



HM Courts &  
Tribunals Service

# **HM Courts & Tribunals Service**

## Trust Statement 2013–14





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## **Trust Statement 2013–14**

Her Majesty's Courts & Tribunals Service is an Executive Agency of the Ministry of Justice.

Trust Statement presented to the House of Commons pursuant to section 7 of the Government Resources and Accounts Act 2000.

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## Accounting Officer's Foreword to the Trust Statement

I am pleased to present the 2013-14 HM Courts & Tribunals Service Trust Statement.

The Trust Statement reflects the collective efforts of a number of Agencies that work together to collect and enforce payments due from offenders relating to fines, confiscation orders and other financial penalties imposed by the courts and police forces. I am delighted that the Comptroller and Auditor General has been able to provide an unqualified audit opinion on this statement as it recognises the quality and thoroughness of action we've taken to address issues identified in the previous audit. I would like to thank everyone involved for their hard work and commitment, which has enabled us to build upon the good progress made in previous years.

During 2013-14 we maintained strong performance in collections and further improved the quality of the information provided. Victim Surcharge receipts have increased by £28m, resulting in additional funds to help support the victims of rape, domestic violence and families bereaved by murder and fatal road traffic crimes. A proportion of these additional receipts have been allocated to Police and Crime Commissioners (PCC's) for innovative local projects to support victims.

Each Police Authority in England and Wales now uses the national fixed penalty system, PentiP, to record fixed penalty notices. PentiP allows a consistent approach to be applied to the issue and control of fixed penalty notices across England and Wales. The system is already providing much better quality financial and management information to assist in the collection process.

In December 2013 the NAO published a report on Confiscation Orders which raised a number of significant weaknesses relating to the application and enforcement of confiscation orders. Each of the agencies involved has plans and strategies in place to further improve the rate of collection and to address the weaknesses as identified in the NAO report, including improving accountability, closer joint working between partner agencies and better performance and cost information. My own organisation will shortly be making important decisions on an external commercial partner to take responsibility for collecting court fines, fixed penalties and the primarily low value confiscation orders for which HM Courts & Tribunals Service has responsibility. This will provide much needed investment in technology and market leading expertise to improve the rate of collection.

**Peter Handcock**  
**Accounting Officer and Chief Executive**  
**HM Courts & Tribunals Service**

## Introduction to the Trust Statement

### Introduction

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A Trust Statement provides an account of the collection of revenues which by statute or convention are due to the Consolidated Fund<sup>1</sup> where the entity undertaking the collection acts as agent rather than principal. The legislative requirement for the HM Courts & Tribunals Service Trust Statement is set out in section 7 of the Government Resources and Accounts Act 2000.

HM Courts & Tribunals Service acts as an agent responsible for collecting financial penalties imposed by the judiciary and the police. These impositions comprise court fines, prosecutors' costs, compensation to victims, fixed penalty notices, confiscation orders and victim surcharge.

The Trust Statement records income and expenditure relating to these impositions, the third party bodies to which the funds are disbursed and the year-end balance owed to the Consolidated Fund.

The Trust Statement accounts do not include the costs of running HM Courts & Tribunals Service. These are reported separately in the HM Courts & Tribunals Service Annual Report & Accounts 2013–14 (HC 154) which also sets out the general direction and priorities for the agency, details of its management and the Chief Executive's report.

### Scope

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HM Courts & Tribunals Service collects the following types of financial imposition as described below:

**Fines, prosecutors' costs and compensation orders** – These items are imposed by both magistrates' and Crown courts but are enforced by magistrates' courts. Fines monies collected by HM Courts & Tribunals Service are surrendered to the Consolidated Fund after costs of enforcement and collection are retained by the MoJ under specified fine incentive schemes. Prosecutors' costs and compensation order monies are passed by HM Courts & Tribunals Service to either Crown or private prosecutors and the victims of the crimes committed respectively.

**Confiscation Orders** – Confiscation orders are imposed by the Crown Court under the Proceeds of Crime Act 2002. The majority of Confiscation Orders (52% by value) are enforced by agencies other than HM Courts & Tribunals Service.

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<sup>1</sup> The Consolidated Fund is the central account administered by HM Treasury which receives government revenues and makes issues to fund expenditure by Government Departments.



These agencies include the Crown Prosecution Service (CPS), Serious Fraud Office (SFO), Department for Work and Pensions and local authorities. The composition of confiscation orders is characterised by a small volume of high value orders and a larger volume of low value orders. Confiscation order receipts are surrendered to the Home Office, with a portion subsequently returned to the Ministry of Justice under the Asset Recovery Incentive Scheme.

**Fixed Penalty Notices** – Penalty Notices are imposed by the police and include both Fixed Penalty Notices (FPNs) for traffic rule violations and Anti-Social Behaviour Orders (ASBOs). Notices that remain unpaid after 28 days are converted into fines and enforced as detailed above. Receipts of Penalty Notices and the associated fines are surrendered to the HM Treasury Consolidated Fund after deduction of an agreed retention by MoJ for Victim Services.

**Victim Surcharge** – An additional surcharge is added to fines that are imposed and are enforced as detailed above. The receipts obtained from the collection of these monies by HM Courts & Tribunals Service are passed to the Justice Reform Directorate of the MoJ to fund victims' services.

**Expenditure and disbursements** - Receipts of confiscation orders, prosecution costs and compensation orders are remitted to appropriate third parties, including government departments and the victims of crime. These remittances are reflected through the disbursements disclosed in the Statement of Revenue and Expenditure.

The HM Courts & Tribunals Service Trust Statement reflects expenditure for the write-off of fines and impairment of outstanding fines and confiscation orders.

With the agreement of HM Treasury, the MoJ is permitted to retain an element of fines collected as income through two netting-off schemes and a fine incentive scheme. The Warrant Enforcement netting off scheme permits MoJ to retain revenue equal to the Pre Courts Act 2003 cost of enforcing and collecting fines whilst the Courts Act national roll-out netting off scheme permits the retention of an amount equal to the employment costs of the court officers appointed in compliance with the Courts Act 2003. The Fine Incentive Scheme permits MoJ to retain an amount of fines collected equating to 75% of fine receipts in excess of receipts attributable to a 75% payment rate, a measure of fine collection rates, up to maximum of £20m.

Through Statutory Instruments which came into effect in July and August of 2013, the fixed penalties for motoring offences and public disorder offences were increased in order to ensure that the rates were consistent with other similar penalty offences. Under a Memorandum of Understanding with the Ministry of Justice and with the agreement of HM Treasury, £30 million per annum of additional revenue raised from fixed penalties issued for motoring offences is retained by the MoJ's Justice Reform Unit in order to fund services provided to the victims of crime.

The Trust Statement reflects the complex interdependencies between HM Courts & Tribunals Service and a number of other departments and agencies involved in the enforcement process including the Home Office (HO), CPS and SFO.

## Business overview

### Financial performance

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#### Impositions revenue

Total imposition revenue decreased from £766m in 2012–13 to £718m in 2013–14, a decrease of £48m. This was driven by a reduction in confiscation order revenue of £103m offset by increases of £37m in FPN revenue and £17m in Victim Surcharge revenue. The increases in FPN and Victim Surcharge revenues were driven by increases in FPN and Victim Surcharge rates which came into force in August 2013 and October 2012 respectively.

Imposition revenue relating to Court Fines has remained relatively static decreasing by £3m.

#### Disbursements and expenditure

Total disbursements have increased by £1m from £385m in 2012–13 to £386m in 2013–14. This fluctuation is made up of a decrease of £30m in Confiscation Order disbursements (from £164m in 2012–13 to £134m in 2013–14) which was largely offset by an increase in Victim Surcharge disbursements of £29m and other less significant fluctuations in other disbursements of £2m.

The decrease in Confiscation Order disbursements results from the decrease of £103m in corresponding Confiscation Order revenue offset by a decrease in the Confiscation Order impairment charge for the year of £72m.

The Victim Surcharge disbursement increased by £10m from £13m in 2012–13 to £23m in 2013–14 in line with the increase in Victim Surcharge revenue. A new agreement for the retention of FPN revenue for the funding of victims' services was introduced in July 2013 and has resulted in an additional increase in disbursements of £19m over and above the £10m increase in the existing Victim Surcharge disbursement.

