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

Funds in Court in England and Wales Account 2009-2010

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Contents

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

Accountant General's Accounts

The Accountant General's Accounts cover the year ended 28 February 2010. They have been prepared in accordance with the direction given by the Treasury in pursuance of Section 45(2) of the Administration of Justice Act 1982 (the Act). The Accounts record dealings in cash and securities held in court. Deposits under the various enactments referred to in Section 40 of the Act are not segregated in the Accounts. Other accounts prepared by the Commissioners for the Reduction of National Debt (CRND) – Part B – Court Funds Investment Account (CFIA) and the Investment Manager's Accounts – Part C – The Equity Index Tracker Fund (EITF), supplement the Funds in Court Part A – Accountant General's Accounts. In order to provide a full understanding of the relationship between the Parts A, B and C, the Part A Accounts consolidate the relevant elements.

The Court Funds Office

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

- Suitors involved in a civil legal action where money is paid into the CFO. These are cases either in a County Court in England or Wales or in the High Court of Justice. The CFO will hold such monies until authorised to release them on completion of the case. The CFO holds these monies in its Basic Account.
- Patients, under the Court of Protection, who are not able to manage their property and affairs and as a result use the services of the Office of the Public Guardian (OPG). The investment strategy for patients' funds is determined by the respective court either on a capital appreciation or income basis or a mixture of both and reviewed annually. The investment strategy, determined by the court, is implemented by a Deputy appointed to act on behalf of the Patient, either in stocks and certain unit and investment trusts, or placed with the CFO on its Special Account.
- Children for whose benefit funds are paid into Court. These funds are held until the Clients attain majority on their 18th birthday, unless the court order instructs otherwise. The investment strategy for children's funds is determined by the respective court either on a capital appreciation or income basis or a mixture of both. The investment strategy is implemented by the Investment Division on behalf of the Public Trustee, either in Equity Index Tracker Fund (EITF), or placed with the CFO on its Special Account.

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

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

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

The CFO is controlled by the Civil Procedure Rules of the Senior Courts and the Court Funds Rules which provide the authority to accept payments 'into court' under certain circumstances and to hold these funds until instructed to make a payment out.

Management Board

The CFO Management Board was chaired by Nick Crew (for the period of these accounts), Deputy Accountant General, who reported directly to the Accountant General, Karen Wheeler (for the period of these accounts) and comprises all the senior operational managers of the CFO. The purpose of the Board is to advise the Deputy Accountant General so as to assist him in his decision-making and monitoring in respect of

- The leadership, strategy and direction of the CFO;
- People resources;
- Managing change;
- Performance against budgets, plans and KPIs;
- Compliance with principles of good Corporate Governance;
- Risk Register management;
- Interaction with Internal and External Stakeholders; and
- Investment Management.

The Deputy Accountant General reports directly to the Accountant General of the Senior Courts on matters discussed at the board and all accounting information produced both internally and externally.

The composition of the Management Board members changed in the year with two new members added, Ben Luscombe joined in April 2009 and Julie Williams in March 2009. The other members included Ed Croft, Zoe Greenwood, Elizabeth Jeary, Tricia MacDermot, Bryan McGhee, Sue Morris, Valerie Nwoko, John Ogden and Colin Scott. Mr Alan Clifton and Dr Ros Altmann who were appointed as non-executive members of the Court Funds Office Management Board on 8 August 2008 are non-executives members of the management board for the period ending February 2010.

Court Funds Office Investment Strategy

Under section 38(2) of the Act, the Accountant General maintains a bank account. During the year the banking arrangements have been maintained with National Westminster Bank a subsidiary of Royal Bank of Scotland plc. From time to time money on that account in excess of an average working balance at an agreed level is remitted to the CRND for investment, drawings being made when additional money is required to meet payments 'out of court'. The Accountant General meets the cost of servicing these accounts.

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

During the year 1 March 2009 to 28 February 2010, the gross percentage rates were as follows

1 March 2009 until 31 May 2009: Basic Account 2 per cent and Special Account 3 per cent.

1 June 2009 until 30 June 2009: Basic Account 1 per cent and Special Account 1.5 per cent.

From 1 July 2009: Basic Account 0.3 per cent and Special Account 0.5 per cent.

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

Management Commentary for the year ended 28 February 2010

The Accounts and Notes on pages 16 to 29 record a deficit for the year ending 28 February 2010 of £36.3 million (2009 deficit of £34.0 million). The main factors resulting in this movement are as follows

- Reduction in Interest due to Clients of 82.24 per cent to £47.8 million (2009 £269.2 million) with the main driver being the significant reduction in interest rates payable reflecting the reduction in Bank of England Base Rate to 0.5 per cent in the early part of 2009. A smaller impact was due to a continuing decline in balances held by 11.6 per cent during the year to £4.1 billion (2009 £4.7 billion) with Special Account experiencing a reduction of 17.5 per cent but this was partially offset by an increase in Basic Account balances of 13.3 per cent.
- Interest received reduced to £27.7 million (2009 £221.6 million), prior to payment of surplus income of £0.7 million (2009 £4.7 million) to the CF, see note 4. This deterioration reflects the decline in UK interest rates during the year, given that the majority of the CFIA investments are Deposits and Advances with relatively short maturity periods the impact of declining interest rates is quickly reflected in the returns available on the CFIA.
- The net impact of the above factors was an improvement in Net Interest Income of £31.5 million reducing the deficit to £20.8 million (2009 £52.3 million deficit).
- Movements in Dividends and Gains/losses on Securities are all matched by changes in the Income due to Clients on Security Holdings as the risks and rewards are fully borne by the Clients. There was a significant improvement in the market value of Clients' Security Holdings during the year reflecting some recovery in Equity Market values following the negative impacts recorded in 2009 resulting from the Global Credit Crunch. This resulted in mark to market gains of £61.4 million (2009 £67.1 million losses), see income statement.
- Management expenses have returned to more normal levels in 2010 at £15.6 million (2009 £6.0 million) which largely reflects the impact of release of provisions relating to corrections to Children's Accounts reported in the previous year.

The Statement of Financial Position reports a further decrease in assets during the year of £506.7 million (9.6 per cent) to £4.8 billion. The major change in the asset mix during the year reflects the divestment from Gilts in the CFIA towards the end of the financial year, with a corresponding increase in Deposits & Advances. There has also been a significant decrease in Foreign Currency Bank Accounts (see note 7) of £35.4 million to £51.3 million (2009 £86.7 million), reflecting both deterioration in sterling exchange rates and reduction in balances held. The reduction in Other Assets reflects the release of the remaining provisions relating to corrections to Children's Accounts.

The main liabilities are the Clients' cash balances, which, during the year have decreased by £540 million to £4.1 billion due to lodgements of £923 million (2009 £963 million), with cash payments and transactions out of court of £1.5 billion (2009 £1.3 billion). This net outflow of cash together with interest credited of £101 million (2009 £280 million) explains the decrease in cash balances and a full analysis of cash movements is shown in Note 13.

The Accounts (see note 9) report a £60 million increase in the market value of securities held, with a closing balance of £230 million at 28 February 2010 (2009 - £170 million). The increase on market value of 35 per cent is driven equally by a 18 per cent increase in the overall volume of holdings to 67m at year-end, and recovery in market values from the lows experienced in 2009 at the height of the Global Credit Crisis. The units in the Equity Index Tracker Fund recorded a small increase during the year by 48,000 units to 10.57 million units with a market value of £104 million (2009: 10.52 million units with a market value of £74 million). Further details of the Equity Index Tracker Fund are provided in the Part C Accounts.

These Accounts reflect the administrative costs recovered from the CFIA in accordance with the Administration of Justice Act 1982, totalling £15.6 million. The detailed breakdown of administrative costs for the CFO fall outside the scope of these accounts, and are reported in the 2009-2010 Annual Report and Accounts of the Ministry of Justice.

Financial Instruments

The principal activity of Funds in Court is to hold deposits on behalf of Clients in Basic and Special Accounts. The funds deposited are invested through the CRND in deposits and gilts with entities which are backed by HM Government. The policy in relation to Funds in Court is to maintain highly liquid investments, managed by CRND, to be able to meet cash flows as they fall due and to generate income that is sufficient to meet the interest obligations to Clients and cover the costs of operating the CFO. Any surplus interest received is due to the Consolidated Fund, and any shortfalls can be claimed from the Consolidated Fund.

Risks and uncertainties

The Clients deposits can be withdrawn on short notice. While some of the investments are placed for maturities of up to 12 months, a significant proportion of the investments are invested for shorter periods, thereby managing the liquidity and cash flow risks of a sudden increase in Client withdrawal requests. The CFIA does not utilise any hedging instruments, and the interest rate risk is managed through changes in the administered rates applicable to the Basic and Special accounts, which can be changed at short notice. The credit risk to Clients is considered to be negligible given that most investments are with entities backed by HM Government.

Clients can also deposit funds in foreign currency, these funds are maintained in the relevant currency and any exchange risk is borne by the Clients. Similarly, Clients can hold funds in investment securities, the CFO administers these investments but does not provide any investment or management advice and the market risk inherent in these securities is borne by the Clients.

The CFO is exposed to Operational risks, such as fraud and maladministration, and operates a system of internal control to manage these risks as detailed in the Statement on Internal Controls on page 9.

Progress against agreed targets – Key Performance Indicators

The CFO Management Board receives a monthly performance report covering the operational aspects of the CFO. This report includes Key Performance Indicators (KPIs) for each operational area within the CFO, and these are summarised into 12 Key Variants which form an overall executive summary of the CFO's performance. The following table (overleaf) sets out these KPIs, which demonstrate a strong operational performance during the year ended 28 February 2010.

KPI	Description	Target %	Performance
1	To accurately process correctly completed and authenticated payment requests within 5 working days of receipt	95	Achieved
2	To respond to all correspondence, including email and fax, within 5 working days of receipt	95	Exceeded
3	To accurately process correctly completed and authenticated non-investment 212s within 5 working days of receipt	95	Exceeded
4	To bank cheques received on day of receipt and to process completed lodgement directions within 3 working days of receipt	100	Achieved
5	95 per cent of calls dealt with immediately & no more than the remaining 5 per cent to be escalated	95 5	Exceeded Exceeded
6	To issue majority statements to all Clients approaching their 18th Birthday, where an address is held on file	100	Achieved
7	To ensure all cases passed majority are actively investigated and contacted accordingly	100	Achieved
8	To ensure where all Court of Protection cases indicate the patient is now deceased, personal representatives are contacted within 5 days of notification	95	Exceeded
9	To accurately process correctly completed & authenticated investment decision forms for children and protected parties (Form 212s) within 14 days of receipt (in line with shared 28 day target with HMCS)	100	Achieved
10	To accurately process sales and purchases, corporate actions, transfers and dividends within the specified target or time frame	100	Achieved
11	To carry out an annual review of every child's account with funds invested, rebalance where required and contact Clients accordingly	100	Achieved
12	To achieve the Ministry of Justice target of less than 7.5 average days sick absence per member of staff	7.5	Not achieved (9.5 days)

Audit of accounts

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

So far as I am aware, there is no relevant audit information of which the CFO's external auditors are unaware and I have taken all the steps that ought to have been taken to make myself aware of any relevant audit information and to establish that the CFO'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 2010 is £63,000. There have been no fees paid in respect of non-audit work.

Other developments

The Offices of Court Funds, Official Solicitor and Public Trustee (OCFOSPT) were formed in April 2007 as an Associated Office within the Ministry of Justice. This did not affect the statutory basis for the three discrete offices nor the statutory appointments associated with them. However, the subsequent review of the options that will modernise the Court Funds Office has led to a decision being taken that saw the three offices de-merge on 31 March 2009. Work continues to demerge shared functions between the three offices.

The CFO changed its interest rates in June and July 2009 (see Court Funds Office Investment Strategy for details) and undertook a major project to notify its Clients of that change and deal with the Client contact that a change would generate.

The CFO commissioned CapGemini UK to undertake a review of the IT infrastructure that supports its business activities following the delays that have occurred by legislative constraints in the modernisation timetable, and the enhancements the CFO has made to the existing IT. CapGemini reported in December 2009 that the IT Infrastructure presented a medium risk of failing prior to modernisation, but that outcome could be mitigated with further work. This work continues in 2010-2011.

On 1 October 2009, Section 59 of the Constitutional Reform Act 2005 came into effect which resulted in the renaming of the Supreme Court to the Senior Courts. This legislation resulted in the name change to The Accountant General of the Senior Courts.

Appointment of Deputy Accountant General of the Senior Courts – On 10 May 2010 Eddie Bloomfield replaced Nick Crew as Deputy Accountant General of the Senior Courts. Eddie Bloomfield is responsible for the day-to-day running of CFO.

