

Funds in Court in England and Wales Account 2015-16

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

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The National Audit Office scrutinises public spending for Parliament and is independent of government. The Comptroller and Auditor General (C&AG), Sir Amyas Morse KCB, is an Officer of the House of Commons and leads the NAO, which employs some 785 people.

The C&AG certifies the accounts of all government departments and many other public sector bodies. He has statutory authority to examine and report to Parliament on whether departments and the bodies they fund have used their resources efficiently, effectively, and with economy. Our studies evaluate the value for money of public spending, nationally and locally. Our recommendations and reports on good practice help government improve public services, and our work led to audited savings of £1.21 billion in 2015.



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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 in Respect of Funds in Court

The Accountant General's Accounts cover the year ended 29 February 2016. They have been prepared in accordance with the direction given by HM Treasury in pursuance of Section 45(2) of the Administration of Justice Act 1982 (the Act). The Accounts record dealings in cash, securities and physical effects held in the civil courts of England and Wales. Deposits under the various enactments referred to in Section 40 of the Act are not segregated in the Accounts. The Accounts Direction can be found on page 33.

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

- Damages awarded to children as a result of civil legal action in a county court in England or Wales or the High Court of Justice. These assets are held on their behalf until the child reaches majority (18 years of age);
- Assets belonging to people who lack the capacity to manage their own financial affairs where the Court of Protection (CoP) has appointed someone else to manage their affairs; and
- Cases where money is held in court pending settlement of civil court action, or on behalf of dissenting shareholders, widows and other clients whose funds are held under a variety of different statutes.

There are three parts to the accounts:

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

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

The Accountant General

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

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

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

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

During the reporting year I was also Director General of Finance, Analysis and Commercial Group (FACG) for the Ministry of Justice (MoJ) and OAG sat within my business group. These two roles did not, in my judgement, create any conflict of interest because one was overseeing MoJ Voted Funds and the other third party client funds. The only area of overlap was my obligation as DG Finance to cover any financial deficit relating to OAG and this was independently verified and agreed by HM Treasury. To provide assurance that any conflict, or perception of conflict, was avoided I informed the MoJ Accounting Officer (Richard Heaton) as appropriate.

Performance Report

Strategic Report

My primary strategic objective is to ensure client funds are safeguarded, administered correctly and protected from fraud or loss. Also, to ensure client funds are as risk free as possible, liquid where required and remain within HM Treasury's management and underwritten by the Exchequer.

In practice this means funds are either invested in the Court Funds Investment Account (CFIA) for liquid funds or the Equity Index Tracker Fund (EITF) currently managed by Legal and General. Whilst the funds held in the CFIA achieve the strategic objective, the trade-off for maintaining liquidity and minimising risk is the interest rate is pegged at the Bank of England Base rate of 0.5%. Funds held within the Equity Index Tracker Fund have historically earned a competitive return, access to the fund is limited to those clients who have a minimum of £10,000 to invest and at least five years to majority.

Whilst adhering to the primary strategic objective, my focus this year has been to explore options that will achieve two aims. Firstly, where possible, to increase the rate of return on client funds whether in the CFIA or the EITF. Secondly, to reduce the deficit of OAG so that it does not require a subsidy from its parent department, the Ministry of Justice.

I am constrained by primary legislation which mandates that funds invested in the CFIA can only be invested in gilts or gilts equivalents. The working group that investigated investment in gilts concluded in 2014-15 that it would not be appropriate for the client funds, and was therefore not taken forward. The criteria for access to the EITF is governed by secondary legislation. All investment decisions have to be discussed and agreed with HM Treasury.

As part of the Spending Review, I have asked the Deputy Accountant General in liaison with the Lord Chancellor's Strategic Investment Board (SIB) to submit options that can achieve a better rate of return for as many clients as possible and reduce the deficit within the legislative constraints. A number of options have been formulated which in broad terms relate to reviewing interest rate policy, rules on the unclaimed balances account and widening access to the EITF.

As at the signing date all options have been cleared with the Justice Secretary and are awaiting a response from HM Treasury to confirm whether they can be taken forward.

Financial Results

Court Funds Investment Account

Over the year, the total assets held in the Court Funds Investment Account (CFIA) decreased by £485 million (18%). Of this amount £351 million related to the return of the Hereditary Reserve to HM Treasury which was not client funds, so the true net reduction in client funds was £134m (6%). There was a reduction of £104 million (9%) in Special Accounts reflecting the trend since the introduction of the Mental Capacity Act 2005, which granted greater freedom to clients to invest assets in the wider financial markets. The majority of deputies acting on behalf of clients, are considered eligible for such empowered orders although some may choose to retain funds in court. Basic Accounts relating to civil actions and other miscellaneous legislation reduced by £39 million (4%), although almost all of this was due to settlement of one large civil case. Other funds held in the CFIA increased by £6 million offsetting the other reductions.

The Statement of Comprehensive Net Expenditure reports a deficit of £0.127 million. This is a notional loss and relates to a timing difference between accounting for interest received, a cash figure, and interest receivable, an accruals figure. This accounting treatment is only applied because the enabling legislation mandates the balances to be presented in this way.

Overall, the interest earned on client funds in the CFIA generated sufficient interest to cover client interest payable but does not cover the administrative costs of the CFO operational service to clients. The balance of funding totalling £3 million required to ensure a breakeven position was received from the parent department, the Ministry of Justice. The long term funding model is currently being reviewed by OAG as explained in the Strategic Report.

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

The Fund currently invests in three sectors: the FTSE All-Share Index UK, FTSE World (excluding UK) and FTSE All-World Emerging Markets. From 1 March 2015 to 29 February 2016 the Fund's composite benchmark was:

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

During the year ending 29 February 2016, the Net Asset Value (NAV) of the Equity Index Tracker Fund fell by £17 million. The NAV is the market value of the Fund less any costs. This decrease was due to both a reduction of units held in the fund and a fall in the NAV per unit. The outcome of this is the return earned by the clients was a reduction of 8.75%, reflecting economic pressures in each of the sectors the fund invests in set out above. Whilst any fall in the value of the fund is of concern to me, the performance needs to be evaluated against general global economic conditions and also the historical trends where the fund has exceeded performance when compared to other comparable funds.

The fund is managed by Legal and General who also present through OAG a set of accounts providing detailed information on the fund – Part C. This document can be referred to for further analysis and explanation.

Administrative Expenses - OAG

The administrative expenses of the OAG cover the costs of running the CFO operational service to clients and management costs such as contract management of the outsourced supplier, financial management, governance and policy. Gross costs in 2015-16 were lower than 2014-15, reducing from £10.3 million to £6.3 million, a reduction of £4 million or 39%. This is due to a repayment plan in 2014-15 completing with a final payment of £3.7 million and other cost efficiencies of £0.3 m on outsourced supplier costs.

In broad terms over 90% of OAG's administrative expenses are to pay for the CFO client service managed by National Savings & Investments (NS&I). This Memorandum of Understanding was renegotiated in 2014-15 to deliver savings to the contract end point in 2020-21.

In terms of net costs, OAG required a subsidy of £3 million from MoJ to balance the 2015-16 financial position. However, as explained in the Strategic Report I am keen to resolve the financial deficit to ensure that OAG can become self-funding again.

Operational Performance

The CFO Service is managed by OAG through a MoU with NS&I. The MoU defines the terms of how the service is delivered and is measured by Performance Indicators (PIs), which must be achieved covering the range of services provided. If a PI is breached then there is a defined penalty mechanism which is deducted from the following month's charge.

The table of PI results for 2015-16 is below and is the average annual performance for each indicator. Of the fifteen indicators, all were either achieved or exceeded, an improvement over the performance in 2014-15.

PI	Process	Average Annual Performance	Target	Met/Not Met/ Exceeded
1	Cheque Deposits	100%	97%	Exceeded
2	Transferred Funds	100%	100%	Met
3	Deposits	100%	97%	Exceeded
4	Form 212 Investment	100%	100%	Met
5	EITF Investment	100%	100%	Met
6	Form 212 Non Securities	99%	97%	Exceeded
7	Dividends	100%	100%	Met
8	Transfers	100%	100%	Met
9	Non EITF Sale & Purchase	100%	100%	Met
10	EITF Sale	100%	100%	Met
11	Payments	98%	97%	Exceeded
12	General Correspondence	100%	97%	Exceeded
13	Majority Statements	100%	100%	Met
14	Review of Child Accounts	100%	100%	Met
15	Telephone Helpline	100%	90%	Exceeded

Investment Policy

Liquidity

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

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

The objectives of this strategy are:

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

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

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

Interest Rates

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

The interest rate paid into the CFIA by DMO for the financial year ending 29 February 2016 was 0.5%. The interest rate paid to clients depended on the reasons for the funds being paid into court. The interest paid to clients was as follows:

Special Accounts - 0.5% interest was paid on:

- Damages awarded to children as a result of civil legal action in a county court in England or Wales or the High Court of Justice;
- Assets belonging to people who lack the capacity to manage their own financial affairs, mainly where the Court of Protection (CoP) has appointed someone else to manage their affairs; and
- Widows and other beneficiaries where sums were invested prior to March 1983.

Basic Accounts - 0.3% interest was paid on:

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

Other Cash Accounts – 0.0%

- Monies paid into court on behalf of dissenting shareholders and monies received from county courts as unclaimed are held as cash, as are some child funds where religious observance does not allow for the accrual of interest. Unclaimed Balances – 0.0%

Unclaimed Balances - 0.0%

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

Growth

Clients may be eligible for their funds to be invested in the Lord Chancellor's Common Investment Fund (CIF), which is in the form of an Equity Index Tracker Fund (EITF) managed by Legal & General on behalf of the Lord Chancellor (Part C to the Accounts). Access to the EITF is governed by the Court Funds Rules and is only available to Special Account holders with cash of £10,000 or more in court and where the funds are expected to be held in court for five years or more. It is important to note, as with any investment in securities, investment in the CIF carries with it the risk of capital loss dependent on market movement. This risk is borne by the clients and not the OAG nor the Consolidated Fund.

The EITF provides clients with long term growth and income through dividends in a low risk investment environment.

Securities

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

Foreign Currency

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

Other Key Events

On 21 January 2016, OAG transferred its operational banking service to the Government Banking Service (GBS). This transfer has no impact on the clients but they will benefit from the efficiencies of being linked to the government wide contract with the Royal Bank of Scotland. As OAG were previously with the Royal Bank of Scotland this has had no impact on the operational banking services provided to clients.

My role as Director General of Finance, Analysis and Assurance Group finished during April 2016. I agreed with the Permanent Secretary to continue as Accountant General until the Funds in Court Accounts were laid in Parliament to allow a managed transition to the new Accountant General. As at the signing date the successor has not been formally agreed, but I expect this to take place by July 2016.

Accountability Report

Director's Report

The Office of the Accountant General (OAG) is a business unit of the MoJ and sits within the Finance, Analysis and Commercial Group (FACG). OAG is not an Arm's Length Body so does not have a board of directors or its own corporate functions, audit committee or remuneration committee. These services are delivered by the Ministry of Justice. Eddie Bloomfield and his nine staff are all permanent employees of the Ministry of Justice and are employed on standard civil service terms and conditions including pensions.

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

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

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

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

For clarity, the following definitions apply in this statement:

- The Court Funds Office: The client facing service for those with funds in court; and
- The Court Funds Office Service: Those elements of the overall client facing service (back office operations and help desk).

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

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

Audit of Accounts

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

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

The notional audit fee for the Funds in Court Part A financial statements for the year ended 29 February 2016 was £63,500 (fee for 2014-15 was £63,500). There have been no fees paid to the auditors in respect of non-audit work.

