

# Funds in Court in England and Wales Account 2014-15

# Funds in Court in England and Wales Account 2014-15

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

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

## Accountant General's Accounts in Respect of Funds in Court

The Accountant General's Accounts cover the year ended 28 February 2015. They have been prepared in accordance with the direction given by HM Treasury in pursuance of Section 45(2) of the Administration of Justice Act 1982 (the Act). The Accounts record dealings in cash, securities and physical effects held in the civil courts of England and Wales. Deposits under the various enactments referred to in Section 40 of the Act are not segregated in the Accounts. The Accounts Direction can be found on page 32.

Money and securities are paid into court under the provisions of a wide variety of legislation and circumstances. Such funds fall into three main categories:

- 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);
- Assets belonging to people who lack the capacity to manage their own financial affairs where the Court of Protection (CoP) has appointed someone else to manage their affairs; and
- 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.

There are three parts to the accounts:

- Part A covers cash and securities paid in court;
- Part B covers the activity of the Commissioners for the Reduction of National Debt (CRND) to invest those funds and is prepared by the CRND; and
- Part C presents the full accounts of all monies invested in the Lord Chancellor's Common Investment Fund (CIF) which is managed by Legal & General on behalf of the Lord Chancellor. The CIF is an Equity Index Tracker Fund and holds funds for the Accountant General as well as other parties. Part C is prepared by Legal & General.

The Part A Accounts consolidate the relevant elements of Part B and Part C to provide a full understanding of the relationship between them.

## The Accountant General

As the Accountant General I am the designated Accounting Officer for 'Funds in Court'. This means that I am responsible for the safeguarding and investment of client funds paid into court. This includes, but is not limited to, ensuring:

- Funds ordered into court are correctly accounted for and protected once received;
- Funds receive the correct amount of interest or any equivalent earnings from dividends; and
- Funds are paid out of court to the client at the correct time and they receive the correct amount due.

Inherent in this responsibility is the requirement to ensure that there is a robust governance and control framework in place so that the above requirements are met; that all of my responsibilities are audited externally each year by the National Audit Office; and that I implement promptly any recommendations that arise from such audit.

As the Accounting Officer for funds in court I delegate the discharge of my responsibilities to the Deputy Accountant General. At the date of signing the Deputy Accountant General is Eddie Bloomfield who has been in this role since May 2010. He is in turn supported by the Office of the Accountant General (OAG).

I am also Director General of Finance, Assurance and Commercial Group for the Ministry of Justice (MoJ) and OAG sits within my business group. These two roles do not, in my judgement, create any conflict of interest because one is overseeing the MoJ Voted Funds and the other is third party client funds. There are instances where the two will overlap such as where the decision is made to provide additional funding to OAG because it cannot cover its costs. As I am obliged to cover any shortfall in OAG's funding the decision is based on my diligence as Accountant General that OAG have taken all measures to minimise the financial impact on the Vote. To provide assurance that conflict is avoided I will then ensure that the MoJ Accounting Officer (Ursula Brennan) is kept informed as appropriate.

## Strategic Report

My focus has been again this year to address the financial position, particularly in seeking to increase the interest rate for clients in the Court Funds Investment Account (CFIA) and to ensure that a sufficient surplus is generated to cover OAG operating costs. The investment policy is constrained by primary legislation which limits the investment instruments I can use for funds invested in the CFIA to gilts or gilt-equivalents. I oversaw a project to see if a change in gilt investment strategy would result in an increase in interest rates but in the current market the working group concluded that this would not earn a higher return than the current policy.

Under the current investment policy clients who do not or cannot take their funds out of court are eligible under certain criteria to invest funds in the Equity Index Tracker Fund. However, not all clients are eligible for the Equity Index Tracker Fund under the current investment policy either because the amount of capital is below the stated threshold (£10,000) or there is less than five years until they reach their 18th birthday.

Whilst both options meet the strategic aim of providing a low risk investment and the Equity Index Tracker Fund has performed well against the market benchmark, I am concerned for the clients in the Court Funds Investment Account who receive interest at the Bank of England Base Rate. This is currently 0.5% and has been since March 2009, and under current market forecasts is unlikely to increase before 2016. To protect the clients with Special Accounts as far as possible I do not deduct any margin to cover costs and pay the whole 0.5% earned on their funds. This has the impact of not generating any surplus on those client funds to cover the costs of the CFO operational service and so have received a subsidy of £5.621 million from the parent department, the Ministry of Justice, to balance the 2014-15 financial position.

This is clearly not a sustainable financial position and does not meet the requirements of the clients or the OAG as the lead on client service. I have asked the Deputy Accountant General to explore options to create a new funding model that will address both client interest rates and making OAG self funding. In support of this the Ministry of Justice has created a new Strategic Investment Board to cover all bodies that carry out investment activity. As a member of this committee, I tasked the Board with submitting proposals for alternative investments both for clients in the Court Funds Investment Account and also the Equity Index Tracker Fund. The objective of this work is to widen the range of options and eligibility for all Special Account clients.

As at the date of these accounts my proposals were submitted to the Justice Secretary who approved their presentation to HM Treasury for consideration before the General Election. The indications are that I will receive a response once the policies of the new administration are known. I expect this to be received by the end of summer 2015.

In terms of the business strategy I have asked the Deputy Accountant General to submit proposals for the next four years under the ambit of the next Spending Review. There are many options to consider but the primary focus of this work is to ensure that the Office of the Accountant General offers a modern, efficient service to the clients and covers its own costs. I expect the main bulk of the analysis to take place by the end of summer 2015.

## Director's Report

The Office of the Accountant General (OAG) is not an Arm's Length Body. It sits within the Ministry of Justice Financial, Assurance and Commercial Group. It does not have a board of directors or its own corporate functions, audit committee or remuneration committee as all of these are delivered by the Ministry of Justice. Eddie Bloomfield and his nine staff are all permanent employees of the Ministry of Justice and are on standard civil service terms and conditions including pension rights.

OAG does not have any Non-Executive Directors but as Accountant General I am a member of the Ministry of Justice Strategic Investment Board (SIB) which has two investment advisors to provide independent advice and technical knowledge on investment matters.

OAG's responsibilities and duties are wide and cover all aspects of my obligations under the Administration of Justice Act 1982 and other related legislation. Its objectives are defined in its annual Delivery Agreement which is approved by me and covers:

- Financial control and management of funds, including responsibility for overseeing the movement of funds to and from the Commissioners for the Reduction of the National Debt;
- Policy and related legislative matters, including investment policy;
- Service delivery and contract management, including responsibility for ensuring the correct administration of client accounts by the outsourced provider, along with service and contract management of their performance;
- Corporate governance and risk; and
- Communications with internal and external stakeholders.

Appointment to the OAG is through MoJ policies and procedures for recruitment.

For clarity, the following definitions apply in this statement:

- The Court Funds Office: The client facing service for those with funds in court; and
- The CFO Service: Those elements of the overall client facing service (back office operations and help desk) provided by National Savings and Investments (NS&I) via Atos.

The CFO Service to clients is outsourced to NS&I which carries out all the administrative and help desk functions relating to clients through its primary contractor, Atos. The definition of the service requirements for clients, including Performance Indicators (PIs) and the underlying control framework are defined in the Memorandum of Understanding and Schedules (MoU).

The governance framework of OAG is described in detail in the governance statement.

## Financial Results

### **Court Funds Investment Account**

Over the year, the total assets held in the Court Funds Investment Account (CFIA) decreased by £75.962 million. This reduction continued the trend over recent years but the rate of decline has slowed. The general cause of the reduction has been the fall in the number and value of funds paid into court on behalf of Court of Protection (CoP) clients following changes introduced by the Mental Capacity Act 2005. The Mental Capacity Act granted the Court of Protection the power to allow deputies greater freedom to invest assets in the wider financial markets, rather than hold them in court, if the deputy considered it in the best interest of their client. The majority of deputies are considered eligible for such empowered orders although some may choose to retain funds in court. Other funds remained constant over the year.

### **Lord Chancellor's Common Investment Fund (Equity Index Tracker Fund)**

In the year to 31 March 2015 the Equity Index Tracker Fund provided a return rate in year of 7.75% on a net asset average value of £99.726 million. This provided those Court Funds Office clients with access to the Fund a higher level of return compared to the rate of interest payable on funds held in the CFIA.

The Fund currently invests in three sectors: the FTSE All-Share Index UK, FTSE World (excluding UK) and FTSE All-World Emerging Markets. From 1 March 2014 to 28 February 2015 the Fund's composite benchmark was:

- FTSE All-Share Index 55%
- FTSE World (excluding UK) Index 35%
- FTSE All-World Emerging Markets Index 10%

### **Administrative Expenses - OAG**

The administrative expenses of the OAG cover the costs of running the CFO operational service to clients and associated management costs such as contract management, financial management and policy. Gross costs in 2014-15 were lower than 2013-14, reducing from £10.8 million to £10.2 million (6%). This is due in the main to MoJ, as the parent department, agreeing to cease hard charging corporate recharges to the cash budget. 2014-15 shows the final accrued expenses for some lines but these costs should disappear completely in 2015-16 where a further significant deduction will be reflected.

In terms of net costs OAG required a subsidy of £5.621 million from MoJ to balance the 2014-15 income and expenditure position. Of this, £3.7 million was used to pay off the balance of the development loan to fund the CFO Modernisation Programme. However, excluding this, OAG still required £1.9 million to cover operating costs and as explained in the Strategy Report above I am keen to resolve the business and funding model to ensure that OAG can become self funding.

### **Operational Performance**

The CFO Service is managed by OAG through a Memorandum of Understanding (MoU) with National Savings and Investments. The MoU defines the terms of how the service is delivered and is measured by Performance Indicators (PIs) that must be achieved covering the range of services provided. If a PI is breached then there is an agreed and defined penalty regime.

The table of PI results for 2014-15 is below and is the aggregated annual performance for each indicator. Of the fifteen indicators, fourteen were either achieved or exceeded and that represents an improvement over the very good performance in 2013-14. PI10, which covers transactions relating to the Equity Index Tracker Fund, was below the performance threshold and the Office of the Accountant General has discussed with National Savings and Investments improvements to their systems to ensure that actual performance meets the agreed level. I have asked the Deputy Accountant General to monitor this closely over 2015-16.



<b>PI</b>	<b>Process</b>	<b>Target</b>	<b>2012-13 Yearly Average</b>
x.1	Cheque Deposits	97%	100%
x.2	Transferred Funds	100%	100%
x.3	Deposits	97%	100%
x.4	Form 212 Investment	100%	100%
x.5	EITF Investment	100%	100%
x.6	Form 212 non securities	97%	99%
x.7	Dividends	100%	100%
x.8	Transfers	100%	100%
x.9	Non EITF Sale & Purchase	100%	100%
x.10	EITF Sale	100%	98%
x.11	Payments	97%	99%
x.12	General Correspondence	97%	100%
x.13	Majority Statements	100%	100%
x.14	Review of Child Accounts	100%	100%
x.15	Telephone Helpline	90%	100%

## Investment Policy

### Liquidity

Under the provisions of the Administration of Justice Act 1982, funds paid into court must be transferred to the Commissioners for the Reduction of the National Debt (the Commissioners). Liquidity risk is managed by UK Debt Management Office (DMO) on behalf of the Commissioners.

Cash transferred to the Commissioners is placed in the Court Funds Investment Account (CFIA) and invested by the DMO in short term deposits. Such deposits are generally of fixed term and short duration, typically up to seven days. The DMO pays interest on funds in the CFIA at a rate equivalent to the Bank of England base rate.

The objectives of this strategy are:

- Clients are protected against capital loss and will receive their capital amount as a minimum repayment regardless of value;
- Maximum liquidity is maintained and clients can be paid on demand or when due under the terms of the court order; and
- The client receives a return on the funds held in court.

Funds are transferred to and from the Commissioners on a daily basis by the CFO Service as required by business need.

Under the provisions of the Administration of Justice Act 1982, if, in any year, the interest and dividends earned on the funds held in the CFIA exceed the sum payable to clients and that required to meet the operational costs of the service, the Commissioners' costs in respect of the CFIA, and any depreciation, the surplus must be surrendered to the Consolidated Fund. The Act also provides that where there is a shortfall in interest and dividends, the Consolidated Fund will provide the funds required. In practice, and in the first instance, OAG negotiates additional funds with its parent department the Ministry of Justice rather than making a call on the Consolidated Fund.

### Interest Rates

Interest rates are set by the Lord Chancellor with the concurrence of HM Treasury.

The interest rate paid into the CFIA by DMO for the financial year ending 28 February 2015 was 0.5%. The interest rate paid to clients depended on the reasons for the funds being paid into court. The interest paid to clients was as follows:

Special Accounts – 0.5% interest was paid on:

- 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;
- Assets belonging to people who lack the capacity to manage their own financial affairs, mainly where the Court of Protection (CoP) has appointed someone else to manage their affairs; and
- Widows and other beneficiaries where sums were invested prior to March 1983.

Basic Accounts – 0.3% interest was paid on:

- Cases where money is held in court pending settlement of civil court action, or on behalf of other clients whose funds are held under a variety of different statutes.

Other Cash Accounts – 0.0%

- Monies paid into court on behalf of dissenting shareholders and monies received from county courts as unclaimed cash are held as cash, as are some child funds where religious observance does not allow for the accrual of interest.

