Brussels. Euroclear is a regulated International Central Securities Depository for internationally traded securities.

## 7 Miscellaneous items

a In addition to the balances of cash, securities and Common Investment Fund units on 29 February 2004, further items were held on behalf of the Accountant General as follows

Details	29 February 2004	28 February 2003
National savings certificates	<b>£134,125</b>	£163,125
Financial documents ordered into court	<b>5 packets</b>	5 packets
Two private bonds and one packet		
Gold coins	<b>4 gold coins</b>	4 gold coins
Silver coins	<b>1746 silver coins</b>	1746 silver coins
Various unit trusts (See note 7b below)	<b>43,384,218 units</b>	82,776,705 units

b During the year to 29 February 2004, the significant decrease in the number of units held was largely the result of a large scale project to transfer the custody of investments of 1,400 clients from the Accountant General of the Supreme Court to approved panel brokers. The total number of individual holdings transferred was over 30,000 and a large proportion of these were unit trusts.

## 8 Transfer of fees

The £4,739,288 shown in respect of transfer of fees to the Department for Constitutional Affairs represents

	For the period ended 29 February 2004 £	For the period ended 28 February 2003 £
Court of Protection fees met directly from funds held in court	<b>4,722,160</b>	4,432,619
Interest earned on foreign currency deposits where no court order has been made for the payment out of interest, dividend fractions, and fees on proceedings	<b>17,128</b>	5,934
	<b><u>4,739,288</u></b>	<u>4,438,553</u>

Peter Handcock  
Accountant General of the Supreme Court

6 November 2004

# Commissioners for the Reduction of the National Debt (CRND)

## Funds in Court in England and Wales Investment Account

### Foreword

The Account covers the year ended 29 February 2004. It is prepared on an accruals basis in accordance with Treasury direction and is presented in pursuance of section 45 (2) of the Administration of Justice Act 1982.

Section 39 (1) of the 1982 Act authorises investment in securities such as Government and Government guaranteed securities, Treasury Bills, Ways and Means, Loans and advances and Local Authority securities. Until required to meet payments, the interest or dividends received on investments held by the Commissioners is reinvested in authorised securities.

Section 45 (1) of the Act requires the Commissioners to prepare accounts in respect of their transactions under section 39 of the Act. The Commissioners have appointed the Secretary and Comptroller General to discharge their responsibilities in this respect, and as a consequence the Secretary and Comptroller General is responsible for the propriety, regularity and the keeping of proper records.

During the year the nominal amount of assets held by the Commissioners rose by £343.3 million to £4,255.6 million. This reflected the increase in the liability of the Commissioners to the Accountant General of the Supreme Court from £3,683 million at the beginning of the year to £4,006.1 million at 29 February 2004.

Section 39 (2) of the Act requires the payment into the Consolidated Fund of any surplus interest or dividends received in any accounting year by the Commissioners and Section 39 (3) provides for any deficiency of interest or dividends to be made good out of the Consolidated Fund. The amount of any surplus or deficiency is obtained by deducting from the interest and dividends received by the Commissioners the sum of

- a the interest due to be paid or credited to the basic and special accounts;
- b the sum required by the Lord Chancellor in respect of administering funds in court;
- c the sum required by the Commissioners in respect of expenses; and
- d any sum the Treasury requires to be set aside for depreciation in the value of securities.

Section 39 (5) of the Act provides a guarantee by the Consolidated Fund of the Capital paid to the Commissioners by the Accountant General.

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

30 November 2004

# Statement of 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 of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of 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. A review of business processes and controls within CRND began in November 2002 and has led to convergence with DMO control mechanisms through system and process changes to reflect best practice. Most of these changes occurred in September 2003 followed by a period of systems running in parallel to ensure consistent and effective operation.

The system of internal control has been in place for the year ended 29 February 2004 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 have been in place throughout the whole of the financial year 2003-2004 because substantial additions have been made to the system of internal control over the course of the year. Furthermore the DMO's corporate governance structure was reviewed during the year, resulting in some changes being instituted from 1 March aimed at improving its effectiveness.

## 3 Capacity to handle risk

The DMO has a formal risk management strategy and policy, which includes CRND activities. A review of the DMO's governance structure resulted in the formation of a Managing Board from 1 March 2004, which is responsible for setting strategic direction and considering operational issues. Until that time the DMO had an Advisory Board and Managing Committee fulfilling these functions.

Following this review the terms of reference of the Fund Management Committee, Risk Committee, and other committees 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.

Presentations have been made to all staff 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 most clients, outlining the respective responsibilities of CRND and the client. For some clients, a draft memorandum of understanding has been proposed by CRND but has not yet been agreed. 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 its risks including those relating to CRND. Whilst the DMO includes risk management considerations as part of its normal business requirement, effort to further embed a strong risk management culture in every part of the organisation is being taken forward via a number of initiatives.

Heads of business units assess regularly whether risks to their operations are being managed effectively. Risk workshops are held with all business units each year to ensure that key operational risks have been identified, together with an assessment of the adequacy of controls in place to manage these risks. Senior managers have reviewed during the year the high level risks that the organisation faces, and the adequacy of the relevant controls. New risks, and risks where there is an increased likelihood of occurrence, are highlighted and actions identified to ensure all will be effectively managed. This process is supported by the maintenance of exception logs, which identify control weaknesses, and resultant actions to improve controls.

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, controls related to the segregation of duties between front and back office was strengthened by the business process review changes put into effect in September 2003.

All teams have documented procedures for their main activities. The DMO has policies on anti-fraud and whistleblowing which 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.

## 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 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.

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

30 November 2004

## 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 22 to 29 under the Administration of Justice Act 1982. 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 25.

### 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 16 the Commissioners have a statutory duty to prepare accounts in respect of their investments. They have appointed the Secretary and Comptroller General to discharge their responsibilities for the preparation of financial statements in accordance with the Administration of Justice Act 1982 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 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 give a true and fair view and are properly prepared in accordance with the Administration of Justice Act 1982 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 has 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 17 to 19 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 Funds in Court in England and Wales Investment Account as at 29 February 2004 and of the surplus and cash flows for the year then ended; and have been properly prepared in accordance with the Administration of Justice Act 1982 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

1 December 2004

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

## Income and Expenditure Account for the year to 29 February 2004

	Notes	2004 £	2003 £
Interest receivable	2	<b>256,741,289</b>	202,505,883
Dealing (losses)/profits	3	<b>(168,997,755)</b>	128,711,166
Investment income		<b>87,743,534</b>	331,217,049
Other income and expenditure	4	<b>(13,049,055)</b>	(14,172,658)
<b>Operating surplus</b>		<b>74,694,479</b>	317,044,391



## Balance Sheet as at 29 February 2004

	Notes	2004 £	2003 £
<b>Assets</b>			
Debt securities	5	<b>4,146,918,561</b>	4,269,245,040
Loans and advances	6	<b>306,400,000</b>	0
Cash	7	<b>8,434,820</b>	7,324,837
Other assets: accrued income	8	<b>88,820,533</b>	77,455,312
<b>Total assets</b>		<b><u>4,550,573,914</u></b>	<u>4,354,025,189</u>
<b>Liabilities</b>			
Client funds		<b>4,467,513,287</b>	4,033,068,897
<i>Other liabilities: creditors</i>	9	<b>8,366,148</b>	3,911,901
Net income for the year		<b>74,694,479</b>	317,044,391
<b>Total liabilities</b>		<b><u>4,550,573,914</u></b>	<u>4,354,025,189</u>

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

30 November 2004

## Cash Flow Statement for the year to 29 February 2004

	Note	2004 £	2003 £
Net cash flow from operating activities	10	<b>(116,290,016)</b>	(469,507,437)
Financing		<b>117,400,000</b>	466,800,000
<b>Increase/(decrease) in cash</b>		<b><u>1,109,984</u></b>	<b><u>(2,707,437)</u></b>

# Notes to the Accounts

## 1 Accounting policies

These accounts have been prepared in accordance with direction made by Treasury under section 45 (2) of the Administration of Justice Act 1982.

### *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.

### *Valuation of securities (UK Government Gilts)*

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

### *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.

### *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.

### *Administration expenditure*

The costs incurred by CRND in managing the Fund are included in the Income and Expenditure Account together with any administrative costs incurred by the Court Funds Office as advised to CRND.

**2 Interest receivable**

	2004 £	2003 £
<i>Debt securities</i>		
Gilt edged securities	<b>240,441,361</b>	197,973,039
Other securities	<b>1,617,684</b>	4,193,298
Interest receivable on deposits given	<b>14,389,010</b>	0
Interest receivable on cash	<b>293,234</b>	339,546
Transferred from money employed account	<b>0</b>	0
<b>Total interest receivable</b>	<b><u>256,741,289</u></b>	<u>202,505,883</u>

**3 Dealing (losses)/profits**

	2004 £	2003 £
Profit/(loss) realised on disposal of securities	<b>(35,175,560)</b>	90,679,293
Valuation movement on gilts	<b>(133,822,195)</b>	38,031,873
<b>Total dealing (losses)/profits</b>	<b><u>(168,997,755)</u></b>	<u>128,711,166</u>

**4 Other income and expenditure**

	Note	2004 £	2003 £
Surplus income payable to Treasury	11	<b>(4,334,149)</b>	(3,911,901)
<i>Management expenses</i>			
Payable to the client		<b>(8,642,806)</b>	(10,190,757)
Payable to CRND		<b>(72,100)</b>	(70,000)
<b>Total other income and expenditure</b>		<b><u>(13,049,055)</u></b>	<u>(14,172,658)</u>

**5a Debt securities**

	2004 Nominal £	2004 Cost £	2004 Clean market value £	2003 Nominal £	2003 Cost £	2003 Clean market value £
UK Government gilts – marketable	<b>16,000,000</b>	<b>18,646,299</b>	<b>18,298,700</b>	16,000,000	18,646,299	19,252,000
UK Government gilts – non marketable (NILO)	<b>3,924,806,096</b>	<b>4,122,797,302</b>	<b>4,128,619,861</b>	3,508,058,096	3,730,665,410	3,869,356,865
Treasury bills	<b>0</b>	<b>0</b>	<b>0</b>	381,000,000	380,636,175	380,636,175
<b>Total debt securities</b>	<b><u>3,940,806,096</u></b>	<b><u>4,141,443,601</u></b>	<b><u>4,146,918,561</u></b>	<u>3,905,058,096</u>	<u>4,129,947,884</u>	<u>4,269,245,040</u>

**5b Debt securities (Maturity analysis)**

	2004 Nominal	2004 Cost	2004 Clean market value	2003 Nominal	2003 Cost	2003 Clean market value
	£	£	£	£	£	£
Maturing in less than three months	0	0	0	381,000,000	380,636,175	380,636,175
Maturing in over three months but less than one year	985,550,000	1,002,988,273	993,599,670	610,252,000	640,890,486	626,409,208
Maturing in over one year but less than five years	1,623,350,000	1,758,635,153	1,723,822,560	1,404,750,000	1,514,987,171	1,549,215,685
Maturing in over five years	1,331,906,096	1,379,820,175	1,429,496,331	1,509,056,096	1,593,434,052	1,712,983,972
<b>Total debt securities</b>	<b>3,940,806,096</b>	<b>4,141,443,601</b>	<b>4,146,918,561</b>	<b>3,905,058,096</b>	<b>4,129,947,884</b>	<b>4,269,245,040</b>

**6 Loans and advances**

	2004 £	2003 £
Fixed rate deposits given to DMA	19,500,000	0
Call notice deposits given to DMA	286,900,000	0
<b>Total loans advances</b>	<b>306,400,000</b>	<b>0</b>

**7 Cash**

	2004 £	2003 £
Ways and means	8,434,820	7,324,837

**8 Other assets: accrued income**

	2004 £	2003 £
Accrued coupon interest	87,968,984	77,324,745
Accrued interest on deposits	827,551	0
Accrued interest on Treasury bills	0	109,904
Accrued interest on cash	23,998	20,663
<b>Total accrued income</b>	<b>88,820,533</b>	<b>77,455,312</b>

**9 Other liabilities: accruals**

	2004 £	2003 £
Surplus due to the Consolidated Fund for FY 2003-2004	4,334,149	3,911,901
Fund's own management expenses due to the client	4,031,999	0
<b>Total other liabilities</b>	<b>8,366,148</b>	<b>3,911,901</b>

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

	2004 £	2003 £
<b>Operating surplus</b>	<b>74,694,479</b>	317,044,391
(Increase)/decrease in debt securities	(11,495,716)	(727,606,737)
(Increase)/decrease in movement in valuation of debt securities	133,822,195	(38,038,390)
(Increase)/decrease in deposits given	(306,400,000)	0
(Increase)/decrease in other assets: accrued income	(11,365,221)	(12,631,312)
Increase/(decrease) in other liabilities: creditors	4,454,247	(8,275,389)
<b>Net cash flow from operating activities</b>	<b>(116,290,016)</b>	(469,507,437)
<b>Financing</b>		
Advanced by the client	504,300,000	882,350,000
Withdrawn by the client	(386,900,000)	(415,550,000)
<b>Financing</b>	<b>117,400,000</b>	466,800,000

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

	2004 £	2003 £
Cost of purchases of debt securities	(3,070,512,982)	(6,082,251,002)
Proceeds from sales of debt securities	3,050,449,024	5,445,323,558
Loans and advances given out	(3,208,000,000)	0
Loans and advances received	2,901,600,000	0
Interest received	218,768,751	189,868,054
Surplus income paid	(3,911,901)	(12,187,290)
Expenses	(4,682,908)	(10,260,757)
<b>Net cash flow from operating activities</b>	<b>(116,290,016)</b>	(469,507,437)
<b>Financing</b>		
Advanced by the client	504,300,000	882,350,000
Withdrawn by the client	(386,900,000)	(415,550,000)
<b>Financing</b>	<b>117,400,000</b>	466,800,000

Purchases/sales of debt securities are reported gross and include purchased accrued interest of £1,266,145 and rebate interest received of £27,873,462 (2002-2003: purchased accrued interest £43,340,503 and rebate interest received £67,831,164).

**11 Surplus income payable**

	2004 £	2003 £
Interest received in the year	<b>218,768,751</b>	189,868,054
Interest payable to suitors (estimated)	<b>(205,719,696)</b>	(175,695,396)
Management expenses payable	<b>(8,714,906)</b>	(10,260,757)
	<b><u>4,334,149</u></b>	<u>3,911,901</u>

**12 Securities at cost represent**

	2004 £	2004 £	2003 £	2003 £
Liability of the Investment Account to the Accountant General of the Supreme Court		<b>4,006,099,171</b>		3,682,979,475
<i>Add</i>				
Accumulated sum to provide for depreciation	<b>3,750,631</b>		3,750,631	
Accumulated net profit on sales of securities from 1 October 1965, including a loss of 8,568,243.42 for current year	<b>439,851,913</b>		448,420,156	
<i>Less</i>				
Difference between cost price of securities and total liabilities at 1 October 1965	<b>(1,785,822)</b>		(1,785,822)	
Difference between cost price of securities transferred from Palatine Courts and the liability assumed at 10 February 1972	<b>(3,620)</b>		(3,620)	
		<b><u>4,447,912,273</u></b>		<u>4,133,360,820</u>
<i>Comprising</i>				
Adjustment for surplus income payable to Consolidated Fund in respect of 2003-2004		<b>(4,334,149)</b>		(3,911,901)
Accrued management expenses		<b>(4,031,999)</b>		0
Securities at cost		<b><u>4,456,278,421</u></b>		<u>4,137,272,721</u>
		<b><u>4,447,912,273</u></b>		<u>4,133,360,820</u>

**13 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 arms 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 £3,208m (2002-2003: £4,325m). During the year the Fund purchased NILO gilts of nominal value £1,417m from the DMA, and sold NILO stocks of nominal value £1,000m to the DMA (2002-2003: Purchases £3,002m, Sales £2,321m). The value of deposits held with the DMA as at the balance sheet date was £306m (2002-2003: £381m).

## Appendix

### Funds in Court in England and Wales Investment Account

#### Accounts Direction given by the Treasury in accordance with Section 45 (2) of the Administration of Justice Act 1982

- 1 The Commissioners for the Reduction of the National Debt shall prepare accounts for the financial year ended 29 February 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; 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 FCA*  
Head of Central Accountancy Team  
Her Majesty's Treasury

30 November 2004



# Common Investment Scheme: High Yield Fund

## Investment Manager's Foreword

### Statutory background

Section 45(1) of the Administration of Justice Act 1982 (the Act) requires the Investment Manager to prepare accounts in respect of the Common Investment Schemes. Under section 45 of the Act, the Lord High Chancellor of Great Britain (Lord Chancellor) appointed JP Morgan Fleming Asset Management (UK) Limited, formerly Fleming Investment Management Limited, as Investment Manager of the Common Investment Schemes with effect from 20 July 1999 to 31 August 2003.

