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

Funds in Court in England and Wales Account 2010-2011

LONDON: The Stationery Office
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Contents

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

Accountant General's Accounts

The Accountant General's Accounts cover the year ended 28 February 2011. They have been prepared in accordance with the direction given by the Treasury in pursuance of Section 45(2) of the Administration of Justice Act 1982 (the Act). The Accounts record dealings in cash and securities held in court. Deposits under the various enactments referred to in Section 40 of the Act are not segregated in the Accounts. Other accounts prepared by the Commissioners for the Reduction of National Debt (CRND) – Part B – Court Funds Investment Account (CFIA) and the Investment Manager's Accounts – Part C – The Equity Index Tracker Fund (EITF), supplement the Funds in Court Part A – Accountant General's Accounts. In order to provide a full understanding of the relationship between the Parts A, B and C, the Part A Accounts consolidate the relevant elements.

The Court Funds Office

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

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

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

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

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

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

Management Board

The CFO Management Board is chaired by Eddie Bloomfield, Deputy Accountant General, who reports directly to the Accountant General, Pat Lloyd and comprises all the senior operational managers of the CFO. The purpose of the Board is to advise the Deputy Accountant General so as to assist him in his decision making and monitoring in respect of:

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

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

Membership to the Management Board is linked to job descriptions of senior CFO team and individuals join or leave the Management Board according to those roles. The Non-Executive Directors have appointment letters/ contracts which have an expiry date. The table below lists all persons who served on the CFO Management Board during the year ended 28 February 2011.

Staff	Job Title	Date commenced or reappointed	Expiry date of appointment or current role
Nick Crew	Deputy Accountant General & Head of Court Funds Office	April 2009	May 2010
John Ogden	Head of Finance	April 2009	September 2010
Julie Williams	Head of People & Change	April 2009	September 2010
Valerie Nwoko	Human Resources Business Partner	February 2009	February 2010
Eddie Bloomfield	Deputy Accountant General & Head of Court Funds Office	May 2010	–
John Little	Head of Finance	August 2010	–
Tricia MacDermott	Head of People & Change	April 2009	–
Clare Saunders	Human Resources Business Partner	February 2010	–
Andrea Emms	Head of Risk Management & Compliance	June 2010	–
Ben Luscombe	Head of Policy & Stakeholder Management	April 2009	–
Elizabeth Jeary	CFO Business Transition Representative	April 2009	–
Bryan McGhee	Head of CFO Operations	April 2009	
Sue Morris	Investment & Banking Programme Transition Manager	April 2009	
Colin Scott	Investment & Banking Programme Manager	April 2009	–

Staff	Job Title	Date commenced or reappointed	Expiry date of appointment or current role
Zoe Greenwood	CFO Service Delivery Manager	April 2009	–
Kevin Carlin	Data Audit & Quality Workstream Manager	April 2009	–
Eddie Croft	Deputy Head of CFO Operations	April 2009	–
Simon Hickford	Implementation Project Manager & Change Control Officer	April 2009	–
Mr Alan Clifton	Non-Executive Member	August 2008	November 2011
Dr Ros Altmann	Non-Executive Member	August 2008	November 2011

*Eddie Croft, Deputy Head of CFO Operations left Court Funds Office on 30 April 2011.

Court Funds Office Investment Strategy

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

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

During the year 1 March 2010 to 28 February 2011, the gross percentage rates were as follows:

Basic Account 0.3% and Special Account 0.5%.

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

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 in the Equity Index Tracker Fund (EITF). The proportion of funds to be invested will be based on factors such as how long until the child reaches majority and what investment objective the judge is seeking to achieve in terms of capital growth and income.

Management Commentary for the Year Ended 28 February 2011

The Accounts and Notes on pages 17 to 30 record a deficit for the year ending 28 February 2011 of £8.5 million (2010 deficit of £36.3 million). The main factors resulting in this movement are as follows: -

- Reduction in Interest due to Clients of 72.9% to £12.9 million (2010 £47.8 million) with the main driver being the continuing decline in cash balances held by 16.7% during the year to £3.4 billion (2010 £4.1 billion) with Special Account experiencing a reduction of 24.9% but this was partially offset by an increase in Basic Account balances of 7.8%. The other factor was a reduction in interest rates compared to prior year (1st March 2009: Basic Account 2% and Special Account 3%).

- Interest received reduced to £22.1 million (2010 £27.7 million), prior to payment of surplus income of £0.4 million (2010 £0.7 million) to the CF, see Note 3. This deterioration reflects the low UK interest rates during the year, given that the majority of the CFIA investments are Deposits and Advances with relatively short maturity periods the impact of low interest rates is quickly reflected in the returns available on the CFIA.
- The net impact of a low interest rate due to clients' balances saw an improvement in Net Interest Income resulting in a surplus of £8.8 million (2010 £20.8 million deficit).
- Movements in Dividends and Gains/losses on Securities are all matched by changes in the Income due to Clients on Security Holdings as the risks and rewards are fully borne by the Clients. There continues to be improvements in the market value of Clients' Security Holdings during the year reflecting the continued recovery in Equity Market values following the negative impacts recorded in 2009 resulting from the Global Credit Crunch and the Austerity Measures that the UK government have had to put in place in 2010. This resulted in mark to market gains of £24.6 million (2010 £61.4 million gains), see Statement of Comprehensive Net Expenditure.
- Total expenses were down by 19.8% to £12.5 million in 2011 (2010 £15.6 million) which largely reflects the impact of strict corporate spending review within CFO and the Ministry of Justice as a whole.

The Statement of Financial Position reports a further decrease in total assets during the year of £729.5 million (15.3%) to £4.0 billion. The major change in the asset mix during the year reflects the divestment from Gilts in the CFIA towards the end of the financial year, with a corresponding decrease in Deposits & Advances. There has also been a significant decrease in Foreign Currency Bank Accounts (see Note 6) of £23.4 million to £27.9 million (2010 £51.3 million), reflecting both deterioration in sterling exchange rates and reduction in balances held.

The main liabilities are the Clients' cash balances, which, during the year have decreased by £685.4 million to £3.4 billion largely due to lodgments of £685.4 million (2010 – £923.0 million), with cash payments and transactions out of court of £1.4 billion (2010 – £1.5 billion). This net outflow of cash together with interest credited of £13.8 million (2010 – £100.5 million) explains the decrease in cash balances and a full analysis of cash movements is shown in Note 12.

The Accounts (see Note 8) report a £21.0 million decrease in the market value of securities held, with a closing balance of £208.7 million at 28 February 2011 (2010 – £229.7 million). The decrease on market value of 9.1% is driven equally by a 11.4% decrease in the overall volume of holdings to 60.0 million at year-end. This is largely due to net transfers of holdings to clients of £22.0 million (2010 £6.0 million) an increase of 266.7%, as a result of directions from children reaching majority and deputies transferring control to stock brokers. The units in the Equity Index Tracker Fund recorded a decrease during the year by 339, 666 units to 10.2 million units with a market value of £114.7 million (2010 – 10.6 million units with a market value of £104.0 million). Further details of the Equity Index Tracker Fund are provided in the Part C Accounts.

These Accounts reflect the administrative costs recovered from the CFIA in accordance with the Administration of Justice Act 1982, totalling £12.4 million. The detailed breakdown of administrative costs for the CFO fall outside the scope of these accounts, and are reported in the 2010-2011 Annual Report and Accounts of the Ministry of Justice.

Financial Instruments

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

Risks and Uncertainties

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

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

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

Progress Against Agreed Targets – Key Performance Indicators

The CFO Management Board receives a monthly performance report covering the operational aspects of the CFO. This report includes Key Performance Indicators (KPIs) for each operational area within the CFO, and these are summarised into 12 Key Variants which form an overall executive summary of the CFO's performance. The following table sets out these KPIs, which demonstrate a strong operational performance during the year ended 28 February 2011.

KPI	Description	Target	Performance
1	To accurately process correctly completed and authenticated/certified payment requests within 5 working days of receipt(includes returns)	95%	Exceeded
2	To respond to all correspondence, including e-mail and fax, within 5 working days of receipt	95%	Exceeded
3	To accurately process correctly completed and authenticated non-investment 212s within 5 working days of receipt(includes returns)	95%	Exceeded
4	To bank cheques received on day of receipt and to process completed lodgment directions within 3 working days of receipt	100%	Achieved
5	95% of calls dealt with immediately & no more than the remaining 5% to be escalated to Operational Managers	95%	Exceeded
6	To issue majority statements to all Clients approaching their 18th Birthday, where an address is held on file	100%	Achieved
7	To ensure all cases passed majority are actively investigated and contacted accordingly	100%	Achieved
8	To ensure where all Court of Protection cases indicate the patient is now deceased, personal representatives are contacted within 5 days of notification	95%	Exceeded
9	To accurately process correctly completed & authenticated investment decision forms for children and protected parties (Form 212s) within 14 days of receipt (in line with shared 28 day target with HMCS)	100%	Achieved
10	To accurately process sales and purchases, corporate actions, transfers and dividends within the specified target or time frame	100%	Achieved
11	To carry out an annual review of every child's account with funds invested, rebalance where required and contact Clients accordingly	100%	Achieved
12	To achieve the Ministry of Justice target of less than 7.5 average days sick absence per member of staff	7.5	Achieved (7.2 days)

Audit of Accounts

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

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

The notional audit fee for the audit of the Funds in Court Part A financial statements for the year ended 28th February 2011 is £60,000. There have been no fees paid in respect of non-audit work.

Other Developments

On 10th May 2011 the Parliamentary Under-Secretary of State, Ministry of Justice, Jonathan Djanogly announced in a Written Ministerial Statement that as part of the Court Funds Office modernisation programme operations will transfer to National Savings and Investments towards the end of 2011.

The Accountant General will remain responsible, as now, for the safe management of and accounting for client funds and their investment. The Accountant General will also be responsible for ensuring the quality of service provided by NS&I to clients.

Pat Lloyd 24 June 2011
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 2011 and of the income and expenditure and cash flows of the year.