Unclaimed Balances – 0.0%

- The Court Funds Rules describe a process and associated criteria for identifying funds deemed to be unclaimed by clients. The Rules provide that such funds may be transferred to the Unclaimed Balances Account. Funds within the account do not accrue interest on a daily basis. Interest is only credited if an authority to release the funds is received at which point simple interest at the current basic rate for the period the fund has been unclaimed will be applied.

### Growth

Clients may be eligible for their funds to be invested in the Lord Chancellor's Common Investment Fund (CIF), which is in the form of an Equity Index Tracker Fund (EITF) managed by Legal & General on behalf of the Lord Chancellor (Part C to the accounts). Access to the EITF is governed by the Court Funds Rules and is only available to Special Account holders with cash of £10,000 or more in court and where the funds are expected to be held in court for 5 years or more. It is important to note that, as with any investment in securities, investment in the CIF carries with it the risk of capital loss dependent on market movement. Such risk is carried by the client and not the OAG or the Consolidated Fund.

The CIF provides clients with long term growth and income through dividends in a low risk (though not zero risk) investment environment.

## **Securities**

Certain clients may hold in court portfolios of securities e.g. stocks, shares and unit trusts. These are mainly Court of Protection clients where the securities were paid into court prior to changes in the Court Funds Rules 2011. OAG does not provide any investment advice to clients and acts solely as a custodian for these securities. Clients may have their own private brokers to provide investment advice but OAG has no relationship with such brokers other than in its custodianship role. It does, however, carry out any instructions to buy, sell or transfer such securities or to deposit dividends received.

## **Foreign Currency**

Foreign currency deposits are held at the request of the client and at the discretion of the court. These deposits are invested in short term accounts with the Royal Bank of Scotland and the client earns the full interest paid on the funds and bears the risk associated with exchange rate movement. OAG acts solely as custodian for these accounts for the duration the funds are in court and carries out any administrative functions whilst the funds are held in court.

## **Other Key Events**

HM Treasury instructed the Debt Management Office (DMO) on 6 February 2015 to implement the surrender of the Hereditary Reserves from the Court Funds Investment Account to the Consolidated Fund. These were funds that had been generated from capital gains realised on the disposal or maturity of debt securities held by the Commissioners for Reduction of the National Debt. DMO took this forward with the Accountant General and, after both sides completed the due diligence on the value to be transferred, effected the transfer on 26 March 2015. The total transferred was £351.491 million. I consider the HM Treasury letter to be the effective date of the transaction, and so these funds have been moved from Reserves to Liabilities in the 2014-15 Statement of Financial Position.

## **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 OAG's external auditors are unaware and I have taken all 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 28 February 2015 was £63,500 (fee for 2013-14 was £63,500). There have been no fees paid in respect of non-audit work.

*Ann Beasley CBE*  
Accountant General of the Senior Courts

11 June 2015

# 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 HM Treasury. These Accounts are prepared so as to give a true and fair view of the state of affairs as at 28 February 2015 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 Ann Beasley as Accountant General of the Senior Courts on 1 October 2013. The Permanent Secretary of the Ministry of Justice has also appointed the Accountant General as the Accounting Officer for Funds in Court. The latter's 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 Accountant General of the Senior Courts and the Accounting Officer for the Funds in Court. I was appointed to both posts on 1 October 2013. As Accountant General, I am responsible for monies, securities and other assets held under the control of the civil courts of England and Wales, including the Court of Protection (CoP), and for the discharge of the statutory responsibilities of the Accountant General of the Senior Courts as set out in the Administration of Justice Act 1982.

For clarity, the following definitions apply in this statement:

- The Office of Accountant General (OAG): The Ministry of Justice (MoJ) Body, defined in statute, responsible for supporting me as Accountant General in discharging my statutory duties. It ensures the overall client facing function operates correctly and manages delivery of those elements provided by National Savings & Investments (NS&I) via the CFO Service. It also has responsibility for strategy, finance, legal, policy and communications matters related to the Court Funds Office;
- The Court Funds Office: The client facing service that those with funds in court receive. It is the public brand for the arrangements with NS&I; and
- The CFO Service: Those elements of the overall client facing service (back office operations and help desk) provided by NS&I via Atos.

I understand my responsibilities as Accounting Officer as set out in *Managing Public Money* including the need to ensure that:

- Operational internal controls are effective;
- Financial systems and procedures promote the efficient and economic conduct of business and safeguard financial propriety and regularity;
- Financial considerations are fully accounted for in policy decisions; and
- Risk is considered in relation to assessing value for money.

I understand and comply with the requirements of *Corporate Governance in Central Government Departments: Code of Good Practice 2011*. This Governance Statement explains how, as Accountant General, I meet those requirements.

There were no Ministerial directions given to me as the Accountant General in the year ending 28 February 2015.

## Governance Framework

### Office of the Accountant General

I delegate responsibility for the day-to-day discharge of my responsibilities to the Deputy Accountant General. He is supported in this role by the Office of the Accountant General (OAG).

OAG operates within the core boundary of the Ministry of Justice (MoJ) as part of the Financial, Assurance and Commercial Group. OAG is subject to all MoJ policies, procedures and governance framework in so far as they are applicable. In formal governance terms this means OAG reports to and is reviewed by MoJ Corporate functions and the Financial, Assurance and Commercial Board. OAG does not have its own independent audit and risk committee but is subject to review by the MoJ Audit and Risk Committee.

OAG has a complement of ten staff. All OAG employees, including the Deputy Accountant General, are permanent civil servants on standard MoJ terms and conditions including salary and pension arrangements. For this reason, OAG does not have a remuneration committee. All OAG employees are bound by the Civil Service Code to act at all times with honesty and integrity. There have been no departures from the code.

OAG's responsibilities and duties are wide and cover all aspects of my obligations under the Administration of Justice Act 1982 and other related secondary legislation. Its objectives are defined in its annual Delivery Agreement which I approve. To ensure effective delivery of its objectives, the OAG is structured into three teams:

- Financial Control and Management Team, responsible for overseeing the control of funds, financial reporting and financial governance;
- Policy Team, responsible for policy and related legislative matters; and
- Service Delivery and Contract Management Team, responsible for ensuring the correct administration of client accounts by the outsource provider along with service and contract management of their performance.

I hold monthly meetings with the Deputy Accountant General to discuss performance against the objectives in the Delivery Agreement.

### **Management Team Effectiveness**

All OAG staff members are subject to MoJ's performance management process. Each member has individual objectives aligned with the OAG annual Delivery Agreement. Individual performance is managed through the line management chain to the Head of OAG, who is the Deputy Accountant General. My monthly meetings with the Deputy Accountant General include review of team performance and delivery against objectives.

Posts within the OAG are filled in accordance with the MoJ recruitment policy, which is competency-based. Advertisements include a job description and person specification setting out the required competencies and skills. Applications and interviews are conducted against the competencies required for the post.

There were no performance or conduct concerns relating to OAG staff identified during the year.

I am satisfied with the performance of the OAG over the year and the support it has offered to me in meeting my obligations as Accountant General.

### **Governance**

OAG has a formal written governance framework which operates to provide me with assurance on the efficient and effective delivery of its objectives.

The OAG Management Team meets each month to review performance against the Delivery Agreement and the standing agenda covers all areas of responsibility. The meetings are chaired by the Deputy Accountant General and are attended by all permanent employees of OAG. Where appropriate, others may be invited to attend meetings to observe or advise but are not part of the decision making process. Management Team members are provided with an information pack that includes reports on performance against PIs provided by NS&I/Atos, together with reports on other service delivery matters such as change requests, and matters of policy, legislation and finance.

All OAG decisions and actions are minuted and I am made aware of them to the extent and in the timescale required by my delegation of authority to the Deputy Accountant General. Copies of OAG minutes together with any associated papers are retained by OAG and are available for inspection by internal and external audit. At the balance sheet date OAG was content with the accuracy and completeness of its internal Management Information (MI) and the external PI and financial information provided by NS&I.

The Deputy Accountant General is supported by two Review Groups which provide advice and information on specific areas of OAG business:

- Risk Review Group – Responsible for assessing and monitoring potential risks to the OAG meeting the Delivery Agreement. The group reports to the monthly OAG Management Team Meeting for formal sign off; and
- Finance Review Group – Responsible for discussing strategic financial issues and meets monthly. The output of the Group is reported back to the monthly OAG Management Team meeting for formal sign off.

### **Lord Chancellor's Common Investment Fund**

The OAG has, for some years, provided oversight of the Lord Chancellor's Common Investment Fund (CIF) on behalf of the Lord Chancellor. It holds quarterly review meetings with the appointed fund managers, Legal & General (L&G) at which L&G reports on the performance of the fund against the market and any associated operational issues that have arisen. Arrangements are in place for L&G to advise OAG of any concerns that may arise between meetings.

From September 2014 this governance arrangement changed with the responsibilities transferring to the MoJ Strategic Investment Board. This board includes two Non-Executive Investment Advisors, one of whom who acts as chair. The role of the board is to provide investment advice and support to the Lord Chancellor in respect of client funds held within the CIF and to challenge Legal & General on the funds' performance. The two investment advisors are Dr Ros Altmann and Nick Mansley who were appointed by the MoJ.<sup>1</sup>

As the majority of funds relate to CFO clients I attend this board on their behalf.

### **CFO Service**

The operational service delivered to clients is outsourced to NS&I who carry out all the administrative and help desk functions relating to clients through its primary contractor, Atos. The definition of the service requirements for clients, including Pis and the underlying control framework, are defined in the Memorandum of Understanding (MoU) between the Accountant General and NS&I.

Day-to-day oversight of the CFO Service is carried out by the Head of Service Delivery and Contract Management for OAG. NS&I reports formally to OAG on the CFO Service through the Operational Delivery Group (ODG). The ODG is chaired by NS&I and is attended by OAG and Atos staff. Its function is to receive reports on the CFO Service delivery, ensuring that operational objectives are achieved, risks, issues and major incidents are managed, and change requests progressed. It provides OAG with a regular opportunity to investigate and challenge any failures of service quality, including PI breaches or delays in change requests. The ODG meets monthly and all decisions and actions are minuted. Its output is reported to the OAG Management Team meeting each month.

The Head of OAG and the NS&I Director for Business to Business (B2B) attend the ODG on a quarterly basis to receive reports on performance and to provide any strategic direction required by the Group.

NS&I has its own internal assurance teams and framework and operates a bespoke annual ISAE3402 Type II review process for the CFO Service. This process reviews NS&I's operational controls, seeking to establish whether a robust control framework exists and is operating effectively. At the end of each financial year, NS&I submits a report to OAG based on the process as part of OAG's oversight of the outsourced arrangement.

### **Internal Audit**

MoJ Internal Audit and Assurance Division (IAAD) acts on behalf of MoJ and reviews or inspects any area of OAG's activities as they deem necessary. The schedule of work is discussed and agreed between OAG and at the beginning of each financial year. This allows both parties to plan for the work but does not constrain IAAD from carrying out further work should the need arise.

IAAD does not normally include the outsourced operations of NS&I in its annual plan. However, under the terms of the MoU with NS&I, IAAD have right of access if either OAG or MoJ decide this is necessary to ensure that the statutory duties of the Accountant General have been or are being correctly discharged.

IAAD has no authority to audit Legal & General in respect of the CIF.

There was no internal audit activity during the accounting year.

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<sup>1</sup> Dr Ros Altmann was appointed as a peer and Minister on 15 May 2015 and so resigned from her SIB position on this date

## Risk management

OAG manages risks against its Delivery Agreement through the Risk Review Group and the Management Team meetings. The Risk Review Group meets at the beginning of each year to assess the nature and scale of the risks associated with the objectives in the Delivery Agreement, and to identify that controls are in place and effective and what further actions are necessary to mitigate the risks.

The Group meets monthly to review the Risk Register and Issues Log, and provides an updated report to OAG's monthly management meeting.

High level risks are closely monitored and action is taken against all risks with a view to reducing the risk in a manner acceptable to the organisation. The nature of some risks means that they cannot be avoided, prevented or resolved, and must be accepted by OAG for active management.

The wider key risks are explained in the following paragraphs.

### Liquidity Risk

Under the provisions of the Administration of Justice Act 1982, funds paid into court must be transferred to the Commissioners for the Reduction of the National Debt (the Commissioners). Liquidity risk is managed by DMO by placing cash in the Court Funds Investment Account (CFIA). The DMO invests funds held in CFIA in short term deposits. Such deposits are either fixed term but of short duration, typically up to seven days, or instant access deposits with funds available on demand. This creates a return on investments equal to the Bank of England base rate and ensures that sufficient cash is always available to fund any payments requested by clients.

Under the provisions of the Administration of Justice Act 1982, funds paid into court must be transferred to the Commissioners for the Reduction of the National Debt (the Commissioners). Liquidity risk is managed by DMO by placing cash in the Court Funds Investment Account (CFIA) which DMO invests in short term deposits. Such deposits are either fixed term but of short duration, typically up to seven days, or instant access deposits with funds available on demand. This creates a return on investments equal to the Bank of England base rate and ensures that sufficient cash is always available to fund any payments requested by clients.

### Investment Risk

Funds in court are guaranteed to the extent that the Administration of Justice Act 1982 provides that any shortfall in funds payable to clients will be met from the Consolidated Fund. The process adopted by DMO for managing the liquidity risk means that the return to clients of the cash held in court is likely to be limited to a rate at or near the Bank of England base rate but with no risk of capital loss. It is important to note that it is not the function of the Court Funds Office to increase in value funds in court, only to protect them.