On 8 April 2010, the Financial Services Bill received Royal Ascent bringing into force powers enabling National Savings and Investment (NS&I) to work with the Court Funds Office (CFO) to modernise the service CFO provide. NS&I and CFO will now be working with each other to create detailed plans regarding the future provision of services by CFO.

Pat Lloyd 27 August 2010
Accountant General of the Senior Courts

Statement of the Accountant General's responsibilities

Management and investment of Funds in Court

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

Statement of accounts

Under section 45 (1) of the Act, the Accountant General is required to prepare a statement of accounts for each financial year in the form and on the basis as directed by the Treasury. A Treasury Direction was issued on 19 February 2010 (see page 30) and these accounts are prepared so as to give a true and fair view of the state of affairs as at 28 February 2010 and of the income and expenditure and cash flows of the year.

Appointment of the Accountant General

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

Statement on Internal Control

Scope of responsibility

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

The purpose of the System of Internal Control

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

The system of internal control has been in place in CFO for the year ended 28 February 2010 and up to the date of approval of the annual report and accounts, and accords with HM Treasury guidance.

Capacity to handle risk

The governance structure of the CFO comprises Management, Change Control, Transition and Health & Safety boards and committees which report on and manage the risks facing the CFO's Business As Usual and Modernisation Programmes. These boards and committees are made up of members of the Senior Management Team (SMT) who report to the Deputy Accountant General who has responsibility for risk management within CFO.

The SMT manages controls within their own divisions and work with the Risk Control Team on quarterly audits which ensure risk awareness amongst their teams. The SMT also work in conjunction with other managers within CFO to develop effective mechanisms to manage risks within their respective areas. Further risk awareness training, together with the introduction of new systems and mechanisms will see this delivered.

It has been recognised that the CFO needs to supplement the skills and experience of senior management in the field of risk management. As such a Band A Head of Compliance has been recruited, taking up their role on 22 June 2010. This will help to further develop the compliance control regime and embed the appropriate level of governance and risk management. It is intended that both internal and external audit may place assurance on this revised framework.

The Risk and Control Framework

Risk, whether it is people, project, operational or financial, is discussed at the monthly CFO Management Board and in team meetings across the CFO. The current CFO Risk Control Framework was originally established in 2008 and it continued to be developed during 2009, with the updating of underpinning policies in Business Community Planning, Flexi-Time working, Health & Safety, Post Opening, IT Security and Data Sharing with partners.

The monthly CFO Management Board considers a high level fully articulated Risk Register, which is informed by section level risk registers and represents a joined up approach between Business As Usual and Transition risks has led to the development of a fully articulated Risk Register, highlighting Business As Usual risks as well as those risks related to staff redeployment and the transfer of activity to National Savings and Investments (NS&I).

A dedicated Risk Control Team (RCT) report directly to the CFO Head of Operations who takes an active role in the management of risk across the CFO Control Framework. The opinions of the RCT, as evidenced in quarterly compliance control reports, are published on the CFO shared network for all staff to see the evidence behind them.

In order to reduce the risk of fraudulent activity, a number of key reconciliations are carried out – monthly reconciliations of the CFO control account, payroll and unclaimed balance accounts. These help to ensure that no suspicious activity can proceed undetected.

A major project has been undertaken to encourage the use of Bankers' Automated Clearing Services (BACS) as the preferred method of payment resulting in faster and more accurate Client payments and reduced risk of cheque fraud or loss. For all payments made to children on reaching the age of majority, a process has been introduced requiring proof of identity.

As at February 2010 the following risks were identified by the CFO Management Board as 'red'

- CFO governance structure does not manage risks to information assurance and compliance control;
- Available skills and knowledge do not support Business As Usual in managing Client accounts during transition; and
- The difference between BoE interest rate and CFO Client rate is not sustainable.

These risks are being addressed via ongoing review by the CFO Management Board and actions as directed by it in conjunction where necessary with partner organisations or other government departments.

The CFO Investment Criteria (relating to the mix of cash and equity [the vehicle for which is the Equity Index Tracker Fund], as well as the geographic split of equities) is regularly reviewed by the CFO Management Board. They manage risks in order to mitigate the risk of making investment decisions that are contrary to the CFO's Investment Criteria. The review takes care to ensure that vulnerable people are not put at undue risk through over-investment in the stock market whilst at the same time aiming for the best possible return on Client investments.

The CFO Management Team has liaised via its Senior Judicial Owner with the Association of District Judges to inform the degree of risk when investing damages awards heavily in the stock market, and advice on the alternative options that exist.

A review of the Equity Index Tracker Fund (EITF) and its strategic fit within the CFO Modernisation Programme is ongoing.

In order to effectively manage the affordability risks relating to transition and implementation of the agreed interest rate policy, monthly meetings are held with Debt Management Office, HM Treasury and the Ministry of Justice Corporate Finance team.

Review of effectiveness

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

Risk reviews of the CFO IT infrastructure have led to more robust Business Continuity and Disaster Recovery (DR) capabilities. These capabilities were successfully tested in December 2009.

Effective monitoring of budgets – whether operational or project – via monthly financial reporting to the CFO Management Board led to financial targets for the fiscal year being achieved.

Effective monitoring of performance via monthly reporting to the CFO Management Board led to 11 of 12 Key Performance Indicators (KPIs) being achieved in the financial year.

The CFO shares the risk with Her Majesty's Courts Service (HMCS) that investment of child damages awards are not completed in a timely fashion. The CFO is proactively working with HMCS to embed the recommendations that Internal Audit Division (IAD) made in their audit opinion of December 2009, and to ensure that children's awards are processed consistently and effectively by the courts.

Data Sharing Agreements exist with the Office of the Public Guardian (OPG), Court of Protection (CoP) and the Official Solicitor and Public Trustee (OSPT). These agreements, which were last reviewed in March 2010, manage the risk of CFO's information being used for fraudulent purposes in limiting access only to certain individuals who have the relevant security clearance.

Fraud awareness and IT Security training was undertaken by all staff during the year and this training is now embedded within the new staff (permanent and agency) induction process.

To more effectively manage the risk associated with poor training amongst staff the CFO has introduced a number of qualitative KPIs to supplement the existing quantitative framework.

In order to reduce the risk associated with the twice-yearly Client statement run, this activity has now been brought in house.

The SMT actively participate in the risk and control framework by testing controls within their own divisions and working with the RCT on quarterly audits to ensure awareness amongst their teams.

Significant internal control issues

1 Fraudulent activity

An attempt by one member of staff in April 2009 to manipulate FAS data in preparation for a potential fraudulent payment led to a robust review of the related control mechanisms. Management accept that the existing controls in place were inadequate and a tightening of a particular control has resulted from the review. The awareness and speed of action of the RCT and the Management team who dealt with this issue resulted in no loss to Court Funds Investment Account (CFIA), no adverse effect on Client service and there was no need to redirect resources elsewhere in the office.

During the year 2009-2010, a number of incoming cheques from solicitors totalling £1.155 million were intercepted in the CFO post room and deposited into bank accounts with a major national bank. No loss was incurred by the CFO as the bank which processed the cheques failed to identify that the cheques were payable to the Accountant General of the Senior Courts and not the account holders the cheques were deposited to. All sums due to the CFO have been recovered from the bank in question plus Client interest that would have accumulated should a CFO Client account have been opened. Extensive investigations were conducted by the CFO, the Metropolitan Police and MoJ Internal Audit Division. The police investigation is ongoing. Management accepts that the existing controls in place were inadequate and consequently the CFO has acted to remove the staff responsible from its employ and enhance its post opening arrangements. To date no prosecutions have been made.

As effective and secure post opening procedures are key to the work of the CFO, senior managers actively participate in post opening, whether that is opening post themselves or supervising the activity. Such processes are regularly reviewed in order to reduce the opportunities or possibilities that incoming cheques may be intercepted. Our new procedures have been reviewed by Internal Audit Division (IAD).

Close working relationships with IAD ensured that the significant control issues that affected the CFO in the early part of 2009 were managed effectively, and escalation to the Metropolitan Police, Accountant General and Access to Justice Audit Committee carried out swiftly. The awareness and speed of action of the Risk Control and Management teams who dealt with this issue was such that no loss occurred.

Targeted training was also undertaken in relation to post opening duties and this training focused on developing greater awareness and vigilance.

In response to an IAD recommendation, a data mining exercise to identify possible incidents of fraudulent activity was undertaken on a random sample of CFO accounts and transactional data. This exercise identified no fraudulent activity.

2 Lack of compliance in controls

A recent review of the CFO identified knowledge gaps in the management and application of advanced risk-based methodology within the CFO SMT and some areas of the RCT, which resulted in a weak control environment and a lack of consistent application of controls.

As a result, significant work has been carried out by the RCT during the year in developing compliance control reports in conjunction with all CFO functions. This activity has been coordinated with the activities of the Quality Assurance Team who work with the business to analyse the job cards and process maps across the business to ensure that where necessary, remedial action is taken, either via targeted training or by the development of new or enhanced controls.

IAD commented that the quality and focus of the Risk Control reviews together with the reported findings and level of assurances awarded still demonstrated a lack of training and understanding within the Risk Control Team. In recognition of the fact that a number of governance, risk management and control arrangements were not fully developed, applied consistently or were found to contain weaknesses, MoJ Internal Audit categorised the CFO as amber/red. These failings are recognised and relevant actions have been identified and are being undertaken by CFO to address the weaknesses noted.

In recognition of the lack of skill and experience in risk management within the CFO SMT, a new Head of Compliance (Band A) has been recruited, taking up the post on 22 June 2010.

In conjunction with Internal Audit, a comprehensive review of the Control Framework is underway which will look to incorporate best practice from the HMCS Assurance Programme. Lessons have been learnt from the investigation into the attempted fraud, these will be embedded into all areas of risk management. This activity will be led by the new Head of Compliance.

The newly appointed Head of Compliance will look to ensure that an effective control framework is in place by February 2011.

Furthermore, training has been targeted in these areas to achieve a balance between the need for systematic and compliance-based methodologies with those that focus solely on risk.

Prior year significant internal control issues

1 Children's Fund accounts

Early in 2007, the CFO Management Board identified a lack of compliance with prescribed controls (in HMCS and CFO) over Children's Funds, which resulted in the need to provide corrective payments for under-investment of Children's Accounts.

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

- Capital growth, where no funds are anticipated to be required during the lifetime of the fund;
- Capital appreciation with some income where some payments may be required during the lifetime of the fund; or
- High income where payments may be required from time-to-time.

In 2007-2008 the CFO began a significant project to review live Children's Accounts that had not been invested in accordance with judicial decisions, and to correct account balances affected. The CFO worked with HMCS and IAD to review how effective the court's own controls were in monitoring how quickly those decisions are communicated to the CFO and, internally, the CFO has completed a review that has identified additional control processes that are now undertaken, and agreed with HMCS how corrective payments will be apportioned in future.

The CFO brought the correction of the vast majority of accounts to a satisfactory conclusion in 2008-2009, with the remainder being completed satisfactorily in October 2009 in accordance with the relevant project plans and strategies agreed with the Accountant General. Initially, the level of exposure was estimated to be £16.67 million, but due to favourable fluctuations in market conditions the project has seen total expenditure of £7.4 million.

2 Fund's accounting system

In 1999-2000 a number of major failings in the way the CFO's IT systems were being managed came to light from a series of reviews. The area had been neglected for a number of years and the CFO did not have the adequate skills or infrastructure to support its business requirements. Significant progress was made in CFO to address these weaknesses, however, these achieved only limited systems stability due to the increasing risk of business critical systems failure resulting from obsolete technology.

The CFO had identified and was seeking to address the operational risks arising from the continued operation of the bespoke Funds Accounting System (FAS). The Investment and Banking Programme previously assessed four modernisation options for the CFO. The option to transfer the administrative functions of the CFO to another government department with a more modern fund accounting system during 2011, was agreed as the preferred option. The residual CFO is intended to retain responsibility for managing Finance, Policy and Contract Management.

CFO shares the risk of IT failure with its partner Logica and both parties are working together to implement the recommendations of the CFO Infrastructure Risk Review which was conducted in December 2009. This review indicated a medium risk of the infrastructure developing failure points within the next two years, by which time the Modernisation Programme is expected to be complete. These risks may contribute to a reduced asset life or degraded asset performance.

On 8 April 2010 the Financial Services Bill received Royal Ascent bringing into force powers enabling National Savings and Investment (NS&I) to work with the Court Funds Office (CFO) to modernise the service CFO provide. NS&I and CFO will now be working with each other to create detailed plans regarding the future provision of services by CFO.

The Change Control Board monitor knowledge gaps and continuity within the Logica teams that support the FAS IT Infrastructure. Extensive discussions are ongoing as part of the Modernisation Programme regarding continuity of knowledge through that critical process.

