Presented to Parliament pursuant to Section 45(3)(1) of the Administration of Justice Act 1982

Funds in Court in England and Wales Account 2011-12

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Contents

Annual Report for the Accountant General's Accounts (Part A) of her transactions under Section 38 of the Administration of Justice Act 1982 and presented under Section 45 of the same Act

Accountant General's Accounts

The Accountant General's Accounts cover the year ended 29 February 2012. 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. Other accounts prepared by the Commissioners for the Reduction of National Debt (CRND) – Part B – Court Funds Investment Account (CFIA) and the Investment Manager's Accounts – Part C – The Equity Index Tracker Fund (EITF), supplement the Funds in Court Part A – Accountant General's Accounts. In order to provide a full understanding of the relationship between the Parts A, B and C, the Part A Accounts consolidate the relevant elements.

The Court Funds Office

On 5 December 2011 changes in the way services are delivered to clients of the Court Funds Office (CFO) were introduced. Client account administration and the associated client helpdesk functions were transferred to National Savings and Investments (NS&I) who manage them on behalf of the Accountant General. This change had no impact on the Accountant General's accountability and responsibilities as Accounting Officer for the Funds in Court. A residual team in the Ministry of Justice known as the Office of Accountant General (OAG) sponsors the new arrangements and ensures that statutory duties for Funds In Court continue to be discharged. This is explained under 'Other Developments'.

The CFO conducts dealings in cash and securities on behalf of the Accountant General. The money held by CFO originates from three main sources:

- Cases where money is held in court pending settlement of civil court action, or on behalf of dissenting shareholders, widows and other clients whose funds are held under a variety of different statutes.
- Assets belonging to people who lack the capacity to manage their own financial affairs who have either:
  - Been awarded damages under Part 21 of the Civil Procedure Rules and those funds are retained in court under Part 21; or
  - Had a Deputy appointed by the Court of Protection to manage funds on their behalf, and that Deputy either chooses to, or is directed to, retain Funds In Court.
- Damages awarded to children as a result of civil legal action in a county court in England or Wales or the High Court of Justice. These assets are held on their behalf until the child reaches majority (18 years of age) unless the court order instructs otherwise.

The CFO is also responsible for the Unclaimed Balances Account. The account consists of:

- Money paid into court which has not been claimed by beneficiaries after 10 years from the last point of activity on the account; or
- Money paid to the CFO where the rightful owner cannot be found, and which therefore cannot be returned.

The Unclaimed Balances register is available online and can be viewed by the public.

The CFO is governed by the Administration of Justice Act 1982, The Senior Courts Act 1981, and the Court Funds Rules 2011. Funds are deposited in court under various enactments, in particular the Civil Procedure Rules.

Management Team

The OAG Management Team is chaired by Eddie Bloomfield, Deputy Accountant General, who reports directly to the Accountant General, Pat Lloyd, and comprises all permanent members of OAG and the Non-Executive Members. The purpose of the Management Team is to advise the Deputy Accountant General so as to assist him in his decision making and monitoring in respect of:

- Leadership, strategy and direction;
- Policy;
- Finance;
- Contract management of the outsourced supplier NS&I;
- Corporate governance and risk;
- Communications with internal and external stakeholders; and
- Performance management of the Equity Index Tracker Fund (EITF) manager Legal and General.

Membership of the Management Team for civil servants is based on appointment to the OAG. The Non-Executive Members are appointed by the Deputy Accountant General and have appointment letters for a fixed term. The table below lists all persons who served on the OAG Management Team during the year ended 29 February 2012.

Name	**Role or Title**	**Date of Appointment**	**Expiry Date**
Eddie Bloomfield	Deputy Accountant General & Head of OAG	05/12/2011	
John Little	Head of Finance	05/12/2011	
Colin Scott	Head of Service and Contract Management	05/12/2011	
Andy Allan	Head of Policy and Communications	05/12/2011	
Elizabeth Jeary	CFO Service and Product Champion	05/12/2011	
Nick Farley	Financial and Management Accountant	05/12/2011	
Lauren Adams	Policy Officer	05/12/2011	
James Page	Executive Support and Team Secretary	05/12/2011	
Alan Clifton	Non-Executive Member	05/12/2011	31/03/2013
Dr Ros Altmann	Non-Executive Member	05/12/2011	31/03/2013

* Bryan McGhee, Head of former CFO Operations, advised the board on legacy and closedown issues relating to the former operation.

CFO Investment Policy

Client funds are invested in the Court Funds Investment Account (CFIA) through the Commissioners for the Reduction of National Debt (CRND). These funds are invested by CRND in cash based instruments and HM Government Gilts to earn the agreed rate of return which is set at the Bank of England Base Rate. This investment is backed by HM Government to adhere to the CFO policy providing a guaranteed rate of return with negligible risk of loss to the Client.

Client funds are invested in either the Basic or Special Accounts, and 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 by direction of the Lord Chancellor, with the concurrence of HM Treasury.

During the year 1 March 2011 to 29 February 2012, the gross percentage rates were Basic Account 0.3 per cent and Special Account 0.5 per cent.

Interest earned by the Accountant General's deposits with the CRND pays the interest due on the Basic and Special Accounts, with any residual surpluses or deficits being due to or from the Consolidated Fund (CF) after deduction of OAG operating costs.

Where a judge considers it appropriate for a child's funds to be invested over the medium to long term they may direct for part of the award to be invested for capital growth. In accordance with the CFO Investment Policy, where there is more than £10,000 to invest and more than five years until majority, a proportion of the fund may be invested in each of the Special Account and the Equity Index Tracker Fund (EITF). The EITF is a tracker fund managed by Legal and General on the Accountant General's behalf and 70 per cent of funds track the FTSE All-Share Index and 30 per cent the FTSE All-World (ex-UK).

The investment policy is implemented using of a framework approved by the Non-Executive Members of the OAG Management Team acting as investment advisors for CFO.

Management Commentary for the year ended 29 February 2012

The Statement of Comprehensive Net Expenditure reports a deficit for the year ending 29 February 2012 of £0.573 million (£8.529 million in 2010-11). The main factors that explain this deficit are:

- Interest Income has decreased by £4.498 million to £17.276 million (£21.774 million in 2010-11). This is mainly due to the decrease in Clients' account balances (Deposits and Advances) which has reduced interest earned by £2.838 million. There has also been a decrease in interest on Debt Securities of £1.222 million and an increased payment to the Consolidated Fund of £0.540 million. The general reduction reflects the continuing low rate of interest offered by CFO whilst the Bank of England Base Rate remains at 0.5 per cent, resulting in Clients withdrawing their funds and investing in the commercial market. See Note 3.

- Interest Due to Clients' has decreased by £4.268 million to £13.750 million (£18.018 million in 2010-11). This reflects the same trends as Interest Income where the decrease is mainly due to the decrease in Clients' accounts balances particularly on Special Accounts where there has been a decrease of £3.467 million because Deputies have applied to have funds transferred out of court to earn a higher return. See Note 4.

- Net Interest Income has decreased by £0.230 million to £3.526 million (£3.756 million in 2010-11). This reflects the very small margin between Interest Income earned on Clients' funds and the Interest Due to Clients' and a larger payment of interest to the Consolidated Fund.

- Dividend Income, Gains/(Losses) Arising from Securities and Gains/(Losses) Arising from Foreign Exchange have a nil net impact because these are funds that are solely attributable to the Clients and any gains or losses are borne by them. The only exception to this is a small amount of Gilts owned by OAG. The interest on these OAG Gilts decreased by £0.174 million to £0.056 million (£0.230 million in 2010-11). See Note 18 for further details.

- Net Income (before Expenses) has decreased by £0.404 million to £3.582 million (£3.986 million in 2010-2011). This is the total of the decrease in Net Interest Income of £0.230 million and interest on OAG Gilts of £0.174 million explained above.

- Total Expenses decreased by £8.360 million to £4.155 million (£12.515 million in 2010-11). This is due to a reduction in Gross Costs of £2.159 million and an increased contribution from the Ministry of Justice. See Note 15 for further details.

The Statement of Financial Position reports a decrease in Total Assets of £357.009 million to £3,670.398 million (£4,027.407 million in 2010-11). The main factors resulting in this movement were:

- Cash and Cash Equivalents increased by £164.282 million to £192.172 million (£27.890 million in 2010-11). This was mainly due to a single case in the Commercial Court which involved a lodgment of £200 million in US Dollars.

- Deposits and Advances which reflect Clients' holdings have decreased by £492.112 million to £3,298.695 million (£3,790.807 million in 2010-11). This is mainly due to decreases in Special Account balances which have decreased by £466.212 million to £1,783.941 million (£2,250.153 million in 2010-11). See Note 11 for further details. This correlates to the movements on Interest Income and Interest Due to Clients' and reflects the continued movement of funds out of court to earn a higher rate of return in the commercial market.

- Total Client Holdings in Investment Securities decreased by £29.179 million to £179.531 million (£208.710 million in 2010-11) mainly due to a decrease in the volume of units held. Unit holdings decreased by 12.965 million to 46.628 million (59.593 million in 2010-11). This is mainly due to net transfers of holdings to Clients of 8.549 million (22.032 million in 2010-11) as a result of directions from Children reaching majority and Deputies transferring control to private stockbrokers. The decrease has also been caused by an excess of sales over purchases of 4.416 million units. Included in these totals, Equity Index Tracker Fund units decreased by 0.575 million to 9.654 million units with a Net Asset Value of £107.478 million (10.229 million units with a net asset value of £114.731 million in 2010-11) – see Note 8. Further details of the Equity Index Tracker Fund are provided in the Part C Accounts.

Financial instruments

The principal activity of CFO is to hold deposits on behalf of Clients in the Basic and Special Accounts. The cash deposits are invested through the CRND in cash based instruments and HM Government Gilts. The nominal account for the funds is called the Court Funds Investment Account (CFIA). The policy in relation to these Funds in Court is to maintain liquid investments, managed by the CRND, to meet cash flows as they fall due and to generate income that is sufficient to meet the interest obligations to Clients and cover the costs of operating the OAG. Any surplus interest over income earned in the financial year is surrendered to the Consolidated Fund. If there is a deficit of interest then legislation requires that this would be met from the Consolidated Fund.

Risks and uncertainties

Clients' deposits are all held in the CFIA in call notice deposits and can be withdrawn on short notice, thereby managing the liquidity and cash flow risks of a sudden increase in client withdrawal requests. The CFIA does not utilise any hedging instruments, and the interest rate risk is managed through changes in the administered rates applicable to the Basic and Special Accounts, which can be changed at short notice. The credit risk to Clients is considered to be negligible given that investments are backed by HM Government.

Clients can also deposit funds in foreign currency; these funds are maintained in the relevant currency and any exchange risk is borne by the Clients. In some specific circumstances Clients can hold funds in investment securities; the OAG administers these investments but does not provide any investment or management advice and the market risk inherent in these securities is borne by the Clients.

The OAG is exposed to operational risks, such as fraud and maladministration, and operates a system of internal controls to manage these risks. This is explained in the Governance Statement on page 9.

Progress against agreed targets - Key Performance Indicators

Until 5 December the CFO Management Board received a monthly performance report covering the operational aspects of the former CFO. This report included Key Performance Indicators (KPIs) which monitored the in-house operational performance. The KPIs and performance against them as at 5 December 2011 were as follows:

KPI	Description	Target	Performance
1	To accurately process correctly completed and authenticated /certified payment requests within 5 working days of receipt (includes returns)	95%	94.7%
2	To respond to all correspondence, including e-mail and fax, within 5 working days of receipt	95%	97.4%
3	To accurately process correctly completed and authenticated non-investment 212s within 5 working days of receipt (includes returns)	95%	96.5%

KPI	Description	Target	Performance
4	To bank cheques received on day of receipt and to process completed lodgment directions within three working days of receipt	100%	100%
5	95 per cent of calls dealt with immediately and no more than the remaining 5 per cent to be escalated to Operational Managers	95%	n/a[1]
6	To issue majority statements to all Clients approaching their 18th Birthday, where an address is held on file	100%	100%
7	To ensure all cases passed majority are actively investigated and contacted accordingly	100%	100%
8	To ensure where all Court of Protection cases indicate the client is now deceased, personal representatives are contacted within 5 days of notification	95%	99%
9	To accurately process correctly completed and authenticated investment decision forms for children and protected parties (Form 212s) within 14 days of receipt (in line with shared 28 day target with HMCTS)	100%	100%
10	To accurately process sales and purchases, corporate actions, transfers and dividends within the specified target or time frame	100%	100%
11	To carry out an annual review of every child's account with funds invested, rebalance where required and contact Clients accordingly	100%	100%
12	To achieve the Ministry of Justice target of less than 7.5 average days sick absence per member of staff	7.5	2.7 days

From 5 December 2011 these in-house KPIs were replaced with ones forming part of the commercial arrangements between OAG and NS&I. From 5 December 2011 until 29 February 2012 NS&I operated the service under their post go-live settling in arrangements with Atos, known as 'warranty'. Operational performance was not reported against KPIs during warranty. Instead performance against key operational processes was used until full KPI reporting resumed at the end of warranty in March 2012. Operational performance is shown on the following table:

	Received	Cleared	In Process
Payments Out	3,294	3,195	6,505
Daily Average	183	178	361
Lodgments to client account	2,332	2,334	4,198
Daily Average	130	130	233
Create Client Account (Form 212)	2,895	2,959	13,173
Daily Average	161	164	732
Customer Maintenance	774	862	1,884
Daily Average	43	48	105
Death Claims	359	373	909
Daily Average	20	21	51
General Correspondence	679	594	1,844
Daily Average	38	33	102
Complaints	56	52	132
Daily Average	3	3	7

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.

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

The notional audit fee for the audit of the Funds in Court Part A financial statements for the year ended 29 February 2012 was £109,470. There have been no fees paid in respect of non-audit work.

Other developments

During 2011 Ministers approved modernisation of CFO operations in conjunction with NS&I. This modernised the management of Funds in Court via a partner for whom the provision of financial services to individual customers is a core function and who has an existing, successful, delivery partnership with a specialist provider.

The value for money of NS&I services was already established via their own modernisation programme. Working with them built on that and also offered a range of benefits including reduced risk to government and improved services to clients.

On 5 December 2011 all work related to account administration and customer service transferred to NS&I who manage it on behalf of the Accountant General. The Accountant General remains accountable for funds held in court, and exercises that accountability through a new Office of the Accountant General (OAG) who sponsors the relationship, provides 3rd line specialist advisory support, provides policy oversight, manages the relationship between courts and the judiciary and ensures the statutory responsibilities of Lord Chancellor for client interest rates continue to be discharged appropriately. The previous CFO ceased to operate on that day.

Under the Administration of Justice Act, CFO costs are met out of interest earned on the CFIA and modernisation costs were part of this, although some funding was received from the Ministry of Justice. Working with NS&I has no specific long term financial impact on the Department. Running costs for NS&I and the OAG will continue to be met from interest earned on the CFIA.

The title Court Funds Office remains the public facing brand for the new arrangements. This now comprises the NS&I back office functions, referred to as the CFO Service, delivered by NS&I's outsource partner Atos and the oversight provided by OAG.

Pat Lloyd 24 June 2012
Accountant General of the Senior Courts

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 Senior Courts 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. These Accounts are prepared so as to give a true and fair view of the state of affairs as at 29 February 2012 and of the income and expenditure and cash flows of the year.

Appointment of the Accountant General

The Secretary of State and Lord Chancellor has, under Section 97(2) of the Senior Courts Act 1981, as amended by the Public Trustee and Administration of Funds Act 1986, appointed Pat Lloyd as Accountant General of the Senior Courts on 1 April 2010. The Permanent Secretary of the Ministry of Justice has also appointed the Accountant General as the Accounting Officer for Funds in Court. Her relevant responsibilities as Accounting Officer, including responsibilities for the propriety and regularity of the funds for which she 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 *Managing Public Money*.