The Court Funds Rules 2011 provide that in certain cases, subject to minimum limits on time and value of investment, funds can be transferred to the CIF. The CIF is currently a tracker fund managed by Legal & General that offers clients a balance of risk and reward by spreading funds across three different underlying investment funds: (UK, International, and Emerging Markets). Investment in the CIF in part transfers risk to the client in that:

- any loss in value suffered by the CIF is carried by the client and cannot be claimed back from CFIA, but,
- in the majority of cases, only a proportion of a clients fund would be invested in the CIF, the remainder being held in the CFIA.

This approach provides some clients with an opportunity to achieve capital growth but at their own risk, whilst assisting them in managing the risk.



## **Operational Risk**

OAG manages its operational risk primarily by outsourcing the administration of client funds to NS&I. NS&I is obliged to provide the CFO Service in accordance with by the terms of the MoU in place between us which detail how the Service to clients will be delivered, including Performance Indicators (Pis). Where NS&I/Atos fail to meet the PI targets, financial penalties are applied and if a client suffers financial loss through an error by NS&I/Atos, liability for the financial impact sits with NS&I/Atos.

KPMG conduct an annual external review, on behalf of the NS&I Board, of the operational systems and process controls. For 2014-15 KPMG provided an ISAE3402 Type II report with a qualified opinion. This type of report will be qualified even with a single failure and so I have asked for further information to provide sufficient context. This related to two control areas where the controls exist but the supporting documentation to evidence this was destroyed prematurely. Therefore, KMPG were unable to carry out the necessary tests and so were classified as a failure of the system. There was no financial impact on the client but I shall be taking this forward with NS&I to avoid any further occurrences.

## **Management Risk (OAG)**

The primary management risks faced by OAG in the past year (other than those related to service delivery) have been affordability and insufficient people to do the work. Both have been addressed. In year financial pressures and opportunities have been managed so that during the year OAG was able to deliver its objectives within the funding available. OAG reviewed its structure in January 2013 and identified necessary changes in staffing levels to address pressures in the Service Delivery and Contract Management Team and in the Finance Team arising after the transition process. OAG has since filled two vacant posts that will allow those pressures to be addressed.

## **Foreign Exchange Risk**

Where client funds are paid into court in a currency other than Sterling, OAG acts as custodian and is responsible for the appropriate administrative functions to support any subsequent transactions. Such functions are covered under operational risk. Any market risk associated with holding funds in a foreign currency is borne by the client.

## **Market Risk (Securities)**

Where clients have securities paid into court, OAG acts as custodian and is responsible for the appropriate administrative functions to support any subsequent transactions. Such functions are covered under operational risk. Any market risk associated with the holding of securities is borne by the client.

## **Investment risk**

Funds in court are guaranteed to the extent that the Administration of Justice Act 1982 provides that any shortfall in funds payable to clients will be met from the Consolidated Fund. The process adopted by DMO for managing the liquidity risk means that the return to clients of the cash held in court is likely to be limited to a rate at or near the Bank of England base rate but with no risk of capital loss. It is important to note that it is not the function of the Court Funds Office to 'grow' funds in court, only to protect them.

The Court Funds Rules 2011 provide that in certain cases, subject to minimum limits on time and value of investment, funds can be transferred to the CIF. The CIF is currently a tracker fund managed by Legal & General that offers clients a balance of risk and reward by spreading funds across three different underlying investment funds: (UK, International, and Emerging Markets). Investment in the CIF in part transfers risk to the client in that:

- any loss in value suffered by the CIF is carried by the client and cannot be claimed back from CFIA, but,
- in the majority of cases, only a proportion of a clients fund would be invested in the CIF, the remainder being held in the CFIA.

This approach provides some clients with an opportunity to achieve capital growth but at their own risk, whilst assisting them in managing the risk.

## Control Incidents

The following control incident was reported in 2012-13 and remains outstanding:

### ■ Property in Spain

A former client of CFO was overpaid £145,000 in 2002. When the error was discovered the client was traced and it was established that the funds had been used to purchase a property in Spain. This property was awarded to OAG by the Spanish courts in lieu of the overpayment and ownership was transferred into the name of the Accountant General. OAG's ability to dispose of the property has been hampered by the location of the property which is in the industrial/agricultural part of Spain and the depressed state of the Spanish economy in general and, in particular, the property market. At the date of signature below, the property remains unsold. OAG is now actively supported by MoJ Estates Directorate in seeking a buyer for the property, and when sold the proceeds will be returned to client funds.

All control incidents identified in 2013-14 have been resolved.

The following control incidents have been identified during 2014-15:

### ■ Compliance with Sanctions and Money Laundering legislation

OAG transferred the Court Funds Office operation to NS&I on 5 December 2011. OAG approved migration to NS&I's own systemised Sanctions and Money Laundering procedures in order to better manage the risk of money laundering. A number of difficulties were encountered in implementing those procedures. It therefore took longer than anticipated to implement them and ensure that they were operating effectively. OAG worked with NS&I during this period to address these issues. Once all identified concerns had been addressed the outsourced supplier re-checked all CFO transactions undertaken since the service was transferred to 31 December 2014. No suspicious transactions were identified. OAG conducted a full walk-through of the system in March 2015 to ensure that the system now provides full compliance with Sanctions and Money Laundering procedures.

### ■ Application of CFO Business Rules

During 2014 OAG established that some concerns, which first appeared in 2012, had led to the failure of the CFO service to follow a number of the CFO Business Rules in relation to dealing with securities investments in the Equity Index Tracker Fund (EITF). Around 7,000 clients hold funds in the EITF. The failures fell broadly into two categories:

#### i Premature purchase of Units in the EITF.

Around 1,800 clients had units purchased incorrectly due to their holdings between EITF and the Special Account being incorrectly rebalanced. All these accounts have been reviewed, some clients gained from the additional purchases and no client made a loss, both due primarily to the rise in the value of the EITF Units. To prevent further recurrences an interim solution has been implemented which requires the NS&I/Atos securities experts to manually check all system generated purchases are appropriate. This process will continue until a permanent system fix is implemented in 2015-16

#### ii Premature sale of Units in the EITF

130 accounts had units sold prematurely as part of the process of transferring the accounts to the Unclaimed Balances account. All these accounts have been individually reviewed. 11 accounts are still live accounts and the units have been repurchased, with compensation for interest and lost dividends added. A further 91 accounts are either closed or have been transferred to an Unclaimed Balances account. These account holders will be compensated for loss of any interest or dividends they should have received, as appropriate. The balance of 28 accounts required no adjustment. The total cost of compensation is expected to be in the region of £280,000. Liability for this amount is currently under discussion between OAG and NS&I.

■ **Incorrect Majority Date**

An investigation into a client account concerning their majority date identified that where such accounts had no majority date on transition of the outsourced operation on 5 December 2011, the new system gave the account a default date of birth of 30 November 2011. Further investigations established this affected 723 accounts. As at 18 May 2015, 228 accounts had been updated and required no further action. Of the remaining 495 accounts, 126 are being updated by CFO and responses from the courts or solicitors are awaited on the remaining cases. This work is partly dependent on court and solicitors' responses so no completion date can be confirmed. No client to date has been financially disadvantaged by this issue.

■ **Sale of Securities Performance Indicator 10 (PI10)**

There have been a number of breaches against PI10 (ensuring timely and accurate sale of securities before closing an account), where CFO manual validation checks failed to stop accounts from being closed with no appropriate action taken for the sale/transfer of securities. Some clients gained from the increase in market values during the delay and any who were disadvantaged by such errors have been reimbursed. An automated validation check is now in place to prevent further breaches.

■ **Out of Date Cheques**

A query from a client highlighted that where out of date cheques were stopped as a security control these were not being credited back to their account but were being held in a suspense account. Investigations established this issue has affected 231 accounts since transition to NS&I in December 2011 with a value of £450,545. This issue is being progressed to correct all client accounts affected and credit any interest due so that there will be no financial loss to any client. The work is expected to complete by the end of summer 2015.

## Administrative obligations

■ **Information Assurance**

There is a system in place for identifying information assets and compiling and maintaining an information asset register. The risk attached to each information asset is assessed and the management of storage and transfer of the information are based on that assessment. There is an Information Asset Owner who follows the process for reporting and escalating to the Senior Information Risk Owner as appropriate.

■ **Health & Safety (H&S)**

There is a system in place to manage H&S risks, control weaknesses and comply with the MoJ Corporate Health and Safety Policy (Statement of Intent). This system also supports any local policies and arrangements as appropriate.

## Overall Assessment of Governance Framework

### **CFO Service provided by NS&I**

Although there have been a number of control issues, as described in this statement, I am satisfied that these were not material and appropriate action has been or will be taken to reduce the risk of recurrence. On that basis I am satisfied that OAG has effective governance, risk management and assurance arrangements in place as described in this statement.

I am also confident that there are the necessary systems and processes in place which enable me to maintain an effective system of internal control throughout OAG that supports the achievement of policies, aims and objectives, whilst safeguarding the public funds and assets for which I am personally accountable.

*Ann Beasley CBE*  
Accountant General of the Senior Courts

11 June 2015

# 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 Funds in Court in England and Wales (Part A) for the year ended 28 February 2015 under the Administration of Justice Act 1982. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, 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 the Accountant General's Responsibilities, the Accountant General, as Accounting Officer, 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 Funds in Court in England and Wales (Part A) have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made in respect of Funds in Court in England and Wales (Part A); 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. 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 Financial Statements**

In my opinion:

- the financial statements give a true and fair view of the state of affairs relating to Funds in Court in England and Wales (Part A) as at 28 February 2015 and of the related 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 Secretary of State directions issued thereunder.

### **Opinion on other matters**

In my opinion:

- the information given in the Strategic Report and Director'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 and 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.

*Sir Amyas CE Morse*  
Comptroller and Auditor General

15 June 2015

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

## Statement of Comprehensive Net Expenditure for the year ended 28 February 2015

		<b>28 February 2015 £000</b>	28 February 2014 £000
	Notes		
<b>Income</b>			
Interest income	2	<b>13,791</b>	14,366
Interest due to clients' accounts	3	<b>(9,063)</b>	(10,047)
<b>Net interest income</b>		<b>4,728</b>	4,319
Dividend Income	4	<b>3,279</b>	3,362
Gains/(Losses) arising from securities	5	<b>10,472</b>	9,994
Gains/(Losses) arising from foreign exchange	6	<b>7,597</b>	(12,875)
Income due to clients' holdings	7	<b>(21,348)</b>	(481)
<b>Net investment income</b>		<b>4,728</b>	4,319
Contribution from Ministry of Justice	8	<b>5,621</b>	1,901
<b>Net income</b>		<b>10,349</b>	6,220
<b>Expenses</b>			
Administrative expenses – OAG	8	<b>(10,224)</b>	(10,752)
Management charges from CRND		<b>(122)</b>	(108)
<b>Total expenses</b>		<b>(10,346)</b>	(10,860)
<b>Total Comprehensive Net Expenditure Transferred (from)/to Reserves and Hereditary Revenues</b>		<b>3</b>	(4,640)

*The notes on pages 22 to 31 form part of these accounts.*

## Statement of Financial Position as at 28 February 2015

	Notes	28 February 2015 £000	28 February 2014 £000
<b>Assets</b>			
<b>Current assets</b>			
Cash and Cash Equivalents	9	113,144	83,005
Deposits and Advances	10	2,678,561	2,784,662
Debt Securities	11	8,363	12,032
Investment Securities	12	131,154	135,338
<b>Total assets</b>		<b>2,931,222</b>	<b>3,015,037</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Cash Borrowings	9	287	2,862
Clients' Holdings in Debt Securities	11	8,363	12,032
Clients' Holdings in Investment Securities	12	131,154	135,338
Clients' Cash Account Balances	13	2,434,400	2,503,255
Other Liabilities	14	356,094	9,138
<b>Total current liabilities</b>		<b>2,930,298</b>	<b>2,662,625</b>
<b>Total assets less total liabilities</b>		<b>924</b>	<b>352,412</b>
<b>Reserves</b>	15	<b>924</b>	<b>352,412</b>

*The notes on pages 22 to 31 form part of these accounts.*

Ann Beasley  
Accountant General of the Senior Courts

11 June 2015

## Statement of Cash Flows for the year ended 28 February 2015

	<b>28 February 2015</b>	28 February 2014
Notes	<b>£000</b>	£000
<b>Cash flows from operating activities</b>		
Operating surplus / (Deficit)	<b>3</b>	(4,640)
(Increase)/decrease in deposits and advances	<b>(3)</b>	4,640
(Increase)/decrease in debt securities	<b>3,669</b>	4,434
(Increase)/decrease in investment securities	<b>4,184</b>	15,194
Increase/(decrease) in client cash accounts	<b>(68,648)</b>	(245,385)
Increase/(decrease) in client holdings in debt securities	<b>(3,669)</b>	(4,434)
Increase/(decrease) in client holdings in investment securities	<b>(4,184)</b>	(15,194)
Increase/(decrease) in other liabilities	<b>346,746</b>	3,141
Increase/(Decrease) in reserves	<b>(351,488)</b>	(4,818)
<b>Net cash flows from operating activities</b>	<b>(73,390)</b>	(247,062)
<b>Cash flows from investing activities</b>		
Cost of purchases of debt securities	-	-
Proceeds from sales of debt securities	-	-
Net movement in short-dated cash deposits	<b>106,104</b>	148,641
<b>Net cash flows from investing activities</b>	<b>106,104</b>	148,641
Cash flows from financing activities	-	-
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>32,714</b>	(98,421)
Cash and cash equivalents at 1 March 2014	<b>80,143</b>	178,564
<b>Cash and cash equivalents at 28 February 2015</b>	<b>112,857</b>	80,143
9		

*The notes on pages 22 to 31 form part of these accounts.*



# Notes to the Financial Statements

## 1 Statement of accounting policies

These financial statements have been prepared in accordance with the direction made by HM Treasury under section 45 of the Administration of Justice Act 1982, as detailed on page 3 of the Annual Report and Accounts. In applying this direction, due regard is given to the 2014-15 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 Court Funds Office (CFO).