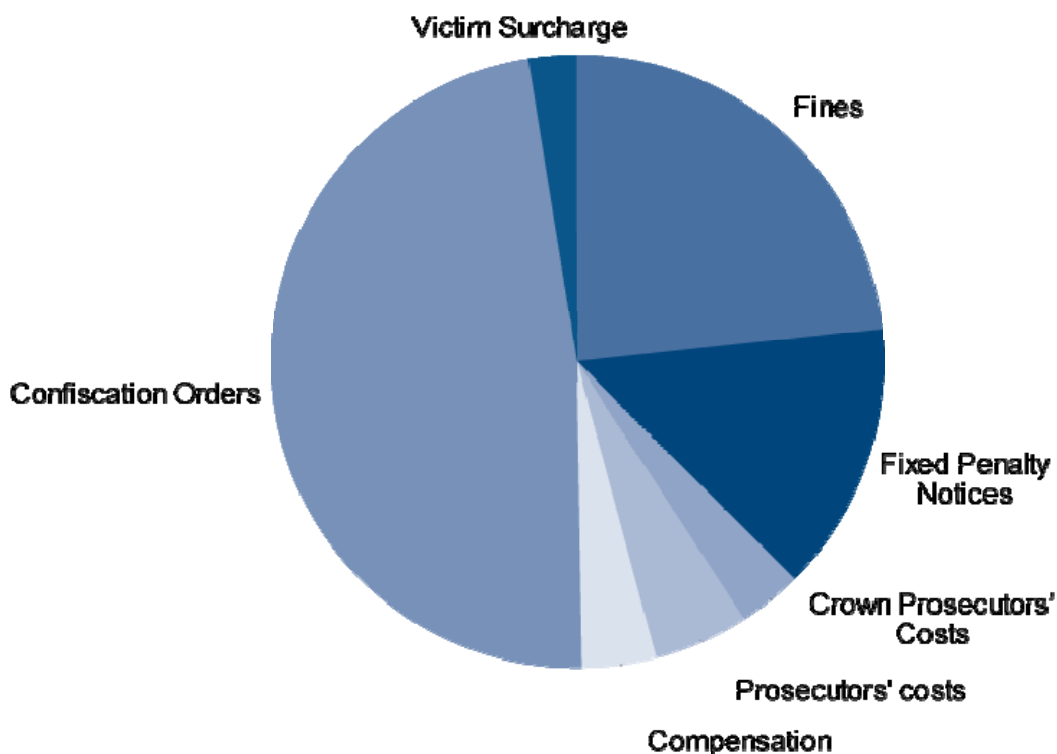
The total decrease in expenditure and disbursements of £76m is due largely to a decrease in credit losses for the year of £78m caused by an increase in debt write-offs of £21m and a decrease in the impairment charge for the year of £99m.

The overall impact is that net revenue due to the Consolidated Fund during 2013–14 was £175m, an increase of £29m compared to 2012–13.

#### Debt

Each class of outstanding financial imposition, or debt, has been separately assessed to calculate the appropriate level of impairment required to reflect the value of debt which is assessed as recoverable. The total value of debt

estimated to be recoverable as at 31 March 2014 is £362m (2012–13: £324m). This comprises:



### Confiscation Orders

The gross value of Confiscation Order debt as at 31 March 2014 is £1,491m and has been impaired for accounting purposes to a net present value of £173m. In practice the recoverability of debt is influenced by a significant number of factors including outstanding Confiscation Orders which are assessed as unlikely to be enforced. These include, but are not limited to:

	2013–14 £000	2012–13 £000
Interest	384,933	320,506
Assets assessed as hidden with no other assets against which enforcement action can be taken.	229,886	136,395
Offenders deceased, deported or cannot be located	108,925	109,257
Orders subject to appeal and cannot be enforced	63,986	83,919
Assets overseas	9,066	8,128
<b>Sub-total</b>	<b>796,796</b>	<b>658,205</b>
Other Confiscation Orders	694,427	730,324
<b>Total outstanding debt</b>	<b>1,491,223</b>	<b>1,388,529</b>

In addition to the values shown in the above table there are confiscation orders included in the “other confiscation orders” category where a proportion of the assets are considered to be hidden or overseas. As a result, the full value of confiscation orders in this category is unlikely to be fully enforceable.

Further analysis of Confiscation Order debt by value and lead enforcement agency is provided in note 4 to the Trust Statement.

## **Future developments and initiatives**

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### **Data sharing legislation**

The Crime and Courts Act 2013 came into effect during 2013-14. This legislation allows HM Courts & Tribunals Service to obtain data from HM Revenue & Customs (HMRC) and DWP for the purposes of setting fines and enforcing outstanding amounts. Following the introduction of the legislation HM Courts & Tribunals Service and HMRC have developed a process for obtaining data on a regular basis for enforcement purposes. The process enables a monthly transfer of specifically targeted accounts to HMRC who will then provide HM Courts & Tribunals Service with any additional information they hold on offenders, including employer details, enabling HM Courts & Tribunals Service to enforce these accounts and set up attachment of earnings orders where possible.

### **Account analysis and review**

During 2013-14 HM Courts & Tribunals Service carried out a fundamental review of all fine accounts with outstanding balances due. Work continues in 2014-15 to review accounts that have been outstanding to ensure that they are effectively enforced. To assist in this process a list of standard review points for each stage of enforcement has been developed and a programme of work is underway to ensure all accounts are reviewed within the target date.

### **Consolidation of accounts**

A project commenced in October 2013 to consolidate a number of accounts where offenders had multiple accounts in different regions across England and Wales. Two teams have been created to consolidate accounts in one location by transferring accounts between areas where necessary. The effect of this work is that resources can be better utilised by ensuring that only one enforcement action is taken against each offender for the total amount they owe. It also provides improved communication lines to the offender who now only deals with one team and ensures they are aware of the total debt that they owe. This work continues in 2014-15 with additional resources being provided to help target these accounts quickly.

### **Confiscation Order Enforcement**

HM Courts & Tribunals Service actively looks at additional methods to increase the value of impositions recovered, including working closer with other agencies. Over the past year HM Courts & Tribunals Service has reviewed a number of Service Level Agreements (SLA) with other Agencies to

ensure they give us the best opportunity to recover funds. A new SLA will be developed and implemented with the SFO.

Following a major review led by HM Courts & Tribunals Service, the multi agency National Best Practice Guide to Confiscation Enforcement was reissued in November 2013, providing staff with the latest instructions and information on the most efficient way of enforcing Confiscation Orders.

HM Courts & Tribunals Service has introduced standard ways of working across our Regional Confiscation Units (RCU), including introducing electronic files. This enables RCUs to work across regional boundaries and to assist one another. RCU Managers meet on a regular basis to review procedures, share best practice and discuss any issues and to raise areas of concern.

#### **The future delivery of enforcement services.**

To build on improvements made in recent years in the collection of criminal financial penalties, HM Courts & Tribunals Service is in the final stages of a procurement exercise to determine whether an external partner can bring the innovation and investment in technology that HM Courts & Tribunals Service needs to further improve performance and efficiency.

### **Basis for the Preparation of the Trust Statement**

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The HM Treasury accounts direction, issued under Section 7(2) of the Government Resources and Accounts Act 2000, requires HM Courts & Tribunals Service to prepare the Trust Statement to give a true and fair view of the state of affairs relating to the collection and allocations of fines, penalties, costs awarded by the courts, compensation and confiscation orders ordered by the courts and the revenue, expenditure and cash flows for the financial year. Regard is also given to all relevant accounting and disclosure requirements in *Managing Public Money* and other guidance issued by HM Treasury, and to the principles underlying International Financial Reporting Standards (IFRS).

HM Courts & Tribunals Service has worked closely with HM Treasury to ensure that the Trust Statement's underlying accounting policies are comprehensive, appropriate, and supported to a sufficient level of detail by reports from the business systems.

### **Selection of Appropriate Accounting Policies for the Trust Statement and Use of Judgements and Estimates**

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As Accounting Officer, it is my responsibility to apply suitable accounting policies in the preparation of the Trust Statement. The underlying approach to accruals measurement is that revenues from fines and penalties are deemed to accrue at the point at which the imposition is imposed. Revenues are recognised in the period in which the event that generates the revenue occurs.

We have used estimates to calculate the impairment of the outstanding debt balance. In preparing our estimates we have to take account of areas of uncertainty around those factors which determine future revenue flows. We therefore have to make judgments concerning some of these factors and we have procedures in place to do this. These calculations have been undertaken for each income stream and take into account previously set impairment thresholds and historical collections data. In addition, items with a value in excess of £7 million have been assessed on an individual basis. However, because of the areas of uncertainty involved, there will inevitably be differences between our forecasts and future outturns. These differences arise because of the need to make judgments on areas of uncertainty and are not considered to be indicative of deficiencies in our procedures.

## **Auditors**

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The Trust Statement is audited by the Comptroller and Auditor General under Section 7(4) of the Government Resources and Accounting Act 2000. The C&AG's fee for the audit of the 2013–14 Trust Statement was £110,000 (2012–13, £130,000). This is charged on a notional basis and recognised in the resource accounts of the MoJ. No non-audit work was carried out by the auditors for HM Courts & Tribunals Service.

**Peter Handcock**  
**Accounting Officer**

**5 December 2014**

## Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed HM Courts & Tribunals Service to prepare for each financial year a Trust Statement detailing the impositions revenue collected by the department as an agent for others, 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 HM Courts & Tribunals Service Trust Statement and of its revenue and expenditure, financial position and cash flows for the financial year.

In preparing the statement, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the 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 as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the statement; and
- prepare the statement on a going concern basis.