The CFO and the Investment Banking Programme Team work closely with NS&I over the modernisation programme which, subject to the agreement of Ministers, may result in the transition of the CFO Operations to NS&I sometime between November 2011 and April 2012. Robust governance arrangements are in place between the parties via a draft Memorandum of Understanding detailing controls over assurance of the information we share electronically and in commercial confidence. As part of the modernisation programme and related business simplification dialogue is ongoing with OPG, CoP and OSPT to withdraw – prior to transition to NS&I – the limited FAS access which they currently have without adversely effecting their Client service delivery.

The Ministry of Justice Workforce Change Board is provided with regular updates on the planned transition, the Business As Usual pressures and likely redeployment scenarios in order to assist its effective department-wide planning.

To more effectively manage the risk associated with poor training amongst staff, the CFO has introduced a number of qualitative key performance measures (KPMs) to supplement the existing quantitative framework. Succession plans are to be introduced for each area of Business As Usual. There is to be increased resourcing of Training Officers, greater use of them to support handover and training activities supported by a complete set of accurate and current job cards.

Pat Lloyd 27 August 2010
Accountant General of the Senior Courts

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

I certify that I have audited the financial statements of the Funds in Court in England and Wales (Part A) for the year ended 28 February 2010 under section 45(3) of the Administration of Justice Act 1982. These comprise the Income Statement, the Statement of Financial Position, the Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accountant General and Auditor

As explained more fully in the Statement of Accountant General's Responsibilities, the Accountant General is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit the financial statements in accordance with applicable law and 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 Funds in Court in England and Wales (Part A) Account's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accountant General; and the overall presentation of the financial statements.

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

Opinion on regularity

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

Opinion on the financial statements

In my opinion

- the financial statements give a true and fair view, of the state of the Funds in Court in England and Wales (Part A) Account's affairs as at 28 February 2010, and of the deficit transferred from reserves and hereditary revenues and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the 45(2) of the Administration of Justice Act 1982 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion

- the information given in the section entitled 'Foreword to the Accountant General's Accounts (Part A) of her transactions under Section 38 of the Administration of Justice Act 1982 and presented under Section 45 of the same Act' 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; and
- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General

14 October 2010

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

Income Statement for the year ended 28 February 2010

	Notes	**28 February 2010 £000**	Restated 28 February 2009 £000
Income			
Interest income	4	**26,974**	216,915
Interest expense	5	**(47,793)**	(269,186)
Net interest income		**(20,819)**	(52,271)
Dividend income		**4,986**	6,045
Gains/(losses) arising from securities		**61,351**	(67,064)
(Losses)/gains arising from foreign exchange	6	**(2,825)**	24,708
Securities income due to clients' holdings		**(63,436)**	60,556
Net income		**(20,743)**	(28,026)
Expenses			
Administrative expenses – CFO		**(15,805)**	(14,854)
Provisions – CFO	16	**308**	9,000
Management charges from CRND		**(109)**	(109)
Total expenses		**(15,606)**	(5,963)
(Deficit)/surplus transferred (from)/to reserves and hereditary revenues		**(36,349)**	(33,989)

The notes on pages 19 to 29 form part of these accounts.

Statement of Financial Position as at 28 February 2010

	Notes	**28 February 2010 £000**	Restated 28 February 2009 £000	Restated 1 March 2008 £000
Assets				
Current assets				
Cash and cash equivalents	7	**51,332**	86,692	19,796
Deposits and advances	10	**4,475,783**	3,941,154	5,166,148
Debt securities	8	**38,213**	1,088,535	22,313
Investment securities held for sale	9	**189,472**	144,729	220,996
Other assets	11	**2,064**	2,484	11,705
Total assets		**4,756,864**	**5,263,594**	**5,440,958**
Liabilities				
Current liabilities				
Cash borrowings	7	**21,772**	17,524	19,810
Clients' cash account balances	12	**4,116,954**	4,657,044	4,701,312
Clients' holdings in investment securities	9	**229,703**	169,577	245,048
Other liabilities	14	**37,187**	71,476	117,264
Total current liabilities		**4,405,616**	4,915,621	5,083,434
Non current liabilities				
Provisions	16	**0**	308	9,900
Other liabilities	14	**351,248**	347,665	347,624
Total non current liabilities		**351,248**	**347,973**	**357,524**
Total liabilities		**4,756,864**	**5,263,594**	**5,440,958**

The notes on pages 19 to 29 form part of these accounts.

Pat Lloyd 27 August 2010
Accountant General of the Senior Courts

Statement of Cash Flows for the year ended 28 February 2010

	Notes	**28 February 2010 £000**	28 February 2009 £000
Cash Flows from operating activities			
Operating (deficit)		**(36,349)**	(33,989)
(Increase)/decrease in debt securities		**1,120**	(20,682)
(Increase)/decrease in deposits and advances		**19,674**	54,355
(Increase)/decrease in securities holdings		**(44,744)**	76,267
Decrease in other assets		**421**	9,220
Decrease in client cash accounts		**(487,357)**	(33,604)
Increase/(decrease) in client securities		**60,126**	(75,470)
Decrease in other liabilities		**(47,397)**	(32,014)
Net Cash Flows from operating activities		**(534,506)**	(55,917)
Cash Flows from investing activities			
Cost of purchases of debt securities		**0**	(1,045,539)
Proceeds from sales of debt securities		**1,049,202**	0
Loans and advances made		**(130,225,294)**	(54,470,744)
Loans and advances repaid		**129,670,990**	55,641,382
Net Cash Flows from investing activities		**494,898**	125,099
Net Cash Flows from financing activities		**0**	0
Net increase/(decrease) in cash and cash equivalents		**(39,608)**	69,182
Cash and cash equivalents at 1 March		**69,168**	(14)
Cash and cash equivalents at 28 February	7	**29,560**	69,168

The notes on pages 19 to 29 form part of these accounts.

Notes to the Financial Statements

1 Statement of accounting policies

These financial statements have been prepared in accordance with direction made by HM Treasury under section 45 of the Administration of Justice Act 1982, as detailed on page 3 of the annual report and accounts. In applying this direction, due regard is given to the 2009-2010 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 Accountancy 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.

1.2 Consolidation boundaries

The Accountant General's Accounts (Part A) have been prepared in accordance with the direction given by the Treasury in pursuance of Section 45(2) of the Administration of Justice Act 1982 (the Act). The Accounts record dealings in cash and securities held in court. Deposits under the various enactments referred to in Section 40 of the Act are not segregated in the Accounts. Other accounts prepared by the Commissioners for the Reduction of National Debt (CRND) – Part B – Court Funds Investment Account (CFIA) and the Investment Manager's Accounts – Part C – The Equity Index Tracker Fund (EITF), supplement the Funds in Court Part A – Accountant General's Accounts. The Part A Accounts and the Part B Accounts prepared on an accruals basis are consolidated. Part C Accounts figures were not totally consolidated, only the elements which relate to CFO as the valuation in the consolidated Part A Accounts is based on the market value of the units held.

1.3 Recognition of income

Interest income and expenditure for all interest-bearing financial instruments are recognised in interest income and interest expense in the Income Statement using the effective interest rate (EIR) method of allocating interest over the relevant period. Interest income and expenditure is recognised from the settlement date.

Income is recognised in the accounts on the following basis

- 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 Income Statement and are included in the carrying value of those securities in the Statement of Financial Position.

1.4 Valuation of securities & collective investment schemes

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

Fair values of investment securities (see note 9 for description of investment securities) are determined, in vast majority, by reference to published price quotations in an active market. Fair value of investment securities estimated using a valuation technique relates only to 0.15 per cent of investment securities value. It includes Loan Notes and National Savings and Investment Holdings, where we use face value, as there are no market values for these instruments.

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

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

In relation to the Equity Index Tracker Fund (EITF), which are covered in the Part C Accounts, the Net Asset Value is used for valuation purposes in order to ensure consistency between these Accounts and the information presented in the Part C Accounts.

1.5 Hereditary revenues

The primary investment vehicles by which surpluses have arisen are through investments in gilts and money-market type instruments. Gilts were not always held to maturity by CRND, but instead were often bought and sold so as to realise a larger return over time. 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 secular decline in interest rates since the late 1980s.

HM Treasury legal advisers' position was that capital profits achieved as a result of investment of monies transferred to the CRND by the Accountant General could lawfully be re-invested by the CRND. Clients were entitled only to return of their capital plus the rate of interest carried by the Basic or Special Accounts. Capital profits must be paid to the CF under the 'hereditary revenues principle', but the duty to pay to the CF only arose on a 'triggering' event (the CFIA were wound up, and the surplus crystallised).

- Hereditary revenues comprise realised capital gains on the disposal or maturity of debt securities within the CFIA.
- Interest balance due to CF comprises surplus income due to CF but not paid at the period end.
- Reserves comprise interest accrued at the period end within the CFIA.
- Revaluation Reserve represents unrealised gains/(losses) on gilts within the CFIA.
- Provisions represent amounts provided to correct Children's Accounts.
- Client Management Expenses represent payments due to CFO but not paid at the period end.

1.6 Administrative expenses

The costs incurred by the CFO, and the Management Fees levied by the CRND are included in the Income Statement. Management fees levied by EITF are reflected in the unit prices used to value these holdings.

1.7 Foreign currency transactions

Assets and liabilities included in the Statement of Financial Position that have a functional currency different from the presentation currency are translated into the presentation currency at the closing rate at 28 February 2010.

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

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

1.8 Ways & 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.

2 Financial Risk Management

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

2.1 Interest Rate Risk

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

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

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

2.2 Credit risk

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

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

2.3 Market risk

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

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

The CFIA is managed in such a way as to achieve and maintain affordability i.e. achieve break-even within the financial year. Note that break-even in this context is defined as: interest received = interest paid + operating costs + operating cost contingency. In order to achieve this, rates payable on Basic and Special Accounts are reviewed regularly.

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

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

2.4 Liquidity risk

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

The Court Funds Office manages the liquidity risk by

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

Assets held by the CFIA are highly liquid to enable Client obligations to be met as they fall due. Note 10 to the Accounts demonstrates a significant proportion of deposits are held on call.

A maturity analysis for UK Government Gilts managed on behalf of the CFO by the CRND and UK Government Gilts held on behalf of Clients by the CFO

2010	**Nominal £000**	**Market value £000**
Maturing in less than 3 months	0	0
Maturing in more than 3 months but less than 1 year	22	23
Maturing in more than 1 year but less than 5 years	6,449	13,725
Maturing in over 5 years	9,989	24,465
Total debt security holdings	16,460	38,213

2009	**Nominal £000**	**Market value £000**
Maturing in less than 3 months	0	0
Maturing in more than 3 months but less than 1 year	0	0
Maturing in more than 1 year but less than 5 years	991,616	1,070,311
Maturing in over 5 years	8,021	18,224
Total debt security holdings	999,637	1,088,535

2008	**Nominal £000**	**Market value £000**
Maturing in less than 3 months	76	76
Maturing in more than 3 months but less than 1 year	35	36
Maturing in more than 1 year but less than 5 years	2,021	4,344
Maturing in over 5 years	7,570	17,857
Total debt security holdings	9,702	22,313

2.5 Operational risk

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

3 First-time adoption of IFRS

The 2009-2010 Accountant General's Accounts (Part A) have been prepared under International Financial reporting Standards for the first time. The impact of adoption of IFRS is noted below

	28 February 2009 £000
Total assets under UK GAAP	5,263,512
Adjustments for: Holiday Pay Accrual – IAS 19	82
Total Assets under IFRS	**5,263,594**
Total Expenses under UK GAAP	5,881
Adjustments for: Holiday Pay Accrual – IAS 19	82
Net Operating Costs under IFRS	**5,963**
Total Interest income under UK GAAP	216,833
Adjustments for: Holiday Pay Accrual – IAS 19	82
Total Interest Income under IFRS	**216,915**

The holiday pay accrual adjustment is reflected in the management charges from the CFO to the Part A account. As a Memorandum Account, changes in expenditure arising from the implementation of IFRS impact on Client funds rather than reserves.

Due to the unique nature of this memorandum account, where assets must equal liabilities, the increase in liabilities noted above must be met by an equivalent increase to assets.