For the period covered by these accounts there were two Common Investment Funds: these being the Capital Fund and the High Yield Fund. The High Yield Fund merged into the Capital Fund on 10 April 2003.

### Role of Court Funds Office

The Court Funds Office manages funds held in Court in the name of the Accountant General of the Supreme Court under the Administration of Justice Act, 1982. Certain funds may be invested in Common Investment Schemes. Under the direction of the Court and on behalf of the Accountant General, the responsibilities of the Court Funds Office includes

- buying and selling units in the Common Investment Schemes;
- distribution to unit holders of dividends calculated by the Investment Manager;
- payment of Investment Manager's fees; and
- investment management oversight through the Strategic Investment Board.

### Fund information

The objective of the High Yield Fund is to secure a high income yield which, will grow together with modest capital growth as befits a high yield portfolio. The accounts show the investment of funds in UK Equities and UK Gilt Securities. The Distribution Statement on page 45 and note 6 to the accounts also provides details of the dividends declared.

The Fund goes ex-dividend on the following date and pays six weeks later

High Yield Fund	Ex-dividend	10 April	Pay Date	23 May
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The Investment Manager produced an annual investment report for the period ending 10 April 2003. This report provides further details on asset allocation; financial performance; including portfolio commentary; a review of the year; and market outlook. This report is available from the Accountant General of the Supreme Court and can be obtained from the Court Funds Office, 22 Kingsway, London, WC2B 6LE.

### Merger with Capital Fund

The High Yield Fund was closed and merged into the Capital Fund on 10 April 2003 in accordance with Statutory Instrument 778.

Subsequently, on 1 September 2003 the assets of the combined Capital Fund were transferred to Legal & General (Unit Trust Managers) Limited who were appointed as the new Investment Manager from that date.

## Accounts and audit

These accounts are in respect of the High Yield Fund for the period 1 March 2003 to 10 April 2003 and have been prepared in accordance with a Direction issued by Treasury under section 45(2) of the Act as detailed on page 52.

The Comptroller and Auditor General is appointed external auditor under section 45(3) of the Act.

*Mark White*  
Chief Executive Officer  
JP Morgan Fleming Asset Management (UK) Limited

17 November 2004

# Statement of Lord Chancellor's and Investment Manager's responsibilities

## Lord Chancellor's responsibilities

Under section 42(1) of the Administration of Justice Act 1982 (the Act), the Lord Chancellor may make schemes ('Common Investment Schemes') establishing Common Investment Funds for the purpose of investing funds in court and other monies defined under section 42(5)(b) of the Act.

Under section 42(2) of the Act, the Common Investment Schemes made by the Lord Chancellor shall provide for an Investment Manager to be appointed by the Lord Chancellor to manage and control the common investment funds established. As indicated on page 31, the Lord Chancellor appointed JP Morgan Fleming Asset Management (UK) Limited, formerly Fleming Investment Management Limited, to be Investment Manager for the period from 20 July 1999 to 31 August 2003.

## Investment Manager's responsibilities

Under section 45(1)(c) of the Act, and in accordance with directions issued by Treasury, the Investment Manager is responsible for preparing the financial statements in respect of the Common Investment Scheme High Yield Fund.

The Treasury Direction requires the Investment Manager to follow best commercial practice. In preparing the Funds' Accounts, the Manager follows the disclosure requirements of the Statement of Recommended Practice relating to Authorised Unit Trust Schemes issued by IMRO in January 1997 to the extent that such requirements are relevant to the Common Investment Funds. These require the Investment Manager to prepare accounts for each annual accounting period which give a true and fair view of the financial affairs of the Funds and of their income/expenditure for the period. In preparing the accounts the Manager is required to

- select suitable accounting policies and apply them consistently;
- comply with the disclosure requirements of the Statement of Recommended Practice relating to Authorised Unit Trust Schemes issued by IMRO in January 1997 to the extent that such requirements are relevant to the Common Investment Funds;
- follow applicable accounting standards; and
- keep proper accounting records, which enable the Investment Manager to demonstrate that the accounts as prepared comply with the above requirements.

The Investment Manager is responsible for the management of the Funds in accordance with the Investment Management Agreement with the Lord High Chancellor dated 20 July 1999 and the Common Investment Scheme Statutory Instrument 1991 No. 1209.

# Statement of Internal Control

## 1 Introduction

JP Morgan Fleming Asset Management (UK) Limited ('JPMFAM(UK)') formerly Fleming Investment Management Limited, part of the JP Morgan Fleming Asset Management group of companies ('JPMFAM') was appointed as Investment Manager for the Common Investment Funds in July 1999. JPMFAM is a global investment manager that provides financial expertise and investment products and services for retail and institutional investors including mutual funds, investment trusts, governments, corporations, endowments, foundations and individuals. The management of JPMFAM are responsible for the identification of control objectives relating to the provision of investment management services and design, implementation and maintenance of JPMFAM's control procedures, to ensure with reasonable assurance on an ongoing basis that the control objectives are achieved. In carrying out these responsibilities, JPMFAM has regard not only to the interests of the client but also regulatory and general business requirements.

At the outset of a client relationship, the client and JPMFAM(UK) agree on the investment objectives and guidelines, if applicable, that will govern the account. Investment professionals (portfolio managers) manage the portfolios within these specifications. Adherence to investment policy and procedures is monitored by portfolio managers who are responsible for continual review of the accounts under their supervision, and by Guideline Management and Control Group. Various departments within JPMFAM also review adherence to investment policies and guidelines as well as compliance with the authorising documents, the organisation's controls and applicable regulatory requirements.

## 2 Scope of responsibility

As Chief Executive Officer of JPMFAM(UK), I have responsibility for maintaining an effective system of internal control that supports the achievement of JPMFAM's policies, aims and objectives, whilst safeguarding the management of the investments including the Common Investment Funds for which I have overall management responsibility.

## 3 The purpose of the system of internal control

A robust risk management and control culture is essential to our mission of being the pre-eminent asset management organisation world-wide. JPMFAM's management controls are designed to reinforce the group's control objectives to maintain effective operations, provide accurate financial reporting and ensure compliance with applicable policies, controls and regulations. An integral part of the system of controls is the control environment, which represents the collective effect of various factors on establishing, enhancing and maintaining the effectiveness of specific controls. The control environment reflects the overall attitude, awareness and actions of management and employees concerning the importance of control and its emphasis in the investment management business. These factors are reflected in the policies and procedures.

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of JPMFAM's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in JPMFAM(UK) between July 1999 and August 2003 (the point at which responsibility for these funds were transferred) and accords with the requirements of the combined code and the requirements of the Financial Services Authority (FSA).

## 4 Capacity to handle risk

In order to cultivate a strong risk management culture and provide a framework to pro-actively manage risks in the business, Business Control Committees (BCCs), formerly known as Risk Committees, have been established providing the basis of a defined risk governance structure.

The BCCs represent a critical business-driven forum for reporting, monitoring, and escalating operational risk issues. These committees are 'owned' by senior management within each business, which in turn encourages the 'first line of defence' for each risk to be fully accountable and to provide transparency regarding risks and what is being done about them. Output from our Self Assessment, Error Reporting, Action Plan, and Integrated Reporting processes (together with relevant Key Risk Indicators) is used to help ensure that the BCCs stay focused on the critical issues.

Direct oversight on the business is provided by the BCCs meeting periodically, and which are made up of representatives from the business including senior managers, risk managers, compliance and internal audit.

JPMFAM(UK) has a formal hiring practice that is designed to ensure that new employees are qualified for job responsibilities. New position hiring must be approved by the head of the department requiring the position and the Human Resources department. The hiring policy includes a minimum education and experience requirement, completion of reference, background and credit investigations, and execution of confidentiality statements.

JPMFAM(UK)'s staff receive reviews of their performance at least annually from their supervisors using standard performance evaluation methods and criteria.

The Compliance function undertakes a program of sample monitoring to check that the investment management business is acting in accordance with applicable conduct of business related laws and regulations. In addition, Compliance staff liaise with the business areas on a daily basis to address compliance issues as they arise. In the course of monitoring and liaising with the business areas, it can sometimes become apparent that additional training on compliance matters is required and this will be provided. Money laundering sessions are obligatory for all JPMFAM's employees and take place once a year. In order to increase employees' risk awareness we focus on topics such as business or operational risk, money laundering and compliance with regulatory guidelines.

The risk management team is responsible for the investigation and review of business errors and breaches of investment guidelines. In addition, the team is responsible for the regular review of operational risk e.g. transaction reports and systems, the production of monthly reports to cover the above, Business Continuity Planning, counterparty risk, unquoted securities, new products, material issues, new risks and seed capital investments. It is the responsibility of each individual business unit that the risks are dealt with effectively.

## 5 The risk and control framework

Underlying the global structure of JPMFAM is a management structure consisting of global, regional and local management team members. Business units and functions are primarily responsible for managing their own risks and controls and for ensuring that they are compliant with firm-wide and local control policies, procedures and regulations. There are Chief Investment Officers assigned to Fixed Income, Equity, Private Equity and Hedge Funds reporting to the Chief Executive Officer of JPMFAM.

JPMFAM(UK)'s internal controls are evaluated regularly through a control self-assessment process. The assessment process is generally organised by functional unit or product and is used by business units to assess the effectiveness of their control environment. Assessments identify key operating risks faced by the business, describe controls in place to mitigate the risks identified, assess the effectiveness of these controls and identify tasks required to rectify control gaps.

As part of its overall risk management process JPMFAM has an approval procedure for new products, services and activities. Risks are reviewed and signed off by members of Risk Management, Compliance, Tax, Investment Management, Operations, Legal, Audit and Finance Departments.

A centralised Risk Management and Controls group provides a consolidated risk control function for JPMFAM acting as both an important control group and advisors to the business on risk policies and best practice.

The risk management function provides oversight, co-ordination, support and a consolidated view of risks and controls to senior management. The risk management group is responsible for providing guidance on managing operational and fiduciary risks taken in the investment management business.

The Legal and Compliance Departments advise management and business units on legal and regulatory matters and monitor compliance with regulatory and registration requirements. The Compliance department provides regulatory advice on compliance with conduct of business rules and is responsible with other business areas, for certain regulatory reporting requirements and for advising the businesses on their responsibilities for establishing and implementing procedures which comply with regulations.

The General Auditing Department (i.e. Internal Audit) is responsible primarily for objectively evaluating and reporting on risks and controls. Internal Audit conducts and participates in special projects relating to risks and controls and advises managers on issues related to risks and controls. Internal Audit co-ordinates with Risk Management, Legal and Compliance and through audits, reviews risks and controls at multiple locations using the same standards, identifies best practices for cross-border business activities and reports on global risk and control issues to global business managers.

The status of outstanding General Auditing Department and management self-assessment control issues is reported to the Business Control Committees on a regular basis. Additionally, the General Auditor reports directly and regularly to the Chair of the Audit Committee of the Board of the overall holding company for the whole group, JP Morgan Chase and Co.

Inherent to internal controls is the principle of segregation of functions and duties. JPMFAM is structured to delineate responsibilities in a manner that reinforces segregation of duties between investment decision; recording transactions; custody of assets; trade execution (for equities); trade affirmation; transaction processing; fund transfers; reconciliation activities; performance measurement; risk management and legal and compliance.

In conducting its day to day operations, JPMFAM retains the services of certain outside service providers that the organisation believes are reliable. A number of factors are considered in performing due diligence of and selecting outsource service providers, including, among other things, each service provider's reliability for prompt and accurate delivery of services.

## 6 Review of effectiveness

As Chief Executive Officer for JPMFAM(UK) and as investment manager for the Common Investment Funds, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within JPMFAM 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.

External Auditors perform annual reviews in accordance with the Statement on Auditing Standards No.70 established by the American Institute of Certified Public Accountants and within the framework set out in Technical Release Audit 4/97 – FRAG 21/94 (revised) issued by the Institute of Chartered Accountants in England and Wales.

I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board of JPMFAM(UK) and the BCC, and plans to address any weaknesses and ensure continuous improvement of the system.

*Mark White*  
Chief Executive Officer  
JP Morgan Fleming Asset Management (UK) Limited

17 November 2004

# 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 Common Investment High Yield Fund on pages 39 to 51 under section 45(3) of the Administration of Justice Act 1982. These financial statements have been prepared in accordance with the accounts direction issued by Treasury and the accounting policies set out on page 46.

## Respective responsibilities of the Lord Chancellor, Investment Manager and Auditor

### **The Lord Chancellor's responsibilities**

Under Section 42(1) of the Administration of Justice Act 1982 ('the Act'), the Lord Chancellor may make schemes ('common investment schemes') establishing common investment funds for the purpose of investing funds in court and other monies defined under Section 42(5)(b) of the Act.

Under Section 42(2) of the Act, the common investment schemes made by the Lord Chancellor shall provide for an investment manager to be appointed by the Lord Chancellor to manage and control the common investment funds established. As indicated on page 31 the Lord Chancellor appointed JP Morgan Asset Management to be the Investment Manager for the Common Investment High Yield Fund for the period from 20 July 1999 to 31 August 2003.

### **The Investment Manager's responsibilities**

Under Section 45(1)(c) of the Act, and in accordance with directions issued by Treasury, the Investment Manager, as described on page 33, is responsible for preparing the financial statements in respect of transactions in the Common Investment High Yield Fund. The Treasury has directed the Investment Manager to prepare Accounts for each financial year in accordance with best commercial practice.

### **The Auditor's responsibilities**

My responsibilities as independent auditor are established by statute and guided by the United Kingdom Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Statement of Recommended Practice relating to Authorised Unit Trust Schemes issued in January 1997 and with directions issued by Treasury under the Administration of Justice Act 1982. I also report whether, in all material respects, the financial transactions of the Fund conform to the authorities that govern them.

I also report if in my opinion the Investment Manager's Foreword on page 31 is not consistent with the financial statements, if proper accounting records have not been kept or if I have not received all the information and explanations I require for my audit.

I review whether the statement on pages 34 to 36 reflects the Investment Manager's governance and internal control arrangements. I report 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 Investment Manager's statement covers all risks and controls. I am also not required to form an opinion on the effectiveness of JP Morgan Fleming Asset Management (UK) Limited'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 Investment Manager in the preparation of the financial statements and of whether the accounting policies are appropriate to the Fund'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 error or by fraud or other irregularity and that, in all material respects, 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 give a true and fair view of the financial position of the Common Investment High Yield Fund at 10 April 2003 and of the net income and movement in net assets for the period from 1 March to 10 April 2003;
- the financial statements have been properly prepared in accordance with the Administration of Justice Act 1982 and directions made thereunder by Treasury; and
- in all material respects the financial transactions of the Fund during the period from 1 March to 10 April 2003 conform to the authorities which govern them.