Appointment of the Accountant General

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

Statement on Internal Control

Scope of Responsibility

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

The Purpose of the System of Internal Control

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

The system of internal control has been in place in CFO for the year ended 28 February 2011 and up to the date of approval of the annual report and accounts, and accords with HM Treasury guidance.

Capacity to Handle Risk

Governance Structure

CFO's formal governance is as follows. The Accountant General (AG) is a statutory office holder created by the Senior Courts Act 1981 (SCA). The AG is also the Accounting Officer for CFO, reporting directly to the Ministry of Justice (MoJ) Permanent Secretary. The AG carries out her day to day duties through the Office of the Accountant General (OAG) (also set out in the SCA). The Court Funds Rules 1987 (CFR) set out that the OAG will be known as the CFO. The Administration of Justice Act 1982 (AJA) governs the work of the CFO along with CFR. CFO's main functions and responsibilities are set out in these pieces of legislation.

The CFR allow the AG to appoint an officer (currently the Deputy Accountant General (DAG)) to undertake her duties on a day to day basis. The DAG ensures that the business is run appropriately through his senior management team. This team forms the CFO Management Board (MB).

The CFO MB, chaired by the DAG, and comprising all senior managers from the business and the Modernisation Programme together with other key staff, meets monthly. The MB also has two non – executive members to provide advice and guidance upon the administration and investment performance of the Equity Index Tracker Fund (EITF). As a part of this meeting the Head of Risk Management and Compliance reports on any progress, issues and/or developments against the plans since the last meeting and presents the updated Corporate Risk Register.

A fortnightly Operational Meeting, made up of staff below the MB reviews work on a more detailed basis (including the risk and issue logs). Issues are escalated to the Risk Management Committee or MB as appropriate.

Each business area within CFO has a risk register (updated monthly). Each risk has an overall owner of at least middle management seniority. The registers have been developed by the business in conjunction with Risk Management and Compliance team.

Each risk owner attends the Corporate Risk Committee, chaired by Head of Risk Management and Compliance. The meeting reviews all of the risks, ensuring that scores and descriptions are up to date and relevant. The committee agrees the revised Corporate Risk Register before it goes before the CFO MB for final agreement.

The Head of Risk Management and Compliance meets with the DAG and IAD quarterly to ensure that an effective system of internal control is being maintained and operated by the CFO. The DAG is able to escalate matters to the AG with whom he has formal meetings each quarter. The DAG is accountable to me for risk management within CFO.

In addition to the above, the CFO MB operates a number of sub committees to provide assurance to the DAG and AG. These are Change Control, Implementation, Health & Safety and Finance. They report on and manage the risks facing the CFO's Business As Usual and the Modernisation Programme.

Staff appointments

Eddie Bloomfield was appointed as DAG and Head of CFO in May 2010. With his appointment came changes to the management structure including the creation of a new position of Head of Risk Management and Compliance. A new Head of CFO Finance was also appointed in September 2010**.** Both are permanent civil service appointments. In total, the DAG has five senior managers reporting directly to him; Policy, Finance, Risk Management and Compliance, Operations, and People and Change.

The Risk and Control Framework

CFO operates a comprehensive risk control framework. This is structured in standard terms and consists of a Risk Management and Compliance team, individual business area and overall corporate risk and issues registers, quarterly performance meetings with the AG, quarterly meetings with IAD, and an annual plan of work for IAD inspections and audits.

All types of risks and issues are discussed at the monthly CFO MB and in team meetings across the CFO. The monthly CFO MB continues to consider the high-level fully articulated Risk Register, which is informed by section-level risk registers and represents a joined up approach between Business As Usual and modernisation risks. The risks related to staff redeployment and the transfer of activity to National Savings and Investments (NS&I) continue to be addressed by the CFO MB via succession planning.

Following the appointment of the new Head of Risk Management and Compliance, a Risk Management and Compliance Plan and Strategy was drafted to:

- ensure outstanding action from MoJ IAD and National Audit Office (NAO) is effectively managed and concluded;
- increase the stability of the framework of control;
- raise fraud awareness; and
- provide the AG and the DAG with a level of assurance over risk management, governance and control.

These documents were endorsed by the CFO MB and shared with IAD and the NAO.

In addition to the above the risk that the investment of child damages awards is not completed in a timely fashion is shared in a joint agreement with Her Majesty's Courts and Tribunals Service (HMCTS). This has ensured that children's awards are processed consistently and effectively by the courts.

CFO MB has agreed a Risk Appetite of Cautious to Open. CFO's Risk Appetite Statement defines this as:

- Cautious – Preference for safe delivery options that have a low degree of risk and may only have limited potential for reward.
- Open – Willing to consider all potential delivery options and choose the most likely to result in successful delivery, while also providing an acceptable level of reward and value for money.

Modernisation of the CFO and associated risks

Colin Scott leads the modernisation programme which is known as the Investment and Banking Programme (I&B). He reports to me as Senior Responsible Officer for the programme. Both the business and the programme have clear and defined responsibilities. The relationship between both is characterised by close joint working and cooperation. Business representatives sit on all modernisation programme and project boards.

BAU and programme risks are managed in conjunction with the other party. All I&B risks with a direct impact or relevance to the business are dealt with at the CFO MB. Detailed work and risks regarding transition of the business to NS&I are discussed at the Implementation Project Board. Specific programme risks are dealt with through the I&B Programme Board, on which the DAG has a seat.

Main CFO risks

The corporate risk register is a living document and changes regularly. However, CFO's main risks for the majority of 2010/11 were:

- Insufficient funding from CFIA to support continuing Business as Usual (BAU) costs and modernisation;
- Available skills and knowledge do not support BAU in managing client accounts during transition;
- CFO is unable to redeploy all of its staff before transition and is over resourced at this point.

Review of Effectiveness

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

In reviewing the effectiveness of CFO's system of internal control I have considered the following.

CFO has maintained pro-active management and effective monitoring of budgets – both operations and transition– via monthly financial reporting to the CFO MB, a monthly meeting of the finance sub-committee and close liaison with MoJ Corporate Finance. This has led to financial targets for the fiscal year being achieved. This pro-active work also lead to significant savings in CFO's overall budget. In order to effectively manage CFO's investment strategy and the affordability risks relating to transition CFO held quarterly meetings with Debt Management Office, HM Treasury and the Ministry of Justice Corporate Finance.

Effective monitoring of CFO's performance via monthly reporting to the CFO MB led to all 12 Key Performance Indicators (KPIs) being achieved in the financial year.

A review of the EITF and its strategic fit within the CFO was undertaken. The review made a number of minor recommendations as to the operation of the EITF which will be implemented over the next year. The review concluded that no major changes should be made to the EITF during the modernisation programme as this could lead to a de-stabilisation of the business at a critical point. Once modernisation has been completed and the CFO business is once again in a steady state a further review of the EITF will be undertaken.

In order to reduce the risk of fraudulent activity and deal with compliance issues, four data mining exercises were carried out by the Risk Management and Compliance (RMC) team. These have helped to mitigate the risks of suspicious activity proceeding undetected and to ensure that any non-compliance detected is accurately dealt with in a timely manner. RMC expressed that the findings were positive as no indication of fraudulent activity was identified and that the controls established are adequate. They did identify instances of non–compliance relating to consistency of file documentation which were addressed by taking the appropriate action such as obtaining new court orders. Going forward CFO will continue to verify the accuracy of file documentation to ensure the information held is correct.

In addition to the above members of the CFO MB attended a one day training event promoted by the Institute of Internal Auditors on Risk Management in July 2010 and an Effective Risk Management in the Public Sector training day in August 2010 which was promoted by the Institute of Risk Management. This has helped to improve the effectiveness of risk management within the CFO.

Significant Internal Control Issues

No new significant internal control issues were identified within this reporting period and the CFO has taken action to address significant prior year internal control issues which impacted on the control environment and management activity during 2010-11.

Prior Year Significant Internal Control Issues

1) Lack of Compliance in Controls

IAD's 2010/11 annual report gave CFO an overall rating of green. This is a significant achievement and testament to the hard work and dedication of all CFO staff.

The previous year's annual report, 2009/10, identified a number of areas were CFO needed to improve its internal control mechanisms. As a result of these issues IAD gave CFO an amber/ red risk assessment.

With my support, the new DAG took immediate action to address the findings of the IAD report and the specific areas of concerns. This process started with the two new appointments detailed under the 'capacity to handle risk section'. The work undertaken by the DAG has also seen the completion of all outstanding actions from the IAD 09/10 report on CFO. The movement in assessment rating from amber/ red to green demonstrates the excellent progress CFO has made over the last year and the fact that IAD now consider all of the new controls to be effective.

By rolling out many of the initiatives already mentioned in this document (for example, enhanced training, data mining exercise and enhanced process) and by using the expertise of the new Head of Risk and Compliance the CFO MB has made a number of changes to the overall risk management structure within CFO leading to much strengthened system.

CFO has carried out a number of staff briefings throughout the year to ensure that its staff understand and are up to date with the latest policies and procedures. In conjunction with IAD, CFO staff received detailed training on fraud awareness. Following the fraud awareness session, an Information Assurance e-learning test was rolled out to all staff, which 99.3% of staff completed

CFO staff have also received briefings around all relevant MoJ staff discipline, conduct, performance and management policies. Staff have been provided with copies of the policies and these are also available on the CFO and MoJ intra-nets. To ensure this process continued the policy awareness training has been embedded within the new staff (permanent and agency) induction process.

2) Fraudulent Activity

Over the last year CFO has worked hard to address the areas of concern raised in the 2009/10 report and control mechanisms across the office have been strengthened.

CFO's control mechanisms relating to its IT account system (the Funds Account System (FAS)) have continued to be strengthened over the last year following a fundamental review of these in 2009/ 10. This review followed an attempt by one member of staff to manipulate FAS data in preparation for a potential fraudulent payment. CFO management have worked hard to mitigate the risks this attempted fraud exposed and the modernisation programme will lead to further, significant, improvements in this area.

CFO is committed to effectively managing the risk of fraud. In response to this commitment, CFO has ensured each business area has a risk register that is reviewed regularly and an appropriate escalation process is in place.