4 Interest income

	28 February 2010 £000	Restated 28 February 2009 £000
Cash and cash equivalents	**135**	1,267
Deposits and advances	**25,769**	219,486
Debt securities	**1,793**	812
Total interest receivable	**27,697**	221,565
Less Surplus income payable to Consolidated Fund	**(723)**	(4,650)
Total interest income	**26,974**	216,915

Debt securities includes coupon interest in relation to Gilts Holdings held by CFO on behalf of Clients of £762,000 (2009 £464,000)

5 Interest due to clients' accounts

	28 February 2010 £000	28 February 2009 £000
Interest paid		
Court funds – basic account	**18,603**	34,300
Court funds – special account	**84,616**	219,600
Foreign currency balances	**133**	1,242
Foreign currency revaluation	**(2,825)**	24,708
Total interest paid	**100,527**	**279,850**
Interest accrued		
At period end	**4,886**	57,620
At period start	**(57,620)**	(68,284)
Total interest due	**47,793**	**269,186**

6 Gains / (losses) on foreign currency

	28 February 2010 £000	28 February 2009 £000
US dollar	**(2,692)**	23,250
Euros	**(133)**	1,458
Total gains/(losses) on foreign currency	**(2,825)**	24,708

7 Cash and cash equivalents

Cash and cash equivalents include, balances held in bank accounts, in both sterling and foreign currencies.

Assets Foreign currency bank accounts	28 February 2010 £000	28 February 2009 £000	1 March 2008 £000
Balance at 1 March	**86,692**	19,796	47,572
Net change in cash and cash equivalents balances	**(35,360)**	66,896	(27,776)
Balance at 28 February	51,332	86,692	19,796

Liabilities	28 February 2010 £000	28 February 2009 £000	1 March 2008 £000
Sterling bank accounts	**(21,772)**	(17,524)	(19,810)
Balance at 28 February	**(21,772)**	(17,524)	(19,810)
Net cash and cash equivalent holdings	**29,560**	69,168	(14)

8 Debt securities

Debt securities comprise UK Government Gilts, managed on behalf of the CFO by the CRND. In addition there are UK Government Gilts held on behalf of Clients.

2010	**Nominal £000**	**Market value £000**
Holdings with CRND	0	0
Holdings held on behalf of Clients	16,460	38,213
Total debt security holdings	**16,460**	**38,213**

2009	**Nominal £000**	**Market value £000**
Holdings with CRND	990,000	1,065,780
Holdings held on behalf of Clients	9,637	22,755
Total debt security holdings	**999,637**	**1,088,535**

2008	**Nominal £000**	**Market value £000**
Holdings with CRND	0	0
Holdings held on behalf of Clients	9,702	22,313
Total debt security holdings	**9,702**	**22,313**

9 Investment securities

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

- Holdings in the Equity Index Tracker Fund, managed on behalf of the CFO by Legal & General (Unit Trust Managers) Limited, and covered in greater detail in the Part C Accounts, which are valued at Net Asset Value;
- Holdings of Unit Trusts lodged in court by Clients; and
- Holdings of Individual Stocks and Shares, Debt Securities and National Savings Certificates lodged in court by Clients.

The following table(s) show the period end balances and the movements on these holdings during the year.

Market valuation summary

	28 February 2010 £000	28 February 2009 £000	1 March 2008 £000
Unit trust holdings	**146,531**	105,875	147,292
Stocks, shares and loan notes	**42,911**	38,824	73,688
National savings and other holdings	**30**	30	16
Total investment securities	**189,472**	144,729	220,996
Gilt holdings classified as debt securities	**38,213**	22,754	22,313
Accrued income	**2,018**	2,094	1,739
Total client holdings in securities	**229,703**	169,577	245,048

Market holdings summary

	28 February 2010 £000	28 February 2009 £000	1 March 2008 £000
Unit trust holdings	**41,606**	35,516	36,231
Stocks, shares and loan notes	**9,171**	11,810	15,846
National savings and other holdings	**0**	0	0
Total investment securities	**50,777**	47,326	52,077
Gilt holdings classified as debt securities	**16,460**	9,636	9,702
Total client holdings in securities	**67,237**	56,962	61,779

Movements in holdings during the year

	28 February 2010 £000	28 February 2009 £000	1 March 2008 £000
Balance at start of year	**56,962**	61,779	74,103
Purchases during year	**26,512**	19,067	17,636
Sold during year	**(10,264)**	(12,896)	(11,613)
Net transfers (to)/from clients	**(5,973)**	(10,988)	(18,347)
Balance as at year end	**67,237**	56,962	61,779

Of the above holdings 10,568,288 units (2009 10,520,338) relate to the EITF, with a net asset value of £104 million (2009 £74 million) and price per unit of 989 pence (2009 703 pence).

10 Deposits and advances

Deposits and advances primarily represent call notice deposits and fixed rate time deposits with short-term maturities, placed with debt management office by the CRND.

	28 February 2010 £000	28 February 2009 £000	1 March 2008 £000
Call notice deposits	**4,456,658**	2,303,245	2,080,122
Fixed term deposits	**19,125**	1,637,908	3,086,025
Ways & Means Account	**0**	1	1
Deposits and advances holdings	**4,475,783**	3,941,154	5,166,148

11 Other assets

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

	28 February 2010 £000	Restated 28 February 2009 £000	restated 1 March 2008 £000
Client holdings			
Dividends and coupons due	**2,018**	2,094	1,739
Total client accrued income	**2,018**	2,094	1,739
Other receivables			
Receivables from Ministry of Justice for Children's accounts correction	**0**	308	9,900
Interest recoverable from consolidated fund relating to holiday pay accrual	**46**	82	66
Total other assets	**2,064**	2,484	11,705

12 Clients' cash account balances

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

	28 February 2010 £000	28 February 2009 £000	1 March 2008 £000
Court funds placed on basic account	**922,795**	814,303	869,791
Court funds placed on special account	**2,995,725**	3,634,582	3,691,521
Unclaimed balances	**118,281**	52,494	49,575
Other suitors' monies deposited in the senior courts	**23,962**	11,514	2,345
Clients' monies held as foreign currency	**51,305**	86,531	19,796
Total client cash balances	**4,112,068**	4,599,424	4,633,028
Accrued interest	4,886	57,620	68,284
Total client balances	**4,116,954**	4,657,044	4,701,312

Unclaimed balances represent

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

All balances below £10 are held as cash.

13 Clients' receipts and payments during year

	28 February 2010 £000	28 February 2009 £000	1 March 2008 £000
Opening balance 1 March	**4,599,424**	4,633,028	4,767,899
Lodgements by Clients	**923,022**	962,733	1,184,127
Sales of EITF units and other securities	**33,121**	43,187	37,077
Dividends	**5,823**	6,153	7,469
Total lodgments from clients	**961,966**	1,012,073	1,228,673
Payments to clients	**(1,500,827)**	(1,269,327)	(1,582,745)
Cost of purchase of EITF units and other securities	**(48,795)**	(55,919)	(37,437)
Transfer of surplus funds to Exchequer (HMCS)	**(228)**	(282)	(3,908)
Total payments to clients	**(1,549,850)**	(1,325,528)	(1,624,090)
Interest credited to court accounts	**100,528**	279,851	260,546
Closing balance 28/29 February	**4,112,068**	4,599,424	4,633,028

14 Other liabilities

	28 February 2010 £000	Restated 28 February 2009 £000	Restated 1 March 2008 £000
Non current liabilities – other liabilities			
Hereditary revenues held by CRND in court funds investment account	**351,248**	347,665	347,624
Current liabilities – other liabilities			
Interest balance due to Consolidated Fund	**723**	4,650	4,173
Reserves held by CRND in Court Funds Investment Account	**20,838**	60,852	94,867
Revaluation reserve	**0**	(99)	0
Client management expenses	**15,497**	5,772	17,900
Other payables (Including holiday pay)	**129**	301	324
Total other liabilities	**37,187**	71,476	117,264

The Hereditary Revenues will only become payable to the Consolidated Fund should the Funds in Court activities cease, and are therefore classified as non-current liabilities.

15 Events after the reporting period

On 1 April 2010, Pat Lloyd was appointed as the new Accountant General of the Senior Courts.

Investment & Banking Programme – on 8 April 2010 the Financial Services Bill of The Financial Services Act 2010 received Royal Assent bringing into force powers enabling National Savings and Investment (NS&I) to work with the Court Funds Office (CFO) to modernise the service CFO provide. NS&I and CFO will now be working with each other to create detailed plans regarding the future provision of services by CFO.

On 10 May 2010, Eddie Bloomfield was appointed as the new Deputy Accountant General of the Senior Courts.

For further details, please see 'Other Developments' on page 7.

In accordance with IAS 10 (Events After the Reporting Period) events after the reporting period 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.

16 Provisions for liabilities and charges

	28 February 2010 Children's Provision £000	28 February 2009 Children's Provision £000	1 March 2008 Children's Provision £000
Opening balance at 1 March	**308**	9,900	12,500
Provided in the year	**0**	0	4,170
Provisions not required written back	**(308)**	(9,000)	0
Provisions utilised in the year	**0**	(592)	(6,770)
Closing balance	**0**	308	9,900

17 Staff costs

The Court Funds Office (CFO) manages funds 'held in court' on behalf of Clients. The full cost of operating the CFO is therefore allocated to The Accountant General's Accounts (Part A) accounts. The full cost includes the cost of relevant staff and agency personnel, related facilities and administration costs. The latter includes the cost of CFO specific software applications as well as pro-rata costs in relation to IT infrastructure and corporate services.

18 Contingent liability

On 12 April 2010, the CFO received an order made by a County Court in relation to Client funds of £2.2 million paid into court in November 2004. The court order required those funds invested in a basic rate account, to be transferred to a special rate account and for this change to be backdated to 31 October 2006. The CFO is appealing against the decision of the court to order a backdated investment.

The result of the appeal is uncertain, however, if the court order is upheld, the CFO will be required to pay approximately £120,000 in additional interest because of the difference in rates between the special and basic interest rates.

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; and
- 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 19 February 2010
Head of Assurance and Financial Reporting Policy
HM Treasury

Commissioners for the Reduction of the National Debt
Court Funds Investment Account
Accounts for the year ended 28 February 2010

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) backs the basic and special accounts operated by the Court Funds Office (CFO) for suitors' funds paid into Court in England and Wales, it also contains funds due to the Consolidated Fund.

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

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

Historically, the investments made by CRND have included gilt-edged securities with periods to maturity of up to 20 years. However, in October 2006 it was agreed with CFO that CFIA's assets should more closely match the liabilities and as a consequence the medium and long-dated gilts were sold and the proceeds placed into short-term deposits with the Debt Management Account Deposit Facility (DMADF). In 2009-2010 funds were largely concentrated in short-dated cash deposits (overnight to 6-months) with some investment in gilts in accordance with the investment mandate.

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

- the interest due to be paid or credited on funds in court;
- the sum required by the Lord Chancellor in respect of administering funds in court;
- the sum required by CRND in respect of expenses; and
- any sum HM Treasury requires to be set aside for depreciation in the value of securities.

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

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 Report and Accounts 2009-2010. The cost of managing CFIA incurred by CRND is recharged to CFIA; in 2009-2010, this amounted to £109,000 (2008-2009: £109,000).

Commissioners for the Reduction of the National Debt

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

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

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

Management Commentary

During 2009-2010, CFIA was largely invested in overnight and short-term deposits with the Debt Management Account Deposit Facility (DMADF), as this Facility enables the account to earn a rate of interest that is close to current short-term interest rate levels, whilst protecting its capital position and access to liquidity.

CFIA did not generate sufficient interest to meet its expenses and liabilities to suitors in 2009-2010. This was mainly due to the average interest rate obtained on CFIA's investments being lower than the returns payable on funds in court. As in 2009-2010, this resulted in the reduction in CFIA's reserves from £60.9 million to £20.9 million. A deficit in 2010-2011 that exceeded the remaining reserves would lead to a call on the Consolidated Fund to meet any shortfall under section 39(3) of the Act.

Results for 2009-2010

During 2009-2010, total income before client expenses was £30.5 million (2008-2009: £219.8 million). The reduction in income was mainly due to the lower average interest rates received on deposits compared to 2008-2009. After applying client expenses, the surplus before interest payable on funds in court was £14.1 million (2008-2009: £209.2 million). This comprised operating surplus of £30.5 million (2008-2009: £219.8 million), interest payable to the Consolidated Fund of £0.7 million (2008-2009: £4.7 million), and other expenditure of £15.5 million (2008-2009: £5.9 million). The interest payable on funds in court was £50.5 million (2008-2009: £243.2 million) resulting in an overall deficit for the year of £36.4 million (2008-2009: £34.0 million).

CFO withdrew £551.1 million (net of advances) from CFIA over the course of the year (2008-2009: net withdrawal of £356.7 million).

Date of authorisation for issue

The accounts were authorised for issue on 22 July 2010.

Jo Whelan 22 July 2010
Secretary and Comptroller General to the
Commissioners for the Reduction of the National Debt

Statement of Secretary and Comptroller General's responsibilities

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

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

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

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

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

Statement on Internal Control

Scope of responsibility

The Commissioners for the Reduction of the National Debt (CRND) are responsible for preparing the accounts. They have appointed me as Secretary and Comptroller General of CRND to discharge their responsibilities in this regard. As Secretary and Comptroller General, I also have responsibility for ensuring the operation of a sound system of internal control that supports the achievement of CRND's targets, policies and objectives in managing client investment portfolios whilst safeguarding the public funds for which I am accountable, in accordance with the responsibilities assigned to me.