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General

2 December 2004

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



## Statement of Total Return for the period 1 March 2003 to 10 April 2003

	10 April 2003		28 February 2003	
	£	£	£	£
Net gains/(losses) on investments during the period (Note 2)		<b>206,809</b>		(1,710,203)
Total income (Note 3)	<b>47,668</b>		290,064	
Expenses (Note 4)	<b>(7,741)</b>		(32,011)	
Net income before taxation	<b>39,927</b>		258,053	
Taxation (Note 5)	<b>12,627</b>		(8,453)	
Net income after taxation for the period		<b>52,554</b>		249,600
<b>Total return for the period</b>		<b>259,363</b>		(1,460,603)
Distributions (Note 6)		<b>(42,462)</b>		(260,755)
<b>Net increase/(decrease) in unitholders' funds from investment activities</b>		<b>216,901</b>		(1,721,358)

## Statement of Movements in Unitholders' Funds for the period 1 March 2003 to 10 April 2003

	10 April 2003		28 February 2003	
	£	£	£	£
<b>Net assets at the start of the period</b>		<b>4,541,613</b>		8,348,979
Movement due to sales and repurchase of units				
<i>Less</i> Amounts paid on cancellation of units	<b>(437,238)</b>		<b>(2,086,008)</b>	
Net cash out of Fund		<b>(437,238)</b>		(2,086,008)
Net increase/(decrease) in unitholders' funds from investment activities (see above)		<b>216,901</b>		(1,721,358)
<b>Net assets at the end of the period</b>		<b>4,321,276</b>		4,541,613

*The notes on pages 46 to 51 form part of these accounts.*

## Balance Sheet as at 10 April 2003

	<b>10 April 2003</b>	28 February 2003
	£	£
<b>Portfolio of investments</b>	<b>4,291,796</b>	4,725,442
<b>Net current assets</b>		
Debtors (Note 8)	<b>344,473</b>	122,983
Cash and bank balances (Note 9)	<b>245,319</b>	780,338
	<b>589,792</b>	903,321
<i>Less</i>		
Creditors (Note 10)	<b>(433,374)</b>	(1,001,973)
Distribution payable on income units	<b>(126,938)</b>	(85,177)
	<b>(560,312)</b>	(1,087,150)
<b>Net current assets/(liabilities)</b>	<b>29,480</b>	(183,829)
<b>Net assets</b>	<b>4,321,276</b>	4,541,613
<b>Unitholders' funds</b>	<b>4,321,276</b>	4,541,613

*The notes on pages 46 to 51 form part of these accounts.*

Mark White  
 Chief Executive Officer  
 JP Morgan Fleming Asset Management (UK) Limited

17 November 2004

## Portfolio Statement as at 10 April 2003

	<b>Holding</b>	<b>Market value £</b>	<b>Total net assets %</b>
<b>Mineral Extraction 15.34% (28 February 2003 – 15.42%)</b>			
Anglo American	5,689	52,566	1.22
BHP Billiton	9,646	32,338	0.75
BP	82,297	338,858	7.84
Imperial Chemical Industries	9,827	10,589	0.25
Rio Tinto	2,656	33,041	0.76
Shell Transport & Trading	49,077	195,326	4.52
<b>General Manufacturers 5.30% (28 February 2003 – 4.83%)</b>			
BPB	4,896	13,660	0.32
Balfour Beatty	5,299	8,942	0.21
BOC	2,096	16,726	0.39
British Vita	4,412	10,479	0.24
DS Smith	13,990	21,125	0.49
Hanson	4,536	15,366	0.36
IMI	5,000	13,125	0.30
Kidde	31,080	21,601	0.50
Novar	23,961	25,159	0.58
Spirax Sarco Engineering	3,932	16,672	0.39
Taylor Woodrow	18,236	33,691	0.78
TI Automotive*	12,000	0	0.00
Wilson Connolly	2,667	4,561	0.11
Wimpey (George)	11,001	27,117	0.63
<b>Consumer Goods 16.29% (28 February 2003 – 17.42%)</b>			
Alliance Unichem	3,000	13,500	0.31
Boots	3,716	19,546	0.45
British American Tobacco	7,084	42,079	0.97
Diageo	12,547	86,763	2.01
Gallaher	7,304	44,043	1.02
GlaxoSmithKline	26,182	324,133	7.50
Imperial Tobacco	1,447	15,541	0.36
Inchcape	3,339	25,043	0.58
Laird	6,000	9,630	0.22
Northern Foods	20,714	27,394	0.63
Rexam	4,182	15,170	0.35
Tate & Lyle	5,564	16,748	0.39
Unilever	10,500	65,048	1.50
<b>Services 21.21% (28 February 2003 – 15.17%)</b>			
Arriva	6,677	19,180	0.44
AstraZeneca	3,932	90,554	2.10
Avis Europe	20,911	20,963	0.49
BBA	7,529	13,289	0.31
British Sky Broadcasting	5,601	36,519	0.85
BT	42,263	75,122	1.74
DFS Furniture	6,692	22,385	0.52
Daily Mail & General Trust	2,845	14,467	0.33
Davis Service	7,110	24,636	0.57
Debenhams	12,547	32,622	0.75
Emap	3,244	24,654	0.57
GUS	4,182	21,370	0.49
Hilton	17,250	26,004	0.60

Portfolio Statement as at 10 April 2003 *(continued)*

	<b>Holding</b>	<b>Market value £</b>	<b>Total net assets %</b>
Interserve	6,841	13,237	0.31
Kingfisher	7,141	16,978	0.39
mmO2	68,588	34,294	0.79
Pearson	5,008	26,592	0.62
RAC	3,346	12,632	0.29
Rank	7,110	17,899	0.41
Reed Elsevier	2,510	11,998	0.28
Sainsbury (J)	11,711	27,052	0.63
Shanks	13,000	11,570	0.27
Six Continents	3,346	20,009	0.46
St Ives	3,629	11,250	0.26
Tesco	11,794	23,529	0.54
Trinity Mirror	8,365	33,878	0.78
Vodafone	145,154	175,273	4.06
William Hill	7,790	18,112	0.42
Wolverhampton & Dudley Breweries	2,030	12,048	0.28
Woolworths	80,129	28,646	0.66
<b>Utilities 4.67% (28 February 2003 – 10.77%)</b>			
Kelda	7,417	31,188	0.72
National Grid Transco	8,365	34,631	0.80
Scottish and Southern Energy	4,886	31,857	0.74
Scottish Power	10,874	42,409	0.98
Severn Trent	2,331	17,483	0.40
United Utilities	7,345	44,547	1.03
<b>Financials 29.49% (28 February 2003 – 28.86%)</b>			
Abbey National	9,972	40,212	0.93
Alliance & Leicester	8,365	70,517	1.63
Aviva	12,891	49,727	1.15
Barclays	27,879	110,401	2.55
Bradford & Bingley	10,016	30,223	0.70
British Land	6,106	24,455	0.57
Brixton	10,622	20,500	0.47
Close Brothers	2,845	14,154	0.33
Friends Provident	23,238	21,611	0.50
HBOS	18,068	126,115	2.92
HSBC	36,805	251,746	5.83
Legal & General	51,193	38,395	0.89
Lloyds TSB	33,458	123,125	2.85
Provident Financial	6,692	38,680	0.90
Prudential	10,874	39,146	0.91
Royal Bank of Scotland	13,384	217,892	5.04
Schroders	2,700	14,364	0.33
Slough Estates	5,564	16,636	0.38
Standard Chartered	3,870	26,200	0.61
<b>Investment Trusts 0.30% (28 February 2003 – 0.39%)</b>			
3i	3,007	13,080	0.30

Portfolio Statement as at 10 April 2003 *(continued)*

	<b>Holding</b>	<b>Market value £</b>	<b>Total net assets %</b>
<b>Government Securities 6.72% (28 February 2003 – 11.19%)</b>			
Treasury 4.25% 2032	£44,500	41,737	0.97
Treasury 5.75% 2009	£61,500	66,660	1.54
Treasury 6.75% 2004	£34,000	35,734	0.83
Treasury 7.25% 2007	£48,000	54,355	1.26
Treasury 7.5% 2006	£20,400	22,836	0.53
Treasury 8% 2021	£36,400	51,167	1.18
Treasury 8.5% 2005	£15,800	17,671	0.41
<b>Portfolio of investments</b>		<u>4,291,796</u>	<u>99.32</u>
<b>Net current assets</b>		29,480	0.68
<b>Total net assets</b>		<u><b>4,321,276</b></u>	<u><b>100.00%</b></u>

Unless otherwise stated the above securities are ordinary shares or common stock.

\* Suspended security

## Summary of Material Portfolio Changes for the period ended 10 April 2003

<b>Purchases</b>	<b>Cost £</b>
Treasury 8% 2021	63,025
Treasury 5.75% 2009	58,968
Treasury 7.25% 2007	58,956
Shell Transport & Trading BP	38,139
BHP Billiton	31,811
GlaxoSmithKline	31,775
HSBC	27,102
Unilever	24,288
Royal Bank of Scotland	19,799
Severn Trent	17,557
Slough Estates	16,794
Vodafone	16,142
IMI	15,174
Alliance Unichem	13,472
Schroders	11,961
HBOS	10,831
Lloyds TSB	10,827
Shanks	10,339
Kidde	10,276
Other securities	9,180
<b>Total of all purchases for the period</b>	<b>£689,137</b>

<b>Sales</b>	<b>Proceeds £</b>
Treasury 8% 2021	97,142
BP	67,486
GlaxoSmithKline	59,486
Treasury 5.75% 2009	54,130
HSBC	51,403
Treasury 8.5% 2005	49,276
Treasury 7.25% 2007	45,252
Royal Bank of Scotland	39,179
Conversion 9% 2011	38,441
Treasury 4.25% 2032	34,569
Vodafone	33,398
Shell Transport & Trading	32,322
Smiths	32,077
BT	29,862
Cadbury Schwepps	29,362
Scottish & Newcastle	29,138
Treasury 6.75% 2004	27,323
BG	25,632
HBOS	24,183
Lloyds TSB	23,979
Other securities	505,952
<b>Total of all sales for the period</b>	<b>£1,329,592</b>

# Distribution Statement

## Final distribution

Group A—Units purchased prior to 1 March 2003

Group B—Units purchased 1 March 2003 to 10 April 2003

	Gross income	Tax at 10%	Net income	Equalisation	Distribution payable 23 May 2003	paid 15 April 2003
	pence per unit	pence per unit	pence per unit	pence per unit	pence per unit	pence per unit
Group A	3.49	0.35	3.14	-	3.14	5.31
Group B	3.49	0.35	3.14	-	3.14	5.31

Equalisation applies only to units purchased during the distribution period (group B units). It is the average amount of income included in the purchase price of all group B units and is refunded to holders of these units as a return of capital. Being capital it is not liable to income tax but must be deducted from the cost of units for capital gains tax purposes. It is not relevant for the statement above, as there were no units purchased in the period.

Details of amounts distributed are provided in note 6.

# Notes to the Financial Statements

## 1 Accounting policies

### *Basis of accounting*

The accounts are subject to an Accounts Direction issued by Treasury (as detailed on page 52) and are prepared under the historic cost basis as modified by the revaluation of investments and in accordance with the disclosure requirements of the Statement of Recommended Practice relating to Authorised Unit Trust Schemes issued by IMRO in January 1997.

### *Accounting period end date*

The Statutory Instrument No 778 of 5 March 2003 The Common Investment (Closure of High Yield Fund) Scheme 2003 requires accounts to be prepared for the period ended 10 April. The accounts for the period 1 March 2003 to 10 April 2003 will be presented under Section 45 of the Administration of Justice Act 1982.

### *Valuation*

Listed investments have been valued at mid-market value at 10 April 2003, net of any accrued interest which is included in the balance sheet as an income related item.

### *Income*

Dividends receivable from equity investments are credited to the income account when they are first quoted ex-dividend. Interest receivable from bank deposits and fixed interest securities is accounted for on an accruals basis.

### *Expenses*

Expenses of the Fund are charged against income.

### *Interest on fixed interest securities bought and sold*

Interest on fixed interest securities bought and sold is excluded from the capital cost of securities, and is dealt with as part of the income of the Fund.

### *Distribution policy*

A final distribution has been made on 23 May and is based on the available net income at 10 April. The ordinary element of scrip dividends is treated as income and forms part of the distributable income.



**2 Net gains/(losses) on investments**

	<b>10 April 2003</b>	28 February 2003
	£	£
The net gains/(losses) on investments during the period comprise		
Proceeds from sales of investments during the period	<b>1,329,592</b>	3,471,659
Original cost of investments sold during the period	<b>(1,436,507)</b>	(4,076,320)
	<hr/>	<hr/>
Losses realised on investments sold during the period	<b>(106,915)</b>	(604,661)
Net depreciation thereon already recognised in earlier period	<b>103,093</b>	118,068
	<hr/>	<hr/>
	<b>(3,822)</b>	(486,593)
	<hr/>	<hr/>
Net unrealised appreciation/(depreciation) for the period	<b>210,631</b>	(1,223,610)
Net gains/(losses) on investments	<b>206,809</b>	(1,710,203)
	<hr/>	<hr/>

**3 Total income**

	<b>10 April 2003</b>	28 February 2003
	£	£
UK dividends	<b>47,847</b>	215,787
Interest on debt securities	<b>(2,561)</b>	62,562
Bank interest	<b>2,382</b>	11,715
	<hr/>	<hr/>
	<b>47,668</b>	290,064
	<hr/>	<hr/>

**4 Expenses**

	<b>10 April 2003</b>	28 February 2003
	£	£
Payable to the Investment Manager, associates of the Investment Manager and agents of either of them		
Investment Manager's periodic charge	<b>2,741</b>	32,011
Other expenses	<b>5,000</b>	0
	<hr/>	<hr/>
	<b>7,741</b>	32,011
	<hr/>	<hr/>

## 5 Taxation

	<b>10 April 2003</b>	28 February 2003
	£	£
<i>a Analysis of charge in period</i>		
Corporation tax	<b>0</b>	8,453
Income tax write off	<b>(12,627)</b>	0
Current period tax charge (note 5b)	<b>(12,627)</b>	8,453

### *b Factors affecting tax charge for period*

The tax assessed for the period is lower than the standard rate of corporation tax in the UK for an Authorised Unit Trust of 20%. The differences are explained below

	<b>10 April 2003</b>	28 February 2003
	£	£
Net income before taxation	<b>39,927</b>	258,053
Corporation tax at 20%	<b>7,985</b>	51,611
Effects of		
UK Franked income not subject to Corporation tax	<b>(9,569)</b>	(43,158)
Income tax write off	<b>(12,627)</b>	0
Movement in excess expenses	<b>1,584</b>	0
	<b>(20,612)</b>	(43,158)
Current period tax charge (note 5a)	<b>(12,627)</b>	8,453

The Fund is exempt from tax on capital gains, therefore, any capital return is not included in the above reconciliation.

## 6 Distributions

The distributions take account of income received on the creation of units and income deducted on the cancellation of units, and comprise

	<b>10 April 2003</b>	28 February 2003
	£	£
<i>Interim</i> Dividend distribution	<b>0</b>	152,366
<i>Final</i> Dividend distribution	<b>41,761</b>	85,177
	<b>41,761</b>	237,543
<i>Add</i> Income deducted on cancellation of units	<b>701</b>	23,212
Net distribution for the period	<b>42,462</b>	260,755

Details of the distribution per units are set out in the table on page 45. As at 10 April 2003, the final distributions for both the period to 10 April 2003 (£41,761) and the period to 28 February 2003 (£85,177) were outstanding and shown as the distribution payable in the balance sheet on page 40.

**7 Movement between net income and distributions**

	<b>10 April 2003</b>	28 February 2003
	£	£
Net income after taxation	<b>52,554</b>	249,600
<i>Add</i> undistributed income brought forward	<b>57</b>	23
<i>Less</i> undistributed income carried forward	<b>(87)</b>	(57)
Amount transferred (to)/from capital	<b>(10,062)</b>	11,189
Distributions	<b>42,462</b>	260,755

**8 Debtors**

	<b>10 April 2003</b>	28 February 2003
	£	£
Accrued income	<b>61,935</b>	33,550
Other debtors	<b>0</b>	45,746
Sales awaiting settlement	<b>240,240</b>	1,389
Amounts due from Investment Manager	<b>42,298</b>	42,298
	<b>344,473</b>	122,983

**9 Cash and bank balances**

	<b>10 April 2003</b>	28 February 2003
	£	£
Cash and bank balances	<b>245,319</b>	780,338

**10 Creditors**

	<b>10 April 2003</b>	28 February 2003
	£	£
Due for cancellation of units	<b>318,238</b>	801,546
Accrued expenses	<b>6,812</b>	30,243
Purchases awaiting settlement	<b>0</b>	3,487
Corporation tax payable	<b>58,398</b>	58,398
Income tax payable	<b>0</b>	12,627
Due to Capital fund	<b>49,926</b>	95,672
	<b>433,374</b>	1,001,973

**11 Units in issue**

The number of units in issue at the end of the period was 1,328,790 (28 February 2003: 1,361,936).

**12 Contingent liabilities**

The aggregate contingent liabilities not provided for at the balance sheet date was nil (28 February 2003: nil).

### 13 Related party transactions

The Court Funds Office (CFO), who provide investment management oversight services for the Fund are a related party (as defined by FRS 8). Details of units created and cancelled are shown in the Statement of Movements in Unitholders' Funds. The balances due to and from the Court Funds Office in respect of these transactions are detailed in notes 8 and 10.

JP Morgan Fleming Asset Management (UK) Limited, formerly Fleming Investment Management Limited, who provide investment management services could be regarded as a related party (as defined by FRS 8).

Management fees paid to JP Morgan Fleming Asset Management (UK) (Limited) are shown in note 4. The balances due at the period end in respect of these fees are shown in Note 10.

Other than the related party transactions disclosed above, none of the key management staff nor any other related party has undertaken any material transactions with the Fund during the period.

### 14 Financial instruments

In pursuing its investment objective as stated on page 31, the Fund holds a number of financial instruments. The Fund's financial instruments comprise securities and other investments, cash balances, debtors and creditors that arise directly from its operations, for example, in respect of sales and purchases awaiting settlement, amounts receivable for creations and payable for redemptions and debtors for accrued income.

The main risks arising from the Fund's financial instruments and the Investment Manager's policies for managing these risks are summarised below. These policies have been applied throughout the period.

#### *Market price risk*

Market price risk is the risk that the value of the Fund's investment holdings will fluctuate as a result of changes in market prices caused by factors other than interest rate or foreign currency movement. Market price risk arises mainly from uncertainty about future prices of financial instruments the Fund holds. It represents the potential loss the Fund might suffer through holding market positions in the face of price movements. The Fund's investment portfolio is exposed to market price fluctuations, which are monitored by the Investment Manager in pursuance of the investment objective and policy as set out in the Statutory Instrument 1209 (1991).

