Funds in Court in England and Wales Account 2012-13

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

Accountant General's Accounts

The Accountant General's Accounts cover the year ended 28 February 2013. 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 Accountant General

The Accountant General of the Senior Courts is responsible for the management and investment of the Funds in Court. The day to day responsibility for delivering the service to clients is delegated to the Deputy Accountant General who is supported by the Office of the Accountant General. The operational service retains its former title of the Court Funds Office (CFO) as the client facing brand, and is delivered by a third party supplier National Savings and Investments (NS&I).

For clarity, the responsibilities and service provided to clients will be referred to as CFO.

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

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

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

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

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

OAG Management Team

The OAG Management Team is led by Eddie Bloomfield, Deputy Accountant General, who reports directly to the Accountant General, Darren Tierney, and comprises all permanent staff in OAG and the Non-Executive Investment Advisors. The purpose of the Management Team is to advise the Deputy Accountant General so as to assist him in his decision making and monitoring in respect of:

- Leadership, strategy and direction;
- Policy;
- Finance;
- Performance and service management of the outsourced supplier NS&I;
- Corporate governance and risk;
- Communications with internal and external stakeholders; and
- Performance and service management of the EITF manager Legal and General.

Membership of the Management Team for civil servants is based on appointment to the OAG. The Non-Executive Investment Advisors are appointed by the Deputy Accountant General and have appointment letters for a fixed term. Their role is the provision of advice on client investment issues mainly relating to the Common Investment Fund as defined in the Administration of Justice Act Section 42. They will also advise of any other general investment matters.

The table below lists all persons who comprised the OAG Management Team during the year ended 28 February 2013:

Name	**Role or title**	**Date of Appointment**	**Expiry/ Leaving Date**
Eddie Bloomfield	Deputy Accountant General & Head of OAG	05/12/2011	
John Little	Head of Finance	05/12/2011	
Colin Scott	Head of Service and Contract Management	05/12/2011	
Andy Allan	Head of Policy, Legislation and Communications	13/12/2011	
Elizabeth Jeary	CFO Products and Services Champion	05/12/2011	
Nick Farley	Financial and Management Accountant	05/12/2011	
Ceryse Nickless	Policy and Legislation Officer	11/06//2012	10/05/2013
David O'Shea	Policy and Legislation Officer	30/04/2012	
Lauren Adams	Policy Officer	05/12/2011	24/08/2012
James Page	Executive Support and Team Secretary	05/12/2011	
Alan Clifton	Non-Executive Investment Advisor	05/12/2011	31/03/2014
Dr Ros Altmann	Non-Executive Investment Advisor	05/12/2011	31/03/2014

Investment strategy

Client funds are invested in the Court Funds Investment Account (CFIA) through the CRND. These funds are invested by CRND in cash based instruments and HM Government Gilts to earn the agreed rate of return which is set at the Bank of England Base Rate.

Client funds are invested in either the Basic or Special Accounts, and the monies held in court may be paid into either account in accordance with the Court Funds Rules. The rates of interest paid on these accounts are prescribed by direction of the Lord Chancellor, with the concurrence of HM Treasury.

During the year 1 March 2012 to 28 February 2013 the gross percentage rates paid were Basic Account 0.3 per cent and Special Account 0.5 per cent.

Interest earned on the deposits with CRND pays the interest due on the Basic and Special Accounts and the operating costs of OAG. Any residual surpluses or deficits are either surrendered to or are drawn down from the Consolidated Fund (CF).

Where a judge considers it appropriate for a child's funds to be invested over the medium to long term they may direct for part of the award to be invested for capital growth. In accordance with CFO's investment strategy, where there is more than £10,000 to invest and more than five years until majority, a proportion of the fund may be invested in each of the Special Account and the EITF. The EITF is a Common Investment Fund managed by Legal and General on the Lord Chancellor's behalf. The funds are invested in a spread of indices – 65 per cent track the FTSE All-Share Index, 30 per cent track the FTSE All-World (ex-UK) Index and 5 per cent track the FTSE All-World Emerging Index. Prior to 28 May 2012 the percentages were 70 per cent FTSE All-Share Index and 30 per cent FTSE All-World (ex UK) Index.

Management Commentary for the year ended 28 February 2013

The Statement of Comprehensive Net Expenditure reports a deficit of £5.813 million (£0.573 million in 2011-12). This deficit has been funded out of reserves – see Note 16 for impact of deficit on reserves as at 28 February 2013.

The increase in deficit of £5.240 million is due to:

- Interest Income has decreased by £1.141 million to £15.920 million (£17.061million in 2011-12). This is mainly due to the decrease in client account balances (Deposits and Advances) which has reduced interest earned by £1.927 million. This reduction has been offset by an increase in Foreign Currency interest (£0.163 million) and Debt Securities interest (£0.274 million), and a reduction in the Surplus Income Payable to the Consolidated Fund (£0.349 million). See Note 3.

- Interest Due to Clients' Accounts has decreased by £1.684 million to £11.851 million (£13.535 million in 2011-12). This reflects the same trend as Interest Income and is mainly due to the decrease in client account balances particularly on Special Accounts where interest due has decreased by £2.144 million. This is offset by increases in Foreign Currency (£0.163 million), Debt Securities (£0.271 million) and Basic Accounts (£0.005 million). There was also a reduction in the Interest Accrued (£0.021 million). See Note 4.

- Dividend Income, Gains/(Losses) Arising from Securities and Gains/(Losses) Arising from Foreign Exchange have a nil net impact because these are funds that are solely attributable to the clients and any gains or losses are borne by them. The exception to this are Gilts owned by OAG. The interest on OAG Gilts increased by £0.086 million to £0.142 million (£0.056 million 2011-12). See Note 8 for further details.

- Gains/(Losses) Arising from Securities are caused by movements in the market price of holdings and total £12.662 million. This is made up of movements on client securities of £12.520 million and OAG securities of £0.142 million

- Gains/(Losses) on Foreign Exchange reflects movement in exchange rates over the financial year. In 2012-13 there was a total gain of £6.628 million. This movement is explained by the appreciation of the dollar against the sterling yielding a £8.633 million gain and the depreciation of the Euro and Australian Dollar against sterling resulting in losses of (£1.996 million) and (£0.009 million) respectively.

- Administrative expenses of OAG increased by £5.869 million to £9.916 million £4.047 million in 2011-12). This is due to not receiving any contribution from the Ministry of Justice in 2012-13. Gross costs, ignoring any contribution, have reduced by £4.331 million reflecting in 2011-12 the closure of the modernisation programme and final costs relating to the former Court Funds Office. See Note 9 for further details.

The Statement of Financial Position reports a decrease in Total Assets of £381.371 million to £3,289.026 million (£3,670.397 million in 2011-12). This is due to:

- Cash and Cash Equivalents decreased by £8.087 million to £184.085 million (£192.172 million in 2011-12). This was caused by an excess of payments out over lodgements in foreign currency accounts (£15.054 million), the effect of revaluation gains (£6.628m) and interest earned (£0.339m).
- Deposits and Advances reflect the funds deposited in the CFIA. The holdings have decreased by £360.752 million to £2,937.943 million (£3,298.695 million in 2011-12). All assets belong to clients and other stakeholders and therefore have a corresponding liability in the Statement of Financial Position. Movement in funds are explained in the following paragraph.
- Client Cash Account Balances (excluding Foreign Currency which is not held in the CFIA) have decreased by £352.371 million. This is explained by a reduction in Special Account balances which have decreased by £317.808 million to £1,466.133 million (£1,783.941 million in 2011-12) and Basic Account balances which have decreased by £46.225 million to £915.575m (£961.800 million in 2011-12). The remaining £11.662 million relates to increases on other account balances. See note 14.
- Reserves have decreased by £5.813 million mainly reflecting a reduction in interest reserves. See note 16. Cash borrowings have decreased by £8.062 million to reflect the current cash position at the end of 2012-13. See note 10. Other liabilities have increased by £5.494 million largely reflecting a larger draw down of management expenses. See note 15.
- Debt securities reflect client holdings transferred into Court or acquired on behalf of clients from other sums paid into the CFIA. The value of the securities decreased by £3.201 million to £16.466 million (£19.667 million in 2011-12).
- Investment Securities reflect client holdings transferred into Court or acquired on behalf of clients from other sums paid into the CFIA. The value of the securities decreased by £9.331 million to £150.532 million (£159.863 million in 2011-12) mainly due to a decrease in the volume of units held. Holdings decreased by 8.582 million units to 28.230 million units (36.812 million units in 2011-12). This is mainly due to net transfers of holdings to clients of 5.508 million units (6.060 million m units in 2011-12) as a result of directions for children reaching majority and Deputies transferring control to private stockbrokers. The decrease has also been caused by an excess of sales over purchases of 3.074 million units. The majority of these holdings are made up of EITF holdings (£106.836 million) and also include Unit Trusts (£25.283 million), Stocks, Shares and Loan notes (£18.376 million) and National Savings and Other holdings (£0.037 million). See note 13.

Financial instruments

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

Risks and uncertainties

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

Clients can also deposit funds in foreign currency; these funds are held in the relevant currency and any exchange risk is borne by the clients. In some specific circumstances clients can hold funds in investment securities. 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 service is exposed to operational risks, such as fraud and maladministration, and operates a system of internal controls to manage these risks. This is explained in the Governance Statement on page 9.

CFO Service Key Performance Indicators (KPIs)

The CFO service is managed by OAG through a Memorandum of Understanding (MOU) with NS&I. This provides for Key Performance Indicators to be achieved across all elements of the service. The performance for 2012-13 is set out below.

KPI	Process	Description	Target	2012-13 Yearly Average
1	Cheque Deposits	Cheques received to be delivered to carrier on day of receipt.	97.00%	100.00%
		Receipt transactions match balances on the General Ledger.	100.00%	100.00%
2	Transferred Funds	Transfer notified to DMO prior to 12.00.	100.00%	100.00%
		Value of transfers matches DMO statement.	100.00%	100.00%
3	Lodgments	Client account setup within 2 working days of receipt of lodgement form.	97.00%	98.46%
4	Forms 212 and EITF Transactions	Form 212s processed within 14 working days of receipt.	100.00%	100.00%
		EITF Purchase and Sale orders processed within 5 working days of receipt.	97.00%	97.21%
5	Securities Transactions	Cash dividends and corporate actions credited to client account on day of receipt.	100.00%	99.94%
		Transfers effected within 2 working days of receipt.		
		Non EITF securities sales and purchases orders/ instructions are passed to Brokers/Fund Managers on day of receipt.		
6	Payment Processing	Payments/Transfers are made within 3 working days of receipt of instruction.	97.00%	97.95%
7	General Correspondence	Correspondence responded to within 5 working days.	97.00%	98.03%
8	Majority Statements	Majority statements to be issued between 4-6 weeks prior to a child's 18th birthday.	100.00%	100.00%
9	Annual Review of Child Accounts	Child Accounts reviewed once a year within the month that the child's birthday falls.	100.00%	100.00%
10	Telephone Helpline	Calls should be answered within 20 seconds of becoming answerable.	90.00%	99.63%

The key points arising from KPI performance are:

- The service is operating at levels consistently above KPI targets.
- There has been an upward trend in KPI performance during the first full year of outsourced operations.
- There have been KPI breaches on three occasions in relation to securities transactions.
- In April 2012 KPIs 3, 6 and 7 were subject to minor breaches related to workload at the end of the warranty period. In December 2012 and January 2013 KPI 5 (target 100%) was subject to one breach in each month from late processing of one item of work. The failures appear to be individual incidents rather than indicative of a trend.