CRND is a separate business entity managed within the control framework of the DMO. While I am responsible for CRND's system of internal control, the Accounting Officer of the DMO is responsible for the wider control framework within which CRND is managed. In discharging my own control responsibilities I take assurance on the continued sound maintenance of the wider control framework from the Statement on Internal Control for the DMO, although I understand that only reasonable and not absolute assurance can be given that risks have been controlled.

It is also my responsibility to ensure that all CRND fund management activities are conducted with due regard to value for money and operated in line with client instructions. I have put arrangements in place to ensure that there is a proper evaluation of the balance of cost and risk in our operations.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

Relevant elements of the DMO system of internal control have been implemented for CRND. The system of internal control has been in place for the year ended 28 February 2010 and up to the date of approval of this account, and accords with HM Treasury guidance.

Capacity to handle risk

During the year, the DMO has produced a formal risk management framework document agreed by the Managing Board that summarises at a high level the principles which govern the DMO's approach to risk management, the different types of risk that the DMO manages, including CRND activities, and the various mechanisms that the DMO employs to ensure that risks are identified, assessed, and managed at all levels within the organisation. The DMO also has more detailed risk management policies and has documented the risk management processes. Elements of these policies have been reviewed and adjusted during the year and have proved effective during a period of continued uncertainty in the financial markets.

The DMO's Managing Board is responsible for setting strategic direction and considering high-level operational issues. An executive sub-committee of the Managing Board (Sub MB) generally meets weekly. The terms of reference of this management committee and those of the Fund Management, Operational Risk and Business Delivery Committees clearly set out their roles and responsibilities for providing the organisational capacity to consider issues and make relevant decisions at the appropriate level.

The Business Delivery Committee, established in September 2009, includes the executive members of the Managing Board and key business managers. The committee exists to progress and review the status of the delivery of DMO's business and work plan as a collective cross-functional body, resolving emerging issues together to ensure the business and work plan is delivered in a timely and cost effective manner.

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 with respect to whistle blowing, fraud and anti-money laundering. The DMO ensures that the exercise is undertaken on an annual basis in order 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.

The risk and control framework

The DMO's formal risk management framework document sets out the various mechanisms for managing its risks that are incorporated into its approach to both regular operations and new business initiatives. There are processes in place to ensure regular measurement and monitoring of key business risks including market, credit, operational and liquidity risk. A statement of the risk appetite for these risks is included within the risk management framework document.

The DMO's Risk Management Unit (RMU) provides control advice on risks throughout the DMO. In the DMO's management reporting structure the RMU is separate 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 risks are facilitated by the RMU, via consultation with heads of business units and functional teams. Regular meetings are held with heads of business units and functional teams to assess whether risks to their operations are being managed effectively. Significant risk issues are assessed by likelihood and materiality of occurrence. New risks and risks with an increased risk profile 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. RMU maintains a central exception log to record all risk incidents raised, in order to identify control weaknesses and assign actions to improve controls. Progress against treatment actions is obtained on a regular basis, to ensure issues highlighted by internal and external audit and other identified actions to improve the control environment are managed and progressed within agreed deadlines.

The RMU communicates key risk issues to management on a regular basis within a number of forums, to enable management to take informed decisions on risk issues. Key forums are as follows

- The Operational Risk Committee meets regularly to monitor operational risks and to review significant risk issues, risk incidents and exceptions and progress against treatment actions. This review is supported by regular operational risk reporting produced by the RMU. The Operational Risk Committee replaced the Sub MB & Senior Risk Owners Committee from December 2009. The scope of this meeting has been widened to cover issues relating to Information Risk, IT Security, Business Continuity, Anti Fraud issues and key supplier risks more fully.
- More frequent reporting of progress against treatment actions and reporting of risk incidents has been implemented during the year, and is provided to Senior Risk Owners, Senior Management and Internal Audit.
- A Controls Group meets periodically to review issues affecting the DMO's system of internal control (including CRND) and to analyse material changes to the control environment. The group recommends actions to management to implement changes where appropriate. The Controls Group consisted of representatives of the DMO teams responsible for finance, risk, control, compliance and internal audit.
- A high level strategic risk report is published to promote awareness of all high level issues and risks that the DMO faces at an organisational level. The report is based on a High Level Risk Register maintained by RMU, and is presented to the Managing Board on a regular basis.

The DMO has policies on anti-fraud measures, money laundering and whistle blowing. The DMO has its own anti-money laundering handbook for staff.

Risks to data and information held by the DMO are owned and managed by designated Information Asset Owners. There is a Senior Information Risk Owner (SIRO) for the DMO, responsible for the information risk policy and risk assessment relating to information, who provides assurance over information risks to the Managing Board.

The DMO has designated IT Security Officers (ITSOs) who are responsible for the DMO's electronic network, including access to information and GSI accreditation. During 2009-2010, the DMO has continued a defined programme of work to deliver IT security improvements.

The DMO continues to work to meet the mandates of the Security Policy Framework, including work on meeting objectives in order to retain the CESG information assurance accreditation it has been granted, and on work towards implementing the Business Classification Scheme project. During 2009-2010, the DMO has also continued to implement the requirements of the Cabinet Office-led cross-Government Data Handling review, in particular, by ensuring all DMO staff completed the computer based training – 'Protecting Government Information'. The actions stemming from the review are predominantly complete with the remainder planned for 2010.

A key component of the CRND's control framework is the segregation of duties to ensure independent checking and reconciliation, and to avoid concentration of key activities or related controls in individuals or small groups of staff. In particular, segregation of duties takes place between front and back office activities. All teams have documented procedures for their main activities and there are clearly defined authorisation levels for committing the DMO externally.

The DMO's Business Continuity Plan (BCP) including Disaster Recovery (DR) site and other arrangements is subject to continual review and update with the DMO taking an active role during the year in progressing BCP improvements. The DMO ensured a programme of DR testing was carried out. Assessment of business continuity requirements is a specific requirement for new projects and major business initiatives.

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

During the year, audit committee arrangements for the HM Treasury group were revised, with the intention of creating greater focus on activities within the DMO, including those of CRND.

Responsibility for supporting me as Secretary and Comptroller General in matters relating to governance, internal control and risk management processes lay with the Exchequer Funds Audit Committee until 31 December 2009 and with the DMO Audit Committee from 1 January 2010.

The membership of the Exchequer Funds Audit Committee during the period to 31 December 2009 was

- Colin Price, Committee Chair, non-executive Director of the DMO's Managing Board and formerly Global Pension Fund Adviser/Finance Director at Shell Pensions Management Services Limited;
- Brian Larkman, non-executive Director of the DMO's Managing Board and formerly Global Head of Money Markets at the Royal Bank of Scotland plc; and
- Mark Clarke, formerly Director General (Finance and Strategy) at the Department for Business, Enterprise and Regulatory Reform.

The Exchequer Funds Audit Committee met three times between 1 April and 31 December 2009.

The DMO Audit Committee was established with effect from 1 January 2010 and supports the Accounting Officer of the DMO and the Debt Management Account, the Secretary to the Public Works Loan Board and the Secretary and Comptroller General of the CRND. Members of the Committee are appointed for periods of up to three years, extendable by no more than two additional three-year periods. There were two Members of the Committee. The Members were

- Brian Larkman, Committee Chair; and
- Brian Duffin, non-executive Director of the DMO's Managing Board and formerly Chief Executive of Scottish Life and executive director of Royal London Mutual.

The DMO Audit Committee met once between 1 January and 28 February 2010.

Review of effectiveness

As Secretary and Comptroller General, my review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers in the DMO who have been delegated responsibility for the development and maintenance of the internal control framework, and by the reports and comments made by the external auditors. I have been supported by the Audit Committees and risk owners in addressing weaknesses and ensuring continuous improvement of the system is in place.

- The Fund Management Committee, comprising CRND managers, other senior managers and DMO specialist staff, meets regularly to review CRND operational issues. In particular it monitors and advises on development of CRND governance mechanisms. The Fund Management Committee met three times during the year.
- The DMO's Risk Management Unit conducts regular controls and compliance testing providing the executive sub-committee of Managing Board with assurance on the effectiveness of operational controls and compliance with relevant FSA rules in the dealing and settlements areas.
- The Operational Risk Committee and Senior Risk Owners have advised me during the year on significant operational risk concerns, significant risk issues and trends, as well as actions to mitigate such risks. The Operational Risk Committee (or previously the Sub MB and Senior Risk Owners Committee) met five times during the year.
- The Controls Group has advised me on any significant risk concerns relating to the introduction of new business activities into the DMO as well as risks relating to other change management activities, and has made me aware of actions taken to mitigate identified risks. In particular, the Controls Group has advised me on the implications of a control incident which occurred on another CRND fund whereby an incorrect transfer between client accounts was not prevented by the expected controls although it was quickly detected and put right by back up control mechanisms. Action has been taken to reduce the risk of such an incident recurring that might affect this fund.
- The DMO Audit Committee considered the 2009-2010 accounts in draft and provided me with its views before I formally signed the accounts.
- During the period of this Statement on Internal Control, Internal Audit has provided reports on the effectiveness of the risk management, control and governance processes for the DMO, including aspects relevant to CRND, to the Audit Committees throughout the period. The audits make a series of recommendations that are addressed as part of our focus on continuous improvement in this area. The audits identified no serious breaches of risk or control systems. The Internal Audit work programme is approved by the Audit Committee at the start of the year.
- Internal Audit attended each meeting of the Audit Committees to report the results of audit work and the results of follow-up work to confirm that appropriate management action had been taken to address audit recommendations.
- On the basis of Internal Audit work during the year, the Head of Internal Audit has provided assurance to me on the adequacy and effectiveness of the risk management, control and governance arrangements relevant to the accounts, and has confirmed that there were no matters arising from the work of Internal Audit in the period that would give rise to separate comment in the Statement on Internal Control.

In my opinion, the overall system of internal control relating to CRND was effective throughout the financial year 2009-2010 and remains so on the date I sign this statement.

Jo Whelan *22* July 2010
Secretary and Comptroller General to the
Commissioners for the Reduction of the National Debt

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

I certify that I have audited the financial statements of the Court Funds Investment Account for the year ended 28 February 2010 under the Administration of Justice Act 1982. These comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Client Funds, and the related notes. These financial statements have been prepared under the accounting policies set out within them.

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

As described in the Foreword, the Commissioners have a statutory duty to prepare accounts in respect of their transactions. They have appointed the Secretary and Comptroller General to discharge their responsibilities for the preparation of financial statements in accordance with the Administration of Justice Act 1982 and Treasury directions made thereunder and for being satisfied that they give a true and fair view. These responsibilities are set out in the Statement of Comptroller General's responsibilities.

My responsibility is to audit the financial statements in accordance with applicable law and 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 Commissioners for the Reduction of the National Debt; and the overall presentation of the financial statements.

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

Opinion on Regularity

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

Opinion on financial statements

In my opinion

- the financial statements give a true and fair view, in accordance with the Administration of Justice Act 1982 and directions made thereunder by Treasury, of the state of the Court Funds Investment Account's affairs as at 28 February 2010 and of its deficit and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the Administration of Justice Act 1982 and directions made thereunder by Treasury.

Opinion on other matters

In my opinion, information which comprises the Foreword and the Management Commentary, 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 Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General

28 July 2010

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

Income Statement for the year ended 28 February 2010

	Notes	**2010 £000**	Restated 2009 £000
Interest income	2	**26,799**	219,835
Other gains and losses	3	**3,663**	0
Total income		**30,462**	219,835
DMO management expenses		**(109)**	(109)
CFO cost of administering funds in court		**(15,497)**	(5,854)
Interest payable on funds in court		**(50,485)**	(243,237)
Payable to the Consolidated Fund	4	**(723)**	(4,650)
Deficit for the year		**(36,352)**	(34,015)

Statement of Comprehensive Income for the year ended 28 February 2010

	2010 £000	2009 £000
Deficit for the year from the income statement	**(36,352)**	(34,015)
Other comprehensive income		
Fair value gains/(losses) on revaluation of UK Government gilt-edged securities classified as available-for-sale	**3,762**	(99)
Realised gains on UK Government gilt-edged securities classified as available-for-sale transferred to the income statement on disposal	**(3,663)**	0
Total comprehensive income for the year	**(36,253)**	(34,114)

The notes on pages 45 to 49 form part of these accounts.

2009 figures have been reinstated as a result of the implementation of International Financial Reporting Standards by the Court Funds Office detailed in note 7 on page 48.