Statement of the Accountant General's responsibilities

Management and Investment of Funds in Court

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

Statement of Accounts

Under Section 45 (1) of the Act, the Accountant General is required to prepare a statement of Accounts for each financial year in the form and on the basis as directed by HM Treasury. These Accounts are prepared so as to give a true and fair view of the state of affairs as at 29 February 2016 and of the income and expenditure and cash flows of the year.

Appointment of the Accountant General

The Secretary of State and Lord Chancellor has, under Section 97(2) of the Senior Courts Act 1981, as amended by the Public Trustee and Administration of Funds Act 1986, appointed Ann Beasley as Accountant General of the Senior Courts on 1 October 2013. The Permanent Secretary of the Ministry of Justice has also appointed the Accountant General as the Accounting Officer for Funds in Court. The latter's relevant responsibilities as Accounting Officer, including responsibilities for the propriety and regularity of the funds for which she is answerable and for the keeping of proper records, are set out in the Accounting Officer's Memorandum issued by the Treasury and published in *Managing Public Money*.

Governance Statement

Introduction

I am the Accountant General of the Senior Courts and the Accounting Officer for the Funds in Court. I was appointed to both posts on 1 October 2013. As Accountant General, I am responsible for monies, securities and other assets held under the control of the civil courts of England and Wales, including the Court of Protection (CoP), and for the discharge of the statutory responsibilities of the Accountant General of the Senior Courts as set out in the Administration of Justice Act 1982.

For clarity, the following definitions apply in this statement:

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

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

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

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

There were no Ministerial directions given to me as the Accountant General in the year ending 29 February 2016.

Governance Framework

Office of the Accountant General

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

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

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

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

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

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

Management Team Effectiveness

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

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

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

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

Governance

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

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

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

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

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

Lord Chancellor's Common Investment Fund

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

From September 2014, this governance arrangement changed with the responsibilities transferring to the MoJ Strategic Investment Board. This board includes two Non-Executive Investment Advisors, one of whom acts as chair. The role of the board is to provide investment advice and support to the Lord Chancellor in respect of client funds held within the CIF and to challenge Legal & General on the funds' performance. The two investment advisors are Nick Mansley (Chair) and Karen Shackleton who were appointed on an open competition basis by the Public Appointments Team of the Ministry of Justice. Baroness Altmann stood down from the Board following her appointment as Pensions Minister on the 11 May 2015.

As the majority of funds belong to Court Funds Office clients, I attend the Strategic Investment Board on their behalf.

CFO Service

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

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

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

NS&I and Atos both have their own internal assurance team and control framework covering the CFO Service. To ensure that the control framework is operating correctly an annual ISAE3402 Type II review is carried out each year. The ISAE3402 report provides an assurance the control framework operates as designed, the controls are effective and achieve the control objectives. This report is subject to an external independent audit by a contractor selected by NS&I/Atos. NS&I will formally report the outcomes for OAG review, who will discuss and challenge as appropriate.

Internal Audit

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

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

IAAD has no authority to audit Legal & General in respect of the Common Investment Fund.

IAAD carried out a review of the potential impact of governance changes relating to OAG's status being revised from an Arm's Length Body to a core business unit and transfer into the Finance, Analysis and Commercial Group. The conclusion was that these changes did not present any risk and that reporting and governance arrangements were appropriate.

Risk management

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

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

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

The wider key risks are explained in the following paragraphs.

Liquidity Risk

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

Investment Risk

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

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

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

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

Operational Risk

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

Deloitte conducts an annual external review, on behalf of the NS&I Board, of the operational systems and process controls. For 2015-16, Deloitte provided an ISAE3402 Type II report with a qualified opinion. Although any control failure with this type of report will cause a qualified opinion, this year the report contained a high proportion (25%) of control failures and resulted in additional substantive testing by the auditors. OAG will be discussing with the outsourced supplier the reason for the level of failures, and how this can be corrected and improved in the next reporting year.

Management Risk (OAG)

OAG is a small organisation of ten people and the primary risk relates to capability either from staff absence or departures. The absence rate was below the MoJ average for 2015-16 and all four senior posts remained filled by the same individuals throughout the reporting period. The Deputy Accountant manages the succession and cover strategy for the three branches to manage the overall delivery of objectives.

Foreign Exchange Risk

Where client funds are paid into court in a currency other than Sterling, OAG acts solely as custodian and is responsible for the appropriate administrative functions to support any client transactions. Such functions are covered under operational risk. Any foreign exchange risk associated with holding funds in a foreign currency is borne by the client both gain and loss. Therefore, OAG bears no foreign exchange risk.

Market Risk (Securities)

Where clients have securities paid into court, OAG acts as custodian and is responsible for the appropriate administrative functions to support any subsequent transactions. Where clients have funds invested in the EITF they bear the risk of any movements in the unit market value. Administrative functions are covered under operational risk. Any market risk associated with the holding of securities is borne by the client both gain and loss. Therefore, OAG bears no market risk relating to securities.

Control Incidents

The following control incident arose during 2015-16:

■ Effective date in the past

There are certain types of cases where the CFO Business Rules state the effective date of withdrawal is defined as the date of the court order. The OAG review of business rules established that the outsourced provider had not followed this rule and used the processing date as the effective date. This means that in some cases the effective date used was later than the order date resulting in some clients receiving more interest than they were due. This is estimated to have potentially affected c13,000 cases to a total deposit value of c£475million. Although no individual client suffered any financial loss it did mean the general client fund was overcharged. The financial impact has been estimated at £0.120 million or an average of less than £10 per case. A permanent fix was implemented in May 2016. Investigations are continuing with the outsourced supplier to establish the exact impact in financial terms to support a commercial discussion regarding liability.

■ Unclaimed Balances with no valid address

Clients on reaching majority are contacted by the Court Funds Office so they can receive their funds where an address is held for them. They are given a year to respond, with reminder letters being sent at three monthly intervals during that year. If no response is received by their 19th birthday then their fund is transferred to the Unclaimed Balances Account where it is held until such time as a valid claim is made. Where no valid address was held on the system the policy was not to transfer to the Unclaimed Balances Account until all reasonable efforts were made to trace the client and then start the process of reminder letters. This policy was not followed by the outsourced supplier which meant for some clients upon reaching their 19th birthday, the Court Funds Office transferred their fund to the Unclaimed Balances Account without giving the client an opportunity to claim their fund. Although transfer to the Unclaimed Balances Account does not limit the client's right to claim their fund, the failure to contact them meant they would not have received their funds at the right time and would receive a lower rate of interest on claiming them (simple rather than compound interest). This affected around 1,700 cases with an estimated deposit value of c£5 million. OAG is currently assessing the value of any potential loss using a number of modelling assumptions based on the difference between interest due to clients at 0.3% compound and 0.3% simple over various time periods since 5 December 2011 (when the operational service transferred to the outsourced supplier). The outsourced supplier has fixed the system so this issue should not recur. The client accounts will be corrected in 2016-17, at which time the value of the extra interest will be known and the commercial position considered. However, as an illustration, if a child client claimed their fund two years after majority and the average fund value is £3,000, the additional interest owed will amount to £18.

■ OAG Business Process Review

The NAO Audit Completion Report for year ending 28 February 2015 included a recommendation that the OAG perform additional procedures to satisfy itself the business rules (the Rules) are working as intended. OAG accepted the recommendation and agreed two specific pieces of work in partnership with the outsourced provider in 2015-16 to provide assurance regarding operation of the business rules:

- i NS&I reviewed Thaler configuration (IT banking system) to confirm it operates client accounts and manages client funds as required by the Rules. Some limited and specific exceptions were identified and corrected by October 2015. A subsequent joint review of the rules against Thaler operation identified further Thaler non-compliance. Fixes to these and other matters in this statement have been completed or are in hand.
- ii OAG reviewed procedures and the electronic workflow system used by CFO operational staff in Glasgow for compliance with the Rules. Appropriate activity steps and workflow restrictions supported correct application of the Rules when processing transactions and when carrying out other account administration tasks. No fundamental errors were identified but a number of weaknesses in areas such as second operator validation on some transactions were identified. These are being corrected by NS&I.

OAG draws the following conclusions from this work and from other change requests introduced during the year:

- Overall the rules are being complied with and clients are receiving the specified service; but
- There are some minor and specific exceptions still outstanding to be corrected during 2016-17;
- The risk remains that legacy CFO London client accounts were incorrectly set up or incorrectly administered. This could lead to further corrective work on the accounts so they are processed as expected by the Rules;
- The risk also remains that other Thaler configuration issues could emerge as work on CFO legacy accounts and other service updates takes place during 2016-17.

The following control incidents were reported in 2014-15:

■ Application of CFO Business Rules

During 2014-15 OAG identified issues, which first appeared in 2012, which had led to the failure of the CFO Service to follow a number of the CFO Business Rules in relation to dealing with securities investments in the Equity Index Tracker Fund (EITF). Around 7,000 clients hold funds in the EITF. The failures fell broadly into two categories:

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

ii Premature sale of units in the EITF. 130 accounts had units sold prematurely as part of the process of transferring the accounts to the Unclaimed Balances account. All these accounts have been individually reviewed. 11 accounts are still live and the units have been repurchased, with compensation for interest and lost dividends added. A further 91 accounts are either closed or have been transferred to unclaimed balances. These account holders will be compensated for loss of any interest or dividends they should have received as appropriate. The balance of 28 accounts required no adjustment. The total cost of compensation was £0.115m for which the outsourced provider accepted liability and refunded to clients. All accounts have now been settled, either by payment out or transfer to Unclaimed Balances with compensation for loss paid as appropriate. This issue is now resolved.

iii Incorrect Majority Date

An investigation into a client account concerning their majority date identified that where such accounts had no majority date on transition of the outsourced operation on 5 December 2011, the new system gave the account a default date of birth of 30 November 2011. Further investigations established this affected 723 accounts. As at 23 May 2016, 687 of the 723 accounts had been corrected. The remaining 36 cases are being dealt with a forecast completion date of July 2016.

iv Sale of Securities Performance Indicator 10 (PI10)

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

v Out of Date Cheques

A query from a client highlighted that, where out of date cheques were stopped as a security control these were not being credited back to their account but were being held in a suspense account. Investigations established this issue has affected 231 accounts since transition to NS&I in December 2011 with a value of £450,545. As at 29 February 2016, all accounts had been corrected with the exception of three cases where the client had not responded or provided the relevant information. These cases will be pursued to completion as part of business as usual activity. This issue is now resolved.

The following control incident was reported in 2012-13:

■ **Property in Spain**

A former CFO client was overpaid £145,000 in 2002. When the error was discovered the client was traced and it was established that the funds had been used to purchase a property in Spain. This property was awarded to OAG by the Spanish courts in lieu of the overpayment, and ownership was transferred into the name of the Accountant General. OAG's ability to dispose of the property was hampered by the location of the property which was in the industrial/agricultural part of Spain and the depressed state of the Spanish economy in general and, in particular, the property market. The property was sold in March 2016 for the net sum of £30,449.86 after all legal fees, costs and taxes had been deducted. The proceeds were returned to the clients' general fund. This incident is now resolved.

Administrative obligations

■ **Information Assurance**

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

■ **Health & Safety (H&S)**

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

Overall Assessment of Governance Framework

The qualification of the ISAE3402 report and the high rate of control failures described on page 16 is of concern and will be addressed immediately as will the two control incidents on page 16 and I look to see these resolved within the next financial year.