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 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 2013 was £65,700. There have been no fees paid in respect of non-audit work.

Darren Tierney 3 July 2013
Accountant General of the Senior Courts

Statement of the Accountant General's responsibilities

Management and Investment of Funds in Court

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

Statement of Accounts

Under Section 45 (1) of the Act, the Accountant General is required to prepare a statement of Accounts for each financial year in the form and on the basis as directed by the Treasury. These Accounts are prepared so as to give a true and fair view of the state of affairs as at 28 February 2013 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 Darren Tierney as Accountant General of the Senior Courts on 1 October 2012. The Permanent Secretary of the Ministry of Justice has also appointed the Accountant General as the Accounting Officer for Funds in Court. The latter's relevant responsibilities as Accounting Officer, including responsibilities for the propriety and regularity of the funds for which he is answerable and for the keeping of proper records, are set out in the Accounting Officer's Memorandum issued by the Treasury and published in *Managing Public Money*.

Governance Statement

Statement of Accounting Officer's responsibilities

I am the appointed Accountant General of the Senior Courts and the appointed Accounting Officer for the Funds in Court. I understand the responsibilities of an Accounting Officer as set out in *Managing Public Money* including:

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

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

There were no Ministerial directions given to me as the Accountant General in the year ending 28 February 2013.

The governance framework

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

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

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

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

- Achievement of OAG objectives as stated in the 2012-13 Business Plan;
- Strategy relating to the Funds in Court;
- Financial management including production of White Paper Accounts;
- Performance and service management of the outsourced operational delivery supplier NS&I including performance against KPIs;
- Corporate governance and risk;
- Communications with internal and external stakeholders;
- Performance management of the EITF including performance against the agreed investment ratios; and
- Staffing and HR issues.

The Management Team meets formally each month and all decisions and actions are minuted. These minutes are retained at the OAG office and are available for inspection by internal and external audit. The standing agenda covers all areas above including review of internal and external management information. At the balance sheet date OAG is content with the internal information provided and external KPI and financial information received from NS&I. There are some issues relating to general management information that are under discussion between OAG and NS&I.

The Management Team is supported by two Non-Executive Investment Advisors who attend team meetings on a quarterly basis. Their role is to provide advice and support to the Management Team on the EITF, and to challenge its provider where necessary. They do not provide the full range of Non-Executive Director functions as this does not currently align with the structure and objectives of OAG.

The Management Team Meetings are chaired by the Deputy Accountant General and are attended by all permanent employees of OAG. Where appropriate, others may be invited to attend meetings to observe or advise but are not part of the decision making process.

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

- Risk Committee – Responsible for reviewing and monitoring potential risks to the OAG objectives including CFO Service that would lead to a failure in the Accountant General's responsibilities to CFO clients and/or Parliament. The Committee reports on risk at the monthly OAG Management Team Meeting.
- Finance Review Group – Responsible for discussing strategic financial issues and meets monthly. The output of the Group is reported back to the monthly OAG Management Team meeting for formal sign off.

Service governance arrangements

NS&I is responsible for delivering an annual ISA3402 statement of assurance to the Accountant General covering control aspects of the CFO Service as defined in the Memorandum of Understanding (MoU) and its Schedules between the Accountant General and NS&I.

In addition to the OAG's internal governance structure there is also the NS&I Operational Delivery Group (ODG) to cover the partnership with NS&I.

This Group is chaired by NS&I who is responsible to the OAG for delivery of the CFO Service. The OAG Head of Service and Contract Management attend. The ODG oversee the CFO Service delivery, ensuring that operational objectives are achieved; that risks, issues and major incidents are managed; and explore reasons for any failures of service quality, including KPI breaches. The ODG meets monthly and all decisions and actions are minuted. Its output is reported to the OAG Management Team meeting each month. On a quarterly basis, the Head of OAG and the NS&I Director for Business to Business (B2B) attend the ODG to receive reports on performance and to address any issues requiring strategic direction.

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

Management Team effectiveness

The Management Team held a Development Day on 29 January 2013 to look at the achievements and challenges of the team. It considered resources and created a new structure to reflect the priorities identified in the 2013-14 Delivery Agreement. The Team also discussed the governance framework in place and whether adjustment was necessary. The main conclusion of this exercise was that although objectives were being delivered OAG should realign its management structure to improve sharing of knowledge, shifts in priorities across the team and strengthen continuity. This realignment has been completed.

In addition, the Deputy Accountant General formally reports quarterly to the Accountant General with regard to performance. The Deputy Accountant General also meets with the Accountant General on a monthly basis.

In April 2013, the OAG received a GREEN Delivery Confidence Assessment from the final OGC Gateway Review for the Investment & Banking (Court Funds Modernisation) Programme. The findings of the Review Team were positive about how the CFO Service had transitioned and about the new arrangements in place with NS&I.

Risk management

OAG operates a risk control framework embedded within the governance structure of the organisation. This is managed through the risk register maintained by the OAG Risk Committee as detailed above.

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

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

Day to day risk of operational fraud and maladministration passed to NS&I when CFO operations were transferred on 5 December 2011. NS&I have embedded management of the CFO Service into its management functions. Risks to delivery of the CFO Service are assessed by each function and monitored regularly as part of the NS&I risk management cycle. An NS&I risk log for the CFO Service is used to manage and control this process. The log is discussed at the monthly ODG and forms part of the report to the monthly OAG Management Team.

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

- NS&I Internal Audit & Fraud Control Teams

  Under the MoU NS&I is responsible for operation and for control of the CFO Service. Review of the service, its risks and its control weaknesses are part of this responsibility. The annual NS&I internal audit plan includes specific reviews of the CFO Service. Their generic process reviews across all operations will also review implications for the CFO Service. Where OAG has a concern about operation or control of the CFO Service it can commission specific reviews by the NS&I Internal Audit. Issues that have arisen during the year are reported below under "Control Incidents".

- NS&I external review of the CFO Service and its control environment

  An external review of the control framework for the CFO Service for year ending 28 February 2013 was commissioned by NS&I from KPMG. The review was based on the framework in International Auditing Standard on Assurance Engagements 3402 (ISAE 3402). NS&I will carry out a similar annual review each year as part of its assurance to the Accountant General about the quality of the CFO Service.

- MoJ IAAD

  MoJ IAAD will carry out inspections on specific areas of business as agreed through the audit planning process. During 2012-13 there were two reports relating to work carried out on court closures and a review of the recharging methodology with HMCTS. With regard to court closures IAAD concluded that they were able to provide reasonable assurance that OAG and NS&I had taken effective action to ensure that client records have been updated and clients are directed to the correct institutions to claim their awards. For further details please see the Court Closures control incident shown below. With respect to the HMCTS recharging methodology IAAD concluded that that a review should be conducted between HMCTS and OAG to confirm arrangements for recharging (which is being progressed in the 2013-14 financial period). The report also made recommendations with regard to historic over charging and advised that checks be completed on supporting information prior to HMCTS and OAG agreeing a settlement figure (final settlement was made in the 2013-14 financial period).

Overall assessment of adequacy of risk management for CFO Service

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

- The descriptions fairly present the CFO System as designed and implemented as at 28 February 2013; and
- The controls related to the control objectives stated in the description were suitably designed as at 28 February 2013.

The KPMG external review did identify issues with logical controls for the workflow system. This was discussed in detail with NS&I. Whilst it was agreed that these control issues did not present a financial risk to the fund, the review identified a potentially serious weakness in control around access passwords and related matters. OAG will work with NS&I during 2013-14 to ensure that the relevant controls are working effectively.

Control incidents

At the end of 2012-13 all incidents and issues stated in last year's Governance Statement were closed.

During 2012-13 the following control incidents were identified by OAG:

- CFO Legacy Cash Losses

  The former Court Funds Office (CFO) closed on 5 December 2011. OAG inherited £308,000 of potential cash loss cases mainly relating to overpayments where recovery action was ongoing but not completed by the transition date. The largest single case (£145,000) related to a single client against which a property was secured as explained in the following paragraph. As at 28 February 2013 there are 33 cases remaining with a total value of £163,000 which will be actioned during 2013-14. On 20 June 2013 a further case was discovered with a value of £16, 000 which will now be included in the list of cases to be actioned.

- Property in Spain

  A former client of CFO was overpaid £145,000 in 2002. When the error was discovered the client was traced and it was established that they had used the funds to purchase a property in Spain. This property was taken by OAG in lieu of the overpayment and transferred into the name of the Accountant General. At the date of signature below OAG is pursuing the sale of the property, and when sold the proceeds will be returned to client funds.

- Discharged Deputies

  There were two cases where payments were made to Deputies after one had been discharged and the other suspended by the Court of Protection. The values were £320,000 and £131,000 respectively. In the case of the discharged Deputy, CFO were not informed prior to the payment being made and it is currently being investigated whether funds have been used for the client's benefit. In the case of the suspended Deputy NS&I have accepted liability for the error and investigations are ongoing to resolve the position. At the date of signature below, both cases are ongoing but in the case of the suspended Deputy an individual has been charged and will appear again in court at a later date. There is no expected financial liability relating to OAG or client funds.

- Court Closures

  The issue of court closures where records had not been updated was set out in the 2011-12 Governance Statement. To manage the low risk of fraud the following actions were taken during the year. Individually prepared letters were sent to clients advising them, where a court had closed, the new court they should contact. NS&I have updated all records on Thaler to reflect the changes from court closures. HMCTS wrote to courts asking for return of closed court authentication stamps. HMCTS issued reminders to courts on procedures with CFO where a court was due to close. MoJ IAAD reviewed actions taken and issued a final report with no recommendations for further action.

- NS&I Cash Losses

  A control to block a payment was not implemented in one instance when requested by the court. This led to one of the parties receiving money that should have been withheld. The amount involved was £32,000. NS&I are currently working on recovery of funds and investigating the cause of the control failure. There is no risk of loss to the account as the payment will either be recovered or NS&I will reinstate the value.

  This governance statement has been reviewed by all members of the OAG Management Team for completeness and accuracy. It is the opinion of the Deputy Accountant General and Head of OAG that all material issues have been disclosed to me as the Accounting Officer.

Darren Tierney 3 July 2013
Accountant General of the Senior Courts

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 Funds in Court in England and Wales (Part A) for the year ended 28 February 2013 under the Administration of Justice Act 1982. The financial statements comprise: the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accountant General and Auditor

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

Scope of the audit of the financial statements

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

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

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of Funds in Court in England and Wales (Part A) account's affairs as at 28 February 2013 and of the net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Administration of Justice Act 1982 and HM Treasury directions issued thereunder.

Opinion on other matters

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

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Amyas CE Morse
Comptroller and Auditor General

5 July 2013

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

Statement of Comprehensive Net Expenditure for the year ended 28 February 2013

	Notes	**28 February 2013 £000**	29 February 2012 £000
Income			
Interest Income	3	**15,920**	17,061
Interest due to clients' accounts	4	**(11,851)**	(13,535)
Net Interest income		**4,069**	**3,526**
Dividend Income	5	**3,523**	4,043
Gains/(Losses) arising from securities	6	**12,662**	3,048
Gains/(Losses) arising from foreign exchange	7	**6,628**	3,650
Income due to clients' holdings	8	**(22,671)**	(10,685)
Net income		**4,211**	**3,582**
Expenses			
Administrative expenses – OAG	9	**(9,916)**	(4,047)
Management charges from CRND		**(108)**	(108)
Total expenses		**(10,024)**	**(4,155)**
Total Comprehensive Net Expenditure Transferred (from)/to Reserves and Hereditary Revenues		**(5,813)**	**(573)**

The notes on pages 19 to 28 form part of these accounts.