### 1.2 Consolidation Boundaries

There are three parts to the Accounts:

- Part A – Funds in Court – Accountant General’s Accounts;
- Part B – Court Funds Investment Account (CFIA) – Commissioners for the Reduction of National Debt (CRND)’s accounts; and
- Part C – The Equity Index Tracker Fund (EITF) – Investment Manager’s accounts.

All three parts of the accounts are prepared on an accruals basis. Part A accounts consolidate the Part B accounts and the elements of the Part C accounts that relate to CFO clients, together with the cash and securities paid into court and OAG’s administrative expenses.

The Accountant General’s Accounts (Part A) have been prepared in accordance with the direction given by HM Treasury in pursuance of Section 45(2) of the Administration of Justice Act 1982 (the Act). Deposits under the various enactments referred to in Section 40 of the Act are not segregated in the Accounts.

### 1.3 Recognition of Income

Interest earned, and due, 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 earned, and due, 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; and
- 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 holdings as "Held to Maturity".

Fair values of investment securities (see Note 12) are determined, mainly by reference to published price quotations in an active market. National Savings and Other Holdings are valued at face value, as there are no market values for these instruments. These instruments make up approximately 0.03% of the overall investment securities value.

There are certain movements in securities where no cash transfer occurs (lodgments and transfers). These include securities previously held by clients that are transferred into Court (lodgments) or securities held which are transferred to clients rather than being sold (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 28 February 2015.

#### 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 CRND.

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 CRND. Clients were entitled only to repayment of their initial capital plus the rate of interest paid on the Basic or Special Accounts. Capital profits must, ultimately, be paid to the Consolidated Fund (CF) under the hereditary revenues principle, but the timing of payment to the CF would be decided between OAG, Debt Management Office and HM Treasury. The primary investment vehicles by which surpluses arose were 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 arose 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.

The decision to transfer the Hereditary Reserves to the Consolidated Fund was taken by HMT in February 2015. The actual transfer of funds took place in late March 2015 so this is now shown under liabilities.

Other Reserves held by CRND relate to surplus interest within the CFIA as at 28 February 2015. See note 15.

#### 1.6 Administrative Expenses – OAG

The administrative expenses of OAG are paid in advance by the Ministry of Justice who then recover the costs from surplus interest earned on client funds in the year. OAG only incurs costs that are directly attributable to the delivery of its responsibilities to the clients. There are corporate services such as ICT, Human Resources, and Legal Services that are provided by the Ministry of Justice because it is more cost effective than OAG sourcing provision of such services itself.

#### 1.7 Client Fees

OAG clients do not pay fees towards the costs of the services provided. OAG costs are recovered through the surplus interest earned on client funds in the CFIA. Clients with funds in the EITF pay management fees at source to Legal & General and these are reflected in the unit prices of these holdings.

### 1.8 Foreign Currency

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 28 February 2015.

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/losses on foreign exchange movements are calculated based on 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.

### 1.9 Ways & 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 & Means. The CFIA receives interest on monies swept up to NLF and pays interest on any shortfalls.

### 1.10 Changes in Structure and Format

There have been no major changes in structure and format to the Annual Report and Accounts.

## 2 Interest Income

	<b>28 February 2015 £000</b>	28 February 2014 £000
Foreign currency	<b>84</b>	188
Deposits and advances	<b>13,559</b>	14,279
Debt securities	<b>148</b>	186
<b>Total interest receivable</b>	<b>13,791</b>	14,653
Surplus income payable to Consolidated Fund	–	(287)
<b>Total Interest Income</b>	<b>13,791</b>	14,366

Interest is received on deposits held by CRND in the CFIA, on client holdings held in foreign currency and on debt securities.

## 3 Interest Due to Clients' Accounts

	<b>28 February 2015 £000</b>	28 February 2014 £000
<b>Interest paid</b>		
Court funds – basic account	<b>(2,851)</b>	(2,891)
Court funds – special account	<b>(5,980)</b>	(6,782)
Foreign currency	<b>(84)</b>	(188)
Debt securities	<b>(148)</b>	(186)
<b>Total interest due to clients' accounts</b>	<b>(9,063)</b>	(10,047)

Interest due to clients includes amounts earned on Basic and Special Accounts, client holdings held in foreign currency and debt securities. Interest is calculated on an accruals basis.

**4 Dividend Income**

	<b>28 February 2015 £000</b>	28 February 2014 £000
Dividends received in year	<b>3,418</b>	3,343
Dividends accrued – period end	<b>1,241</b>	1,380
Dividends accrued – period start	<b>(1,380)</b>	(1,361)
<b>Total dividend income</b>	<b><u>3,279</u></b>	<b><u>3,362</u></b>

All dividends are solely attributable to the clients. The above values reflect cash received and accruals at the end of the financial year.

**5 Gains/(Losses) Arising from Securities**

	<b>28 February 2015 £000</b>	28 February 2014 £000
Client securities	<b>10,472</b>	9,994
<b>Total gains/(losses) arising from securities</b>	<b><u>10,472</u></b>	<b><u>9,994</u></b>

In year securities transactions are valued at the market value at the point in time they occur. End of year holdings are valued using the prevailing market value at 28 February 2015. This principle generates in year Gains / (Losses), which are set out above.

**6 Gains/(Losses) Arising from Foreign Exchange**

	<b>28 February 2015 £000</b>	28 February 2014 £000
US Dollars	<b>7,603</b>	(12,683)
Euros	<b>(6)</b>	(192)
<b>Total gains/(losses) arising from foreign exchange</b>	<b><u>7,597</u></b>	<b><u>(12,875)</u></b>

In year foreign currency transactions are valued using end of month exchange rates which are subject to movements over the year. End of year holdings are valued at the prevailing exchange rate at 28 February 2015. This treatment generates in year Gains/(Losses), which are set out above.

**7 Income Due to Clients' Holdings**

	<b>28 February 2015 £000</b>	28 February 2014 £000
Dividend Income	<b>(3,279)</b>	(3,362)
Gains/(losses) arising from securities	<b>(10,472)</b>	(9,994)
Gains/(losses) arising from foreign exchange	<b>(7,597)</b>	12,875
<b>Total</b>	<b>(21,348)</b>	(481)
Less income not due to clients	–	142
<b>Total income due to clients' holdings</b>	<b>(21,348)</b>	(339)

All income earned on securities and foreign currency accounts, and the associated risk on market movements, is solely attributable to the clients with the exception of that relating to OAG Gilts.

**8 Administrative Expenses – OAG**

	<b>28 February 2015 £000</b>	28 February 2014 £000
Staff costs	<b>(589)</b>	(531)
Accommodation	<b>6</b>	(165)
IT	–	29
General support	<b>(142)</b>	(901)
Third party supplier	<b>(9,486)</b>	(9,125)
Former CFO	<b>(13)</b>	(59)
<b>Total gross expenses</b>	<b>(10,224)</b>	<b>(10,752)</b>
Contribution from Ministry of Justice	<b>5,621</b>	1,901
<b>Total net administrative expenses</b>	<b>(4,603)</b>	<b>(8,851)</b>

**9 Cash and Cash Equivalents**

	<b>28 February 2015 £000</b>	28 February 2014 £000
<b>Assets – Foreign Currency Bank Accounts</b>		
Balance at 1 March	<b>83,005</b>	184,085
Net change in cash and cash equivalents balances	<b>30,139</b>	(101,080)
<b>Balance at year end</b>	<b>113,144</b>	83,005
<b>Liabilities – Sterling Bank Accounts</b>		
Balance at 1 March	<b>(2,862)</b>	(5,521)
Net change in cash and cash equivalents balances	<b>2,575</b>	2,659
<b>Balance at year end</b>	<b>(287)</b>	(2,862)
<b>Net cash and cash equivalent holdings</b>	<b>112,857</b>	80,143

**10 Deposits and Advances**

	<b>28 February 2015 £000</b>	28 February 2014 £000
Call notice deposits	<u><b>2,678,561</b></u>	<u>2,784,662</u>

This note sets out the split of sums held as deposits with CRND between the different types of financial instruments.

**11 Clients' Holdings in Debt Securities**

	<b>2015</b>	<b>Nominal £000</b>	<b>Market Value £000</b>
Holdings held on behalf of Clients		4,477	8,310
Dividends and coupons due		-	53
<b>Total debt security holdings</b>		<u><b>4,477</b></u>	<u><b>8,363</b></u>

	<b>2014</b>	<b>Nominal £000</b>	<b>Market Value £000</b>
Holdings held on behalf of clients		6,442	11,967
Dividends and coupons due		-	65
<b>Total debt security holdings</b>		<u><b>6,442</b></u>	<u><b>12,032</b></u>

	<b>2015</b>	<b>Nominal £000</b>	<b>Market Value £000</b>
Maturing in less than three months		426	426
Maturing in more than three months but less than one year		-	-
Maturing in more than one year but less than five years		1,632	2,356
Maturing in over five years		2,419	5,528
<b>Total debt security holdings</b>		<u><b>4,477</b></u>	<u><b>8,310</b></u>

	<b>2014</b>	<b>Nominal £000</b>	<b>Market Value £000</b>
Maturing in less than three months		-	-
Maturing in more than three months but less than one year		2	2
Maturing in more than one year but less than five years		3,375	4,990
Maturing in over five years		3,065	6,975
<b>Total debt security holdings</b>		<u><b>6,442</b></u>	<u><b>11,967</b></u>

**12 Clients' Holdings in Investment Securities**

	<b>28 February 2015 £000</b>	28 February 2014 £000
<b>Market valuation summary</b>		
Equity Index Tracker Fund	<b>97,939</b>	98,969
Unit trust holdings	<b>18,640</b>	20,133
Stocks, shares and loan notes	<b>13,295</b>	14,817
National Savings and other holdings	<b>39</b>	39
<b>Total</b>	<b><u>129,913</u></b>	<u>133,958</u>
<b>Dividends and coupons due</b>		
Equity Index Tracker Fund	<b>1,182</b>	1,361
Unit trust holdings	–	–
Stocks, shares and loan notes	<b>59</b>	19
National Savings and other holdings	–	–
<b>Total</b>	<b><u>1,241</u></b>	<u>1,380</u>
<b>Total value of investment securities</b>		
Equity Index Tracker Fund	<b>99,121</b>	100,330
Unit trust holdings	<b>18,640</b>	20,133
Stocks, shares and loan notes	<b>13,354</b>	14,836
National Savings and other holdings	<b>39</b>	39
<b>Total</b>	<b><u>131,154</u></b>	<u>135,338</u>
<b>Market holdings summary (Units)</b>		
Equity Index Tracker Fund	<b>6,992</b>	7,630
Unit trust holdings	<b>12,804</b>	14,479
Stocks, shares and loan notes	<b>1,493</b>	1,641
National Savings and other holdings	<b>30</b>	30
<b>Total investment securities</b>	<b><u>21,319</u></b>	<u>23,780</u>
<b>Movements in holdings during the year (units)</b>		
Balance at start of year	<b>23,780</b>	28,230
Purchases during year	<b>2,455</b>	3,342
Sold during Year	<b>(2,288)</b>	(4,568)
Net transfers (to)/from clients	<b><u>(2,628)</u></b>	<u>(3,224)</u>
<b>Balance as at year end</b>	<b><u>21,319</u></b>	<u>23,780</u>

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

- Holdings in the Equity Index Tracker Fund (EITF) managed by Legal & General (Unit Trust Managers) Limited.
- Holdings of unit trusts lodged in court by clients; and
- Holdings of individual stocks and shares, and National Savings Certificates lodged in court by clients.

The note sets out the market value of these holdings along with the associated accrued income. The note also provides an analysis of the number of units held for investment securities and details the in year movements in terms of purchases, sales and transfers.

EITF holdings as at 28 February 2015 are valued at a Net Asset Value of 1,401 pence (1,297 pence as at 28 February 2014).

### 13 Clients' Cash Account Balances

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

	<b>28 February 2015 £000</b>	28 February 2014 £000
Court Funds placed on Basic Account	<b>924,765</b>	919,967
Court Funds placed on Special Account	<b>1,148,818</b>	1,307,740
Unclaimed balances	<b>161,671</b>	124,720
Other suitors deposited in the senior courts	<b>86,002</b>	67,823
Clients' monies held as Foreign Currency	<b>113,144</b>	83,005
<b>Total client cash balances</b>	<b><u>2,434,400</u></b>	<b><u>2,503,255</u></b>

The above note sets out the split of client cash account balances across the different account types. Accrued interest is reflective of interest due on Basic and Special accounts that is due but has not yet been credited to client accounts.