HM Treasury has appointed the Permanent Secretary of MoJ as Principal Accounting Officer of the Department. Peter Handcock as Chief Executive of HM Courts & Tribunals Service holds the role of Accounting Officer for the purposes of the Trust Statement. The Accounting Officer authorised the Trust Statement for issue on the date of certification by the Comptroller and Auditor General, which is reflected in the audit certificate.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding HM Courts & Tribunals Service's assets, are set out in *Managing Public Money* published by HM Treasury.

# Governance Statement 2013–14

## 1. Introduction

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This Governance Statement is provided in my role as Accounting Officer for HM Courts & Tribunals Service.

HM Courts & Tribunals Service is an agency of the Ministry of Justice (MoJ) whose key aim is to run an efficient and effective courts and tribunals system which enables the rule of law to be upheld and provides access to justice for all.

As Accounting Officer I have established a governance framework and management structure for the organisation to support me in the management of our key risks. I am satisfied that I have the necessary systems and processes in place to maintain an effective system of internal control which supports the achievement of policy aims and objectives whilst safeguarding the public funds and assets for which I am personally accountable. This statement describes the control framework in place over the recording and collection of financial impositions, including the penalties imposed by the police service and also the onward remitting of these collections to the relevant parties and ultimately the Consolidated Fund. The HM Courts & Tribunals Service Annual Report and Accounts for 2013-14 (HC 154) provides a more detailed explanation of the wider control framework operated by HM Courts & Tribunals Service.

HM Courts & Tribunals Service operates in accordance with its published Framework Document which sets out the basis of an operating partnership between the Lord Chancellor (Secretary of State for Justice) and the Lord Chief Justice. As Chief Executive I am responsible to both, for the day-to-day operations and administration of the agency and leadership of its staff. As Chief Executive and Accounting Officer I am also accountable to the MoJ Permanent Secretary and ultimately to Parliament.

During the course of this year we have managed a number of risks and control issues. These are reported on in the governance statement within the HM Courts and Tribunals Annual Report and Accounts for 2013-14. Those relevant to the Trust Statement are reported on throughout the remainder of this statement.

## 2. Governance Framework and Management Structure

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Significant aspects of the management structure and framework are detailed below. To ensure continual effectiveness, self-assessment reviews have been carried out during April and May 2014. The results of those reviews were found to be largely positive and good progress has been made against actions identified during 2012-13. Further detail on the results and ongoing progress can be found in the HM Courts & Tribunals Service Annual Report and Accounts for 2013-14 (HC 154).



**HM Courts & Tribunals Service Board** - the Board provides a vital role in shaping and directing the organisation ensuring we are equipped to deliver high quality and cost effective services to court and tribunal users. It provides leadership on the broad direction for the organisation in delivering the aims and objectives agreed by the Lord Chancellor and the Lord Chief Justice. The Board has overall responsibility for Corporate Governance within HM Courts & Tribunals Service.

The Board operates within the parameters of the Framework Document and the agreed Terms of Reference. Both of these documents are published on the organisation's intranet. The Framework Document is also available on the Justice website.

There are two formal sub-Committees to the Board which are involved in the oversight and monitoring of the Trust Statement. They are:

**The Audit and Risk Assurance Committee** – (formerly the Audit Committee). This Committee is an advisory body which supports the Chief Executive in his role as Accounting Officer, and the Board in their responsibilities for risk management, control and governance. The Committee reviews the comprehensiveness of assurances from internal and external audit, executive management and other sources, and reviews the reliability and integrity of those assurances. The Chair of the Committee provides a report highlighting and escalating issues to the Board after each quarterly meeting.

**The Change and Modernisation sub-Committee** - the Committee has overall responsibility for developing and promoting change to deliver the strategic objectives of the organisation on behalf of the Board, supporting the Board in its delivery of the agency strategy, policies and services.

Full details of the membership and attendance records of the Board and its sub-Committees are shown in the schedule in the Appendix.

In addition to the formal governance structure HM Courts and Tribunals Service also has an executive management structure in place to support day-to-day operational business. The following are involved in supporting development of the Trust statement and the enforcement function.

**Trust Statement Management Board** – The Trust Statement Management Board co-ordinates the preparation of the Annual Trust Statement. Membership is drawn from across the HM Courts & Tribunals Service incorporating all areas affected by the Trust Statement including finance, IT, enforcement, governance, audit and performance.

**Enforcement Senior Management Team (SMT)** – meets monthly to review the performance and effectiveness of the Enforcement function.

**HM Courts & Tribunals Service PentiP Project Board** – the remit of this board was to implement the new IT system (PentiP) which is used to record fixed penalty notices issued by the police. The project board has overseen the rollout of PentiP across HM Courts & Tribunals Service Fixed Penalty Offices.

The Home Office retains overall responsibility for the PentiP system. The Project Board operated until October 2013 to the point at which PentiP was incorporated within the business-as-usual Trust Statement process.

### **Corporate Governance in Central Government Departments - Code of Good Practice**

This code applies to MoJ directly. However, HM Courts and Tribunals Service has adopted key principles as best practice. A review this year has confirmed compliance with material requirements relevant to the Trust Statement.

### **Ministerial Directions**

There have been no ministerial directions relevant to the Trust Statement.

## **3. Risk Management**

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Risk Management systems are in place to identify, assess and prioritise risk efficiently and effectively and to ensure risk is managed to an acceptable level.

The risk policy, encompassing Regional, Directorate and Corporate level risks enables risk to be managed at the appropriate level and escalated where necessary.

Risks are reviewed regularly by the senior executive team and the Board, to ensure that management plans are effective. The most significant risks are escalated to the MoJ Corporate Risk Register. Risks to the successful completion of the Trust Statement were identified and reviewed regularly by the Trust Statement Management Board.

As a result, I am content that risks have been managed and mitigated through effective actions.

**PentiP Enforcement System** – We reported last year on the new system being implemented by the Home Office to record fixed penalty notices issued by the police and collected by HM Courts & Tribunals Service. Implementation in Fixed Penalty Offices had been affected by some performance and reliability issues which resulted in processing backlogs at HM Courts & Tribunals Service sites. The issues also led to delays in the reconciliation process. These delays subsequently led to the National Audit Office qualifying the 2012-13 HM Courts and Tribunals Service Trust Statement. During 2013-14 all the backlogs have been addressed and the reconciliations completed. This led to restatement of the 2012-13 comparatives in 2013-14, as well as improved data quality for fixed penalty transactions and balances, leading to a clear opinion for 2013-14. Work has also been undertaken to improve the efficiency of the processes used to ensure the sustainability of the system going forward.

There continues to be a robust control framework in place around these systems to ensure that they are fit for operational purpose in terms of the recording and monitoring of impositions. This control framework has been in place throughout 2013-14.

**The Control Framework** – Key features of the control framework are:

- Segregation of duties and system access rights;
- Monthly and quarterly verification and checking of all system control totals including receipts, payments, outstanding impositions and monies held for third parties;
- Monthly returns to the central finance team, Liberata (the account processing team) and the Crown Prosecution Service (CPS). Standard templates and Finance Guidance Letters (FGL) ensure consistency of format and review and timeliness of preparation;
- Verification of cash balances through completion of daily, monthly and quarterly bank reconciliations at individual accounting centres;
- Changes to defendant records are monitored on a regular basis to ensure that they are fully supported by documentary evidence and approved by an appropriate officer;
- All cases that are presented in court are entered onto the Libra system prior to the case being heard mitigating the risk of cases not being recorded on the Libra system. Following the conclusion of each case the record must undergo a process of being ‘resulted’ in Libra to record the penalty imposed. All un-resulted records are monitored to mitigate the risk of any fines not being recorded on the system;

**Processing motor convictions** The Police have continued to investigate irregularities in recording and communicating decisions for motoring offences in Magistrates’ Courts after a member of staff was found guilty of bribery and misconduct in a public office. Further arrests have been made and the investigation and legal proceedings are continuing. Controls have been tightened and management teams in the affected courts have been reinforced. A review has been completed and a number of recommendations to further improve controls have been implemented, including the commencement of a review of the legal process for making a Statutory Declaration. A similar but unrelated case in another region has resulted in a number of substantial prison sentences for perverting the course of justice.

**Driving licence endorsements (Fixed Penalty)** – We are working jointly with DVLA to improve the quality and effectiveness of the license endorsement process. This is after we were alerted to a risk that a very small number out of more than 1 million motorists whose driving licenses are endorsed by the Court each year might be escaping disqualification under the ‘totting up’ procedure because of weaknesses in systems.

We have jointly with DVLA thoroughly investigated the matter and will be implementing changes to the Police National Computer (PNC). We have also improved training for staff and increased management checks in Fixed Penalty Offices.

**Unenforced accounts** - We reported last year on a population of unenforced accounts where limited enforcement activity had occurred for an unacceptable

length of time. This was addressed by setting up teams of enforcement staff to work through the relevant accounts and cleanse the database. There has been a great deal of progress throughout the last year as evidenced by a reduction in the overall number of accounts outstanding. Based on progress made to date, rectification of this matter is expected to be achieved during 2014-15.