As already noted, a data mining exercise was undertaken to identify any fraudulent activity involving FAS. No indication of fraudulent activity was identified. All staff attended a Fraud Awareness Seminar and seminars on CFO and MoJ staff policies, including those on conduct and behaviour.

CFO was also subject to a cheque interception fraud in 2009/10. No loss was actually incurred by CFO as responsibility for incorrectly cashing the cheques lay with the bank concerned. Extensive investigations were conducted by the CFO, the Metropolitan Police and MoJ Internal Audit Division at the time. The police investigation in to this matter is continuing.

As a consequence of both instances CFO has acted to strengthen its internal control mechanisms and its post opening arrangements.

Effective and secure post-opening procedures are key to the work of the CFO and the CFO MB, along with senior managers have worked to strengthen these process over the last year. For example, targeted training was undertaken in relation to post opening duties and this training focused on developing greater awareness and vigilance. Such processes are regularly reviewed in order to reduce the opportunities or possibilities that incoming cheques may be intercepted. Our new procedures have been reviewed by IAD and given a green rating.

The Head of Finance is the responsible officer for the post room. This added control provides a segregation of duties and an avenue to report and address any instances of non-compliance. The RMC team conducts a twice weekly review of the post room and have confirmed that adequate control is in place. During the year, IAD conducted audits on Manpower Resource Management, Business Continuity Planning in relation to FAS, Payments Out (including post room procedures) and Risk Management and they have awarded CFO an overall rating of green for the 2010-11 year. This indicates that governance, Risk Management and Compliance arrangements were found to have been adequately established and are operating effectively.

3) Funds Accounting System

CFO has a custom IT system designed to handle the specific financial services it delivers. The system has been maintained and developed over many years to ensure it continues to meet the needs of managing funds in court. Improvements to the system continue but the IT platform is nearing the end of its useful life and needs replacing in the near future. Our modernisation programme, which was announced via a Written Ministerial Statement on 10 May, will address this.

In 2009 CFO commissioned a report from a leading IT specialist into the viability of FAS. The report noted a number of improvements that could be made to the system to improve its stability in the short term. However, the report concluded that, due to the age of the overall system, it would become obsolete in the longer term.

Risks around FAS are monitored through CFO's risk management framework and via a number of separate management boards (IT change request board, CFO MB and the I&B Programme Board). MoJ corporate IT, the in-house Logica team (our IT contractors), as well as Logica management are all engaged in mitigating any short term risks associated with FAS.

During 2010/11 IAD undertook an audit of the continuity planning supporting FAS. This resulted in a green audit opinion.

Conclusion

This SIC represents a significant improvement on last years position and gives CFO an excellent platform to move forward in 2011/12. Improved control processes, training procedures, fraud awareness and close working relationships with IAD through 2010/11 have ensured that the significant control issues that affected the CFO in the early part of 2009 have been managed and mitigated. The overall IAD audit assessment of green is a welcome endorsement of the considerable work done to address all the previous years' issues.

I will rely on the improved Risk Management and Compliance structure for assurance over the next year in a time when CFO will be finalising its modernisation programme with the completion of the transition to NS&I; redeploying or otherwise exiting its staff and seeking to maintain its performance standards.

Pat Lloyd 24 June 2011
Accountant General of the Senior Courts

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

I certify that I have audited the financial statements of the Funds in Court in England and Wales Part A for the year ended 28 February 2011 under the Administration of Justice Act 1982. These comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accountant General and auditor

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

Scope of the audit of the financial statements

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

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

Opinion on Regularity

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

Opinion on the financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Funds in Court in England and Wales Part A account's affairs as at 28 February 2011 and of the net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Administration of Justice Act 1982 and directions issued thereunder by HM Treasury.

Opinion on other matters

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

Matters on which I report by exception

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

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

the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas CE Morse
Comptroller and Auditor General

28 June 2011

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

Statement of Comprehensive Net Expenditure for the year ended 28 February 2011

	Notes	28 February 2011 £000	28 February 2010 £000
Income			
Interest Income	3	21,774	26,974
Interest Expense	4	(12,927)	(47,793)
Net Interest Income		**8,847**	**(20,819)**
Dividend Income		4,037	4,986
Gains/(Losses) Arising from Securities		24,557	61,351
(Losses)/Gains Arising from Foreign Exchange	5	(3,381)	(2,825)
Securities Income due to Clients' Holdings		(30,074)	(63,436)
Net Income		**3,986**	**(20,743)**
Expenses			
Administrative Expenses – CFO		(12,406)	(15,805)
Provisions – CFO	15	–	308
Management Charges from CRND		(109)	(109)
Total Expenses		**(12,515)**	**(15,606)**
Total Comprehensive Net Expenditure Transferred (from)/to Reserves and Hereditary Revenues		**(8,529)**	**(36,349)**

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

Statement of Financial Position as at 28 February 2011

	Notes	28 February 2011 £000	28 February 2010 £000
Assets			
Current Assets			
Cash & Cash Equivalents	6	27,890	51,332
Deposits and Advances	9	3,790,807	4,475,783
Debt Securities	7	23,317	38,213
Investment Securities held for sale	8	182,402	189,472
Other Assets	10	2,991	2,064
Total Assets		**4,027,407**	**4,756,864**
Liabilities			
Current Liabilities			
Cash Borrowings	6	11,514	21,772
Clients' Cash Account Balances	11	3,430,729	4,116,954
Clients' Holdings in Investment Securities	8	208,710	229,703
Other Liabilities	13	24,962	37,187
Total Current liabilities		**3,675,915**	**4,405,616**
Non Current Liabilities			
Provisions	15	–	–
Other Liabilities	13	351,492	351,248
Total Non Current Liabilities		**351,492**	**351,248**
Total Liabilities		**4,027,407**	**4,756,864**

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

Pat Lloyd 24 June 2011
Accountant General of the Senior Courts

Statement of Cash Flows for the year ended 28 February 2011

	Notes	28 February 2011 £000	28 February 2010 £000
Cash Flows from Operating Activities			
Operating (Deficit)		(8,529)	(36,349)
(Increase)/Decrease in Debt Securities		25,350	1,120
(Increase)/Decrease in Deposits and Advances		8,699	19,674
(Increase)/Decrease in Securities Holdings		7,069	(44,744)
Decrease in Other Assets		(927)	421
Decrease in Client Cash Accounts		(685,374)	(487,357)
Increase/(Decrease) in Client Securities		(20,993)	60,126
Decrease in Other Liabilities		(4,303)	(47,397)
Net Cash Flows from Operating Activities		**(679,008)**	**(534,506)**
Cash Flows from Investing Activities			
Cost of Purchases of Debt Securities		(10,453)	–
Proceeds from Sales of Debt Securities		–	1,049,202
Net Movement in Short-dated Cash Deposits		676,277	(554,304)
Net Cash Flows from Investing Activities		**665,824**	**494,898**
Net Cash Flows from Financing Activities		**–**	**–**
Net Increase/(Decrease) in cash and cash equivalents		**(13,184)**	**(39,608)**
Cash and cash equivalents at 1 March		29,560	69,168
Cash and cash equivalents at 28 February	6	16,376	29,560

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 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 2010/11 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Funds in Court in England & Wales (Part A) for the purpose of giving a true and fair view has been selected. The particular policies adopted are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

1.1 Accounting Convention

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

1.2 Consolidation boundaries

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

1.3 Recognition of Income

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

Income is recognised in the accounts on the following bases:

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

1.4 Valuation of Securities & Collective Investment Schemes

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

Fair values of investment securities (see note 8 for description of investment securities) are determined, in vast majority, by reference to published price quotations in an active market. Fair value of investment securities estimated using a valuation technique relates only to 0.15% of investment securities value. It includes Loan Notes and National Savings and Investment Holdings, where we use face value, as there are no market values for these instruments.

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

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

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

1.5 Hereditary Revenues and Reserves held by CRND

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

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

The primary investment vehicles by which surpluses have arisen are through investments in gilts and short-term deposits. Gilts were not always held to maturity by CRND, but were often bought and sold so as to realise a larger return than would have arisen from coupon interest alone. The surplus had, therefore, two sources of 'capital profits': Profits realised on the disposal of gilts sold 'cum div'; and Profits attributable to the increase in the capital value of gilts as a result of the decline in interest rates since the late 1980s.

Reserves held by CRND relate to surplus interest within the CFIA as at 28 February 2011.

Both Hereditary Revenues and Reserves held by CRND are shown as liabilities in the Statement of Financial Position to reflect that these are liabilities to the Consolidated Fund. See Note 13 for further details.

1.6 Administrative Expenses

The costs incurred by the CFO, 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 16 for further explanation of CFO 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 2011.

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 re-valuations 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 & Means

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

2 Financial Risk Management

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

2.1 Interest Rate Risk

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

The Basic and Special Accounts are both operated at administered rates, which are reviewed regularly and can be changed to ensure that interest expense remains closely aligned to interest income generated within the CFIA. Should there be a significant adverse movement in interest rates, which reduces the available net interest income, the CFO could re-price its administered rates within 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 the Debt Management Office or the National Loans Fund and are considered to have no exposure to credit risk because both accounts are backed by HM Government. Similarly gilts are considered to be free of credit risk because they have the backing of HM Government.

2.3 Market Risk

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

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

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

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

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

2.4 Liquidity Risk

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

The Court Funds Office manages the liquidity risk by:

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

Assets held by the CFIA are highly liquid to enable Client obligations to be met as they fall due. Note 9 to the Accounts demonstrate a significant proportion of deposits are held on call.

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

2011	**Nominal £000**	**Market Value £000**
Maturing in less than 3 months	4	4
Maturing in more than 3 months but less than 1 year	49	136
Maturing in more than 1 year but less than 5 years	946	1,481
Maturing in over 5 years	11,920	21,695
Total Debt Security Holdings	**12,919**	**23,316**

2010	**Nominal £000**	**Market Value £000**
Maturing in less than 3 months	–	–
Maturing in more than 3 months but less than 1 year	22	23
Maturing in more than 1 year but less than 5 years	6,449	13,725
Maturing in over 5 years	9,989	24,465
Total Debt Security Holdings	**16,460**	**38,213**

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.