Statement of Financial Position as at 28 February 2010

	Notes	**2010** £000	Restated 2009 £000	2008 £000
Assets				
Demand deposits with the Debt Management Account and the National Loans Fund		**4,456,658**	3,941,154	5,166,147
UK Government gilt-edged securities classified as available-for-sale	5	**0**	1,065,781	0
Gilt coupon receivable		**19,125**	0	0
Total		**4,475,783**	5,006,935	5,166,147
Liabilities and Court Funds Office funds				
Liabilities				
Client management charges	4, 7	**15,579**	5,854	17,900
HMT funds				
Hereditary Revenues	6	**351,127**	347,464	347,464
Surplus payable to the Consolidated Fund	4, 7	**641**	4,650	4,239
		351,768	352,114	351,703
Client funds				
Court Funds Office funds		**4,087,598**	4,588,213	4,701,676
Reserves		**20,838**	60,853	94,868
Revaluation reserve		**0**	(99)	0
		4,108,436	4,648,967	4,796,544
Total		**4,475,783**	5,006,935	5,166,147

The notes on pages 45 to 49 form part of these accounts.

2009 figures have been reinstated as a result of the implementation of International Financial Reporting Standards by the Court Funds Office detailed in note 7 on page 48.

Jo Whelan *22* July 2010
Secretary and Comptroller General to the
Commissioners for the Reduction of the National Debt

Statement of Cash Flows for the year ended 28 February 2010

	2010	Restated 2009
	£000	£000
Operating activities		
Deficit for the year	**(36,352)**	(34,015)
Interest payable on funds in court	**50,485**	243,237
Less realised gain on UK Government gilt-edged securities classified as available-for-sale	**(3,663)**	0
Less interest on UK Government gilt-edged securities classified as available-for-sale	**(1,031)**	(349)
(Increase)/decrease in demand deposits with the Debt Management Account and National Loan Fund	**(515,504)**	1,224,993
(Decrease)/increase in surplus interest due to the Consolidated Fund	**(3,927)**	411
Increase/(decrease) in Management fees due to the Court Funds Office	**9,643**	(12,046)
Net cash (used in)/from operating activities	**(500,349)**	1,422,231
Investing activities		
Interest received on UK Government gilt-edged securities classified as available-for-sale	**21,038**	0
Sales of UK Government gilt-edged securities classified as available-for-sale	**1,981,690**	0
Purchases of UK Government gilt-edged securities classified as available-for-sale	**(951,279)**	(1,065,531)
Net cash from/(used in) investing activities	**1,051,449**	(1,065,531)
Financing activities		
Funds received from Court Funds Office	**227,000**	139,600
Funds paid to Court Funds Office	**(778,100)**	(496,300)
Net cash used in financing activities	**(551,100)**	(356,700)
Increase/(decrease) in cash	**0**	0

The notes on pages 45 to 49 form part of these accounts.

2009 figures have been reinstated as a result of the implementation of International Financial Reporting Standards by the Court Funds Office detailed in note 7 on page 48.

Statement of Changes in Client Funds for the year ended 28 February 2010

	CRTF Funds excluding reserves £000	Reserves £000	Revaluation reserve £000	Restated Total CRTF Funds £000
At 1 March 2008	**4,701,676**	**94,868**	**0**	**4,796,544**
Deficit for the year	0	(34,015)	0	(34,015)
Fair value losses on UK Government gilt-edged securities classified as available-for-sale	0	0	(99)	(99)
Interest payable on funds in court	243,237	0	0	243,237
Funds received from CFO	139,600	0	0	139,600
Funds paid to CFO	(496,300)	0	0	(496,300)
At 28 February 2009	**4,588,213**	**60,853**	**(99)**	**4,648,967**
Deficit for the year	0	(36,352)	0	(36,352)
Realised gains transferred to income statement on disposal of UK Government gilt-edged securities classified as available-for-sale	0	(3,663)	0	(3,663)
Fair value gains on UK Government gilt-edged securities classified as available-for-sale	0	0	99	99
Interest payable on funds in court	50,485	0	0	50,485
Funds received from CFO	227,000	0	0	227,000
Funds paid to CFO	(778,100)	0	0	(778,100)
At 28 February 2010	**4,087,598**	**20,838**	**0**	**4,108,436**

The notes on pages 45 to 49 form part of these accounts.

2009 figures have been reinstated as a result of the implementation of International Financial Reporting Standards by the Court Funds Office detailed in note 7 on page 48.

Notes to the Accounts for the year ended 28 February 2010

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. In particular, the following standards have been applied

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

For the year ended 28 February 2009, the accounts were prepared in accordance with UK Generally Accepted Accounting Principles (UK GAAP). In particular, the following standards were applied

- FRS 25 (IAS 32) Financial Instruments: Presentation
- FRS 26 (IAS 39) Financial Instruments: Recognition and Measurement
- FRS 29 (IFRS 7) Financial Instruments: Disclosures

Adoption of IFRS has not resulted in any prior period adjustments, other than those that arose from the implementation of IFRS by CFO detailed in note 7 on page 49. These adjustments resulted in the restatement of primary statements.

1.2 Assets

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

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

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

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.

1.4 Administrative expenditure

Administrative costs are accounted for in the DMO Agency Resource Account and a recovery is made from CFIA.

2 Interest income

	2010	2009
	£000	£000
UK Government gilt-edged securities classified as available-for-sale	**1,031**	349
Demand deposits with the Debt Management Account and the National Loans Fund	**25,768**	219,486
	26,799	219,835

3 Other gains and losses

	2010	2009
	£000	£000
Profit on disposal of UK Government gilt-edged securities classified as available-for-sale	3,663	0
	3,663	0

4 Payable to the Consolidated Fund

	2010 £000	Restated 2009 £000
Interest received in the year	**66,814**	253,850
Interest payable on funds in court	**(50,485)**	(243,237)
Cost of administering funds in court		
CFO costs	**(15,497)**	(5,854)
CRND management costs	**(109)**	(109)
	(15,606)	(5,963)
Payable to the Consolidated Fund for 2009-2010	**723**	4,650
Prior year adjustment (see note 7)	**(82)**	0
Surplus payable to the Consolidated Fund at 31 March	**641**	4,650

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

	2010 Nominal £000	**2010 Fair value £000**	2009 Nominal £000	2009 Fair Value £000	2008 Nominal £000	2008 Fair Value £000
Maturity analysis						
Maturity: 1-5 years						
- non marketable	**0**	**0**	990,000	1,065,781	0	0
	0	**0**	990,000	1,065,781	0	0

6 Hereditary revenues

	2010 £000	2009 £000
Balance at 1 March	**347,464**	347,464
Realised gains transferred to income statement on disposal of UK Government gilt-edged securities classified as available-for-sale	**3,663**	0
Balance at 28 February	**351,127**	347,464

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

7 First time adoption of IFRS by Court Funds Office

The 2008-2009 cost of administering funds in court, payable to the client, was restated due to the implementation of IFRS by CFO. The effect on the financial statements is shown below.

Cost of administering funds in court

	£000
As reported in 2008-2009	5,772
Adjustment	82
As reported in 2009-2010	5,854

Surplus payable to the Consolidated Fund

	£000
As reported in 2008-2009	4,732
Adjustment	(82)
As reported in 2009-2010	4,650

8 Risk

8.1 Credit risk

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

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

8.2 Market risk

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

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

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

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

8.3 Liquidity risk

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

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

9 Related parties

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

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

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 2010 (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 statement on internal control.

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 30 March 2010
Head, Assurance and Financial Reporting Policy
Her Majesty's Treasury

The 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).

1 What is the Common Investment Fund?

The Fund is only available for investment of money belonging to clients or former clients of the Ministry of Justice (MoJ), individually or under a trustee arrangement, or under the control of certain Courts in England and Wales. It operates in a similar way to a unit trust where investors can buy units in a Fund. New investment monies are added to those already invested in the Fund and the Fund Manager uses it to a buy a mixture of index tracking unit trusts. Depending on how the Fund performs, the value of units changes and so does the income paid out to the investors each year. Units can be sold back to the Fund and the investor will receive the value of the units at that time.

2 What does this report cover?

This report covers the performance of the Fund for the year ended 28 February 2010, together with some information for investors and their advisers.

3 What is the legal basis for the Fund?

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

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

4 Why invest in the Fund?

The Ministry of Justice Equity Index Tracker Fund is a simple and cost-effective means of investing in the stock market over the medium to long term. Legal & General manages the Fund's assets on an index tracking basis aiming to match the returns of the major stock markets. 70 per cent of the Fund has exposure to UK shares with the remainder invested in other global markets. Index trackers invest in a representative sample of all of the companies that make up the index that they are tracking, instead of the Fund Manager actively choosing which stocks to hold in the Fund. The intention is simply to deliver the return of the index being tracked.

5 What are The Lord Chancellor and The Accountant General's responsibilities?

I The Lord Chancellor's responsibilities

Under Section 42(1) of the Act, the Lord Chancellor may make schemes ('Common Investment Schemes') establishing common investment funds for the purpose of investing funds in court and other monies defined under Section 42(5)(b) of the Act. Under Section 42(2) of the Act, the Common Investment Schemes made by the Lord Chancellor shall provide for an Investment Manager to be re-appointed by the Lord Chancellor to manage and control the common investment funds established. As indicated above, the Lord Chancellor re-appointed Legal and General (Unit Trust Managers) Limited to be the Investment Manager for the Ministry of Justice Equity Index Tracker Fund for the financial period from 1 September 2008. 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 her 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; and

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 14.

II Appointment of the Accountant General

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

III Management and Investment of Funds in Court

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

6 How does the Accountant General honour her responsibilities?

The Accountant General manages her responsibilities and associated risks through the Court Funds Office (CFO). The Court Funds Office (CFO) 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 Court Funds Office 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 – see note 14 for the split of Assets by Investment Channel);
- distribution to unit holders of dividends calculated by the Manager;
- payment of Investment Manager's fees;
- Investment Management oversight through the Court Funds Office Management Board which advises the Ministry of Justice on investment strategy and performance monitoring; and
- the implementation of a control framework with the Investment Manager to provide sufficient assurance to the Accounting Officer.

7 Accounts and Audit

These accounts are in respect of the Ministry of Justice Equity Index Tracker Fund for the year ended 28 February 2010 and have been prepared in accordance with an Accounts Direction issued by Treasury under section 45(2) of the Act as detailed on page 75. The Comptroller and Auditor General is appointed external auditor under section 45(3) of the Act. The responsibilities of the Comptroller and Auditor General are set out in the Certificate and Report as detailed on pages 61 and 62. The notional audit fee for the audit of Funds in Court Part C's Financial Statements for the year ended 28 February 2010 will be £21,000. This notional fee is disclosed in the MoJ resource account. The Managing Director 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 Legal & General
(Unit Trust Managers) Limited
22 July 2010

Pat Lloyd
Accountant General of the Senior Courts

22 July 2010

Investment Manager's Report

Investment Strategy

The Fund strategy is to track the capital return of the composite benchmark by investing in Legal & General Authorised Unit Trusts. The Fund's performance benchmark is as follows

Control Range

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

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

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

The Investment Strategy has been set after consultation with the Ministry of Justice, acting on the advice of the Court Funds Office.

The FTSE All-Share and World (ex-UK) indices are calculated by FTSE International Limited ('FTSE'). FTSE does not sponsor, endorse or promote this product. All copyright in the indices values and constituent list belongs to FTSE. Legal & General (Unit Trust Managers) Limited has obtained full licence from FTSE to use such copyright in the creation of this product. 'FTSE™', 'FT-SE®' and 'Footsie®' are trade marks of the London Stock Exchange Plc and The Financial Times Limited and are used by FTSE International Limited ('FTSE') under licence.

Manager's Investment Report

During the year under review, the Equity Index Tracker Fund rose by 43.02 per cent,while the composite benchmark rose by 42.78 per cent, producing a tracking deviation of +0.24 per cent (Source: Datastream). The published price of the Fund's units valued at 12 noon rose by 39.88 per cent during the year under review.

Tracking Deviation

The table below shows the Fund Performance for the period from 1 March 2009 to 28 February 2010, with the benchmark performance, which comprises 70 per cent FTSE All-Share Index and 30 per cent FTSE World (ex-UK) Index.

	Mar 09	Apr 09	May 09	Jun 09	Jul 09	Aug 09	
Total Fund	4.33	8.92	2.57	-3.31	8.21	6.61	
Benchmark	4.33	9.00	2.54	-3.30	8.21	6.61	
Relative	0	-0.08	0.03	-0.01	0	0	
	Sep 09	**Oct 09**	**Nov 09**	**Dec 09**	**Jan 10**	**Feb 10**	**Year**
Total Fund	5.10	-2.82	3.10	3.99	-3.59	4.03	43.02
Benchmark	5.09	-2.85	3.10	4.02	-3.63	4.02	42.78
Relative	0.01	0.03	0	-0.03	0.04	0.01	0.24

Source: Legal & General Investment Management (LGIM), as at 28 February 2010.