Statement of Financial Position as at 28 February 2013

	Notes	**28 February 2013 £000**	29 February 2012 £000
Assets			
Current assets			
Cash and cash equivalents	10	**184,085**	192,172
Deposits and advances	11	**2,937,943**	3,298,695
Debt securities	12	**16,466**	19,667
Investment securities	13	**150,532**	159,863
Total assets		**3,289,026**	**3,670,397**
Liabilities			
Current liabilities			
Cash borrowings	10	**5,521**	13,583
Clients' holdings in debt securities	12	**16,466**	19,667
Clients' holdings in investment securities	13	**150,532**	159,863
Clients' cash account balances	14	**2,748,870**	3,109,328
Other liabilities	15	**10,407**	4,913
Total current liabilities		**2,931,796**	**3,307,354**
Total assets less total liabilities		**357,230**	**363,043**
Reserves	16	**357,230**	**363,043**

The notes on pages 19 to 28 form part of these accounts.

Darren Tierney 3 July 2013
Accountant General of the Senior Courts

Statement of Cash Flows for the year ended 28 February 2013

	Notes	**28 February 2013 £000**	29 February 2012 £000
Cash flows from operating activities			
Operating surplus/(deficit)		**(5,813)**	(573)
(Increase)/decrease in deposits and Advances		**5,935**	571
(Increase)/decrease in debt securities		**7,567**	15,284
(Increase)/decrease in investment securities		**9,331**	24,098
Increase/(decrease) in client cash accounts		**(359,923)**	(320,845)
Increase/(decrease) in client holdings in debt securities		**(3,201)**	(5,081)
Increase/(decrease) in client holdings in investment securities		**(9,331)**	(24,098)
Increase/(decrease) in other liabilities		**10,772**	(7,716)
Increase/(decrease) in reserves		**(5,813)**	(765)
Net cash flows from operating activities		**(350,476)**	**(319,125)**
Cash flows from investing activities			
Cost of purchases of debt securities		**(4,366)**	(10,203)
Proceeds from sales of debt securities		**–**	–
Net movement in short-dated cash deposits		**354,817**	491,541
Net cash flows from investing activities		**350,451**	**481,338**
Cash flows from financing activities		**–**	–
Net increase/(decrease) in cash and cash equivalents		**(25)**	**162,213**
Cash and cash equivalents at 1 March 2012		**178,589**	16,376
Cash and cash equivalents at 28 February 2013	10	**178,564**	**178,589**

The notes on pages 19 to 28 form part of these accounts.

Notes to the Financial Statements

1 Statement of accounting policies

These financial statements have been prepared in accordance with the direction made by HM Treasury under section 45 of the Administration of Justice Act 1982, as detailed on page 3 of the Annual Report and Accounts. In applying this direction, due regard is given to the 2012-13 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 and Wales (Part A) for the purpose of giving a true and fair view has been selected. The particular policies adopted are described below. They have been applied consistently in dealing with items that are considered material to the Accounts.

1.1 Accounting convention

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

1.2 Consolidation boundaries

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 are prepared on an accruals basis and consolidated in full. Part C Accounts figures are not totally consolidated, only the elements which relate to CFO. The valuation in the consolidated Part A Accounts is based on the net asset value of the units held.

1.3 Recognition of income

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

Income is recognised in the accounts on the following bases:

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

1.4 Valuation of securities and 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 13 for description of investment securities) are determined, mainly by reference to published price quotations in an active market. Loan Notes and National Savings Holdings are valued at face value, as there are no market values for these instruments. These instruments make up approximately 0.02 per cent of the overall investment securities value.

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

There are certain movements in securities where no cash transfer occurs (lodgments and transfers). These include securities previously held by clients that are transferred into Court (lodgments) or securities held which are transferred to clients rather than being sold (transfers). For these movements, cash values are estimated by using closing market prices applicable on the date the transaction occurs.

The EITF is valued using Net Asset Value as at 28 February 2013.

1.5 Hereditary revenues and reserves held by CRND

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

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

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

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

Other Reserves held by CRND relate to surplus interest within the CFIA as at 28 February 2013. See note 16.

1.6 Administrative expenses – OAG

The costs incurred by the OAG, and the Management Fees levied by the CRND are included in the Statement of Comprehensive Net Expenditure. Management fees levied by EITF are reflected in the unit prices used to value these holdings. See Note 9 for further explanation of OAG costs.

1.7 Foreign currency transactions

Assets and liabilities included in the Statement of Financial Position that have a functional currency different from the presentation currency are translated into the presentation currency at the closing rate at 28 February 2013.

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

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

1.8 Ways and Means

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

1.9 Changes in structure and format

To improve the structure and format of the Statement of Financial Position Reserves have been moved from Long Term Liabilities to be disclosed separately on the face of the Statement of Financial Position (Note 16); the asset side of securities now incorporates dividends and coupons due which were previously separately disclosed in Note 10; the liabilities side of securities have been disaggregated into debt and investment securities (Notes 12 and 13). Note 12 also now incorporates former Note 2.4 (maturity analysis of debt securities). All prior year balances have been restated as required and overall this has a nil impact on the balances.

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 change its administered rates within approximately 1 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 CRND or the National Loans Fund and are considered to have no exposure to credit risk because both accounts are backed by HM Government. Similarly, gilts are considered to be free of credit risk because they have the backing of HM Government.

2.3 Market risk

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

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

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

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

2.4 Liquidity risk

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

The CFO 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 CRND are highly liquid to enable client obligations to be met as they fall due.

A maturity analysis for UK Government Gilts managed on behalf of the CFO by the CRND and UK Government Gilts held on behalf of clients by the CFO is provided in Note 12.

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 are designed to mitigate risks. It is recognised that such risks can never be entirely eliminated and that the costs of controls in minimising these risks may outweigh the potential benefits. The system of internal control is therefore designed to provide reasonable assurance that these risk exposures are maintained at acceptable levels of tolerance. See Governance Statement for further details.

3 Interest Income

	28 February 2013 £000	29 February 2012 £000
Foreign currency	**339**	176
Deposits and advances	**15,585**	17,512
Debt securities	**547**	273
Total interest receivable	**16,471**	**17,961**
Surplus income payable to Consolidated Fund	**(551)**	(900)
Total Interest Income	**15,920**	**17,061**

Interest is received on deposits held by CRND in the Court Funds Investment Account, client holdings held in foreign currency and debt securities. Where surplus income over that owed to clients is generated it is surrendered to the Consolidated Fund.

4 Interest due to clients' accounts

	28 February 2013 £000	29 February 2012 £000
Interest paid		
Court funds – basic account	**(3,029)**	(3,024)
Court funds – special account	**(8,474)**	(10,618)
Foreign currency	**(339)**	(176)
Debt securities	**(544)**	(273)
Total interest paid	**(12,386)**	**(14,091)**
Interest accrued		
At period end	**(2,944)**	(3,479)
At period start	**3,479**	4,035
Total interest due to clients' accounts	**(11,851)**	**(13,535)**

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

5 Dividend income

	28 February 2013 £000	29 February 2012 £000
Dividends received in year	**3,942**	3,836
Dividends acrued – period end	**1,361**	1,780
Dividends accrued – period start	**(1,780)**	(1,573)
Total dividend Income	**3,523**	**4,043**

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

6 Gains/(Losses) Arising from Securities

	28 February 2013 £000	29 February 2012 £000
Client securities	**12,520**	2,997
OAG securities	**142**	51
Total gains/(losses) arising from securities	**12,662**	**3,048**

In year securities transactions are valued at the market value at the point in time they occur. End of year holdings are valued using the prevailing market value at 28 February 2013. This principle generates in year Gains/(Losses), which are set out above.

7 Gains/(losses) arising from foreign exchange

	28 February 2013 £000	29 February 2012 £000
US Dollars	**8,633**	3,470
Euros	**(1,996)**	168
Australian Dollars	**(9)**	12
Total gains/(losses) arising from foreign exchange	**6,628**	**3,650**

In year foreign currency transactions are valued using end of month exchange rates which are subject to movements over the year. End of year holdings are valued at the prevailing exchange rate at 28 Feb 2013. This principle generates in year Gains/(losses), which are set out above.

8 Income due to clients' holdings

	28 February 2013 £000	29 February 2012 £000
Dividend Income	**(3,523)**	(4,043)
Gains/(losses) arising from securities	**(12,662)**	(3,048)
Gains/(losses) arising from foreign exchange	**(6,628)**	(3,650)
Total	**(22,813)**	**(10,741)**
Less income not due to clients	**142**	56
Total income due to clients' holdings	**(22,671)**	**(10,685)**

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

9 Administrative expenses – OAG

	28 February 2013 £000	29 February 2012 £000
Staff costs	**(598)**	(127)
Accommodation	**(115)**	(4)
IT	**(31)**	(5)
General support	**(984)**	(242)
Third party supplier	**(7,963)**	(1,858)
Former CFO	**(1,302)**	(8,771)
Investment and banking programme	**1,077**	(3,240)
Total gross expenses	**(9,916)**	**(14,247)**
Contribution from Ministry of Justice	**–**	10,200
Total net administrative expenses	**(9,916)**	**(4,047)**

The administrative expenses of the OAG cover the costs of running the operational service to clients and associated management costs such as contract management, financial control and policy. During the year there were some final residual costs relating to the former CFO and a credit from closure of the Investment and Banking Programme. For comparative purposes it should be noted OAG only existed for three months in year ending 29 February 2012.