Overall, and taking into account the above issues, I am satisfied that the governance framework as described in this statement is correct and that there are the necessary systems and processes in place which enable me to maintain an effective system of internal control throughout OAG that supports the achievement of policies, aims and objectives, whilst safeguarding the funds and assets for which I am personally accountable.

Ann Beasley CBE
Accountant General of the Senior Courts

9 June 2016

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

I certify that I have audited the financial statements of Funds in Court in England and Wales (Part A) for the year ended 29 February 2016 under the Administration of Justice Act 1982. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective Responsibilities of the Accountant General and Auditor

As explained more fully in the Statement of the Accountant General's Responsibilities, the Accountant General, as Accounting Officer, is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

Scope of the Audit of the Financial Statements

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

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

Opinion on regularity

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

Opinion on Financial Statements

In my opinion:

- the financial statements give a true and fair view of the state of affairs relating to Funds in Court in England and Wales (Part A) as at 29 February 2016 and of the related net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Administration of Justice Act 1982 and Secretary of State directions issued thereunder.

Opinion on other matters

In my opinion:

- the information given in the Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Sir Amyas CE Morse
Comptroller and Auditor General

29 June 2016

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

Statement of Comprehensive Net Expenditure for the year ended 29 February 2016

	Notes	29 February 2016 £000	28 February 2015 £000
Income			
Interest income	2	11,485	13,791
Interest due to clients' accounts	3	(8,375)	(9,063)
Net Interest income		3,110	4,728
Dividend Income	4	2,786	3,279
Gains/(Losses) arising from securities	5	(9,782)	10,472
Gains/(Losses) arising from foreign exchange	6	14,699	7,597
Income due to clients' holdings	7	(7,703)	(21,348)
Net investment Income		3,110	4,728
Contribution from Ministry of Justice	8	3,051	5,621
Net Income		6,161	10,349
Expenses			
Administrative expenses – OAG	8	(6,187)	(10,224)
Management charges from CRND		(101)	(122)
Total expenses		(6,288)	(10,346)
Total Comprehensive Net Expenditure Transferred (from)/ to Reserves and Hereditary Revenues		(127)	3

The notes on pages 25 to 33 form part of these accounts.

Statement of Financial Position as at 29 February 2016

	Notes	29 February 2016 £000	28 February 2015 £000
Assets			
Current assets			
Cash and Cash Equivalents	9	151,203	113,144
Deposits and Advances	10	2,193,286	2,678,561
Debt Securities	11	5,086	8,363
Investment Securities	12	102,141	131,154
Total assets		2,451,716	2,931,222
Liabilities			
Current liabilities			
Cash Borrowings	9	5,694	287
Clients' Holdings in Debt Securities	11	5,086	8,363
Clients' Holdings in Investment Securities	12	102,141	131,154
Clients' Cash Account Balances	13	2,334,864	2,434,400
Other Liabilities	14	3,134	356,094
Total current liabilities		2,450,919	2,930,298
Total assets less total liabilities		797	924
Reserves	15	797	924

The notes on pages 25 to 33 form part of these accounts.

Ann Beasley
Accountant General of the Senior Courts

9 June 2016

Statement of Cash Flows for the year ended 29 February 2016

	29 February 2016 £000	28 February 2015 £000
Notes		
Cash flows from operating activities		
Operating surplus / (Deficit)	(127)	3
(Increase)/decrease in deposits and advances	126	(3)
(Increase)/decrease in debt securities	3,277	3,669
(Increase)/decrease in investment securities	29,013	4,184
Increase/(decrease) in client cash accounts	(99,536)	(68,648)
Increase/(decrease) in client holdings in debt securities	(3,277)	(3,669)
Increase/(decrease) in client holdings in investment securities	(29,013)	(4,184)
Increase/(decrease) in other liabilities	(352,833)	346,746
Increase/(Decrease) in reserves	(127)	(351,488)
Net cash flows from operating activities	(452,497)	(73,390)
Cash flows from investing activities		
Cost of purchases of debt securities	-	-
Proceeds from sales of debt securities	-	-
Net movement in short-dated cash deposits	485,149	106,104
Net cash flows from investing activities	485,149	106,104
Cash flows from financing activities	-	-
Net increase/(decrease) in cash and cash equivalents	32,652	32,714
Cash and cash equivalents at 1 March 2015	112,857	80,143
Cash and cash equivalents at 29 February 2016	145,509	112,857
9		

The notes on pages 25 to 33 form part of these accounts.

Notes to the Financial Statements

1 Statement of accounting policies

These financial statements have been prepared in accordance with the direction made by HM Treasury under section 45 of the Administration of Justice Act 1982, as detailed on page 3 of the Annual Report and Accounts. In applying this direction, due regard is given to the 2014-15 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Funds in Court in England & Wales (Part A), for the purpose of giving a true and fair view has been selected. The particular policies adopted are described below. They have been applied consistently in dealing with items that are considered material to the Accounts.

1.1 Accounting Convention

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

1.2 Consolidation Boundaries

There are three parts to the Accounts:

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

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

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

1.3 Recognition of Income

Interest earned, and due, for all interest-bearing financial instruments are recognised in “Interest Income” and “Interest Due to Clients’ Accounts” in the Statement of Comprehensive Net Expenditure using the Effective Interest Rate (EIR) method of allocating interest over the relevant period. Interest earned, and due, is recognised from the settlement date.

Income is recognised in the Accounts on the following bases:

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

1.4 Valuation of Securities & Collective Investment Schemes

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

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

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

The EITF is valued using NAV as at 29 February 2016.

1.5 Reserves held by CRND

Other Reserves held by CRND relate to surplus interest within the CFIA as at 29 February 2016. See note 15.

1.6 Administrative Expenses – OAG

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

1.7 Client Fees

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

1.8 Foreign Currency

Assets and liabilities included in the Statement of Financial Position that have a functional currency different from the presentational currency are translated into the presentational currency at the closing rate at 29 February 2016.

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

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

1.9 Ways & Means

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

1.10 Changes in Structure and Format

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

2 Interest Income

	29 February 2016 £000	28 February 2014 £000
Foreign currency	149	84
Deposits and advances	11,222	13,559
Debt securities	114	148
Total interest receivable	11,485	13,791
Surplus income payable to Consolidated Fund	–	–
Total Interest Income	11,485	13,791

3 Interest Due to Clients' Accounts

	29 February 2016 £000	28 February 2015 £000
Interest paid		
Court funds – basic account	(2,769)	(2,851)
Court funds – special account	(5,343)	(5,980)
Foreign currency	(149)	(84)
Debt securities	(114)	(148)
Total interest due to clients' accounts	(8,375)	(9,063)

4 Dividend Income

	29 February 2016 £000	28 February 2015 £000
Dividends received in year	2,805	3,418
Dividends accrued – period end	1,222	1,241
Dividends accrued – period start	(1,241)	(1,380)
Total dividend Income	2,786	3,279

5 Gains/(Losses) Arising from Securities

	29 February 2016 £000	28 February 2015 £000
Client securities	(9,782)	10,472
Total gains/(losses) arising from securities	(9,782)	10,472

6 Gains/(Losses) Arising from Foreign Exchange

	29 February 2016 £000	28 February 2015 £000
US Dollars	14,684	7,603
Euros	15	(6)
Total gains/(losses) arising from foreign exchange	<u>14,699</u>	<u>7,597</u>

7 Income Due to Clients' Holdings

	29 February 2016 £000	28 February 2015 £000
Dividend Income	(2,786)	(3,279)
Gains/(losses) arising from securities	9,782	(10,472)
Gains/(losses) arising from foreign exchange	(14,699)	(7,597)
Total income due to clients' holdings	<u>(7,703)</u>	<u>(21,348)</u>

All income earned on securities and foreign currency accounts, and the associated risk on market movements, is solely attributable to the clients.

8 Administrative Expenses – OAG

	29 February 2016 £000	28 February 2015 £000
Staff costs	(649)	(589)
Accommodation	0	6
General support	(16)	(142)
Third party supplier	(5,522)	(9,486)
Former CFO	0	(13)
Total gross expenses	<u>(6,187)</u>	<u>(10,224)</u>
Contribution from Ministry of Justice	3,051	5,621
Total net administrative expenses	<u>(3,136)</u>	<u>(4,603)</u>

9 Cash and Cash Equivalents

	29 February 2016 £000	28 February 2015 £000
Assets – Foreign Currency Bank Accounts		
Balance at 1 March	113,144	83,005
Net change in cash and cash equivalents balances	38,059	30,139
Balance at year end	<u>151,203</u>	<u>113,144</u>
Liabilities – Sterling Bank Accounts		
Balance at 1 March	(287)	(2,862)
Net change in cash and cash equivalents balances	(5,407)	2,575
Balance at year end	<u>(5,694)</u>	<u>(287)</u>
Net cash and cash equivalent holdings	<u>145,509</u>	<u>112,857</u>

10 Deposits and Advances

	29 February 2016 £000	28 February 2015 £000
Call notice deposits	2,193,286	2,678,561
Ways & Means Account	–	–
Total Deposits and Advances	<u>2,193,286</u>	<u>2,678,561</u>

11 Clients' Holdings in Debt Securities

	Nominal £000	Market Value £000
2016		
Holdings held on behalf of Clients	2,554	5,058
Dividends and coupons due	–	28
Total debt security holdings	2,554	5,086
	Nominal £000	Market Value £000
2015		
Holdings held on behalf of Clients	4,477	8,310
Dividends and coupons due	–	53
Total debt security holdings	4,477	8,363
	Nominal £000	Market Value £000
2016		
Maturing in less than three months	–	–
Maturing in more than three months but less than one year	3	10
Maturing in more than one year but less than five years	1,806	3,931
Maturing in over five years	745	1,117
Total debt security holdings	2,554	5,058
	Nominal £000	Market Value £000
2015		
Maturing in less than three months	426	426
Maturing in more than three months but less than one year	–	–
Maturing in more than one year but less than five years	1,632	2,356
Maturing in over five years	2,419	5,528
Total debt security holdings	4,477	8,310

12 Clients' Holdings in Investment Securities

	29 February 2016 £000	28 February 2015 £000
Market valuation summary		
Equity Index Tracker Fund	80,989	97,939
Unit trust holdings	12,253	18,640
Stocks, shares and loan notes	7,677	13,295
National Savings and other holdings	–	39
Total	<u>100,919</u>	<u>129,913</u>
Dividends and coupons due		
Equity Index Tracker Fund	1,208	1,182
Unit trust holdings	13	–
Stocks, shares and loan notes	1	59
National Savings and other holdings	–	–
Total	<u>1,222</u>	<u>1,241</u>
Total value of investment securities		
Equity Index Tracker Fund	82,197	99,121
Unit trust holdings	12,266	18,640
Stocks, shares and loan notes	7,678	13,354
National Savings and other holdings	–	39
Total	<u>102,141</u>	<u>131,154</u>
Market holdings summary (Units)		
Equity Index Tracker Fund	6,322	6,992
Unit trust holdings	9,244	12,804
Stocks, shares and loan notes	1,181	1,493
National Savings and other holdings	–	30
Total investment securities	<u>16,747</u>	<u>21,319</u>
Movements in holdings during the year (units)		
Balance at start of year	21,319	23,780
Purchases during year	2,042	2,455
Sold during Year	(2,176)	(2,288)
Net transfers (to)/from clients	<u>(4,438)</u>	<u>(2,628)</u>
Balance as at year end	<u>16,747</u>	<u>21,319</u>

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

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

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

EITF holdings as at 29 February 2016 are valued at a Net Asset Value of 1,281 pence (1,401 pence as at 28 February 2015).