3 Interest Income

	28 February 2011 £000	28 February 2010 £000
Cash and Cash Equivalents	74	135
Deposits & Advances	20,350	25,769
Debt Securities	1,710	1,793
Total Interest Receivable	**22,134**	**27,697**
Less: Surplus Income payable to Consolidated Fund	(360)	(723)
Total Interest Income	**21,774**	**26,974**

Debt Securities includes Coupon Interest in relation to Gilts Holdings held by CFO on behalf of Clients of £1,652,000 (2010 £762,000)

4 Interest Due to Clients' Accounts

	28 February 2011 £000	28 February 2010 £000
Interest Paid		
Court Funds – Basic Account	3,000	18,603
Court Funds – Special Account	14,085	84,616
Foreign Currency Balances	74	133
Foreign Currency Revaluation	(3,381)	(2,825)
Total Interest Paid	**13,778**	**100,527**
Interest Accrued		
At period end	4,035	4,886
At period start	(4,886)	(57,620)
Total Interest Due	**12,927**	**47,793**

Foreign Currency Balances and Revaluation reflect interest due and currency movement (gains/losses) on client accounts held in non-sterling.

5 Gains/(Losses) on Foreign Currency

	28 February 2011 £000	28 February 2010 £000
US Dollar	(2,661)	(2,692)
Euros	(713)	(133)
Australian Dollars	(7)	–
Total Gains / (Losses) on Foreign Currency	**(3,381)**	**(2,825)**

6 Cash and Cash Equivalents

Cash and Cash Equivalents include Balances held in Bank Accounts in both Sterling and Foreign Currencies.

	28 February 2011 £000	28 February 2010 £000
Assets		
Foreign Currency Bank Accounts		
Balance at 1 March	51,332	86,692
Net change in cash and cash equivalents balances	(23,442)	(35,360)
Balance at 28 February	**27,890**	**51,332**
Liabilities		
Sterling Bank Accounts		
Balance at 1 March	(21,772)	(17,524)
Net change in cash and cash equivalents balances	10,258	(4,248)
Balance at 28 February	**(11,514)**	**(21,772)**
Net Cash & Cash Equivalent Holdings	**16,376**	**29,560**

7 Debt Securities

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

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

2010	Nominal £000	Market Value £000
Holdings with CRND	–	–
Holdings held on behalf of Clients	16,460	38,213
Total Debt Security Holdings	**16,460**	**38,213**

8 Investment Securities

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

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

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

	28 February 2011 £000	28 February 2010 £000
Market Valuation Summary		
Unit Trust Holdings	155,097	146,531
Stocks, Shares and Loan Notes	27,275	42,911
National Savings and Other Holdings	30	30
Total Investment Securities	**182,402**	**189,472**
Gilt Holdings Classified as Debt Securities	23,317	38,213
Accrued Income	2,991	2,018
Total Client Holdings in Securities	**208,710**	**229,703**

	28 February 2011 '000	28 February 2010 '000
Market Holdings Summary		
Unit Trust Holdings	41,863	41,606
Stocks, Shares and Loan Notes	4,811	9,171
National Savings and Other Holdings	–	–
Total Investment Securities	**46,674**	**50,777**
Gilt Holdings Classified as Debt Securities	12,919	16,460
Total Client Holdings in Securities	**59,593**	**67,237**

	28 February 2011 '000	28 February 2010 '000
Movements in Holdings during the Year		
Balance at start of year	67,237	56,962
Purchases during Year	34,673	26,512
Sold during Year	(20,285)	(10,264)
Net Transfers (to)/from Clients	(22,032)	(5,973)
Balance as at year end	**59,593**	**67,237**

Of the above holdings 10,228,622 units (2010: 10,568,288) relate to the EITF, with a net asset value of £115 million (2010: £104 million) and price per unit of 1,122 pence (2009:989 pence).

9 Deposits and Advances

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

	28 February 2011 £000	28 February 2010 £000
Call Notice Deposits	3,780,125	4,456,658
Fixed Term Deposits	10,682	19,125
Ways & Means Account	–	–
Deposits and Advances Holdings	**3,790,807**	**4,475,783**

10 Other Assets

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

	28 February 2011 £000	28 February 2010 £000
Client Holdings		
Dividends & Coupons Due	2,991	2,018
Total Client Accrued Income	**2,991**	**2,018**
Other Receivables		
Receivables from Ministry of Justice for Children's Accounts Correction	–	–
Interest Recoverable from Consolidated Fund Relating to Holiday Pay Accrual	–	46
Total Other Assets	**2,991**	**2,064**

11 Clients' Cash Account Balances

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

	28 February 2011 £000	28 February 2010 £000
Court Funds placed on Basic Account	994,751	922,795
Court Funds placed on Special Account	2,250,153	2,995,725
Unclaimed Balances	121,725	118,281
Other Suitors' Monies Deposited in the Senior Courts	32,175	23,962
Clients' monies held as foreign currency	27,890	51,305
Total Client Cash Balances	**3,426,694**	**4,112,068**
Accrued Interest	4,035	4,886
Total Client Balances	**3,430,729**	**4,116,954**

Unclaimed balances represent:

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

All balances below £10 are held as Cash.

12 Clients' Receipts & Payments During Year

	28 February 2011 £000	28 February 2010 £000
Opening Balance 1 March	**4,112,068**	**4,599,424**
Lodgments by Clients	685,407	923,022
Sales of EITF units and other securities	54,582	33,121
Dividends and Interest paid on securities	4,715	5,823
Total Lodgments from Clients	**744,704**	**961,966**
Payments to Clients	(1,391,578)	(1,500,827)
Cost of Purchase of EITF units and other securities	(52,234)	(48,795)
Transfer of surplus funds to Exchequer (HMT)	(44)	(227)
Total Payments to Clients	**(1,443,856)**	**(1,549,849)**
Interest Credited to Court Accounts	**13,778**	**100,527**
Closing Balance 28 February	**3,426,694**	**4,112,068**

13 Other Liabilities

	28 February 2011 £000	28 February 2010 £000
Non Current Liabilities – Other Liabilities		
Hereditary Revenues held by CRND in Court Funds Investment Account	351,492	351,248
Current Liabilities – Other Liabilities		
Interest Balance due to Consolidated Fund	360	723
Reserves held by CRND in Court Funds Investment Account	12,138	20,838
Revaluation Reserve	–	–
Client Management Expenses	12,352	15,497
Other Payables (Including Holiday Pay)	112	129
Total Other Liabilities	**24,962**	**37,187**

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

14 Events after the Reporting Period

On 10th May 2011 the responsible Minister announced that the operational arm of the Court Funds Office would transfer to National Savings and Investments. It is expected that this will occur towards the end of 2011.

The objective of the transfer is for CFO to take advantage of the business transformation and service management skills, technology, and processes that are already well established within NS&I. It will provide customers with a more effective and efficient service and therefore an improved customer experience.

Clients will interact with CFO in the same way as they do now and their accounts will be administered in line with existing legislation. They will also continue to use specific CFO investment products but will not have access, under this arrangement, to NS&I products. The Accountant General will retain all of their current responsibilities and be ultimately responsible for the safeguarding of funds in court.

This proposed change has no impact on CFO as a going concern nor any impact on the financial balances contained in this White Paper Account. This is disclosed therefore as a non-adjusting disclosure under IAS10.

In accordance with IAS 10 (Events After the Reporting Period) events after the reporting period are considered up to the date on which the accounts are authorised for issue. This is interpreted as the date of the certificate and report of the Comptroller and Auditor General.

15 Provisions for Liabilities and Charges

	28 February 2011 Children's Provision £000	28 February 2010 Children's Provision £000
Opening Balance at 1 March	–	308
Provided in the year	–	–
Provisions not required written back	–	(308)
Provisions utilised in the year	–	–
Closing Balance	**–**	**–**

16 CFO Costs

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

17 Contingent Liability

On 12 April 2010 the CFO received an order made by a County Court in relation to Client funds of £2.2m paid into court in November 2004. The court order required those funds invested in a basic rate account, to be transferred to a special rate account and for this change to be backdated to 31 October 2006. CFO challenged this order on the grounds that the court had no power to make it. The subsequent order stated that CFO must back date interest to 17 September 2008.

CFO accepted this judgment and paid £29,644 to the client in backdated interest. CFO's legal costs amounted to £12,767 of which a proportion of the costs were recouped from the other parties involved in the matter. CFO's total legal cost was settled at £7,675.

The result of the appeal has now been determined so the cash loss has adjusted from the approximate figure of £120,000 to £7,675.

Commissioners for the Reduction of the National Debt Court Funds Investment Account Accounts for the year ended 28 February 2011

Foreword

Introduction

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

Background to the Court Funds Investment Account

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

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

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

Since October 2006, in agreement with CFO, CFIA's assets have closely matched its liabilities. As a consequence, in 2010-11 funds were largely placed in short-term deposits (overnight to 6 months) with the Debt Management Account Deposit Facility (DMADF). There was also some investment in gilts. These arrangements are set out in an investment mandate within a Memorandum of Understanding agreed between CRND and CFO.

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

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

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

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 2010-2011. The cost of managing CFIA incurred by CRND is recharged to CFIA; in 2010-11 this was £109,000 (2009-10: £109,000).

Commissioners for the Reduction of the National Debt

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

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

The arrangements made between CRND and CFO, in respect of the investment service provided by CRND are set out in a Memorandum of Understanding.

Audit arrangements

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

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

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

Management Commentary

During 2010-11, in accordance with the Memorandum of Understanding, CFIA was largely invested in overnight and short-term deposits with the Debt Management Account Deposit Facility (DMADF).

CFIA generated sufficient interest to meet its liabilities to suitors in 2010-11 to cover the interest payable on funds in court and to cover CRND management expenses. However, a deficit arose after deducting CFO's costs of administering funds in court, which resulted in a reduction in CFIA's reserves. In accordance with section 39(2)(b) of the AJA 1982 amended, CFO obtained HMT concurrence to make this deduction. At 28 February 2011, reserves were £12.1 million (28 February 2010: £20.9 million). A deficit in 2011-12 that exceeded the remaining reserves would lead to a call on the Consolidated Fund to meet any shortfall under section 39(3) of the Act.