#### **4. Oversight and Assurance**

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As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of my executive managers who have responsibility for the development and maintenance and reporting of the internal control framework, together with observations made by the external auditors in their management letters and other reports.

The Board is updated on the risk profile and effectiveness of the systems of internal control through the receipt of minutes from the Audit Committee, through a review of the HM Courts & Tribunals Service performance reports and through direct feedback from the Chair of the Audit Committee.

Other key process designed to provide assurance include:

##### **Director level Quarterly and Annual Governance Statements**

All Central and Regional Directors submit quarterly statements which include control issues raised by directorate and regional management teams, and escalated and reviewed by Senior Management Teams. These statements include reporting on sources of internal control and this in turn provides assurance of management's compliance with operational policies, procedures and established key controls.

##### **Standard Operating Controls (SOC) Self Assessment Tool**

The SOC is an assurance tool designed to report the level of compliance with mandatory controls set out in Standard Operating Procedures (SOPs) in place at operational level. We have continued during this year to ensure the SOC tool is properly embedded to provide the required level of assurance.

We reported last year on a project to improve the design and implementation of SOPs. We wanted to increase the quality to ensure they supported and met the needs of staff and customers. We established a risk based criteria to identify which activities carry the highest risk in order to reduce the number of SOPs and to provide proportionate assurance based on the key risks to the business. This work has culminated in the establishment of a new process for the production of SOPs together with a more user-friendly design of SOP and supporting Job Cards. The organisation will be gradually transitioning to the newly designed SOPs.

To further enhance the quality and consistency of the assurance available, key controls have been identified for each SOP activity. Assurance will be drawn from the level of compliance with these key controls. Electronic links to these

key controls will be available in the SOC tool to support staff. Work is continuing to develop Key Control Check Sheets for all SOPs within the SOC tool.

### **National Audit Office Value for Money Reviews**

Reports issued and relevant to the Trust statement include:

Confiscation Orders HC 738 17 December 2013 – This report focussed on the leadership and governance of confiscation orders and the efficiency and effectiveness of the process. We recognise the importance of developing a coherent cross government strategy for dealing with confiscation orders and to develop more effective governance arrangements. The cross-government response to the PAC recommendations was issued in Treasury Minute Cm8871 published on 19 June 2014.

### **Fixed Penalty Notices – Inter-agency accountability**

As Accounting Officer for HM Courts & Tribunals Service I am responsible under the Road Traffic Offenders Act 1988 for the collection of Penalty Notices and for their subsequent remittance to the Consolidated Fund.

I maintain effective systems of control in the Fixed Penalty offices which operate as part of my organisation. However, the end-to-end system of controls and reporting for Fixed Penalties stretches outside of HM Courts & Tribunals Service, and into areas for which I have no responsibility. For example roadside penalties are issued and registered by front line police operating within 43 different constabularies.

We have held discussions with those responsible for reviewing controls which operate outside of HM Courts & Tribunals Service but I have made no assessment of their effectiveness in this statement.

### **The Audit and Risk Assurance Committee**

The Audit and Risk Assurance Committee oversees the adequacy and effectiveness of the risk management processes and the system of internal control for the organisation. The Committee regularly reviewed the corporate risk register and the production of the Trust Statement. The Audit and Risk Assurance Committee Chair has free and confidential access to the MoJ Audit and Risk Assurance Committee Chair, the Internal Audit and Assurance Division and the external auditors as required.

### **Internal Audit and Assurance**

One of the key sources of independent assurance within the agency comes from the activities of its Internal Audit service provided by MoJ Internal Audit and Assurance, which meets the Public Sector Internal Audit Standards. The internal audit programme is closely linked to the key risks to the agency and arrangements are in place to ensure that the Accounting Officer is made aware of any significant issues which may indicate that key risks are not being effectively managed.

The Head of Internal Audit provided an overall rating of 'Reasonable Assurance' on the adequacy and effectiveness of the system of governance, risk management and internal control. The majority of audit reports issued were rated amber/green or green, although there was a significant minority of amber/red rated systems audits. There is a control framework in place, management accepted recommendations made and took effective action to improve control.

## **5 Conclusion**

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I am satisfied that we have effective governance, risk management and assurance arrangements in place as set out in this statement. Arrangements are under continuous review as the organisation continues to evolve.

Where significant control issues have been identified within this statement, I am satisfied that they are subject to rigorous review and that appropriate, effective and proportionate mitigating activity is in place to manage those issues.

**Peter Handcock CBE**  
**Chief Executive and Accounting Officer**

**Attendance at HM Courts & Tribunals Service Board and Committees 2013-14**

	HM Courts & Tribunals Service Board		Audit and Risk Assurance Committee		Change and Modernisation Sub Committee	
	No. of meetings attended	No. of eligible meetings	No. of meetings attended	No. of eligible meetings	No. of Meetings attended	No. of eligible meetings
Robert Ayling – Independent Chairman	<b>8</b>	<b>11</b>				
Francis Dobbryn – Non Executive Member	<b>10</b>	<b>11</b>	<b>5</b>	<b>5</b>		
Alison White – Non Executive Member	<b>9</b>	<b>11</b>	<b>5</b>	<b>5</b>	<b>9</b>	<b>11</b>
Lord Justice Gross - Senior Presiding Judge	<b>11</b>	<b>11</b>				
District Judge Michael Walker – Judicial Member	<b>11</b>	<b>11</b>	<b>5</b>	<b>5</b>	<b>10</b>	<b>11</b>
Lord Justice Sullivan – Senior President of Tribunals	<b>10</b>	<b>11</b>				
Peter Handcock – Chief Executive	<b>11</b>	<b>11</b>	<b>4</b>	<b>5</b>		
Steve Gillespie – Director of Finance and Governance	<b>11</b>	<b>11</b>	<b>5</b>	<b>5</b>	<b>10</b>	<b>11</b>
Guy Tompkins – Director of Crime	<b>11</b>	<b>11</b>			<b>11</b>	<b>11</b>
Kevin Sadler – Director Civil, Family and Tribunals	<b>9</b>	<b>11</b>			<b>10</b>	<b>11</b>
Sarah Albon - Director of Strategy and Change					<b>9</b>	<b>11</b>
Dileeni Daniel-Selvaratnam - Deputy Director of Strategy and Change					<b>7</b>	<b>11</b>
Chris Ball - HR Director					<b>8</b>	<b>11</b>
Paul Shipley - IT Director					<b>8</b>	<b>11</b>

	HM Courts & Tribunals Service Board		Audit and Risk Assurance Committee		Change and Modernisation Sub Committee	
	No. of meetings attended	No. of eligible meetings	No. of meetings attended	No. of eligible meetings	No. of Meetings attended	No. of eligible meetings
HHJ Sycamore - Judicial Representative					<b>7</b>	<b>11</b>
Lucy Garrod – Delivery Director, Midlands					<b>9</b>	<b>10</b>
Project Office Management representative					<b>11</b>	<b>11</b>
Judge Nick Warren - Judicial Member			<b>5</b>	<b>5</b>		
Penny Seera – Head of Financial Accounts			<b>5</b>	<b>5</b>		
Gary Spooner – Head of Governance / Assurance			<b>2</b>	<b>3</b>		
Tim Watkinson - Head of MoJ Internal Audit and Assurance			<b>5</b>	<b>5</b>		
National Audit Office			<b>5</b>	<b>5</b>		
Representative - Change Finance					<b>4</b>	<b>7</b>



## The Certificate of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the trust statement of Her Majesty's Courts and Tribunals Service (HMCTS) for the year ended 31 March 2014 under the Government Resources and Accounts Act 2000. The financial statements comprise the Statement of Revenue and Expenditure, the Statement of Financial Position, the Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out within them.

### Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the 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 Government Resources and Accounts Act 2000. 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 of the HMCTS trust statement and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by HMCTS; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the sections entitled "Accounting Officer's Foreword to the Trust Statement", "Introduction to the Trust Statement" and "Business overview" 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 HMCTS Trust Statement gives a true and fair view of the state of affairs of the collection and settlement of fines, penalties, confiscation orders and related expenditures and disbursements administered by HMCTS as at 31 March 2014, and of the net revenue for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

### **Opinion on other matters**

In my opinion:

- the information given in the section entitled “Business overview” 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 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**

My report, which follows, provides further details on my audit opinions.

**Sir Amyas C E Morse KCB**  
**Comptroller and Auditor General**

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

**5 December 2014**

# Report of the Comptroller and Auditor General to the House of Commons on the HM Courts & Tribunals Service Trust Statement for the year ended 31 March 2014

## Introduction

1. HM Courts and Tribunals Service ('HMCTS'), an Executive Agency of the Ministry of Justice, is responsible for the collection of fines and confiscation orders (imposed by the judiciary in magistrates' and Crown courts) and penalties (imposed by the police). On receipt, HMCTS remits monies to other relevant parties including victims of crime, the Home Office, the Ministry of Justice, and for any remaining balance, to the Consolidated Fund<sup>2</sup>. The Trust Statement accounts for these activities.
2. I modified my opinion in 2012-13 on the basis of two specific issues:
  - HMCTS were unable to provide me with sufficient evidence relating to comparative cash flows in 2011-12. My opinion was modified because I did not have assurance that any comparison between 2012-13 and 2011-12 cash flows would be valid.
  - I was not able to give an opinion on the transactions and balances relating to fixed penalties. This was because key reconciliations for the new fixed penalty accounting system, PentiP, not being available; and because the previous system could not provide accruals based records.
3. HMCTS has addressed these issues, leading to significant improvements in the quality of financial reporting. This improvement is reflected in my audit opinion on the 2013-14 financial statements which, for the first time in respect of this account, is unqualified.