Adherence to investment guidelines and to investment and borrowing powers set out in the Investment Management Agreement with the Lord High Chancellor and the Statutory Instrument 1209 (1991) mitigates the risk of excessive exposure to any particular type of security or issuer.

#### *Interest rate risk*

At the period end date, 12.59% (28 February 2003: 28.37%) of the Fund's assets by value were interest bearing.

The tables below detail the interest rate profile of the Fund's assets as at the period end.

**Table 1 as at 10 April 2003**

	Total value	Fixed rate	Floating rate	Weighted average interest rate %	Weighted average period (years)
<b>Government stock</b>					
UK sterling	290,160	290,160	0	6.6%	9.95
<b>Cash at bank</b>					
UK sterling	254,319	0	254,319		
	<u>544,479</u>	<u>290,160</u>	<u>254,040</u>		

The benchmark rate is LIBOR.

**Table 2 as at 28 February 2003**

	Total value	Fixed rate	Floating rate	Weighted average interest rate %	Weighted average period (years)
<b>Government stock</b>					
UK sterling	508,230	508,230	0	7.0%	10.4
<b>Cash at bank</b>					
UK sterling	780,338	0	780,338		
	<u>1,288,568</u>	<u>508,230</u>	<u>780,338</u>		

The benchmark rate is LIBOR.

#### *Liquidity risk*

The Fund's assets comprise mainly of readily realisable securities. The main liability of the Fund is the redemption of any units that investors wish to sell. Assets of the Fund may need to be sold if insufficient cash is available to finance such redemptions.

#### *Credit risk*

Certain transactions in securities that the Fund enters into expose it to the risk that the counterparty will not deliver the investment for a purchase, or cash for a sale after the Fund has fulfilled its responsibilities. The Fund only buys and sells investments through brokers which have been approved by the Investment Manager as an acceptable counterparty. In addition, limits are set to the exposure to any individual broker that may exist at any time and changes in brokers' financial ratings are reviewed.

# Administration of Justice Act 1982: Common Investment Funds

## Accounts Directions given by the Treasury

The Treasury, in pursuance of section 45(2) of the Administration of Justice Act 1982, hereby gives the following Direction

- 1 The Investment Manager of the Common Investment Funds shall prepare in respect of the period from 20 July 1999 to 29 February 2000 and thereafter for each period of one year ending on the last day of February until the final period from 1 March to 31 August 2003, accounts in respect of the
  - I Capital Fund; and
  - II High Yield Fund.
- 2 The accounts for each of the Funds referred to above shall give a true and fair view of the disposition of the assets and liabilities of the Fund at the year end and of the net income and movement in the net assets of the Fund for the year. Subject to the foregoing requirement, and without limiting the information given, each account shall reflect best commercial accounting practices.
- 3 The Report and accounts shall include
  - a a Foreword;
  - b a Statement of responsibilities;
  - c a Statement on Internal Control;
  - d a Statement of Total Return;
  - e a Statement of Movements in Unitholder's Funds;
  - f a Portfolio Statement;
  - g a Balance Sheet;
  - h a Summary of Material Portfolio Changes; and
  - i a Distribution Statement.

The accounts for each Fund shall also include such notes as may be necessary to present a true and fair view and for the purposes referred to in the following paragraphs.

- 4 The Foreword shall consist of information concerning the Common Investment Funds. It shall, amongst other things
  - a state that the accounts have been prepared in accordance with directions given by the Treasury in pursuance of Section 45(2) of the Administration of Justice Act 1982; and
  - b include an explanation of the statutory background to the accounts.
- 5 When preparing the accounts, the Investment Investment Manager shall comply with the disclosure requirements of the Statement of Recommended Practice relating to Authorised Unit Trust Schemes issued by IMRO in January 1997 to the extent that such requirements are relevant to the Common Investment Funds.
- 6 This Direction replaces the Direction dated 19 August 1999.

David A Cruden FCA  
Head of the Central Accountancy Team  
Her Majesty's Treasury

26 May 2004

# Common Investment Scheme: Capital Fund

## Investment Manager's Foreword

### Statutory background

Section 45(1) of the Administration of Justice Act 1982 (the Act) requires the Investment Manager to prepare accounts in respect of the Common Investment Schemes. Under section 45 of the Act, the Lord High Chancellor of Great Britain (Lord Chancellor) appointed JP Morgan Fleming Asset Management (UK) Limited, formerly Fleming Investment Management Limited, as Investment Manager of the Common Investment Schemes with effect from 20 July 1999 to 31 August 2003.

During the period covered by these accounts there were two Common Investment Funds: these being the Capital Fund and the High Yield Fund (which merged into the Capital Fund on 10 April 2003).

### Role of Court Funds Office

The Court Funds Office manages funds held in Court in the name of the Accountant General of the Supreme Court under the Administration of Justice Act, 1982. Certain funds may be invested in Common Investment Schemes. Under the direction of the Court and on behalf of the Accountant General, the responsibilities of the Court Funds Office includes

- buying and selling units in the Common Investment Schemes;
- distribution to unit holders of dividends calculated by the Investment Manager;
- payment of Investment Manager's fees; and
- investment management oversight through the Strategic Investment Board.

### Fund information

The objective of the Capital Fund is to secure a high long term capital growth with a small but growing income level. The accounts show the investment of funds in UK Equities and Global Equities. The Distribution Statement on page 68 and note 7 to the accounts also provide details of the dividends declared.

The Fund goes ex-dividend on the following date and pays six weeks later

Capital Fund	Ex-dividend	31 August	Pay Date	15 October
--------------	-------------	-----------	----------	------------

The Investment Manager produced an annual investment report for the period ending 31 August 2003. This report provides further details on asset allocation; financial performance; including portfolio commentary; a review of the year; and market outlook. This report is available from the Accountant General of the Supreme Court and can be obtained from the Court Funds Office, 22 Kingsway, London, WC2B 6LE.

### Closure of Capital Fund

The High Yield Fund was closed and merged into the Capital Fund on 10 April 2003 in accordance with Statutory Instrument 778.

Subsequently, on 1 September 2003 the assets of the combined Capital Fund were transferred to Legal & General (Unit Trust Managers) Limited who were appointed as the new Investment Manager from that date.

## Accounts and audit

These accounts are in respect of the Capital Fund for the period 1 March 2003 to 31 August 2003 and have been prepared in accordance with a Direction issued by Treasury under section 45(2) of the Act as detailed on page 75.

The Comptroller and Auditor General is appointed external auditor under section 45(3) of the Act.

*Mark White*  
Chief Executive Officer  
JP Morgan Fleming Asset Management (UK) Limited

17 November 2004



# Statement of Lord Chancellor's and Investment Manager's responsibilities

## Lord Chancellor's responsibilities

Under section 42(1) of the Administration of Justice Act 1982 (the Act), the Lord Chancellor may make schemes ('Common Investment Schemes') establishing Common Investment Funds for the purpose of investing funds in court and other monies defined under section 42(5)(b) of the Act.

Under section 42(2) of the Act, the Common Investment Schemes made by the Lord Chancellor shall provide for an Investment Manager to be appointed by the Lord Chancellor to manage and control the Common Investment Funds established. As indicated on page 53, the Lord Chancellor appointed JP Morgan Fleming Asset Management (UK) Limited, formerly Fleming Investment Management Limited, to be Investment Manager for the period from 20 July 1999 to 31 August 2003.

## Investment Manager's responsibilities

Under section 45(1)(c) of the Act, and in accordance with directions issued by Treasury, the Investment Manager is responsible for preparing the financial statements in respect of the Common Investment Scheme Capital Fund.

The Treasury Direction requires the Investment Manager to follow best commercial practice. In preparing the Funds' Accounts, the Manager follows the disclosure requirements of the Statement of Recommended Practice relating to Authorised Unit Trust Schemes issued by IMRO in January 1997 to the extent that such requirements are relevant to the Common Investment Funds. These require the Investment Manager to prepare accounts for each annual accounting period which give a true and fair view of the financial affairs of the Funds and of their income/expenditure for the period. In preparing the accounts the Manager is required to

- select suitable accounting policies and apply them consistently;
- comply with the disclosure requirements of the Statement of Recommended Practice relating to Authorised Unit Trust Schemes issued by IMRO in January 1997 to the extent that such requirements are relevant to the Common Investment Funds;
- follow applicable accounting standards; and
- keep proper accounting records, which enable the Investment Manager to demonstrate that the accounts as prepared comply with the above requirements.

The Investment Manager is responsible for the management of the Funds in accordance with the Investment Management Agreement with the Lord High Chancellor dated 20 July 1999 and the Common Investment Scheme Statutory Instrument 1991 No. 1209.

# Statement on Internal Control

## 1 Introduction

JP Morgan Fleming Asset Management (UK) Limited ('JPMFAM(UK)') formerly Fleming Investment Management Limited, part of the JP Morgan Fleming Asset Management group of companies ('JPMFAM') was appointed as Investment Manager for the Common Investment Funds in July 1999. JPMFAM is a global investment manager that provides financial expertise and investment products and services for retail and institutional investors including mutual funds, investment trusts, governments, corporations, endowments, foundations and individuals. The management of JPMFAM are responsible for the identification of control objectives relating to the provision of investment management services and design, implementation and maintenance of JPMFAM's control procedures, to ensure with reasonable assurance on an ongoing basis that the control objectives are achieved. In carrying out these responsibilities, JPMFAM has regard not only to the interests of the client but also regulatory and general business requirements.

At the outset of a client relationship, the client and JPMFAM(UK) agree on the investment objectives and guidelines, if applicable, that will govern the account. Investment professionals (portfolio managers) manage the portfolios within these specifications. Adherence to investment policy and procedures is monitored by portfolio managers who are responsible for continual review of the accounts under their supervision, and by Guideline Management and Control Group. Various departments within JPMFAM also review adherence to investment policies and guidelines as well as compliance with the authorising documents, the organisation's controls and applicable regulatory requirements.

## 2 Scope of responsibility

As Chief Executive Officer of JPMFAM(UK), I have responsibility for maintaining an effective system of internal control that supports the achievement of JPMFAM's policies, aims and objectives, whilst safeguarding the management of the investments including the Common Investment Funds for which I have overall management responsibility.

## 3 The purpose of the system of internal control

A robust risk management and control culture is essential to our mission of being the pre-eminent asset management organisation world-wide. JPMFAM's management controls are designed to reinforce the group's control objectives to maintain effective operations, provide accurate financial reporting and ensure compliance with applicable policies, controls and regulations. An integral part of the system of controls is the control environment, which represents the collective effect of various factors on establishing, enhancing and maintaining the effectiveness of specific controls. The control environment reflects the overall attitude, awareness and actions of management and employees concerning the importance of control and its emphasis in the investment management business. These factors are reflected in the policies and procedures.

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of JPMFAM's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in JPMFAM(UK) between July 1999 and August 2003 (the point at which responsibility for these funds were transferred) and accords with the requirements of the combined code and the requirements of the Financial Services Authority (FSA).

## 4 Capacity to handle risk

In order to cultivate a strong risk management culture and provide a framework to pro-actively manage risks in the business, Business Control Committees (BCCs), formerly known as Risk Committees, have been established providing the basis of a defined risk governance structure.

The BCCs represent a critical business-driven forum for reporting, monitoring, and escalating operational risk issues. These committees are 'owned' by senior management within each business, which in turn encourages the 'first line of defence' for each risk to be fully accountable and to provide transparency regarding risks and what is being done about them. Output from our Self Assessment, Error Reporting, Action Plan, and Integrated Reporting processes (together with relevant Key Risk Indicators) is used to help ensure that the BCCs stay focused on the critical issues.

Direct oversight on the business is provided by the BCCs meeting periodically, and which are made up of representatives from the business including senior managers, risk managers, compliance and internal audit.

JPMFAM(UK) has a formal hiring practice that is designed to ensure that new employees are qualified for job responsibilities. New position hiring must be approved by the head of the department requiring the position and the Human Resources department. The hiring policy includes a minimum education and experience requirement, completion of reference, background and credit investigations, and execution of confidentiality statements.

JPMFAM(UK)'s staff receive reviews of their performance at least annually from their supervisors using standard performance evaluation methods and criteria.

The Compliance function undertakes a program of sample monitoring to check that the investment management business is acting in accordance with applicable conduct of business related laws and regulations. In addition, Compliance staff liaise with the business areas on a daily basis to address compliance issues as they arise. In the course of monitoring and liaising with the business areas, it can sometimes become apparent that additional training on compliance matters is required and this will be provided. Money laundering sessions are obligatory for all JPMFAM's employees and take place once a year. In order to increase employees' risk awareness we focus on topics such as business or operational risk, money laundering and compliance with regulatory guidelines.

The risk management team is responsible for the investigation and review of business errors and breaches of investment guidelines. In addition, the team is responsible for the regular review of operational risk e.g. transaction reports and systems, the production of monthly reports to cover the above, Business Continuity Planning, counterparty risk, unquoted securities, new products, material issues, new risks and seed capital investments. It is the responsibility of each individual business unit that the risks are dealt with effectively.

## 5 The risk and control framework

Underlying the global structure of JPMFAM is a management structure consisting of global, regional and local management team members. Business units and functions are primarily responsible for managing their own risks and controls and for ensuring that they are compliant with firm-wide and local control policies, procedures and regulations. There are Chief Investment Officers assigned to Fixed Income, Equity, Private Equity and Hedge Funds reporting to the Chief Executive Officer of JPMFAM.

JPMFAM(UK)'s internal controls are evaluated regularly through a control self-assessment process. The assessment process is generally organised by functional unit or product and is used by business units to assess the effectiveness of their control environment. Assessments identify key operating risks faced by the business, describe controls in place to mitigate the risks identified, assess the effectiveness of these controls and identify tasks required to rectify control gaps.

As part of its overall risk management process JPMFAM has an approval procedure for new products, services and activities. Risks are reviewed and signed off by members of Risk Management, Compliance, Tax, Investment Management, Operations, Legal, Audit and Finance Departments.

A centralised Risk Management and Controls group provides a consolidated risk control function for JPMFAM acting as both an important control group and advisors to the business on risk policies and best practice.

The risk management function provides oversight, co-ordination, support and a consolidated view of risks and controls to senior management. The risk management group is responsible for providing guidance on managing operational and fiduciary risks taken in the investment management business.

The Legal and Compliance Departments advise management and business units on legal and regulatory matters and monitor compliance with regulatory and registration requirements. The Compliance department provides regulatory advice on compliance with conduct of business rules and is responsible with other business areas, for certain regulatory reporting requirements and for advising the businesses on their responsibilities for establishing and implementing procedures which comply with regulations.

The General Auditing Department (i.e. Internal Audit) is responsible primarily for objectively evaluating and reporting on risks and controls. Internal Audit conducts and participates in special projects relating to risks and controls and advises managers on issues related to risks and controls. Internal Audit co-ordinates with Risk Management, Legal and Compliance and through audits, reviews risks and controls at multiple locations using the same standards, identifies best practices for cross-border business activities and reports on global risk and control issues to global business managers.

The status of outstanding General Auditing Department and management self-assessment control issues is reported to the Business Control Committees on a regular basis. Additionally, the General Auditor reports directly and regularly to the Chair of the Audit Committee of the Board of the overall holding company for the whole group, JP Morgan Chase and Co.

Inherent to internal controls is the principle of segregation of functions and duties. JPMFAM is structured to delineate responsibilities in a manner that reinforces segregation of duties between investment decision; recording transactions; custody of assets; trade execution (for equities); trade affirmation; transaction processing; fund transfers; reconciliation activities; performance measurement; risk management and legal and compliance.

In conducting its day to day operations, JPMFAM retains the services of certain outside service providers that the organisation believes are reliable. A number of factors are considered in performing due diligence of and selecting outsource service providers, including, among other things, each service provider's reliability for prompt and accurate delivery of services.

## 6 Review of effectiveness

As Chief Executive Officer for JPMFAM(UK) and as investment manager for the Common Investment Funds, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within JPMFAM 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.

External Auditors perform annual reviews in accordance with the Statement on Auditing Standards No.70 established by the American Institute of Certified Public Accountants and within the framework set out in Technical Release Audit 4/97 – FRAG 21/94 (revised) issued by the Institute of Chartered Accountants in England and Wales.

I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board of JPMFAM(UK) and the BCC, and plans to address any weaknesses and ensure continuous improvement of the system is in place.

*Mark White*  
Chief Executive Officer  
JP Morgan Fleming Asset Management (UK) Limited

17 November 2004

# 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 Common Investment Capital Fund on pages 61 to 74 under section 45(3) of the Administration of Justice Act 1982. These financial statements have been prepared in accordance with the accounts direction issued by Treasury and the accounting policies set out on page 69.