Governance Statement

Introduction

I am the appointed Accountant General of the Senior Courts and in this role also the appointed Accounting Officer for the Funds in Court. I understand the requirements of an Accounting Officer as set out in *Managing Public Money* including my responsibility for ensuring that there is an effective system of internal control; that financial systems and procedures promote the efficient and economical conduct of business and safeguard financial propriety and regularity; that financial considerations are fully taken into account in decisions on policy proposals; and that risk is considered in relation to assessing value for money.

I also understand the requirements of 'Corporate governance in central government departments: Code of Good Practice 2011'. This Governance Statement explains how, as Accountant General, I comply with the code and my responsibilities as Accounting Officer.

There were no Ministerial directions given to me as the Accountant General in the year ending 29 February 2012.

Role of the OAG Management Team

I am supported in my role as Accountant General by the Deputy Accountant General who is the Head of the Office of the Accountant General (OAG). The Deputy Accountant General and his team carry out the day to day responsibilities on my behalf although I retain accountability for all decisions and actions taken by him.

OAG is an accounting department for the senior courts and operates as an Arm's Length Body (ALB) within the core boundary of the Ministry of Justice (MoJ). OAG has a complement of ten staff. Due to its size and status within the department it is not cost effective for it to have its own Governance or Audit Committees. These functions are provided by the Ministry of Justice corporate arrangements either with the Sponsorship team or the Ministry of Justice Audit Committee.

The OAG governance arrangements are based on the OAG line management structure and are set out in the Governance Arrangements of the Office of the Accountant General. The Head of OAG, supported by the Management Team, is responsible to the Accountant General for all matters of governance and assurance. The role of the Management Team is to advise the Deputy Accountant General, on the Accountant General's behalf, on the following areas:

- Achievement of OAG objectives as stated in the 2011-12 Business Plan;
- Policy relating to Funds in Court;
- Finance including production of White Paper Accounts;
- Service and contract management of the outsourced operational delivery supplier NS&I including performance against KPIs;
- Corporate governance and risk;
- Communications with internal and external stakeholders;
- Contract management of the Equity Index Tracker Fund (EITF) including performance against the agreed investment ratios; and
- Staffing and HR issues.

The Management Team meets formally each month and all decisions and actions are minuted. These minutes are retained at the OAG office in Chancery Lane and are available for inspection by internal and external audit. The Management Team is supported by two Non-Executive Members who attend team meetings on a quarterly basis. Their role is to provide expert investment advice to the Management Team.

Meetings of the Management Team started from transition to NS&I on 5 December 2011. Prior to this the shadow OAG Management Team had met regularly since July 2011.

All OAG employees are permanent civil servants on standard Ministry of Justice terms and conditions. OAG therefore does not have a nominations committee as all remuneration including pension are set by departmental policy and procedure.

Prior to the establishment of the OAG Management Team the day to day responsibilities of the Accountant General were carried out by the Court Funds Office (CFO) Management Board. The CFO Management Board was in place up to 5 December 2011.

The role of that Board was the same as the role of the OAG Management Team, namely to provide a service to clients in compliance with relevant legislation. However, the responsibility was discharged by directly operating the previous in-house arrangements rather than contract management of the current partnership arrangements. The Board also oversaw transfer of service to NS&I. The support structure for the CFO Board in terms of secretariat and investment specialists mirrored that of the OAG Management Team.

Management Team Composition

The Management Team is chaired by the Deputy Accountant General who is also Head of OAG. All permanent employees of the OAG attend the monthly Management Team meeting. Other individuals can be invited to the Management Team meeting to advise or observe by invitation but they are not members of the Team itself.

The Head of OAG is supported by two sub-committees which exist to provide advice and information on specific areas of OAG business:

- Risk Committee – Responsible for ensuring effective risk management is in place and being used across OAG. The Committee also maintain the OAG risk register. It meets monthly to review risks and issues to ensure they are complete, accurate and up to date. The output of this committee is reported back to the monthly Management Team meeting. The committee comprises all OAG staff except the Deputy Accountant General.

- Finance Review Group – Responsible for discussing strategic financial issues and meets monthly. The output of this committee is reported back to the OAG Management Team meeting each month. The committee comprises the Deputy Accountant General and the Heads of Finance, Policy and Contract Management.

Due to the specialist nature of OAG the two Non-Executive Members provide expert advice on investments, particularly relating to the EITF. They do not provide the full range of Non-Executive functions as this does not currently align with the structure and objectives of OAG but will be subject to further consideration in the future.

Membership of the CFO Management Board was linked to job descriptions of the senior CFO team and individuals joined or left the Management Board according to those roles. The two investment advisors also attended the CFO Management Board on a quarterly basis.

Service Governance Arrangements

NS&I is responsible for delivering to the Accountant General on an annual basis a statement of assurance that will cover all aspects of the CFO Service (Accounts Administration and Client Helpdesk) as defined in the Memorandum of Understanding (MoU) and its Schedules between the Accountant General and NS&I.

In addition to the OAG's internal governance structure there are also governance arrangements to cover the partnership with NS&I. This consists of two main groups who oversee delivery by NS&I:

- NS&I Operational Delivery Group (ODG)

  This Group is chaired by NS&I which is responsible to OAG for delivery by its outsource partner Atos. The OAG Head of Service and Contract Management attend. The ODG provides oversight of service delivery to ensure that operational objectives are achieved, that risks, issues and major incidents are managed and explores reasons for any failures of service quality, including KPI breaches. Its Terms of Reference are set out in the

Terms of Reference for the OAG/NS&I Operational Delivery Group. The ODG also addresses other operational matters that affect service delivery. The ODG meets monthly and all decisions and actions are minuted. Its output is reported to the OAG Management Team meeting each month. On a quarterly basis, the Head of OAG and the NS&I Director for Business to Business (B2B) attend the ODG to receive reports on performance and to address any issues requiring strategic direction. As at 29 February 2012 the CFO Service remained in the warranty period of the contract with NS&I so it is not meaningful to assess the performance of the Operational Delivery Group until service provision has reached steady state.

- NS&I Project Board

  This group is chaired by NS&I and oversees any major development activities or projects related to the CFO Service. At the end of February 2012 its role was to manage residual implementation activities as part of the post go-live warranty period with NS&I's outsource provider Atos.

Where concerns arise that cannot be dealt with through normal contract management and assurance processes, NS&I has agreed that the MoJ Internal Audit and Assurance Division (IAAD) may, at the request of the Accountant General, conduct such audit work as is necessary to provide the Accountant General with assurance. The MoJ IAAD will also provide independent audit assurance to the Accountant General on other matters that are wholly the responsibility of the OAG.

Management Team Effectiveness

The Management Team has a dedicated secretary who is responsible for agreeing the agenda with the Head of OAG and members, issuing papers in good time before each meeting to allow members time for sufficient consideration, minuting each meeting and maintaining an actions log which is reviewed at the following meeting. These are retained for departmental and audit inspection. All Team members can query any document with the secretariat on the grounds of accuracy and completeness.

During 2011-12 the Management Team and the CFO Management Board considered their main achievements to be:

- Managing a successful transition of the administrative functions of the former CFO to NS&I and ensuring that clients' needs continued to be met without any significant disruption;
- Managing the successful redeployment or other departure of former CFO staff, by working with MoJ Corporate HR, so that at the point of transfer there were only a small number of staff left to be redeployed;
- Ensuring that CFO performance was maintained to a high standard throughout 2011-12 prior to transition, which was reflective in consistent green ratings on CFO KPIs;
- Working with the Investment and Banking Programme to complete the modernisation programme for CFO;
- Working with Ministry of Justice Corporate Finance to resolve the 2012-13 funding deficit.

The above achievements are reflected in the CFO Management Board's closure report as at 5 December 2011, which sets out how CFO's responsibilities were discharged.

The Management Team does not presently have a separate system to review its own effectiveness or that of individual Management Team members. Any concerns about Management Team effectiveness would be addressed by requesting MoJ IAAD to review its operation. In addition, OAG management (and formerly CFO management) report quarterly to the Accountant General with regard to performance. The Deputy Accountant General also meets with the Accountant General on a monthly basis. Development of a process by which the Management Team can review its own performance will be considered during 2012-13.

Risk management

OAG operates a risk control framework embedded within the governance structure of the organisation. This is managed through the risk register maintained by the OAG Risk Committee which is discussed monthly at the OAG Management Team meetings. Any actions or decisions taken on risk by the Committee are minuted and put on the action log.

The OAG Risk Framework was established during 2011-12 during meetings of the Risk Committee. Consideration was given to OAG's specific objectives, the risks that might prevent the achievement of these objectives and the cause and effect of these risks. Appropriate control mechanisms (both in place and planned) were considered and recorded as appropriate. This process also allowed for the scoring of risks within a Risk Matrix in terms of their likelihood and impact and allocation of risks to specific owners.

To ensure that risks are independently reviewed and to receive an assurance that they are complete and accurate the risk register is discussed quarterly with the MoJ ALB Governance Unit who acts as sponsor for OAG. The Accountant General chairs these meetings. In between quarterly reviews if any risk increases in probability or impact to a level causing concern then this is escalated by the Deputy Accountant General to the Accountant General.

To provide additional assurance the risk register is also shared with MoJ IAAD and National Audit Office as required and action taken on any recommendations they may make on the information provided.

As at 5 December CFO operations were transferred to NS&I. Accordingly all risk of operational fraud and maladministration was at this point passed to the outsourced provider. NS&I have embedded management of the CFO Service into its management functions. Risks to delivery of the CFO Service are assessed by each function and monitored regularly as part of the NS&I risk management cycle. An NS&I risk log for the CFO Service is used to manage and control this process. The log is discussed at the monthly Operational Delivery Group and forms part of the report to the monthly OAG Management Team.

OAG also relies on three independent areas of supporting audit work:

- NS&I Internal Audit & Fraud Control Teams

  Under the MoU NS&I is responsible for operation and for control of the CFO Service. Review of the service, its risks and its control weaknesses are part of this responsibility. The annual NS&I internal audit plan includes specific reviews of the CFO Service. Their generic process reviews across all operations will also review implications for the CFO Service. Where OAG has a concern about operation or control of the CFO Service it can commission specific reviews by the NS&I IAD.

- NS&I external review of the CFO Service and its control environment (5 December 2011 to 29 February 2012)

  An external review of the control framework for the CFO Service to year ending February 2012 was commissioned by NS&I from KPMG. The review was based on the framework in International Auditing Standard on Assurance Engagements 3402 (ISAE 3402). NS&I will carry out a similar annual review each year as part of its assurance to the Accountant General about the quality of the CFO Service.

- MoJ IAAD

  MoJ IAAD will carry out inspections on specific areas of business as agreed through the audit planning process. During 2011-12 IAAD carried out two audit inspections of the previous in-house CFO operations:

- Audit of Risk Management in the Court Funds Office (Rating : Green)

- Audit of Fraud Risks Assessment (Rating : Green/Amber)

Overall assessment of adequacy of risk management for CFO Service

The KPMG external review of the management assertions made by NS&I of systems and process controls found that:

- The descriptions fairly present the CFO System as designed and implemented as at 29 February 2012; and
- The controls related to the control objectives stated in the description were suitably designed as at 29 February 2012.

Risk Management in previous CFO

The CFO Management Board operated a comprehensive risk control framework. This was structured in standard terms and consisted of a Risk Management and Compliance team, individual business area and overall corporate risk and issues registers, quarterly performance meetings with the Accountant General, quarterly meetings with IAAD, and an annual plan of work for IAAD inspections and audits.

The CFO Risk Management and Compliance Team carried out regular control reviews of four key operational areas as defined by the CFO Management Board. These were lodgment of money into court, payments out of court, BACS electronic transmission of payments and post opening. These regular reviews helped ensure that compliance with control procedures was maintained and improved throughout the time up to transition of the CFO Service.

All types of risks and issues were discussed at the monthly CFO Management Board and in team meetings across the CFO. The monthly CFO Management Board considered the high-level fully articulated Risk Register, which was informed by section-level risk registers and represented a joined up approach between Business As Usual and modernisation risks. The risks related to staff redeployment and the transfer of activity to NS&I were addressed by the CFO Management Board via succession planning.

OAG has inherited some legacy control issues from the former Court Funds Office. These issues relate to physical control of documentation and manual management controls. It was recognised that these issues could not be resolved under the former operation and OAG would look to ensure these had been resolved by the new third party supplier.

Control incidents

In 2011-12 there were four control incidents relating to the Court Funds Office service prior to transition to NS&I:

- There was a delay in processing an instruction to sell a client's investment portfolio. This delay financially disadvantaged the client who had to be reimbursed with £45,000 and this was recorded as a cash loss for the OAG. As a result of this case CFO Management Board reviewed and changed the operational procedures. No other cases were identified as requiring rectification.
- A former child client reported that their fund had been subject to fraud. It was alleged that a £1,000 payment was fraudulently claimed by a relative. This matter is the subject of an ongoing police investigation. CFO's Risk Management and Compliance Team reviewed controls and procedures and found no instance of internal non-compliance that contributed towards this alleged fraud. There is no cash loss to be recorded against the OAG; where an alleged fraud has taken place and there has not been a failure of CFO/OAG controls it is CFO/OAG policy that a cash loss will not be recognised in these circumstances. It is for the client to re-claim the funds from the relevant party.
- A cheque made payable to a client to the value of £5,000 was intercepted and fraudulently cashed. CFO's Risk Management and Compliance Team reviewed the cheque dispatch controls and concluded that internal controls had been adhered to and there was no evidence to suggest this originated within CFO. The bank who issued the cheque has taken action forward through its own fraud procedures and made good the monies to the client. Accordingly there is no cash loss to be recorded against the OAG.

- Some 40 county courts with cases managed by CFO closed during 2011-12. It cannot be evidenced that all Client records on FAS were updated and that all court signatory panels and authentication stamps were cancelled/destroyed. There may be a consequential low risk for potential fraud during the financial year. The risk came to light in May 2012 and subsequently it has been confirmed that 39 out of 44 signatory panels were cancelled in the pre-transition period, with the remaining five be cancelled. To eliminate any fraud risk a daily check is completed by the Fraud and Compliance Team at NS&I/Atos to verify that no fraudulent payments have been made with regard to closed courts. To date no incidents of fraud have been detected that would yield a cash loss for the OAG.

- Four 212 forms relating to live cases were placed in error in three boxes of filing that were due to be sent for long term storage. As a result there has been a delay in processing these cases and the accumulation of interest. The total value of the cases is c£9,000 and if a cash loss occurs due to the delay the Client will be compensated. The remaining content of the three boxes was examined and did not contain any other live cases. All other pre transition hard copy paperwork has been transferred to NS&I appropriately boxed and labelled or sent to long term storage. These cases have been sent to NS&I for action.

There were three control incidents related to operation by NS&I that occurred in the period 5 December 2011 to 29 February 2012, after transition:

- A coding error meant that 1,400 children who reached majority received incorrect advice on the need to return to court to claim their funds. Clients affected were re-sent the correct advice and the relevant courts notified. The system coding has now been corrected. In addition the courts ratified the position for 10 clients who received their funds without returning to court. No losses were incurred as a result of this incident.

- As part of migrating data to NS&I, 23 Clients' bank details were incorrectly transposed for those who receive regular payments. No other CFO clients were affected. NS&I completed a check of circa 4,000 regular payment Clients to ensure that all other bank account details were correct. All Clients affected were notified and the correct bank details entered. CHAPS payments were made to Clients who had not received regular monthly payments. Agreements were made on return where Clients had received duplicate payments (totalling £21,000) in all but one case. Resolution of this case continues but there is a potential loss of £2,300 if agreement to repay is not reached.