## Significant developments since 2012-13

4. I set out below the progress made by HMCTS in 2013-14.

## Cash and cash flows

5. HMCTS were able to provide sufficient evidence in respect of all reported cash flows and balances, including comparatives, for 2013-14. I was able to provide a clear audit opinion in this respect.

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<sup>2</sup> The Consolidated Fund is the central account administered by HM Treasury which receives government revenues and makes issues to fund expenditure by Departments.

### **Fixed penalties**

6. HMCTS' legacy fixed penalty systems were not able to produce accruals-based accounting records, and in 2012-13 the new system had significant process and reconciliation backlogs which arose during the first months of operation.
7. HMCTS cleared the backlogs during 2013-14, and management have been able to use the new system to report accruals based balances. Management have also used the data transferred from previous systems into PentiP to calculate accruals balances in respect of comparative figures. These calculations resulted in a prior period adjustment of £18m, which is described in the 2013-14 financial statements.
8. I was able to perform sufficient audit work over all transactions and balances relating to fixed penalties, including the prior period adjustment, leading to my clear opinion in this respect.

### **Future developments**

9. HMCTS's first Trust Statement was published in respect of the 2010-11 financial year, and I was not able to offer an opinion on its truth and fairness. This was principally because the systems used to process fines, confiscation orders and penalties had very limited reporting functionality, and were not designed to support the preparation of financial statements, or the audit process.
10. Management have made significant improvements to address these issues. The Governance Statement provides more detail on how this has been achieved, particularly in respect of fixed penalties.
11. HMCTS plan to make significant changes to the systems supporting fines and confiscation orders in the next few years, alongside the outsourcing of enforcement and recovery. For these and any other further developments, management will need to ensure that changes made continue to support a robust financial reporting process.

**Sir Amyas C E Morse KCB**  
**Comptroller and Auditor General**

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

**5 December 2014**

## Statement of Revenue and Expenditure for the year ended 31 March 2014

	Notes	2013–14 £000	Restated 2012–13 £000
<b>Impositions Revenue</b>			
<b>Fines and Penalties</b>			
Court Fines		190,728	193,897
Miscellaneous Consolidated Fund Receipts		4,456	4,214
Fixed Penalty Notices		115,870	79,240
Crown Prosecutors' Costs		37,566	39,298
Prosecutors' Costs		66,213	56,960
Compensation		30,720	33,855
Confiscation Orders	4.1	241,046	343,907
Victim Surcharge		30,970	14,331
<b>Total Impositions Revenue</b>		<b>717,569</b>	<b>765,702</b>
<b>Less Expenditure</b>			
Credit Losses	2	156,861	234,574
<b>Total Expenditure</b>		<b>156,861</b>	<b>234,574</b>
<b>Less Disbursements</b>			
Revenue retained under statute by Ministry of Justice towards the cost of collection and administration	3	90,973	93,500
Prosecutors' Costs Revenue for the Crown Prosecution Service		34,890	35,648
Prosecutors' Costs Revenue		53,616	46,875
Compensation Revenue for other parties		30,549	31,870
Confiscation Order Revenue		133,832	164,389
Victim Surcharge Revenue for the Ministry of Justice		22,921	12,563
FPN Revenue retained by Ministry of Justice for Victims' Services		18,980	-
<b>Total Disbursements</b>		<b>385,761</b>	<b>384,845</b>
<b>Total Expenditure and Disbursements</b>		<b>542,622</b>	<b>619,419</b>
<b>Net Revenue for the Consolidated Fund</b>	6	<b>174,947</b>	<b>146,283</b>

## Statement of Financial Position as at 31 March 2014

	Notes	2013–14 £000	Restated 2012–13 £000
<b>Current assets</b>			
Receivables	4	361,837	323,788
Cash at bank – Fines & Other Impositions		67,751	68,039
Cash at bank – Fixed Penalties		13,565	16,360
<b>Total assets</b>		<b>443,153</b>	<b>408,187</b>
<b>Current liabilities</b>			
Payables	5	277,602	269,872
<b>Total liabilities</b>		<b>277,602</b>	<b>269,872</b>
<b>Total net assets</b>		<b>165,551</b>	<b>138,315</b>
Represented by:			
<b>Balance on Consolidated Fund</b>	6	<b>165,551</b>	<b>138,315</b>

**Peter Handcock**  
Accounting Officer  
5 December 2014

The notes on pages 29 to 48 form part of this statement.

## Statement of Cash Flows for the year ended 31 March 2014

	Notes	2013–14 £000	Restated 2012–13 £000
Net cash flow from operating activities	7	144,628	153,421
Cash paid to the Consolidated Fund	6	(147,711)	(143,751)
<b>(Decrease) / increase in cash in the period</b>		<b>(3,083)</b>	<b>9,670</b>

### Analysis of Changes in Net Funds

	2013–14 £000	2012–13 £000
Net Funds at beginning of period – 1 April	84,399	74,729
Net Funds at end of period – 31 March	81,316	84,399
<b>(Decrease) / increase in cash in the period</b>	<b>(3,083)</b>	<b>9,670</b>

### The following balances as at 31 March were held at:

	2013–14 £000	2012–13 £000
Government Banking Service	80,102	83,998
Commercial Banks	1,214	401
<b>Total cash balances</b>	<b>81,316</b>	<b>84,399</b>

The notes on pages 29 to 48 form part of this statement.



## Notes to the Trust Statement

### 1. Statement of accounting policies

The Trust Statement is prepared in accordance with:

- the 2013–14 Financial Reporting Manual (FReM) issued by HM Treasury, in particular Chapter 13 which deals with Trust Statements. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as interpreted for the public sector.
- the 2013–14 accounts direction issued by HM Treasury under section 7(2) of the Government Resources and Accounts Act 2000.

The particular policies adopted in the Trust Statement are described below. The accounting policies have been applied consistently in dealing with items considered material in relation to the accounts. Where policies have been changed during the year, the comparatives have been restated to reflect the effect of the change on prior periods.

#### 1.1 Basis of Preparation

The Trust Statement has been prepared under the historical cost convention modified to account for the valuation of receivables and payables.

The preparation of the accounts in conformity with IFRS requires the use of certain critical accounting estimates (see note 1.8). It also requires management to exercise its judgement in the process of applying the accounting policies.

The income and associated expenditure recognised in these statements reflect those flows of funds which HM Courts & Tribunals Service receives and surrenders, in its capacity as agent, on behalf of the Consolidated Fund and other entities.

#### 1.2 Revenue Recognition

Fines and penalties are measured in accordance with Financial Reporting Manual (FReM), chapter 13. They are measured at the fair value of amounts received or receivable, net of judicial remissions. Revenue is recognised when a fine or penalty is validly imposed and an obligation to pay arises. Where a penalty is cancelled subsequent to appeal, other legal reasons or settlement by other valid means (including imprisonment or undertaking a training course), revenue is derecognised and the derecognition of revenue is recorded as a reduction against revenue.

### 1.3 Expenditure

Credit losses (imposition write-offs and the change in the value of impairment for the year) are accounted for on an accruals basis. Debts written off as uncollectible and any change in value of impairment are shown as expenditure. Underlying legislation precludes the write-off of Confiscation Order debt and adjustments to reflect recoverability are included in the impairment.

### 1.4 Disbursements

Disbursements are shown net of impairments and write-offs in accordance with the requirements of the FReM and IAS 39. An accrual for disbursements is made based on the value of impositions payable to parties other than the Consolidated Fund.

The MoJ is permitted to retain an element of fines and fixed penalties collected as income. This is shown as revenue retained under statute by the MoJ and is accounted for in the Statement of Revenue and Expenditure as a disbursement to MoJ. This treatment is required by the FReM where legislation permits retention of part of the revenue collected by the entity. The amounts retained comprise netting-off and fine incentive scheme income. There are two netting-off schemes; the Warrant Enforcement Scheme which permits the retention of an amount equal to the pre-courts act 2003 cost of enforcing and collecting fines; the Courts Act national roll-out scheme, permitting MoJ to retain an amount equal to the employment costs of the court officers appointed in compliance with the Courts Act 2003. There is only one Fine Incentive Scheme. The scheme permits MoJ to retain 75% of fine receipts in excess of the value of receipts equating to a 75% payment rate.

The associated revenue from which the amount retained under statute is derived is recorded within Court Fines imposition revenue at the gross amount of the imposition.