10 Cash and cash equivalents

	28 February 2013 £000	29 February 2012 £000
Assets – Foreign Currency Bank Accounts		
Balance at 1 March	**192,172**	27,890
Net change in cash and cash equivalents balances	**(8,087)**	164,282
Balance at year end	**184,085**	**192,172**
Liabilities – Sterling Bank Accounts		
Balance at 1 March	**(13,583)**	(11,514)
Net change in cash and cash equivalents balances	**8,062**	(2,069)
Balance at year end	**(5,521)**	(13,583)
Net cash and cash equivalent holdings	**178,564**	178,589

11 Deposits and advances

	28 February 2013 £000	29 February 2012 £000
Call notice deposits	**2,933,432**	3,288,435
Fixed term deposits	**4,511**	10,260
Ways & Means Account	**–**	–
Total deposits and advances	**2,937,943**	**3,298,695**

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

12 Clients' holdings in debt securities

2013	Nominal £000	Market Value £000
Holdings with CRND	–	–
Holdings held on behalf of Clients	7,765	16,392
Dividends and coupons due	–	74
Total debt security holdings	**7,765**	**16,466**

2012	Nominal £000	Market Value £000
Holdings with CRND	–	–
Holdings held on behalf of clients	9,846	19,574
Dividends and coupons due	–	93
Total debt security holdings	**9,846**	**19,667**

2013	Nominal £000	Market Value £000
Maturing in less than three months	–	–
Maturing in more than three months but less than one year	688	1,924
Maturing in more than one year but less than five years	272	604
Maturing in over five years	6,805	13,864
Total debt security holdings	**7,765**	**16,392**

2012	Nominal £000	Market Value £000
Maturing in less than three months	5	5
Maturing in more than three months but less than one year	–	–
Maturing in more than one year but less than five years	1,591	3,699
Maturing in over five years	8,250	15,870
Total debt security holdings	**9,846**	**19,574**

13 Clients' holdings in investment securities

	28 February 2013 £000	29 February 2012 £000
Market valuation summary		
Equity Index Tracker Fund	**105,519**	107,478
Unit trust holdings	**25,283**	31,343
Stocks, shares and loan notes	**18,332**	19,228
National Savings and other holdings	**37**	35
Total	**149,171**	**158,084**
Dividends and coupons due		
Equity Index Tracker Fund	**1,317**	1,650
Unit trust holdings	**–**	64
Stocks, shares and loan notes	**44**	65
National Savings and other holdings	**–**	–
Total	**1,361**	**1,779**
Total value of investment securities		
Equity Index Tracker Fund	**106,836**	109,128
Unit trust holdings	**25,283**	31,407
Stocks, shares and loan notes	**18,376**	19,293
National Savings and other holdings	**37**	35
Total	**150,532**	**159,863**
Market holdings summary (Units)		
Equity Index Tracker Fund	**8,653**	9,654
Unit trust holdings	**17,053**	23,937
Stocks, shares and loan notes	**2,494**	3,191
National Savings and other holdings	**30**	30
Total investment securities	**28,230**	**36,812**
Movements in holdings during the year (units)		
Balance at start of year	**36,812**	46,704
Purchases during year	**4,971**	5,579
Sold during Year	**(8,045)**	(9,411)
Net transfers (to)/from clients	**(5,508)**	(6,060)
Balance as at year end	**28,230**	**36,812**

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

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

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

EITF holdings are valued at a Net Asset Value of 1,219 pence (1,113 pence in 2011-12).

14 Clients' cash account balances

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

	28 February 2013 £000	29 February 2012 £000
Court Funds placed on basic Account	**915,575**	961,800
Court Funds placed on special Account	**1,466,133**	1,783,941
Unclaimed balances	**125,778**	119,262
Other suitors deposited in the senior courts	**54,355**	48,674
Clients' monies held as Foreign Currency	**184,085**	192,172
Total client cash balances	**2,745,926**	**3,105,849**
Accrued interest	**2,944**	3,479
Total client balances	**2,748,870**	**3,109,328**

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

14a Clients' receipts and payments during year

	28 February 2013 £000	29 February 2012 £000
Opening balance	**3,105,849**	**3,426,694**
Lodgments by clients	**546,164**	937,976
Sales of EITF units and other securities	**42,772**	35,361
Dividends and Interest paid on securities	**4,506**	4,136
Total lodgments from clients	**593,442**	**977,473**
Payments to clients	**(954,964)**	(1,292,773)
Purchase of EITF units and other securities	**(16,871)**	(22,907)
Transfer of surplus funds to Exchequer (HMT)	**(74)**	(105)
Total payments to clients	**(971,909)**	**(1,315,785)**
Interest credited to court accounts	**18,544**	17,467
Closing Balance	**2,745,926**	**3,105,849**

Clients' Receipts and Payments During Year set out the cash inflows and outflows from the CFIA relating to client transactions.

15 Other Liabilities

	28 February 2013 £000	29 February 2012 £000
Interest due to Consolidated Fund	**552**	900
Administrative expenses – OAG	**9,855**	3,986
Management charges from CRND	**–**	27
Total other liabilities	**10,407**	**4,913**

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

16 Reserves

	28 February 2013 £000	29 February 2012 £000
Hereditary revenues held by CRND	**351,491**	351,348
Interest reserves held by CRND	**5,561**	11,516
Unallocated balances	**178**	179
Total reserves	**357,230**	**363,043**

Reserves cover Hereditary Revenues and Interest Reserves held within the CFIA and managed by CRND. This also includes Unallocated Balances which relate to balances that cannot be allocated until the correct accounting treatment has been agreed with CRND. Under HM Treasury rules Hereditary Revenues belong to the Consolidated Fund but are only payable on a triggering event such as if Funds in Court activities should cease.

17 Events after the reporting period

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

18 Provisions for liabilities and charges

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

19 Contingent liability

There were no contingent liabilities as at 28 February 2013, or 29 February 2012.

20 Physical effects

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

- Sixteen gold US Dollar coins paid into court in the early 20th Century. These are held in a safety deposit box.
- A bag of 1,747 silver and 4 gold coins paid into court in the 18th Century. These are currently on loan to the British Museum but remain under the custodianship of the CFO. These have an estimated value of £55,000.

During the 2012-13 accounts production work both these assets were counted and verified by OAG.

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

Accounts for the year ended 28 February 2013

Foreword

Introduction

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

Background to the Court Funds Investment Account

The Court Funds Investment Account (CFIA) facilitates the operation of the basic and special accounts operated by the Office of the Accountant General (OAG) for suitors' funds paid into court in England and Wales; it also contains funds due to the Consolidated Fund. These functions of the OAG were performed by the Court Funds Office until 5 December 2011, when changes in the organisational arrangements of the Court Funds Office passed these functions to the OAG.

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

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

Since October 2006, in agreement with the OAG, the CFIA's assets have closely matched its liabilities. As a consequence, in 2012-2013, funds were largely placed on short-term deposit with the Debt Management Account. There was also some investment in UK Government gilt-edged securities (gilts). These arrangements are set out in an investment mandate within a Memorandum of Understanding agreed between CRND and the OAG.

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

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

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

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

The resources used to deliver CRND's objectives are accounted for within the United Kingdom Debt Management Office's (DMO) agency vote and reported in the DMO Annual Report and Accounts 2012-2013. CRND's cost of managing the CFIA is recharged to the CFIA; in 2012-2013 this was £108,000 (2011-12: £108,000).

Commissioners for the reduction of the National Debt

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

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

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 the CFIA's auditors are aware of that information. So far as she is aware, there is no relevant audit information of which the CFIA's auditors are unaware.

Management Commentary

During 2012-2013, in accordance with the Memorandum of Understanding, the CFIA was largely invested in short-term deposits with the Debt Management Account. This strategy enabled the CFIA to earn a rate of interest very closely correlated with prevailing short-term sterling interest rates, whilst protecting its capital position and access to liquidity.

The CFIA generated insufficient interest to fully meet its liabilities to suitors (interest payable on funds in court) after deducting CRND's management expenses, the OAG's costs of administering funds in court, and surplus interest payable to the Consolidated Fund. This deficit was met by a reduction in the CFIA's reserves; at 28 February 2013 reserves were £5.6 million (29 February 2012: £11.5 million). In the event of the CFIA's reserves being insufficient to meet the liabilities to suitors in any given year, the necessary funds will be recovered from the Consolidated Fund.

In accordance with section 39(2)(b) of the Act, the OAG obtained HM Treasury's concurrence to make a charge of £9.9 million (2011-12: £4.0 million) in respect of the cost of administering funds in court. In 2011-12 the OAG were partly subsidised by the Ministry of Justice for their cost of administering funds in court. This level of subsidy was not provided in 2012-2013 causing a large increase in year on year charge to the CFIA.

Financial results for 2012-2013

During 2012-2013, total income before client expenses was £15.7 million (2011-12: £17.6 million). The reduction in income was due to the declining size of the CFIA's investments, arising from net withdrawals by the OAG. Interest payable on funds in court was £11.0 million (2011-12: £13.1 million), CRND's management expenses were £0.1 million (2011-12: £0.1 million), interest payable to the Consolidated Fund was £0.6 million (2011-12 £0.9 million) and the OAG's costs were £9.9 million (2011-12: £4.0 million). This resulted in an overall deficit for the year of £5.8 million (2011-12: £0.6 million deficit).

The OAG withdrew £371.4 million (net of advances) from the CFIA over the course of the year (2011-2012: net withdrawal of £496.7 million).

Date of authorisation for issue

The accounts were authorised for issue on 5 June 2013.

Jo Whelan 30 May 2013
Secretary and Comptroller General to the
Commissioners for the Reduction of the National Debt

Statement of Secretary and Comptroller General's responsibilities

Section 45(2) of the 1982 Act requires the Commissioners to prepare for each financial year a statement of accounts in the form and on the basis set out in the accounts direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the CFIA's income and expenditure, cash flows and changes in client funds 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 the accounts, the Secretary and Comptroller General is required to observe the applicable accounting standards and be consistent with the relevant requirements of the Financial Reporting Manual (FReM), and in particular to:

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

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

Governance Statement

Scope of responsibility

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

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

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

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

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

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

Managing Board

The Secretary and Comptroller General was supported during 2012-2013 by the DMO Managing Board (the Board) which, in addition to the Secretary and Comptroller General, is comprised of:

Robert Stheeman
DMO Chief Executive and Accounting Officer

Jim Juffs
Chief Operating Officer

Joanne Perez
Joint Head of Policy and Markets

Sam Beckett *(resigned July 2012)*
Non-executive HM Treasury representative

James Richardson (appointed July 2012)
Non-executive HM Treasury representative

Brian Larkman
Non-executive director – Brian Larkman was Global Head of Money Markets at the Royal Bank of Scotland PLC from 2000 to 2001 and Managing Director, Global Money Markets at National Westminster Bank PLC from1991 to 2000. He was a member of the Regulatory Decisions Committee of the Financial Services Authority until 2006.

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

Non-executive directors are appointed by the DMO Accounting Officer following a formal process and have fixed terms defined in their contracts of service. Sam Beckett resigned from the Board in July 2012 and was replaced as HM Treasury's representative by James Richardson. James was appointed by the DMO Accounting Officer in accordance with the DMO's Framework Document. All non-executive Board members receive an induction on joining and have access to additional information and training where it is considered necessary for the effective discharge of their duties.

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

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

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

2012-2013 Board activities

Board meetings were held throughout 2012-2013 and covered regular agenda items, including risk management, staffing and progress against the operational business plan.

Board attendance is outlined in the table below:

	Possible	Actual
Robert Stheeman	8	8
Jo Whelan	8	7
Jim Juffs	8	8
Joanne Perez	8	8
Sam Beckett *(resigned July 2012)*	3	2
James Richardson *(appointed July 2012)*	5	5
Brian Larkman	8	7
Brian Duffin	8	8

Audit Committee

The Secretary and Comptroller General was supported during 2012-2013 by the Audit Committee on matters relating to risk, internal control and governance. The members of the Audit Committee during 2012 – 2013 were:

Brian Larkman (Chair)

Brian Duffin

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

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

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

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

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

- Business continuity planning, especially with regard to the Olympics period;
- Anti-money laundering controls;
- Anti-fraud controls;
- Regulatory compliance;
- Risk management and financial control;
- Implementation of audit recommendations;
- External and internal financial reporting; and
- Information systems security.

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

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

Fund Management Review Committee

The Fund Management Committee reviews CRND activity relating to the performance of the government funds under management, including any reporting on compliance activities undertaken in relation to the funds. In addition to regular agenda items the Committee has been monitoring the progress of updating the *Memoranda of Understanding* for a number of the funds.

The Fund Management Committee met four times in 2012-2013.

Business Delivery Committee

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

The Business Delivery Committee met regularly (typically weekly) throughout 2012-2013.