Results for 2010-11

During 2010-11, total income before client expenses was £20.6 million (2009-10 £30.5 million). The reduction in income was mainly due to the declining size of the principal invested, arising from net client withdrawals from funds on deposit. Operating surplus for the year was £20.6 million (2009-10: £30.5 million), which after deducting interest payable on funds in court of £16.2 million (2009-10: £50.5 million), CRND management expenses £109k (2009-10: £109k), interest payable to the Consolidated Fund of £0.4 million (2009-10: £0.7 million) and Court Funds Office costs of £12.4 million (2009-10: £15.5 million) resulted in an overall deficit for the year of £8.5 million (2009-10: £36.4 million deficit)

CFO withdrew £689.3 million (net of advances) from CFIA over the course of the year (2009-10: net withdrawal of £551.1 million).

Date of authorisation for issue

The accounts were authorised for issue on 16 May 2011.

Jo Whelan 10 May 2011
Secretary and Comptroller General to the
Commissioners for the Reduction of the National Debt

Statement of Secretary and Comptroller General's responsibilities

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

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

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

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

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

Statement on Internal Control

Scope of responsibility

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

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

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

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level, rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide a reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify and prioritise risks to the achievement of DMO policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. Relevant elements of the DMO system of internal control have been implemented for CRND. The system of internal control has been in place for the year ended 28 February 2011 and up to the date of approval of this account, and accords with HM Treasury guidance.

Capacity to handle risk

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

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

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

Staff are required to signify that they have read and accepted the DMO's rules on personal dealing and the DMO's policy on the use of information systems and technology, and that they are aware of, and will continue to keep up to date with, the DMO's policies with respect to whistle blowing, fraud and anti-money laundering. The DMO ensures that the exercise is undertaken on an annual basis in order to maintain a good level of awareness of the DMO's policies in these areas. All members of staff have job descriptions which include reference to the specific key risks they are expected to manage. Managers in each business function are responsible for ensuring that the operations within their area are compliant with plans, policies, procedures and legislation.

During the year the new Coalition Government has introduced measures that have altered the DMO's risk profile over current and future years. In response, the DMO has placed increased focus on financial control, staff planning and responding to additional transparency requirements.

The risk and control framework

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

The DMO's Risk Management Unit (RMU) provides control advice on risks throughout the DMO. In the DMO's management reporting structure, the RMU is separate and independent of the DMO's trading operations. The RMU conducts risk analysis and provides market, credit and operational risk capability for the DMO.

The identification, monitoring and mitigation of operational risks are facilitated by the RMU, via consultation with heads of business units and functional teams. Regular meetings are held with heads of business units and functional teams to assess whether risks to their operations are being managed effectively. Significant risk issues are assessed by likelihood and materiality of occurrence. New risks and risks with an increased risk profile are highlighted and actions are taken to ensure effective management of all risks. The DMO has Senior Risk Owners (SROs) who undertake a cross-functional moderation process to promote better prioritisation of operational risks across the organisation. 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.

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

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

The DMO continues to work to maintain the required level of protective security, covering physical, personnel and information security. An annual assessment is made against the policies and standards set out in the Government's Security Policy Framework and, when necessary, controls are strengthened to manage identified risks. During the year, physical security arrangements were reviewed and a revised physical security policy is being developed. IT security is subject to annual reviews, including tests by external specialists and assessment against the CESG requirements for continuing connection to the Government Secure Intranet (GSI).

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

The Fund Management Committee, comprising CRND managers, other senior managers and DMO specialist staff, meets regularly to review CRND operational issues.

The Operational Risk Committee meets regularly to monitor operational risks and to review significant risk issues, risk incidents and exceptions and progress against treatment actions. This review is supported by regular operational risk reporting produced by the RMU. The scope of this meeting covers issues relating to information risk, IT security, business continuity, anti fraud issues and key supplier risks.

A Controls Group meets periodically to review issues affecting the DMO's system of internal control (including CRND) and to analyse material changes to the control environment. The group recommends actions to management to implement changes where appropriate. The Controls Group consisted of representatives of the DMO teams responsible for finance, risk, compliance and internal audit.

The DMO Audit Committee supports me as Secretary and Comptroller General of CRND on matters relating to risk, internal control and governance and associated assurance.

A high level strategic risk report is published to promote awareness of all high level issues and risks that the DMO faces at an organisational level. The report is based on a High Level Risk Register maintained by RMU, and is presented to the Managing Board on a regular basis.

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

The DMO's Business Continuity Plan (BCP) including Disaster Recovery (DR) and other arrangements is subject to continual review and update. The DMO ensured a programme of DR testing was carried out. Assessment of business continuity requirements is a specific requirement for new projects and major business initiatives.

CRND has established effective communication channels with each of its clients. Where relevant, an up-to-date memorandum of understanding is in place with each body responsible for the fund, outlining their respective responsibilities.

Improvements and changes were implemented during the year, including improved controls surrounding Information Management and IT Security; additional controls to improve the CRND payment process; and improved budgeting and forecasting processes.

Review of effectiveness

As Secretary and Comptroller General, my review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers in the DMO who have been delegated responsibility for the development and maintenance of the internal control framework, and by the reports and comments made by the external auditors.

I have been supported by the DMO Audit Committee and risk owners in addressing weaknesses and ensuring continuous improvement of the system is in place. The DMO Audit Committee met four times during the year to 28 February 2011.

The Fund Management Committee has monitored and advised me on development of CRND governance mechanisms. The Fund Management Committee met four times during the year.

The DMO's RMU has conducted regular controls and compliance testing providing the executive sub-committee of the Managing Board with assurance on the effectiveness of operational controls and compliance with relevant FSA rules in the dealing and settlements areas.

The Operational Risk Committee and Senior Risk Owners have advised me during the year on significant operational risk concerns, significant risk issues and trends, as well as actions to mitigate such risks. The Operational Risk Committee met seven times during the year.

The Controls Group has advised me on any significant risk concerns relating to the introduction of new business activities into the DMO as well as risks relating to other change management activities, and has made me aware of actions taken to mitigate identified risks.

The combined activities of the Fund Management Committee, RMU, Operational Risk Committee and the Controls Group have given me assurance that all risk, control and governance issues relevant to CRND have been dealt with effectively during the year.

The DMO Audit Committee considered the 2010-2011 accounts in draft and provided me with its views before I formally signed the accounts.

During the period of this Statement on Internal Control, Internal Audit has provided reports on the effectiveness of the risk management, control and governance processes for the DMO, including aspects relevant to CRND, to the DMO Audit Committee throughout the period. The audits make a series of recommendations that are addressed as part of our focus on continuous improvement in this area. The audits identified no serious breaches of risk or control systems. The Internal Audit work programme is approved by the DMO Audit Committee at the start of the year.

Internal Audit attended each meeting of the DMO Audit Committee to report the results of audit work and the results of follow-up work to confirm that appropriate management action had been taken to address audit recommendations.

On the basis of Internal Audit work during the year, the Head of Internal Audit has provided assurance to me on the adequacy and effectiveness of the risk management, control and governance arrangements relevant to the accounts, and has confirmed that there were no matters arising from the work of Internal Audit in the period that would give rise to separate comment in the Statement on Internal Control.

Significant Internal Control Issues 2010-2011

In my opinion, the overall system of internal control relating to CRND was effective throughout the financial year 2010-2011 and remains so on the date I sign this statement.

Jo Whelan 10 May 2011
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 2011 under the Administration of Justice Act 1982. These comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Client Funds and the related notes. These financial statements have been prepared under the accounting policies set out within them.

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

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

My responsibility is to audit, 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 and the Management Commentary to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

Opinion on Regularity

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

Opinion on the financial statements

In my opinion:

- the financial statements give a true and fair view, of the state of the Court Funds Investment Account's affairs as at 28 February 2011, and of its 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 Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General

16 May 2011

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

Income statement for the year ended 28 February 2011

	Notes	2011 £000	2010 £000
Interest income	2	20,409	26,799
Other gains and losses	3	171	3,663
Total income		**20,580**	**30,462**
CRND management expenses		(109)	(109)
CFO cost of administering funds in court		(12,406)	(15,497)
Interest payable on funds in court		(16,234)	(50,485)
Payable to the Consolidated Fund	4	(360)	(723)
Deficit for the year		**(8,529)**	**(36,352)**

Statement of comprehensive income for the year ended 28 February 2011

	2011 £000	2010 £000
Deficit for the year from the income statement	(8,529)	(36,352)
Other comprehensive income:		
Fair value gains on revaluation of UK Government gilt-edged securities classified as available-for-sale	171	3,762
Realised gains on UK Government gilt-edged securities classified as available-for-sale transferred to the income statement on disposal	(171)	(3,663)
Total comprehensive income for the year	**(8,529)**	**(36,253)**

The notes on pages 43 to 46 form part of these accounts.

Statement of financial position as at 28 February 2011

	Notes	2011 £000	2010 £000
Assets			
Demand deposits with the Debt Management Account & the National Loans Fund		3,780,125	4,456,658
Gilt coupon receivable		10,682	19,125
Total		**3,790,807**	**4,475,783**
Liabilities and Court Funds Office funds			
Liabilities			
Client management charges	4, 6, 7	12,479	15,579
HMT funds			
Hereditary Revenues	5	351,298	351,127
Surplus payable to the Consolidated Fund	4, 6	360	641
		351,658	**351,768**
Client funds			
Court Funds Office funds		3,414,532	4,087,598
Reserves		12,138	20,838
		3,426,670	**4,108,436**
Total		**3,790,807**	**4,475,783**

The notes on pages 43 to 46 form part of these accounts.