Through Statutory Instruments which came into effect in July and August of 2013, the fixed penalties for motoring offences and public disorder offences were increased in order to ensure that the rates were consistent with other similar penalty offences. Under a Memorandum of Understanding with the Ministry of Justice and with the agreement of HM Treasury, £30 million per annum of additional revenue raised from fixed penalties issued for motoring offences is retained by the MoJ's Justice Reform Unit in order to fund services provided to the victims of crime. In respect of Penalty Notices for Disorder (PND), an amount of £10 per penalty notice issued and paid is retained by the Justice Reform Unit of MoJ in order to fund services provided to the victims of crime.

The associated revenue from which the amount retained is derived is recorded within Fixed Penalty Notice imposition revenue at the gross amount of the imposition. The total amount retained in respect of motoring offences and PNDs is shown under disbursements in the Statement of Revenue and Expenditure as FPN Revenue retained by Ministry of Justice for Victims' Services.

### **1.5 Net revenue for the Consolidated Fund**

Net Revenue for the Consolidated Fund is the value of impositions for the year from Court Fines and Fixed Penalty Notices, net of impairment, write-offs, revenue retained under statute by the MoJ and fixed penalty revenue retained by the MoJ for funding Victims' Services.

### **1.6 Receivables**

Receivables are shown net of impairments in accordance with the requirements of the FReM and IAS 39. Each class of debt has been assessed separately using performance reports to provide data concerning recoverability and the length of time it takes for debt to be repaid.

The fair value of receivables is determined by making an impairment to reduce the carrying value of receivables to the net present value of the estimated future flow of repayments discounted at HM Treasury's interest rate, currently 2.2% (2012–13: 2.2%).

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on any market. Receivables are derecognised when the rights to receive cash flows from the assets have expired.

### **1.7 Payables**

Payables are accounted for on an accruals basis. Because HM Courts & Tribunals Service is acting as agent in the collection of all financial penalties imposed, the total value of payables, excluding the amount on which cash has been received at year end, is derived from the fair value of receivables net of impairment at the balance sheet date.

### **1.8 Critical accounting judgments and estimates**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

When preparing the Trust Statement, HM Courts & Tribunals Service makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

#### **Impairment of debt and credit losses**

Receivables are shown net of impairments in accordance with the requirements of the FReM and IAS 39. The fair value of receivables is determined by making an impairment to reduce the carrying value of receivables to the net present value of the estimated future flow of repayments discounted at HM Treasury's interest rate. The fair value of receivables is dependent on ongoing collection rates as well as the discount rate used in the

valuation. The current year's impairment has been calculated based on a review of specific high value receivables combined with a collective assessment for all other debt. The collective impairment assessment is based on an analysis of past collection history projected forward to provide a payment stream which is then discounted back at the Treasury rate of 2.2% (2013: 2.2%) to calculate the net present value.

### **1.9 Prior period adjustments**

The 2012-13 Trust Statement audit opinion was qualified owing partly to the lack of available evidence to support fixed penalties transactions and balances as key reconciliations remained incomplete as a result of problems experienced during the implementation of new systems. Completion of work on key reconciliations has resulted in a revision of balances and transactions previously recorded and these revisions are reflected in the restatement of the 2012-13 Statements of Revenue and Expenditure and Financial Position. The effect of the restatement is presented in note 8 to the accounts.

## 2. Credit Losses

	Notes	2013–14 £000	2012–13 £000
Debts written off	2.1	93,203	72,155
Increase for year in impairment of receivables	4	63,658	162,419
<b>Total</b>		<b>156,861</b>	<b>234,574</b>

### 2.1 Debts written off

	2013–14 £000	2012–13 £000
Court Fines	68,214	53,663
Crown Prosecutors' costs	5,761	4,153
Prosecutors' Costs	14,880	11,285
Compensation	1,952	1,448
Victim Surcharge	2,396	1,606
<b>Total</b>	<b>93,203</b>	<b>72,155</b>

Debts written off are the amounts reportable to Parliament under rules on disclosure of losses and write-offs in *Managing Public Money Annex A.4.10.24*. under the category of 'Claims waived or abandoned'. Included in debts written off in 2013-14 were four individual write-offs individually greater than £300,000 totalling £2,340,407. Of the four debts written off, three relate to company wind-ups and liquidations amounting to £2,022,506 and one item amounting to £317,901 relates to an untraceable debtor. There were no individual items written off amounting to more than £300,000 in 2012-13. There are no other losses or special payments reportable.

### 3. Expenditure

#### Revenue retained under statute by Ministry of Justice towards the cost of collection and administration

	2013–14	2012–13
	£000	£000
Warrant enforcement revenue	66,600	66,600
Fine incentive revenue	17,473	20,000
Courts Act revenue	6,900	6,900
<b>Total</b>	<b>90,973</b>	<b>93,500</b>

MoJ is entitled under statute to retain elements of fines collected as revenue. These costs of collection and administration are charged as expenditure in the Trust Statement.

#### 4. Receivables

2013–14	Fines £000	Fixed Penalty Notices £000	Crown Prosecutors' Costs £000	Prosecutors' Costs £000	Compensation £000	Confiscation Orders £000	Victim Surcharge £000	Total £000
<b>Impositions outstanding</b>								
<b>At 1 April 2013 as previously reported</b>	<b>370,591</b>	<b>21,957</b>	<b>55,517</b>	<b>72,772</b>	<b>67,564</b>	<b>1,406,638</b>	<b>12,084</b>	<b>2,007,123</b>
Restatement <sup>3</sup>	-	3,293	-	-	-	(18,109)	-	(14,816)
<b>At 1 April 2013 restated</b>	<b>370,591</b>	<b>25,250</b>	<b>55,517</b>	<b>72,772</b>	<b>67,564</b>	<b>1,388,529</b>	<b>12,084</b>	<b>1,992,307</b>
New impositions	190,728	115,870	37,566	66,213	30,720	241,046	30,970	713,113
Collections	(157,728)	(89,595)	(34,175)	(50,391)	(28,414)	(138,352)	(19,548)	(518,203)
Write-offs	(68,214)	-	(5,761)	(14,880)	(1,952)	-	(2,396)	(93,203)
<b>At 31 March 2014</b>	<b>335,377</b>	<b>51,525</b>	<b>53,147</b>	<b>73,714</b>	<b>67,918</b>	<b>1,491,223</b>	<b>21,110</b>	<b>2,094,014</b>
<b>Impairment</b>								
<b>At 1 April 2013</b>	<b>292,453</b>	<b>348</b>	<b>43,707</b>	<b>57,905</b>	<b>55,999</b>	<b>1,229,324</b>	<b>6,892</b>	<b>1,686,628</b>
Restatement	-	-	-	-	-	(18,109)	-	(18,109)
<b>At 1 April 2013 restated</b>	<b>292,453</b>	<b>348</b>	<b>43,707</b>	<b>57,905</b>	<b>55,999</b>	<b>1,211,215</b>	<b>6,892</b>	<b>1,668,519</b>
Increase/(decrease) for the year	(41,711)	(348)	(3,085)	(2,283)	(1,781)	107,213	5,653	63,658

<sup>3</sup> Fixed Penalty Notice debtors at 31 March 2013 have been restated following extraction of improved information on debtors outstanding at the previous year-end and reclassification of credit suspense balances to payables. This resulted in a net adjustment of £3,293,000. In addition, £18,109,000 of accrued interest on a confiscation order was written off in the year following a variation in the order value. As the order was varied in previous periods, the write-off has accordingly been treated as a prior period adjustment. The adjustment to gross debt is offset by a corresponding decrease in the impairment balance.

2013–14	Fines £000	Fixed Penalty Notices £000	Crown Prosecutors' Costs £000	Prosecutors' Costs £000	Compensation £000	Confiscation Orders £000	Victim Surcharge £000	Total £000
<b>At 31 March 2014</b>	<b>250,742</b>	<b>-</b>	<b>40,622</b>	<b>55,622</b>	<b>54,218</b>	<b>1,318,428</b>	<b>12,545</b>	<b>1,732,177</b>
<b>Receivables Net Book Value at 31 March 2014</b>	<b>84,635</b>	<b>51,525</b>	<b>12,525</b>	<b>18,092</b>	<b>13,700</b>	<b>172,795</b>	<b>8,565</b>	<b>361,837</b>
<b>Receivables Net Book Value at 31 March 2013 (Restated)</b>	<b>78,138</b>	<b>24,902</b>	<b>11,810</b>	<b>14,867</b>	<b>11,565</b>	<b>177,314</b>	<b>5,192</b>	<b>323,788</b>

#### 4.1 Confiscation Order Revenue

Confiscation order revenue comprises:

	2013–14 £000	Restated 2012–13 £000
Imposed	233,620	320,541
Interest	71,223	65,511
Judicial cancellations	(63,797)	(42,145)
<b>Total</b>	<b>241,046</b>	<b>343,907</b>

In accordance with the FReM, confiscation order revenue is measured at the fair value of amounts received or receivable net of judicial cancellations.