## Respective responsibilities of the Lord Chancellor, Investment Manager and Auditor

### **The Lord Chancellor's responsibilities**

Under Section 42(1) of the Administration of Justice Act 1982 ('the Act'), the Lord Chancellor may make schemes ('common investment schemes') establishing common investment funds for the purpose of investing funds in court and other monies defined under Section 42(5)(b) of the Act.

Under Section 42(2) of the Act, the common investment schemes made by the Lord Chancellor shall provide for an investment manager to be appointed by the Lord Chancellor to manage and control the common investment funds established. As indicated on page 53, the Lord Chancellor appointed JP Morgan Asset Management to be the Investment Manager for the Common Investment Capital Fund for the period from 20 July 1999 to 31 August 2003.

### **The Investment Manager's responsibilities**

Under Section 45(1)(c) of the Act, and in accordance with directions issued by Treasury, the Investment Manager, as described on page 55, is responsible for preparing the financial statements in respect of transactions in the Common Investment Capital Fund. The Treasury has directed the Investment Manager to prepare Accounts for each financial year in accordance with best commercial practice.

### **The Auditor's responsibilities**

My responsibilities as independent auditor are established by statute and guided by the United Kingdom Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Statement of Recommended Practice relating to Authorised Unit Trust Schemes issued in January 1997 and with directions issued by Treasury under the Administration of Justice Act 1982. I also report whether, in all material respects, the financial transactions of the Fund conform to the authorities that govern them.

I also report if in my opinion the Investment Manager's Foreword on page 53 is not consistent with the financial statements, if proper accounting records have not been kept or if I have not received all the information and explanations I require for my audit.

I review whether the statement on pages 56 to 58 reflects the Investment Manager's governance and internal control arrangements. I report 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 Investment Manager's statement covers all risks and controls. I am also not required to form an opinion on the effectiveness of JP Morgan Fleming Asset Management (UK) Limited'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 Investment Manager in the preparation of the financial statements and of whether the accounting policies are appropriate to the Fund'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 error or by fraud or other irregularity and that, in all material respects, 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 give a true and fair view of the financial position of the Capital Fund at 31 August 2003 and of the net income and movement in net assets for the period from 1 March to 31 August 2003;
- the financial statements have been properly prepared in accordance with the Administration of Justice Act 1982 and directions made thereunder by Treasury; and
- in all material respects the financial transactions of the Fund during the period from 1 March to 31 August 2003 conform to the authorities which govern them.

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General

2 December 2004

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

## Statement of Total Return for the period ended 31 August 2003

	31 August 2003		28 February 2003	
	£	£	£	£
Net gains/(losses) on investments during the period (Note 2)		<b>4,117,082</b>		(9,265,956)
Other gains (Note 3)		<b>791</b>		1,343
Total income (Note 4)	<b>573,254</b>		836,434	
Expenses (Note 5)	<b>(73,333)</b>		(142,725)	
Net income before taxation	<b>499,921</b>		693,709	
Taxation (Note 6)	<b>(11,885)</b>		(18,878)	
Net income after taxation for the period		<b>488,036</b>		674,831
<b>Total return for the period</b>		<b>4,605,909</b>		(8,589,782)
Distributions (Note 7)		<b>(488,052)</b>		(679,410)
<b>Net increase/(decrease) in unitholders' funds from investment activities</b>		<b>4,117,857</b>		(9,269,192)

## Statement of Movements in Unitholders' Funds for the period ended 31 August 2003

	31 August 2003		28 February 2003	
	£	£	£	£
<b>Net assets at the start of the period</b>		<b>21,778,681</b>		35,133,275
Movement due to sales and repurchase of units				
Amounts received on creation of units	<b>18,393</b>		40,379	
Amounts received from the High Yield Fund (see below)	<b>4,321,276</b>		0	
Less Amounts paid on cancellation of units	<b>(2,143,422)</b>		(4,125,781)	
Net cash into/(out of) Fund		<b>2,196,247</b>		(4,085,402)
Net increase/(decrease) in unitholders' funds from investment activities (see above)		<b>4,117,857</b>		(9,269,192)
<b>Net assets at the end of the period</b>		<b>28,092,785</b>		21,778,681

On 10 April 2003, the High Yield Fund merged into the Capital Fund, enhancing the value by £4,321,276.

*The notes on pages 69 to 74 form part of these accounts.*

## Balance Sheet as at 31 August 2003

	<b>31 August 2003</b>	28 February 2003
	£	£
<b>Portfolio of investments</b>	<b>26,287,084</b>	21,605,343
<b>Net current assets</b>		
Debtors (Note 9)	<b>260,437</b>	206,961
Cash and bank balances (Note 10)	<b>2,118,387</b>	639,758
	<b>2,378,824</b>	846,719
<i>Less</i>		
Creditors (Note 11)	<b>(94,761)</b>	(466,899)
Distribution payable on income units	<b>(478,362)</b>	(206,482)
	<b>(573,123)</b>	(673,381)
<b>Net current assets</b>	<b>1,805,701</b>	173,338
<b>Net assets</b>	<b>28,092,785</b>	21,778,681
<b>Unitholders' funds</b>	<b>28,092,785</b>	21,778,681

*The notes on pages 69 to 74 form part of these accounts.*

Mark White  
 Chief Executive Officer  
 JP Morgan Fleming Asset Management (UK) Limited

17 November 2004



## Portfolio Statement as at 31 August 2003

	Holding	Market value £	Total net assets %
<b>Mineral extraction 14.57% (28 February 2003 – 14.56%)</b>			
Anadarko Petroleum	1,300	35,694	0.13
Anglo American	27,881	329,693	1.17
BG	17,335	47,281	0.17
BHP Billiton	46,646	193,814	0.69
BP	437,682	1,877,656	6.68
Conoco Philips	1,940	68,475	0.24
ENI	10,000	95,474	0.34
Exxon Mobil	4,829	115,096	0.41
Newmont Mining	1,630	40,416	0.14
Premier Oil	117,286	38,704	0.14
Rio Tinto	14,664	203,976	0.73
Shell Transport & Trading	235,077	932,080	3.32
Total Fina	1,200	116,360	0.41
<b>General manufacturers 10.28% (28 February 2003 - 7.45%)</b>			
AGA Foodservice	20,314	45,300	0.16
Balfour Beatty	41,399	89,318	0.32
Barratt Developments	24,298	126,107	0.45
Bayer	3,400	46,137	0.16
Bayerische Motoren Werke	1,400	34,944	0.12
Berkeley	10,271	91,206	0.32
BOC	10,487	90,555	0.32
BPB	18,166	58,267	0.21
British Vita	36,593	100,265	0.36
Canon	1,000	30,397	0.11
DS Smith	61,529	96,601	0.34
General Electric	6,521	121,866	0.43
Hanson	23,536	97,086	0.35
Holcim	2,200	55,067	0.20
Honda Motor	1,200	30,885	0.11
IMI	23,000	76,590	0.27
Imperial Chemical Industries	48,249	93,603	0.33
Inchcape	14,339	180,671	0.64
Ingersoll-Rand	2,350	88,369	0.31
Kaneka	7,000	32,770	0.12
Kidde	162,423	157,550	0.56
Kon Philips Electronics	4,000	61,609	0.22
Laird	27,500	64,625	0.23
Meggitt	30,386	65,634	0.23
Novar	23,961	30,430	0.11
Persimmon	15,000	85,800	0.30
Redrow	20,000	68,600	0.24
Renault	600	22,801	0.08
Spirax Sarco Engineering	20,054	103,278	0.37
Sumitomo	7,000	27,422	0.10
Taylor Woodrow	18,236	41,578	0.15
TI Automotive*	29,300	0	0.00
Travis Perkins	4,200	52,500	0.19
Tyco International	4,920	64,014	0.23
United Technologies	2,240	113,632	0.40
Wilson Connolly	52,667	109,021	0.39
Wimpey	49,499	193,046	0.69
Yule Catto	14,600	45,260	0.16

Portfolio Statement as at 31 August 2003 *(continued)*

	Holding	Market value £	Total net assets %
<b>Consumer goods 16.15% (28 February 2003 - 18.67%)</b>			
Alliance Unichem	3,000	15,300	0.05
Altadis	3,600	53,699	0.19
Altria	5,020	130,756	0.47
Amerisourcebergen	1,000	36,795	0.13
Amersham	11,451	58,400	0.21
Astrazeneca	30,326	736,922	2.62
Aventis	2,380	73,083	0.26
Avon	1,700	68,881	0.25
Bristol-Myers Squibb	4,600	73,751	0.26
British American Tobacco	40,922	261,492	0.93
Diageo	52,718	357,428	1.27
Gallaher	7,304	40,683	0.14
GlaxoSmithKline	124,577	1,503,644	5.35
HCA	2,400	57,582	0.20
Imperial Tobacco	1,447	14,296	0.05
Johnson & Johnson	2,000	62,652	0.22
Kao	2,000	23,841	0.08
Kraft Foods	3,055	57,363	0.20
Nestle	660	91,613	0.33
Northern Foods	20,714	32,832	0.12
Pepsico	1,100	30,968	0.11
Pfizer	4,900	92,687	0.33
Proctor & Gamble	550	30,349	0.11
Smith & Nephew	16,686	67,745	0.24
SSL International	26,791	83,052	0.30
Takeda Chemical	1,100	25,152	0.09
Tate & Lyle	28,564	100,974	0.36
Unilever	57,500	295,838	1.05
Wyeth	2,400	65,001	0.23
<b>Services 20.62% (28 February 2003 - 18.08%)</b>			
Arriva	24,546	92,784	0.33
Avis Europe	79,838	92,612	0.33
BBA	24,629	61,573	0.22
Boots	15,716	103,883	0.37
British Airways	51,568	96,432	0.34
British Sky Broadcasting	23,208	153,637	0.55
BT	199,265	366,648	1.31
Burlington Northern Santa Fe	3,610	64,680	0.23
Carlton Communications	33,747	58,889	0.21
Daily Mail & General Trust	9,574	53,399	0.19
Davis Service	7,110	29,364	0.10
Debenhams	39,071	168,982	0.60
Deutsche Post	5,258	53,357	0.19
DFS Furniture	6,692	27,236	0.10
Emap	17,904	152,990	0.54
Fuji Photo Film	2,000	37,928	0.14
Gannett	910	45,070	0.16
General Motors	7,220	68,103	0.24
Greggs	1,300	39,650	0.14
GUS	21,051	143,989	0.51
Hilton	17,250	33,551	0.12
Intercontinental Hotels	13,136	64,235	0.23
Interserve	28,645	69,321	0.25

Portfolio Statement as at 31 August 2003 *(continued)*

	<b>Holding</b>	<b>Market value £</b>	<b>Total net assets %</b>
Kesa Electrics	1,428	3,192	0.01
Kingfisher	6,248	16,995	0.06
Marks & Spencer	59,160	180,142	0.64
May Department Stores	2,900	50,456	0.18
McDonalds	5,200	73,673	0.26
Mitchells & Butlers	13,136	33,103	0.12
mm02	263,006	139,393	0.50
Morrison (WM) Supermarkets	37,336	78,032	0.28
Nippon Telegraph & Telephone	13	36,205	0.13
Pearson	18,872	116,629	0.42
RAC	16,810	100,356	0.36
Rank	41,367	117,379	0.42
Reed Elsevier	12,510	60,674	0.22
Rentokil Intial	27,878	58,544	0.21
Rexam	4,182	17,136	0.06
Sainsbury (J)	62,196	171,505	0.61
SBC Communications	6,331	89,977	0.32
Shanks	13,000	13,390	0.05
St Ives	14,629	54,859	0.20
Stanley Leisure	21,884	78,782	0.28
Target	2,250	57,738	0.21
Tesco	42,277	91,318	0.33
Trinity Mirror	21,365	111,098	0.40
Viacom	2,000	56,886	0.20
Vodafone	1,270,154	1,470,203	5.23
Waste Management	4,350	73,016	0.26
Whitbread	16,400	122,426	0.44
William Hill	7,790	24,188	0.09
Wolters-Kluwer	5,640	55,472	0.20
Wolverhampton & Dudley Brewer	9,121	65,215	0.23
Woolworths	210,129	83,526	0.30
<b>Utilities 2.36% (28 February 2003 - 6.71%)</b>			
AWG	6,168	32,505	0.12
Kelda	7,417	30,373	0.11
National Grid	54,150	209,696	0.75
Pennon	10,729	62,335	0.22
Scottish & Southern Energy	4,886	30,782	0.11
Scottish Power	52,882	191,565	0.68
Severn Trent	2,331	14,918	0.05
United Utilities	26,981	91,249	0.32
<b>Financials 27.99% (28 February 2003 - 25.30%)</b>			
3i	3,007	18,914	0.07
Abbey National	45,348	238,984	0.85
ABN Amro	5,590	61,809	0.22
Acom	1,100	28,847	0.10
Alliance & Leicester	26,370	231,924	0.83
American International	2,650	99,784	0.36
Aviva	68,391	342,981	1.22
AXA	4,400	49,323	0.18
Bank of Ireland	3,700	27,788	0.10
Barclays	131,606	605,388	2.15
Bradford & Bingley	42,116	128,243	0.46

Portfolio Statement as at 31 August 2003 *(continued)*

	<b>Holding</b>	<b>Market value £</b>	<b>Total net assets %</b>
British Land	6,106	30,332	0.11
Brixton	42,021	101,271	0.36
Citigroup	4,900	134,229	0.48
Close Brothers	12,845	95,695	0.34
Consolidated Edison	1,800	44,950	0.16
Fannie Mae	2,110	86,414	0.31
Fleet Boston Financial	2,930	54,793	0.20
Friends Provident	68,089	93,112	0.33
Hartford Financial	2,200	73,911	0.26
HBOS	91,665	645,322	2.30
HSBC	184,137	1,497,034	5.33
Intermediate Capital	7,585	73,195	0.26
Land Securities	13,342	114,074	0.41
Legal & General	118,339	117,747	0.42
Lloyds TSB	147,139	610,627	2.17
Man	6,261	76,885	0.27
Marsh & McLennan	1,100	34,591	0.12
Nikko Cordial	11,000	33,437	0.12
Nordea	15,000	48,203	0.17
Provident Financial	16,788	107,275	0.38
Prudential	34,080	148,759	0.53
Royal Bank of Scotland	63,435	998,467	3.55
Schroders (non voting)	2,700	16,794	0.06
Schroders	6,274	44,467	0.16
Slough Estates	5,564	20,809	0.07
Standard Chartered	28,469	240,848	0.86
Templeton Emerging Markets	200,000	268,000	0.95
Washington Mutual Services	3,580	88,201	0.31
Wells Fargo	2,500	79,232	0.28
Zurich Financial Services	616	50,191	0.18
<b>Information Technology 1.60% (28 February 2003 – 2.83%)</b>			
Cisco Systems	3,200	38,722	0.14
Dell	2,100	43,308	0.15
Hewlett-Packard	6,800	85,594	0.30
Lexmark	890	37,716	0.13
Microsoft	8,120	136,193	0.49
Nintendo	500	26,306	0.09
Nokia	8,000	82,849	0.30
<b>Portfolio of investments</b>		<b>26,287,084</b>	<b>93.57</b>
<b>Current assets</b>		<b>1,805,701</b>	<b>6.43</b>
<b>Net assets</b>		<b>28,092,785</b>	<b>100.00%</b>

\* Suspended Security

Unless otherwise stated the above securities are ordinary shares or common stock.

## Summary of Material Portfolio Changes for the period ended 31 August 2003

<b>Purchases</b>	<b>Cost £</b>
BP	338,858
GlaxoSmithKline	324,133
HSBC	251,746
Royal Bank of Scotland	236,689
Shell & Transport Trading	195,326
Vodafone	175,273
BHP Billiton	154,216
HBOS	126,115
Lloyds TSB	123,125
Barclays	110,401
Astrazeneca	90,554
Diageo	86,763
BT	75,122
Alliance & Leicester	70,517
Treasury 5.75% 2009	66,660
Unilever	65,048
IMI	61,620
Treasury 7.25% 2007	54,355
Anglo American	52,566
Treasury 8% 2021	51,168
Other securities	1,849,966
<b>Total of all purchases for the period</b>	<b>£4,560,221</b>
<b>Sales</b>	<b>Proceeds £</b>
JPMF UK Smaller Companies C Institutional Accumulation	986,312
JPMF US Smaller Companies C Institutional Accumulation	331,545
GlaxoSmithKline	155,308
BNP Paribas	102,865
Pfizer	100,902
Saint-Gobain	87,737
Tomkins	80,845
Talisman Energy	75,054
Prudential Financial	71,117
Citigroup	68,829
Treasury 5.75% 2009	67,735
Samsung Electronics	66,650
Canon	60,772
Walt Disney	56,168
Treasury 7.25% 2007	54,809
Fortis	54,728
Flextronics International	54,257
Treasury 8% 2021	52,516
Total	52,292
Safeway	51,633
Other securities	1,363,488
<b>Total of all sales for the period</b>	<b>£3,995,562</b>

The Material Portfolio Changes include the portfolio of the High Yield Fund, which was closed and merged into the Capital Fund on the 10 April 2003.