#### 13a Clients' receipts and payments during year

	<b>28 February 2015 £000</b>	28 February 2014 £000
<b>Opening balance</b>	<b>2,500,541</b>	<b>2,745,926</b>
Lodgments by clients	<b>424,061</b>	477,291
Sales of EITF units and other securities	<b>19,341</b>	26,731
Dividends and Interest paid on securities	<b>3,377</b>	3,707
<b>Total lodgments from clients</b>	<b><u>446,779</u></b>	<b><u>507,729</u></b>
Payments to clients	<b>(518,894)</b>	(737,413)
Purchase of EITF units and other securities	<b>(13,252)</b>	(12,924)
Transfer of surplus funds to Exchequer (HMT)	<b>(22)</b>	(17)
<b>Total payments to clients</b>	<b><u>(532,168)</u></b>	<b><u>(750,354)</u></b>
Interest Paid and Credited to Court Accounts	<b>9,122</b>	10,091
NAIFCD	<b>22</b>	24
Gains/(Losses) Arising from Foreign Exchange	<b>7,597</b>	(12,875)
<b>Closing balance</b>	<b><u>2,431,893</u></b>	<b><u>2,500,541</u></b>
<b>Add Accrued Interest</b>	<b>2,507</b>	2,714
<b>Total Client Balances</b>	<b><u>2,434,400</u></b>	<b><u>2,503,255</u></b>



**14 Other Liabilities**

	<b>28 February 2015 £000</b>	28 February 2014 £000
Interest due to Consolidated Fund	–	287
Administrative expenses – OAG	<b>4,603</b>	8,851
Hereditary Reserves – Surrender to HMT	<b>351,491</b>	–
<b>Total other liabilities</b>	<b>356,094</b>	<b>9,138</b>

Other liabilities relate to costs against the CFIA which were outstanding at the end of the financial year.

**15 Reserves**

	<b>28 February 2015 £000</b>	28 February 2014 £000
<b>Hereditary Revenues held by CRND</b>		
Opening Balance	<b>351,491</b>	351,491
Hereditary Reserves – Surrender to HMT	<b>(351,491)</b>	–
<b>Closing Balance</b>	<b>–</b>	<b>351,491</b>
<b>Interest Reserves held by CRND</b>		
Opening Balance	<b>921</b>	5,561
Total Comprehensive Net Expenditure	<b>3</b>	(4,640)
<b>Closing Balance</b>	<b>924</b>	<b>921</b>
<b>Unallocated Balances</b>		
Opening Balance	–	178
Migration Discrepancy Adjustment	–	(146)
Interest Adjustment	–	(32)
<b>Closing Balance</b>	<b>–</b>	<b>–</b>
<b>Total Reserves</b>		
Opening Balance	<b>352,412</b>	357,230
Total Movements	<b>(351,488)</b>	(4,818)
<b>Closing Balance</b>	<b>924</b>	<b>352,412</b>

Reserves cover Hereditary Revenues and Interest Reserves held within the CFIA and managed by CRND. Under HM Treasury rules the Hereditary Revenues must be transferred back to the Consolidated Fund on demand.

**16 Events after the reporting period**

The Hereditary Reserve was surrendered to the Consolidated Fund on 26 March 2015. As the decision was taken in February 2015 this is shown in this year's accounts as a short term liability.

**17 Provisions for liabilities and charges**

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

**18 Contingent liability**

There were no contingent liabilities as at 28 February 2015 or 28 February 2014.

**19 Physical effects**

The Court Funds Office holds on behalf of clients physical effects that have been paid into court. These assets have no financial value consisting mainly of legal documents, deeds and wills for which the Court Funds Office acts as custodian. There are two assets that have a notional financial value as follows:

- Sixteen gold US Dollar coins paid into court in the early 20th Century. These are held in a safety deposit box with the Royal Bank of Scotland; and
- A bag of 1,746 silver and 4 gold coins paid into court in the 18th Century. These are currently on loan to the British Museum but remain under the custodianship of the CFO. These have an estimated value of £60,000.

During the production of the 2014-15 accounts both sets of coins were counted and verified by the OAG.

## Accounts Direction given by HM Treasury

Funds in court in England and Wales – account of the transactions of the Accountant General under Section 38 of the Administration of Justice Act 1982

HM Treasury, in pursuance of section 45 of the Administration of Justice Act 1982, hereby gives the following Direction:

1 The Accountant General of the Senior Courts shall prepare accounts for the financial year ending 28 February 2010 and for each subsequent financial year ending on the last day of February. The financial statements shall include the following information:

- Annual Report;
- Statement of the Accountant General's Responsibilities;
- Statement on Internal Control;
- Income Statement;
- Statement of Financial Position; and
- Statement of Cash Flows

The financial statements shall include such notes as may be necessary, to explain the transactions of the Accountant General under Section 38 of the Administration of Justice Act 1982, and for the purposes referred to in the following paragraphs.

2 The financial statements shall be prepared so as to give a true and fair view of the state of affairs as at 28 February 2010 and subsequent financial year ends and of the income and expenditure and cash flows of the year then ended.

3 Subject to the requirements in (2) above, the financial statements shall be prepared in accordance with

- International Financial Reporting Standards, adapted and interpreted for the public sector context. In applying the Standards, the entity shall have regard to the Government Financial Reporting Manual;
- Any other relevant guidance which HM Treasury may issue from time to time in respect of financial statements which are required to give a true and fair view.

4 The financial statements shall be sent to the Comptroller and Auditor General not later than the last day of July following the end of the accounting period.

5 The Management Report shall state that the financial statements have been prepared in accordance with a Direction given by HM Treasury in pursuance of section 45(2) of the Administration of Justice Act 1982.

6 This direction shall be reproduced as an appendix to the financial statements.

7 This direction replaces the direction dated 7 August 2006.

*Chris Wobschall*  
Head of Assurance and Financial Reporting Policy  
HM Treasury

19 February 2010

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

## Accounts for the year ended 28 February 2015

### 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 Office of the Accountant General (OAG) 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 her account she remits the excess to CRND for investment in the CFIA, and on days when the balance in her account is insufficient to meet demands she makes a withdrawal from the 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 are reinvested in authorised securities. The resulting investments are held in the CFIA.

In recent years, CRND predominantly placed the funds of the CFIA with the Debt Management Account (one of HM Government's central Exchequer accounts) and occasionally transacted in UK Government gilt-edged securities (gilts). During 2014-2015, CRND placed the funds of the CFIA with the Debt Management Account or the National Loans Fund.

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 HM 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 HM 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 CRND in that year in making the 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 CRND are unable to pay a sum due to the Accountant General.

A deficit that exceeds 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 2014-2015. CRND's cost of managing the CFIA is recharged to the CFIA; in 2014-2015 this was £122,000 (2013-2014: £108,000).

## 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.

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

## Audit arrangements

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

## Management commentary

During 2014-2015, in accordance with the Memorandum of Understanding, the CFIA was invested in short-term deposits with the Debt Management Account. This strategy enabled the CFIA to earn a rate of interest very closely correlated with prevailing short-term sterling interest rates, whilst protecting its capital position and access to liquidity.

In the event of the CFIA having insufficient interest to meet its obligations, reserves would be used to cover the shortfall. Where reserves were insufficient to meet the obligations to suitors in any given year, the necessary funds would be recovered from the Consolidated Fund.

In accordance with section 39(2)(b) of the Act, the OAG obtained HM Treasury's concurrence to make a charge of £4.6 million (2013-2014: £8.9 million) in respect of the cost of administering funds in court. (OAG also received a subsidy from the Ministry of Justice which covered the remainder of the costs of administering funds in court and this subsidy meant that the charge to the CFIA was lower than the full costs incurred by OAG).

The CFIA generated insufficient interest to fully meet its obligations to suitors (interest payable on funds in court) after deducting the relevant amounts in respect of CRND's management expenses, the OAG's costs of administering funds in court, and any surplus payable to the Consolidated Fund.

### Financial results for 2014-2015

During 2014-2015, total income before client expenses was £13.6 million (2013-2014: £14.3 million). The reduction in income was due to the declining size of the CFIA's investments, which arose from net withdrawals by the OAG. Interest payable on funds in court was £8.8 million (2013-2014: £9.7 million), CRND's management expenses were £0.1 million (2013-2014: £0.1 million), surplus due/deficit receivable from the Consolidated Fund was nil (2013-2014: £0.3 million) and the OAG's costs of administering funds in court were £4.6 million (2013-2014: £8.9 million). This resulted in an overall surplus for the year of less than £0.1 million (2013-2014: £4.6 million deficit).

The OAG withdrew £110.4 million (net of advances) from the CFIA over the course of the year (2013 2014: £157.0 million net withdrawal).

### Date of authorisation for issue

The accounts were authorised for issue on 8 June 2015.

*Jo Whelan* 4 June 2015  
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 for each financial year a statement of accounts in the form and on the basis set out in the accounts direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the CFIA, its income and expenditure, changes in client funds and 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.

In preparing the accounts, the Secretary and Comptroller General is required to observe the applicable accounting standards and be consistent with the relevant requirements of the Government Financial Reporting Manual (FRM), and in particular to:

- observe the relevant accounts direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going-concern basis.

As the role of the Secretary and Comptroller General is analogous to acting as an Accounting Officer, it is considered that the responsibilities of an Accounting Officer, as set out in *Managing Public Money* published by HM Treasury, apply to the Secretary and Comptroller General. These include responsibility for the propriety and regularity of the public finances for which the Secretary and Comptroller General is answerable, for keeping proper records, and for safeguarding the CFIA's assets.

# Governance statement

## Scope of responsibility

As Secretary and Comptroller General to 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.

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 2014-2015 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 (resigned in March 2015)  
Joint Head of Policy and Markets

James Richardson  
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.

Non-executive directors are appointed by the DMO Accounting Officer following a formal process and have fixed terms defined in their contracts of service. All non-executive Board members receive an induction on joining and have access to additional information and training where it is considered necessary for the effective discharge of their duties.

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

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

The Board has put in place a formal process to self-evaluate its performance on a regular basis. The Board undertook a self-evaluation of its performance in 2014 and concluded that it has operated effectively in delivering the objectives set out in its Terms of Reference. The Terms of Reference underwent a full review by the Board in 2012.

**2014-15 Managing Board activities**

Board meetings were held throughout 2014-15 and covered regular agenda items, including risk management, staffing and progress against the operational business plan.

Board and Audit Committee attendance is outlined in the table below:

	Managing Board			
	Possible	Actual		
Robert Stheeman	8	8		
Jo Whelan	8	7		
Jim Juffs	8	8		
Joanne Perez	8	8	Audit Committee	
James Richardson	8	7	Possible	Actual
Brian Larkman	8	8	4	4
Brian Duffin	8	8	4	4
Caroline Mawhood	NA	NA	4	4

## Audit Committee

The Secretary and Comptroller General was supported during 2014-2015 by the Audit Committee on matters relating to risk, internal control and governance. The members of the Audit Committee during 2014-2015 were:

Brian Larkman (Chair)

Brian Duffin

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

Audit Committee meetings are typically attended by the DMO Accounting Officer, the Secretary and Comptroller General, the Joint Heads 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 effective; 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, especially with regard to IT resilience and recoverability;
- Anti-money laundering controls;
- Anti-fraud controls;
- Risk management and financial control;
- Implementation of audit recommendations;
- External and internal financial reporting;
- Information systems security and controls;
- Transaction processing risks and controls;
- Controls related to testing for IT systems in development;
- People risks; and
- Changes in financial management in government.

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 Review Management Committee monitors 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 Committee met four times in 2014-15.

#### **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 2014-15.

#### **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.

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 DMO 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 considers effective risk management to be central to its operations and fosters a risk aware culture in which all members of staff, including Board members, are encouraged to understand and own the risks that are inherent in those operations. In particular the DMO seeks to promote an environment in which staff feel comfortable to identify new risks and changes in previously identified risks, as well as weaknesses so that these may be assessed and appropriate mitigating actions 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 DMO 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 risk, market risk and operational risk. 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 five times during 2014-15.

**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 DMO 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 transaction processing risks and controls, IT and data security, business continuity planning and the ongoing resourcing challenges faced by the DMO. ORC met eight times during 2014-15.

**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 DMO 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 DMO Accounting Officer on suitable mitigating action where appropriate.

During the year the Controls Group review work has covered upgrades to the DMO's core trading system, project work to strengthen the resilience of the DMO's IT architecture, and improvements in IT change management processes.

### **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 DMO 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 consultations 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 monitored 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 DMO 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 DMO 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 standards and robust requirements which determine the way in which risks are managed and controlled. The DMO 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 2014 – 2015, this included reviews of the DMO's Spreadsheet Management, Physical Security and IT Security, Confidentiality and Information Handling policies, as well as its Personal Dealing Rules.