## 4.2 Confiscation Order debt – value banding by lead agency

	HMCTS	SFO	CPS	2013–14 Total	HMCTS	SFO	CPS	Restated 2012–13 Total
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Gross debt</b>								
Up to £250,000	196,631	1,616	95,132	<b>293,379</b>	164,542	1,446	111,078	<b>277,066</b>
£250,001 – £500,000	76,434	3,731	53,057	<b>133,222</b>	64,924	3,198	58,315	<b>126,437</b>
£500,001 – £1,000,000	107,385	5,301	65,097	<b>177,783</b>	77,812	3,338	75,856	<b>157,006</b>
Over £1,000,000	337,371	128,082	421,386	<b>886,839</b>	258,437	117,923	451,660	<b>828,020</b>
<b>Total gross debt</b>	<b>717,821</b>	<b>138,730</b>	<b>634,672</b>	<b>1,491,223</b>	<b>565,715</b>	<b>125,905</b>	<b>696,909</b>	<b>1,388,529</b>
<b>Impairment</b>								
Up to £250,000	173,533	1,317	71,214	<b>246,064</b>	136,850	1,296	92,672	<b>230,818</b>
£250,001 – £500,000	66,416	3,386	42,115	<b>111,917</b>	53,932	2,939	47,897	<b>104,768</b>
£500,001 – £1,000,000	98,229	4,476	52,810	<b>155,515</b>	70,280	3,196	64,030	<b>137,506</b>
Over £1,000,000	306,856	117,401	380,675	<b>804,932</b>	232,580	114,736	390,807	<b>738,123</b>
<b>Total impairment</b>	<b>645,034</b>	<b>126,580</b>	<b>546,814</b>	<b>1,318,428</b>	<b>493,642</b>	<b>122,167</b>	<b>595,406</b>	<b>1,211,215</b>
<b>Net book value</b>								
Up to £250,000	23,098	299	23,918	<b>47,315</b>	27,692	150	18,406	<b>46,248</b>
£250,001 – £500,000	10,018	345	10,942	<b>21,305</b>	10,992	259	10,418	<b>21,669</b>
£500,001 – £1,000,000	9,156	825	12,287	<b>22,268</b>	7,532	142	11,826	<b>19,500</b>
Over £1,000,000	30,515	10,681	40,711	<b>81,907</b>	25,857	3,187	60,853	<b>89,897</b>
<b>Total net book value</b>	<b>72,787</b>	<b>12,150</b>	<b>87,858</b>	<b>172,795</b>	<b>72,073</b>	<b>3,738</b>	<b>101,503</b>	<b>177,314</b>

The total debt is made up of 9,553 cases, of which: 8,915 (93%) fall within the up to £250,000 debt category; 289 (3%) are between £250,001 – £500,000; 175 (2%) are between £500,001 – £1,000,000, and; 174 (2%) are over £1,000,000.

### 4.3 Confiscation Order debt – aged debt profile by lead agency

	2013–14				Restated 2012–13			
	HMCTS	SFO	CPS	Total	HMCTS	SFO	CPS	Total
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Gross debt</b>								
0 – 1 year	61,153	1,613	94,297	<b>157,063</b>	112,768	32,093	97,491	<b>242,352</b>
1 – 2 years	59,249	41,142	101,536	<b>201,927</b>	42,346	198	50,252	<b>92,796</b>
2 – 5 years	179,908	29,718	164,354	<b>373,980</b>	169,046	29,380	248,146	<b>446,572</b>
Over 5 years	417,511	66,257	274,485	<b>758,253</b>	241,555	64,234	301,020	<b>606,809</b>
<b>Total gross debt</b>	<b>717,821</b>	<b>138,730</b>	<b>634,672</b>	<b>1,491,223</b>	<b>565,715</b>	<b>125,905</b>	<b>696,909</b>	<b>1,388,529</b>
<b>Impairment</b>								
0 – 1 year	32,141	812	51,453	<b>84,406</b>	65,694	31,568	59,352	<b>156,614</b>
1 – 2 years	44,074	37,777	86,324	<b>168,175</b>	32,795	153	38,518	<b>71,466</b>
2 – 5 years	156,120	24,611	140,699	<b>321,430</b>	155,107	29,189	204,046	<b>388,342</b>
Over 5 years	412,699	63,380	268,338	<b>744,417</b>	240,046	61,257	293,490	<b>594,793</b>
<b>Total impairment</b>	<b>645,034</b>	<b>126,580</b>	<b>546,814</b>	<b>1,318,428</b>	<b>493,642</b>	<b>122,167</b>	<b>595,406</b>	<b>1,211,215</b>
<b>Net book value</b>								
0 – 1 year	29,012	801	42,844	<b>72,657</b>	47,074	525	38,139	<b>85,738</b>
1 – 2 years	15,175	3,365	15,212	<b>33,752</b>	9,551	45	11,734	<b>21,330</b>
2 – 5 years	23,788	5,107	23,655	<b>52,550</b>	13,939	191	44,100	<b>58,230</b>
Over 5 years	4,812	2,877	6,147	<b>13,836</b>	1,509	2,977	7,530	<b>12,016</b>
<b>Total net book value</b>	<b>72,787</b>	<b>12,150</b>	<b>87,858</b>	<b>172,795</b>	<b>72,073</b>	<b>3,738</b>	<b>101,503</b>	<b>177,314</b>

The total debt is made up of 9,553 cases, of which: 2,795 (29%) fall within the 0 – 1 year debt category; 1,494 (16%) are between 1 – 2 years old; 2,453 (26%) are between 2 – 5 years old, and; 2,811 (29%) are over 5 years old.

## 5. Payables

2013–14	2013–14		Total £000
	On which cash received £000	On which cash receivable £000	
Home Office	30,526	172,795	203,321
Crown Prosecution Service	168	12,525	12,693
Prosecutors' costs, compensation	6,000	31,792	37,792
Victim surcharge	2,025	8,565	10,590
Other	13,206	-	13,206
<b>Total</b>	<b>51,925</b>	<b>225,677</b>	<b>277,602</b>

2012–13	Restated		Restated 2012–13 Total £000
	On which cash received £000	On which cash receivable £000	
Home Office	28,054	177,313	205,367
Crown Prosecution Service	169	11,810	11,979
Prosecutors' costs, compensation	6,717	26,431	33,148
Victim surcharge	2,067	5,193	7,260
Other	12,118	-	12,118
<b>Total</b>	<b>49,125</b>	<b>220,747</b>	<b>269,872</b>

## 6. Balance on the Consolidated Fund Account

	2013–14 £000	Restated 2012–13 £000
Balance on the Consolidated Fund at 1 April – as previously reported	135,498	117,703
Restatement (note 8)	2,817	18,080
Balance on the Consolidated Fund at 1 April – restated	<b>138,315</b>	<b>135,783</b>
Net Revenue for the Consolidated Fund	174,947	146,283
Less: Amount paid to the Consolidated Fund	(147,711)	(143,751)
Balance on the Consolidated Fund at 31 March	<b>165,551</b>	<b>138,315</b>

The balance on the Consolidated Fund comprises:

2013–14	On which cash received £000	On which cash receivable £000	2013–14 Total £000
Balance on Consolidated Fund Account as at 1 April - restated	35,274	103,041	138,315
Balance on Consolidated Fund Account as at 31 March	29,391	136,160	165,551

2012–13	On which cash received £000	Restated On which cash receivable £000	Restated 2012–13 Total £000
Balance on Consolidated Fund Account as at 1 April	32,246	103,537	135,783
Balance on Consolidated Fund Account as at 31 March	35,274	103,041	138,315

## 7. Notes to the Statement of Cash Flows

	Notes	2013–14 £000	Restated 2012–13 £000
Net cash flow from operating activities is derived as follows:			
Net revenue for the Consolidated Fund	6	174,947	146,283
Adjustment for non-cash items:			
Impairment write-off	2	63,658	162,419
		<b>238,605</b>	<b>308,702</b>
(Increase) / decrease in gross receivables		(101,706)	(194,354)
Increase / (decrease) in payables		7,729	39,073
<b>Net cash flow from operating activities</b>		<b>144,628</b>	<b>153,421</b>

## **8. Changes in Accounting Policy and Prior Period Errors**

Following a qualification of the audit opinion in the 2012–13 Trust Statement based partly on the lack of available evidence to support fixed penalties transactions and balances, work on key reconciliations was completed. This has resulted in a revision of balances and transactions previously recorded and these revisions are reflected in the restatement of the 2012-13 Statements of Revenue and Expenditure and Financial Position.

Outlined below are the details of the prior period adjustments for each financial statement line affected and a reconciliation of the items comprising the net adjustment to the Statement of Revenue and Expenditure and the Statement of Financial Position.