- During migration of Client data to NS&I information on closed courts was included in the information uploaded to the new system. In the months following transition a limited number of clients requiring a new court order for release of their funds may have been directed to a closed court. These cases have all been processed correctly via the new court. As at the date of these accounts interim measures are in place to prevent any further occurrence and no losses have been identified. A works order is in place for permanent correction of all data by early July.

Following transfer of NS&I on 5 December 2011, any loss arising from control incident failures in the NS&I operation are met by NS&I. OAG remains responsible for any legacy losses that emerge in relation to previous CFO incidents. The only potential loss on control incidents for NS&I as at 29 February 2012 is the £2,300 above.

Pat Lloyd 6 July 2012
Accountant General of the Senior Courts

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 Funds in Court in England and Wales Part A for the year ended 29 February 2012 under the Administration of Justice Act 1982. These comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accountant General and Auditor

As explained more fully in the Statement of Accountant General's Responsibilities, the Accountant General is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Administration of Justice Act 1982. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances relevant to the Funds in Court in England and Wales Part A Accounts and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accountant General; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on regularity

In my opinion, in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on the financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Funds in Court in England and Wales Part A account's affairs as at 29 February 2012 and of the net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Administration of Justice Act 1982 and directions issued thereunder by HM Treasury.

Opinion on other matters

In my opinion the information given in the annual report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or

the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General

10 July 2012

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

Statement of Comprehensive Net Expenditure for the year ended 29 February 2012

	Notes	**29 February 2012 £000**	28 February 2011 £000
Income			
Interest income	3	**17,276**	21,774
Interest due to clients' accounts	4	**(13,750)**	(18,018)
Net interest income		**3,526**	**3,756**
Dividend Income		**4,043**	4,037
Gains/(losses) arising from securities		**3,048**	24,557
Gains/(losses) arising from foreign exchange	5	**3,650**	(3,381)
Income due to clients' holdings	18	**(10,685)**	(24,983)
Net Income		**3,582**	**3,986**
Expenses			
Administrative expenses – OAG		**(4,047)**	(12,406)
Provisions for liabilities and charges	15	**–**	–
Management charges from CRND		**(108)**	(109)
Total expenses		**(4,155)**	**(12,515)**
Total comprehensive net expenditure transferred (from)/to reserves and hereditary revenues		**(573)**	**(8,529)**

The notes on pages 20 to 30 form part of these accounts.

Statement of Financial Position as at 29 February 2012

	Notes	**29 February 2012 £000**	28 February 2011 £000
Assets			
Current assets			
Cash and cash equivalents	6	**192,172**	27,890
Deposits and advances	9	**3,298,695**	3,790,807
Debt securities	7	**18,053**	23,317
Investment securities	8	**158,084**	182,402
Dividends and coupons due	10	**3,394**	2,991
Total assets		**3,670,398**	**4,027,407**
Liabilities			
Current liabilities			
Cash borrowings	6	**13,583**	11,514
Clients' cash account balances	11	**3,109,328**	3,430,729
Clients' holdings in investment securities	8	**179,531**	208,710
Other liabilities - payables	13	**4,913**	12,766
Total current liabilities		**3,307,355**	**3,663,719**
Total net current assets		**363,043**	**363,688**
Non current liabilities			
Provisions for liabilities and charges	16	**–**	–
Other liabilities – reserves	19	**363,043**	363,688
Total non current liabilities		**363,043**	**363,688**
Total liabilities		**–**	**–**

The notes on pages 20 to 30 form part of these accounts.

Pat Lloyd 6 July 2012
Accountant General of the Senior Courts

Statement of Cash Flows for the year ended 29 February 2012

	Notes	**29 February 2012 £000**	28 February 2011 £000
Cash flows from operating activities			
Operating (deficit)		**(573)**	(8,529)
(Increase)/decrease in debt securities		**15,467**	25,350
(Increase)/decrease in deposits and advances		**571**	8,699
(Increase)/decrease in investment securities		**24,318**	7,069
(Increase)/decrease in other assets		**(403)**	(927)
Increase/(decrease) in client cash accounts		**(320,845)**	(685,374)
Increase/(decrease) in client holdings in investment securities		**(29,179)**	(20,993)
Increase/(decrease) in other liabilities		**(8,481)**	(4,303)
Net cash flows from operating activities		**(319,125)**	**(679,008)**
Cash flows from investing activities			
Cost of purchases of debt securities		**(10,203)**	(10,453)
Proceeds from sales of debt securities		**–**	–
Net movement in short-dated cash deposits		**491,541**	676,277
Net cash flows from investing activities		**481,338**	**665,824**
Net cash flows from financing activities			
Net increase/(decrease) in cash and cash equivalents		**162,213**	**(13,184)**
Cash and cash equivalents at 1 March 2011		**16,376**	29,560
Cash and cash equivalents at 29 February 2012	6	**178,589**	16,376

The notes on pages 20 to 30 form part of these accounts.

Notes to the Financial Statements

1 Statement of Accounting Policies

These financial statements have been prepared in accordance with direction made by HM Treasury under section 45 of the Administration of Justice Act 1982, as detailed on page 2. In applying this direction, due regard is given to the 2011-12 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Funds in Court in England & Wales (Part A) for the purpose of giving a true and fair view has been selected. The particular policies adopted are described below. They have been applied consistently in dealing with items that are considered material to the Accounts.

1.1 Accounting Convention

These Accounts have been prepared under the historical cost convention, modified to account for the revaluation of certain financial assets and liabilities to the extent that such requirements are relevant to the activities of the CFO.

1.2 Consolidation boundaries

The Accountant General's Accounts (Part A) 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. Other accounts prepared by the Commissioners for the Reduction of National Debt (CRND) – Part B – Court Funds Investment Account (CFIA) and the Investment Manager's Accounts – Part C – The Equity Index Tracker Fund (EITF), supplement the Funds in Court Part A – Accountant General's Accounts. The Part A Accounts and the Part B Accounts prepared on an accruals basis are consolidated in full. Part C Accounts figures are not totally consolidated, only the elements which relate to CFO. The valuation in the consolidated Part A Accounts is based on the net asset value of the units held.

1.3 Recognition of Income

Interest income and expenditure for all interest-bearing financial instruments are recognised in Interest Income and Interest Due to Clients' Accounts in the Statement of Comprehensive Net Expenditure using the effective interest rate (EIR) method of allocating interest over the relevant period. Interest income and expenditure is recognised from the settlement date.

Income is recognised in the Accounts on the following bases:

- Interest on investments is recognised as it accrues on an EIR basis rather than on a cash received basis; dividends are accrued as they are declared;
- Realised gains and losses on disposals or maturities of investments are recognised in the period they arise;
- Valuation gains and losses on securities and collective investment schemes are recognised in the Statement of Comprehensive Net Expenditure and are included in the carrying value of those securities in the Statement of Financial Position.

1.4 Valuation of Securities & Collective Investment Schemes

All securities and collective investment schemes are designated as Financial Assets held at fair value through profit and loss, and are shown in the Statement of Financial Position at market value. This reflects the nature of the Client holdings which can be ordered to be repaid at any time and it would therefore be inappropriate to designate investment holdings as 'Held to Maturity'.

Fair values of investment securities (see Note 8 for description of investment securities) are determined, mainly by reference to published price quotations in an active market. Loan Notes and National Savings Holdings are valued at face value, as there are no market values for these instruments. These instruments make up approximately 0.03 per cent of the overall investment securities value.

The Debt Securities held by the CRND within the Court Funds Investment Account (CFIA) are consolidated based on the values within the Part B Accounts.

There are certain movements in Securities held directly by the OAG for Clients during the year, where no cash transfer occurs (lodgments and transfers), including securities previously held by Clients which are transferred into Court (lodgments) or Securities held by OAG are transferred to Clients rather than being sold and cash paid out (transfers). For these movements, cash values are estimated by using closing market prices applicable on the date the transaction occurs.

The EITF is valued using Net Asset Value as at the 29 February 2012.

1.5 Hereditary Revenues and Reserves held by CRND

Hereditary revenues comprise capital gains realised on the disposal or maturity of debt securities held by CFIA.

The view of HM Treasury Legal Advisers is that capital profits achieved as a result of investment of monies transferred to the CRND by the Accountant General could lawfully be re-invested by the CRND. Clients were entitled only to return of their initial capital plus the rate of interest carried by the Basic or Special Accounts. Capital profits must, ultimately, be paid to the Consolidated Fund (CF) under the 'hereditary revenues principle', but the duty to pay to the CF would only arise upon a 'triggering' event (for example, if the CFIA were wound up, and the surplus crystallised).

The primary investment vehicles by which surpluses have arisen are through investments in gilts and short-term deposits. Gilts were not always held to maturity by CRND, but were often bought and sold so as to realise a larger return than would have arisen from coupon interest alone. The surplus had, therefore, two sources of 'capital profits':

- Profits realised on the disposal of gilts sold 'cum div'; and
- Profits attributable to the increase in the capital value of gilts as a result of the decline in interest rates since the late 1980s.

Reserves held by CRND relate to surplus interest within the CFIA as at 29 February 2012.

Both Hereditary Revenues and Reserves held by CRND are shown as liabilities in the Statement of Financial Position to reflect that these are liabilities to the Consolidated Fund. See Note 19 for further details.

1.6 Administrative Expenses

The costs incurred by the OAG, and the Management Fees levied by the CRND are included in the Statement of Comprehensive Net Expenditure. Management fees levied by EITF are reflected in the unit prices used to value these holdings. See Note 15 for further explanation of OAG costs.

1.7 Foreign Currency Transactions

Assets and liabilities included in the Statement of Financial Position that have a functional currency different from the presentation currency are translated into the presentation currency at the closing rate at 29 February 2012.

The only foreign currency positions that are maintained are on behalf of Clients who wish to hold Funds in Court in an alternative currency to Sterling. These funds are held in accounts with correspondent banks and earn interest in the relevant currency. Gains or losses on foreign exchange movements are calculated based upon monthly movements in the exchange rates.

Foreign exchange gains and losses resulting from revaluations are taken to the Statement of Comprehensive Net Expenditure, but as the risk is borne by the Clients a balancing transaction is reflected to adjust Clients' holdings in the functional currency.

1.8 Ways and Means

End of day cash surpluses in the CFIA are swept daily to the National Loans Fund (NLF) and are repayable on demand while the NLF makes good any daily shortfall of monies in the CFIA. These investments are known as Ways and Means. The CFIA receives interest on monies swept up to NLF and pays interest on any shortfalls.

2 Financial risk management

Financial instruments form the vast majority of the assets and liabilities of Funds in Court. The primary liabilities are deposits accepted from Clients, and the primary assets are investments placed with the CRND through the CFIA. These activities give rise to a number of financial risks, namely, Interest Rate Risk, Credit Risk, Market Risk and Liquidity Risk. These are explained in more detail below.

2.1 Interest Rate Risk

Interest Rate Risk is the risk that interest rate movements on assets and liabilities are not aligned resulting in a financial loss.

The Basic and Special Accounts are both operated at administered rates which are reviewed regularly and can be changed to ensure that interest expense remains closely aligned to interest income generated within the CFIA. Should there be a significant adverse movement in interest rates, which reduces the available net interest income, the OAG could change its administered rates within approximately one month.

The financial risks of providing the returns on deposit accounts are covered by a Guarantee, on the basis that Section 39 (2) of the Administration of Justice Act 1982 requires any surplus to be paid to the Consolidated Fund, and Section 39 (3) requires any deficits to be met by the Consolidated Fund.

2.2 Credit Risk

Credit risk is the risk that a counterparty, or security issuer, will fail to discharge a contractual obligation resulting in financial loss.

The investments of the CFIA comprise deposits and gilts. The deposits are either with the Debt Management Office or the National Loans Fund and are considered to have no exposure to credit risk because both accounts are backed by HM Government. Similarly gilts are considered to be free of credit risk because they have the backing of HM Government.

2.3 Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices or interest rates.

Market risk for the CFIA is considered to comprise interest rate risk. The interest returns on deposits in the CFIA are closely linked to the official Bank of England Base Rate. The market value of gilts is more sensitive to movements in interest rates. CRND monitors interest rate movements to help inform the CFIA Clients of potential issues and events but not to proactively manage specific market risk without Client consent.

The CFIA is managed in such a way as to ensure that there is sufficient income to cover costs. Costs are defined as the interest payable on client accounts and the administrative costs of the Office of the Accountant General.

The financial risks of investing in securities, collective investment schemes, and foreign currency holdings in accordance with Client instructions, are borne by the Clients.

Foreign exchange gains and losses resulting from revaluations are taken to the Statement of Comprehensive Net Expenditure, but as the risk is borne by the Clients a balancing transaction is reflected to adjust Clients' holdings in the functional currency.

2.4 Liquidity Risk

Liquidity risk is the risk that the CFIA will encounter difficulty in meeting obligations associated with Client withdrawal requests.

The OAG manages the liquidity risk by:

- Monitoring cash flows to ensure that daily cash requirements are met; and
- Holding sufficient financial assets for which there is an active market and which can readily be sold.

Assets held by the CFIA are highly liquid to enable client obligations to be met as they fall due.

A maturity analysis for UK Government Gilts managed on behalf of the OAG by the CRND and UK Government Gilts held on behalf of Clients by the OAG is as follows:

2012	**Nominal £000**	**Market Value £000**
Maturing in less than 3 months	5	5
Maturing in more than 3 months but less than 1 year	–	–
Maturing in more than 1 year but less than 5 years	1,591	3,699
Maturing in over 5 years	8,250	14,349
Total Debt Security Holdings	**9,846**	**18,053**

2011	**Nominal £000**	**Market Value £000**
Maturing in less than 3 months	4	4
Maturing in more than 3 months but less than 1 year	49	136
Maturing in more than 1 year but less than 5 years	946	1,482
Maturing in over 5 years	11,920	21,695
Total Debt Security Holdings	**12,919**	**23,317**

2.5 Operational Risk

Operational risk is inherent in all business activities, and is the risk of direct or indirect loss, resulting from inadequate or failed internal process, people and systems or from external events. It includes errors, omissions, natural disasters and deliberate acts such as fraud. OAG manages this risk within its risk management strategy and through the systems of internal control which are designed to mitigate risks. It is recognised that such risks can never be entirely eliminated and that the costs of controls in minimising these risks may outweigh the potential benefits. The system of internal control is therefore designed to provide reasonable assurance that these risk exposures are maintained at acceptable levels of tolerance.

3 Interest Income

	29 February 2012 £000	28 February 2011 £000
Cash and cash equivalents	**176**	74
Deposits and advances	**17,512**	20,350
Debt securities	**488**	1,710
Total interest receivable	**18,176**	**22,134**
Surplus Income payable to Consolidated Fund	**(900)**	(360)
Total interest income	**17,276**	**21,774**

4 Interest due to clients' accounts

	29 February 2012 £000	28 February 2011 £000
Interest paid		
Court funds – basic account	**3,024**	3,000
Court funds – special account	**10,618**	14,085
Foreign currency balances	**176**	74
Debt securities	**488**	1,710
Total interest paid	**14,306**	**18,869**
Interest accrued		
At period end	**3,479**	4,035
At period start	**(4,035)**	(4,886)
Total interest due	**13,750**	**18,018**

Foreign currency balances reflect due to client accounts not held in Sterling.

5 Gains/(losses) on foreign currency

	29 February 2012 £000	28 February 2011 £000
US Dollars	**3,470**	(2,661)
Euros	**168**	(713)
Australian Dollars	**12**	(7)
Total gains/(losses) on foreign currency	**3,650**	**(3,381)**

6 Cash and Cash Equivalents

Cash and cash equivalents include balances held in bank accounts in both Sterling and Foreign Currencies.