13 Clients' Cash Account Balances

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

	29 February 2016 £000	28 February 2015 £000
Court Funds placed on Basic Account	885,956	924,765
Court Funds placed on Special Account	1,044,479	1,148,818
Unclaimed balances	164,530	161,671
Other suitors deposited in the senior courts	88,696	86,002
Clients' monies held as Foreign Currency	151,203	113,144
Total client cash balances	<u>2,334,864</u>	<u>2,434,400</u>

13a Clients' receipts and payments during year

	29 February 2016 £000	28 February 2015 £000
Opening balance	2,434,400	2,500,541
Lodgments by clients	426,777	424,061
Sales of EITF units and other securities	18,330	19,341
Dividends and Interest paid on securities	2,964	3,377
Total lodgments from clients	<u>448,071</u>	<u>446,779</u>
Payments to clients	(580,401)	(518,894)
Purchase of EITF units and other securities	9,836	(13,252)
Transfer of surplus funds to Exchequer (HMT)	–	(22)
Total payments to clients	<u>(570,565)</u>	<u>(532,168)</u>
Interest Paid and Credited to Court Accounts NAIFCD	5,899 –	9,122 22
Gains/(Losses) Arising from Foreign Exchange	14,699	7,597
Closing balance	<u>2,332,504</u>	<u>2,431,893</u>
Add Accrued Interest	2,360	2,507
Total Client Balances	<u>2,334,864</u>	<u>2,434,400</u>

14 Other Liabilities

	29 February 2016 £000	28 February 2015 £000
Interest due to Consolidated Fund	-	-
Administrative expenses – OAG	3,134	4,603
Hereditary Reserves – Surrender to HMT	-	351,491
Total other liabilities	<u>3,134</u>	<u>356,094</u>

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

15 Reserves

	29 February 2016 £000	28 February 2015 £000
Hereditary Revenues held by CRND		
Opening Balance	-	351,491
Hereditary Reserves – Surrender to HMT	-	<u>(351,491)</u>
Closing Balance	<u>-</u>	<u>-</u>
Interest Reserves held by CRND		
Opening Balance	924	921
Total Comprehensive Net Expenditure	(127)	<u>3</u>
Closing Balance	<u>797</u>	<u>924</u>
Total Reserves		
Opening Balance	924	352,412
Total Movements	(127)	<u>(351,488)</u>
Closing Balance	<u>797</u>	<u>924</u>

16 Events after the reporting period

In my strategic report on Page 4, I refer to a number of investment options awaiting HMT approval. On 20 May 2016 some of these options received approval and now need to be taken forward to implementation. They do not affect this year's balances and are included as a non-adjusting event for information.

17 Provisions for liabilities and charges

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

18 Contingent liability

There were no contingent liabilities as at 29 February 2016 or 28 February 2015.

19 Physical effects

The Accountant General acts as custodian for client physical effects that have been paid into court. These assets generally have no financial value consisting of legal documents, deeds and wills.

There are two assets that have a notional financial value as follows:

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

During the production of the 2015-16 accounts both sets of coins were counted and verified.

Accounts Direction given by HM Treasury

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

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

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

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

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

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

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

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

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

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

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

7 This direction replaces the direction dated 7 August 2006.

Chris Wobschall
Head of Assurance and Financial Reporting Policy
HM Treasury

19 February 2010

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

Accounts for the year ended 29 February 2016

Performance Report

Overview

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).

Purpose and principal activities of the Court Funds Investment Account

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

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

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

In recent years, CRND predominantly placed the funds of the CFIA with the Debt Management Account (one of HM Governments central Exchequer accounts) and occasionally transacted in UK Government gilt-edged securities (gilts). During 2015-2016, CRND placed the funds of the CFIA with the Debt Management Account or the National Loans Fund.

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

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

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

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

Commissioners for the Reduction of the National Debt

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

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

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

Performance summary

During 2015-2016, in accordance with the Memorandum of Understanding, the CFIA was invested in short-term deposits with the Debt Management Account. This strategy enabled the CFIA to earn a rate of interest very closely correlated with prevailing short-term sterling interest rates, whilst protecting its capital position and access to liquidity.

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

In accordance with section 39(2)(b) of the Act, the OAG obtained HM Treasury's concurrence to make a charge of £3.1 million (2014-2015: £4.6 million) in respect of the cost of administering funds in court. (OAG also received a subsidy from the Ministry of Justice which covered the remainder of the costs of administering funds in court and this subsidy meant that the charge to the CFIA was lower than the full costs incurred by OAG).

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

Performance analysis

During 2015-2016, total income before client expenses was £11.2 million (2014-2015: £13.6 million). The reduction in income was due to the declining size of the CFIA's investments, which arose from the payment of £351.5 million of Hereditary Revenues to the Consolidated Fund and net withdrawals by the OAG. Interest payable on funds in court was £8.1 million (2014-2015: £8.8 million), CRND's management expenses were £0.1 million (2014-2015: £0.1 million), surplus due/deficit receivable from the Consolidated Fund was nil (2014-2015: nil) and the OAG's costs of administering funds in court were £3.1 million (2014-2015: £4.6 million). This resulted in an overall deficit for the year of £0.1 million (2014-2015: less than £0.1 million surplus).

On 26 March 2015, the CFIA paid to the Consolidated Fund all £351.5 million of its Hereditary Revenues (net capital profits realised in on the sale or disposal of gilts in prior years). This followed agreement with OAG and HM Treasury that these funds should be surrendered to the Consolidated Fund in accordance with the Civil List Act 1952.

The OAG withdrew £140.3 million (net of advances) from the CFIA over the course of the year (2014 2015: £110.4 million net withdrawal).

Jo Whelan

3 May 2016

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

Accountability report

Corporate governance report

Directors' report

Operationally, the CRND is part of the DMO and its staff are employees of the DMO. The CRND therefore has no staff of its own. The structure of the CRND is described on page 4.

Directors' conflicts of interest

In 2015-2016, no material conflicts of interest were noted by DMO Managing Board members in the Register of Interests.

Reporting of personal data related incidents

The CFIA had no protected personal data related incidents during 2015-2016.

Jo Whelan

3 May 2016

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

Statement of Secretary and Comptroller General's responsibilities

Section 45(2) of the 1982 Act requires the Commissioners to prepare for each financial year a statement of accounts in the form and on the basis set out in the accounts direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the CFIA, its income and expenditure, changes in client funds and cash flows for the financial year.

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

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

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

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

Audit arrangements

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

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

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

Governance statement

Scope of responsibility

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

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

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

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

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

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

Managing Board

The Secretary and Comptroller General was supported during 2015-2016 by the DMO Managing Board (the Board) which, in addition to the Secretary and Comptroller General, is comprised of:

Sir Robert Stheeman
DMO Chief Executive and Accounting Officer

Jim Juffs
Chief Operating Officer

Joanne Perez (resigned in March 2015)
Co-Head of Policy and Markets

Jessica Pulay (started 30 July 2015)
Co-Head of Policy and Markets

James Richardson
Non-executive HM Treasury representative

Brian Larkman

Non-executive director – Brian Larkman was Global Head of Money Markets at the Royal Bank of Scotland PLC from 2000 to 2001 and Managing Director, Global Money Markets at National Westminster Bank PLC from 1991 to 2000. He was a member of the Regulatory Decisions Committee of the Financial Services Authority until 2006.

Brian Duffin

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

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

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

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

The Board has put in place a formal process to self-evaluate its performance on a regular basis. The Board undertook a self-evaluation of its performance in June 2015 and concluded that it has operated effectively in delivering the objectives set out in its Terms of Reference, and that the information used by the Board was accurate and relevant. The Terms of Reference underwent a full review by the Board in 2012.

2015-16 Managing Board activities

Board meetings were held throughout 2015-2016 and covered regular agenda items, including risk management, staffing and progress against the operational business plan.

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

	Managing Board			
	Possible	Actual		
Robert Stheeman	8	8		
Jo Whelan	8	8		
Jim Juffs	8	8		
Joanne Perez	1*	1		
Jessica Pulay	4*	4	Audit Committee	
James Richardson	8	7	Possible	Actual
Brian Larkman	8	8	4	4
Brian Duffin	8	8	4	4
Caroline Mawhood	n/a	n/a	4	4

* Resigned 12 March 2015

** Started 30 July 2015

Audit Committee

The Secretary and Comptroller General was supported during 2015-2016 by the Audit Committee on matters relating to risk, internal control and governance. The members of the Audit Committee during 2015-2016 were:

Brian Larkman (Chaired to 30 June 2015)

Brian Duffin (Chaired from 1 July 2015)

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

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

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

- The overall processes for risk, control and governance and the governance statement;
- Management assurances and appropriate actions to follow from internal and external audit findings, risk analysis and reporting undertaken;
- The financial control framework and supporting compliance culture;
- Accounting policies and material judgements, the accounts and the annual report and management's letter of representation to the external auditors;
- Whistle-blowing arrangements for confidentially raising and investigating concerns over possible improprieties in the conduct of the DMO's business;
- Processes to protect against money laundering, fraud and corruption; and
- The planned activity and results of both internal and external audit.

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

- Business continuity planning;
- Risk management and financial control;
- Implementation of audit recommendations;
- External and internal financial reporting;
- Effectiveness of whistleblowing arrangements;
- Internal management reporting;
- Security policy framework, including information systems security and controls;
- Controls related to testing for IT systems in development;
- People risks;
- Implementation of the financing remit;
- IT configuration management; and
- Market risk.

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

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

Fund Management Review Committee

The Fund Management Review Committee monitors CRND activity relating to the performance of the government funds under management, including any reporting on compliance activities undertaken in relation to the funds.

The Fund Management Review Committee met four times in 2015-2016.

Business Delivery Committee

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

The Business Delivery Committee met regularly (typically weekly) throughout 2015-2016.

Risk Committees

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

Risk management and internal control

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

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

The risk and control framework

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

First line of defence:

Day-to-day management of risk is the responsibility of management staff within business areas. The DMO considers effective risk management to be central to its operations and fosters a risk aware culture in which all members of staff, including Board members, are encouraged to understand and own the risks that are inherent in those operations. In particular the DMO seeks to promote an environment in which staff feel comfortable to identify new risks and changes in previously identified risks, as well as weaknesses so that these may be assessed and appropriate mitigating actions put in place.

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

Second line of defence:

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

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

Credit and Market Risk Committee

The Credit and Market Risk Committee (CMRC) meets on a regular basis, with more frequent meetings held when required, for example during times of market stress. It monitors and reviews the management of market, credit, and liquidity risk. It sets limits across a range of exposures including counterparties, countries, instruments held as collateral as well as setting absolute limits on net daily flows across the DMA. The CMRC met fourteen times during 2015-2016.

Operational Risk Committee

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

The ORC has advised the DMO Accounting Officer and the Board, during the year, on significant operational risk concerns, significant risk issues and trends as well as actions to mitigate such risks. The Committee has focused this year on transaction processing risks and controls, IT and data security, security classifications for email communications, policy for escalation of concerns and business continuity planning. The ORC met nine times during 2015-2016.

Controls Group

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

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

During the year the Controls Group review work has covered, the strengthening of the resilience of the IT infrastructure and changes to the banking arrangements and changes to banking arrangements.

Risk Management Unit (RMU)

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

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

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

Third line of defence

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

Risk policies and procedures

The DMO's risk policies reflect the high standards and robust requirements which determine the way in which risks are managed and controlled. The DMO Accounting Officer, with the support of the Board, ensures that policies are regularly reviewed to reflect any changes in the DMO's operations and/or best practice. In 2015-2016, this included the DMO's Whistleblowing and Escalation Policies.