Risk committees

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

Risk management and internal control

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

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

The risk and control framework

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

First line of defence

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

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

Second line of defence

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

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

Credit and Market Risk Committee

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

Operational Risk Committee

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

The ORC has advised the DMO Accounting Officer and the Board, during the year, on significant operational risk concerns, significant risk issues and trends as well as actions to mitigate such risks. The Committee has focused this year on further developing business continuity planning, including operational planning for the Olympic period, improving data security arrangements and extending the scope of the DMO's internal compliance testing programme. ORC met eight times during 2012-2013.

Controls Group

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

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

During the year the Controls Group review work has included reviewing the processes in place to control the introduction of IT changes as well as specific CRND reconciliation items.

Risk Management Unit (RMU)

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

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

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

Third line of defence

The DMO's Internal Audit function provides the DMO Accounting Officer with independent and objective assurance on the overall effectiveness of the Agency's system of internal control. It does this through a risk based work programme which is approved by the Audit Committee at the start of each year. All audits make a series of recommendations which, once agreed by management, are monitored for implementation. In 2012 Internal Audit conducted a review of CRND concluding that there is a satisfactory level of control over managing and processing transactions. The function is independent of the DMO's trading activities and operations and has a direct reporting line to the DMO Accounting Officer. The work of Internal Audit includes assessing the effectiveness of both control design and control performance. With its independence and overall remit, Internal Audit provides a third line of defence against the risks that might prevent the DMO delivering its objectives.

Risk policies and procedures

The DMO's risk policies reflect the high level standards and requirements which determine the way in which risks are managed and controlled. The DMO Accounting Officer, with the support of the Board, ensures that policies are regularly reviewed to reflect any changes in the DMO's operations and/or best practice. In 2012 this included revisions to the Information Security Policy, the Confidentiality and Official Information Policy and the Telephone Use and Recording Policy.

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

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

Risk profile

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

Principal risks and uncertainties	**Mitigation and management**
IT Systems and infrastructure	
CRND relies on a number of IT and communications systems to conduct its operations effectively and efficiently. A number of the operational systems and services on which CRND relies are provided or supported by third party suppliers.	The DMO has put in place structured business continuity arrangements to ensure it is able to continue market operations in the event of an internal or external incident that threatens business operations. These arrangements extend to cover CRND. The DMO's Business Continuity Plan (BCP) including Disaster Recovery (DR) and other arrangements are subject to continuous programme of testing, review and update. During 2012 the DMO ensured a thorough programme of DR testing was carried out, and that BCP arrangements to support auctions were undertaken during the year with teams working from the DR site during auctions. Assessment of business continuity needs is a specific requirement for new projects and major business initiatives, including those related to or affecting CRND. The DMO is represented on the Public Finance Business Continuity Management Group and played an active part in the Group's contingency planning for the Olympics in 2012. In addition the DMO also conducted an in house DR exercise as part of its contingency planning for the Olympic period. To mitigate the risk of failure of a key third party the DMO undertakes a corporate risk assessment of each potential supplier in order to assess financial strength and operational capacity. The DMO has dedicated relationship managers who meet regularly with key suppliers and monitor performance against agreed SLAs.
Transaction processing	
CRND relies on its operational processes to successfully execute a significant number of high value transactions on a daily basis. Reliance on the accurate execution of processes exposes CRND to operational risk arising from process breakdown and human error.	A key component of CRND's control framework is the segregation of duties to ensure independent checking and reconciliation, and to avoid concentration of key activities or related controls in individuals or small groups of staff. In particular, segregation of duties takes place between front and back office activities. In addition during 2012-2013 the DMO continued to enhance its management information around trading activity and strengthened its reconciliation processes and controls. All teams, including CRND, have documented procedures for their main activities and there are clearly defined authorisation levels for committing the DMO externally. The RMU conducts regular control and compliance testing of CRND activities, providing the executive sub-committee of the Board with assurance on the effectiveness of operational controls and compliance with relevant Financial Services Authority rules in the dealing and settlement areas. The DMO also maintains a strong audit and control environment which includes a well embedded incident reporting procedure which extends to cover CRND. This promotes early identification and resolution of risk incidents and provides visibility to the DMO Accounting Officer and Board. DMO recruitment policies help ensure that individuals with the appropriate level of skill and experience are appointed at all levels within the organisation. This helps mitigate the level of human error resulting in process failures.

People risk	
The DMO, including CRND, relies on maintaining a sufficiently skilled workforce at all levels of the organisation in order to operate effectively and efficiently, and to deliver its strategic objectives. The DMO is exposed to an increased risk of operational failure if it is unable to compete for, and retain, sufficiently skilled staff over time. Competition for skilled staff is generally against employers from the private financial services sector which is not subject to public sector remuneration policies and which have historically offered higher remuneration than either the private sector in general or the public sector.	The DMO's Training and Development policy aims to ensure that its staff have the right skills to meet its objectives. The DMO has a formal recruitment and selection process to help ensure vacancies are filled quickly by appropriately skilled candidates. The DMO has put in place a formal performance appraisal process and all staff are given clear and achievable objectives. Where appropriate, staff are encouraged to engage in activities which promote development and the DMO provides regular training opportunities and support for professional studies to enhance the skills base of its employees. The DMO also provides cross-training for different roles to help improve staffing flexibility and reduce turnover pressure. Salaries are reviewed annually, taking account of benchmarks derived from equivalent private sector pay levels. In addition the DMO has a policy to recognise those staff who have performed well in their roles through the payment of one off performance related awards. Any awards are assessed annually by the DMO Pay Committee and are determined by individual performance and criteria associated with the DMO's performance management process and are aligned to the policy for public sector pay. A Staff Council has met regularly throughout the year and enabled an open exchange of ideas and views between management and staff representatives and has been an effective conduit for wider communication and consultation with all staff. On an annual basis DMO staff take part in the Civil Service employee engagement survey and any issues raised, including mitigating action if required, will be considered by the DMO Accounting Officer and Board. The DMO was reaccredited as an Investor in People in 2011.
IT and data security	
Through its activities the DMO gathers, disseminates and maintains sensitive information including market sensitive information and personal data about staff and market participants. The DMO seeks to ensure the highest standards of data protection and information management. The DMO is exposed to risk of an external attack on its IT systems and infrastructure.	The DMO continues to work to maintain the required level of protective security covering physical, personnel and information security. In 2012 the DMO experienced a breach of its data handling policies. Although no personal data was affected and there was no consequential impact from this lapse, the DMO's information security policies and controls were fully reviewed and enhancements introduced. These included strengthening the processes for the induction of new staff and raising the level of awareness of information security issues for existing staff. In addition the DMO has a project underway to enhance system logging and improve control of system access rights. Risks to data and information held by the DMO are owned and managed by designated Information Asset Owners. The DMO has a Senior Information Risk Owner (SIRO) who is responsible for the information risk policy and the assessment of information risks. The SIRO is a member of the Board and provides advice to Board members on the management of information risk. The DMO has put in place several layers to defend against external attack and its infrastructure undergoes an annual penetration test to ensure the control environment is robust. These tests are undertaken by specialists and form part of the assessment against the CESG requirements which is a condition for continuing connection to the GSI Convergence Framework (GCF).

Review of effectiveness

I have reviewed the effectiveness of the system of internal control and confirm that an ongoing process designed to identify, evaluate and prioritise risks to the achievement of CRND's aims and objectives has been in place throughout 2012-2013. This review included an assessment of any material risk and control issues identified and reported during the relevant period.

My review has been informed by the advice of the risk committees and by the work of the internal auditors and the executive managers within the DMO, who have been delegated responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports.

In my role as Secretary and Comptroller General I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and the Audit Committee.

In 2012-2013, no ministerial directions were given and no material conflicts of interest have been noted by the Board or Audit Committee members in the Register of Interests.

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

Jo Whelan 30 May 2013
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 2013 under the Administration of Justice Act 1982. These comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Client Funds and the related notes. These financial statements have been prepared under the accounting policies set out within them.

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

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

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

Scope of the audit of the financial statements

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

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

Opinion on regularity

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

Opinion on the financial statements

In my opinion:

- the financial statements give a true and fair view, of the state of the Court Funds Investment Account's affairs as at 28 February 2013, and of the deficit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Administration of Justice Act 1982 and the HM Treasury directions issued thereunder.

Opinion on other matters

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

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General

5 June 2013

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

Court Funds Investment Account Statement of Comprehensive Income for the year ended 28 February 2013

	Notes	2013 £000	Restated 2012 £000
Interest income	3	**15,588**	17,518
Other gains and losses	4	**142**	51
Total income		**15,730**	**17,569**
CRND management expenses		**(108)**	(108)
OAG cost of administering funds in court		**(9,916)**	(4,047)
Interest payable on funds in court		**(10,968)**	(13,085)
Payable to the Consolidated Fund	5	**(551)**	(900)
Deficit for the year		**(5,813)**	**(571)**

The notes on page 49 to 53 form part of these accounts.

Court Funds Investment Account Statement of Financial Position as at 28 February 2013

	Notes	2013 £000	2012 £000
Assets			
Demand deposits with the Debt Management Account and the National Loans Fund		**2,933,433**	3,288,435
Gilt coupon receivable		**4,511**	10,260
Total		**2,937,944**	**3,298,695**
Liabilities and OAG funds			
Liabilities			
Costs of administering funds in court	6	**9,855**	4,013
HMT funds			
Hereditary Revenues	7	**351,491**	351,349
Surplus payable to the Consolidated Fund	5	**552**	900
		352,043	**352,249**
Client funds			
OAG funds		**2,570,485**	2,930,917
Reserves		**5,561**	11,516
		2,576,046	**2,942,433**
Total		**2,937,944**	**3,298,695**

The notes on page 49 to 53 form part of these accounts.

Jo Whelan 30 May 2013
Secretary and Comptroller General to the
Commissioners for the Reduction of the National Debt

Court Funds Investment Account Statement of Cash Flows for the year ended 28 February 2013

	2013 £000	Restated 2012 £000
Operating activities		
Interest received on demand deposits	**15,770**	17,661
Decrease in demand deposits	**354,817**	491,541
Interest received on UK Government gilt-edged securities classified as held for trading	**10,260**	10,682
Sales of UK Government gilt-edged securities classified as held for trading	**409,141**	474,610
Purchases of UK Government gilt-edged securities classified as held for trading	**(413,507)**	(484,813)
CRND management expenses	**(135)**	(108)
OAG cost of administering funds in court	**(4,047)**	(12,513)
Payment to the Consolidated Fund	**(899)**	(360)
Net cash from operating activities	**371,400**	**496,700**
Financing activities		
Funds received from the OAG	**116,200**	105,550
Funds paid to the OAG	**(487,600)**	(602,250)
Net cash used in financing activities	**(371,400)**	**(496,700)**
Increase/(decrease) in cash	**0**	**0**

The notes on page 49 to 53 form part of these accounts.