## Distribution Statement

### Distribution

Group A—Units purchased prior to 1 March 2003

Group B—Units purchased 1 March 2003 to 31 August 2003

	Gross income	Tax at 10%	Net income	Equalisation	Distribution payable 15 October 2003	Distribution paid 15 October 2002
	pence per unit	pence per unit	pence per unit	pence per unit	pence per unit	pence per unit
Group A	9.40	0.94	8.46	0.00	8.46	11.60
Group B	5.80	0.58	5.22	3.24	8.46	11.60

### Distribution

Group A—Units purchased prior to 1 March 2003

Group B—Units purchased 1 March 2003 to 31 August 2003

	Gross income	Tax at 10%	Net income	Equalisation	Distribution payable 15 October 2003
	pence per unit	pence per unit	pence per unit	pence per unit	pence per unit
Group A	1.27	0.12	1.15	0.00	1.15
Group B	1.27	0.12	1.15	0.00	1.15

### Distribution

Group A—Units purchased prior to 1 March 2003

Group B—Units purchased 1 March 2003 to 31 August 2003

	Gross income	Tax at 10%	Net income	Equalisation	Distribution payable
	pence per unit	pence per unit	pence per unit	pence per unit	pence per unit
Group A	3.20	0.32	2.88	0.00	2.88
Group B	3.20	0.32	2.88	0.00	2.88

Equalisation applies only to units purchased during the distribution period (group B units). It is the average amount of income included in the purchase price of all group B units and is refunded to holders of these units as a return of capital. Being capital it is not liable to income tax but must be deducted from the cost of units for capital gains tax purposes.

Three separate distributions as detailed in Note 7 on page 72 relate to the accounting period 1 March to 31 August 2003. Two distributions have been paid to date, one distribution remains to be paid.

# Notes to the Financial Statements

## 1 Accounting policies

### *Basis of accounting*

The accounts are subject to an Accounts Direction issued by Treasury (as detailed on page 75) and are prepared under the historic cost basis as modified by the revaluation of investments and in accordance with the disclosure requirements of the Statement of Recommended Practice relating to Authorised Unit Trust Schemes issued by IMRO in January 1997.

### *Accounting period end date*

The Accounts Direction requires accounts to be prepared for each year of one year ending on the last day of February. These accounts are for the period 1 March 2003 to 31 August 2003, reflecting the fact that JP Morgan Fleming Asset Management (UK) Limited ceased to be the appointed Investment Manager after 31 August 2003. These accounts are nonetheless presented under Section 45 of the Administration of Justice Act 1982.

### *Valuation*

Listed investments have been valued at mid-market value at 31 August 2003.

All transactions in foreign currencies are converted into sterling at the rates of exchange ruling at the date of such transactions. Foreign currency assets and liabilities at the end of the accounting period are translated at the exchange rate at close of business on 31 August 2003.

### *Income*

Dividends receivable from equity investments are credited to the income account when they are first quoted ex-dividend. Interest receivable from bank deposits is accounted for on an accruals basis.

### *Expenses*

Expenses of the Fund are charged against income.

### *Distribution policy*

A distribution was declared on 15 October based on the available net income at 31 August. The ordinary element of scrip dividends is treated as income and forms part of the distributable income.

## 2 Net gains/(losses) on investments

	<b>31 August 2003</b>	28 February 2003
	£	£
The net gains/(losses) on investments during the year comprise		
Proceeds from sales of investments during the period	<b>3,995,562</b>	11,897,196
Original cost of investments sold during the period	<b>(4,481,187)</b>	(17,035,209)
Losses realised on investments sold during the period	<b>(485,625)</b>	(5,138,013)
Net depreciation thereon already recognised in earlier periods	<b>1,165,098</b>	2,899,874
	<b>679,473</b>	(2,238,139)
Net unrealised appreciation/(depreciation) for the period	<b>3,437,609</b>	(7,027,817)
Net gains/(losses) on investments	<b>4,117,082</b>	(9,265,956)

## 3 Other gains

	<b>31 August 2003</b>	28 February 2003
	£	£
Other gains comprise		
Currency gains	<b>791</b>	1,343

## 4 Total income

	<b>31 August 2003</b>	28 February 2003
	£	£
UK dividends	<b>479,576</b>	675,284
Overseas dividends	<b>84,940</b>	131,600
Bank interest	<b>8,738</b>	29,550
	<b>573,254</b>	836,434

## 5 Expenses

	<b>31 August 2003</b>	28 February 2003
	£	£
Payable to the Investment Manager, associates of the Investment Manager and agents of either of them		
Investment Manager's periodic charge	<b>73,333</b>	142,725



## 6 Taxation

### a Analysis of charge in period

	<b>31 August 2003</b>	28 February 2003
	£	£
Overseas tax (note 6b)	<b>11,885</b>	18,878

### b Factors affecting tax charge for period

The tax assessed for the period is lower than the standard rate of corporation tax in the UK for an Authorised Unit Trust of 20%. The differences are explained below

	<b>31 August 2003</b>	28 February 2003
	£	£
Net income before taxation	<b>499,921</b>	693,709
Corporation tax at 20%	<b>99,984</b>	138,742
Effects of		
Movement in excess expenses	<b>(4,048)</b>	(2,760)
UK Franked income not subject to Corporation tax	<b>(95,915)</b>	(135,057)
Overseas tax	<b>11,885</b>	18,878
Miscellaneous	<b>(21)</b>	(70)
Overseas tax credits	<b>0</b>	(855)
	<b>(88,099)</b>	(119,864)
Current period tax charge (note 6a)	<b>11,885</b>	18,878

The Fund is exempt from tax on capital gains, therefore, any capital return is not included in the above reconciliation.

c After claiming relief against accrued income taxable on receipt, the Fund has unrelieved excess expenses of £73,640 (2003: £93,881). It is unlikely that the Fund will generate sufficient taxable profits in the future to utilise these expenses and therefore no deferred tax asset has been recognised.

The Fund has Eligible Unrelieved Foreign Tax 'A' of £78,159 (2003: £66,898) which can be utilised against corporation tax in future periods.

## 7 Distributions

The distributions take account of income received on the creation of units and income deducted on the cancellation of units, and comprise

	<b>31 August 2003</b>	28 February 2003
	£	£
Dividend distribution	<b>324,015</b>	448,151
Dividend distribution	<b>44,044</b>	0
Dividend distribution	<b>110,303</b>	206,482
	<b>478,362</b>	654,633
<i>Add</i> Income deducted on cancellation of units	<b>9,713</b>	24,926
<i>Deduct</i> Income received on creation of units	<b>(23)</b>	(149)
Net distribution for the period	<b>488,052</b>	679,410

Details of the distribution per unit are set out in the table on page 68.

Three separate distributions as per the distribution table on page 68 relate to the accounting period 1 March to 31 August 2003.

## 8 Movement between net income and distributions

	<b>31 August 2003</b>	28 February 2003
	£	£
Net income after taxation	<b>488,036</b>	674,831
<i>Add</i> undistributed income brought forward	<b>310</b>	316
<i>Less</i> undistributed income carried forward	<b>(294)</b>	(310)
Amounts transferred from capital	<b>0</b>	4,573
Distributions	<b>488,052</b>	679,410

## 9 Debtors

	<b>31 August 2003</b>	28 February 2003
	£	£
Accrued income	<b>190,250</b>	97,917
Due from High Yield Fund	<b>49,926</b>	95,672
Overseas tax recoverable	<b>20,261</b>	13,372
	<b>260,437</b>	206,961

## 10 Cash and bank balances

	<b>31 August 2003</b>	28 February 2003
	£	£
Cash and bank balances	<b>2,118,387</b>	639,758

## 11 Creditors

	<b>31 August 2003</b>	28 February 2003
	£	£
Due for cancellation of units	<b>1,702</b>	340,330
Accrued expenses	<b>93,059</b>	126,569
	<b>94,761</b>	466,899

## 12 Units in issue

The number of units in issue at the end of the period was 3,829,961 (28 February 2003: 3,481,189).

## 13 Contingent liabilities

The aggregate contingent liabilities not provided for at the balance sheet date was nil (28 February 2003: nil)

## 14 Related party transactions

The Court Funds Office (CFO), who provide investment management oversight services for the Fund are a related party (as defined by FRS 8). Details of units created and cancelled are shown in the Statement of Movements in Unitholders' Funds. The balances due to and from the Court Funds Office in respect of these transactions are detailed in notes 9 and 11.

JP Morgan Fleming Asset Management (UK) Limited, formerly Fleming Investment Management Limited, who provide investment management services could be regarded as a related party (as defined by FRS 8). Investments made on behalf of the Fund include those in JPMF unit trusts, which had a market value of £nil at 31 August 2003 (£977,464 at 28 February 2003) and JF Investment Trusts, which had a market of £nil at 31 August 2003 (£45,337 at 28 February 2003).

Management fees paid to JP Morgan Fleming Asset Management (UK) Limited are shown in note 5. The balances due at the period end in respect of these fees are shown in Note 11.

Other than the related party transactions disclosed above, none of the key management staff nor any other related party has undertaken any material transactions with the Fund during the period.

## 15 Financial instruments

In pursuing its investment objective as stated on page 53, the Fund holds a number of financial instruments. The Fund's financial instruments comprise securities and other investments, cash balances, debtors and creditors that arise directly from its operations, for example, in respect of sales and purchases awaiting settlement, amounts receivable for creations and payable for redemptions and debtors for accrued income.

The main risks arising from the Fund's financial instruments and the Investment Manager's policies for managing these risks are summarised below. These policies have been applied throughout the period.

### *Market price risk*

Market price risk is the risk that the value of the Fund's investment holdings will fluctuate as a result of changes in market prices caused by factors other than interest rate or foreign currency movement. Market price risk arises mainly from uncertainty about future prices of financial instruments the Fund holds. It represents the potential loss the Fund might suffer through holding market positions in the face of price movements. The Fund's investment portfolio is exposed to market price fluctuations, which are monitored by the Investment Manager in pursuance of the investment objective and policy as set out in the Statutory Instrument 1209 (1991).

Adherence to investment guidelines and to investment and borrowing powers set out in the Investment Management Agreement with the Lord High Chancellor and the Statutory Instrument 1209 (1991) mitigates the risk of excessive exposure to any particular type of security or issuer.

#### *Foreign currency risk*

At the year end date, 15.87% (28 February 2003: 23.84%) of the net assets of the fund were denominated in currencies other than sterling, with the effect that the balance sheet and total return can be significantly affected by currency movements.

	<b>31 August 2003</b>	28 February 2003
	£	£
US Dollar	<b>2,944,042</b>	3,409,301
Euro	<b>933,598</b>	994,086
Japanese Yen	<b>333,348</b>	475,374
Swiss Francs	<b>197,951</b>	162,338
Swedish Krona	<b>49,574</b>	42,393
Canadian Dollar	<b>46</b>	64,981
Australian Dollar	<b>0</b>	43,518
	<b><u>4,458,559</u></b>	<u>5,191,991</u>

#### *Interest rate risk*

Interest rate risk is the risk that the value of the Fund's investment holdings will fluctuate as a result of changes in interest rates.

The Fund does not invest in either fixed or floating rate securities and interest rate risk exposure is restricted to interest receivable on bank deposits or payable on bank overdraft positions which will be affected by fluctuations in interest rates.

#### *Liquidity risk*

The Fund's assets comprise mainly of readily realisable securities. The main liability of the Fund is the redemption of any units that investors wish to sell. Assets of the Fund may need to be sold if insufficient cash is available to finance such redemptions.

#### *Credit risk*

Certain transactions in securities that the Fund enters into expose it to the risk that the counterparty will not deliver the investment for a purchase, or cash for a sale after the Fund has fulfilled its responsibilities. The Fund only buys and sells investments through brokers which have been approved by the Investment Manager as an acceptable counterparty. In addition, limits are set to the exposure to any individual broker that may exist at any time and changes in brokers' financial ratings are reviewed.

# Administration of Justice Act 1982: Common Investment Funds

## Accounts Directions given by the Treasury

The Treasury, in pursuance of section 45(2) of the Administration of Justice Act 1982, hereby gives the following Direction

- 1 The Investment Manager of the Common Investment Funds shall prepare in respect of the period from 20 July 1999 to 29 February 2000 and thereafter for each period of one year ending on the last day of February until the final period from 1 March to 31 August 2003, accounts in respect of the
  - I Capital Fund; and
  - II High Yield Fund.
- 2 The accounts for each of the Funds referred to above shall give a true and fair view of the disposition of the assets and liabilities of the Fund at the year end and of the net income and movement in the net assets of the Fund for the year. Subject to the foregoing requirement, and without limiting the information given, each account shall reflect best commercial accounting practices.
- 3 The Report and accounts shall include
  - a a Foreword;
  - b a Statement of responsibilities;
  - c a Statement on Internal Control;
  - d a Statement of Total Return;
  - e a Statement of Movements in Unitholder's Funds;
  - f a Portfolio Statement;
  - g a Balance Sheet;
  - h a Summary of Material Portfolio Changes; and
  - i a Distribution Statement.

The accounts for each Fund shall also include such notes as may be necessary to present a true and fair view and for the purposes referred to in the following paragraphs.

- 4 The Foreword shall consist of information concerning the Common Investment Funds. It shall, amongst other things
  - a state that the accounts have been prepared in accordance with directions given by the Treasury in pursuance of Section 45(2) of the Administration of Justice Act 1982; and
  - b include an explanation of the statutory background to the accounts.
- 5 When preparing the accounts, the Investment Manager shall comply with the disclosure requirements of the Statement of Recommended Practice relating to Authorised Unit Trust Schemes issued by IMRO in January 1997 to the extent that such requirements are relevant to the Common Investment Funds.
- 6 This Direction replaces the Direction dated 19 August 1999.

David A Cruden FCA  
Head of the Central Accountancy Team  
Her Majesty's Treasury

26 May 2004

# Common Investment Scheme: Equity Index Tracker Fund

## Foreword

The Accounts Direction requires accounts to be prepared for each year ending on the last day of February. These accounts are for the period 1 September 2003 to 29 February 2004, following the closure of the Capital Fund within the Common Investment Scheme as managed by JP Morgan Fleming Asset Management (UK) Limited who ceased to be the appointed Investment Manager after 31 August 2003. These accounts are presented under Section 45 of the Administration of Justice Act 1982.

### 1 The Equity Index Tracker Fund

On 1 September 2003 the assets of the Capital Fund (the previous Common Investment Scheme) were transferred to Legal & General (Unit Trust Managers) Limited who were appointed as the new Manager from that date. These assets are shown as an in-specie transfer within the accounts.

### 2 What is the Common Investment Fund?

The Fund is only available for investment of money belonging to clients or former clients of the Department for Constitutional Affairs (DCA) individually or under a trustee arrangement, or under the control of certain Courts in England and Wales. It operates in a similar way to a unit trust where investors can buy units in a Fund.

New investment monies are added to those already invested in the Fund and the Investment Manager uses it to buy a mixture of index tracking unit trusts. Depending on how the Fund performs, the value of units change and so does the income paid out to the investors each year. Units can be sold back to the Fund and the investor will receive the value of the units at that time.

### 3 What is the legal basis for the Fund?

The Fund is an Unauthorised Unit Trust and was created under the Administration of Justice Act 1982 which authorises the Lord Chancellor to make Common Investment Schemes for the purposes of investing funds held in Court and money held by any other person authorised to hold shares in the Fund. The current scheme is governed by the Common Investment Scheme 2004 (SI 2004 No.266).

On 1 March 2004, the right to own units in the Fund was extended to the Official Solicitor, the Public Trustee and clients of the Public Guardianship Office (PGO)/Court of Protection wishing to hold units out of Court. In addition, certain former clients of the PGO/Court of Protection, the Court Funds Office (CFO) and the Official Solicitor and the Public Trustee were authorised to retain units in the Fund on termination of their connection with those offices. These changes came into effect as a result of authorisation by the Lord Chancellor pursuant to section 42(5)(b) of the Act of 1982.

#### 4 What is the role of the Court Funds Office (CFO)?

The Court Funds Office (CFO) manages funds held in Court in the name of the Accountant General under the Administration of Justice Act, 1982. Certain funds may be invested in Common Investment Schemes. Under the direction of the Court and on behalf of the Accountant General, the responsibilities of the Court Funds Office includes

- buying and selling units in the Common Investment Fund (on behalf of eligible investors);
- distribution to unitholders of dividends calculated by the Manager;
- payment of Investment Manager's fees; and
- investment management oversight through the Strategic Investment Board which advises the Department for Constitutional Affairs on investment strategy and performance monitoring.