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

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

Risk profile

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

Principal risks and uncertainties	Mitigation and management
IT Systems and infrastructure	
<p>CRND relies on a number of IT and communications systems to conduct its operations effectively and efficiently.</p> <p>A number of the operational systems and services on which CRND relies are provided or supported by third party suppliers.</p>	<p>During the year the DMO has undertaken a review of its most significant IT systems in the context of current and anticipated business requirements. The DMO has strengthened the resilience of systems further to the strategic review conducted in 2014-2015.</p> <p>The DMO has put in place structured business continuity arrangements to ensure it is able to continue market operations in the event of an internal or external incident that threatens business operations.</p> <p>To mitigate the risk of failure of a key third party the DMO undertakes a corporate risk assessment of each potential supplier in order to assess financial strength and operational capacity. The DMO has dedicated relationship managers who meet regularly with key suppliers and monitor performance against agreed Service Level Agreements.</p>
Transaction processing	
<p>CRND relies on its operational processes to successfully execute a significant number of high value transactions on a daily basis. Reliance on the accurate execution of processes exposes CRND to operational risk arising from process breakdown and human error.</p>	<p>A key component of CRND's control framework is the segregation of duties to ensure independent checking and reconciliation, and to avoid concentration of key activities or related controls in individuals or small groups of staff. In particular, segregation of duties takes place between front and back office activities.</p> <p>All teams, including CRND, have documented procedures for their main activities and there are clearly defined authorisation levels for committing the DMO externally.</p> <p>The RMU conducts regular control and compliance testing of CRND activities, providing the executive sub-committee of the Board with assurance on the effectiveness of operational controls and compliance with relevant Financial Conduct Authority and Prudential Regulation Authority rules in the dealing and settlement areas.</p> <p>The DMO also maintains a strong audit and control environment which includes a well embedded incident reporting procedure which extends to cover CRND. This promotes early identification and resolution of risk incidents and provides visibility to the DMO Accounting Officer and Board.</p> <p>DMO recruitment policies help ensure that individuals with the appropriate level of skill and experience are appointed at all levels within the organisation. This helps mitigate the level of human error resulting in process failures.</p>

People risk	
<p>The DMO, including CRND, relies on maintaining a sufficiently skilled workforce at all levels of the organisation in order to operate effectively and efficiently, and to deliver its strategic objectives.</p> <p>The DMO is exposed to an increased risk of operational failure if it is unable to compete for, and retain, sufficiently skilled staff over time. Competition for skilled staff is generally against employers from the private financial services sector which is not subject to public sector remuneration policies and which have historically offered higher remuneration than either the private sector in general or the public sector.</p>	<p>The DMO's Training and Development policy aims to ensure that its staff have the right skills to meet its objectives. In response to developments in regulatory best practice, in particular in the area of market conduct, the DMO organised focused training sessions in 2015 covering the Escalation and Whistleblowing Policies.</p> <p>The DMO has a formal recruitment and selection process to help ensure vacancies are filled quickly by appropriately skilled candidates.</p> <p>The DMO has put in place a formal performance appraisal process and all staff are given clear and achievable objectives. Where appropriate, staff are encouraged to engage in activities which promote development and the DMO provides regular training opportunities and support for professional studies to enhance the skills base of its employees. The DMO also provides cross-training for different roles to help improve staffing flexibility and reduce turnover pressure.</p> <p>Salaries are benchmarked annually to equivalent private sector pay levels in order to keep management aware of any significant disparities that are developing. During the year particular consideration has been given to the issues faced by staff working increased hours and weekends on the programme to strengthen IT infrastructure. The DMO has a policy to recognise those staff who have performed well in their roles through the payment of one-off performance related awards. Any awards are assessed annually by the DMO Pay Committee, are determined by individual performance and criteria associated with the DMO's performance management process and are aligned to the policy for public sector pay.</p> <p>A Staff Council has met regularly throughout the year and enabled an open exchange of ideas and views between management and staff representatives and has been an effective conduit for wider communication and consultation with all staff.</p> <p>On an annual basis all DMO staff are encouraged to take part in the Civil Service employee engagement survey and any issues raised, including mitigating action if required, will be considered by the DMO Accounting Officer and Board.</p> <p>The DMO is accredited as an Investor in People.</p>

IT and data security	
<p>Through its activities the DMO gathers, disseminates and maintains sensitive information including market sensitive information and personal data about staff and market participants. The DMO seeks to ensure the highest standards of data protection and information management.</p> <p>The DMO is exposed to risk of an external attack on its IT systems and infrastructure.</p>	<p>The DMO continues to work to maintain the required level of protective security covering physical, personnel and information security and is particularly aware of the growing threat posed by cyber security risk. Cyber security has continued to be a specific area of focus in 2015-2016 and the DMO's IT team have worked to strengthen controls against both external and internal threats to IT systems and infrastructure. The DMO completed a number of upgrade projects in 2015 which have helped improve the resilience of the DMO's IT security environment, including an upgrade of information technology patching and network components.</p> <p>Risks to data and information held by the DMO are owned and managed by designated Information Asset Owners. The DMO has a Senior Information Risk Owner (SIRO) who is responsible for the information risk policy and the assessment of information risks. The SIRO is a member of the Board and provides advice to Board members on the management of information risk.</p> <p>The DMO has put in place several layers to defend against external attack and its infrastructure undergoes an annual penetration test to ensure the control environment is robust. Further support and guidance with Communications Electronics Security Group (CESG) has been received and acted upon over the course of the year to ensure that the DMO meets their requirements, which are a condition for continuing connection to the Public Service Network (PSN). In response to this the DMO has updated its security strategy and continues to progress improvements to the control environment.</p>

Review of effectiveness

I have reviewed the effectiveness of the system of internal control and confirm that an ongoing process designed to identify, evaluate and prioritise risks to the achievement of CRND's aims and objectives has been in place throughout 2015-2016. This review included an assessment of any material risk and control issues identified and reported during the relevant period.

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

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

In 2015-2016, no ministerial directions were given and no material conflicts of interest have been noted by the Board or Audit Committee members in the Register of Interests.

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

Jo Whelan 3 May 2016
Secretary and Comptroller General to the
Commissioners for the Reduction of the National Debt

Parliamentary accountability and audit report

Regularity of expenditure

The investments, income and expenditure of the CFIA were applied to the purposes intended by Parliament.

The above statement has been audited.

Fees and charges

The CFIA received no fees or charges during the year.

The above statement has been audited.

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 29 February 2016 under the Administration of Justice Act 1982. The financial statements comprise: the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Client Funds; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Parliamentary Accountability disclosures that are described in that report as having been audited.

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

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

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Court Funds Investment Account's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Secretary and Comptroller General; and the overall presentation of the financial statements.

In addition I read all the financial and non-financial information in the Performance Report and Accountability Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Court Funds Investment Account's affairs as at 29 February 2016 and of its surplus for the year then ended; and
- the financial statements have been properly prepared in accordance with the Administration of Justice Act 1982 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion

- the parts of the Parliamentary Accountability disclosures to be audited have been properly prepared in accordance the Administration of Justice Act 1982 and HM Treasury directions issued thereunder; and
- the information given in Performance Report and Accountability 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 and the parts of the Parliamentary Accountability disclosures to be audited are not in agreement with the accounting records; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General

5 June 2016

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

Court Funds Investment Account Statement of Comprehensive Income for the year ended 29 February 2016

	Notes	2016 £000	2015 £000
Interest income		11,221	13,559
Total income		11,221	13,559
CRND management expenses		(101)	(122)
OAG cost of administering funds in court		(3,134)	(4,603)
Interest payable on funds in court		(8,111)	(8,831)
Payable to the Consolidated Fund	3	-	-
Deficit for the year		<u>(125)</u>	<u>3</u>

The notes on page 57 to 59 form part of these accounts.

Court Funds Investment Account Statement of Financial Position as at 29 February 2016

	Notes	2016 £000	2015 £000
Assets			
Demand deposits with			
the Debt Management		2,193,287	2,678,561
the National Loans Fund			
Total		<u>2,193,287</u>	<u>2,678,561</u>
Liabilities and Client funds			
Liabilities			
OAG costs of administering funds in court		3,134	4,603
HMT funds			
Hereditary Revenues	2	-	351,491
Surplus payable to the Consolidated Fund	3	-	-
		<u>-</u>	<u>351,491</u>
Client funds			
OAG funds		2,189,354	2,321,543
Reserves		799	924
		<u>2,190,153</u>	<u>2,322,467</u>
Total		<u>2,193,287</u>	<u>2,678,561</u>

The notes on page 57 to 59 form part of these accounts.

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

3 May 2016

Court Funds Investment Account Statement of Cash Flows for the year ended 29 February 2016

	2016 £000	2015 £000
Operating activities		
Interest received on demand deposits with the Debt Management Account and the National Loans Fund	11,346	13,556
Decrease in demand deposits the Debt Management Account and the National Loans Fund	485,149	106,104
CRND management expenses	(101)	(122)
OAG cost of administering funds in court	(4,603)	(8,851)
Payment to the Consolidated Fund	–	(287)
Net cash from operating activities	491,791	110,400
 Financing activities		
Funds received from the OAG	130,700	141,500
Funds paid to the OAG	(271,000)	(251,900)
Payment of Hereditary Revenues to the Consolidated Fund	(351,491)	–
Net cash used in financing activities	(491,791)	(110,400)
 Increase in cash	–	–

The notes on page 57 to 59 form part of these accounts.

Court Funds Investment Account Statement of changes in Client Funds for the year ended 29 February 2016

	OAG funds (excluding reserves) £000	Reserves £000	Total Client funds £000
At 1 March 2014	2,423,112	921	2,424,033
Surplus for the year	–	3	3
Interest payable on funds in court	8,831	–	8,831
Funds received from the OAG	141,500	–	141,500
Funds paid to the OAG	(251,900)	–	(251,900)
At 28 February 2015	2,321,543	924	2,322,467
Deficit for the year	–	(125)	(125)
Interest payable on funds in court	8,111	–	8,111
Funds received from the OAG	130,700	–	130,700
Funds paid to the OAG	(271,000)	–	(271,000)
At 29 February 2016	2,189,354	799	2,190,153

The notes on page 57 to 59 form part of these accounts.

Notes to the Accounts for the year ended 29 February 2016

1 Accounting policies

1.1 Basis of preparation

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

- IFRS 7 Financial Instruments: Disclosures
- IFRS 13 Fair Value Measurement
- IAS 1 Presentation of Financial Statements (revised 2007)
- IAS 7 Statements of cash flows
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 10 Events After the Reporting Period
- IAS 18 Revenue
- IAS 24 Related Party Disclosures
- IAS 32 Financial Instruments: Presentation
- IAS 36 Impairment of Assets
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets
- IAS 39 Financial Instruments: Recognition and Measurement

Certain IFRS have been issued or revised, but are not yet effective. Those issues or revisions expected to be relevant in subsequent reporting periods are:

- IAS 1 Presentation of Financial Statements, which has been revised as part of the IASB's 'Disclosure Initiative (Amendments to IAS 1)'. Application is required for reporting periods beginning on or after 1 January 2016. The CFIA expects to apply these revisions to IAS 1 in 2016-2017. The application of these revisions, which ensure that entities are able to use their judgement when presenting their financial reports within the requirements of IAS 1, is not expected to materially alter the presentation of the financial statements of the CFIA.
- IAS 7 Statement of Cash Flows, which has been revised as part of the IASB's 'Disclosure Initiative (Amendments to IAS 7)'. Application is required for reporting periods beginning on or after 1 January 2017. The CFIA expects to apply these revisions to IAS 7 in 2017-2018. The application of these revisions, which ensure that users can elevate changes in financing, may result in additional disclosures regarding changes in liabilities arising from financing activities of the CFIA.
- IFRS 9 Financial Instruments, which will replace IAS 39. Application is required for reporting periods beginning on or after 1 January 2018. The CFIA expects to apply IFRS 9 in 2018-2019. The application of IFRS 9, which sets out requirements for recognition, measurement, impairment and derecognition of financial instruments, is not expected to change the reporting of financial instruments in the CFIA.