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 and the Legal & General International Index Trust. These distributions are held in a cash income account within the Equity Index Tracker Fund until they are paid out at the dividend dates on 10 April and 12 October.

Market/Economic Review

UK Equities

UK equities experienced sharp declines as the economy fell into recession and global financial markets suffered through the financial crisis. However, early in 2009 signs began to emerge that the economic backdrop was improving and equity markets have rallied. While official data shows that the UK economy contracted 0.7 per cent during the second quarter of 2009, recent manufacturing data indicates that the recession probably ended around mid-year.

Following its sharp contraction during the first half of 2009, UK economic activity lagged behind its major international peers during the year under review. Despite low interest rates and £200 billion of quantitative easing, the economy only returned to growth in the final quarter of 2009. However, in line with their leading global peers, UK equities delivered robust returns amid relief that the unprecedented level of global economic stimulus had steered the global economy further away from danger. As investors' confidence returned in earnest following sharp falls during the banking crisis, UK equities extended their strong second and third quarter returns, climbing by 47.34 per cent (total return) during the review year, as measured by the FTSE All-Share Index (Source: Datastream).

Overseas equities

US equities (as measured by the FTSE All World North America Index) rose 53.14 per cent during the first half of the year under review (Source:Datastream). Data confirmed that Gross Domestic Product declined at an estimated 1.0 per cent on an annualised basis in the second quarter of 2009, a dramatic improvement on the 6.4 per cent annualised contraction during the previous quarter. Prompt and decisive action from the US Federal Reserve in the wake of the banking crisis steered the world's biggest economy back on the path towards growth, helping to restore investors' confidence in the outlook for corporate earnings. The US economy emerged from recession during the third quarter, with house prices stabilising following earlier sharp falls. However, though economic data remained broadly very positive into 2010, doubts remained as to the sustainability of the economic rebound as and when the economic stimulus measures are eventually withdrawn.

During the year under review, the Japanese equity market (as measured by the Topix Index) gained 20.37 per cent (Source: Datastream). Following two quarters of contraction, the Japanese economy grew by 0.9 per cent during the second quarter of 2009. The country's emergence from recession was driven by a combination of rising exports and a massive government stimulus package which has supported a wide range of purchases such as cars and even domestic appliances. As one of the world's major exporters, Japan had also suffered from the earlier plunge in global trade, putting further pressure on the country finances. However, as the global economic backdrop improved, companies noted a recovery in exports, while a massive state-backed economic stimulus package incentivised Japan's traditionally cautious consumers to spend. Though data released in August 2009 showed that the Japanese economy had emerged from recession as early as the second quarter, towards the end of the year under review, the Bank of Japan became increasingly concerned over rising deflationary pressures.

Asian equities, as measured by the FTSE World Asia Pacific (ex Japan) Index rose by 63.22 per cent in Sterling (total return) terms during the year under review (Source: Datastream).

With many emerging markets experiencing a relatively shallow downturn in early 2009, shielded by the increasing importance of domestic consumers in countries such as China and Brazil, the broad global upturn in mid 2009 gave emerging economies fresh impetus. China's massive infrastructure-focused state support package continued to underpin demand,with the resurgence in activity lifting Gross Domestic Product for 2009 to a sprightly 8.9 per cent. In fact Chinese demand for raw materials also boosted the outlook for other emerging economies, with Brazil emerging strongly from its short-lived recession, helped by low interest rates and tax incentives for consumers and businesses.

European equities, as measured by the FTSE Local Europe (ex UK) total return Index, fell by 44.40 per cent in Sterling terms during the year under review (Source: Datastream). Having returned to growth as early as the second quarter of 2009, the German and French economies extended their recovery in the second half of 2009, with business conditions improving steadily into the year end. However, rising concerns over some southern eurozone countries' finances came to a head in early 2010 as Greece suffered a debt crisis and a ratings downgrade. Concerns mounted over the deficits run by countries such as Portugal and Spain,with the latter's finances strained by its lingering recession and unemployment of 19 per cent following the bursting of the property bubble.

Outlook

Following a sharp contraction in early 2009, the global economy has subsequently returned to health, thanks to the unprecedented levels of stimulus. Nevertheless, with some doubts remaining over whether the developed economies' recoveries are yet self-sustaining, stimulus packages are unlikely to be withdrawn completely in the near term.

Following strong returns from stock markets in the second and third quarters of 2009 on relief that the world economy had pulled back from the risk of a prolonged slump, investors' attention has more recently switched to concern over some entire countries' finances. As investors' awareness of risk has heightened, a repeat of 2009's spectacular gains looks unlikely this year. Nevertheless, in this environment,we believe that attractive opportunities should still exist for equity investors favouring well-managed, cash-generative companies offering the potential of healthy total returns.

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)
22 March 2010

Manager's Statement on Internal Control

1 Scope of responsibility

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

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 Court Funds Office(CFO) Management Board. The performance of the Fund is reported via quarterly management information,which ensures that the objectives of index tracking are fulfilled.

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

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

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

2 Purpose of system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in Ministry of Justice Equity Index Tracker Fund for the year ended 28 February 2010 and up to the date of approval of the final report and accounts.

3 Capacity to handle risk

Unit Trusts (UT) sit within the Savings division of Legal & General Group. UT have a Risk and Compliance function, that have developed a framework in conjunction with requirements under the Financial Services Authority's (FSA) Prudential Sourcebook. The Risk and Compliance function operates within the Legal & General Group Risk Management framework. The Risk Director, Unit Trusts, reports directly to the Risk Director, Savings, and is authorised under the FSA's Approved Person regime, with responsibility for Controlled Function 29 Risk Assessment.

UT adopt and apply the Legal & General Group risk policies, as follows

- Credit Risk Policy;
- Market Risk Policy;
- Liquidity Risk Policy; and
- Operational Risk Policy.

Each policy, prepared in accordance with Group standards, documents the company's appetite for that particular risk. Each policy is regularly monitored, with policies being ratified on an annual basis.

4 The risk and control framework

UT maintains a Risk Database, with risk scores calculated using the product of impact and likelihood scores. The database facilitates the recording of risk owners, controls in place, key risk indicators and control weaknesses. The Risk Database has formed the basis for recording and reviewing risks across the company. Risk Management is delegated by the Legal & General Unit Trust Managers Board to the Savings Risk & Compliance Committee. The committee was formed in 2009 to maintain oversight of risk management. Membership is as follows:

- Group Executive Director (Savings);
- Managing Director (Retail Savings);
- Managing Director (Workplace Savings);
- Managing Director (Specialist Savings);
- Managing Director (Unit Trusts);
- Finance Director (Savings);
- Head of HR (Savings); and
- With Profits Actuary.

The framework below demonstrates the risk framework within UT

The framework

- Sits within the regulatory environment (FSA, HM Revenue and Customs, etc.);
- Has defined risk policies, describing the risk tolerance and management and reporting processes; and
- Follows formalised processes to identify, assess, monitor and control risk.

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

5 Review of effectiveness

As Finance Director, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the internal control is informed by the work of the internal auditors and the Executive Managers within UT who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board, the Audit Committee and the Savings Risk and Compliance Committee, and a framework to address weaknesses and ensure continuous improvement of the system is in place. The effectiveness of the control environment is tested through risk-based monitoring, carried out by Group Risk and Compliance and Internal Audit. In addition, external reviews are undertaken by external auditors.

Any recommendations made to address control weaknesses are recorded by Unit Trusts division on the Risk Database and Regulatory Management on the Audit Recommendations Database. The status of audit actions are tracked by Management and reported at the Unit Trust Investment Risk Committee.

6 Significant internal control problems

There are no significant internal control problems to report.

SD Thomas 22 July 2010
Director
Legal & General (Unit Trust Managers) Limited

Respective responsibilities of the Lord Chancellor and Investment Manager

Lord Chancellor's responsibilities

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

Under section 42(2) of the Act, the Common Investment Schemes made by the Lord Chancellor shall provide for an Investment Manager to be appointed by the Lord Chancellor to manage and control the Common Investment Funds established. On 1 September 2003, the Lord Chancellor appointed Legal & General (Unit Trust Managers) Limited as the Investment Manager of the Fund.

Investment Manager's responsibilities

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

Treasury Direction requires the Investment Manager to follow best practice. In preparing the Funds Accounts, the Manager follows the disclosure requirements of the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association in November 2008 as updated by additional requirements from the Financial Services Authority (from time to time) and to the extent that such requirements are relevant to the Common Investment Fund. These require the Investment Manager to prepare accounts for each annual accounting period which give a true and fair view of the financial affairs of the Fund and of income/expenditure for the period. In preparing the accounts the Manager is required to

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

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

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

I certify that I have audited the financial statements of Ministry of Justice Equity Index Tracker Fund for the year ended 28 February 2010 under section 45 (3) of 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, the Related Notes and the Distribution Tables. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of Investment Manager and Auditor

As explained more fully in the Respective Responsibilities of the Lord Chancellor 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. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us 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 Ministry of Justice Equity Index Tracker Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made in the Ministry of Justice Equity Index Tracker Fund; and the overall presentation of the financial statements.

Opinion on regularity

In my opinion, in all material respects, the financial transactions of the Ministry of Justice Equity Index Tracker Fund conform to the authorities which govern them.

Opinion on the financial statements

In my opinion

- the financial statements give a true and fair view, in accordance with the Administration of Justice Act 1982 and directions made thereunder by HM Treasury, of the financial position of Ministry of Justice Equity Index Tracker Fund as at 28 February 2010 and of the total return and change in net assets attributable to unitholders for the year ended 28 February 2010; and
- the financial statements have been properly prepared in accordance with the Administration of Justice Act 1982 and HM Treasury directions made thereunder.

Opinion on other matters

- information given within the annual report, which comprises the Lord Chancellor's responsibilities and the Investment Manager's Report 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;
- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General

28 July 2010

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

Portfolio Statement as at 28 February 2010

All investments are in distribution units unless otherwise stated. The percentages in brackets show the equivalent sector holdings at 28 February 2009.

Investment	Holding/ nominal value	Market value £	% of net assets
Unit Trusts investing in UK shares – 69.78% (70.65%)			
Legal & General UK Index Trust	76,774,650	84,068,242	69.78
Unit Trusts investing in overseas shares – 30.22% (29.34%)			
Legal & General International Index Trust	69,956,949	36,405,596	30.22
Portfolio of investments		120,473,838	100.00
Net other liabilities		(39)	0
Net assets		120,473,799	100.00

The notes on pages 66 to 71 form part of these accounts.

Statement of Total Return for the year ended 28 February 2010

	Notes	**28 February 2010** £	£	Restated* 28 February 2009 £	£
Income					
Net capital gains/(losses)	2		**33,786,469**		(39,809,813)
Revenue	3	**2,995,072**		3,293,169	
Expenses	4	**441,008**		385,343	
Finance costs: Interest	6	**0**		0	
Net revenue before taxation		**3,436,080**		3,678,512	
Taxation	5	**(221,859)**		(245,336)	
Net revenue after taxation for the year			**3,214,221**		3,433,176
Total return before distributions			**37,000,690**		(36,376,637)
Finance costs: Distributions	6		**(3,214,221)**		(3,433,176)
Change in net assets attributable to Unitholders from investment activities			**33,786,469**		(39,809,813)

Statement of Change in Net Assets attributable to Unitholders for the year ended 28 February 2010

	28 February 2010 £	£	28 February 2009 £	£
Opening net assets attributable to Unitholders		**82,014,220**		117,141,440
Amounts received on creation of units	**9,404,082**		8,411,202	
Amounts paid on cancellation of units	**(4,730,972)**		(3,728,609)	
		4,673,110		4,682,593
Change in net assets attributable to Unitholders from investment activities		**33,786,469**		(39,809,813)
Closing net assets attributable to Unitholders		**120,473,799**		82,014,220

The notes on pages 66 to 71 form part of these accounts.

*Comparative figures have been restated to include the Management fee rebates, which were included in Note 3 Revenue in the prior year.

Balance Sheet as at 28 February 2010

	Notes	**28 February 2010** £	**28 February 2010** £	28 February 2009 £	28 February 2009 £
Assets					
Investment assets			**120,473,838**		82,011,071
Debtors	7	**338,230**		117,741	
Cash and bank balances	8	**1,766,128**		1,877,441	
Total other assets			**2,104,358**		1,995,182
Total assets			**122,578,196**		84,006,253
Liabilities					
Investment liabilities			**0**		0
Creditors	9	**(341,176)**		(107,365)	
Distribution payable on distribution units		**(1,763,221)**		(1,884,668)	
Total other liabilities			**(2,104,397)**		(1,992,033)
Total liabilities			**(2,104,397)**		(1,992,033)
Net assets attributable to Unitholders			**120,473,799**		82,014,220

The notes on pages 66 to 71 form part of these accounts.