Court Funds Investment Account Statement of changes in Client Funds for the year ended 28 February 2013

	Client funds (excluding reserves) £000	Reserves £000	Restated Total Client funds £000
At 1 March 2011	**3,414,532**	**12,138**	**3,426,670**
Deficit for the year	0	(571)	(571)
Realised gains transferred to Hereditary Revenues on disposal of UK Government gilt-edged securities classified as held for trading	0	(51)	(51)
Interest payable on funds in court	13,085	0	13,085
Funds received from the OAG	105,550	0	105,550
Funds paid to the OAG	(602,250)	0	(602,250)
At 29 February 2012	**2,930,917**	**11,516**	**2,942,433**
Deficit for the year	0	(5,813)	(5,813)
Realised gains transferred to Hereditary Revenues on disposal of UK Government gilt-edged securities classified as held for trading	0	(142)	(142)
Interest payable on funds in court	10,968	0	10,968
Funds received from the OAG	116,200	0	116,200
Funds paid to the OAG	(487,600)	0	(487,600)
At 28 February 2013	**2,570,485**	**5,561**	**2,576,046**

The notes on page 49 to 53 form part of these accounts.

Notes to the Accounts for the year ended 28 February 2013

1 Accounting policies

1.1 Basis of preparation

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

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

Certain IFRS have been issued or revised, but are not yet effective, and will be applied in subsequent reporting periods. These are:

- IAS 1 Presentation of Financial Statements, which has been revised. Application is required for reporting periods beginning on or after 1 July 2012. Earlier application is permitted. The CFIA expects to apply these revisions to IAS 1 in 2013-2014. The application of these revisions, which relate to presentation of items in the income statement based on their potential to be reclassified, is not expected to impact the presentation of information in the CFIA.
- IFRS 13 Fair Value Measurement, which has been issued. Application is required for reporting periods beginning on or after 1 January 2013. Earlier application is permitted. The CFIA expects to apply IFRS 13 in 2013-2014. The application of IFRS 13 is not expected to materially change the valuation or disclosure of transactions or balances in the CFIA.
- IAS 1 Presentation of Financial Statements, which has been revised as part of the IASB's annual improvements process. Application is required for reporting periods beginning on or after 1 January 2013. Earlier application is permitted. The CFIA expects to apply these revisions to IAS 1 in 2013-2014. The application of these revisions to IAS 1 do not materially change the minimum requirements for comparative information and are expected to have an immaterial impact on the CFIA.
- IFRS 9 Financial Instruments, which will replace IAS 39. Application is required for reporting periods beginning on or after 1 January 2015. Earlier application is permitted. The CFIA expects to apply IFRS 9 in 2015-2016. The application of IFRS 9 is not expected to impact on the reporting of financial instruments in the CFIA.

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

1.2 Assets

Demand deposits

Deposits with the Debt Management Account and the National Loans Fund are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are therefore treated as loans and receivables measured at amortised cost.

UK Government gilt-edged securities (gilts)

Gilts held by the CFIA are non-marketable gilts, which mirror exactly the equivalent marketable gilts and are treated as held for trading. These gilts are classified as held for trading as they have been acquired principally for the purpose of selling in the short-term. They are recognised on trade date, when the CFIA enters into contractual arrangements with the counterparty (the National Loans Fund) to purchase these gilts. They are derecognised when the CFIA enters into contractual arrangements to sell them or when they are redeemed. Following initial recognition, fair values are re-measured, and gains and losses from changes in fair value are recognised as other gains and losses.

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.

Administrative costs

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

2 Accounting policy change – restatement of prior year comparatives

During 2012-2013, the classification of the CFIA's short term gilts holdings was reviewed. It was concluded that held for trading was the appropriate classification, in accordance with IAS 39. As such gilts were previously classified as available-for-sale, and as the review was undertaken after publication of the 2011-12 accounts, this change has been treated as a prior period error. Accordingly, the comparative information in the statement of comprehensive income, statement of cash flows, and statement of changes in client funds has been restated.

The restatement arising from the reclassification of these gilts has resulted in presentational changes and has had no overall effect on the figures in the financial statements.

The changes in the financial statements due to the restatement are set out below:

There is no longer a separate income statement and statement of comprehensive income. The below table represents the comparative information from the statement of comprehensive income in 2011-12, which has been removed following the restatement.

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

Total comprehensive income for the year	**(571)**

The following lines from the statement of cash flows have been restated as operating activities having previously been reported as investing activities:

	2012 **£000**
Interest received on UK Government gilt-edged securities classified as available-for-sale	10,682
Sales of UK Government gilt-edged securities classified as available-for-sale	474,610
Purchases of UK Government gilt-edged securities classified as available-for-sale	(484,813)

The following lines from the statement of changes in client funds have been removed along with the heading referring to the revaluation reserve.

	2012 **Revaluation** **reserve** **£000**
Realised gains transferred to income statement on disposal of UK Government gilt-edged securities classified as available-for-sale	(51)
Fair value gains on UK Government gilt-edged securities classified as available-for-sale	51

3 Interest income

	2013 **£000**	**2012** **£000**
UK Government gilt-edged securities classified as held for trading	**3**	6
Demand deposits with the Debt Management Account and the National Loans Fund	**15,585**	17,512
	15,588	**17,518**

4 Other gains and losses

	2013 **£000**	**2012** **£000**
Profit on disposal of UK Government gilt-edged securities classified as held for trading	**142**	51
	142	**51**

5 Payable to the Consolidated Fund

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

	2013 £000	2012 £000
Interest received	**21,543**	18,140
Interest payable on funds in court	**(10,968)**	(13,085)
Cost of administering funds in court		
OAG costs	**(9,916)**	(4,047)
CRND management expenses	**(108)**	(108)
	(10,024)	(4,155)
Payable to the Consolidated Fund	**551**	900
Unpaid surplus from the previous year	**1**	–
Surplus payable to the Consolidated Fund at 28 February	**552**	**900**

6 Costs of administering funds in court

The CFIA was due to pay the fourth and final instalment of CRND management expenses of £27,000 for 2011-12 on 29 February 2012. However, payment was not made until 2 March 2012. The delay was due to an administrative oversight within the DMO.

	2013 £000	2012 £000
OAG cost of administering funds in court	**9,855**	3,986
CRND management expenses due to DMO	**–**	27
	9,855	**4,013**

7 Hereditary Revenues

	2013 £000	2012 £000
Balance at 1 March	**351,349**	351,298
Realised gains transferred to Hereditary Revenues on disposal of UK Government gilt-edged securities classified as held for trading	**142**	51
Balance at 28 February	**351,491**	**351,349**

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

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 the CFIA.

The investments of the CFIA comprised deposits and gilts. The deposits were with either the Debt Management Account or the National Loans Fund and were considered to have no exposure to credit risk because both were obligations of HM Government. Similarly, gilts were considered to be free of credit risk because they were obligations of HM Government. Although the CFIA held no gilts at 28 February 2013, the CFIA was due to receive a coupon on 7 March 2013 relating to its gilt holding earlier in the year.

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 the CFIA was considered to comprise interest rate risk.

The interest income on the deposits of the CFIA were closely linked to the official Bank Rate.

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

8.3 Liquidity risk

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

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

9 Related party transactions

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

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

During the year, the CFIA had a significant number of material transactions with the OAG due to the CFIA facilitating the operation of the basic and special accounts operated by the OAG for suitors' funds paid into court in England and Wales. During the year, the OAG withdrew £371.4 million (net of advances) from the CFIA (2011-12: net withdrawal of £496.7 million).

Appendix

Funds in Court in England and Wales Investment Account

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

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

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

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

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

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

6 The report shall include:

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

7 This accounts direction shall be reproduced as an appendix to the accounts

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

Chris Wobschall 23 March 2012
Deputy Director, Assurance and Financial Reporting Policy
Her Majesty's Treasury

Ministry of Justice Equity Index Tracker Fund

Foreword

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

The Ministry of Justice Equity Index Tracker Fund

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

What is the Common Investment Fund?

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

What does this report cover?

This report covers the performance of the Fund for the year ended 28 February 2013, together with some information for investors and their advisers.

What is the legal basis for the Fund?

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

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

Why invest in the Fund?

The Ministry of Justice Equity Index Tracker Fund is a simple and cost-effective means of investing in the stock market over the medium to long term. Legal & General manages the Fund's assets on an Index tracking basis aiming to match the returns of the major stock markets. 60 per cent of the Fund has exposure to UK shares with the remainder invested in other global markets. Index trackers invest in a representative sample of all of the companies that make up the Index that they are tracking, instead of the Fund Manager actively choosing which stocks to hold in the Fund. The intention is simply to deliver the return of the Index being tracked.

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

The Lord Chancellor's responsibilities

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

Under Section 42(2) of the Act, the Common Investment Schemes made by the Lord Chancellor shall provide for an Investment Manager to be re-appointed by the Lord Chancellor to manage and control the common investment Funds established. As indicated above, the Lord Chancellor re-appointed Legal & General (Unit Trust Managers) Limited to be the Investment Manager for the Ministry of Justice Equity Index Tracker Fund for the financial period from 1 September 2008 to 31 August 2014.

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

i the Public Trustee either in his sole name or jointly with any person or persons with whom he acts as trustee or personal representative;

ii the Official Solicitor either in his sole name or jointly with any person or persons with whom he acts as trustee or personal representative;

iii any trustee or trustees, if more than one, of a trust from which the Public Trustee or Official Solicitor has retired as trustee, in relation to any units held in the trust immediately prior to such retirement;

iv any beneficiary of a trust or estate in respect of which the Public Trustee or Official Solicitor acts solely or jointly with any other person or persons as trustee or personal representative, in relation to any units held in the trust or estate to which the beneficiary has become absolutely entitled;

v any beneficiary of a trust from which the Public Trustee or Official Solicitor has retired as trustee, in relation to any units held in the trust to which the beneficiary has become absolutely entitled;

vi any patient whose property and affairs are managed by the Court of Protection and whose funds are not held in Court in the name of the Accountant General;

vii any person who is restored to the management of his property and affairs by order of the Court of Protection, in relation to any units held by him or by the Accountant General on his behalf immediately prior to the making of such an order;

viii any person entitled by a direction of the Court to withdraw Funds retained in Court under Part 21.11 of the Civil Procedure Rules 1998 on the ground that he is no longer incapable of managing and administering his own affairs, in relation to any units held on his behalf by the Accountant General immediately prior to the making of such a direction;

ix any person who has attained majority and on whose behalf units were held by the Accountant General during his minority, in relation to any units held on his behalf by the Accountant General upon the attainment of his majority;

x any person entitled to withdraw Funds from Court by application under section 5(2) of the Law Reform (Miscellaneous Provisions) Act 1971, in relation to any units held by the Accountant General on his behalf immediately prior to the making of such an application;

xi the Investment Manager of the Fund on his own account in the ordinary course of fund management, subject to the terms of his appointment; 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.

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 Darren Tierney as Accountant General of the Senior Courts on 1 October 2012. The Permanent Secretary of the Ministry of Justice has also appointed the Accountant General as the Accounting Officer for Funds in Court.

His relevant responsibilities as Accounting Officer, including responsibilities for the propriety and regularity of the funds for which he is answerable and for the keeping of proper records, are set out in the Accounting Officer's Memorandum issued by the Treasury and published in 'Managing Public Money'.

Management and Investment of Funds in Court

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

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

How does the Accountant General honour his responsibilities?