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

1.2 Assets

Demand deposits

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

1.3 Income recognition

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

2 Hereditary Revenues

Hereditary Revenues are net capital profits realised in the CFIA on the sale or disposal of gilts in prior years.

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

Hereditary Revenues at 29 February 2016 were therefore nil (28 February 2015: £351.5 million).

3 Surplus payable to the Consolidated Fund

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

	2016	2015
	£000	£000
Interest received	11,346	13,556
Interest payable on funds in court	(8,111)	(8,831)
Cost of administering funds in court		
OAG costs	(3,134)	(4,603)
CRND management expenses	(101)	(122)
	(3,235)	(4,725)
Surplus payable to the Consolidated Fund at 29 February	—	—

4 Risk

4.1 Credit risk

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

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

There were no renegotiated assets or assets considered impaired at 29 February 2016 (28 February 2015: no renegotiated or impaired assets).

4.2 *Market risk*

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

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

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

4.3 *Liquidity risk*

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

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

5 Related party transactions

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

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

During the year, the CFIA had a significant number of material transactions with the OAG due to the CFIA facilitating the operation of the basic and special accounts operated by the OAG for suitors' funds paid into court in England and Wales. During the year, the OAG withdrew £140.3 million (net of advances) from the CFIA (2014-2015: £110.4 million net withdrawal).

6 Date of authorisation for issue

The Secretary and Comptroller General authorised these financial statements for issue on 5 May 2016.

Appendix

Funds in Court in England and Wales Investment Account

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

- 1 This direction applies to the Funds in Court in England and Wales Investment Account.
- 2 The Commissioners for the Reduction of the National Debt shall prepare accounts for the financial year ended 28 February 2012 (29 February in a leap year) and subsequent financial years which give a true and fair view of the state of affairs of the Account at the reporting date, and of its income and cash flows for the year then ended.
- 3 The accounts shall be prepared in accordance with applicable accounting standards, and shall be consistent with relevant requirements of the extant Government Financial Reporting Manual.
- 4 The accounts shall present an income statement, a statement of comprehensive income, a statement of financial position, a statement of cash flows, and a statement of changes in client funds. The statement of financial position shall present assets and liabilities in order of liquidity.
- 5 The notes to the accounts shall include disclosure of assets and liabilities, and of income and expenditure, relating to other central government funds including the National Loans Fund.
- 6 The report shall include:
 - a brief history of the Account, and its statutory background;
 - an outline of the scope of the Account, its relationship to HM Treasury and other central funds, and its management arrangements;
 - a management commentary, including information on financial performance and financial position, which reflects the relationship between the Account and other central funds; and
 - a governance statement.
- 7 This accounts direction shall be reproduced as an appendix to the accounts.

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

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

Ministry of Justice Equity Index Tracker Fund

Foreword

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

The Ministry of Justice Equity Index Tracker Fund

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

What is the Common Investment Fund?

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

What does this report cover?

This report covers the performance of the Fund for the year ended 29 February 2016, together with some information for investors and their advisers.

What is the legal basis for the Fund?

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

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

Why invest in the Fund?

The Ministry of Justice Equity Index Tracker Fund is a simple and cost-effective means of investing in the stock market over the medium to long term. Legal & General manages the Fund's assets on an Index tracking basis aiming to match the returns of the major stock markets. 55% of the Fund has exposure to UK shares with the remainder invested in other global markets. Index trackers invest in a representative sample of all of the companies that make up the Index that they are tracking, instead of the Authorised Fund Manager actively choosing which stocks to hold in the Fund. The intention is simply to deliver the return of the Index being tracked.

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

The Lord Chancellor's responsibilities

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

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

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

- i the Public Trustee either in his sole name or jointly with any person or persons with whom he acts as trustee or personal representative;
- ii the Official Solicitor either in his sole name or jointly with any person or persons with whom he acts as trustee or personal representative;
- iii any trustee or trustees, if more than one, of a trust from which the Public Trustee or Official Solicitor has retired as trustee, in relation to any units held in the trust immediately prior to such retirement;
- iv any beneficiary of a trust or estate in respect of which the Public Trustee or Official Solicitor acts solely or jointly with any other person or persons as trustee or personal representative, in relation to any units held in the trust or estate to which the beneficiary has become absolutely entitled;
- v any beneficiary of a trust from which the Public Trustee or Official Solicitor has retired as trustee, in relation to any units held in the trust to which the beneficiary has become absolutely entitled;
- vi any patient whose property and affairs are managed by the Court of Protection and whose funds are not held in Court in the name of the Accountant General;
- vii any person who is restored to the management of his property and affairs by order of the Court of Protection, in relation to any units held by him or by the Accountant General on his behalf immediately prior to the making of such an order;
- viii any person entitled by a direction of the Court to withdraw Funds retained in Court under Part 21.11 of the Civil Procedure Rules 1998 on the ground that he is no longer incapable of managing and administering his own affairs, in relation to any units held on his behalf by the Accountant General immediately prior to the making of such a direction;
- ix any person who has attained majority and on whose behalf units were held by the Accountant General during his minority, in relation to any units held on his behalf by the Accountant General upon the attainment of his majority;
- x any person entitled to withdraw Funds from Court by application under section 5(2) of the Law Reform (Miscellaneous Provisions) Act 1971, in relation to any units held by the Accountant General on his behalf immediately prior to the making of such an application;
- xi the Investment Manager of the Fund on his own account in the ordinary course of fund management, subject to the terms of his appointment;
- xii any person acting in his capacity as nominee for any person included in (i) to (viii) above.

The total value of 'other' investors is shown in note 15.

Appointment of the Accountant General

The Secretary of State and Lord Chancellor has, under section 97(2) of the Senior Courts Act 1981, as amended by the Public Trustee and Administration of Funds Act 1986, appointed Ann Beasley as Accountant General of the Senior Courts on 1 October 2013. The Permanent Secretary of the Ministry of Justice has also appointed the Accountant General as the Accounting Officer for Funds in Court. Her relevant responsibilities as Accounting Officer, including responsibilities for the propriety and regularity of the funds for which she is answerable and for the keeping of proper records, are set out in the Accounting Officer's Memorandum issued by the Treasury and published in *Managing Public Money*.

Management and Investment of Funds in Court

As set out in section 38 of the Act, the Accountant General of the Senior Courts is responsible for the management and investment of the Funds in Court. Under section 43 of the same Act, the Lord Chancellor is empowered to make any decisions relating to defaults with respect to any money, securities and effects for which he is responsible.

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

How does the Accountant General honour her responsibilities?

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

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

- buying and selling units in the Common Investment Scheme (on behalf of eligible investors);
- maintenance of a register of unit holders in the Common Investment Fund (albeit only on behalf of beneficiaries of the Court Funds Office (CFO) - see note 15 for the Split of Assets by Investment Channel);
- distribution to unitholders of dividends calculated by the Manager;
- payment of Investment Manager's fees;
- Investment management oversight through the OAG Management Team which advises the Ministry of Justice on investment strategy and performance monitoring;
- the implementation of a control framework with the Investment Manager to provide sufficient assurance to the Accounting Officer.

Accounts and Audit

These accounts are in respect of the Ministry of Justice Equity Index Tracker Fund for the year ended 29 February 2016 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 70 and 71. The notional audit fee for the audit of the Ministry of Justice Equity Index Tracker Funds Financial Statements for the year ended 29 February 2016 will be £19,500.

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

S D Thomas
Director
On behalf of Legal & General
(Unit Trust Managers) Limited
9 June 2016

A Beasley
Accountant General of the Senior Courts
9 June 2016

Investment Manager's report

Investment Strategy

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

Control Range

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

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

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

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

The investment objective of the Fund is to track the capital performance of the composite benchmark Index to within +/- 0.5% p.a. for two years out of three, before fund costs.

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

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

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Manager's Investment Report

During the year under review, the Equity Index Tracker Fund fell by 8.75%, while the composite benchmark fell by 8.79%, producing a tracking deviation of +0.04%. The published price of the Fund's units fell by 8.25% during the review year.

Tracking Deviation

The table below shows the Fund Performance for the period from 2 March 2015 to 29 February 2016, with the benchmark performance, which comprises of 55% FTSE All Share Index, 35% FTSE World (ex-UK) Index and 10% FTSE All World Emerging Markets Index.

	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	
Total Fund (%)	-0.09	+1.36	+0.42	-5.69	+1.28	-6.00	
Benchmark (%)	-0.10	+1.36	+0.42	-5.69	+1.28	-5.99	
Relative (%)	+0.01	+0.00	+0.00	+0.00	+0.00	-0.01	

	Sept-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Year
Total Fund (%)	-2.64	+4.90	+0.65	-0.64	-2.85	+0.70	-8.75
Benchmark (%)	-2.65	+4.89	+0.65	-0.66	-2.82	+0.68	-8.79
Relative (%)	+0.01	+0.01	+0.00	+0.02	-0.03	+0.02	+0.04

Source: LGIM, as at 29 February 2016

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 close of trade values for the underlying unit trusts in order to make a valid comparison with the indices.

Distribution Review

Distribution Review

Distributions were made by the Legal & General UK Index Trust,

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

Market/Economic Review

Market/Economic Review

Data releases highlighted divergent trends in the major economies over the review year. The US economy continued to grow steadily, despite fluctuations in quarterly GDP. The US Federal Reserve raised interest rates by 0.25% in December. The UK economy also performed well, with particular strength in the services sector. Inflationary pressures remained exceptionally subdued as commodity prices weakened and the oil price plunged to its lowest level since 2004, collapsing to below \$30 per barrel in January 2016. With the euro zone experiencing deflation, the European Central Bank (ECB) sanctioned large-scale quantitative easing (asset purchases), which commenced in March 2015 to shore up business and consumer confidence. Although the Bank of Japan (BoJ) announced an extension to its asset purchase programme, growth remained weak while inflation was well below its 2% target. However, a stronger labour market did begin to lift wages. In January, the BoJ became the latest central bank to adopt negative interest rates, following the ECB, the Swiss National Bank and the Swedish Riskbank. The Chinese economy slowed as it continued its transition from export and investment-driven growth towards consumption driven growth. This led the authorities to cut interest rates, loosen banks' reserve requirements and devalue the Yuan. The Brazilian economy slid into recession, while Russia was hard hit by the plunge in energy prices and western sanctions.

UK equities

UK equities lost ground throughout the review year, weighed down by the weakness of major energy and mining companies. The third quarter of 2015 and early 2016 were particularly weak periods for UK equities, while Sterling also fell sharply as concerns over the potential for a UK exit from the European Union rose. The more globally focused FTSE 100 Index constituents underperformed the

mid-cap FTSE 250 Index, whose constituents derive a higher proportion of earnings from the domestic economy. At a sector level, Healthcare, Mining and Energy stocks were the weakest performers while Telecoms and Technology were more resilient. Financial stocks also performed poorly, particularly towards the end of the review year as concerns over the European banking sector rose.