	29 February 2012 £000	28 February 2011 £000
Assets – Foreign Currency Bank Accounts		
Balance at 1 March	**27,890**	51,332
Net change in cash and cash equivalents balances	**164,282**	(23,442)
Balance at year end	**192,172**	27,890
Liabilities – Sterling bank accounts		
Balance at 1 March	**(11,514)**	(21,772)
Net change in cash and cash equivalents balances	**(2,069)**	10,258
Balance at year end	**(13,583)**	**(11,514)**
Net cash and cash equivalent holdings	**178,589**	**16,376**

7 Debt securities

2012	**Nominal £000**	**Market Value £000**
Holdings with CRND	–	–
Holdings held on behalf of Clients	9,846	18,053
Total Debt Security Holdings	**9,846**	**18,053**

2011	**Nominal £000**	**Market Value £000**
Holdings with CRND	–	–
Holdings held on behalf of Clients	12,919	23,317
Total Debt Security Holdings	**12,919**	**23,317**

8 Clients' holding in investment securities

Investment Securities relate to holdings held by the Accountant General on behalf of Clients and comprise:

- Holdings in the Equity Index Tracker Fund, managed on behalf of the OAG by Legal & General (Unit Trust Managers) Limited, and covered in greater detail in the Part C Accounts, which are valued at Net Asset Value;
- Holdings of unit trusts lodged in court by Clients; and
- Holdings of individual stocks and shares, debt securities and National Savings Certificates lodged in court by clients.

The following tables show the period end balances and the movements on these holdings during the year:

	29 February 2012 £000	28 February 2011 £000
Market valuation summary		
EITF and Unit Trust Holdings	**138,821**	155,097
Stocks, shares and loan notes	**19,228**	27,275
National Savings and other holdings	**35**	30
Total investment securities	**158,084**	**182,402**
Debt Securities	**18,053**	23,317
Accrued Income	**3,394**	2,991
Total Client Holdings in Securities	**179,531**	**208,710**

	29 February 2012 £000	28 February 2011 £000
Market Holdings Summary		
EITF and Unit Trust Holdings	**33,591**	41,863
Stocks, Shares and loan notes	**3,191**	4,811
National Savings and other holdings	**–**	–
Total investment securities	**36,782**	**46,674**
Debt securities	**9,846**	12,919
Total Client Holdings in Securities	**46,628**	**59,593**

	29 February 2012 £000	28 February 2011 £000
Movements in holdings during the Year		
Balance at start of year	**59,593**	67,237
Purchases during year	**10,708**	34,673
Sold during year	**(15,124)**	(20,285)
Net transfers (to)/from clients	**(8,549)**	(22,032)
Balance as at year end	**46,628**	**59,593**

Of the above holdings 9.654 million units (10.229 million units in 2010-11) relate to the EITF, with a Net Asset Value of £107.478 million (£114.731 million in 2010-11) and price per unit of 1,113 pence (1,122 pence in 2010-11).

9 Deposits and advances

Deposits and Advances primarily represent call notice deposits and fixed rate time deposits with short-term maturities, placed with the Debt Management Office by the CRND.

	29 February 2012 £000	28 February 2011 £000
Call notice deposits	3,288,435	3,780,125
Fixed term deposits	10,260	10,682
Ways and means account	–	–
Deposits and advances holdings	**3,298,695**	**3,790,807**

10 Dividends and coupons due

Dividends and Coupons due reflect interest that has been contractually earned but remains unpaid at the year-end. It does not include unpaid dividends and distributions on stocks, shares and collective investment schemes where there is no contractual commitment to make such a distribution. The balance is comprised of the following elements:

	29 February 2012 £000	28 February 2011 £000
Equity Index Tracker Fund	**1,650**	1,450
Unit trusts	**64**	14
Stocks and shares	**65**	95
Gilts	**1,615**	1,432
Total dividends and coupons due	**3,394**	**2,991**

11 Clients' cash account balances

The cash balances for which the Accountant General is liable at the year-end are:

	29 February 2012 £000	28 February 2011 £000
Court Funds placed on basic account	**961,800**	994,751
Court Funds placed on special account	**1,783,941**	2,250,153
Unclaimed balances	**119,262**	121,725
Other suitors' monies deposited in the senior courts	**48,674**	32,175
Clients' monies held as Foreign Currency	**192,172**	27,890
Total client cash balances	**3,105,849**	**3,426,694**
Accrued interest	**3,479**	4,035
Total client balances	**3,109,328**	**3,430,729**

12 Clients' receipts and payments during year

	29 February 2012 £000	28 February 2011 £000
Opening balance	**3,426,694**	**4,112,068**
Lodgments by clients	**937,976**	685,407
Sales of EITF units and other securities	**35,361**	54,582
Dividends and Interest paid on securities	**4,136**	4,715
Total lodgments from clients	**977,473**	**744,704**
Payments to clients	**(1,292,773)**	(1,391,578)
Cost of purchase of EITF units and other securities	**(22,907)**	(52,234)
Transfer of surplus funds to Exchequer (HMT)	**(105)**	(44)
Total payments to clients	**(1,315,785)**	**(1,443,856)**
Interest credited to court accounts	**17,467**	**13,778**
Closing balance	**3,105,849**	**3,426,694**

13 Other liabilities

	29 February 2012 £000	28 February 2011 £000
Interest due to Consolidated Fund	**900**	360
Administrative expenses – OAG	**3,986**	12,406
Management charges from CRND	**27**	–
Total other liabilities - payables	**4,913**	**12,766**

14 Events after the reporting period

There were no events after the reporting period and up to the date of signature by the Comptroller and Auditor General which require adjustment or disclosure in these financial statements.

15 Administrative expenses - OAG

The full cost of running the OAG is allocated to the Accountant General's Accounts (Part A) Accounts. The full cost includes the cost of staff, related facilities and general support costs. An analysis of expenses by category is shown in the table below:

	29 February 2012 £000	28 February 2011 £000
CFO staff costs	**3,844**	5,291
CFO accommodation costs	**1,083**	1,554
CFO IT costs	**2,484**	2,874
CFO general support costs	**1,360**	1,518
Investment and banking programme	**3,240**	5,169
Office of the Accountant General	**378**	–
Third party supplier costs	**1,858**	–
Total gross costs	**14,247**	**16,406**
Contribution from Ministry of Justice	**(10,200)**	(4,000)
Total net costs	**4,047**	**12,406**

16 Provisions for liabilities and charges

There were no provisions made for liabilities and charges within the reporting period.

17 Contingent liability

There were no contingent liabilities as at 29 February 2012.

18 Income due to clients' holdings

	29 February 2012 £000	28 February 2011 £000
Dividend income	**4,043**	4,037
Gains/(losses) arising from securities	**3,048**	24,557
Gains/(losses) arising from Foreign Exchange	**3,650**	(3,381)
Total	**10,741**	**25,213**
Less Income not due to clients	**(56)**	(230)
Total securities and Foreign Exchange income due to clients' holdings	**10,685**	**24,983**

19 Other payable – reserves

	29 February 2012 £000	28 February 2011 £000
Hereditary revenues held by CRND	**351,348**	351,492
Interest reserves held by CRND	**11,516**	12,138
Unallocated balances	**179**	58
Total other liabilities	**363,043**	**363,688**

Reserves cover Hereditary Revenues and Interest Reserves held within the CFIA and managed by CRND. This also includes Unallocated Balances which relate to balances cannot be allocated until ownership has been resolved. Under HM Treasury rules all Reserves belong to the Consolidated Fund but are only payable on a triggering event such as if Funds in Court activities should cease. For this reason these are treated as non-current liabilities.

Commissioners for the Reduction of the National Debt Court Funds Investment Account

Accounts for the year ended 28 February 2012

Foreword

Introduction

These accounts have been prepared by the Commissioners for the Reduction of the National Debt (CRND) under a direction issued by HM Treasury in accordance with section 45 of the Administration of Justice Act 1982 (the Act).

Background to the Court Funds Investment Account

The Court Funds Investment Account (CFIA) facilitates the operation of the basic and special accounts operated by the Court Funds Office (CFO) for suitors' funds paid into Court in England and Wales; it also contains funds due to the Consolidated Fund.

By virtue of rules made under section 38(7) of the Act, on days when the Accountant General of the Senior Courts (the Accountant General) has excess cash in his account he remits the excess to CRND for investment in CFIA, and on days when the balance in his account is insufficient to meet demands he makes a withdrawal from CFIA to make good the shortfall.

Section 39(1) of the Act authorises HM Treasury to make regulations setting out the range of investments in which CRND may invest money transferred to them by the Accountant General. Currently, investment is limited to securities specified in paragraphs 1, 2, 3, 8, 9 and 9A of Part 2 of Schedule 1 to the Trustee Investments Act 1961. Until required to meet payments, the interest or dividends received on investments held by CRND is reinvested in authorised securities. The resulting investments are held in CFIA.

Since October 2006, in agreement with CFO, CFIA's assets have closely matched its liabilities. As a consequence, in 2011-12, funds were largely placed in short-term deposits (overnight to 6 months) with the Debt Management Account Deposit Facility (DMADF). There was also some investment in gilts. These arrangements are set out in an investment mandate within a Memorandum of Understanding agreed between CRND and CFO.
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 CRND 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 CRND the sum of:

- any sum required by the Treasury to be set aside to provide for depreciation in the value of investments so made;
- such sum as the Lord Chancellor may with the concurrence of the Treasury direct to be paid to him in respect of the cost to him in that year of administering funds in court;
- an amount equal to the expenses incurred by the Commissioners in that year in making investments above and disposing of investments so made; and
- the interest due to be paid or credited on funds in court.

Section 39(5) of the Act provides a guarantee by the Consolidated Fund of the capital paid to CRND by the Accountant General in an instance when the Commissioners are unable to pay a sum due to the Accountant General.

A deficit in 2012-13 that exceeded the remaining reserves would lead to a call on the Consolidated Fund to meet any shortfall under section 39(3) of the Act.

The resources used to deliver CRND's objectives are accounted for within the United Kingdom Debt Management Office's (DMO) agency vote and reported in the DMO Annual Report and Accounts 2011-12. The cost of managing CFIA incurred by CRND is recharged to CFIA; in 2011-12 this was £108.000 (2010-11: £109,000).

Commissioners for the reduction of the National Debt

CRND's main function is the investment and management of major Government funds. The investment powers differ from fund to fund.

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

Audit arrangements

Section 45(1) of the Act requires the Commissioners to send accounts prepared by them to the Comptroller and Auditor General.

Under section 45(3) of the Act, the Comptroller and Auditor General examines, certifies and reports on the accounts and lays copies of them with his report before each House of Parliament.

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

Management Commentary

During 2011-12, in accordance with the Memorandum of Understanding, CFIA was largely invested in overnight and short-term deposits with the Debt Management Account Deposit Facility (DMADF).

CFIA generated sufficient interest to meet its liabilities to suitors in 2011-12, to cover the interest payable on funds in court, and to cover CRND management expenses. However, a deficit arose after deducting CFO's costs of administering funds in court and surplus interest payable to the Consolidated Fund, which resulted in a reduction in CFIA's reserves. At 29 February 2012, reserves were £11.5 million (28 February 2011: £12.1 million).

In accordance with section 39(2)(b) of the Act, CFO obtained HMT concurrence to make a deduction of £4.0m in respect of the cost of administering funds in court.

Results for 2011-12

During 2011-12, total income before client expenses was £17.6 million (2010-11 £20.6 million). The reduction in income was due to the declining size of the principal invested, arising from net client withdrawals from funds on deposit. Operating surplus for the year was £17.6 million (2010-11: £20.6 million) - which after deducting interest payable on funds in court of £13.1 million (2010-11: £16.2 million), CRND management expenses of £108k (2010-11: £109,000), interest payable to the Consolidated Fund of £900,000 (2010-11 £360,000) and Court Funds Office costs of £4.0 million (2010-11: £12.4 million), resulted in an overall deficit for the year of £571,000 (2010-11: £8.5 million deficit).

CFO withdrew £496.7 million (net of advances) from CFIA over the course of the year (2010-11: net withdrawal of £689.3 million).

Date of authorisation for issue

The accounts were authorised for issue on 22 June 2012.

Jo Whelan 14 June 2012
Secretary and Comptroller General to the
Commissioners for the Reduction of the National Debt

Statement of Secretary and Comptroller General's responsibilities

Section 45(2) of the 1982 Act requires the Commissioners to prepare accounts for each financial year in the form and on the basis determined by HM Treasury.

The annual accounts of CFIA are prepared on an accruals basis, as directed by HM Treasury and must give a true and fair view of the financial position of the CFIA at the year end and of the surplus or deficit and the cash flows for the financial year.

The Commissioners have appointed the Secretary and Comptroller General to discharge their statutory responsibilities, a role that is analogous to acting as an Accounting Officer. Therefore the Secretary and Comptroller General has responsibility for preparing the annual accounts and for transmitting these to the Comptroller and Auditor General.

In preparing accounts an Accounting Officer is required to observe the applicable accounting standards and generally accepted accounting practice in so far as they are relevant to the Account, and apply suitable accounting policies on a consistent basis.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, and for the keeping of proper accounting records, are set out in the Accounting Officers' Memorandum issued by HM Treasury and published in *Managing Public Money*.

Governance Statement

Scope of responsibility

As Secretary and Comptroller General of the Commissioners for the Reduction of the National Debt (CRND) I am responsible for ensuring the operation of a sound system of internal control that supports the achievement of CRND's targets, policies and objectives in managing client investment portfolios whilst safeguarding the public funds for which I am accountable, in accordance with the responsibilities assigned to me.

CRND is a separate business entity managed within the control framework of the DMO. While I am responsible for CRND's system of internal control, the Accounting Officer of the DMO is responsible for the wider control framework within which CRND is managed. In discharging my own control responsibilities I take assurance on the continued sound maintenance of the wider control framework from the Governance Statement 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.

The CRND is committed to the highest standards of corporate governance and is guided by the Corporate Governance Code for central government departments (the Code) and the following principles laid down in that Code:

- Parliamentary accountability;
- The role of the board;
- Board composition;
- Board effectiveness; and
- Risk Management.

CRND does not conduct any part of its business with or through arm's length bodies (ALBs) and therefore has not applied principle six which covers departmental governance arrangements with ALBs.

Managing Board

The Secretary and Comptroller General was supported during 2011-12 by the DMO Managing Board (the board) which, in addition to the Secretary and Comptroller General, is comprised of:

Robert Stheeman
DMO Chief Executive and Accounting Officer

Jim Juffs
Chief Operating Officer

Joanne Perez
Joint Head of Policy and Markets

Sam Beckett
Non-executive HM Treasury representative

Brian Larkman
Non-executive director – Brian Larkman was Global Head of Money Markets at the Royal Bank of Scotland PLC from 2000 to 2001 and Managing Director, Global Money Markets at National Westminster Bank PLC from 1991 to 2000. He was a member of the Regulatory Decisions Committee of the Financial Services Authority until 2006.

Brian Duffin
Non-executive director – Brian Duffin was Chief Executive of Scottish Life from 1999 to 2007 and Executive Director of Royal London Mutual from 2001 to 2007.

Board membership remained unchanged throughout the period under review. Non-executive directors are appointed by the DMO Accounting Officer following a formal process and have fixed terms defined in their contracts of service. HM Treasury's representative was appointed by the DMO Accounting Officer in accordance with the DMO's Framework Document. All non-executive board members receive an induction on joining and have access to additional information and training where they consider it necessary in the discharge of their duties.

One of the roles of the board is to advise the Secretary and Comptroller General on any key decisions affecting the CRND.

An executive sub-committee of the board generally meets weekly and supports the Secretary and Comptroller General on operational decisions.

The board has undertaken a formal self evaluation of its performance covering 2011-12. The board concluded that, during the period under review, it has operated effectively in delivering the objectives set out in its terms of reference. Suggestions for minor improvement are being considered and will be implemented where appropriate.

2011-12 Board activities

Board meetings were held throughout 2011-12 and covered regular agenda items, including risk management, staffing and progress against the operational business plan.