#### 5 Accounts and audit

These accounts are in respect of the Equity Index Tracker Fund for the period 1 September 2003 to 29 February 2004 and have been prepared in accordance with an Accounts Direction issued by Treasury under section 45(2) of the Act as detailed on page 97.

The Comptroller and Auditor General is appointed external auditor under section 45(3) of the Act.

The responsibilities of the Comptroller and Auditor General are set out in the Certificate and Report as detailed on page 84.

*M W Dedman*  
Managing Director  
Legal & General (Unit Trust Managers) Limited

March 2005

## Investment Manager's report

### Investment strategy

The Fund strategy is to track the capital return of the composite benchmark by investing in Legal & General Index Unit Trusts.

The Fund benchmark is as follows

80% FTSE All-Share Index  
20% FTSE World (ex-UK) Index

The FTSE All-Share Index exposure will be provided by the purchase of units in the Legal & General UK Index Trust.

The FTSE World (ex-UK) Index exposure will be provided by the purchase of units in the following unit trusts

- Legal & General US Index Trust;
- Legal & General European Index Trust;
- Legal & General Pacific Index Trust; and
- Legal & General Japan Index Trust.

The Investment Strategy has been set after consultation with the DCA, acting on the advice of the Strategic Investment Board (SIB). The SIB is a public body which advises on the investment activities of the Public Guardianship Office, the Official Solicitor, the Public Trustee and the Court Funds Office.

*The FTSE All-Share and World (ex-UK) indices are calculated by FTSE International Limited ('FTSE'). FTSE does not sponsor, endorse or promote this product.*

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### Manager's investment report

Over the period between 12 noon on 1 September 2003 and 12 noon on 1 March 2004, the published price of units in the Equity Index Tracker Fund rose by 6.1% from 736.8 pence to 781.8 pence (bid prices).

In order to calculate the tracking performance of the Fund, the capital performance of the underlying unit trusts is compared with the capital performance of the composite benchmark. This is because adjustments have to be made for accrued income within the underlying trusts. The valuation also uses special close of trade prices for the underlying unit trusts in order to make a comparison with the indices.



## Tracking deviation

The table below shows the Fund Performance for the period from 1 September 2003 to 29 February 2004, with the benchmark performance which comprises 80% FTSE All-Share Index and 20% FTSE World (ex-UK) Index.

	September 2003	October 2003	November 2003	December 2003	January 2004	February 2004	Movement since inception
Total fund	(2.42)	4.58	0.77	2.60	(0.66)	1.95	6.85
Benchmark	(2.36)	4.57	0.78	2.60	(0.67)	1.97	6.93
Relative	(0.06)	0.01	(0.01)	0	0.01	(0.02)	(0.08)
World ex UK	(4.75)	3.49	(0.14)	1.67	0.38	(0.49)	(0.04)
FTSE World Ex UK	(4.63)	3.57	(0.11)	1.69	0.32	(0.45)	0.20
Relative	(0.12)	(0.08)	(0.03)	(0.02)	0.06	(0.04)	(0.24)
	September 2003	October 2003	November 2003	December 2003	January 2004	February 2004	Movement since inception
UK index fund	(1.79)	4.82	0.99	2.83	(0.93)	2.58	8.64
FTSE All-Share index	(1.79)	4.82	1.00	2.83	(0.92)	2.57	8.65
Relative	0	0	(0.01)	0	(0.01)	0.01	(0.01)

## Distribution review

Distributions were made by the Legal & General UK Index Trust, the Legal & General US Index Trust, the Legal & General Japan Index Trust and the Legal & General Pacific Index Trust. These distributions are held in a cash income account within the Equity Index Tracker Fund until they are paid out at the dividend dates on 10 April and 12 October.

## Market/economic review

Over the period the UK market, as measured by the FTSE All-Share Index, rose by 3.8% as the domestic economy remained buoyant despite two interest rate rises. 2004 has started on a firm footing led by continued consumer spending.

The recovery has been due to a low interest rate strategy, fiscal stimulation and dollar weakness although the latter damaged returns for sterling investors.

Details of the management of the underlying unit trusts can be found in those trusts' report and accounts which are available on request from Legal & General at the address shown on page 101.

# Statement on Internal Control

## 1 Scope of responsibility

As Managing Director, I have responsibility for maintaining a sound system of internal control that supports the achievement of Equity Index Tracker Fund policies, aims and objectives, whilst safeguarding the public funds and assets of unit holders for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

The operation of the Equity Index Tracker Fund is governed by the Investment Strategy, which was set by the Lord Chancellor on the advice of the Strategic Investment Board (SIB). The performance of the Fund is reported via quarterly management information, which ensures that the objectives of index tracking are fulfilled.

Quarterly meetings are also held between Legal & General and the SIB (which includes personnel from the DCA) to discuss operational issues and investment strategies.

The accounts produced at the accounting year end are audited by a firm appointed by the Comptroller and Auditor General, to ensure the Fund has operated within its stated strategy and the accounts are in line with best accounting and commercial practice. In this way, the testing of all material amounts within the accounts are verified to ensure the safeguarding of assets.

Assets of the Fund are held by an appointed Custodian who is separate to Legal & General, to ensure that the assets are safe guarded against misuse by ensuring all are held in the Fund's name.

## 2 Purpose of system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in Equity Index Tracker Fund for the period ended 29 February 2004 and up to the date of approval of the final report and accounts, and accords with Treasury guidance.

## 3 Capacity to handle risk

Legal & General Retail Investments (LGRI) have a Risk function, staffed by three experienced risk managers. The function was established in September 2002, and has been developing a framework in conjunction with requirements under the Financial Services Authority's (FSA) Integrated Prudential Sourcebook. The Risk function operates within the Legal & General group risk management framework.

The Head of Risk & Business Standards reports directly to the Managing Director of LGRI, and is authorised under the FSA's Approved Person regime, with responsibility for Controlled Function 14 Risk Assessment.

LGRI have in place documented risk policies, as follows

- credit risk policy;
- market risk policy;
- liquidity risk policy;
- group risk policy; and
- operational risk policy.

Each policy, prepared in accordance with Group standards, documents the company's appetite for that particular risk. All policies have been approved by the LGRI Risk and Compliance Committee (RCC). Compliance with the policies is monitored through the reporting of Key Risk Indicators to the RCC, which meets monthly. All risk policies are ratified by the RCC on an annual basis.

#### 4 The risk and control framework

A risk workshop was held in January 2003, with participation from key managers and directors within the business. Potential risks, grouped by business activity, were identified. These risks were uploaded to LGRI's Risk Database, with risk scores calculated using the product of impact and likelihood scores. The database facilitates the recording of risk owners (at Approved Person level), controls in place, key risk indicators and control weaknesses, etc. The Risk Database has formed the basis for recording and reviewing risks across the company since the workshop.

The Risk and Compliance Committee (RCC), a formal sub committee of the Board, has oversight of risk management within the company. The committee was formed during 2002, and meets monthly. Membership is as follows

- Group Director, Product And Corporate Division (chair);
- Managing Director;
- Sales And Marketing Director;
- Group Compliance Director;
- Head Of Risk & Business Standards;
- Finance Director;
- Finance Director (UK operations); and
- Operations Director.

In addition, representatives from Group Legal and Internal Audit attend on a regular basis.

The committee reviews the following standing agenda items

- minutes of previous meeting;
- matters arising;
- key risk indicators;
- top risks;
- area risk reports;
- business standards report;
- risk assessment reports;
- audit recommendations report;
- compliance report;
- human resources report;
- training and competency report; and
- any other business.

The schematic below demonstrates the risk framework within LGRI

The framework

- sits within the regulatory environment (FSA, Inland Revenue, etc.);
- has defined risk policies, describing the risk tolerance and management and reporting processes; and
- follows formalised processes to identify, assess, monitor and control risk.

Embedding the risk framework within the business remains a key objective and priority for LGRI Risk, who have provided clear reporting lines for all risk events. This ensures that risk events are communicated and escalated appropriately.

## 5 Review of effectiveness

As Managing Director, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the internal control is informed by the work of the internal auditors and the executive managers within LGRI 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 Board, the Audit Committee and Risk and Compliance Committee, and a framework to address weaknesses and ensure continuous improvement of the system is in place.

The effectiveness of the control environment is tested through risk-based monitoring, carried out by Business Standards, Group Compliance and Internal Audit. In addition, external reviews are undertaken by Trustees and external auditors. Any recommendations made to address control weaknesses are recorded by LGRI Risk on the Audit Recommendations Database.

Progress on actions is reported to the RCC. Monthly reports are presented to the RCC covering both Business Standards and Compliance activity; Internal Audit present on a six monthly basis.

## 6 Significant internal control problems

There are no significant internal control problems to report.

*M W Dedman*  
Managing Director

March 2005

## Respective responsibilities of the Lord Chancellor and Investment Manager

### Lord Chancellor's responsibilities

Under section 42 (1) of the Administration of Justice Act 1982 (the Act), the Lord Chancellor may make schemes ('Common Investment Schemes') establishing Common Investment Funds for the purpose of investing funds in court and other monies defined under section 42(5)(b) of the Act.

Under section 42 (2) of the Act, the Common Investment Schemes made by the Lord Chancellor shall provide for an Investment Manager to be appointed by the Lord Chancellor to manage and control the Common Investment Funds established.

As indicated on page 76, the Lord Chancellor appointed Legal & General (Unit Trust Managers) Limited on 1 September 2003.

### Investment Manager's responsibilities

Under section 45 (1) (c) of the Act, and in accordance with directions issued by Treasury, the Investment Manager is responsible for preparing the financial statements in respect of the Common Investment Scheme Equity Index Tracker Fund.

The Treasury Direction requires the Investment Manager to follow best practice. In preparing the Funds' Accounts, the Manager follows the disclosure requirements of the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association in November 2003 as updated by additional requirements from the Financial Services Authority (from time to time) and to the extent that such requirements are relevant to the Common Investment Fund.

These require the Investment Manager to prepare accounts for each annual accounting period which give a true and fair view of the financial affairs of the Fund and of income/expenditure for the period. In preparing the accounts the Manager is required to

- select suitable accounting policies and apply them consistently;
- comply with the disclosure requirements of the Statement of Recommended Practice relating to Authorised Funds to the extent that such requirements are relevant to the Common Investment Funds;
- follow applicable accounting standards; and
- keep proper accounting records, which enable the Investment Manager to demonstrate that the accounts as prepared comply with the above requirements.

The Investment Manager is responsible for the management of the Funds in accordance with the Deed of Appointment with the Lord High Chancellor dated 3 July 2003 and the Common Investment Scheme Statutory Instrument 2004 No. 266.

# 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 Equity Index Tracker Fund on pages 86 to 95 under section 45(3) of the Administration of Justice Act 1982. These financial statements have been prepared in accordance with the accounts direction issued by Treasury and the accounting policies set out on page 90.

## Respective responsibilities of the Lord Chancellor, Investment Manager and Auditor

### **The Lord Chancellor's responsibilities**

Under Section 42(1) of the Administration of Justice Act 1982 ('the Act'), the Lord Chancellor may make schemes ('Common Investment Schemes') establishing Common Investment Funds for the purpose of investing funds in court and other monies defined under Section 42(5)(b) of the Act.

Under Section 42(2) of the Act, the Common Investment Schemes made by the Lord Chancellor shall provide for an Investment Manager to be appointed by the Lord Chancellor to manage and control the Common Investment Funds established. As indicated on page 76, the Lord Chancellor appointed Legal & General Unit Trust Managers Ltd to be the Investment Manager for the Equity Index Tracker Fund for the period 1 September 2003 to 29 February 2004.

### **The Investment Manager's responsibilities**

Under Section 45(1)(c) of the Act, and in accordance with directions issued by Treasury, the Investment Manager, as described on page 83, is responsible for preparing the financial statements in respect of transactions in the Equity Index Tracker Fund. The Treasury has directed the Investment Manager to prepare Accounts for each financial year in accordance with best commercial practice.

### **The Auditor's responsibilities**

My responsibilities as independent auditor are established by statute and guided by the United Kingdom Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Statement of Recommended Practice relating to Authorised Unit Trust Schemes issued in November 2003 and with directions issued by Treasury under the Administration of Justice Act 1982. I also report whether, in all material respects, the financial transactions of the Fund conform to the authorities that govern them.

I also report if in my opinion the Investment Manager's Report on pages 78 and 79 is not consistent with the financial statements, if proper accounting records have not been kept or if I have not received all the information and explanations I require for my audit.

I review whether the statement on pages 80 to 82 reflects the Investment Manager's governance and internal control arrangements. I report 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 Investment Manager's statement covers all risks and controls. I am also not required to form an opinion on the effectiveness of Legal & General Unit Trust Managers Ltd'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 in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Investment Manager in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Fund'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 other irregularity 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.

## Opinion

In my opinion

- the financial statements give a true and fair view of the financial position of the Equity Index Tracker Fund as at 29 February 2004 and of the net income and movements in net assets for the period from 1 September 2003 to 29 February 2004;
- the financial statements have been properly prepared in accordance with the Administration of Justice Act 1982 and directions made thereunder by Treasury; and
- in all material respects, the financial transactions of the Fund during the period from 1 September 2003 to 29 February 2004 conform to the authorities which govern them.

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General

12 April 2004

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

## Statement of Total Return for the period ended 29 February 2004

	Notes	1 September 2003 to 29 February 2004	
		£	£
Net gains on investments	2	1,622,656	
Other gains/(losses)	3		0
Income	4	253,031	
Expenses	5	(25,992)	
Net income before taxation		227,039	
Taxation	6	(17,276)	
Net income after taxation for the period			209,763
Total return for the period			1,832,419
Distributions	7		(209,888)
<b>Net increase in Unitholders' funds from investment activities</b>			<b>1,622,531</b>

## Statement of Movements in Unitholders' Funds for the period ended 29 February 2004

	1 September 2003 to 29 February 2004	
	£	£
Net assets at the start of the period		0
Movement due to sales and repurchases of units		
Amounts received on creation of units	1,056,487	
In-specie transfer*	28,456,323	
Less Amounts paid on cancellation of units	(752,492)	
		28,760,318
Net increase in Unitholders' funds from investment activities (see above)		1,622,531
<b>Net assets at the end of the period</b>		<b>30,382,849</b>

\* Transfer from JP Morgan Fleming Capital Fund.

The in-specie transfer is shown in Note 16.

*The notes on pages 90 to 95 form part of these accounts.*



## Portfolio Statement as at 29 February 2004

All investments are in distribution units unless otherwise stated.

Investment	Holding/ nominal value	Market value £	% of net assets
<b>Unit Trusts investing in UK shares — 80.09%</b>			
Legal & General UK index trust	26,856,479	24,333,313	80.09
<b>Unit Trusts investing in overseas shares — 19.89%</b>			
Legal & General European Index Trust	991,765	1,257,062	4.14
Legal & General Japan Index Trust	2,388,246	594,315	1.95
Legal & General Pacific Index Trust	1,156,329	418,186	1.38
Legal & General US Index Trust	3,170,894	3,774,949	12.42
		6,044,512	19.89
<b>Portfolio of investments</b>		30,377,825	99.98
<b>Net current assets</b>		5,024	0.02
<b>Net assets</b>		<b>30,382,849</b>	<b>100.00%</b>

*The notes on pages 90 to 95 form part of these accounts.*

## Balance Sheet as at 29 February 2004

	Notes	29 February 2004 £
<b>Portfolio of investments</b>		<b><u>30,377,825</u></b>
<b>Net current assets</b>		
Debtors	8	<b>27,007</b>
Cash and bank balances	9	<b><u>320,881</u></b>
		<b>347,888</b>
<i>Less</i>		
Creditors	10	<b>133,883</b>
Distribution payable on distribution units		<b><u>208,981</u></b>
		<b><u>342,864</u></b>
<b>Net current assets</b>		<b><u>5,024</u></b>
<b>Net assets</b>		<b><u>30,382,849</u></b>
<b>Unitholders' funds</b>		<b><u>30,382,849</u></b>

*The notes on pages 90 to 95 form part of these accounts.*

M W Dedman  
 Managing Director  
 Legal & General (Unit Trust Managers) Limited

30 March 2005

## Summary of Material Portfolio Changes for the period ended 29 February 2004

<b>Major purchases</b>		<b>Cost £000</b>
Legal & General UK Index Trust		23,316
Legal & General US Index Trust		3,999
Legal & General European Index Trust		1,186
Legal & General Japan Index Trust		611
Legal & General Pacific Index Trust		405
<b>Total purchases for the period (including in-specie)</b>	<b>£29,516,934</b>	
<b>Major sales</b>		<b>Proceeds £000</b>
Legal & General UK Index Trust		699
Legal & General US Index Trust		63
<b>Total sales for the period</b>	<b>£761,765</b>	

*See note 16 for details of in-specie.*

## Notes to the Financial Statements

### 1 Accounting policies

#### *a Basis of accounting*

The accounts are subject to an Accounts Direction given by the Treasury (as detailed on pages 97 to 99) and are prepared under the historic cost basis as modified by the revaluation of investments and in accordance with the disclosure requirements of the Statement of Recommended Practice relating to Authorised Funds issued by the Investment Management Association in November 2003, to the extent that such requirements are relevant to the Common Investment Funds.