Jo Whelan 10 May 2011
Secretary and Comptroller General to the
Commissioners for the Reduction of the National Debt

Statement of cash flows for the year ended 28 February 2011

	Notes	2011 £000	2010 £000
Operating activities			
Deficit for the year		(8,529)	(36,352)
Interest payable on funds in court	4	16,234	50,485
Less: realised gain on UK Government gilt-edged securities classified as available-for-sale	3	(171)	(3,663)
Less: interest on UK Government gilt-edged securities classified as available-for-sale	2	(59)	(1,031)
Decrease/(increase) in demand deposits with the Debt Management Account & National Loans Fund		676,533	(515,504)
(Decrease) in surplus interest due to the Consolidated Fund	4	(281)	(3,927)
(Decrease)/increase in management fees due to the Court Funds Office	4	(3,100)	9,643
Net cash from/(used in) operating activities		**680,627**	**(500,349)**
Investing activities			
Interest received on UK Government gilt-edged securities classified as available-for-sale		19,125	21,038
Sales of UK Government gilt-edged securities classified as available-for-sale		444,443	1,981,690
Purchases of UK Government gilt-edged securities classified as available-for-sale		(454,895)	(951,279)
Net cash from investing activities		**8,673**	**1,051,449**
Financing activities			
Funds received from Court Funds Office		137,200	227,000
Funds paid to Court Funds Office		(826,500)	(778,100)
Net cash used in financing activities		**(689,300)**	**(551,100)**
Increase/(decrease) in cash		**0**	**0**

The notes on pages 43 to 46 form part of these accounts.

Statement of changes in client funds for the year ended 28 February 2011

	CRTF Funds excluding reserves	Reserves	Revaluation reserve	Total CRTF Funds
	£000	£000	£000	£000
At 1 March 2009	**4,588,213**	**60,853**	**(99)**	**4,648,967**
Deficit for the year	0	(36,352)	0	(36,352)
Realised gains transferred to Hereditary Revenues on disposal of UK Government gilt-edged securities classified as available-for-sale	0	(3,663)	0	(3,663)
Realised gains transferred to income statement on disposal of UK Government gilt-edged securities classified as available-for-sale	0	0	(3,663)	(3,663)
Fair value gains on UK Government gilt-edged securities classified as available-for-sale	0	0	3,762	3,762
Interest payable on funds in court	50,485	0	0	50,485
Funds received from CFO	227,000	0	0	227,000
Funds paid to CFO	(778,100)	0	0	(778,100)
At 28 February 2010	**4,087,598**	**20,838**	**0**	**4,108,436**
Deficit for the year	0	(8,529)	0	(8,529)
Realised gains transferred to Hereditary Revenues on disposal of UK Government gilt-edged securities classified as available-for-sale	0	(171)	0	(171)
Realised gains transferred to income statement on disposal of UK Government gilt-edged securities classified as available-for-sale	0	0	(171)	(171)
Fair value gains on UK Government gilt-edged securities classified as available-for-sale	0	0	171	171
Interest payable on funds in court	16,234	0	0	16,234
Funds received from CFO	137,200	0	0	137,200
Funds paid to CFO	(826,500)	0	0	(826,500)
At 28 February 2011	**3,414,532**	**12,138**	**0**	**3,426,670**

The notes on pages 43 to 46 form part of these accounts.

Notes to the Accounts for the year ended 28 February 2011

1 Accounting Policies

1.1 Basis of preparation

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

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

1.2 Assets

Demand Deposits

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

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

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

1.3 Income recognition

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

1.4 Administrative expenditure

Administrative costs are accounted for in the DMO Report and Accounts 2010-2011 and a recovery is made from CFIA.

2 Interest income

	2011 £000	2010 £000
UK Government gilt-edged securities classified as available-for-sale	59	1,031
Demand deposits with the Debt Management Account and the National Loans Fund	20,350	25,768
	20,409	**26,799**

3 Other gains and losses

	2011 £000	2010 £000
Profit on disposal of UK Government gilt-edged securities classified as available-for-sale	171	3,663
	171	**3,663**

4 Payable to the Consolidated Fund

	2011 £000	2010 £000
Interest received in the year	29,109	66,814
Interest payable on funds in court	(16,234)	(50,485)
Cost of administering funds in court		
CFO costs	(12,406)	(15,497)
CRND management costs	(109)	(109)
	(12,515)	(15,606)
Payable to the Consolidated Fund for 2010-11	360	723
Prior year adjustment (see note 6)	–	(82)
Surplus payable to the Consolidated Fund at 31 March	**360**	**641**

5 Hereditary Revenues

	2011 £000	2010 £000
Balance at 1 March	351,127	347,464
Realised gains transferred to income statement on disposal of UK Government gilt-edged securities classified as available-for-sale	171	3,663
Balance at 28 February	**351,298**	**351,127**

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

6 First time adoption of IFRS by Court Funds Office

The 2008-09 cost of administering funds in court, payable to the client, was restated due to the implementation of IFRS by CFO. The effect on the financial statements is shown below.

	£000
Cost of administering funds in court	
As reported in 2008-09	5,772
Adjustment	82
As reported in 2009-10	5,854

Surplus payable to the Consolidated Fund	**£000**
As reported in 2008-09	4,732
Adjustment	(82)
As reported in 2009-10	4,650

7 Client Management charges

The Fund was due to pay the 4th instalment of CRND management expenses (£28k) on 25 February 2011. This was not paid until 8 March 2011.

The Fund is due to pay £45k to Court Funds Office due to prior year corrections to the cost of administering funds in court. £82k is described in note 6, and (£37k) relates to an overpayment of charges by CFIA in 2010, which is due back to CFIA.

	2011	**2010**
	£000	**£000**
Cost of administering funds in court 2010-2011	12,406	15,497
Correction to 2008-2009 cost	82	82
Correction to 2009-2010 cost	(37)	0
	12,451	15,579
CRND management expenses 2010-2011 unpaid	28	0
Total client management charges due	12,479	15,579

8 Risk

8.1 Credit Risk

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

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

8.2 Market Risk

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

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

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

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

8.3 Liquidity Risk

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

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

9 Related parties

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

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

During the year, CFIA had a significant number of material transactions with CFO due to CFIA facilitating the operation of the basic and special accounts operated by CFO for suitors' funds paid into Court in England and Wales. During the year, CFO withdrew £689.3 million (net of advances) from CFIA (2009-10: net withdrawal of £551.1 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

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

The Commissioners for the Reduction of the National Debt shall prepare accounts for the financial year ended 28 February 2010 (29 February in a leap year) and subsequent financial years which give a true and fair view of the state of affairs of the Account at the reporting date, and of its income and cash flows for the year then ended.

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.

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.

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

The report shall include:

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

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 31 March 2010
Head, 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).

1 What is the Common Investment Fund?

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

2 What does this report cover?

This report covers the performance of the Fund for the year ended 28 February 2011, together with some information for investors and their advisers.

3 What is the legal basis for the Fund?

The Fund is an Unauthorised Unit Trust and was created under the Act which authorises the Lord Chancellor to make Common Investment Schemes for the purposes of investing funds held in Court and money held by any other person authorised to hold units in the Fund. The current scheme is governed by the Common Investment Scheme 2004 (SI 2004 No. 266). On 1 March 2004, the right to own units in the Fund was extended to the Official Solicitor, the Public Trustee and Clients of the Office of the Public Guardian (OPG)/Court of Protection wishing to hold units out of Court. In addition, certain former Clients of the OPG/Court of Protection, the Court Funds Office (CFO) and The Official Solicitor and the Public Trustee (OSPT) were authorised to retain units in the Fund on termination of their connection with those offices. These changes came into effect as a result of authorisation by the Lord Chancellor pursuant to section 42(5)(b) of the Act.

4 Why invest in the Fund?

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

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

I The Lord Chancellor's Responsibilities

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

Under Section 42(2) of the Act, the Common Investment Schemes made by the Lord Chancellor shall provide for an Investment Manager to be re-appointed by the Lord Chancellor to manage and control the common investment Funds established. As indicated above, the Lord Chancellor re-appointed Legal & 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 2012. 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 theAccountant General upon the attainment of his majority;

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

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

xii any person acting in his capacity as nominee for any person included in (i) to (viii) above. The total value of 'other' investors is shown in Note 14.

II Appointment of the Accountant General

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

III Management and Investment of Funds in Court

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

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.

6 How does the Accountant General honour her responsibilities?

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

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

7 Accounts and Audit

These accounts are in respect of the Ministry of Justice Equity Index Tracker Fund for the year ended 28 February 2011 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 58 and 60. The notional audit fee for the audit of the Ministry of Justice Equity Index Tracker Funds Financial Statements for the year ended 28 February 2011 will be £24,000. This notional fee is disclosed in the MoJ resource account.

The Chief Operating Officer and the Accountant General have taken all the steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the Fund's auditors are aware of that information. So far as they are aware, there is no relevant audit information of which the Fund's auditors are unaware.

S. D. Thomas
Director Legal & General
(Unit Trust Managers) Limited
24 June 2011

P. Lloyd
Accountant General of the Senior Courts

24 June 2011

Investment Manager’s Report

Investment Strategy

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

Control Range

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

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

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

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

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

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

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Manager’s Investment Report

During the year under review, the Ministry of Justice Equity Index Tracker Fund rose by 12.90%. The composite benchmark rose by 12.94%, producing a tracking deviation of -0.04%. The published price of the Fund’s units valued at 12 noon rose by 13.89% during the review year.

Tracking Deviation

The table below shows the Fund Performance for the year from 1 March 2010 to 28 February 2011, with the benchmark performance, which comprises 70% FTSE All-Share Index and 30% FTSE All-World (ex-UK) Index.

	Mar 10	**Apr 10**	**May 10**	**Jun 10**	**Jul 10**	**Aug 10**
Total Fund (%)	6.40	-1.40	-6.23	-5.21	5.63	-1.14
Benchmark (%)	6.43	-1.39	-6.20	-5.27	5.64	-1.15
Relative (%)	-0.03	-0.01	-0.03	0.06	-0.01	0.01

	Sep 10	**Oct 10**	**Nov 10**	**Dec 10**	**Jan 11**	**Feb 11**	**Year**
Total Fund (%)	6.48	2.26	-1.67	6.97	-0.53	1.77	12.90
Benchmark (%)	6.48	2.26	-1.66	7.01	-0.56	1.78	12.94
Relative (%)	0.00	0.00	-0.01	-0.04	0.03	-0.01	-0.04

Source: LGIM, as at 28 February 2011.