Board attendance is outlined in the table below:

	Possible	Actual
Robert Stheeman	8	8
Jo Whelan	8	8
Jim Juffs	8	8
Joanne Perez	8	8
Sam Beckett	8	5
Brian Larkman	8	7
Brian Duffin	8	8

Audit Committee

The Secretary and Comptroller General was supported during 2011-12 by the Audit Committee on matters relating to risk, internal control and governance. The members of the Audit Committee during 2011-12 were:

Brian Larkman (Chair)

Brian Duffin

Caroline Mawhood – Caroline Mawhood was Assistant Auditor General at the National Audit Office until 2009 and President of the Chartered Institute of Public Finance and Accountancy for 2008-09. She is a non-executive member of the Audit Committees of the Department of Energy and Climate Change and the Corporation of London and an independent member of the Audit Progress Committee of the European Commission. She is also the Honorary Treasurer of Breakthrough Breast Cancer charity.

Audit Committee meetings are typically attended by the DMO Accounting Officer, the Secretary and Comptroller General, the Joint Head of Policy & Markets, the Chief Operating Officer and the Head of Internal Audit.

One of the Audit Committee's objectives is to give assurance to the Secretary and Comptroller General that:

- High quality processes are in place to manage and control risk for the DMO's financial and non financial activities;
- Overall governance arrangements are appropriate and operating effectively;
- The financial control framework is effective and supported by an appropriate compliance culture;
- External financial reporting is prudent, accurate, timely, appropriate and consistent with relevant guidance;
- Internal financial and management reporting is timely, prudent, appropriate and consistent with external financial reports;
- Whistle blowing arrangements for confidentially raising and investigating concerns over possible improprieties in the conduct of the DMO's business are adequate; and
- Relationships with the National Audit Office (NAO) are effective.

During the period under review the Audit Committee paid particular attention to the following areas:

- Business continuity planning;
- Anti-money laundering controls;
- Anti-fraud controls;
- Staff resourcing;
- Risk management and financial control; and
- External and internal financial reporting.

The Audit Committee covers a regular programme of agenda items, together with other current topics, through an annual schedule of four meetings. All scheduled meetings were held and no additional meetings were deemed necessary.

The Secretary and Comptroller General has also been informed by the following operational committees throughout the period under review:

Fund Management Review Committee

The Fund Management Review Committee reviews CRND activity relating to the performance of the government funds under management, including any reporting on compliance activities undertaken in relation to the funds.

The Fund Management Review Committee met four times in 2011-12.

Business Delivery Committee

The Business Delivery Committee reviews the status of the delivery of DMO's business and work plan as a collective cross functional body, resolving emerging issues in a timely way, and agreeing priorities, to ensure the plan stays on track.

The Business Delivery Committee met regularly (typically weekly) throughout 2011-12.

Risk Committees

The Secretary and Comptroller General is informed by three risk committees covering credit and market risk, operational risk and risk control. More detail on the roles, responsibilities and activities of these committees can be found in the sections below.

Risk Management and Internal Control

The Secretary and Comptroller General is responsible for maintaining a sound system of internal control that supports the achievement of CRND's targets, policies and objectives in managing client investment portfolios whilst safeguarding the public funds for which she is accountable, in accordance with the responsibilities assigned to her.

The CRND is managed within the wider DMO system of internal control which is based upon what the DMO Accounting Officer, with the support of the board, considers to be appropriate taking account of the DMO's activities, the materiality of risks inherent in those activities and the relative costs and benefits of implementing specific controls to mitigate those risks. The DMO's position differs to that of a commercial organisation in that it must always be in a position to transact the underlying business required to meet its remit. As a result the risks associated with this activity cannot be avoided and the system of internal control can only provide reasonable assurance against failure to achieve aims and objectives.

The risk and control Framework

The board has designed and put in place a formal risk management framework covering all the activities conducted and overseen by the DMO. This Framework helps ensure that the Accounting Officer is appropriately informed and advised of any identified risks and also allows the management of risks to be monitored. The risk management framework covers both regular operations and new business initiatives, and evolves as the range and nature of the DMO's activities change. The Framework is supported by a clear 'three lines of defence' model:

First line of defence

Day-to-day management of risk is the responsibility of management staff within business areas. The DMO fosters a risk aware culture and encourages all members of staff, including board members to identify new risks and changes in previously identified risks, so that these may be assessed and so that appropriate mitigating actions may be put in place.

Mitigating actions typically include segregation of duties, staff training, clear lines of management delegation and robust business continuity arrangements.

Second line of defence

Oversight of risk is provided by the board and risk committees, whose role is to provide regular and systematic scrutiny of risk issues which lie within their remit and to support the Accounting Officer in exercising his overall responsibility for risk management.

The DMO considers that the principal risks it faces arise in three broad areas: credit and market risk, operational risk, and risk controls, so it has established committees to meet regularly to review the changing risk pattern for each of these areas and to set up appropriate responses. The work of these committees is described in more detail below.

Credit and Market Risk Committee

The Credit and Market Risk Committee (CMRC) meets on a regular basis, with more frequent meetings held when required, for example during times of market stress. It monitors and reviews the management of market, credit, and liquidity risk. It sets limits across a range of exposures including counterparties, countries, instruments held as collateral as well as setting absolute limits on net daily flows across the DMA. CMRC met twelve times during the year.

Operational Risk Committee

The Operational Risk Committee (ORC) meets regularly to monitor operational risks and to review significant risk issues. The ORC is responsible for reviewing risk incidents identified through the DMO's risk incident reporting process, and considering whether planned mitigating action is appropriate. The Committee also reviews and tracks the progress of actions identified by Internal Audit. The Committee's scope includes issues relating to information risk, IT security, business continuity, anti fraud and key supplier risks.

The ORC has advised the Accounting Officer and the board, during the year, on significant operational risk concerns, significant risk issues and trends as well as actions to mitigate such risks. The Committee has focused this year on further developing business continuity planning, including operational planning for the Olympic period, reviewing trading controls and improving the data quality and reliability of the DMO website. ORC met eight times during the year.

Controls Group

The Controls Group meets periodically to review issues affecting the DMO's system of internal control and to analyse material changes to the control environment. The Group recommends actions to management to implement changes where appropriate. The Controls Group consists of representatives from Finance, Risk, Compliance and Internal Audit.

The Controls Group has advised the Accounting Officer, the board and senior management on any significant risk concerns stemming from the introduction of new business activities as well as risks relating to other change management activities. The Group has also advised the Accounting Officer on suitable mitigating action where appropriate.

During the year the Controls Group review work has included improvements in cash forecasting and trade settlement processing, and changes to banking arrangements for CRND funds.

Risk Management Unit (RMU)

The risk committees are supported by the DMO's Risk Management Unit (RMU) which ensures key risk issues arising from these committees are communicated to the Accounting Officer and senior management on a regular basis, with additional ad hoc reporting if an emerging issue requires it. The RMU also supports the formal risk reporting processes with defined outputs, including regular detailed risk reports which are reviewed by the board and senior management.

As well as supporting the risk committee structure, the RMU provides control advice on risks. As part of the second line of defence the RMU is separate from and independent of the DMO's trading operations. The RMU conducts risk analysis and provides market, credit and operational risk capability for the DMO.

The identification, monitoring and mitigation of operational risk is facilitated by the RMU, via quarterly consultation with heads of business units and functional teams. Significant risk issues are assessed for materiality and probability of occurrence. New risks, and risks to which exposure is increasing are highlighted and actions are taken to ensure effective management of all risks. The DMO has Senior Risk Owners (SROs) who undertake a cross-functional moderation process to promote better prioritisation of operational risks across the organisation. The RMU maintains a central exception log to record all risk incidents raised, in order to identify control weaknesses and assign actions to improve controls. Progress against treatment actions is obtained on a regular basis to ensure issues highlighted by internal and external audit, and other identified actions to improve the control environment, are managed and progressed within agreed deadlines.

Third line of defence

The DMO's Internal Audit function provides the Accounting Officer with independent and objective assurance on the overall effectiveness of the Agency's system of internal control. It does this through a risk based work programme which is approved by the Audit Committee at the start of each year. All audits make a series of recommendations which, once agreed by management, are monitored for implementation. The function is independent of the DMO's trading activities and operations and has a direct reporting line to the Accounting Officer. The work of Internal Audit includes assessing the effectiveness of both control design and control performance. With its independence and overall remit, Internal Audit provides a third line of defence against the risks that might prevent the DMO delivering its objectives.

Risk policies and procedures

The DMO's risk policies reflect the high level standards and requirements which determine the way in which risks are managed and controlled. The Accounting Officer, with the support of the board, ensures that policies are regularly reviewed to reflect any changes in the DMO's operations and/or best practice. In 2011 this included broadening the scope of certain DMO policies to cover requirements introduced by the Bribery Act.

Staff are required to signify that they have read and accepted the DMO's rules on personal dealing and the DMO's policy on the use of information systems and technology, and that they are aware of, and will continue to keep up to date with, the DMO's policies on whistle blowing, fraud and anti-money laundering. The DMO ensures that this exercise is undertaken on an annual basis allowing staff to maintain a good level of awareness of the DMO's policies in these areas. All members of staff have job descriptions which include reference to the specific key risks they are expected to manage.

Managers in each business function are responsible for ensuring that the operations within their area are compliant with plans, policies, procedures and legislation.

Risk profile

The Secretary and Comptroller General and board believe that the principal risks and uncertainties facing the CRND are outlined in the table below together with the key actions taken to manage and mitigate them:

Principal risks and uncertainties	Mitigation and management
IT Systems and infrastructure	
The CRND relies on a number of IT and communications systems to conduct its operations effectively and efficiently. A number of the operational systems and services on which the CRND relies are provided or supported by third party suppliers.	In line with good practice the DMO has put in place comprehensive business continuity arrangements to ensure it is able to continue market operations in the event of an internal or external incident that threatens business as usual activity. These arrangements extend to cover CRND. The DMO's Business Continuity Plan (BCP) including Disaster Recovery (DR) and other arrangements is subject to continual review and update. The DMO ensured a programme of DR testing was carried out in 2011, and that BCP arrangements to support auctions were observed during the year, with teams working from the DR site during auction sessions. Assessment of business continuity requirements is a specific requirement for new projects and major business initiatives. The DMO recruited a dedicated business continuity specialist in 2011 to help enhance and promote planning across the organisation. The DMO is represented on the Public Finance Business Continuity Management Group and took part in a market wide business continuity exercise conducted in November 2011. To mitigate the risk of failure of a key third party the DMO undertakes a corporate risk assessment of each potential supplier in order to assess financial strength and operational capacity. Additionally the DMO has dedicated relationship managers who meet regularly with key suppliers and monitor performance against agreed SLAs.

Transaction processing	
CRND relies on its operational processes to successfully execute a significant number of high value transactions on a daily basis. Reliance on the accurate execution of processes exposes the CRND to operational risk arising from process breakdown and human error.	A key component of the CRND's control framework is the segregation of duties to ensure independent checking and reconciliation, and to avoid concentration of key activities or related controls in individuals or small groups of staff. In particular, segregation of duties takes place between front and back office activities. All teams, including CRND, have documented procedures for their main activities and there are clearly defined authorisation levels for committing the DMO externally. In 2011-12 system enhancements were made to improve management information on trade activity and regular accounting reports. The RMU conducts regular control and compliance testing, providing the executive sub-committee of the board with assurance on the effectiveness of operational controls and compliance with relevant Financial Services Authority rules in the dealing and settlement areas. The DMO also maintains a strong audit and control environment which includes a well embedded incident reporting procedure which extends to cover CRND. This promotes early identification and resolution of risk incidents and provides visibility to the Accounting Officer and board. DMO recruitment policies help ensure that individuals with the appropriate level of skill and experience are appointed at all levels within the organisation. This helps mitigate the level of human error resulting in process failures.

People risk	
The DMO, including CRND, relies on maintaining a sufficiently skilled workforce at all levels of the organisation in order to operate effectively and efficiently, and to deliver its strategic objectives. The DMO is exposed to an increased risk of operational failure if it is unable to compete for, and retain, sufficiently skilled staff over time.	The DMO's Training and Development policy aims to ensure that its staff have the right skills to meet its objectives. The DMO has a formal recruitment and selection process to help ensure vacancies are filled quickly by appropriately skilled candidates. The DMO has put in place a formal performance appraisal process and all staff are given clear and achievable objectives. Where appropriate, staff are encouraged to engage in activities which promote development and the DMO provides regular training opportunities and support for professional studies to enhance the skills base of its employees. The DMO also provides cross-training for different roles to help improve staffing flexibility and reduce turnover pressure. A Staff Council has met regularly throughout the year and enabled an open exchange of ideas and views between management and staff representatives and has been an effective conduit for wider communication and consultation with all staff. On an annual basis DMO staff take part in the Civil Service employee engagement survey and any issues raised, including mitigating action if required, will be considered by the Accounting Officer and board. The DMO was reaccredited as an Investor in People in 2011.
IT and security	
Through its activities the DMO gathers, disseminates and maintains sensitive information including market sensitive information and personal data about staff and market participants. The DMO seeks to ensure the highest standards of data protection and information management. The DMO is exposed to risk of an external attack on its IT systems and infrastructure.	The DMO continues to work to maintain the required level of protective security covering physical, personnel and information security. Risks to data and information held by the DMO are owned and managed by designated Information Asset Owners. The DMO has a Senior Information Risk Owner (SIRO) who is responsible for the information risk policy and the assessment of information risks. The SIRO also provides assurance to the board that information risks are being managed effectively. The DMO has put in place several layers to defend against external attack and its infrastructure undergoes an annual penetration test to ensure the control environment is robust. These tests are undertaken by specialists and form part of the assessment against the CESG requirements. This is a condition for continuing connection to the Government Secure Internet (GSI).

Review of effectiveness

I have reviewed the effectiveness of the system of internal control and confirm that an ongoing process designed to identify, evaluate and prioritise risks to the achievement of the CRND's aims and objectives has been in place throughout 2011-12. This review included an assessment of any material risk and control issues identified and reported during the relevant period.

My review has been informed by the advice of the risk committees and by the work of the internal auditors and the executive managers within the DMO, who have been delegated 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.

In my role as Secretary and Comptroller General 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 and the Audit Committee.

Plans to address weaknesses and ensure continuous improvement of the system are in place.

No significant internal control issues, including data security incidents, have been identified in 2011-12, and no ministerial directions were given.

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

Jo Whelan 14 June 2012
Secretary and Comptroller General to the
Commissioners for the Reduction of the National Debt

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

I certify that I have audited the financial statements of the Court Funds Investment Account for the year ended 29 February 2012 under the Administration of Justice Act 1982. These comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Client Funds and the related notes. These financial statements have been prepared under the accounting policies set out within them.

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

As explained more fully in the Statement of Secretary and Comptroller General's responsibilities, the Commissioners are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. They have appointed the Secretary and Comptroller General to discharge these responsibilities.

My responsibility is to audit, certify and report on the financial statements in accordance with the Administration of Justice Act 1982. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Court Funds Investment Account's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Secretary and Comptroller General; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Foreword, Management Commentary, Statement of Secretary and Comptroller General's responsibilities and the Governance Statement, to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate**.**

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

In my opinion, in all material respects, the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on the financial statements

In my opinion:

- the financial statements give a true and fair view, of the state of the Court Funds Investment Account's affairs as at 29 February 2012, and of the deficit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Administration of Justice Act1982 and the HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion, the information given in the Foreword and the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General

22 June 2012

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

Court Funds Investment Account Income Statement for the year ended 29 February 2012

	Notes	2012 £000	2011 £000
Interest income	2	**17,518**	20,409
Other gains and losses	3	**51**	171
Total income		**17,569**	**20,580**
CRND management expenses		**(108)**	(109)
CFO cost of administering funds in court		**(4,047)**	(12,406)
Interest payable on funds in court		**(13,085)**	(16,234)
Payable to the Consolidated Fund	4	**(900)**	(360)
Deficit for the year		**(571)**	**(8,529)**

Statement of Comprehensive Income for the year ended 29 February 2012

	2012 £000	2011 £000
Deficit for the year from the income statement	**(571)**	(8,529)
Other comprehensive income:		
Fair value gains on revaluation of UK Government gilt-edged securities classified as available-for-sale	**51**	171
Realised gains on UK Government gilt-edged securities classified as available-for-sale transferred to the income statement on disposal	**(51)**	(171)
Total comprehensive income for the year	**(571)**	**(8,529)**

The notes on pages 51 to 54 form part of these accounts.