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

The Office of the Accountant General (OAG) manages funds held in Court in the name of the Accountant General of the Senior Courts under the Act. Certain funds may be invested in Common Investment Schemes. Under the direction of the Court and on behalf of the Accountant General, the responsibilities of the Office of the Accountant General (OAG) includes:

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

Accounts and Audit

These accounts are in respect of the Ministry of Justice Equity Index Tracker Fund for the year ended 28 February 2013 and have been prepared in accordance with an Accounts Direction issued by Treasury under section 45(2) of the Act. The Comptroller and Auditor General is appointed external auditor under section 45(3) of the Act. The responsibilities of the Comptroller and Auditor General are set out in the Certificate and Report as detailed on pages 65 and 66. The notional audit fee for the audit of the Ministry of Justice Equity Index Tracker Funds Financial Statements for the year ended 28 February 2013 will be £20,000. This notional fee is disclosed in the MoJ resource account.

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

S R Pistell
Director
On behalf of Legal & General
(Unit Trust Managers) Limited
3 July 2013

D Tierney
Accountant General of the Senior Courts

3 July 2013

Investment Manager's report

Investment Strategy

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

Control Range

FTSE All-Share Index	60%	+/– 2%
FTSE World (excluding UK) Index	35%	+/– 2%
FTSE All-World Emerging Index	5%	+/– 0.5%

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

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

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

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 Office of the Accountant General (OAG).

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

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Manager's Investment Report

During the year under review, the Ministry of Justice Equity Index Tracker Fund rose by 11.01 per cent. The composite benchmark rose by 10.91 per cent, producing a tracking deviation of +0.10%. The published price of the Fund's units valued at 12 noon rose by 8.71 per cent during that period.

Tracking Deviation

The table below shows the Fund Performance for the period from 1 March 2012 to 28 February 2013, with the benchmark performance, which comprises of 60 per cent FTSE All-Share Index, 35 per cent FTSE World (excluding UK) Index and 5 per cent FTSE All-World Emerging Index (prior to 31 May 2012, the benchmark comprised of 70 per cent FTSE All-Share Index and 30 per cent FTSE All-World (excluding UK) Index).

	Mar 12	**Apr 12**	**May 12**	**Jun 12**	**Jul 12**	**Aug 12**	
Total Fund (%)	–0.68	–1.41	–6.28	3.76	1.34	1.09	
Benchmark (%)	–0.70	–1.40	–6.27	3.72	1.30	1.07	
Relative (%)	0.02	–0.01	–0.01	0.04	0.04	0.02	
	Sep 12	**Oct 12**	**Nov 12**	**Dec 12**	**Jan 13**	**Feb 13**	**Year**
Total Fund (%)	1.13	0.29	1.45	0.94	6.53	2.86	11.01
Benchmark (%)	1.13	0.26	1.45	0.98	6.52	2.85	10.91
Relative (%)	0.00	0.03	0.00	–0.04	0.01	0.01	0.10

Source: LGIM, as at 28 February 2013.

Past performance is not a guide to future performance.

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

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

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

Distribution review

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

Market/economic review

The global economy faced some significant challenges during the review year. The European sovereign (government) debt crisis held centre stage as policymakers struggled to address concerns that several heavily indebted countries would be forced to leave the Euro, a potentially calamitous prospect with the risk of a collapse in economic activity. The emerging economies were the driving force of global growth, but there was a significant slowdown in China, where the authorities sanctioned interest rate cuts to rebalance the economy away from export-led towards domestic-led growth. Governments in the G7 countries tried, to varying degrees, to reduce their budget deficits and implement austerity programmes, while simultaneously leaving interest rates at historically low levels. In the US, UK and Japan this was accompanied by further asset purchases (quantitative easing) aimed at reviving growth, however, global economic indicators continue to depict subdued growth in many nations, although data releases from the US and China were more encouraging later on in the review year. The major concerns continue to focus on Europe and, whilst the US 'fiscal cliff' (the simultaneous expiry of tax breaks with the introduction of tax increases and spending cuts towards the end of 2012) was averted at the last minute, debt ceiling negotiations, with the associated political brinkmanship risk, are yet to come.

UK equities

UK equity markets have oscillated over the review year, initially performing strongly during the risk rally as the European Central Bank's (ECB) Long Term Refinancing Operations (LTRO) and the Bank of England's quantitative easing measures relieved short-term funding pressures. At the end of the second quarter of 2012 however, UK markets had given back gains made earlier in the year as concerns intensified over the global economic outlook and eurozone risk. Bank stocks were among the largest fallers during this period, with Royal Bank of Scotland, Lloyds Banking Group and Barclays all declining heavily. The latter was the main casualty as an investigation by UK and US regulators revealed manipulation of interbank lending rates, culminating in a £290 million fine.

In the second half of 2012, UK equities rallied as investors found solace in the ECB's assurance that it would work to avert crisis. A feature of the rally was the outperformance of mid-cap and small-cap stocks, which generally have a more domestic-orientated earnings profile. Sector-wise, financials led the rally. Amongst Technology stocks, third quarter results from chip designer ARM Holdings exceeded expectations while Invensys announced the sale of its rail division to German engineering conglomerate Siemens. Mining stocks rebounded as data releases suggested the Chinese economy was regaining momentum. Defensive sectors such as Health Care, Telecommunications and Utilities struggled as investor sentiment improved, while energy stocks such as BG Group and Tullow Oil lagged on weaker oil and gas prices.

UK equity markets have continued to perform well into 2013, with mid/small-cap stocks continuing to outperform. Whilst the UK's credit rating downgrade may be to blame for poor gilt performance in February 2013, it is not expected to have a significantly negative effect on UK equity markets. Sterling has depreciated further against both the US Dollar and Euro in 2013, eroding equity gains for international investors.

Overseas equities

Although equity markets were volatile during the review year, the majority of major markets recorded impressive gains as various central bank policy initiatives fostered optimism amongst investors that global economic growth would recover, albeit modestly. European markets rallied strongly, buoyed by optimism that the ECB was at last taking decisive action to address the region's debt crisis. This also boosted Asia Pacific equities and emerging markets in recent months, along with signs of improvement in the global economic outlook. US equities were underpinned by robust corporate profitability with the US Federal Reserve reaffirming its commitment to maintaining ultra-low interest rates, signalling a policy shift by linking interest rates with several key economic indicators. Japanese equities rallied strongly into the year end on the election of a new government committed to growth-orientated policies, although returns for UK investors were much lower as the Yen weakened sharply.

Outlook

The global economy has begun to show signs of improvement with business sentiment now in an upward trend. Growth numbers for the fourth quarter of 2012 were poor, but Gross Domestic Product (GDP) data for early 2013 appears more encouraging. Emerging markets are leading the way, particularly China, which has showed a decisive turn. The concern here is whether China has rebounded too rapidly and this might cause the authorities to clamp down on the property sector.

US growth is still likely to be held back in the near term by the expiry of the payroll tax cut and the recent rise in gasoline prices, but later in the year, growth is expected to improve. With the housing market recovering and bank balance sheets largely repaired, risks to the outlook are broadly balanced. There is a chance that the US economy could enter a more persistent period of above-trend growth heading into 2014.

The eurozone contracted sharply in the fourth quarter of 2012, but the improvement in the ECB's bank lending survey and jump in the German IFO survey suggests growth should stabilise in 2013, however, the region still poses the greatest downside risk to the global outlook.

The UK sovereign downgrade from Moody's was not expected to affect the outlook. The Funding for Lending Scheme appears to be helping to gradually thaw credit conditions and this is reflected in some slightly better forward looking housing market indicators. The labour market has proved remarkably resilient and with the squeeze on real incomes slowly easing, prospects for consumption have improved. Despite some encouraging signs, growth is still likely to remain below trend, weighed down by government spending restraint and the UK remains vulnerable to any renewed deterioration in Europe.

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)
12 March 2013

Governance Statement

Scope of responsibility

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

The operation of the Ministry of Justice Equity Index Tracker Fund is governed by the Investment Strategy, which was set by the Lord Chancellor on the advice of the Strategic Investment Board (SIB) up to its disbandment on 30 June 2008 and thereafter by the Office of the Accountant General (OAG) Management Team. The performance of the Fund is reported via quarterly management information, which ensures the objectives of Index tracking are fulfilled. Quarterly meetings are also held between Legal & General and the OAG to discuss operational issues and investment strategies.

The accounts produced at the accounting year-end are audited by the Comptroller and Auditor General, to ensure that the Fund's Accounts are true, fair and properly prepared in accordance with the Administration of Justice Act 1982 and the relevant HM Treasury directions.

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

System of internal controls

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

Risk framework

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

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

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

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

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

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

Corporate governance

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

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

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

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

Review of effectiveness

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

S. D. Thomas 3 July 2013
Chief Operating Officer
Legal & General (Unit Trust Managers) Limited

Respective responsibilities of the Lord Chancellor, Accountant General and Investment Manager

Lord Chancellor's responsibilities

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

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

Accountant General's responsibilities

The Secretary of State and Lord Chancellor has, under section 97(2) of the Senior Courts Act 1981, as amended by the Public Trustee and Administration of Funds Act 1986, appointed Darren Tierney as Accountant General of the Senior Courts on 1 October 2012. The Permanent Secretary of the Ministry of Justice has also appointed the Accountant General as the Accounting Officer for Funds in Court. His relevant responsibilities as Accounting Officer, including responsibilities for the propriety and regularity of the funds for which he is answerable and for the keeping of proper records, are set out in the Accounting Officer's Memorandum issued by the Treasury and published in 'Managing Public Money'.

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

Investment Manager's responsibilities

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

Treasury Direction requires the Investment Manager to follow best practice. In preparing the Funds Accounts, the Manager follows the disclosure requirements of the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association in October 2010 as updated by additional requirements from the Financial Conduct Authority (from time to time) and to the extent that such requirements are relevant to the Common Investment Fund. These require the Investment Manager to prepare accounts for each annual accounting period which give a true and fair view of the financial affairs of the Fund and of income/expenditure for the period.

In preparing the accounts the Manager is required to:

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

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

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

I certify that I have audited the financial statements of the Ministry of Justice Equity Index Tracker Fund ('EITF') for the year ended 28 February 2013 under the Administration of Justice Act 1982. These comprise the Statement of Total Return, the Statement of Change in Net Assets attributable to Unitholders, the Balance Sheet, and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Investment Manager and Auditor

As explained more fully under Respective Responsibilities of the Lord Chancellor, Accountant General and Investment Manager, the Investment Manager is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

Scope of the audit of the financial statements

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

I am required to obtain evidence sufficient to give reasonable assurance that the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

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

Opinion on the financial statements

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the EITF as at 28 February 2013 and of the change in net assets attributable to unitholders for the year then ended; and
- the financial statements have been properly prepared in accordance with the Administration of Justice Act 1982 and directions issued there under by HM Treasury.

Opinion on other matters

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

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General

5 July 2013

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

Portfolio Statement as at 28 February 2013

All investments are in distribution units unless otherwise stated.

The percentages in brackets show the equivalent sector holdings at 29 February 2012.

	Holding/ Nominal Value	Market value £	% of net assets
Investment			
Unit Trusts investing in UK shares – 60.16 per cent (69.82 per cent)			
Legal & General UK Index Trust	57,181,212	77,023,093	60.16
Unit Trusts investing in overseas shares – 39.73 per cent (30.17 per cent)			
Legal & General Global Emerging Markets Index Trust	13,129,793	6,369,262	4.97
Legal & General International Index Trust	67,991,707	44,500,572	34.76
		50,869,834	39.73
Portfolio of investments		127,892,927	99.89
Net other assets		136,747	0.11
Total net assets		128,029,674	100.00

Total purchases for the year: £13,771,977.