### 8.1 Restatements affecting the Statement of Revenue and Expenditure for the year ended 31 March 2013.

Statement of Revenue and Expenditure	31 March 2013		31 March 2013
	As previously reported £000	Adjustment £000	Restated £000
<b>Impositions Revenue</b>			
Court Fines	193,897	-	193,897
Miscellaneous Consolidated Fund Receipts	4,214	-	4,214
Fixed Penalty Notices	94,503	(15,263)	79,240
Crown Prosecutors' Costs	39,298	-	39,298
Prosecutors' Costs	56,960	-	56,960
Compensation	33,855	-	33,855
Confiscation Orders	343,907	-	343,907
Victim Surcharge	14,331	-	14,331
<b>Total impositions revenue</b>	<b>780,965</b>	<b>(15,263)</b>	<b>765,702</b>
<b>Less: Expenditure</b>			
<b>Total credit losses</b>	<b>234,574</b>	-	<b>234,574</b>
<b>Disbursements</b>	<b>384,845</b>	-	<b>384,845</b>
<b>Total Expenditure and Disbursements</b>	<b>619,419</b>	-	<b>619,419</b>
<b>Net Revenue for the Consolidated Fund</b>	<b>161,546</b>	<b>(15,263)</b>	<b>146,283</b>

The net decrease of £15,263,000 in the net revenue for the Consolidated Fund as previously reported is made up as follows:

	Adjustment £000
Increase in Fixed Penalty Notice impositions as a result of quantifying previously unrecorded Fixed Penalty Notice debtors at 31 March 2013.	2,817
Reduction of Fixed Penalty Notice revenue imposed in the period ended 31 March 2012 but erroneously recorded in the year ended 31 March 2013.	(18,080)
<b>Net adjustment to Net Revenue for the Consolidated Fund</b>	<b>(15,263)</b>

## 8.2 Restatements affecting the Statement of Financial Position at 31 March 2013.

Statement of Financial Position	31 March 2013		31 March 2013
	As previously reported £000	Adjustment £000	Restated £000
<b>Current Assets</b>			
Gross receivables	2,007,123	(14,816)	1,992,307
Impairment	(1,686,628)	18,109	(1,668,519)
<b>Net receivables</b>	<b>320,495</b>	<b>3,293</b>	<b>323,788</b>
Cash at bank	84,399	-	84,399
<b>Total assets</b>	<b>404,894</b>	<b>3,293</b>	<b>408,187</b>
<b>Current liabilities</b>			
Payables on which cash received	48,649	476	49,125
Payables on which cash receivable	220,747	-	220,747
<b>Total payables</b>	<b>269,396</b>	<b>476</b>	<b>269,872</b>
<b>Net assets</b>	<b>135,498</b>	<b>2,817</b>	<b>138,315</b>
Represented by:			
<b>Balance on consolidated Fund</b>	<b>135,498</b>	<b>2,817</b>	<b>138,315</b>
Balance on which cash received	35,750	(476)	35,274
Balance on which cash receivable	99,748	3,293	103,041



The net increase of £2,817,000 in net assets and the Consolidated Fund balance as previously reported is made up as follows:

	Adjustment to Consolidated Fund £000	Adjustment to other assets and liabilities £000	Total adjustment £000
Increase in Fixed Penalty Notice impositions as a result of quantifying previously unrecorded Fixed Penalty Notice debtors at 31 March 2013.	(2,817)	2,817	-
Reclassification of Fixed Penalty Suspense creditor balance from debtors to payables on which cash received - increase in debtor balance and corresponding increase in CF payable on which cash receivable.	(476)	476	-
Reclassification of Fixed Penalty Suspense creditor balance from debtors to payables on which cash received - increase in creditor balance and corresponding decrease in CF creditor on which cash received.	476	(476)	-
Reduction of Fixed Penalty Notice revenue imposed in the period ended 31 March 2012 but erroneously recorded in the year ended 31 March 2013.	(18,080)	-	(18,080)
Increase in Consolidated Fund brought forward at 31/3/12 as a result of adjustment for revenue imposed during 2011-12 but recorded in 2012-13.	18,080	-	18,080
Write-off of accrued interest element of gross debt in respect of a confiscation order variation in the previous period.		(18,109)	(18,109)
Write-back of related impairment of gross debt in respect of a confiscation order variation in the previous period.		18,109	18,109
<b>Net increase in net assets and balance on Consolidated Fund</b>	<b>(2,817)</b>	<b>2,817</b>	<b>-</b>

### 8.3 Restatements affecting Statement of Financial Position at 31 March 2012.

The net increase of £18,080,000 in the opening Consolidated Fund Balance as previously reported is due to an adjustment to the closing Fixed Penalty Notice debtors at 31 March 2012 with a consequent increase in Net Revenue for the Consolidated Fund for the year ended 31 March 2012. The adjustment arose as a result of improved information following completion of the reconciliation process.

The effect of this adjustment on the 31 March 2012 Statement of Financial Position is summarised below:

	31 March 2012 As previously reported £000	Adjustment £000	31 March 2012 Restated £000
<b>Current Assets</b>			
Net receivables	273,773	18,080	291,853
Cash at bank	74,729		74,729
<b>Total assets</b>	<b>348,502</b>	<b>18,080</b>	<b>366,582</b>
<b>Current liabilities</b>			
Payables on which cash received	42,483	-	42,483
Payables on which cash receivable	188,316	-	188,316
<b>Total payables</b>	<b>230,799</b>	<b>-</b>	<b>230,799</b>
<b>Net assets</b>	<b>117,703</b>	<b>18,080</b>	<b>135,783</b>
Represented by:			
<b>Balance on consolidated Fund</b>	<b>117,703</b>	<b>18,080</b>	<b>135,783</b>
Balance on which cash received	32,246	-	32,246
Balance on which cash receivable	85,457	18,080	103,537

There is a knock-on effect of this adjustment on the 31 March 2013 Statement of Revenue and Expenditure and Consolidated Fund balance brought forward at 1 April 2013 because this revenue was incorrectly recorded in the period ended 31 March 2013. The consequential reduction in Fixed Penalty impositions reported for the year ended 31 March 2013 is reflected in the restated Statement of Revenue and Expenditure for the year ended 31 March 2013 in note 8.1 above and the increase in the Consolidated Fund balance brought forward at 1 April 2013 is reflected in note 8.2 above.

## 9. Financial Instruments

HM Courts & Tribunals Service on behalf of the Consolidated Fund and other parties is party to financial instrument arrangements as part of its normal operations. These financial instruments include bank accounts, receivables and payables.

IFRS 7, 'Financial Instruments: Disclosures', requires disclosure of the role that financial instruments have had during the year in creating or changing risks an entity faces in the course of its operations. As HM Courts & Tribunals Service is acting as agent on behalf of the Consolidated Fund and other parties in collecting and surrendering financial penalties imposed by the judiciary and the police, it cannot incur losses through the Trust Statement since its obligation to surrender financial penalties is limited to the amount it is able to collect in revenue. HM Courts & Tribunals Service, on behalf of the Consolidated Fund and other parties, has no requirement to borrow or invest surplus funds. As such, HM Courts & Tribunals Service, in its capacity as agent, is not exposed to the degrees of financial or market risk facing a business entity acting as principal.

### a) Carrying amount and fair values

The fair value of cash balances approximate their carrying amount largely owing to the short term maturity of this financial instrument which is less than three months.

The fair value of receivables is determined by making an impairment to reduce the carrying value of receivables to the net present value of the estimated future flow of repayments discounted at HM Treasury's interest rate, currently 2.2% (2012–13: 2.2%).

The fair value of payables on which cash is receivable at the balance sheet date is derived from the fair value of the related receivables balance.

### b) Liquidity risk

Liquidity risk is the risk that HM Courts & Tribunals Service, on behalf of the Consolidated Fund and other parties, will encounter difficulty raising liquid funds to meet commitments as they fall due. HM Courts & Tribunals Service is obliged to surrender only those funds that it has collected and banked. As such, HM Courts & Tribunals Service, in its capacity as agent, does not have significant liquidity risk.

### c) Credit risk

Credit risk is the risk that a third party will default on its obligation to HM Courts & Tribunals Service on behalf of the Consolidated Fund and other parties, thereby causing the Consolidated Fund and other parties, for whom HM Courts & Tribunals Service acts as agent, to incur a loss.

Credit risk arises from deposits with banks and receivables. The maximum exposure to credit risk at the balance sheet date is:

	<b>2013–14</b>	<b>2012–13</b>
	<b>£000</b>	<b>Restated</b>
		<b>£000</b>
Cash at bank	81,316	84,399
Receivables	361,837	323,788
	<b>443,153</b>	<b>408,187</b>

Cash at bank comprises liquid bank balances held with commercial banks, including those administered through the GBS.

The size of the risk inherent within the trade receivables balance (shown net of impairment above) is reflected in the receivables impairment which totals £1,732,177,000 (2012–13: £1,668,519,000). HM Courts & Tribunals Service, through the Governance and Risk management structures outlined in the Governance Statement, continues to assess and implement programmes to increase collection of receivables.

**d) Currency risk and interest rate risk**

There is no exposure to currency risk as all financial penalties are imposed, collected and payable in sterling. Whilst interest is charged on unpaid Confiscation Orders, the interest charged on the outstanding receivable balance is only payable to the Home Office when received from the debtor.



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