Court Funds Investment Account Statement of Financial Position as at 29 February 2012

	Notes	2012	2011
		£000	£000
Assets			
Demand deposits with the Debt Management Account and the National Loans Fund		**3,288,435**	3,780,125
Gilt coupon receivable		**10,260**	10,682
Total		**3,298,695**	**3,790,807**
Liabilities and Court Funds Office funds			
Liabilities			
Client management charges	5	**4,013**	12,479
HMT funds			
Hereditary Revenues	6	**351,349**	351,298
Surplus payable to the Consolidated Fund	4	**900**	360
		352,249	**351,658**
Client funds			
Court Funds Office funds		**2,930,917**	3,414,532
Reserves		**11,516**	12,138
		2,942,433	**3,426,670**
Total		**3,298,695**	**3,790,807**

The notes on pages 51 to 54 form part of these accounts.

Jo Whelan 14 June 2012
Secretary and Comptroller General to the
Commissioners for the Reduction of the National Debt

Court Funds Investment Account Statement of Cash Flows for the year ended 29 February 2012

	Notes	2012 £000	2011 £000
Operating activities			
Interest received		**17,661**	20,607
Decrease in demand deposits		**491,541**	676,277
Payment to the Consolidated Fund	4	**(360)**	(641)
CFO cost of administering funds in court		**(12,513)**	(15,534)
CRND management expenses		**(108)**	(82)
Net cash from operating activities		**496,221**	**680,627**
Investing activities			
Interest received on UK Government gilt-edged securities classified as available-for-sale		**10,682**	19,125
Sales of UK Government gilt-edged securities classified as available-for-sale		**474,610**	444,443
Purchases of UK Government gilt-edged securities classified as available-for-sale		**(484,813)**	(454,895)
Net cash from investing activities		**479**	**8,673**
Financing activities			
Funds received from Court Funds Office		**105,550**	137,200
Funds paid to Court Funds Office		**(602,250)**	(826,500)
Net cash used in financing activities		**(496,700)**	**(689,300)**
Increase/(decrease) in cash		**0**	**0**

The notes on pages 51 to 54 form part of these accounts.

Court Funds Investment Account Statement of Changes in Client Funds for the year ended 29 February 2012

	CRTF Funds excluding reserves	Reserves	Revaluation reserve	Total CRTF Funds
	£000	£000	£000	£000
At 1 March 2010	**4,087,598**	**20,838**	**0**	**4,108,436**
Deficit for the year	0	(8,529)	0	(8,529)
Realised gains transferred to Hereditary Revenues on disposal of UK Government gilt-edged securities classified as available-for-sale	0	(171)	0	(171)
Realised gains transferred to income statement on disposal of UK Government gilt-edged securities classified as available-for-sale	0	0	(171)	(171)
Fair value gains on UK Government gilt-edged securities classified as available-for-sale	0	0	171	171
Interest payable on funds in court	16,234	0	0	16,234
Funds received from CFO	137,200	0	0	137,200
Funds paid to CFO	(826,500)	0	0	(826,500)
At 28 February 2011	**3,414,532**	**12,138**	**0**	**3,426,670**
Deficit for the year	0	(571)	0	(571)
Realised gains transferred to Hereditary Revenues on disposal of UK Government gilt-edged securities classified as available-for-sale	0	(51)	0	(51)
Realised gains transferred to income statement on disposal of UK Government gilt-edged securities classified as available-for-sale	0	0	(51)	(51)
Fair value gains on UK Government gilt-edged securities classified as available-for-sale	0	0	51	51
Interest payable on funds in court	13,085	0	0	13,085
Funds received from CFO	105,550	0	0	105,550
Funds paid to CFO	(602,250)	0	0	(602,250)
At 29 February 2012	**2,930,917**	**11,516**	**0**	**2,942,433**

The notes on pages 51 to 54 form part of these accounts.

Notes to the Accounts for the year ended 29 February 2012

1 Accounting policies

1.1 Basis of preparation

These accounts have been prepared in accordance with a direction made by HM Treasury under section 45(2) of the Administration of Justice Act 1982 in accordance with International Financial Reporting Standards (IFRS) in so far as they are appropriate, and under the historical cost convention and on a going concern basis. In particular, the following standards have been applied:

- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Presentation of Financial Statements
- IAS 7 Statements of cash flows (revised 2007)
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 10 Events After the Reporting Period
- IAS 18 Revenue
- IAS 24 Related Party Disclosures
- IAS 32 Financial Instruments: Presentation
- IAS 36 Impairment of Assets
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets
- IAS 39 Financial Instruments: Recognition and Measurement

Certain IFRS have been issued or revised last year, but are not yet effective, which will impact on CFIA in subsequent reporting periods. These are:

IFRS 9 Financial Instruments, which will replace IAS 39

IFRS 9 is expected to improve and simplify the reporting of financial instruments. Application of IFRS 9 is required for any reporting period beginning on or after 1 January 2013. Earlier application is permitted. CFIA expects to apply IFRS 9 in its 2013-2014 accounts. The application of IFRS 9 is not expected to impact on the disclosure of financial instruments reported by CFIA.

1.2 Assets

Demand Deposits

Deposits with the DMA and NLF are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are therefore treated as loans and receivables measured at amortised cost.

UK Government gilt-edged securities classified as available-for-sale

Gilts held by CFIA are non-marketable gilts, which mirror exactly the equivalent marketable gilts and are treated as available for sale assets. Available-for-sale assets are non-derivative financial assets that are designated as available-for-sale. They are initially recognised on trade date, when CFIA enters into contractual arrangements with counterparties (primarily the National Loans Fund) to purchase securities. The assets are derecognised when the rights to receive cash flows have expired or CFIA transferred substantially all the risks and rewards of ownership. The fair value of a financial instrument on recognition is normally the transaction price. Following initial recognition, the fair values of financial assets that are quoted in active markets are based on bid prices. Gains and losses arising from changes in fair value are recognised in the revaluation reserve until sale when the cumulative gain or loss is transferred to the income and expenditure account.

Income recognition

Interest income is recognised using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the instrument.

1.4 Administrative expenditure

Administrative costs are accounted for in the DMO Report and Accounts 2011-12 and a recovery is made from CFIA.

2 Interest income

	2012	2011
	£000	£000
UK Government gilt-edged securities classified as available-for-sale	6	59
Demand deposits with the Debt Management Account and the National Loans Fund	17,512	20,350
	17,518	**20,409**

3 Other gains and losses

	2012	2011
	£000	£000
Profit on disposal of UK Government gilt-edged securities classified as available-for-sale	51	171
	51	**171**

4 Payable to the Consolidated Fund

	2012	2011
	£000	£000
Interest received in the year	18,140	29,109
Interest payable on funds in court	(13,085)	(16,234)
Cost of administering funds in court		
CFO costs	(4,047)	(12,406)
CRND management costs	(108)	(109)
	(4,155)	(12,515)
Surplus payable to the Consolidated Fund at 29 Feb	**900**	**360**

5 Client Management charges

CFIA was due to pay the fourth and final instalment of CRND management expenses (£27k) for 2011-12 on 29 February 2012. However, payment was not made until 2 March 2012.

In 2010-11, the Fund was due to pay £45k to Court Funds Office due to prior year adjustments to the cost of administering funds in court. £82k related to the implementation of IFRS, and (£37k) related to an overpayment of charges by CFIA in 2009-2010, which was due back to CFIA.

	2012	2011
	£000	£000
Cost of administering funds in court	3,986	12,406
CRND management expenses due to DMO	27	28
Correction to 2008-2009 cost	-	82
Correction to 2009-2010 cost	-	(37)
Total client management charges due	4,013	12,479

6 Hereditary Revenues

	2012	2011
	£000	£000
Balance at 1 March	351,298	351,127
Realised gains transferred to income statement on disposal of UK Government gilt-edged securities classified as available-for-sale	51	171
Balance at 29 February	**351,349**	**351,298**

Hereditary Revenues are net capital profits realised by CRND on the sale or disposal of gilts, which could be surrendered to the Consolidated Fund.

7 Risk

7.1 Credit Risk

Credit risk is the risk that a counterparty, or security issuer, will fail to discharge a contractual obligation resulting in financial loss to CFIA.

The investments of CFIA comprise deposits and gilts. The deposits are with either the DMA or the NLF and are considered to have no exposure to credit risk because both accounts are obligations of HM Government. Similarly, gilts are considered to be free of credit risk because they are obligations of HM Government.

7.2 Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk for CFIA is considered to comprise interest rate risk.

The interest returns on deposits are closely linked to the official Bank Rate.

The market value of gilts is sensitive to movements in interest rates. However, gilts tend to be held over the longer term to provide a guaranteed interest return, rather than to generate trading profits. Holding gilts to maturity can generate guaranteed interest returns over the life of the holding, but any disposals of holdings may incur profits or losses.

CRND monitors interest rate movements to help inform CFIA of potential issues and events. CFIA is not subject to active management and thus no formal market risk parameters are in place.

7.3 Liquidity Risk

Liquidity risk is the risk that CFIA will encounter difficulty in meeting obligations associated with client withdrawal requests.

Assets held by CFIA are highly liquid to enable all client obligations to be met as they fall due.

8 Related parties

CRND is a separate entity within the DMO. CRND client mandates are kept distinct from other DMO business.

During the year, CFIA had a significant number of material transactions with the Debt Management Account, which is operated by the DMO. CRND client mandates require the bulk of the funds to be invested in gilts or deposited with the Debt Management Account.

During the year, CFIA had a significant number of material transactions with CFO due to CFIA facilitating the operation of the basic and special accounts operated by CFO for suitors' funds paid into Court in England and Wales. During the year, CFO withdrew £496.7 million (net of advances) from CFIA (2010-11: net withdrawal of £689.3 million).

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 This direction applies to the Funds in Court in England and Wales Investment Account.

2 The Commissioners for the Reduction of the National Debt shall prepare accounts for the financial year ended 28 February 2012 (29 February in a leap year) and subsequent financial years which give a true and fair view of the state of affairs of the Account at the reporting date, and of its income and cash flows for the year then ended.

3 The accounts shall be prepared in accordance with applicable accounting standards, and shall be consistent with relevant requirements of the extant Government Financial Reporting Manual.

4 The accounts shall present an income statement, a statement of comprehensive income, a statement of financial position, a statement of cash flows, and a statement of changes in client funds. The statement of financial position shall present assets and liabilities in order of liquidity.

5 The notes to the accounts shall include disclosure of assets and liabilities, and of income and expenditure, relating to other central government funds including the National Loans Fund.

The report shall include:

- a brief history of the Account, and its statutory background;
- an outline of the scope of the Account, its relationship to HM Treasury and other central funds, and its management arrangements;
- a management commentary, including information on financial performance and financial position, which reflects the relationship between the Account and other central funds; and
- a governance statement.
- This accounts direction shall be reproduced as an appendix to the accounts

This accounts direction supersedes all previous Directions issued by HM Treasury.

Chris Wobschall 23 March 2012
Deputy Director, Assurance and Financial Reporting Policy
Her Majesty's Treasury
Ministry of Justice Common Investment Fund

Ministry of Justice Equity Index Tracker Fund

Foreword

These accounts are presented under Section 45 of the Administration of Justice Act 1982 (the Act).

The Ministry of Justice Equity Index Tracker Fund

The Ministry of Justice Equity Index Tracker Fund was established on 1 September 2003. Within the Common Investment Fund, it replaced the previous Capital and High Yield Funds (which had merged on 10 April 2003).

What is the Common Investment Fund?

The Fund is only available for investment of money belonging to Clients or former Clients of the Ministry of Justice (MoJ), 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 Fund Manager uses it to a buy a mixture of index tracking unit trusts. Depending on how the Fund performs, the value of units changes 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.

What does this report cover?

This report covers the performance of the Fund for the year ended 29 February 2012, together with some information for investors and their advisers.

What is the legal basis for the Fund?

The Fund is a Common Investment Fund and was created under the Act 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 units 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 Office of the Public Guardian (OPG)/Court of Protection wishing to hold units out of Court. In addition, certain former Clients of the OPG/Court of Protection, the Court Funds Office (CFO) and The Official Solicitor and the Public Trustee (OSPT) 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.

Why invest in the Fund?

The Ministry of Justice Equity Index Tracker Fund is a simple and cost-effective means of investing in the stock market over the medium to long term. Legal & General manages the Fund's assets on an index tracking basis aiming to match the returns of the major stock markets. 70 per cent of the Fund has exposure to UK shares with the remainder invested in other global markets.

Index trackers invest in a representative sample of all of the companies that make up the index that they are tracking, instead of the Fund Manager actively choosing which stocks to hold in the Fund. The intention is simply to deliver the return of the index being tracked.

What are the Lord Chancellor and the Accountant General's responsibilities?

The Lord Chancellor's responsibilities

Under Section 42(1) of 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 re-appointed by the Lord Chancellor to manage and control the common investment Funds established. As indicated above, the Lord Chancellor re-appointed Legal & General (Unit Trust Managers) Limited to be the Investment Manager for the Ministry of Justice Equity Index Tracker Fund for the financial period from 1 September 2008 to 31 August 2014.

Under Section 42(5) units in the Common Investment Scheme shall be allotted to and held by the Accountant General and the Accountant General of the Supreme Court of Judicature of Northern Ireland and any other person authorised by the Lord Chancellor. In this context, since the inception of this Common Investment Scheme, the list of authorised investors to whom units in the Common Investment Fund may be allotted and held by, has been extended to include 'other' investors from the following:

- the Public Trustee either in his sole name or jointly with any person or persons with whom he acts as trustee or personal representative;
- the Official Solicitor either in his sole name or jointly with any person or persons with whom he acts as trustee or personal representative;
- any trustee or trustees, if more than one, of a trust from which the Public Trustee or Official Solicitor has retired as trustee, in relation to any units held in the trust immediately prior to such retirement;
- any beneficiary of a trust or estate in respect of which the Public Trustee or Official Solicitor acts solely or jointly with any other person or persons as trustee or personal representative, in relation to any units held in the trust or estate to which the beneficiary has become absolutely entitled;
- any units held in the trust to which the beneficiary has become absolutely entitled;
- any patient whose property and affairs are managed by the Court of Protection and whose funds are not held in Court in the name of the Accountant General;
- any person who is restored to the management of his property and affairs by order of the Court of Protection, in relation to any units held by him or by the Accountant General on his behalf immediately prior to the making of such an order;
- any person entitled by a direction of the Court to withdraw Funds retained in Court under Part 21.11 of the Civil Procedure Rules 1998 on the ground that he is no longer incapable of managing and administering his own affairs, in relation to any units held on his behalf by the Accountant General immediately prior to the making of such a direction;
- any person who has attained majority and on whose behalf units were held by the Accountant General during his minority, in relation to any units held on his behalf by the Accountant General upon the attainment of his majority;
- any person entitled to withdraw Funds from Court by application under section 5(2) of the Law Reform (Miscellaneous Provisions) Act 1971, in relation to any units held by the Accountant General on her behalf immediately prior to the making of such an application; and
- the Investment Manager of the Fund on his own account in the ordinary course of fund management, subject to the terms of his appointment.
- any person acting in his capacity as nominee for any person included in (i) to (viii) above.

The total value of 'other' investors is shown in Note 14.