Total sales for the year: £24,706,129.

Statement of Total Return for the year ended 28 February 2013

	Notes		**28 February 2013**		29 February 2012
		£	**£**	£	£
Income					
Net capital gains/(losses)	2		**11,047,391**		(1,306,010)
Revenue	3	**3,009,140**		3,014,895	
Expenses	4	**551,497**		553,024	
Finance costs:					
Interest	6	**(6)**		–	
Net revenue before taxation		**3,560,631**		3,567,919	
Taxation	5	**(110,341)**		(110,605)	
Net revenue after taxation for the year			**3,450,290**		3,457,314
Total return before distributions			**14,497,681**		2,151,304
Finance costs:					
Distributions	6		**(3,450,290)**		(3,457,306)
Change in net assets attributable to Unitholders from investment activities			**11,047,391**		(1,306,002)

Statement of Change in Net Assets Attributable to Unitholders for the year ended 28 February 2013

		28 February 2013		29 February 2012
	£	**£**	£	£
Opening net assets attributable to Unitholders		**127,793,343**		135,347,852
Amounts received on creation of units	**3,090,239**		4,488,113	
Amounts paid on cancellation of units	**(13,901,299)**		(10,736,620)	
		(10,811,060)		(6,248,507)
Change in net assets attributable to Unitholders from investment activities		**11,047,391**		(1,306,002)
Closing net assets attributable to Unitholders		**128,029,674**		127,793,343

The notes on pages 71 to 76 form part of these accounts.

Balance Sheet as at 28 February 2013

	Notes		**28 February 2013**		29 February 2012
		£	**£**	£	£
Assets					
Investment assets			**127,892,927**		127,778,566
Debtors	7	**592,277**		516,912	
Cash and bank balances	8	**1,752,399**		1,899,355	
Total other assets			**2,344,676**		2,416,267
Total assets			**130,237,603**		130,194,833
Liabilities					
Investment liabilities			**–**		–
Creditors	9	**(610,000)**		(439,138)	
Distribution payable on distribution units		**(1,597,929)**		(1,962,352)	
Total other liabilities			**(2,207,929)**		(2,401,490)
Total liabilities			**(2,207,929)**		(2,401,490)
Net assets attributable to Unitholders			**128,029,674**		127,793,343

The notes on pages 71 to 76 form part of these accounts.

S R Pistell 3 July 2013
Director
Legal & General (Unit Trust Managers) Limited

Notes to the Financial Statements

1 Accounting Policies

a Basis of accounting

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

b Recognition of revenue

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

All other revenue is recognised on an accruals basis.

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

c Treatment of expenses

All expenses (other than those relating to the purchase or sale of investments) are charged against revenue on an accruals basis.

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

d Distribution policy

Realisable revenue, after deduction of those expenses which are chargeable in calculation of the distribution, will be paid to those Unitholders with a holding at ex-dividend date.

All expenses charged to the Fund are deducted from revenue for the purpose of calculating the distribution.

In order to conduct a controlled dividend flow, interim distributions will be at the Manager's discretion, up to a maximum of the distributable revenue for the period. All remaining revenue is distributed in accordance with the COLL.

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 28 February 2013, being the last working day of the accounting year. The fair value for units in Collective Investment Schemes is the cancellation price or bid price for dual priced funds and single price for single priced funds.

Investment in securities by Legal & General on behalf of Ministry of Justice Equity Index Tracker Fund are carried out on an arms length basis following the best execution principles thereby ensuring that Legal & General meets its regulatory obligations in respect of best execution.

f Taxation

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

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

2 Net capital gains/(losses)

	28 February 2013 £	29 February 2012 £
The net capital gains/(losses) during the year comprise:		
Non-derivative securities	**11,048,512**	(1,305,085)
Transaction charges	**(1,121)**	(925)
Net capital gains/(losses)	**11,047,391**	(1,306,010)

3 Revenue

	28 February 2013 £	29 February 2012 £
Franked dividend distributions	**3,008,925**	3,014,895
Bank interest	**215**	–
	3,009,140	3,014,895

4 Expenses

	28 February 2013 £	29 February 2012 £
Payable to the Manager, associates of the Manager and agents of either of them:		
Manager's periodic fee	**220,571**	228,814
Management fee rebates from Legal & General Investment Management Limited	**(799,602)**	(808,565)
Registration fees	**22,087**	21,104
	(556,944)	(558,647)
Payable to the Trustee, associates of the Trustee and agents of either of them:		
Safe custody fees	**5,447**	5,623
Total expenses	**(551,497)**	(553,024)

5 Taxation

a Analysis of taxation charge in year

	28 February 2013 £	29 February 2012 £
Corporation tax	**110,341**	110,605
Current tax [note 5(b)]	**110,341**	110,605
Deferred tax [note 5(c)]	**–**	–
Total taxation	**110,341**	110,605

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 2013	29 February 2012
	£	£
Net revenue before taxation	**3,560,631**	3,567,919
Net revenue before taxation multiplied by the applicable rate of Corporation Tax at 20% (2012: 20%)	**712,126**	713,584
Effects of:		
Revenue not subject to taxation	**(601,785)**	(602,979)
Current tax	**110,341**	110,605

c Provision for deferred tax

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

6 Finance costs

Distributions

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

	28 February 2013	29 February 2012
	£	£
Interim distribution	**1,732,525**	1,426,578
Final distribution	**1,597,929**	1,962,352
	3,330,454	**3,388,930**
Add: Revenue deducted on cancellation of units	**142,578**	110,179
Less: Revenue received on creation of units	**(22,742)**	(41,803)
Distributions for the year	**3,450,290**	3,457,306
Interest		
Bank overdraft interest	**6**	–
Total finance costs	**3,450,296**	3,457,306

7 Debtors

	28 February 2013	29 February 2012
	£	£
Amounts receivable for creation of units	**50,006**	214,997
Sales awaiting settlement	**479,028**	108,341
Accrued income	**63,243**	193,574
	592,277	516,912

8 Net uninvested cash

	28 February 2013	29 February 2012
	£	£
Cash and bank balances	**1,752,399**	1,899,355
Net uninvested cash	**1,752,399**	1,899,355

9 Creditors

	28 February 2013	29 February 2012
	£	£
Amounts payable for cancellation of units	**484,992**	109,988
Purchases awaiting settlement	**49,385**	215,000
Accrued expenses	**20,282**	58,545
Corporation tax	**55,341**	55,605
	610,000	439,138

10 Contingent liabilities and outstanding commitments

There were no contingent liabilities or outstanding commitments at the balance sheet date (29 February 2012: same).

11 Risk in relation to financial instruments

The Fund's investment objective is stated on page 59. 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 (29 February 2012: same).

f Fair value

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

12 Post balance sheet events

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

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

13 Ultimate controlling party and related party transactions

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

Legal & General Investment Management Limited, who provide investment management services are a related party (as defined by FRS 8). Investments made on behalf of the Fund include those in Legal & General unit trusts, which had a market value of £127,892,927 at 28 February 2013 (29 February 2012: £127,778,566).

Management fees paid to Legal & General Investment Management Limited are shown in note 4. The balance due in respect of this fee is £19,424 (29 February 2012: £57,613). Management fee rebates received from Legal & General Investment Management are shown in note 4. Rebates receivable at the year end amount to £63,243 (29 February 2012: £193,574).

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

14 Split of Assets by Investment Channel

Investment Channel	Net Asset Value of Fund	Net Asset Value Per Unit	Number of Units in issue	Percent
28 February 2013				
Court Funds				
Office (CFO)	£105,518,874	1,219.46p	8,652,934	82.42
Official Solicitor and Public Trustee (OSPT)	£8,145,771	1,219.46p	667,983	6.36
Other	£14,365,029	1,219.46p	1,177,985	11.22
Total	**£128,029,674**	**1,219.46p**	**10,498,902**	**100.00**
29 February 2012				
Court Funds				
Office (CFO)	£107,478,426	1,113.29p	9,654,131	84.10
Official Solicitor and Public Trustee (OSPT)	£10,883,852	1,113.29p	977,630	8.52
Other	£9,431,065	1,113.29p	847,135	7.38
Total	**£127,793,343**	**1,113.29p**	**11,478,896**	**100.00**

Distribution Tables for the year ended 28 February 2013

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 2012–31 August 2012**

	Net Revenue	Equalisation	Distribution 12 October 2012	Distribution 12 October 2011
Distribution Units				
Group 1	15.6968	–	15.6968	12.0106
Group 2	7.0978	8.5990	15.6968	12.0106

Final dividend distribution in pence per unit — **Period 1 September 2012–28 February 2013***

	Net Revenue	Equalisation	Distribution 10 April 2013	Distribution 10 April 2012
Distribution Units				
Group 1	15.2199	–	15.2199	17.0953
Group 2	3.0275	12.1924	15.2199	17.0953

* Comparative period is 01/09/2012 to 29/02/2012.

Fund Facts

Total Expense Ratio

29 February 2012*	0.22 per cent
28 February 2013	0.24 per cent

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

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

Performance Review

Net asset values

Accounting Date	Net Asset Value of Fund	Net Asset Value Per Unit	Number of Units in Issue
28 Feb 11	£135,347,852	1,121.67p	12,066,626
29 Feb 12†	£127,793,343	1,113.29p	11,478,896
28 Feb 13	£128,029,674	1,219.46p	10,498,902

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

Unit price range and net revenue

Year	Highest Offer	Lowest Bid	Net Revenue
Distribution Units			
2008	1,162.00p	703.70p	27.8309p
2009	1,010.00p	645.30p	28.5160p
2010	1,141.00p	933.40p	26.4343p
2011	1,167.00p	940.20p	26.1887p
2012	1,141.00p	1,019.00p	32.7921p
2013(1)	1,244.00p	1,144.00p	15.2199p

1 The above table shows the highest offer and lowest bid prices to 28 February 2013 and the net revenue per unit to 10 April 2013.

Past performance is not a guide to future performance.

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

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

General Information

Accounting/distribution dates

The accounting and distribution dates for the Ministry of Justice Equity Index Tracker Fund 2013 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 charge

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

0.17 per cent for the first £50 million

0.14 per cent between £50 million and £100 million

0.13 per cent between £100 million and £150 million

0.12 per cent between £150 million and £200 million

0.11 per cent £200 million and above

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

Individual accounts are unaffected by the management charge deduction.

Buying and selling securities

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

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

Significant changes

Change to investment objective

The Fund's objective is to track the capital return of its composite benchmark by investing in Legal & General authorised unit trusts. During the review year, the Fund's composite benchmark changed:

Prior to 31 May 2012, the Fund's composite benchmark was:

FTSE All-Share Index	70 per cent
FTSE World (excluding UK) Index	30 per cent

With effect from 31 May 2012, the Fund's composite benchmark changed to:

FTSE All-Share Index	60 per cent
FTSE World (excluding UK) Index	35 per cent
FTSE All-World Emerging Index	5 per cent

Further information on how the Fund obtains this exposure is disclosed on page 59.

Change to the Accountant General

On 1 October 2012, Darren Tierney replaced Pat Lloyd as the Accountant General.

Manager

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Directors of the Manager

M B Boardman (resigned 3 May 2013)
S C Ellis (resigned 18 January 2013)
M J Gregory
S R Pistell
S D Thomas

Secretary

A Fairhurst

Overall Governance

Ministry of Justice

Auditor

Comptroller and Auditor General
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