Overseas Equities

Global equity markets became increasingly volatile, with heavy losses during the third quarter of 2015 erasing gains from earlier in the 12-month period. Global stocks did stage a modest recovery in the fourth quarter however, before falling again in early 2016 as concerns over slowing global growth intensified. The impact of quantitative easing initially boosted the performance of European markets, although they fell alongside US equities during the rise in the risk aversion in the third quarter of the year and in early 2016. Japan outperformed the smaller Asia Pacific markets, which recorded heavy losses as the slowdown in the Chinese economy preoccupied investors. Emerging markets underperformed developed markets by a wide margin as the weakness of local currencies and commodity markets affected investor sentiment.

Outlook

We continue to have a positive outlook on developed economies and believe the recent market turbulence was an overreaction to negative headlines. Overall the US economy continues to perform well with unemployment falling and low inflation benefiting consumers. In Europe, consumer activity also remains strong thanks to low oil prices. However, Chinese data remains weak and there are ongoing problems in other emerging markets such as Brazil. Headline-driven fears of a possible UK exit of the European Union are expected to heavily influence volatility within British markets. Falling oil prices have put further pressure on energy high-yield bond prices in the US, but we believe oil prices are unlikely to decline much further.

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)
3 March 2016

Governance Statement

Scope of responsibility

As the Chief Administration Officer and a member of the

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

The operation of the Ministry of Justice Equity Index Tracker Fund is governed by the Investment Strategy, which was set by the Lord Chancellor on the advice of the Strategic Investment Board (SIB) up to its disbandment on 30 June 2008 and thereafter by the Office of the Accountant General (OAG) Management Team. Ministers then agreed that the SIB should be reinstated and oversight of the CIF was passed to the SIB with effect from the Board's first meeting which took place on 4 September 2014. The performance of the Fund is reported via quarterly management information, which ensures the objectives of Index tracking are fulfilled. Quarterly meetings are also held between Legal & General and the OAG to discuss operational issues and investment strategies.

The accounts produced at the accounting year-end are audited by the Comptroller and Auditor General, to ensure that the Fund's Accounts are true, fair and properly prepared in accordance with the Administration of Justice Act 1982 and the relevant HM Treasury Accounts Direction on page 88 to 89.

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

System of internal controls

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

Risk Framework

Legal & General (Unit Trust Managers) Limited (UTM) of Legal & General Investment Management (Holdings) Limited (LGIM), as a subsidiary of Legal & General Group Plc (L&G), operates within a group-wide risk management framework.

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

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

Risk assessment is carried out on a bottom up and top down basis. On a monthly basis business management carry out a self-assessment of the performance of controls that operate to mitigate risk. This assessment is carried out using OSX and RMS risk management systems. This self-assessment feeds into the Directors Certification process, part of the firm's Combined Code on Corporate Governance.

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

The control assurance model incorporates a self-assessment and independent assurance of the full risk exposure of the firm. This will range from transaction processing to risk management and governance. The bottom up assessments are carried out monthly, with the independent assurance subject to a risk-based approach, with an appropriate frequency agreed by the Audit Committee (for Internal Audits) or the Compliance functions.

Corporate Governance

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

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

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

On an annual basis the Board approves the firm's financial statements and the findings of the external auditor's report, which is then filed with the FCA. The business also approves the full documentation and output from the stress and scenario analysis of the firm's risks and capital, including the process and costs of winding the firm down in an orderly fashion, as required by the regulations. The output of this assessment is filed with the FCA according to an agreed cycle, currently every two years.

Review of effectiveness

As Chief Administration Officer, I have responsibility for reviewing the effectiveness of the system of internal controls. My review of internal control is informed by the work of the internal auditors, support functions and the Executive Managers within UTM who have responsibility for the development and maintenance of the risk management framework, and comments made by the external auditor in their management letter and other reports. On the basis of this information, I can confirm there are no significant internal control issues to report.⁶

S D Thomas
Chief Administration Officer
Legal & General (Unit Trust Managers) Limited
9 June 2016

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

Lord Chancellor's responsibilities

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

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

Accountant General's responsibilities

The Secretary of State and Lord Chancellor has, under section 97(2) of the Senior Courts Act 1981, as amended by the Public Trustee and Administration of Funds Act 1986, appointed Ann Beasley as Accountant General of the Senior Courts on 1 October 2013. The Permanent Secretary of the Ministry of Justice has also appointed the Accountant General as the Accounting Officer for Funds in Court. Her relevant responsibilities as Accounting Officer, including responsibilities for the propriety and regularity of the funds for which she is answerable and for the keeping of proper records, are set out in the Accounting Officer's Memorandum issued by the Treasury and published in *Managing Public Money*.

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

Investment Manager's responsibilities

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

The HM Treasury Accounts Direction requires the Investment Manager to follow best practice. In preparing the Funds Accounts, the Manager follows the disclosure requirements of the Statement of Recommended Practice for Financial Statements of UK Authorised Funds issued by the Investment Management Association in May 2014 as updated by additional requirements from the Financial Conduct Authority (from time to time) and to the extent that such requirements are relevant to the Common Investment Fund. These require the Investment Manager to prepare accounts for each annual accounting period which give a true and fair view of the financial affairs of the Fund and of income/expenditure for the period.

In preparing the accounts the Manager is required to:

- select suitable accounting policies and apply them consistently;
- comply with the disclosure requirements of the Statement of Recommended Practice relating to Financial Statements of UK 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 29 February 2016 under the Administration of Justice Act 1982. These comprise the Statement of Total Return, the Statement of Change in Net Assets attributable to Unitholders, the Balance Sheet, and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Investment Manager and Auditor

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

Scope of the audit of the financial statements

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

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

Opinion on regularity

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

Opinion on the financial statements

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the EITF as at 29 February 2016 and of the change in net assets attributable to unitholders for the year then ended; and
- the financial statements have been properly prepared in accordance with the Administration of Justice Act 1982 and directions issued there under by HM Treasury.

Opinion on other matters

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

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General

29 June 2016

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

Portfolio Statement as at 29 February 2016

All investments are in distribution units unless otherwise stated.

The percentages in brackets show the equivalent sector holdings at 28 February 2015.

	Holding/ Nominal Value	Market value £	% of net assets
Investment			
Unit Trusts investing in UK shares – 54.96 per cent (54.96 per cent)			
Legal & General UK Index Trust	39,368,080	<u>52,871,332</u>	<u>54.96</u>
Unit Trusts investing in overseas shares – 45.00 per cent (45.03 per cent)			
Legal & General Global Emerging Markets Index Fund	25,087,185	9,500,517	9.87
Legal & General International Index Trust	42,760,099	<u>33,793,306</u>	<u>35.13</u>
		<u>43,293,823</u>	<u>45.00</u>
Portfolio of investments		<u>96,165,155</u>	<u>99.96</u>
Net other assets		<u>36,201</u>	<u>0.04</u>
Total net assets		<u><u>96,201,356</u></u>	<u><u>100.00</u></u>

Total purchases for the year: £3,663,065.

Total sales for the year: £14,887,256.

Statement of Total Return for the year ended 29 February 2016

	Notes	29 February 2016		28 February 2015	
		£	£	£	£
Income					
Net capital gains/(losses)	2		(9,284,574)		8,738,646
Revenue	3	3,165,276		3,232,995	
Expenses	4	(224,331)		(236,306)	
Finance costs:					
Interest payable and similar charges	6		(2)		–
Net revenue before taxation		2,940,943		2,996,689	
Taxation	5	(52,750)		(107,972)	
Net revenue after taxation for the year			2,888,193		2,888,717
Total return before distributions			(6,396,381)		11,627,363
Finance costs:					
Distributions	6		(2,888,193)		(2,888,717)
Change in net assets attributable to Unitholders from investment activities			(9,284,574)		8,738,646

Statement of Change in Net Assets attributable to Unitholders for the year ended 29 February 2016

		29 February 2016		28 February 2015	
		£	£	£	£
Opening net assets attributable to Unitholders			116,678,813		117,972,690
Amounts received on issue of units		3,053,080		3,939,023	
Amounts paid on cancellation of units		(14,245,963)		(13,971,546)	
			(11,192,883)		(10,032,523)
Change in net assets attributable to Unitholders from investment activities			(9,284,574)		8,738,646
Closing net assets attributable to Unitholders			96,201,356		116,678,813

Balance Sheet as at 29 February 2016

	Notes	29 February 2016		28 February 2015	
		£	£	£	£
Assets					
Investment assets			96,165,155		116,670,999
Debtors	7	161,933		516,474	
Cash and bank balances	8	2,141,114		1,379,348	
Total assets			98,468,202		118,566,821
Liabilities					
Investment liabilities			-		-
Creditors					
Bank overdrafts	8	-		(153,319)	
Distributions payable		(1,434,513)		(1,407,871)	
Other creditors	9	(832,333)		(326,818)	
Total liabilities			(2,266,846)		(1,888,008)
Net assets attributable to Unitholders			96,201,356		116,678,813

The notes on pages 77 to 84 form part of these accounts.

S D Thomas
 Director
 Legal & General (Unit Trust Managers) Limited
 9 June 2016

Notes to the Financial Statements

1 Accounting Policies

a Basis of accounting

The financial statements have been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of investments and in accordance with UK Generally Accepted Accounting Practice and the Statement of Recommended Practice for Financial Statements of UK Authorised Funds issued by The Investment Management Association in May 2014. In applying UK GAAP, and as a result of preparing the financial statements in compliance with FRS 102 for the first time, changes in the presentation of the accounts have been made. However, the net total return and the net assets attributable to Unitholders remain unchanged. The principal accounting policies which have been applied consistently are set out below.

b Recognition of revenue

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

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

All other revenue is recognised on an accruals basis.

c Treatment of expenses

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

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

d Distribution Policy

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

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

In order to conduct a controlled dividend flow, interim distributions will be at the Manager's discretion, up to a maximum of the distributable revenue for the period.

Distributions which have remained unclaimed by Unitholders for over six years are credited to the capital property of the Fund.

e Basis of valuation of investments

All investments are valued at their fair value as at 12 noon on 29 February 2016, 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

	29 February 2016	28 February 2015
	£	£
The net capital gains/(losses) during the year comprise:		
Non-derivative securities	(9,283,634)	(8,739,601)
Transaction charges	(940)	(955)
Net capital gains/(losses)	<u>(9,284,574)</u>	<u>8,738,646</u>

3 Revenue

	29 February 2016	28 February 2015
	£	£
Franked dividend distributions	2,677,191	2,456,830
Bank interest	1,989	1,665
Rebates from Legal & General Investment Management Limited	486,096	774,500
	<u>3,165,276</u>	<u>3,232,995</u>

4 Expenses

	29 February 2016	28 February 2015
	£	£
Payable to the Manager, associates of the Manager and agents of either of them:		
Manager's periodic fee	194,955	209,591
Registration fees	24,473	21,464
	<u>219,428</u>	<u>231,055</u>
Payable to the Custodian, associates of the Custodian and agents of either of them:		
Safe custody fees	4,903	5,251
Total expenses	<u>224,331</u>	<u>236,306</u>

5 Taxation

a Analysis of taxation charge in year

	29 February 2016	28 February 2015
	£	£
Corporation tax	52,750	107,972
Current tax [note 5(b)]	52,750	107,972
Deferred tax [note 5(c)]	–	–
Total taxation	52,750	107,972

b Factors affecting taxation charge for the year

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

	29 February 2016	28 February 2015
	£	£
Net revenue before taxation	2,940,943	2,996,689
Net revenue before taxation multiplied by the applicable rate of Corporation Tax at 20% (2014: 20%)	588,189	599,338
<i>Effects of:</i>		
Revenue not subject to taxation	(535,439)	(491,366)
Current tax	52,750	107,972

c Provision for deferred tax

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

6 Distributions

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

	29 February 2016	28 February 2015
	£	£
Interim distribution	1,354,537	1,388,399
Final distribution	1,434,513	1,407,871
	2,789,050	2,796,270
<i>Add:</i> Revenue deducted on cancellation of units	136,053	118,644
<i>Less:</i> Revenue received on creation of units	(36,910)	(26,197)
Distributions for the year	2,888,193	2,888,717
Interest		
Bank overdraft interest	2	–
Total finance costs	2,888,195	2,888,717

7 Debtors

	29 February 2016	28 February 2015
	£	£
Sales awaiting settlement	124,108	460,442
Fee rebates receivable	6,828	56,032
Amounts receivable for creation of units	30,997	–
	161,933	516,474

8 Net uninvested cash

	29 February 2016	28 February 2015
	£	£
Cash and bank balances	2,141,114	1,379,348
Bank overdraft	–	(153,319)
Net uninvested cash	2,141,114	1,226,029

9 Creditors

	29 February 2016	28 February 2015
	£	£
Amounts payable for cancellation of units	71,999	254,993
Purchases awaiting settlement	715,202	–
Accrued expenses	22,382	18,853
Corporation tax	22,750	52,972
	<u>832,333</u>	<u>326,818</u>

10 Contingent liabilities and outstanding commitments

There were no contingent liabilities or outstanding commitments at the balance sheet date (28 February 2015: same).