Appointment of the Accountant General

The Secretary of State and Lord Chancellor has, under section 97(2) of the Senior Courts Act 1981, as amended by the Public Trustee and Administration of Funds Act 1986, appointed Pat Lloyd as Accountant General of the Senior Courts on 1 April 2010. The Permanent Secretary of the Ministry of Justice has also appointed the Accountant General as the Accounting Officer for Funds in Court.

Her relevant responsibilities as Accounting Officer, including responsibilities for the propriety and regularity of the funds for which she 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 *Managing Public Money*.

Management and Investment of Funds in Court

As set out in section 38 of the Act, the Accountant General of the Senior Courts is responsible for the management and investment of the Funds in Court and under section 43 of the same Act, is responsible for making good defaults with respect to any money, securities and effects for which she is responsible.

The operation of the investment fund itself is the responsibility of Legal & General (Unit Trust Managers) Limited as the appointed fund management company. The Accountant General's responsibilities as Accounting Officer for Funds in Court therefore do not extend to these accounts and they are therefore signed by the Unit Trust Managers only.

How does the Accountant General honour her responsibilities?

The Accountant General manages her responsibilities and associated risks through the Office of the Accountant General (OAG).

The Office of the Accountant General (OAG) manages funds held in Court in the name of the Accountant General of the Senior Courts under the Act. 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 Office of the Accountant General (OAG) includes:

- buying and selling units in the Common Investment Scheme (on behalf of eligible investors);
- maintenance of a register of unit holders in the Common Investment Fund (albeit only on behalf of beneficiaries of the Court Funds Office (CFO) – see note 14 for the split of Assets by Investment Channel);
- distribution to unitholders of dividends calculated by the Manager;
- payment of Investment Manager's fees;
- Investment Management oversight through the Office of the Accountant General (OAG) Management Board which advises the Ministry of Justice on investment strategy and performance monitoring; and
- the implementation of a control framework with the Investment Manager to provide sufficient assurance to the Accounting Officer.

Accounts and Audit

These accounts are in respect of the Ministry of Justice Equity Index Tracker Fund for the year ended 29 February 2012 and have been prepared in accordance with an Accounts Direction issued by Treasury under section 45(2) of the Act. 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 pages 68 and 69. The notional audit fee for the audit of the Ministry of Justice Equity Index Tracker Funds Financial Statements for the year ended 29 February 2012 will be £24,445. This notional fee is disclosed in the MoJ resource account.

The Legal & General (Unit Trust Managers) Limited Board of Directors and the Accountant General have taken all the steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the Fund's auditors are aware of that information. So far as they are aware, there is no relevant audit information of which the Fund's auditors are unaware.

M B Boardman
Director
On behalf of Legal & General
(Unit Trust Managers) Limited
6 July 2012

P Lloyd
Accountant General of the Senior Courts

6 July 2012

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 Tracking Unit Trusts. The Fund's performance benchmark is as follows:

Control range

FTSE All-Share Index	70%	+/- 2%
FTSE All-World (ex-UK) Index	30%	+/- 2%

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

The FTSE All-World (ex-UK) Index exposure is provided by the purchase of units in the Legal & General International Index Trust.

The target tracking deviation for the scheme is plus or minus 0.5 per cent (measured on an ex ante basis) in two out of every three consecutive years before fees.

The Investment Strategy has been set after consultation with the Ministry of Justice, acting on the advice of the Office of the Accountant General (OAG).

The FTSE All-Share and All-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

During the year under review, the Ministry of Justice Equity Index Tracker Fund fell by 1.96 per cent, while the composite benchmark fell by 2.03 per cent , producing a tracking deviation of+0.07 per cent. The published price of the Fund's units valued at 12 noon fell by 0.53 per cent during that period.

Tracking Deviation

The table below shows the Fund Performance for the period from 1 March 2011 to 29 February 2012, with the benchmark performance, which comprises of 70per cent FTSE All-Share Index and 30 per cent FTSE All-World (ex UK) Index.

	Mar 11	**Apr 11**	**May 11**	**Jun 11**	**Jul 11**	**Aug 11**
Total Fund (%)	-0.57	1.92	-1.13	-0.29	-2.83	-7.24
Benchmark (%)	-0.56	1.92	-1.13	-0.28	-2.87	-7.21
Relative (%)	-0.01	0.00	0.00	-0.01	0.04	-0.03

	Sep 11	**Oct 11**	**Nov 11**	**Dec 11**	**Jan 12**	**Feb 12**	**Year**
Total Fund (%)	-5.24	7.44	-0.78	0.77	3.14	3.70	-1.96
Benchmark (%)	-5.28	7.41	-0.76	0.80	3.07	3.70	-2.03
Relative (%)	0.04	0.03	-0.02	-0.03	0.07	0.00	0.07

Source: LGIM, as at 29 February 2012.

Past performance is not a guide to future performance. The price of units and any income from them may go down as well as up.

Exchange rate changes may cause the value of any overseas investments to rise or fall.

In order to calculate the tracking performance of the Fund, the capital only 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. We also use special close of trade values for the underlying unit trusts in order to make a valid comparison with the indices.

Distribution review

Distributions were made by the Legal & General UK Index Trust and the Legal & General International 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

Having been range-bound during the first five months of 2011, equity markets fell sharply in August as the deepening euro sovereign (government) debt crisis held centre stage. Confidence was further eroded by concerns that the modest global economic recovery was losing momentum. The growing risk of a sovereign debt default in peripheral Europe saw the core bond markets (US treasuries, German bunds and UK gilts) make significant gains with investors becoming increasingly risk averse. The final quarter heralded a rally in equity markets which continued into 2012 as co-ordinated action from the leading central banks to underpin the European banking system and the release of more encouraging US economic data calmed investors' nerves.

UK Equities

The UK stock market, as represented by the FTSE All-Share Index, ended the year marginally lower, down 2.0 per cent on a capital only basis. For the first five months of the year, the market remained range-bound but trading conditions became markedly more volatile over the summer months as investors grew increasingly risk averse. The trigger was the deepening eurozone debt crisis, which heightened fears that the UK economy would slide back into recession. Evidence that ongoing inflationary pressures had contributed to the largest fall in household disposable incomes for 30 years added to the gloom and equities fell sharply in August. A number of well-known high street brands have disappeared, or reduced their store presence (such as Habitat and Thorntons). Financials lagged, with bank shares hard hit by fears that institutions will be forced into further sizeable write-offs on their holdings of eurozone government debt. The sector remained in the spotlight as the Vickers Report recommended banks 'ring fence' their retail operations from investment banking.

In the final months of 2011 UK equities regained much of the ground lost over late summer and autumn. Events in Europe played a large part in shaping investor sentiment during the quarter as share prices rallied on coordinated central bank intervention to support the euro area's commercial banks. This rally continued into the beginning of 2012.

On the domestic front, the Bank of England left interest rates unchanged at 0.5 per cent throughout 2011 but opted to resume its quantitative easing (QE) programme, announcing it would pump a further £75 billion into the economy, mainly through further purchases of gilts, in an attempt to revive credit growth.

Overseas equities

European exchanges had a disappointing 2011, underperforming both the US and the UK, as investors remained unconvinced that the sovereign debt crisis could be contained. The eurozone ended the year on the brink of falling back into recession as surveys suggested weakness in Southern Europe had spread to the 'core' economies. Both the Greek and Italian prime ministers were replaced by technocratic governments in early November as the debt crisis worsened. The European Central Bank (ECB) cut interest rates to 1.0 per cent in December, having increased them to 1.5 per cent in the summer to head off inflationary pressures. The provision of large scale support for the European banking sector in the form of the ECB's three -year LTROs (Long-Term Refinancing Operation) in December 2011 and February 2012 has, at least temporarily, allayed fears of contagion from the sovereign debt crisis and should help to limit the impact of the downturn in the eurozone. The ECB also announced additional liquidity measures to support the banks and the economy, which provided some relief for investors. This helped drive a recovery in equity markets from late 2011 to the end of the review period.

US stocks outperformed both the UK and Europe during 2011 despite periods of high volatility during the second half of the year. After sustaining heavy losses during the third quarter, when Standard and Poor's cut the US sovereign credit rating, equities rebounded sharply as data releases indicated the economy was regaining momentum. The majority of earnings announcements were also encouraging with technology stocks particularly strong late on.

It was a very disappointing year for Japanese stocks. Supply chain disruptions and power-saving measures in the aftermath of the March 2011 earthquake and tsunami saw industrial production collapse, triggering a recession. Although Gross Domestic Product rebounded strongly during the third quarter, investors were increasingly troubled by the debt crisis in the eurozone and the continuing strength of the Yen undermining the competitiveness of Japan's export industries. Subsequently, the fourth quarter Tankan survey highlighted a sharp deterioration in business confidence.

A feature of 2011 was the marked underperformance of emerging markets, with the BRIC (Brazil, Russia, India and China) exchanges all sharply lower as global growth concerns escalated. Several Asian economies have faced growing inflationary pressures, while economic growth in China has slowed sharply in response to earlier policy tightening. Chinese equities broadly underperformed their counterparts in South Korea, Indonesia and Malaysia, the latter holding up relatively well due to demand from institutional investors. Late in the review period, fears that the US and Chinese economies would falter in response to the downturn in the eurozone faded. Significantly, January 2012 was a very positive month for commodity markets. Greater appetite for risk was a key driver of price gains, while market specific factors such as record Chinese net imports of copper in December 2011 played their part. As investors became more optimistic on the global economic outlook, riskier assets such as Asia Pacific and emerging market equities led the rally.

Outlook

The global economy showed some encouraging signs around the turn of the year. Europe almost certainly contracted in the fourth quarter, but the improvement in financial conditions and recent confidence surveys suggest that the recession might prove mild and relatively brief. Emerging market inflationary pressure moderated and this allowed a widespread easing of monetary policy.

Consensus growth expectations seem to have stabilised and some forecasters have now started to revise up their numbers in light of the apparent effectiveness of the ECB's three-year LTROs. While the additional liquidity that has been created is unlikely to find its way into the real economy, it at least removed the risk of an imminent bank failure. However, in the medium term, many vulnerabilities remain.

Despite the recent rally, equity valuations remain undemanding and liquidity ample. Many market participants have missed the rally so far and would be under pressure to increase their equity allocations. This could help sustain upward momentum in an environment where growth and earnings are unlikely to materially disappoint in the near term.

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 on 0370 050 0955.

Call charges will vary. We may record and monitor calls.

Legal & General Investment Management Limited(Investment Adviser)	13 March 2012

Governance Statement

Scope of responsibility

As the Chief Operating Officer and a member of the Legal & General (Unit Trust Managers) Limited Board of Directors, I have responsibility for maintaining a sound system of internal controls that support the achievement of Ministry of Justice Equity Index Tracker Fund policies, aims and objectives, whilst safeguarding the assets of unitholders.

The operation of the Ministry of Justice 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) up to its disbandment on 30 June 2008 and thereafter by the Office of the Accountant General (OAG) Management Team. The performance of the Fund is reported via quarterly management information, which ensures the objectives of index tracking are fulfilled. Quarterly meetings are also held between Legal & General and the OAG (which includes personnel from the Ministry of Justice) to discuss operational issues and investment strategies.

The accounts produced at the accounting year-end are audited by the Comptroller and Auditor General, to ensure that the Fund's Accounts are true, fair and properly prepared in accordance with the Administration of Justice Act 1982 and the relevant HM Treasury directions. In this way, the testing of all material amounts within the accounts is 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 safeguarded against misuse by ensuring all are held in the Fund's name.

System of internal controls

The system of internal controls is designed to manage risk to a reasonable level rather than eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable, not absolute assurance of effectiveness. The system of internal controls 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, the impact should they be realised and to manage them efficiently, effectively and compliantly.

Risk Framework

Legal & General (Unit Trust Managers) Limited (UTM) is part of the Savings Division, a subsidiary firm of the Legal & General Group (L&G) and operates within a group-wide risk management framework.

The risk framework seeks to ensure all risks are identified and that appropriate strategies are in place for their management. The framework consists of formal committees, risk management policies, risk assessment and reporting processes and oversight functions. These enable the directors and senior management to debate key risks and draw assurance that risks are being appropriately identified and managed, and that an independent assessment of risk is being performed.

Legal & General operates a 'three lines of defence' model of risk management and assurance. Business management manage risks, Risk functions and Group level committees oversee and challenge the management of risk and Internal Audit provide independent assurance that risks are effectively managed and that there is appropriate oversight.

Risk assessment is carried out on a bottom up and top down basis. On a monthly basis business management carry out a self-assessment of the performance of controls that operate to mitigate risk, which requires approval through the corporate hierarchy. This assessment is carried out using SWORD RMS, an externally provided risk management system. This self-assessment feeds into the Directors Certification process, part of the firms Combined Code on Corporate Governance.

The Group Regulatory Risk & Compliance function operates a Conduct Risk Universe carrying out periodic assessments of controls using a conduct risk-based model. In addition, the Internal Audit function operates a similar risk-based universe of periodic reviews and assessments of control. These functions report findings to key committees and these findings are recorded on the risk management system, which ensures that required actions are tracked and evidenced. During the period, no material findings have been contained within the published reports.

The control assurance model incorporates a self-assessment and independent assurance of the full risk exposure of the firm. This will range from transaction processing to risk management and governance. The bottom up assessments are carried out monthly, with the independent assurance subject to a risk-based approach, with an appropriate frequency agreed by the Audit Committee (for Internal Audits) or the Group Regulatory Risk and Compliance function. On an annual basis, the external auditor assesses and reports on the effectiveness of the firm's accounting; this is filed with the FSA.

Corporate Governance

Legal & General (Unit Trust Managers) Limited is a company authorised and regulated by the Financial Services Authority and its Board members are persons approved by the FSA to carry out significant management and control functions. The Company is a subsidiary company of Legal & General Retail Investments (Holdings) Limited, which is itself a subsidiary of Legal & General Group Plc.

The UTM Board consists of five Directors, each with approved person responsibility for UTM and other Legal & General companies. The independent Compliance Officer and Risk Director also attend the Board meetings. The Chairman of the Board also sits on the board of Legal & General Group Plc and is the Chairman of the Savings Risk and Compliance Committee. The Board of Legal & General Group Plc has a number of Non-Executive Directors.

The UTM Board is the legally accountable governance forum for the management of the firm and meets quarterly. The Board delegates the management of inherent risks to a series of Governance Committees with Terms of Reference that meet monthly. These include (but not limited to) the Savings Risk & Compliance Committee and Investment Funds Committee, which respectively manage operational risks and fund risk on its behalf. These delegated authorities are periodically monitored and reviewed by the Board.

On an annual basis the Board approves the firm's financial statements and the findings of the external auditors report, which is then filed with the FSA. The Board also approves the full documentation and output from the stress and scenario analysis of the firm's risks and capital, including the process and costs of winding the firm down in an orderly fashion, as required by the regulations. The output of this assessment is filed with the FSA according to an agreed cycle, currently every two years. The most recent assessment illustrated the firm's risks in extremis require less capital than the firm's current regulatory requirement, which has since been confirmed by the FSA.

Review of effectiveness

As Chief Operating Officer, I have responsibility for reviewing the effectiveness of the system of internal controls. My review of internal control is informed by the work of the internal auditors, support functions and the Executive Managers within UTM who have responsibility for the development and maintenance of the risk management framework, and comments made by the external auditor in their management letter and other reports. On the basis of this information, I can confirm there are no significant internal control issues to report.

Mike Boardman 6 July 2012
Chief Operating Officer
Legal & General (Unit Trust Managers) Limited

Respective responsibilities of the Lord Chancellor, Accountant General 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. On 1 September 2003, the Lord Chancellor appointed Legal & General (Unit Trust Managers) Limited as the Investment Manager of the Fund.