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

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

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

Distribution Review

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

Market/Economic Review

Following sharp initial falls on worries over faltering US economic growth and the deepening eurozone sovereign (government) debt crisis, global equities recovered strongly during the second half of the review year. Sentiment was boosted by encouraging corporate newsflow and signs that the US recovery was gaining some traction, though concerns persisted over rising inflation, driven by higher food, metal and energy prices.

UK Equities

Having initially rallied on robust economic data during the first quarter of 2010, UK equities subsequently followed their overseas counterparts sharply lower. Fears that the debt crisis which first afflicted Greece could spread hit world stock markets in May 2010, with concerns over the fragility of the US recovery adding further volatility. Initial uncertainty surrounding May's inconclusive UK election quickly evaporated, with investors warming to the Coalition's deficit reduction plan. Though the economy grew by a robust 1.2% during the second quarter, concerns that looming state government cuts would weigh on growth were soon vindicated, as growth slowed to 0.7% during the third quarter. Nonetheless, with further signs emerging that the global trading backdrop was improving, UK equities joined their international peers in a sustained rally during the second half of 2010. However, domestic economic newsflow took a distinct turn for the worse in early 2011, with the economy suffering a shock -0.6% contraction during the final quarter of 2010, as state spending cuts impacted on consumer confidence and retail sales. Though the Bank of England held interest rates steady at 0.5%, the Bank's Monetary Policy Committee grappled with the challenge of supporting a deteriorating domestic economy while combating above-target inflation.

Overseas Equities

Mainland European stockmarkets traded sharply lower over the early months of the review year. Amid signs that the eurozone region was experiencing a two-speed recovery, with core countries such as Germany outperforming smaller nations running high budget deficits, investors grew alarmed that countries such as Portugal and Ireland could suffer a Greek-style debt crisis. While concerns grew that deficit-reducing austerity measures could further impact on the economic prospects of 'peripheral' states, the economic gulf between eurozone countries became increasingly apparent. Boosted by export demand, Germany enjoyed second-quarter economic growth of 2.2%, its best performance since reunification. Though European equities rose alongside their overseas counterparts amid reassuring global economic news, Ireland, reeling from the cost of bailing out its Banking sector, accepted a European Union/International Monetary Fund bailout in November 2010. In early 2011, as unrest in the Middle East and North Africa pushed energy costs higher, speculation mounted that eurozone interest rates were set to rise. US equities slipped early in the review year, as investors lost conviction over the resilience of the domestic economic recovery on signs that retail spending and personal consumption were falling. There was also disappointment that the jobless rate held close to 10%, despite nearly a year of economic growth. Though economic data towards the end of 2010 provided more grounds for optimism, the US Federal Reserve implemented further quantitative easing with a view to boosting the employment market. With near-zero interest rates also underpinning economic activity, signs emerged around the turn of the calendar year that the trading backdrop was steadily improving, while encouraging earnings news from corporate heavyweights such as General Motors further supported sentiment.

While emerging markets remained at the forefront of the global recovery, China's increasing determination to cool activity in sectors most at risk of overheating weighed on market sentiment. With the annual economic growth rate topping 10%, the authorities imposed lending restrictions on sectors such as Property, while raising interest rates towards the end of the review year. Though inflation, particularly rising food prices, remained a concern across developing markets, robust economic growth in countries such as Brazil, India and Indonesia helped emerging markets to perform particularly strongly during the second half of 2010.

Export-orientated Japanese companies were among the leading beneficiaries of the global demand recovery in 2010. However, with domestic demand helped by temporary government incentives, concerns persisted over Japan's reliance on overseas demand, particularly given China's effort to temper demand by cooling some sectors at most risk of overheating. Meanwhile, concerns lingered over the strength of the Yen and ongoing deflationary risks.

Outlook

We believe that the UK economy is set for a challenging year as government austerity measures take effect, with higher taxes and spending cuts likely to squeeze household incomes. Though analysts are anticipating interest rate rises around mid-year, we believe the muted economic outlook presents strong grounds for rate-setters to tolerate high near-term inflation and keep interest rates on hold this year.

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)
23 March 2011

Manager's Statement on Internal Control

1 Scope of responsibility

As Finance Director, I have responsibility for maintaining a sound system of internal control that supports the achievement of Ministry of Justice Equity Index Tracker Fund policies, aims and objectives, whilst safeguarding the public funds and assets of 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 Court Funds Office (CFO) Management Board. The performance of the Fund is reported via quarterly management information, which ensures that the objectives of index tracking are fulfilled. Quarterly meetings are also held between Legal & General and the CFO (which includes personnel from the Ministry of Justice) to discuss operational issues and investment strategies.

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

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

2 Purpose of system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in Ministry of Justice Equity Index Tracker Fund for the year ended 28 February 2011 and up to the date of approval of the final report and accounts.

3 Capacity to handle risk

Legal & General Investments (LGI) sits within the Savings division of Legal & General Group. LGI have a dedicated Regulatory Risk and Compliance function, provided by Legal & General Group, that have developed a framework in conjunction with requirements under the Financial Services Authority's (FSA) Prudential sourcebook. The Risk and Compliance function operates within the Legal & General Group Risk Management framework.

The Risk Director, Savings, is authorised under the FSA's Approved Person regime, with responsibility for Controlled Function 29 Risk Assessment.

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

- Credit Risk Policy
- Market Risk Policy
- Liquidity Risk Policy
- Operational Risk Policy

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

4 The risk and control framework

LGI maintains a Risk Database, with risk scores calculated using the product of impact and likelihood scores. The database facilitates the recording of risk owners, controls in place, key risk indicators and control weaknesses. The Risk Database has formed the basis for recording and reviewing risks across the company.

Risk Management is delegated by the Legal & General (Unit Trust Managers) Board to the Savings Risk & Compliance Committee. The committee was formed in 2009 to maintain oversight of risk management. Membership is as follows:

- Group Executive Director (Savings)
- Managing Director (Retail Savings)
- Managing Director (Workplace Savings)
- Managing Director (Investments)
- Finance Director (Savings)
- Head of HR (Savings)
- With Profits Actuary

The framework below demonstrates the risk framework within LGI:

The framework:

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

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

5 Review of Effectiveness

As Finance Director, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the internal control is informed by the work of the internal auditors and the Executive Managers within LGI who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board,the Audit Committee and the Savings Risk and Compliance Committee, and a framework to address weaknesses and ensure continuous improvement of the system is in place.

The effectiveness of the control environment is tested through risk-based monitoring, carried out by Group Regulatory Risk and Compliance and Internal Audit. In addition, external reviews are undertaken by external auditors.

Any recommendations made to address control weaknesses are recorded by Legal & General Investments division on the Risk Database. The status of audit actions are tracked by Management and reported at the LGI Operations Committee.

6 Significant internal control problems

There are no significant internal control problems to report.

S. D. Thomas 24 June 2011
Director
Legal & General (Unit Trust Managers) Limited

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

Lord Chancellor's Responsibilities

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

Under section 42(2) of the Act, the Common Investment Schemes made by the Lord Chancellor shall provide for an Investment Manager to be appointed by the Lord Chancellor to manage and control the Common Investment Funds established.

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

Accountant General's Responsibilities

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

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

Investment Manager's Responsibilities

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

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

- select suitable accounting policies and apply them consistently;
- comply with the disclosure requirements of the Statement of Recommended Practice relating to Authorised Funds to the extent that such requirements are relevant to the Common Investment Funds;
- follow applicable accounting standards;
- 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 2011 under the Administration of Justice Act 1982. These comprise the Statement of Total Return, the Statement of Change in Net Assets attributable to Unitholders, the Balance Sheet, and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Investment Manager and Auditor

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

Scope of the audit of the financial statements

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

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

Opinion on Regularity

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

Opinion on the financial statements

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the EITF as at 28 February 2011 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 thereunder 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 Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C. E. Morse
Comptroller and Auditor General

28 June 2011

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

Portfolio Statement as at 28 February 2011

All investments are in distribution units unless otherwise stated.

The percentages in brackets show the equivalent sector holdings at 28 February 2010.

	Holding/ Nominal Value	Market value £	% of net assets
Investment			
Unit Trusts investing in UK shares— 70.02% (69.78%)			
Legal & General UK Index Trust	76,061,578	94,772,727	70.02
Unit Trusts investing in overseas shares — 29.98% (30.22%)			
Legal & General International Index Trust	68,320,756	40,575,697	29.98
Portfolio of investments		135,348,424	100.00
Net other assets		(572)	–
Net assets		135,347,852	100.00

Total purchases for the year: £6,845,640.

Total sales for the year: £8,807,539.

Statement of Total Return for the year ended 28 February 2011

	Notes		**28 February 2011**		28 February 2010
		£	**£**	£	£
Income					
Net capital gains	2		**16,835,865**		33,786,469
Revenue	3	**2,762,199**		2,995,072	
Expenses	4	**565,462**		441,008	
Finance costs:					
Interest	6	**–**		–	
Net revenue before taxation		**3,327,661**		3,436,080	
Taxation	5	**(113,223)**		(221,859)	
Net revenue after taxation for the year			**3,214,438**		3,214,221
Total return before distributions			**20,050,303**		37,000,690
Finance costs:					
Distributions	6		**(3,214,438)**		(3,214,221
Change in net assets attributable to Unitholders from investment activities			**16,835,865**		33,786,469

Statement of Change in Net Assets attributable to Unitholders for the year ended 28 February 2011

		28 February 2011		28 February 2010
	£	**£**	£	£
Opening net assets attributable to Unitholders		**120,473,799**		82,014,220
Amounts received on creation of units	**6,887,631**		9,404,082	
Amounts paid on cancellation of units	**(8,849,443)**		(4,730,972)	
		(1,961,812)		4,673,110
Change in net assets attributable to Unitholders from investment activities		**16,835,865**		33,786,469
Closing net assets attributable to Unitholders		**135,347,852**		120,473,799

The notes on pages 65 to 70 form part of these accounts.

