

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

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# Funds in Court in England and Wales Account 2005-2006

ORDERED BY THE HOUSE OF COMMONS TO BE PRINTED 6 NOVEMBER 2006

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

## Accountant General's Accounts

The Accountant General's Accounts (Part A) cover the year ended 28 February 2006. They have been prepared in accordance with the direction given by the Treasury in pursuance of Section 45(2) of the Administration of Justice Act 1982 (the Act). The Accounts record dealings in cash and securities held in court. Deposits under the various enactments referred to in Section 40 of the Act are not segregated in the Accounts. Others accounts prepared by The Commissioners for the Reduction of National Debt (CRND) – Part B Court Funds Investment Account and the Investment Manager's Accounts – (Part C Index Tracker Funds), supplement the Funds in Court Part A – Accountant General's Accounts. The relationship and purpose of these accounts are set out below.

## The Court Funds Office

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

- Suitors involved in a civil legal action where money is paid into the Court Funds Office (CFO). These are cases either in a county court in England or Wales or in the High Court of Justice. The Court Funds Office will hold such monies until authorised to release them on completion of the case. The Court Funds Office holds these monies in its Basic Account, which during the 2005-2006 accounting period paid interest at a rate of four per cent gross with instant access.
- Patients, under the Court of Protection, who are not able to manage their property and affairs and as a result use the services of the Protection and Receivership activities of the Public Guardianship Office (PGO). The investment strategy for patients' funds is determined by the respective court either on a Capital Appreciation or High Income basis or a mixture of both and reviewed annually. The investment strategy determined by the court is implemented by the Investment Division of the PGO, either in stocks and certain unit and investment trusts, or placed with the CFO on its Special Account, which during the 2005-2006 accounting period paid interest at a rate of six per cent gross with instant access.
- Children for whose benefit funds are paid into Court. These funds are held until the clients attain majority on their 18th birthday, unless the court order instructs otherwise. The investment strategy for the children's funds is determined by the respective court either on a Capital Appreciation or High Income basis or a mixture of both. The investment strategy determined by the court is implemented by the Investment Division of the Official Solicitor and Public Trustee (OSPT), either in stocks and certain unit and investment trusts, or placed with the CFO on its Special Account.

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

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

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

The Court Funds Office is controlled by the Rules of the Supreme Court and the Court Funds Rules which provide the authority to accept payments 'into Court' under certain circumstances and to hold these funds until instructed to make a payment out.

The Court Funds Office is part of Her Majesty's Court Service (HMCS), which is an agency of the Department for Constitutional Affairs (DCA).

## Court Funds Office investment criteria

For certain clients, mainly children and patients of the Court of Protection, CFO may receive lodgements in the form of securities, or may invest funds in securities on the advice of nominated brokers. Under the Administration of Justice Act 1982 the Secretary of State and Lord Chancellor may also establish Common Investments Schemes in which to invest funds held in court on behalf of clients. The current Common Investment Scheme is the Index Tracker Fund managed by Legal & General Investment Management Ltd. The Investment Manager is responsible for preparing an account for the scheme, and this account is shown as Part C of the White Paper Accounts.

Under section 38(2) of the Act, the Accountant General maintains an account at the Bank of England. Regularly CFO transfer money on that account in excess of immediate needs to the CRND for investment, drawings being made when additional money is required to meet payments 'out of Court'. The Accountant General meets the Bank's cost of servicing this account from Investment Income through quarterly invoice from the Bank of England. This cost is accounted for in HMCS Resource Accounts as part of the Administrative cost of running CFO. The Banking arrangements are being reviewed as part of the wider review of investment and banking activities within the DCA.

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

During the year (1 March 2005 to 28 February 2006), the percentage rates were Basic Account four per cent and Special Account six per cent. Interest earned by the Accountant General's deposits with the CRND pays the interest due on Basic and Special Accounts.

The CRND accounts separately for its dealings in monies deposited by the Accountant General in the Part B Court Funds Investment Accounts.