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 the DMO Board believe that the principal risks and uncertainties facing 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
<b>IT Systems and infrastructure</b>	
<p>CRND relies on a number of IT and communications systems to conduct its operations effectively and efficiently.</p> <p>A number of the operational systems and services on which CRND relies are provided or supported by third party suppliers.</p>	<p>In 2014-2015, the DMO completed upgrades to parts of its IT infrastructure and its core trading system. This work has reduced operational risk by helping to ensure that levels of support for key technology remain robust.</p> <p>During the year the DMO has undertaken a review of its most significant IT systems in the context of current and anticipated business requirements including those of CRND. In the medium term this work will inform strategic decisions regarding investment in the DMO's IT infrastructure.</p> <p>The DMO has put in place structured business continuity arrangements to ensure it is able to continue market operations in the event of an internal or external incident that threatens business operations.</p> <p>The DMO is represented on the Public Finance Business Continuity Management Group and, in 2014 together with HM Treasury and the Bank of England took part in an exercise designed to test the impact of a cyber-attack on key aspects of public finance processes.</p> <p>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. The DMO has dedicated relationship managers who meet regularly with key suppliers and monitor performance against agreed Service Level Agreements.</p>
<b>Transaction processing</b>	
<p>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 CRND to operational risk arising from process breakdown and human error.</p>	<p>A key component of 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. In addition, in 2014 the DMO supported its settlement agent, the Bank of England, to complete a project to introduce straight through processing for a number of their settlement processes. By helping to minimise manual intervention this project has helped reduce the risk of operational errors in the processing of CRND transactions.</p> <p>All teams, including CRND, have documented procedures for their main activities and there are clearly defined authorisation levels for committing the DMO externally.</p> <p>The RMU conducts regular control and compliance testing of CRND activities, providing the executive sub-committee of the Board with assurance on the effectiveness of operational controls and compliance with relevant Financial Conduct Authority and Prudential Regulation Authority rules in the dealing and settlement areas.</p> <p>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 DMO Accounting Officer and Board.</p> <p>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.</p>

<b>People risk</b>	
<p>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.</p> <p>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. Competition for skilled staff is generally against employers from the private financial services sector which is not subject to public sector remuneration policies and which have historically offered higher remuneration than either the private sector in general or the public sector.</p>	<p>The DMO's Training and Development policy aims to ensure that its staff have the right skills to meet its objectives. In response to developments in regulatory best practice, in particular in the area of market conduct, the DMO organised focused training sessions in 2014. These sessions were delivered in conjunction with regulators and external advisers and were aimed at helping front office staff better understand the regulatory environment in which the DMO's market counterparties operate.</p> <p>The DMO has a formal recruitment and selection process to help ensure vacancies are filled quickly by appropriately skilled candidates.</p> <p>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.</p> <p>Salaries are reviewed annually, taking account of benchmarks derived from equivalent private sector pay levels. In addition the DMO has a policy to recognise those staff who have performed well in their roles through the payment of one off performance related awards. Any awards are assessed annually by the DMO Pay Committee, are determined by individual performance and criteria associated with the DMO's performance management process and are aligned to the policy for public sector pay.</p> <p>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.</p> <p>On an annual basis all DMO staff are encouraged to take part in the Civil Service employee engagement survey and any issues raised, including mitigating action if required, will be considered by the DMO Accounting Officer and Board.</p> <p>The DMO is accredited as an Investor in People.</p>

<b>IT and data security</b>	
<p>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.</p> <p>The DMO is exposed to risk of an external attack on its IT systems and infrastructure.</p>	<p>The DMO continues to work to maintain the required level of protective security covering physical, personnel and information security and is particularly aware of the growing threat posed by cyber security risk. Cyber security has been a specific area of focus in 2014-15 and the DMO's IT team continue to work to strengthen controls against both external and internal threats to IT systems and infrastructure. This includes developing an additional BCP scenario which combined a test of technical monitoring controls with a desktop exercise to evaluate how the DMO would manage in the event of a successful breach of its security. In addition the DMO completed a number of upgrade projects in 2014 which have helped improve the resilience of the DMO's IT security environment, including an upgrade of its firewall technology and network components.</p> <p>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 is a member of the Board and provides advice to Board members on the management of information risk.</p> <p>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. The test is undertaken by specialists and forms part of the assessment against the Communications Electronics Security Group (CESG) requirements which is a condition for continuing connection to the Public Service Network (PSN). In response to the results of the test undertaken in 2014 the DMO improved security on its core networks and was reaccredited as a member of the PSN.</p>



**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 CRND's aims and objectives has been in place throughout 2014-15. 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.

In 2014-15, no ministerial directions were given and no material conflicts of interest have been noted by the Board or Audit Committee members in the Register of Interests.

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

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

4 June 2015

# 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 28 February 2015 under the Administration of Justice Act 1982. The financial statements comprise: 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 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 and the Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. 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 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 28 February 2015 and of its surplus for the year then ended; and
- the financial statements have been properly prepared in accordance with the Administration of Justice Act 1982 and 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 returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements are not in agreement with the accounting records; 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.

*Sir Amyas C E Morse*  
Comptroller and Auditor General

8 June 2015

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

## Court Funds Investment Account Statement of Comprehensive Income for the year ended 28 February 2015

	Notes	2015 £000	2014 £000
Interest income		<b>13,559</b>	14,279
<b>Total income</b>		<b>13,559</b>	14,279
CRND management expenses		<b>(122)</b>	(108)
OAG cost of administering funds in court		<b>(4,603)</b>	(8,851)
Interest payable on funds in court		<b>(8,831)</b>	(9,673)
Payable to the Consolidated Fund	3	–	(287)
Deficit for the year		<u><b>3</b></u>	<u>(4,640)</u>

*The notes on page 53 to 55 form part of these accounts.*

## Court Funds Investment Account Statement of Financial Position as at 28 February 2015

	Notes	2015 £000	2014 £000
<b>Assets</b>			
Demand deposits with the Debt Management the National Loans Fund		<b>2,678,561</b>	2,784,662
<b>Total</b>		<b><u>2,678,561</u></b>	<u>2,784,662</u>
<b>Liabilities and Client funds</b>			
<b>Liabilities</b>			
OAG costs of administering funds in court		<b>4,603</b>	8,851
HMT funds			
Hereditary Revenues	2	<b>351,491</b>	351,491
Surplus payable to the Consolidated Fund	3	–	287
		<b><u>351,491</u></b>	<u>351,778</u>
<b>Client funds</b>			
OAG funds		<b>2,321,543</b>	2,423,112
Reserves		<b>924</b>	921
		<b><u>2,322,467</u></b>	<u>2,424,033</u>
<b>Total</b>		<b><u>2,678,561</u></b>	<u>2,784,662</u>

*The notes on page 53 to 55 form part of these accounts.*

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

4 June 2015

## Court Funds Investment Account Statement of Cash Flows for the year ended 28 February 2015

	2015 £000	2014 £000
<b>Operating activities</b>		
Interest received on demand deposits with the Debt Management the National Loans Fund	<b>13,556</b>	14,408
Decrease in demand deposits the Debt Management the National Loans Fund	<b>106,104</b>	148,642
Interest received on UK Government gilt-edged securities classified as held for trading	–	4,511
CRND management expenses	<b>(122)</b>	(108)
OAG cost of administering funds in court	<b>(8,851)</b>	(9,855)
Payment to the Consolidated Fund	<b>(287)</b>	(552)
<b>Net cash from operating activities</b>	<b>110,400</b>	157,046
 <b>Financing activities</b>		
Funds received from the OAG	<b>141,500</b>	132,600
Funds paid to the OAG	<b>(251,900)</b>	(289,646)
<b>Net cash used in financing activities</b>	<b>(110,400)</b>	(157,046)
 <b>Increase in cash</b>	<b>–</b>	–

*The notes on page 53 to 55 form part of these accounts.*

## Court Funds Investment Account Statement of changes in Client Funds for the year ended 28 February 2015

	Client funds (excluding reserves) £000	Reserves £000	Total Client funds £000
<b>At 1 March 2013</b>	<b>2,570,485</b>	<b>5,561</b>	<b>2,576,046</b>
Deficit for the year	–	(4,640)	(4,640)
Interest payable on funds in court	9,673	–	9,673
Funds received from the OAG	132,600	–	132,600
Funds paid to the OAG	(289,646)	–	(289,646)
<b>At 28 February 2014</b>	<b>2,423,112</b>	<b>921</b>	<b>2,424,033</b>
Surplus for the year	–	3	3
Interest payable on funds in court	8,831	–	8,831
Funds received from the OAG	141,500	–	141,500
Funds paid to the OAG	(251,900)	–	(251,900)
<b>At 28 February 2015</b>	<b>2,321,543</b>	<b>924</b>	<b>2,322,467</b>

*The notes on page 53 to 55 form part of these accounts.*

# Notes to the Accounts for the year ended 28 February 2015

## 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
- IFRS 13 Fair Value Measurement
- IAS 1 Presentation of Financial Statements (revised 2007)
- IAS 7 Statements of cash flows
- 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, but are not yet effective. Those issues or revisions expected to be relevant in subsequent reporting periods are:

- IAS 24 Related Party Disclosures, which has been revised as part of the IASB's annual improvements process. Application is required for reporting periods beginning on or after 1 July 2014. The CFIA expects to apply these revisions to IAS 24 in 2015-2016. The application of these revisions, which clarify that entities as well as individuals may be considered as key management personnel and thus may be related parties of the reporting entity, is not expected to alter the disclosure of related parties of the CFIA.
- IAS 1 Presentation of Financial Statements, which has been revised as part of the IASB's 'Disclosure Initiative (Amendments to IAS 1)'. Application is required for reporting periods beginning on or after 1 January 2016. The CFIA expects to apply these revisions to IAS 1 in 2016-2017. The application of these revisions, which ensure that entities are able to use their judgement when presenting their financial reports within the requirements of IAS 1, is not expected to materially alter the presentation of the financial statements of the CFIA.
- IFRS 9 Financial Instruments, which will replace IAS 39. Application is required for reporting periods beginning on or after 1 January 2018, with earlier adoption permitted. The CFIA expects to apply IFRS 9 in 2018-2019. The application of IFRS 9, which sets out requirements for recognition, measurement, impairment and derecognition of financial instruments, is not expected to change the reporting of financial instruments in the CFIA.

A separate income statement, as required by the accounts direction, has not been presented as the content would be identical to the statement of comprehensive income. A statement of comprehensive income is required by IAS 1.



## 1.2 Assets

### Demand deposits

Deposits with the Debt Management Account and the National Loans Fund 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.

### 1.3 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.

## 2 Hereditary Revenues

Hereditary Revenues are net capital profits realised in the CFIA on the sale or disposal of gilts in prior years. At 28 February 2015 these were £351.5 million (28 February 2014: £351.5 million).

After the reporting date, on 26 March 2015, the CFIA paid to the Consolidated Fund all £351.5 million of its Hereditary Revenues. This followed agreement with OAG and HM Treasury that these funds should be surrendered to the Consolidated Fund in accordance with the Civil List Act 1952.

## 3 Payable to the Consolidated Fund

The surplus payable to the Consolidated Fund at the end of each year is paid over during the following year.

	2015 £000	2014 £000
Interest received	13,556	18,919
Interest payable on funds in court	(8,831)	(9,673)
Cost of administering funds in court		
OAG costs	(4,603)	(8,851)
CRND management expenses	(122)	(108)
	<u>(4,725)</u>	<u>(8,959)</u>
<b>Surplus payable to the Consolidated Fund at 28 February</b>	<u>-</u>	<u>287</u>

## 4 Risk

### 4.1 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 the CFIA.

The investments of the CFIA comprised deposits with the Debt Management Account and the National Loans Fund. These deposits were considered to have no exposure to credit risk because they are obligations of HM Government.

### 4.2 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 the CFIA was considered to comprise interest rate risk.

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

CRND monitored interest rate movements to help inform the OAG of potential issues and events. The CFIA was not subject to active management and thus no formal market risk parameters were in place.

#### *4.3 Liquidity risk*

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

Assets held by the CFIA were highly liquid to enable all client obligations to be met as they fell due.

### **5 Related party transactions**

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

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

During the year, the CFIA had a significant number of material transactions with the OAG due to the CFIA facilitating the operation of the basic and special accounts operated by the OAG for suitors' funds paid into court in England and Wales. During the year, the OAG withdrew £110.4 million (net of advances) from the CFIA (2013 2014: £157.0 million net withdrawal).

## 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.
- 6 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.
- 7 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 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 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 28 February 2015, 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 Office of the Accountant General (OAG) 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. 55% 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.

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:

- i the Public Trustee either in his sole name or jointly with any person or persons with whom he acts as trustee or personal representative;
- ii the Official Solicitor either in his sole name or jointly with any person or persons with whom he acts as trustee or personal representative;
- iii 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;
- iv 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;
- v any beneficiary of a trust from which the Public Trustee or Official Solicitor has retired as trustee, in relation to any units held in the trust to which the beneficiary has become absolutely entitled;
- vi 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;
- vii 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;
- viii 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;
- ix 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;
- x 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 his behalf immediately prior to the making of such an application;
- xi the Investment Manager of the Fund on his own account in the ordinary course of fund management, subject to the terms of his appointment;
- xii 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 15.

## 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 Ann Beasley as Accountant General of the Senior Courts on 1 October 2013. 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. Under section 43 of the same Act, the Lord Chancellor is empowered to make any decisions relating to defaults with respect to any money, securities and effects for which he 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 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 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 15 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 OAG Management Team which advises the Ministry of Justice on investment strategy and performance monitoring;
- 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 28 February 2015 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 28 February 2015 will be £19,500.

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.

*S D Thomas*  
Director  
On behalf of Legal & General  
(Unit Trust Managers) Limited  
11 June 2015

*A Beasley*  
Accountant General of the Senior Courts  
11 June 2015

# Investment Manager's report

## Investment Strategy

The Fund's 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 a composite of the following:

### Control Range

FTSE All-Share Index	55%	+/- 2%
FTSE World (excluding UK) Index	35%	+/- 2%
FTSE All-World Emerging Markets Index	10%	+/- 0.5%

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

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

The FTSE All-World Emerging Markets Index exposure is provided by the purchase of units in the Legal & General Global Emerging Markets Index Fund.

Prior to 12 June 2013, the benchmark comprised of 60%

FTSE All-Share Index, 35% FTSE World (excluding UK) Index and 5% FTSE All-World Emerging Markets Index. Even though the benchmark changed on 12 June 2013, the Fund adopted an incremental approach towards rebalancing its holdings, using cash flows to gradually move toward the new weightings, to minimise the costs to the Fund.