Balance Sheet as at 28 February 2011

	Notes	£	**28 February 2011** £	£	28 February 2010 £
Assets					
Investment assets			**135,348,424**		120,473,838
Debtors	7	**445,702**		338,230	
Cash and bank balances	8	**1,342,793**		1,766,128	
Total other assets			**1,788,495**		2,104,358
Total assets			**137,136,919**		122,578,196
Liabilities					
Investment liabilities			–		–
Creditors	9	**(78,246)**		(341,176)	
Distribution payable on distribution units		**(1,710,821)**		(1,763,221)	
Total other liabilities			**(1,789,067)**		(2,104,397)
Total liabilities			**(1,789,067)**		(2,104,397)
Net assets attributable to Unitholders			**135,347,852**		120,473,799

The notes on pages 65 to 70 form part of these accounts.

S. D. Thomas 24 June 2011
Director
Legal & General (Unit Trust Managers) Limited

Notes to the Financial Statements

1 Accounting policies

a Changes in accounting policies

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 ('the IMA SORP 2010').

Previously the financial statements were prepared in accordance with the Statement of Recommended Practice for Authorised Funds issued by the IMA in November 2008. There has been no impact on the financial statements or on disclosure for the year.

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 (Collective Investment Schemes sourcebook). Distributions which have remained unclaimed by Unitholders for over six years are credited to the capital property of the Fund.

e Basis of valuation of investments

All investments are valued at their fair value as at 12 noon on 28 February 2011, 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

	28 February 2011	28 February 2010
	£	£
The net capital gains during the year comprise:		
Non-derivative securities	**16,836,485**	33,787,159
Transaction charges	**(620)**	(690)
Net capital gains	**16,835,865**	33,786,469

3 Revenue

	28 February 2011	28 February 2010
	£	£
Franked dividend distributions	**2,761,546**	2,326,785
Unfranked dividend distributions	**–**	668,866
Bank interest	**–**	(579)
HMRC Interest received	**653**	–
	2,762,199	2,995,072

4 Expenses

	28 February 2011	28 February 2010
	£	£
Payable to the Manager, associates of the Manager and agents of either of them:		
Manager's periodic fee	**227,104**	189,866
Management fee rebates from Legal & General Investment Management Limited	**(817,178)**	(650,257)
Registration fees	**18,887**	14,163
	(571,187)	(446,228)
Payable to the Trustee, associates of the Trustee and agents of either of them:		
Safe custody fees	**5,725**	5,220
Total expenses	**(565,462)**	(441,008)

5 Taxation

a Analysis of taxation charge in year

	28 February 2011	28 February 2010
	£	£
Corporation Tax	**113,223**	221,859
Current tax [note 5(b)]	**113,223**	221,859
Deferred tax [note 5(c)]	**–**	–
Total taxation	**113,223**	221,859

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 2011	28 February 2010
	£	£
Net revenue before taxation	**3,327,661**	3,436,080
Net revenue before taxation multiplied by the applicable rate of Corporation tax at 20% (2010: 20%)	**665,532**	687,216
Effects of:		
Revenue not subject to taxation	**(552,309)**	(465,357)
Current tax	**113,223**	221,859

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 2011	28 February 2010
	£	£
Interim distribution	**1,481,341**	1,497,356
Final distribution	**1,710,821**	1,763,221
	3,192,162	3,260,577
Add: Revenue deducted on cancellation of units	**89,605**	60,470
Less: Revenue received on creation of units	**(67,329)**	(106,826)
Distributions for the year	**3,214,438**	3,214,221
Interest		
Bank overdraft interest	**–**	–
Total finance costs	**3,214,438**	3,214,221

7 Debtors

	28 February 2011 £	28 February 2010 £
Amounts receivable for creation of units	**–**	280,005
Sales awaiting settlement	**378,597**	–
Accrued revenue	**67,105**	58,225
	445,702	338,230

8 Cash and bank balances

	28 February 2011 £	28 February 2010 £
Cash and bank balances	**1,342,793**	1,766,128
Net uninvested cash	**1,342,793**	1,766,128

9 Creditors

	28 February 2011 £	28 February 2010 £
Purchases awaiting settlement	**–**	276,018
Accrued expenses	**21,524**	18,573
Corporation tax	**56,722**	46,585
	78,246	341,176

10 Contingent liabilities and outstanding commitments

There were no contingent liabilities or outstanding commitments at the balance sheet date (28 February 2010: same).

11 Risk in relation to financial instruments

The Fund's investment strategy is stated on page 52. In pursuing its objective, the Fund holds financial instruments which expose it to various types of risk. The main risks, and the Manager's policy for managing these risks, which were applied consistently throughout the current and preceding year, are set out below:

a Credit and liquidity risk

Credit risk is the risk of suffering loss due to another party not meeting its financial obligations. The primary source of this risk to the Fund is for trade counterparties to fail to meet their transaction commitments. This risk is managed by appraising the credit profile of financial instruments and trade counterparties.

Liquidity risk relates to the capacity to meet liabilities. The primary source of this risk to the Fund is the liability to Unitholders for any cancellation of units. This risk is minimised by holding cash and readily realisable securities and via access to overdraft facilities.

b Market risk

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

c Foreign currency risk

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

d Interest rate risk

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

e Derivative risk — Sensitivity analysis

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

At the balance sheet date, no derivatives were held that could impact the Fund in a significant way (28 February 2010: 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 CFO, who provide investment management oversight services for the Fund, are a related party (as defined by Financial Reporting Standard (FRS) 8). Details of units created and cancelled are shown in the Statement of Net Assets attributable to Unitholders. Note 14, shows the split of existing assets by investment channel.

Legal & General Investment Management Limited, who provide investment management services are a related party (as defined by FRS 8). Investments made on behalf of the Fund include those in Legal & General unit trusts, which had a market value of £135,348,424 at 28 February 2011 (28 February 2010: £120,473,838).

Management fees paid to Legal & General Investment Management Limited are shown in note 4. The balance due in respect of this fee is £18,860 (28 February 2010: £17,677). Management fee rebates received from Legal & General Investment Management are shown in note 4. Rebates receivable at the year end amount to £67,106 (28 February 2010: £58,225). 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 2011				
Court Funds				
Office (CFO)	£114,731,493	1,121.67p	10,228,622	84.77
Official Solicitor and Public Trustee (OSPT)	£9,195,650	1,121.67p	819,817	6.79
Other	£11,420,709	1,121.67p	1,018,187	8.44
Total	**£135,347,852**	**1,121.67p**	**12,066,626**	**100.00**
28 February 2010				
Court Funds				
Office (CFO)	£103,976,220	983.85p	10,568,288	86.31
Official Solicitor and Public Trustee (OSPT)	£7,177,705	983.85p	729,552	5.96
Other	£9,319,874	983.85p	947,285	7.73
Total	**£120,473,799**	**983.85p**	**12,245,125**	**100.00**

Distribution Tables for the year ended 28 February 2011

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 2010–31 August 2010**

	Net Revenue	Equalisation	Distribution 12 October 2010	Distribution 12 October 2009
Distribution Units				
Group 1	12.0350	–	12.0350	12.3601
Group 2	2.5329	9.5021	12.0350	12.3601

Final dividend distribution in pence per unit — **Period 1 September 2010–28 February 2011**

	Net Revenue	Equalisation	Distribution 10 April 2011	Distribution 10 January 2010
Distribution Units				
Group 1	14.1781	–	14.1781	14.3993
Group 2	3.8052	10.3729	14.1781	14.3993

Fund Facts

Total Expense Ratio

28 February 2011	0.22%	28 February 2010	0.22%

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 09	£82,014,220	703.05p	11,665,482
28 Feb 10	£120,473,799	983.85p	12,245,125
28 Feb 11	£135,347,852	1121.67p	12,066,626

Unit price range and net revenue

Year	Highest Offer	Lowest Bid	Net Revenue
Distribution Units			
2006	1,127.00p	984.10p	24.0921p
2007	1,210.00p	1,072.00p	27.2978p
2008	1,162.00p	703.70p	27.8309p
2009	1,010.00p	645.30p	28.5160p
2010	1,141.00p	933.40p	26.4343p
2011[1]	1,159.00p	1,120.00p	14.1781p

1 The above table shows the highest offer and lowest bid prices to 28 February 2011 and the net revenue per unit to 10 April 2011.

Past performance is not a guide to future performance.

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

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

General Information

Accounting/Distribution Dates

The accounting and distribution dates for the Ministry of Justice Equity Index Tracker Fund 2011 are:

Accounting dates	**Distribution dates**
28 Februrary	10 April
31 August	12 October

Buying & Selling Units

Unit Prices

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

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

Management charge

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

0.17% for the first £50 million

0.14% between £50 million and £100 million

0.13% between £100 million and £150 million

0.12% between £150 million and £200 million

0.11% thereafter

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

Individual accounts are unaffected by the management charge deduction.

Buying and selling securities

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

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

Manager

Legal & General (Unit Trust Managers) Limited
Registered in England No. 01009418
Registered office:
One Coleman Street
London EC2R 5AA
Telephone: 0370 050 3350
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Directors of the Manager

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

Secretary

A. Fairhurst

Overall Governance

Ministry of Justice

Auditor

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

Fund Investors

Court Funds Office
22 Kingsway
London WC2B 6LE
Telephone: 0207 947 7648

Official Solicitor and Public Trustee
81 Chancery Lane
London WC2A 1DD
Telephone: 0207 911 7127

Office of the Public Guardian
Archway Tower
2 Junction Road
London N19 5SZ
Telephone: 0207 664 7158/7125

Prepared and issued by:

Legal & General (Unit Trust Managers) Limited
One Coleman Street
London EC2R 5AA
Authorised and regulated by the Financial Services Authority

For further information about the National Audit Office please contact:

National Audit Office
Press Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP
Tel: 020 7798 7400
Email: enquiries@nao.gsi.gov.uk

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