11 Risk in relation to financial instruments

The investments of a Fund in financial securities and derivatives are subject to normal market fluctuations and other risks inherent in investing in such instruments. Legal & General (Unit Trust Managers) Limited (UTM) is the Authorised Fund Manager and has responsibility for ensuring appropriate risk management processes are implemented for each Unit Trust.

The UTM Board has delegated the risk oversight function to the Unit Trust Funds Committee (UTMFC), a sub-committee of the UTM Board that meets monthly. The primary objective of the UTMFC is to ensure proper oversight of investment management activity for UTM in its capacity as Authorised Fund Manager. The committee members are: the Vice Chairman of Investments (Chair), the Chief Administration Officer (UTM), the Finance Director (UTM), Head of Fund Governance, Head of Operational Risk, Head of Investment Operations and the Head of Retail Distribution. Members of the Fund Operations Team also attend from a Fund Governance and Regulatory Fund Oversight perspective.

Each Fund has an investment objective and investment policy, against which the Fund manager will operate. Each Fund has a Investment Objectives and Guidelines ("IOG") document which contains these and forms part of the Investment Management Agreement between LGIM and UTM. The IOG contains a list of the instruments and agreed investment weightings for those instruments that can be used by the Fund to achieve its objective. These are maintained by each fund manager, reviewed by the LGIM Operational Risk and Compliance Teams and approved by UTM on behalf of the UTM board. The IOGs provide the detail needed to determine the risk profile for each fund. Fund managers are not permitted to invest into any new instruments without first gaining approval from UTM for their addition into the IOG.

The Investment Objective and Policy of this Fund is detailed on page 65.

a Market risk arising from other price risk

Market Risk arises mainly from uncertainty about future prices. It represents the potential loss the Fund may suffer through holding market positions in the face of market movements.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting similar instruments traded in the market.

The assets held by the Fund can be seen in the Portfolio Statement starting on page 74. Given that the Fund invests in other Collective Investment Schemes, there is market risk exposure in respect of the financial instruments held by these entities. The Manager adheres to the investment guidelines and borrowing powers established in

the Fund Deed and Prospectus. In this way, the Manager monitors and controls the exposure to risk from any type of security, sector or issuer.

At 29 February 2016, if the price of the investments held by the Fund increased or decreased by 5%, with all other variables remaining constant, then the net assets attributable to unitholders would increase or decrease by approximately £4,808,258 (28 February 2015: 5,833,550).

b 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 or its overseas equivalent. In the event of a change in interest rates, there would be no material impact upon the assets of the Fund.

c Foreign currency risk

Foreign Currency Risk is the risk of movements in the value of financial instruments as a result of fluctuations in exchange rates. At the year end the Fund had no significant exposures to currencies other than Sterling, however, the underlying Collective Investment Schemes may have currency risk exposure.

d Credit risk

Credit Risk is the risk of suffering financial loss as a result of a counterparty to a financial transaction being unable to fulfil their financial obligations as they fall due. This risk is managed by appraising the credit profile of financial instruments and issuers in line with the Fund's investment objective and policy.

e Liquidity risk

Liquidity Risk relates to the capacity to meet liabilities as they fall due. 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 a large proportion of readily realisable assets, cash balances and via access to overdraft facilities.

f Fair value

There is no material difference between the value of the financial assets and liabilities, as shown in the financial statements, and their fair value.

The Statement of Recommended Practice for Financial Statements of UK Authorised Funds issued by the Investment Management Association in May 2014, and subsequently amended by Financial Reporting Exposure Draft 62 (FRED62), requires the classification of the Fund's financial instruments held at the year end into a 3 tiered fair value hierarchy. The 3 tiers of the hierarchy and the classification of the Fund's financial instruments as at the balance sheet date were:

	Assets £	Liabilities £
29 February 2016		
Valuation technique		
Level 1	–	–
Level 2	96,165,155	–
Level 3	–	–
Total	<u>96,165,155</u>	<u>–</u>
28 February 2015		
Valuation technique		
Level 1	–	–
Level 2	116,670,999	–
Level 3	–	–
Total	<u>116,670,999</u>	<u>–</u>

Level 1

The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.

Level 2

Inputs other than quoted prices included within Level 1 that are observable (i.e., developed using market data) for the asset or liability, either directly or indirectly.

Level 3

Inputs are unobservable (i.e., for which market data is unavailable) for the asset or liability.

12 Portfolio transaction costs

As the Fund mainly invests in Collective Investment Schemes, there are no transaction costs (28 February 2015: same).

Total purchases for the year: £3,663,065.
(28 February 2015: £4,145,867).

Total sales for the year: £14,887,256.
(28 February 2015: £14,181,724).

The average portfolio dealing spread as at the balance sheet date was 0.58% (28 February 2015: 0.45%).

13 Post balance sheet events

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

14 Ultimate controlling party and related party transactions

Details of units created and cancelled are shown in the Statement of Net Assets attributable to Unitholders. Note 15, shows the split of existing assets by investment channel.

Investments made on behalf of the Fund include those in Legal & General unit trusts, which had a market value of £96,165,155 at 29 February 2016 (28 February 2015: £116,670,999).

Management fees paid to Legal & General Investment Management Limited are shown in note 4. The balance due in respect of this fee is £14,583 (28 February 2015: £16,357).

Management fee rebates received from Legal & General Investment Management are shown in note 3. Rebates receivable at the year end amount to £6,828 (28 February 2015: £56,032).

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

15 Split of Assets by Investment Channel

Investment Channel	Net Asset Value of Fund	Net Asset Value Per Unit	Number of Units in issue	Percent
29 February 2016				
Court Funds				
Office (CFO)	£81,003,429	1,281.23p	6,322,322	84.20%
Official Solicitor and Public Trustee (OSPT)	£3,729,607	1,281.23p	291,096	3.88%
Other	£11,468,320	1,281.23p	895,103	11.92%
Total	£96,201,356	1,281.23p	7,508,521	100.00%
28 February 2015				
Court Funds				
Office (CFO)	£97,939,373	1,400.84p	6,991,460	83.94%
Official Solicitor and Public Trustee (OSPT)	£4,890,707	1,400.84p	349,126	4.19%
Other	£13,848,733	1,400.84p	988,600	11.87%
Total	£116,678,813	1,400.84p	8,329,186	100.00%

Distribution Tables for the year ended 29 February 2016

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 2015–31 August 2015

	Net Revenue	Equalisation	Distribution 12 October 2015	Distribution 12 October 2014
Distribution Units				
Group 1	17.4080	–	17.4080	16.2078
Group 2	5.4701	11.9379	17.4080	16.2078

Final dividend distribution in pence per unit

Period 1 September 2015–28 February 2016

	Net Revenue	Equalisation	Distribution 10 April 2016	Distribution 10 April 2015
Distribution Units				
Group 1	19.1051	–	19.1051	16.9028
Group 2	2.3843	16.7208	19.1051	16.9028

Fund Information

Comparative Tables

Distribution Units

Change in Net Asset Value per Unit

Accounting year ending	29/02/2016 (pence per unit)	28/02/2015 (pence per unit)	28/02/2014 (pence per unit)
Opening net asset value per unit	1,400.84	1,297.18	1,219.46
Return before operating charges*	(79.74)	139.95	114.83
Operating charges (calculated on average price)	(3.36)	(3.18)	(3.01)
Return after operating charges*	(83.10)	136.77	111.82
Distributions on income units	(36.51)	(33.11)	(34.10)
Closing net asset value per unit	1,281.23	1,400.84	1,297.18
* after direct transaction costs of:	–	–	–

Performance

Return after charges	(5.93)%	10.54%	9.17%
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Other Information

Closing net asset value (£)	96,201,356	116,678,813	117,972,690
Closing number of units	7,508,521	8,329,186	9,094,556
Operating charges	0.250%	0.239%	0.236%
Direct transaction costs	–	–	–

Prices

Highest unit price	1,469.00p	1,418.00p	1,325.00p
Lowest unit price	1,194.00p	1,243.00p	1,188.00p

Past performance is not a guide to future performance.

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

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

Total Expense Ratio

28 February 2015	0.239 per cent
29 February 2016	0.250 per cent

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

The Total Expense Ratio comprises the following:

Expense type	Percentage of investment assets %	Fee £	Note
Annual Management Charge	0.154	162,463	4
VAT on Annual Management Charge	0.031	32,492	4
Registration Fees	0.023	24,473	4
Safe Custody Fees	0.005	4,903	4
		<u>224,331</u>	
Transaction Charges	0.001	940	2
Costs incurred through underlying holdings (net of rebates)	0.036	37,621	
	<u>0.250</u>	<u>262,892</u>	

The Fund is invested in underlying Collective Investment Schemes (Legal & General Index Tracking Unit Trusts), which suffer additional charges to those described in the table above. However, since Annual Management and Registration Charges are already applied at fund level, as illustrated in the table above, rebates are received from the underlying holdings, to ensure that this Fund does not suffer excessive charges. The indirect costs suffered through investing in those Trusts amount to a charge of approximately 0.036% for the MoJ Equity Index Tracker Fund, as shown in the table above.

Accounts Direction given by HM Treasury

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

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

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

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

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

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

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

General Information

Accounting/Distribution Dates

The accounting and distribution dates for the Ministry of Justice

Equity Index Tracker Fund in 2016 are:

Accounting Dates	Distribution Dates
29 February*	10 April
31 August	12 October

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

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% £200 million and above

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

Individual accounts are unaffected by the management charge deduction.

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

Buying and Selling Securities

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

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

Authorised Fund Manager

Legal & General (Unit Trust Managers) Limited
Registered in England and Wales No. 01009418
Registered office:
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Authorised and regulated by the Financial Conduct Authority
Call charges will vary. We may record and monitor calls.

Directors of the Manager

R M. Bartley (appointed 15 May 2015)
A J C. Craven
S R Pistell (resigned 29 June 2015)
H Solomon (appointed 13 March 2015)
S D Thomas
L Toms (appointed 17 May 2016)
S Thompson (resigned 5 February 2016)
M J Zinkula

Secretary

B Hall

Overall Governance

Ministry of Justice

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