The target tracking deviation for the scheme is plus or minus 0.5% (measured on an ex ante basis) in two out of every three consecutive years before fees. However, as a result of the benchmark change and the Fund's approach towards rebalancing its holdings discussed above, the Ministry of Justice granted a waiver of this target until the portfolio was balanced in line with the benchmark. The waiver ended on 31 July 2014.

Until 2008, oversight of the Lord Chancellor's Common Investment Fund (CIF) on behalf of the Lord Chancellor was the responsibility of the Strategic Investment Board (SIB). Changes in legislation led to the Board being disbanded on 30 June 2008, when responsibility for the CIF passed to the Courts Funds Office (CFO) and subsequently to the Office of the Accountant General (OAG) as the main investor in the scheme.

Ministers then agreed that the SIB should be reinstated and oversight of the CIF was passed to the SIB with effect from the Board's first meeting which took place on 4 September 2014.

The FTSE All-Share, World (excluding UK) and All-World Emerging Markets indices are calculated by FTSE International Limited ("FTSE"). FTSE does not sponsor, endorse or promote this product.

All copyright in the Index values and constituent list belongs to FTSE. Legal & General has obtained full licence from FTSE to use such copyright in the creation of this product.

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## Manager's Investment Report

During the year under review, the published price of the units in the Ministry of Justice Equity Index Tracker Fund rose by 7.75%.



## Tracking Deviation

The table below shows the Fund Performance for the year from 1 March 2014 to 28th February 2015, with the benchmark performance, which comprises of 55% FTSE All-Share Index, 35% FTSE World (excluding UK) Index and 10% FTSE All-World Emerging Markets Index from 1 August 2015 (when the tracking waiver ended) to 28 February 2015.

	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	
<b>Total Fund (%)</b>	-0.95	0.64	1.79	-0.79	-0.06	2.67	
<b>Benchmark (%)</b>	N/A	N/A	N/A	N/A	N/A	2.66	
<b>Relative (%)</b>	0.00	0.00	0.00	0.00	0.00	0.01	
	<b>Sept-14</b>	<b>Oct-14</b>	<b>Nov-14</b>	<b>Dec-14</b>	<b>Jan-15</b>	<b>Feb-15</b>	<b>Year*</b>
<b>Total Fund (%)</b>	-2.38	0.58	2.91	-1.90	2.53	2.72	7.85
<b>Benchmark (%)</b>	-2.37	0.60	2.90	-1.89	2.52	2.72	7.86
<b>Relative (%)</b>	-0.01	-0.02	0.01	-0.01	0.01	0.00	-0.01

Source: LGIM, as at 28 February 2015

\* For the months March to July, whilst the tracking waiver was still in place, the benchmark performance is assumed to have matched the Fund performance for the purposes of calculating the annual performance figures.

**Past performance is not a guide to future performance.**

**The value of investments 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.**

**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, Legal & General International Index Trust and the Legal & General Global Emerging Markets Index Fund. 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

Data releases highlighted divergent trends in the major economies over the review year. The US economy rebounded strongly and grew at its fastest pace in eleven years during the third quarter of 2014, although growth slowed over the closing months of the year. The UK economy saw a marked turnaround, led by a revival in the dominant services sector. In both economies, the central banks signalled a shift towards a gradual tightening of monetary policy provided the recovery is maintained. Pressure to raise interest rates eased in recent months as the oil price fell dramatically, declining to a six-year low in January 2015. Eurozone growth improved towards the end of 2014, and lower oil prices and a weaker Euro should lead to a further strengthening in 2015. Even so, the European Central Bank (ECB) sanctioned large-scale quantitative easing (asset purchases) commencing in March to mitigate the risk of broad-based deflation taking hold. In Japan, a controversial 3% VAT hike in the spring heralded a sharp contraction in economic output during the second quarter and consumer demand remains sluggish, although the weakness of the Yen has boosted exports.

The Bank of Japan announced an extension to its asset purchase programme in late 2014, in a further attempt to revive economic activity. Data releases from the emerging economies were divergent. In China, the crackdown on shadow banking and speculative investment in the real estate market led to a slowdown. A number of other emerging nations, notably India and Taiwan, reported an upturn in activity, although Brazil slipped into recession while the Russian economy was hard hit by the plunge in energy prices and western sanctions.

## UK equities

The UK equity market has posted relatively modest returns over the review year, weighed down by the mining and oil & gas sectors, both of which have lost ground as commodity markets have been weak. However, the FTSE All-Share Index ended February at an all-time high on optimism about the economic outlook. Pharmaceuticals have been amongst the best performing sectors, as merger and acquisition activity has underpinned gains.

The more domestic orientated FTSE 250 Index continues to outperform the FTSE 100 Index, with 2014 marking the third successive year that the mid-cap Index has posted higher returns than large-cap stocks. In the consumer sectors, retailers performed well as Marks & Spencer raised its dividend and upgraded its full-year profit forecast, while Home Retail, the owner of Argos and Homebase, benefited from improved demand for consumer electronics. In contrast, energy stocks were the weakest area of the market as the oil price fell after OPEC refrained from cutting output.

Growth in the UK may cool a little in 2015 as financial regulation constrains the housing market and uncertainty increases around the general election. Inflation has surprised on the downside, which has allowed the Bank of England to delay the first rate hike, but as wage growth emerges, pressure on interest rate hikes could increase.

## Overseas Equities

The US outperformed other major equity markets by a substantial margin in Sterling terms over the review year, with the US Dollar reaching a four-year peak against a basket of currencies, enhancing returns for UK-based investors. Returns from European markets have also been relatively disappointing, as economic growth has been sluggish and the weakness of the Euro has diluted returns for UK-based investors. The Japanese market recorded double-digit percentage gains as investors reacted favourably to a series of policy initiatives from the Bank of Japan and the Abe administration. Emerging markets have been volatile with Asian markets outperforming both Latin America and Eastern Europe, where returns have been disappointing.

## Outlook

Although interest rates in the US and the UK look set to rise, the Eurozone policymakers continue to move in the opposite direction, increasing stimulus to the stagnant economy to help boost growth and fight deflationary risks. With the Japanese central bank also continuing to stimulate the economy, we believe that the divergence in policy direction between leading central banks could create further instability.

Against this backdrop, we retain a positive view on global cyclical growth prospects, as there is a continued and significant net positive effect from the fall in oil prices. Indeed, Europe is also set to benefit from the fall in the Euro, boosting export-led growth. The knock-on effects of a positive growth environment on corporate earnings should continue to drive the equity market.

Despite the on-going equity market surge, valuations remain unexceptional and we feel are more attractive relative to fixed income valuations. We continue to view our three most significant global risks as the possibility of a hard landing in China, political and monetary challenges in the Eurozone, and fall out from the end of quantitative easing in the US. Though the onset of quantitative easing in the Eurozone helps to mitigate Euro risks, we continue to monitor the Greek situation carefully.

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 2015

# Governance Statement

## Scope of responsibility

As the Chief Administration 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 supports the achievement of the 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. Ministers then agreed that the SIB should be reinstated and oversight of the CIF was passed to the SIB with effect from the Board's first meeting which took place on 4 September 2014. 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 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 Accounts Direction on page 82.

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) of Legal & General Investment Management (Holdings) Limited (LGIM), as a subsidiary of Legal & General Group Plc (L&G), 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 firm's 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 & 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 Financial Conduct Authority (FCA).

## Corporate Governance

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

The UTM Board consists of seven 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 LGIM Retail Risk & 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 are not limited to) the LGIM Retail Risk & Compliance Committee and Unit Trust Managers 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 auditor's report, which is then filed with the FCA. 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 FCA 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 FCA.

## Review of effectiveness

As Chief Administration 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.

*S D Thomas*  
Chief Administration Officer  
Legal & General (Unit Trust Managers) Limited  
11 June 2015

# 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 Ann Beasley as Accountant General of the Senior Courts on 1 October 2013. 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.

The HM Treasury Accounts 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 Association in October 2010 as updated by additional requirements from the Financial Conduct 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;
- 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 28 February 2015 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.

I am required to obtain evidence sufficient to give reasonable assurance that 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 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 affairs of the EITF as at 28 February 2015 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.

*Sir Amyas C E Morse*  
Comptroller and Auditor General

15 June 2015

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



## Portfolio Statement as at 28 February 2015

All investments are in distribution units unless otherwise stated.

The percentages in brackets show the equivalent sector holdings at 28 February 2014.

	Holding/ Nominal Value	Market value £	% of net assets
<b>Investment</b>			
<b>Unit Trusts investing in UK shares – 54.96 per cent (56.09 per cent)</b>			
Legal & General UK Index Trust	42,724,900	<u>64,130,075</u>	<u>54.96</u>
<b>Unit Trusts investing in overseas shares – 45.03 per cent (43.90 per cent)</b>			
Legal & General Global Emerging Markets Index Fund	25,111,254	11,518,532	9.87
Legal & General International Index Trust	50,820,604	<u>41,022,392</u>	<u>35.16</u>
		<u>52,540,924</u>	<u>45.03</u>
<b>Portfolio of investments</b>		116,670,999	99.99
<b>Net other assets</b>		<u>7,814</u>	<u>0.01</u>
<b>Total net assets</b>		<u>116,678,813</u>	<u>100.00</u>

Total purchases for the year: £4,145,867.

Total sales for the year: £14,181,724.

## Statement of Total Return for the year ended 28 February 2015

	Notes	28 February 2015		28 February 2014	
		£	£	£	£
Income					
Net capital gains/(losses)	2		<b>8,738,646</b>		7,582,113
Revenue	3	<b>3,232,995</b>		3,713,273	
Expenses	4	<b>(236,306)</b>		(249,092)	
Finance costs:					
Interest	6	-		(2)	
Net revenue before taxation		<b>2,996,689</b>		3,464,179	
Taxation	5	<b>(107,972)</b>		(114,491)	
Net revenue after taxation for the year			<b>2,888,717</b>		3,349,688
Total return before distributions			<b>11,627,363</b>		10,931,801
Finance costs:					
Distributions	6		<b>(2,888,717)</b>		(3,349,688)
Change in net assets attributable to Unitholders from investment activities			<b>8,738,646</b>		7,582,113

## Statement of Change in Net Assets attributable to Unitholders for the year ended 28 February 2015

		28 February 2015		28 February 2014	
		£	£	£	£
Opening net assets attributable to Unitholders			<b>117,972,690</b>		128,029,674
Amounts received on creation of units		<b>3,939,023</b>		2,232,071	
Amounts paid on cancellation of units		<b>(13,971,546)</b>		(19,871,168)	
			<b>(10,032,523)</b>		(17,639,097)
Change in net assets attributable to Unitholders from investment activities			<b>8,738,646</b>		7,582,113
Closing net assets attributable to Unitholders			<b>116,678,813</b>		117,972,690

## Balance Sheet as at 28 February 2015

		28 February 2015		28 February 2014	
	Notes	£	£	£	£
<b>Assets</b>					
Investment assets			<b>116,670,999</b>		117,967,255
Debtors	7	<b>516,474</b>		1,562,182	
Cash and bank balances	8	<b>1,379,348</b>		1,646,699	
Total other assets			<b>1,895,822</b>		3,208,881
<b>Total assets</b>			<b>118,566,821</b>		<b>121,176,136</b>
<b>Liabilities</b>					
Investment liabilities			–		–
Creditors	9	<b>(326,818)</b>		(1,537,228)	
Bank overdraft	8	<b>(153,319)</b>		(43,896)	
Distribution payable on distribution units		<b>(1,407,871)</b>		(1,622,322)	
Total other liabilities			<b>(1,888,008)</b>		(3,203,446)
<b>Total liabilities</b>			<b>(1,888,008)</b>		<b>(3,203,446)</b>
<b>Net assets attributable to Unitholders</b>			<b>116,678,813</b>		<b>117,972,690</b>

*The notes on pages 73 to 79 form part of these accounts.*

S D Thomas  
 Director  
 Legal & General (Unit Trust Managers) Limited  
 11 June 2015

# Notes to the Financial Statements

## 1 Accounting Policies

### *a Basis of accounting*

The financial statements have been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of investments and in accordance with UK Generally Accepted Accounting Practice and the Statement of Recommended Practice for Authorised Funds issued by The Investment Association in October 2010. The principal accounting policies which have been applied consistently are set out below.

### *b Recognition of revenue*

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

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

All other revenue is recognised on an accruals basis.

### *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 investments in 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 of 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.