Accountant General's responsibilities

The Secretary of State and Lord Chancellor has, under section 97(2) of the Senior Courts Act 1981, as amended by the Public Trustee and Administration of Funds Act 1986, appointed Pat Lloyd as Accountant General of the Senior Courts on 1 April 2010. The Permanent Secretary of the Ministry of Justice has also appointed the Accountant General as the Accounting Officer for Funds in Court. Her relevant responsibilities as Accounting Officer, including responsibilities for the propriety and regularity of the funds for which she 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 *Managing Public Money*.

However, the operation of the investment fund is the responsibility of Legal & General (Unit Trust Managers) Limited as the appointed fund management company. The Accountant General's responsibilities as Accounting Officer for Funds in Court therefore do not extend to these accounts and are therefore signed by the Unit Trust Managers only.

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.

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 October 2010 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 Ministry of Justice Equity Index Tracker Fund ('EITF') for the year ended 29 February 2012 under the Administration of Justice Act 1982. These comprise the Statement of Total Return, the Statement of Change in Net Assets attributable to Unitholders, the Balance Sheet, and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Investment Manager and Auditor

As explained more fully under Respective Responsibilities of the Lord Chancellor, Accountant General and Investment Manager, the Investment Manager is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Administration of Justice Act 1982. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the EITF's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the EITF; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the financial transactions conform to the authorities which govern them.

Opinion on regularity

In my opinion, in all material respects the financial transactions of the EITF conform to the authorities which govern them.

Opinion on the financial statements

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the EITF as at 29 February 2012 and of the change in net assets attributable to unitholders for the year then ended; and
- the financial statements have been properly prepared in accordance with the Administration of Justice Act 1982 and directions issued there under by HM Treasury.

Opinion on other matters

In my opinion the information given in the Foreword and Investment Manager's Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General

10 July 2012

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

Portfolio Statement as at 29 February 2012

All investments are in distribution units unless otherwise stated.

The percentages in brackets show the equivalent sector holdings at 28 February 2011.

	Holding/ Nominal Value	Market value £	% of net assets
Investment			
Unit Trusts investing in UK shares – 69.82 per cent (70.02 per cent)			
Legal & General UK Index Trust	72,134,655	89,230,568	69.82
Unit Trusts investing in overseas shares – 30.17 per cent (29.98 per cent)			
Legal & General International Index Trust	65,557,820	38,547,998	30.17
Portfolio of investments		127,778,566	99.99
Net other assets		14,777	0.01
Net assets		£127,793,343	100.00%

Total purchases for the year: £4,502,823.

Total sales for the year: £10,767,594.

Statement of Total Return for the year ended 29 February 2012

	Notes		**29 February 2012**		28 February 2011
		£	**£**	£	£
Income					
Net capital gains	2		**(1,306,010)**		16,835,865
Revenue	3	**3,014,895**		2,762,199	
Expenses	4	**553,024**		565,462	
Finance costs:					
Interest	6	**–**		–	
Net revenue before taxation		**3,567,919**		3,327,661	
Taxation	5	**(110,605)**		(113,223)	
Net revenue after taxation for the year			**3,457,314**		3,214,438
Total return before distributions			**2,151,304**		20,050,303
Finance costs:					
Distributions	6		**(3,457,306)**		(3,214,438)
Change in net assets attributable to Unitholders from investment activities			**(1,306,002)**		16,835,865

Statement of Change in Net Assets Attributable to Unitholders for the year ended 29 February 2012

		29 February 2012		28 February 2011
	£	**£**	£	£
Opening net assets attributable to Unitholders		**135,347,852**		120,473,799
Amounts received on creation of units	**4,488,113**		6,887,631	
Amounts paid on cancellation of units	**(10,736,620)**		(8,849,443)	
		(6,248,507)		(1,961,812)
Change in net assets attributable to Unitholders from investment activities		**(1,306,002)**		16,835,865
Closing net assets attributable to Unitholders		**127,793,343**		135,347,852

The notes on pages 72 to 77 form part of these accounts.

Balance Sheet as at 29 February 2012

	Notes	29 February 2012 £	29 February 2012 £	28 February 2011 £	28 February 2011 £
Assets					
Investment assets			**127,778,566**		135,348,424
Debtors	7	**516,912**		445,702	
Cash and bank balances	8	**1,899,355**		1,342,793	
Total other assets			**2,416,267**		1,788,495
Total assets			**130,194,833**		137,136,919
Liabilities					
Investment liabilities			–		–
Creditors	9	**(439,138)**		(78,246)	
Distribution payable on distribution units		**(1,962,352)**		(1,710,821)	
Total other liabilities			**(2,401,490)**		(1,789,067)
Total liabilities			**(2,401,490)**		(1,789,067)
Net assets attributable to Unitholders			**127,793,343**		135,347,852

The notes on pages 72 to 77 form part of these accounts.

M B Boardman 6 July 2012
Director
Legal & General (Unit Trust Managers) Limited

Notes to the Financial Statements

1 Accounting policies

a Basis of accounting

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of investments and in accordance with the Statement of Recommended Practice for Authorised Funds issued by the IMA in October 2010.

b Recognition of revenue

Revenue from distribution and accumulation units in Collective Investment Schemes is recognised when the Fund goes ex-dividend. All other Revenue 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

All expenses (other than those relating to the purchase or sale of investments) are charged against revenue on an accruals basis. The Fund receives a rebate for managerial fees suffered by underlying Collective Investment Schemes. These are treated as revenue or capital depending on the treatment of the Manager's fees in the underlying investment.

d Distribution Policy

Realisable revenue, after deduction of those expenses which are chargeable in calculation the distribution, will be paid to those Unitholders with a holding at ex-dividend date. All expenses charged to the Fund are deducted from revenue for the purpose of calculating the distribution. In order to conduct a controlled dividend flow, interim distributions will be at the Manager's discretion, up to a maximum of the distributable revenue for the period. All remaining revenue is distributed in accordance with the COLL (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 Basis of valuation of investments

All investments are valued at their fair value as at 12 noon on 29 February 2012, being the last working day of the accounting year. The fair value for units in Collective Investment Schemes is the cancellation price or bid price for dual priced funds and single price for single priced funds.

Investment in securities by Legal & General on behalf of Ministry of Justice Equity Index Tracker Fund are carried out on an arms 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 investment revenue 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.

2 Net capital gains

	29 February 2012 £	28 February 2011 £
The net capital gains during the year comprise:		
Non-derivative securities	**(1,305,085)**	16,836,485
Transaction charges	**(925)**	(620)
Net capital gains	**(1,306,010)**	16,835,865

3 Revenue

	29 February 2012 £	28 February 2011 £
Franked dividend distributions	**3,014,895**	2,761,546
HMRC Interest received	**–**	653
	3,014,895	2,762,199

4 Expenses

	29 February 2012 £	28 February 2011 £
Payable to the Manager, associates of the Manager and agents of either of them:		
Manager's periodic fee	**228,814**	227,104
Management fee rebates from Legal & General Investment Management Limited	**(808,565)**	(817,178)
Registration fees	**21,104**	18,887
	(558,647)	(571,187)
Payable to the Trustee, associates of the Trustee and agents of either of them:		
Safe custody fees	**5,623**	5,725
Total expenses	**(553,024)**	(565,462)

5 Taxation

a Analysis of taxation charge in year

	29 February 2012 £	28 February 2011 £
Corporation Tax	**110,605**	113,223
Current tax [note 5(b)]	**110,605**	113,223
Deferred tax [note 5(c)]	**–**	–
Total taxation	**110,605**	113,223

b Factors affecting taxation charge for the year

The current tax charge excludes capital gains and losses for the reason that Authorised Unit Trusts are not subject to Corporation Tax on these items. Although the Equity Index Tracker Fund is not in itself an Authorised Unit Trust, it invests exclusively in other Authorised Unit Trusts operated by the Manager. The Corporation Tax benefit is therefore passed on to the Equity Index Tracker from its underlying holdings. Current tax differs from taxation assessed on net revenue before taxation as follows:

	29 February 2012	28 February 2011
	£	£
Net revenue before taxation	**3,567,919**	3,327,661
Net revenue before taxation multiplied by the applicable rate of Corporation tax at 20per cent (2010: 20per cent)	**713,584**	665,532
Effects of:		
Revenue not subject to taxation	**(602,979)**	(552,309)
Current tax	**110,605**	113,223

c Provision for Deferred tax

There is no Deferred tax provision in the current or preceding year.

6 Finance costs

Distributions

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

	29 February 2012	28 February 2011
	£	£
Interim distribution	**1,426,578**	1,481,341
Final distribution	**1,962,352**	1,710,821
	3,388,930	3,192,162
Add: Revenue deducted on cancellation of units	**110,179**	89,605
Less: Revenue received on creation of units	**(41,803)**	(67,329)
Distributions for the year	**3,457,306**	3,214,438
Interest		
Bank overdraft interest	**–**	–
Total finance costs	**3,457,306**	3,214,438

7 Debtors

	29 February 2012	28 February 2011
	£	£
Amounts receivable for creation of units	**214,997**	–
Sales awaiting settlement	**108,341**	378,597
Accrued revenue	**193,574**	67,105
	516,912	445,702

8 Cash and bank balances

	29 February 2012 £	28 February 2011 £
Cash and bank balances	**1,899,355**	1,342,793
Net uninvested cash	**1,899,355**	1,342,793

9 Creditors

	29 February 2012 £	28 February 2011 £
Amounts payable for cancellation of units	**109,988**	–
Purchases awaiting settlement	**215,000**	–
Accrued expenses	**58,545**	21,524
Corporation tax	**55,605**	56,722
	439,138	78,246

10 Contingent liabilities and outstanding commitments

There were no contingent liabilities or outstanding commitments at the balance sheet date (28 February 2011: same).

11 Risk in relation to financial instruments

The Fund's investment objective is stated on page 9. 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 and preceding year, 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 source of this risk to the Fund is 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 Collective Investment Schemes, 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 Fund Deed, Prospectus and the COLL. 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 Collective Investment Schemes 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 and overdraft facilities as disclosed in note 8. Cash is deposited, and overdraft facilities utilised, on normal commercial terms and earn or bear interest based on LIBOR.

e Derivative risk – Sensitivity analysis

Derivative risk arises from uncertainty about future market movements. This risk is managed by the policies shown within Market risk.

At the balance sheet date, no derivatives were held that could impact the Fund in a significant way (28 February 2011: same).

f 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.

12 Post balance sheet events

In accordance with the requirements of Financial Reporting Standard (FRS) 21, post balance sheet events are considered up to the date on which the accounts are authorised for issue. This is interpreted as the date of the Certificate and Report of the Comptroller and Auditor General.

As at the accounts authorisation date, no material post balance sheet events have occurred.

13 Ultimate controlling party and related party transactions

The OAG, who provide investment management oversight services for the Fund, are a related party (as defined by Financial Reporting Standard (FRS) 8). Details of units created and cancelled are shown in the Statement of Net Assets attributable to Unitholders. Note 14, shows the split of existing assets by investment channel.

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 Legal & General unit trusts, which had a market value of £127,778,566 at 29 February 2012 (28 February 2011: £135,348,424).

Management fees paid to Legal & General Investment Management Limited are shown in note 4. The balance due in respect of this fee is £57,613 (28 February 2011: £18,860). Management fee rebates received from Legal & General Investment Management are shown in note 4. Rebates receivable at the year end amount to £193,574 (28 February 2011: £67,105).

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 year.

14 Split of assets by Investment Channel

Investment Channel	Net Asset Value of Fund	Net Asset Value Per Unit	Number of Units in issue	Percent
29 February 2012				
Court Funds				
Office (CFO)	107,478,426	1,113.29p	9,654,131	84.10
Official Solicitor and Public Trustee (OSPT)	10,883,852	1,113.29p	977,630	8.52
Other	9,431,065	1,113.29p	847,135	7.38
Total	**127,793,343**	**1,113.29p**	**11,478,896**	**100.00**
28 February 2011				
Court Funds				
Office (CFO)	114,731,493	1,121.67p	10,228,622	84.77
Official Solicitor and Public Trustee (OSPT)	9,195,650	1,121.67p	819,817	6.79
Other	11,420,709	1,121.67p	1,018,187	8.44
Total	**135,347,852**	**1,121.67p**	**12,066,626**	**100.00**

Distribution tables for the year ended 29 February 2012

Group 1: units purchased prior to a distribution period

Group 2: units purchased during a distribution period

Equalisation is the average amount of revenue included in the purchase price of all Group 2 units and is refunded to the holders of these units as a return of capital. As capital it is not liable to Income Tax but must be deducted from the cost of units for Capital Gains Tax purposes.

Interim dividend distribution in pence per unit	**Period 1 March 2011–31 August 2012**			
	Net revenue	**Equalisation**	**Distribution 12 October 2011**	**Distribution 12 October 2010**
Distribution Units				
Group 1	12.0106	–	12.0106	12.0350
Group 2	2.9248	9.0858	12.0106	12.0350

Final dividend distribution in pence per unit	**Period 1 September 2011–29 February 2012**			
	Net revenue	**Equalisation**	**Distribution 10 April 2012**	**Distribution 10 April 2011**
Distribution Units				
Group 1	17.0953	–	17.0953	14.1781
Group 2	5.1250	11.9703	17.0953	14.1781

Fund Facts

Total Expense Ratio

29 February 2012	0.22 per cent
28 February 2011	0.22 per cent

The Total Expense Ratio is the ratio of the Fund's operating costs (excluding overdraft interest and transaction charges) and all costs suffered through holdings in underlying Collective Investment Schemes, to the average net assets of the Fund.

Performance Review

Net asset values

Accounting Date	Net Asset Value of Fund	Net Asset Value Per Unit	Number of Units in Issue
28 Feb 10	£120,473,799	983.85p	12,245,125
28 Feb 11	£135,347,852	1,121.67p	12,066,626
29 Feb 12	£127,793,343	1,113.29p	11,478,896

Unit price range and net revenue

Year	Highest Offer	Lowest Bid	Net Revenue
Distribution Units			
2007	1,210.00p	1,072.00p	27.2978p
2008	1,162.00p	703.70p	27.8309p
2009	1,010.00p	645.30p	28.5160p
2010	1,141.00p	933.40p	26.4343p
2011	1,167.00p	940.20p	26.1887p
2012(1)	1,136.00p	1,055.00p	17.0953p

1 The above table shows highest offer and lowest bid prices to 29 February 2012 and net revenue per unit to 10 April 2012.

Past performance is not a guide to future performance.

The price of units and income from them may go down as well as up.

Exchange rate changes may cause the value of any overseas investments to rise or fall.

General Information

Accounting/distribution dates

The accounting and distribution dates for the Ministry of Justice Equity Index Tracker Fund 2012 are:

Accounting dates	**Distribution dates**
29 February *	10 April
31 August	12 October

* The Fund's year end date, normally 28 February, moves to 29 February in a leap year as per the Prospectus.

Buying and Selling Units

Unit Prices

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

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 charge

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

0.17 per cent for the first £50 million

0.14 per cent between £50 million and £100 million

0.13 per cent between £100 million and £150 million

0.12 per cent between £150 million and £200 million

0.11 per cent thereafter

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

Individual accounts are unaffected by the management charge deduction.

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 published on the internet at: www.legalandgeneral.com/investments/fund-information/daily-fund-prices/fund-prices immediately after they become available.

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.

Significant changes

Change in Fund Accountant

The Fund Accountant of the Fund has changed. The Bank of New York Mellon (International) Limited ceased to be the Fund Accountant on 29 August 2011 and Northern Trust Global Services Limited has taken on responsibility thereafter.

Manager

Legal & General (Unit Trust Managers) Limited
Registered in England No. 01009418
Registered office:
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Telephone: 0370 050 3350
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Call charges will vary. We may record and monitor calls.

Directors of the Manager

M B Boardman
S C Ellis
M J Gregory
S R Pistell
S D Thomas

Secretary

A Fairhurst

Overall Governance

Ministry of Justice

Auditor

Comptroller and Auditor General
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Prepared and Issued by:

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