SD Thomas 22 July 2010
Director
Legal & General (Unit Trust Managers) Limited

Notes to the Financial Statements as at 28 February 2010

1 Accounting policies

a Basis of accounting

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice for Authorised Funds issued by the IMA in November 2008 ('the IMA SORP 2008').

b Recognition of revenue

Revenue from distribution and accumulation units in Collective Investment Schemes is recognised when the distribution is declared. All other Revenue is recognised on an accruals basis. Equalisation on distributions received from the underlying investments is treated as capital property of the Fund.

c Treatment of expenses

The Fund receives a rebate for managerial fees suffered by underlying Collective Investment Schemes. These are treated as revenue or capital depending on the treatment of the Manager's fees in the underlying investment.

d Distribution policy

Realisable revenue, after deduction of those expenses which are chargeable in calculating the distribution, will be paid to those Unitholders with a holding at ex-dividend date. The Manager's periodic fee is deducted from revenue for the purpose of calculating the distribution. In order to conduct a controlled dividend flow, interim distributions will be at the Manager's discretion, up to a maximum of the distributable revenue for the period. All remaining revenue is distributed in accordance with the COLL (Collective Investment Schemes Sourcebook). Distributions which have remained unclaimed by Unitholders for over six years are credited to the capital property of the Fund.

e Basis of valuation of investments

All investments are valued at their fair value as at 12 noon on 26 February 2010, 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. Investments in securities by Legal & General on behalf of the Ministry of Justice Equity Index Tracker Fund are carried out on an arm's length basis following the best execution principles thereby ensuring that Legal & General meets its regulatory obligations in respect of best execution.

f Taxation

Provision is made for taxation at current rates on the excess of 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/(losses)

	28 February 2010 £	28 February 2009 £
The net capital gains/(losses)during the year comprise		
Non-derivative securities	**33,787,159**	(39,809,078)
Transaction charges	**(690)**	(735)
Net capital gains/(losses)	**33,786,469**	(39,809,813)

3 Revenue

	28 February 2010 £	Restated* 28 February 2009 £
Franked dividend distributions	**2,326,785**	2,451,750
Unfranked dividend distributions	**668,866**	809,416
Bank interest	**(579)**	32,003
	2,995,072	3,293,169

* Comparative figures have been restated to include the Management fee rebates, which were included in Note 3 Revenue in the prior year.

4 Expenses

	28 February 2010 £	Restated* 28 February 2009 £
Payable to the Manager, associates of the Manager and agents of either of them		
Manager's periodic fee	**189,866**	187,922
Management fee rebates from Legal & General Investment Management Limited	**(650,257)**	(587,898)
Registration fees	**14,163**	9,655
	(446,228)	(390,321)
Payable to the Trustee, associates of the Trustee and agents of either of them		
Safe custody fees	**5,220**	4,978
Total expenses	**(441,008)**	(385,343)

* Comparative figures have been restated to include the Management fee rebates, which were included in Note 3 Revenue in the prior year.

5 Taxation

a Analysis of taxation charge in year

	28 February 2010 £	28 February 2009 £
Corporation tax	**221,859**	245,352
Corporation tax (prior year adjustment)	**0**	(16)
Current tax [note 5(b)]	**221,859**	245,336
Deferred tax [note 5(c)]	**0**	0
Total taxation	**221,859**	245,336

b Factors affecting taxation charge for the year

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

	28 February 2010 £	28 February 2009 £
Net revenue before taxation	**3,436,080**	3,678,512
Net revenue before taxation multiplied by the applicable rate of Corporation tax at 20 per cent (2009: 20 per cent)	**687,216**	735,702
Effects of		
Prior year Corporation tax adjustment	**0**	(16)
Revenue not subject to taxation	**(465,357)**	(490,350)
Current tax	**221,859**	245,336

c Provision for Deferred tax

In the prior year there was an additional potential Deferred tax asset of £33,752 due to excess unutilised foreign tax (EUFT) of which £33,752 has been written off. This is as a result of tax legislation changes in 2009 and the abolition of EUFT.

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

	28 February 2010 £	28 February 2009 £
Interim distribution	**1,497,356**	1,605,380
Final distribution	**1,763,221**	1,884,668
	3,260,577	3,490,048
Add Revenue deducted on cancellation of units	**60,470**	46,344
Less Revenue received on creation of units	**(106,826)**	(103,216)
Distributions for the year	**3,214,221**	3,433,176
Interest		
Bank overdraft interest	**0**	0
Total finance costs	**3,214,221**	3,433,176

7 Debtors

	28 February 2010 £	28 February 2009 £
Amounts receivable for creation of units	**280,005**	0
Sales awaiting settlement	**0**	78,189
Accrued income	**58,225**	38,973
Bank interest	**0**	579
	338,230	117,741

8 Cash and bank balances

	28 February 2010 £	28 February 2009 £
Cash and bank balances	**1,766,128**	1,877,441
Net uninvested cash	**1,766,128**	1,877,441

9 Creditors

	28 February 2010 £	28 February 2009 £
Amounts payable for cancellation of units	**0**	79,999
Purchases awaiting settlement	**276,018**	0
Accrued expenses	**18,573**	13,897
Corporation tax	**46,585**	13,469
	341,176	107,365

10 Contingent liabilities and outstanding commitments

There were no contingent liabilities or outstanding commitments at the balance sheet date (28 February 2009: same).

11 Risk in relation to financial instruments

The Fund's investment strategy is stated on page 55. In pursuing its objective, the Fund holds financial instruments which expose it to various types of risk. The main risks, and the Manager's policy for managing these risks, which were applied consistently throughout the current and preceding year, are set out below.

a Credit and liquidity risk

Credit risk is the risk of suffering loss due to another party not meeting its financial obligations. The primary source of this risk to the Fund is for trade counterparties to fail to meet their transaction commitments. This risk is managed by appraising the credit profile of financial instruments and trade counterparties. Liquidity risk relates to the capacity to meet liabilities. The primary source of this risk to the Fund is the liability to Unitholders for any cancellation of units. This risk is minimised by holding cash and readily realisable securities and via access to overdraft facilities.

b Market risk

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

c Foreign currency risk

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

d Interest rate risk

Interest rate risk is the risk of movements in the value of financial instruments as a result of fluctuations in interest rates. The Fund's only interest bearing financial instruments were its bank balances and overdraft facilities as disclosed in note 8. Cash is deposited, and overdraft facilities utilised, on normal commercial terms and earn or bear interest based on LIBOR.

e Derivative risk – Sensitivity analysis

Derivative risk arises from uncertainty about future market movements. This risk is managed by the policies shown within Market risk. At the balance sheet date, no derivatives were held that could impact the Fund in a significant way (28 February 2009: same).

f Fair value

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

12 Post balance sheet events

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

13 Ultimate controlling party and related party transactions

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

Legal & General Investment Management Limited, who provide investment management services are a related party (as defined by FRS 8). Investments made on behalf of the Fund include those in L&G unit trusts,which had a market value of £120,473,838 at 28 February 2010 (28 February 2009: £82,011,071). Management fees paid to Legal & General Investment Management Limited are shown in note 4. The balances due in respect of these fees is £17,677 (28 February 2009: £12,260). Management fee rebates received from Legal & General Investment Management are shown in note 4. Rebates receivable at the year end amount to £58,225 (28 February 2009: £38,973).

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

14 Split of Assets by Investment Channel

Investment Channel 28 February 2010	Net asset value of Fund	Net asset value per unit	Number of units in issue	%
Court Funds Office (CFO)	103,976,220	983.85p	10,568,288	86.31
Official Solicitor and Public Trustee (OSPT)	7,177,705	983.85p	729,552	5.96
Other	9,319,874	983.85p	947,285	7.73
Total	120,473,799	983.85p	12,245,125	100.00
Investment Channel 28 February 2009				
Court Funds Office (CFO)	73,963,280	703.05p	10,520,338	90.18
Official Solicitor and Public Trustee (OSPT)	2,865,648	703.05p	407,602	3.50
Other	5,185,292	703.05p	737,542	6.32
Total	82,014,220	703.05p	11,665,482	100.00

Distribution Tables for the year ended 28 February 2010

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 2009 – 31 August 2009			
	Net Revenue	Equalisation	Distribution 12 October 2009	Distribution 12 October 2008
Distribution Units				
Group 1	12.3601	0	12.3601	14.1518
Group 2	3.7386	8.6215	12.3601	14.1518

Final dividend distribution in pence per unit	Period 1 September 2009 – 28 February 2010			
	Net Revenue	Equalisation	Distribution 10 April 2010	Distribution 10 April 2009
Distribution Units				
Group 1	14.3993	0	14.3993	16.1559
Group 2	2.6907	11.7086	14.3993	16.1559

Fund Facts

Total Expense Ratio

28 February 2010	0.22%	28 February 2009	0.23%

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

Portfolio Information

	Year to 28 February 2010	Year to 28 February 2009
Total purchases for the year	£9,370,227	£48,751,574
Total sales for the year	£4,694,619	£43,860,498
Portfolio Turnover Rate	(0.07%)	76.66%*

The Portfolio Turnover Rate (PTR) gives an indication of how much the Fund's investments have changed during the year. As the Fund pays for any charges involved with buying and selling investments, the higher the percentage, the more costs it has paid.

* During the prior year, the Fund transferred its holdings from the Legal & General European Index Trust, Legal & General Japan Index Trust, Legal & General Pacific Index Trust and the Legal & General US Index Trust, to the newly launched Legal & General International Index Trust. This was done with minimal cost implications for the Fund.

Performance Review

Net asset values

Accounting Date	Net asset value of Fund	Net asset value per unit	Number of units in issue
29 February 2008	£117,141,440	1,051.49p	11,140,552
28 February 2009	£82,014,220	703.05p	11,665,482
28 February 2010	£120,473,799	983.85p	12,245,125

Unit price range and net revenue

Year Distribution Units	Highest Offer	Lowest Bid	Net Revenue
2005	1,012.00p	839.30p	21.9787p
2006	1,127.00p	984.10p	24.0921p
2007	1,210.00p	1,072.00p	27.2978p
2008	1,162.00p	703.70p	27.8309p
2009	1,010.00p	645.30p	28.5160p
2010[1]	1,034.00p	958.80p	14.3993p

1 The above table shows highest offer and lowest bid prices to 28 February 2010 and the net revenue per unit to 10 April 2010.

Past performance is not a guide to future performance.

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

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

Administration of Justice Act 1982: Common Investment Funds

Accounts Direction given by Treasury

Foreword

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

> "Accounts shall be prepared and shall at such times as Treasury shall direct be sent to the Comptroller and Auditor General
>
> c in respect of transactions in a fund established by a common investment scheme, by the Investment Manager."

Treasury Direction

The Treasury, in pursuance of section 45(2) of the 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 Net Assets attributable to Unitholders;
- vi a Portfolio Statement;
- vii a Balance Sheet;
- viii Distribution Tables; and
- ix such notes as may be necessary to present a true and fair view.

4 The Foreword shall include among other items

- i a statement that the accounts have been prepared in accordance with directions given by 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; and
- v a statement on the external audit arrangements for the Fund, including commentary on the roles of the Comptroller and Auditor General and the auditors.

5 The Notes shall include among other items

- i the accounting policies;
- ii a statement of the regulatory basis of the accounts, with reference to best practice principles which apply to the funds in which the 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 & 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 November 2008 ('the IMA SORP 2008'), 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.

David A Cruden FCA 26 May 2004
Head of the Central Accountancy Team
Her Majesty's Treasury

General Information

Accounting/Distribution dates

The accounting and distribution dates for the Ministry of Justice Equity Index Tracker Fund 2010 are

Accounting dates	Distribution dates
28 February	10 April
31 August	12 October

Buying and selling units

Unit prices

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

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

Management fee

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

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

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

Individual accounts are unaffected by the management charge deduction.

Buying and selling securities

The Investment Manager buys and sells units in the underlying unit trusts on behalf of the Equity Index Tracker Fund using forward prices at the date of investment. The prices of the underlying trusts are published on the internet at www.legalandgeneral.com/investments/daily-prices.html 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.

Manager

Legal & General (Unit Trust Managers) Limited
Registered in England No. 1009418
Registered office:
One Coleman Street,
London EC2R 5AA
Telephone: 0370 050 3350
Authorised and regulated by the Financial Services Authority
Call charges will vary. We may record and monitor calls

Directors of the Manager

MB Boardman
S Ellis (appointed 5 October 2009)
M J Gregory
SR Pistell
CM Radford (resigned 1 March 2009)
SD Thomas

Secretary

A Fairhurst

Overall Governance

Ministry of Justice

Auditor

Comptroller and Auditor General
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