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 27 February 2015, 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**

	<b>28 February 2015</b>	28 February 2014
	£	£
The net capital gains/(losses) during the year comprise:		
Non-derivative securities	<b>8,739,601</b>	7,583,138
Transaction charges	<b>(955)</b>	(1,025)
Net capital gains/(losses)	<b><u>8,738,646</u></b>	<u>7,582,113</u>

**3 Revenue**

	<b>28 February 2015</b>	28 February 2014
	£	£
Franked dividend distributions	<b>2,456,830</b>	2,891,723
Bank interest	<b>1,665</b>	2,061
Rebates from Legal & General Investment Management Limited	<b>774,500</b>	819,489
	<b><u>3,232,995</u></b>	<u>3,713,273</u>

**4 Expenses**

	<b>28 February 2015</b>	28 February 2014
	£	£
Payable to the Manager, associates of the Manager and agents of either of them:		
Manager's periodic fee	<b>209,591</b>	222,527
Registration fees	<b>21,464</b>	20,827
	<b><u>231,055</u></b>	<u>243,354</u>
Payable to the Custodian, associates of the Custodian and agents of either of them:		
Safe custody fees	<b>5,251</b>	5,738
Total expenses	<b><u>236,306</u></b>	<u>249,092</u>

## 5 Taxation

### a Analysis of taxation charge in year

	<b>28 February 2015</b>	28 February 2014
	<b>£</b>	£
Corporation tax	<b>107,972</b>	114,491
Current tax [note 5(b)]	<b>107,972</b>	114,491
Deferred tax [note 5(c)]	–	–
Total taxation	<b>107,972</b>	114,491

### b Factors affecting taxation charge for the year

The current tax charge excludes capital gains and losses for the reason that Common Investment Funds are not subject to Corporation Tax on these items. Current tax differs from taxation assessed on net revenue before taxation as follows:

	<b>28 February 2015</b>	28 February 2014
	<b>£</b>	£
Net revenue before taxation	<b>2,996,689</b>	3,464,179
Net revenue before taxation multiplied by the applicable rate of Corporation Tax at 20% (2014: 20%)	<b>599,338</b>	692,836
<i>Effects of:</i>		
Revenue not subject to taxation	<b>(491,366)</b>	(578,345)
Current tax	<b>107,972</b>	114,491

### 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:

	<b>28 February 2015</b>	28 February 2014
	£	£
Interim distribution	<b>1,388,399</b>	1,560,746
Final distribution	<b>1,407,871</b>	1,622,322
	<b>2,796,270</b>	<b>3,183,068</b>
<i>Add:</i> Revenue deducted on cancellation of units	<b>118,644</b>	184,550
<i>Less:</i> Revenue received on creation of units	<b>(26,197)</b>	(17,930)
<b>Distributions for the year</b>	<b>2,888,717</b>	3,349,688
<b>Interest</b>		
Bank overdraft interest	-	2
<b>Total finance costs</b>	<b>2,888,717</b>	3,349,690

**7 Debtors**

	<b>28 February 2015</b>	28 February 2014
	£	£
Sales awaiting settlement	<b>460,442</b>	1,508,244
Accrued income	<b>56,032</b>	53,938
	<b>516,474</b>	1,562,182

**8 Net uninvested cash**

	<b>28 February 2015</b>	28 February 2014
	£	£
Cash and bank balances	<b>1,379,348</b>	1,646,699
Bank overdraft	<b>(153,319)</b>	(43,896)
Net uninvested cash	<b>1,226,029</b>	1,602,803

## 9 Creditors

	<b>28 February 2015</b>	28 February 2014
	<b>£</b>	<b>£</b>
Amounts payable for cancellation of units	<b>254,993</b>	355,003
Purchases awaiting settlement	–	1,108,736
Accrued expenses	<b>18,853</b>	18,998
Corporation tax	<b>52,972</b>	54,491
	<b><u>326,818</u></b>	<u>1,537,228</u>

## 10 Contingent liabilities and outstanding commitments

There were no contingent liabilities or outstanding commitments at the balance sheet date (28 February 2014: same).

## 11 Risk in relation to financial instruments

The Fund's investment objective is stated on page 61. 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 and Prospectus. 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 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 Portfolio transaction costs**

As the Fund mainly invests in Collective Investment Schemes, there are no transaction costs (28 February 2014: same).

Total purchases for the year: £4,145,867.  
(28 February 2014: £6,054,950).

Total sales for the year: £14,181,724.  
(28 February 2014: £23,563,760).

**13 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.

**14 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 15, 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 £116,670,999 at 28 February 2015 (28 February 2014: £117,967,255).

Management fees paid to Legal & General Investment Management Limited are shown in note 4. The balance due in respect of this fee is £16,357 (28 February 2014: £16,447). Management fee rebates received from Legal & General Investment Management are shown in note 3. Rebates receivable at the year end amount to £56,032 (28 February 2014: £53,938).

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.

**15 Split of Assets by Investment Channel**

<b>Investment Channel</b>	<b>Net Asset Value of Fund</b>	<b>Net Asset Value Per Unit</b>	<b>Number of Units in issue</b>	<b>Percent</b>
<b>28 February 2015</b>				
Court Funds				
Office (CFO)	£97,939,373	1,400.84p	6,991,460	83.94%
Official Solicitor and Public Trustee (OSPT)	£4,890,707	1,400.84p	349,126	4.19%
Other	£13,848,733	1,400.84p	988,600	11.87%
<b>Total</b>	<b>£116,678,813</b>	<b>1,400.84p</b>	<b>8,329,186</b>	<b>100.00%</b>
<b>28 February 2014</b>				
Court Funds				
Office (CFO)	£98,969,481	1,297.18p	7,629,592	83.89%
Official Solicitor and Public Trustee (OSPT)	£6,942,309	1,297.18p	535,185	5.89%
Other	£12,060,900	1,297.18p	929,779	10.22%
<b>Total</b>	<b>£117,972,690</b>	<b>1,297.18p</b>	<b>9,094,556</b>	<b>100.00%</b>

**Distribution Tables for the year ended 28 February 2015**

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 2014–31 August 2014**

<b>Distribution Units</b>	<b>Net Revenue</b>	<b>Equalisation</b>	<b>Distribution</b>	<b>Distribution</b>
			<b>12 October 2014</b>	<b>12 October 2013</b>
Group 1	16.2078	–	16.2078	16.2627
Group 2	5.2503	10.9575	16.2078	16.2627

**Final dividend distribution in pence per unit****Period 1 September 2014–28 February 2015**

<b>Distribution Units</b>	<b>Net Revenue</b>	<b>Equalisation</b>	<b>Distribution</b>	<b>Distribution</b>
			<b>10 April 2015</b>	<b>10 April 2014</b>
Group 1	16.9028	–	16.9028	17.8383
Group 2	6.9226	9.9802	16.9028	17.8383

## Fund Facts

### Total Expense Ratio

28 February 2014	0.236 per cent
28 February 2015	0.239 per cent

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

The Total Expense Ratio comprises the following:

Expense type	Percentage of investment assets %	Fee £	Note
Annual Management Charge	0.151	174,659	4
VAT on Annual Management Charge	0.030	34,932	4
Registration Fees	0.019	21,464	4
Safe Custody Fees	0.004	5,251	4
		<b><u>236,306</u></b>	
Transaction Charges	0.001	955	2
Costs incurred through underlying holdings (net of rebates)	<u>0.034</u>	<u>38,981</u>	
	<b><u>0.239</u></b>	<b><u>276,242</u></b>	

The Fund is invested in underlying Collective Investment Schemes (Legal & General Index Tracking Unit Trusts), which suffer additional Annual Management and Registration Charges to those described in the table above. However, since Annual Management and Registration Charges are already applied at fund level, as illustrated in the table above, rebates are received equating to the value of the Annual Management and Registration Charges on the underlying holdings, to ensure that this Fund does not suffer both sets of charges. This Fund does however suffer the other costs associated with investing in the underlying Trusts, such as Trustee Fees, Custody Fees, Audit Fees and Transaction Charges. The indirect costs suffered through investing in those Trusts amount to a charge of approximately 0.034% for the MoJ Equity Index Tracker Fund, as shown in the table above.

## Performance Review

### Net asset values

Accounting Date	Net Asset Value of Fund	Net Asset Value Per Unit	Number of Units in Issue
29 Feb 13	£128,029,674	1,219.46p	10,498,902
28 Feb 14	£117,972,690	1,297.18p	9,094,556
28 Feb 15	£116,678,813	1,400.84p	8,329,186

### Unit price range and net revenue

Year	Highest Offer	Lowest Bid	Net Revenue
Distribution Units			
2010	1,141.00p	933.40p	26.4343p
2011	1,167.00p	940.20p	26.1887p
2012	1,141.00p	1,019.00p	32.7921p
2013	1,322.00p	1,144.00p	31.4826p
2014	1,325.00p	1,259.00p	17.8383p
2015 <sup>1</sup>	1,418.00p	1,327.00p	16.9028p

1 The above table shows the highest offer and lowest bid prices to 28 February 2015 and the net revenue per unit to 10 April 2015.

**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.**

## Accounts Direction given by HM Treasury

### Funds in Court in England and Wales – Account of the transactions of the Accountant General under section 38 of the Administration of Justice Act 1982

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

- 1 The Investment Manager of the Common Investment Funds shall prepare accounts for the Ministry of Justice Equity Index Tracker Fund in respect of the period from 1 September 2003 to 29 February 2004 and thereafter for each period of one year ending on the last day of February.
- 2 The accounts shall give a true and fair view in accordance with generally accepted accounting practice of the financial position of the Fund at the period end and of the net income and movement in the net assets of the Fund for the year.
- 3 The accounts shall be prepared in accordance with a format and content to be agreed between the Investment Manager, the Comptroller and Auditor

General and the Court Funds Office, with the consent of Treasury, and shall include:

- i. a Foreword;
  - ii. a Statement of Responsibilities;
  - iii. a Statement on Internal Control;
  - iv. a Statement of Total Return;
  - v. a Statement of Change in Unitholders' Net Assets;
  - vi. a Balance Sheet;
  - vii. a Portfolio Statement
  - viii. a Summary of Material Portfolio Changes;
  - ix. a Distribution Table; and
  - x. such notes as may be necessary to present a true and fair view.
  - xi. Administration of Justice Act 1982:
- 4 The Foreword shall include among other items:
    - i. a statement that the accounts have been prepared in accordance with directions given by Treasury in pursuance of Section 45(2) of the Act;
    - ii. relevant information in respect of the statutory background of the Fund;
    - iii. the name and period of appointment of the Investment Manager;
    - iv. details of the arrangements for reporting financial performance of the Fund to unitholders;
    - v. a statement on the external audit arrangements for the Fund, including commentary on the roles of the Comptroller and Auditor General and the auditors.

- 5 The Notes shall include among other items:
  - i. the accounting policies;
  - ii. a statement of the regulatory basis of the accounts, with reference to best practice principles which apply to the funds in which the Ministry of Justice Equity Index Tracker Fund is invested;
  - iii. disclosure of the way in which the Investment Manager applies best execution principles when making investments;
  - iv. a breakdown on material items within the Accounts;
  - v. the tax computation;
  - vi. distribution information;
  - vii. a statement of movements between net income and distributions;
  - viii. any contingent liabilities and contingent assets;
  - ix. any units in issue;
  - x. disclosure of fees and expenses in accordance with the tariff set out in the contract;
  - xi. post balance sheet events;
  - xii. related party transactions, recognising that the Court Funds Office and various entities within Legal and General are both related parties to the Fund, and therefore the disclosure principles laid down in FRS 8 need to be applied;
  - xiii. a summary of the fund structure and the instruments invested in;
  - xiv. a statement of any material errors made good by the Investment Manager and the impact of those errors on the accounts had they not been made good; and
  - xv. the risk management policy.
- 6 When preparing the accounts, the Investment Manager shall comply with, and use as a best practice guideline, the disclosure requirements of the Statement of Recommended Practice relating to Authorised Funds issued by the Investment Management Association in December 2005 ('the IMA SORP 2005'), to the extent that such requirements are relevant to the Ministry of Justice Equity Index Tracker Fund.
- 7 The Investment Manager will support the Accounts with a General Representation Letter, containing material matters that need to be confirmed to the Comptroller and Auditor General and the Court Funds Office.
- 8 The Investment Manager will also submit the annual taxation computation to the Inland Revenue within the timescales defined by the Inland Revenue.
- 9 The Investment Manager will employ best endeavours to complete the Accounts and enable the Comptroller and Auditor General to lay the Accounts before Parliament within 9 months of the year end in respect of the accounts for the year ended on 28 February 2004 and thereafter within 3 months of the year-end.
- 10 This Direction shall be reproduced as an annex to the accounts.
- 11 This Direction replaces the Direction dated 26 May 2004.

*David A Cruden FCA*  
 Head of the Central Accountancy Team  
 HER Majesty's Treasury  
 March 2007

## General Information

### Accounting/Distribution Dates

The accounting and distribution dates for the Ministry of Justice

Equity Index Tracker Fund in 2015 are:

#### **Accounting Dates**

28 February  
31 August

#### **Distribution Dates**

10 April  
12 October

### **Buying & Selling Units**

#### **Unit Prices**

Unit prices may be found in the Financial Times under the 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 £200 million and above

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

Individual accounts are unaffected by the management charge deduction.

The actual Management Charge suffered during the year was 0.15 per cent plus VAT.

#### **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](http://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.

**Authorised Fund Manager**

Legal & General (Unit Trust Managers) Limited  
Registered in England and Wales No. 01009418  
Registered office:  
One Coleman Street,  
London EC2R 5AA  
Telephone: 0370 050 3350  
Authorised and regulated by the Financial Conduct Authority  
Call charges will vary. We may record and monitor calls.

**Directors of the Manager**

A J C. Craven  
R M. Bartley (appointed 15 May 2015)  
S R Pistell  
H Solomon (appointed 13 March 2015)  
S D Thomas  
S Thompson (appointed 10 February 2015)  
M J Zinkula Secretary

D Gilbert

**Overall Governance**

Ministry of Justice

**Auditor**

Comptroller and Auditor General  
National Audit Office  
157-197 Buckingham Palace Road  
Victoria  
London SW1W 9SP

**Fund Investors**

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London SW1H 9AJ  
Telephone: 0845 223 8500

Official Solicitor and Public Trustee  
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Telephone: 0203 681 2759

Office of the Public Guardian  
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London SW1H 9AJ  
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