#### *b Recognition of income*

Income from distribution and accumulation units in collective investment schemes is recognised when the distribution is declared. Interest and income from fixed interest stocks is recognised on an accruals basis. All other income is recognised on an accruals basis.

Equalisation on distributions received from the underlying investments is treated as capital property of the Fund.

#### *c Treatment of expenses*

The Fund receives a rebate in respect of the managerial fees incurred by the underlying investments.

The Manager's periodic fee is deducted from income for the purpose of calculating the distribution.

#### *d Distribution policy*

Realisable income, after deduction of those expenses which are chargeable in calculating the distribution, will be paid to those unitholders with a holding at ex-dividend date. In order to conduct a controlled dividend flow, interim distributions will be at the Manager's discretion, up to a maximum of the distributable income for the period. All remaining income is distributed in accordance with the Collective Investment Schemes Sourcebook.

Distributions which have remained unclaimed by Unitholders for over six years are credited to the capital property of the Fund.

#### *e Investments*

The investments are valued at the mid of creation and cancellation prices at 12 noon on 1 March 2004.

Investments in securities by Legal & General on behalf of the Equity Index Tracker Fund are carried out on an arm's-length basis following the best execution principles thereby ensuring that Legal & General meets its regulatory obligations in respect of best execution.

#### *f Taxation*

Provision is made for taxation at current rates on the excess of unfranked investment income over expenses.

Deferred tax is provided for on all timing differences that have originated but not reversed by the balance sheet date, other than those differences that are regarded as permanent. Any liability to Deferred tax is provided for at the average rate of tax expected to apply. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

#### *g Comparable data*

There is no comparable data for earlier periods as the Fund commenced on 1 September 2003.

**2 Net gains on investments**

	<b>1 September 2003 to 29 February 2004</b>
	£
The net gains on investments during the period comprise	
Proceeds from sales of investments during the period	<b>761,765</b>
Original cost of investments sold during the period	<b>(743,661)</b>
Gains realised on investments sold during the period	<b>18,104</b>
Net unrealised appreciation for the period	<b>1,604,552</b>
Net gains on investments	<b>1,622,656</b>

**3 Other gains/(losses)**

There were no other gains/(losses) during the period.

**4 Income**

	<b>1 September 2003 to 29 February 2004</b>
	£
Franked dividend distributions	<b>140,784</b>
Unfranked dividend distributions	<b>28,902</b>
Bank interest	<b>4,639</b>
Management fee rebates from Legal & General Investment Management Limited	<b>78,706</b>
	<b>253,031</b>

**5 Expenses**

	<b>1 September 2003 to 29 February 2004</b>
	£
<b>Payable to the Investment Manager, associates of the Investment Manager and agents of either of them</b>	
Investment Manager's periodic fee	<b>24,615</b>
<b>Other expenses</b>	
Safe custody fees	<b>1,200</b>
Transaction charges	<b>125</b>
Bank overdraft interest	<b>52</b>
	<b>1,377</b>
<b>Total expenses</b>	<b>25,992</b>

**6 Taxation**

	1 September 2003 to 29 February 2004 £
<i>a Analysis of taxation charge in period</i>	
Corporation tax	17,276
Current tax [note 6 (b)]	17,276
Deferred tax [note 6 (c)]	0
Total taxation	<u>17,276</u>

*b Factors affecting taxation charge for the period*

The Current tax charge excludes capital gains and losses as the Fund is not subject to Corporation tax on these items. Current tax differs from taxation assessed on net income before taxation as follows

	1 September 2003 to 29 February 2004 £
Net income before taxation	227,039
Net income before taxation multiplied by the applicable rate of Corporation tax at 20%	45,408
Effects of	
Income not subject to taxation	(28,157)
Disallowable expenditure	25
Current tax	<u>17,276</u>

*c Provision for Deferred tax*

There is no Deferred tax provision in the current period.

**7 Distributions**

The distributions take account of income received on the creation of units and income deducted on the cancellation of units and comprise

	1 September 2003 to 29 February 2004 £
Final distribution	208,981
	<u>208,981</u>
<i>Add</i> Income deducted on cancellation of units	7,437
<i>Less</i> Income received on creation of units	(6,530)
<b>Distributions for the period</b>	<u>209,888</u>
<i>Less</i> Transaction charges	(125)
<b>Net income after taxation for the period</b>	<u>209,763</u>

**8 Debtors**

	<b>29 February 2004</b>
	<b>£</b>
Accrued income	<b>26,560</b>
Bank interest	<b>447</b>
	<b><u>27,007</u></b>

**9 Cash and bank balances**

	<b>29 February 2004</b>
	<b>£</b>
Cash and bank balances	<b>320,881</b>
Net uninvested cash	<b><u>320,881</u></b>

**10 Creditors**

	<b>29 February 2004</b>
	<b>£</b>
Purchases awaiting settlement	<b>113,705</b>
Accrued expenses	<b>8,683</b>
Corporation tax	<b>11,495</b>
	<b><u>133,883</u></b>

**11 Equalisation**

This applies only to units purchased during the distribution period (Group 2 units). It is the average amount of income included in the purchase price of all Group 2 units and is refunded to the holders of these units as a return of capital. Being capital it is not liable to Income tax but must be deducted from the cost of units for Capital Gains tax purposes.

**12 Contingent liabilities and outstanding commitments**

There were no contingent liabilities or outstanding commitments at the balance sheet date.

**13 Risk in relation to financial instruments**

The Fund's investment strategy is stated on page 78. In pursuing its objective, the Fund holds financial instruments which expose it to various types of risk. The main risks, and the Manager's policy for managing these risks, which were applied consistently throughout the current period, are set out below.

*a Credit and liquidity risk*

Credit risk is the risk of suffering loss due to another party not meeting its financial obligations. The primary sources of this risk to the Fund are the potential for borrowers to fail to meet their redemption commitments and for trade counterparties to fail to meet their transaction commitments. This risk is managed by appraising the credit profile of financial instruments and trade counterparties.

Liquidity risk relates to the capacity to meet liabilities. The primary source of this risk to the Fund is the liability to Unitholders for any cancellation of units. This risk is minimised by holding cash and readily realisable securities and via access to overdraft facilities.

*b Market risk*

Market risk arises mainly from uncertainty about future prices. The primary source of this risk to the Fund is the potential movement in the value of financial instruments held as a result of price fluctuations. Given that the Fund invests in other unit trusts, there is market risk exposure in respect of the financial instruments held by these entities. The Manager adheres to the investment guidelines and borrowing powers established in the Trust Deed, the Scheme Particulars and the Collective Investment Schemes Sourcebook. In this way, the Manager monitors and controls the exposure to risk from any type of security, sector or issuer.

*c Foreign currency risk*

Foreign currency risk is the risk of movements in the value of overseas financial instruments as a result of fluctuations in exchange rates. At the balance sheet date the Fund had no significant exposure to currencies other than Sterling. However, the underlying unit trust investments may have currency risk exposure.

*d Interest rate risk*

Interest rate risk is the risk of movements in the value of financial instruments as a result of fluctuations in interest rates. The Fund's only interest bearing financial instruments were its bank balances as disclosed in note 9. Cash is deposited, and overdraft facilities utilised, on normal commercial terms and earn or bear interest based on LIBOR.

*e Fair value*

The fair value of a financial instrument is the amount for which it could be exchanged between knowledgeable, willing parties in an arm's length transaction. There is no significant difference between the value of the financial assets and liabilities, as shown in the financial statements, and their fair value.

#### **14 Post balance sheet events**

There were no material post balance sheet events which have a bearing on the understanding of the financial statements.

#### **15 Ultimate controlling party and related party transactions**

The CFO, who provide investment management oversight services for the Fund, are a related party (as defined by FRS 8). Details of units created and cancelled are shown in the Statement of Movements in Unitholders' Funds.

Legal & General Investment Management Limited, who provide investment management services are a related party (as defined by FRS 8). Investments made on behalf of the Fund include those in L&G unit trusts, which had a market value of £30,377,825 at 29 February 2004.

Management fees paid to Legal & General Investment Management Limited are shown in note 5. The balances due at the period end in respect of these fees is £8,292. Management fee rebates received from Legal & General Investment Management are shown in note 4. Rebates receivable at the period end amount to £26,560.

Other than the related party transactions disclosed above, none of the key management staff nor any other related party has undertaken any material transactions with the Fund during the period.



**16 In-specie transfer**

The opening investment in the Equity Index Tracker Fund arose from the liquidation of the JP Morgan Fleming Capital Fund. The value of the investments in the Capital Fund using close of business prices on 31 August, and in-specie transfer at midday on 1 September are shown below.

	£
Value of investments at 31 August 2003	<b>26,287,084</b>
Market Movement between closing prices at 31 August 2003 and midday prices at 1 September 2003	<u>337,736</u>
Value of in-specie investments at 1 September 2003	<b>26,624,820</b>
Cash	<u>1,831,503</u>
<b>Total in-specie per Statement of Total Return</b>	<b><u>28,456,323</u></b>

The assets from the JP Morgan Fleming Capital Fund were transferred to the underlying unit trusts in return for the issue of units.

The value of units allocated in the underlying Trusts were

	£
UK Index	<b>22,186,837</b>
US Index	<b>2,993,247</b>
Japan Index	<b>343,343</b>
European Index	<u>1,101,393</u>
<b>Total value</b>	<b><u>26,624,820</u></b>

These values are shown as purchases within the Statement of Material Portfolio Changes.

## Distribution Table for the period ended 29 February 2004

### Final dividend distribution

Group 1: units purchased prior to 1 September 2003

Group 2: units purchased from 1 September 2003 to 29 February 2004

	Net income  pence per unit	Equalisation (Note 11)  pence per unit	Distribution payable 10 April 2004  pence per unit
<b>Distribution units</b>			
Group 1	5.4017	0	5.4017
Group 2	0.1994	5.2023	5.4017

### Performance Record

#### Net asset values

Accounting date	Net asset value of fund	Net asset value per unit	Number of units in issue
29 February 2004	£30,382,849	785.33p	3,868,780

#### Unit price range

Year	Distribution units	
	Highest offer	Lowest bid
2003 <sup>1</sup>	773.30p	722.60p
2004 <sup>2</sup>	798.40p	770.60p

#### Net distribution

	Distribution units	
	Per unit	Per £1,000 invested at 1 September 2003
2003 <sup>1</sup>	0	0
2004 <sup>3</sup>	5.4017p	£7.27

1 Since inception at 1 September 2003.

2 To 29 February 2004.

3 To 10 April 2004.

# Accounts Direction given by the Treasury

## Foreword

Section 45 (1) of the Administration of Justice Act, 1982 states

“Accounts shall be prepared and shall at such times as the Treasury shall direct be sent to the Comptroller and Auditor General - in respect of transactions in a fund established by a common investment scheme, by the investment manager”.

## Treasury direction

The Treasury, in pursuance of section 45(2) of the Administration of Justice Act 1982, hereby gives the following Direction

- 1 The Investment Manager of the Common Investment Funds shall prepare accounts for the Equity Index Tracker Fund in respect of the period from 1 September 2003 to 29 February 2004 and thereafter for each period of one year ending on the last day of February.
- 2 The accounts shall give a true and fair view in accordance with generally accepted accounting practice of the financial position of the Fund at the period end and of the net income and movement in the net assets of the Fund for the year.
- 3 The accounts shall be prepared in accordance with a format and content to be agreed between the Investment Manager, the Comptroller and Auditor General and the Court Funds Office, with the consent of the Treasury, and shall include
  - I a Foreword;
  - II a Statement of responsibilities;
  - III a Statement on Internal Control;
  - IV a Statement of Total Return;
  - V a Statement of Movements in Unitholders' Funds;
  - VI a Balance Sheet;
  - VII a Portfolio Statement;
  - VIII a Summary of Material Portfolio charges;
  - IX a Distribution Statement; and
  - X such notes as may be necessary to present a true and fair view.

- 4 The Foreword shall include among other items
  - I a statement that the accounts have been prepared in accordance with directions given by the Treasury in pursuance of Section 45(2) of the Administration of Justice Act 1982;
  - II relevant information in respect of the statutory background of the Fund;
  - III the name and period of appointment of the Investment Manager;
  - IV details of the arrangements for reporting financial performance of the Fund to unitholders; and
  - V a statement on the external audit arrangements for the Fund, including commentary on the roles of the Comptroller and Auditor General and the auditors.
- 5 The Notes shall include among other items
  - I the accounting policies;
  - II a statement of the regulatory basis of the accounts, with reference to best practice principles which apply to the funds in which the Equity Index Tracker Fund is invested;
  - III disclosure of the way in which the Investment Manager applies best execution principles when making investments;
  - IV a breakdown on material items within the Accounts;
  - V the tax computation;
  - VI distribution information;
  - VII a statement of movements between net income and distributions;
  - VIII any contingent liabilities and contingent assets;
  - IX any units in issue;
  - X disclosure of fees and expenses in accordance with the tariff set out in the contract;
  - XI post balance sheet events;
  - XII related party transactions, recognising that the Court Funds Office and various entities within Legal and General are both related parties to the Fund, and therefore the disclosure principles laid down in FRS 8 need to be applied;
  - XIII a summary of the fund structure and the instruments invested in;
  - XIV a statement of any material errors made good by the Investment Manager and the impact of those errors on the accounts had they not been made good; and
  - XV the risk management policy.
- 6 When preparing the accounts, the Investment Manager shall comply with, and use as a best practice guideline, the disclosure requirements of the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association in November 2003 and as updated by additional requirements from the Financial Services Authority (from time to time), to the extent that such requirements are relevant to the Equity Index Tracker Fund.
- 7 The Investment Manager will support the Accounts with a General Representation Letter, containing material matters that need to be confirmed to the Comptroller and Auditor General and the Court Funds Office.
- 8 The Investment Manager will also submit the annual taxation computation to the Inland Revenue within the timescales defined by the Inland Revenue.

- 9 The Investment Manager will employ best endeavours to complete the Accounts and enable the Comptroller and Auditor General to lay the Accounts before Parliament within nine months of the period end in respect of the accounts for the period ended on 29 February 2004 and thereafter within three months of the year-end.
- 10 This Direction shall be reproduced as an annex to the accounts.
- 11 This Direction replaces the Direction dated 26 May 2004.

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

26 November 2004

## General information

### Accounting/distribution dates

The accounting and distribution dates for the Equity Index Tracker Fund are

#### Accounting dates

29 February  
31 August

#### Distribution dates

10 April  
12 October

### Buying & selling units

#### Unit prices

Unit prices may be found in the Financial Times under the DCA Common Investment Funds heading or are available from the DCA.

The Fund is valued daily and the prices for buying and selling units rise and fall depending on the market value of the Fund's investments at that time. If the prices are published as 'ex-dividend', a purchaser will not be entitled to the next income payment.

#### Management fee

There is no initial fee on the issue of units and no redemption charge is applied. The annual management fee is based on fund size as follows

0.17% for the first £50m  
0.14% between £50m and £100m  
0.13% between £100m and £150m  
0.12% between £150m and £200m  
0.11% thereafter

The management charge is paid in arrears out of the total assets of the Fund at the end of each month.

#### Buying and selling securities

The Investment Manager buys and sells units in the underlying unit trusts on behalf of the Equity Index Tracker Fund using forward prices at the date of investment. The prices of the underlying trusts are shown in the Financial Times on a daily basis, on the day after valuation.

The Manager of the underlying trusts effects transactions based on Best Execution at all times and may, subject to Investment Restrictions, deal on any such markets or exchanges and with or through such brokers or counterparties as it thinks fit. The Manager will act with good faith and due diligence in its choice and use of brokers and counterparties.

**Manager**

Legal & General (Unit Trust Managers) Limited  
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Temple Court  
11 Queen Victoria Street  
London EC4N 4TP  
Telephone: 020 7528 6200  
Registered in England No. 1009418  
Authorised and regulated by the Financial Services Authority

**Directors of the Manager**

J M Bury  
S Cartlidge (appointed 29 October 2004)  
M W Dedman  
G Hoskins (resigned 11 December 2004)  
S R Pistell  
J B Pollock  
R P Sewell  
S Whiteside (resigned 30 April 2004)

**Overall governance**

Department for Constitutional Affairs

**Auditor**

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Victoria  
London SW1W 9SP

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**Prepared and issued by**

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