## Results for the year ended 28 February 2006

The Accounts on pages 11 to 12 report cash lodgements during the year ending 28 February 2006 of £2.07 billion (2005 – £1.98 billion), with cash payments and transactions out of Court of £2.11 billion (2005 – £1.88 billion). This small net cash outflow was offset by interest earned of £232 million (2005 – £211 million), primarily resulting in overall cash balances held increasing to £4.47 billion (2005 – £4.26 billion) at 28 February 2006.

The 2005-2006 Accounts also report a £1.81 million (2005 – £1.84 million) decrease in the nominal value of securities held, with a closing balance of £15.64 million reported at 28 February 2006 (2005 – £17.5 million). All units in Common Investment Fund were transferred to the Index Tracker Funds (ITF) and the balance as at 28 February 2006 was 5.56 million units (2005 – 4.19 million). Further details of the ITF Funds are provided in note 5 and Part C White Paper Accounts.

The administrative costs of CFO fall outside the scope of these accounts. Instead, the costs for the year ending 28 February 2006, and their re-imburement from funds held by the CRND, are reported in the 2005-2006 Annual Report and Accounts of HMCS.

## 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 copies of the Accounts together with his certificate and report.

## Investment and banking review

In 2003 the DCA commissioned a review of its investment and banking activities for third party assets, including those held by the CFO. The purpose behind the review was to lessen the operational risk to which the DCA was exposed. The review generated a sequence of recommendations, which have since been accepted by the DCA Board. Those recommendations continue to be implemented in 2005-2006. This brought together specific activities in the CFO, the OSPT and the PGO. A major review of internal controls and operational procedures was carried out and detailed risk and compliance assessments completed for all Investment and Banking (I&B) processes. As a result, substantial improvements have been made to the service to clients and in the governance reporting to key stakeholders. These improvements will be sustained going forward.

In parallel with this work, a number of policies were developed looking at the future provision of I&B services from the DCA. The general strategic direction has been discussed and broadly endorsed by the Corporate Board and Ministers.

## Future Developments.

In 2004-2005, a review was undertaken to examine the basis of preparation of Accounts within CFO with a view to making them more consistent with Generally Accepted Accounting Practice (GAAP). The 2004-2005 dry run accounts provided comparative figures for inclusion in the 2005-2006 accounts, restated on the basis of GAAP. The successful restatement, subject to audit, of two consecutive years of accounts has enabled the development of a sound methodology for preparing accruals based accounts from the Funds Accounting System, which only produces data on a cash basis.

As a result, a new Accounts Direction has been negotiated with HM Treasury and agreed with all interested parties namely National Audit Office and CRND and is awaiting issue. GAAP will form the basis for reporting for Funds in Court White Paper Accounts from 2006-2007 onwards.

The CFO is in the process of replacing Bank of England as its banker as the Bank is withdrawing from retail banking and custodian services. A new banking provider will be chosen during 2006. CFO became a direct member of CREST from January 2006 and is now responsible for the custody of the assets held in the name of the Accountant General.

*Kevin Sadler*  
Accountant General of the Supreme Court

14 July 2006

# Statement of the Accountant General's and the Accounting Officer'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 Supreme Court is responsible for the management and investment of the Funds in Court.

## Statement of accounts

Under section 45 (1) of the Act, the Accountant General is required to prepare a statement of accounts for each financial year in the form and on the basis as directed by the Treasury. The accounts must show receipts and payments and transactions in securities and must properly present the balances held at the year-end.

## Appointment of the Accountant General and the Accounting Officer.

The Secretary of State and Lord Chancellor has, under section 97(2) of the Supreme Court Act 1981 as amended by the Public Trustee and Administration of Funds Act 1986, appointed Kevin Sadler as Accountant General of the Supreme Court on 13 September 2005. However, Peter Hancock held this post from March 2005 to August 2005. The Permanent Secretary of the Department for Constitutional Affairs has also appointed the Accountant General as the Accounting Officer for Funds in Court. His relevant responsibilities as Accounting Officer, including his responsibilities for the propriety and regularity of the funds for which he is answerable and for the keeping of proper records are set out in the Accounting Officer's Memorandum issued by the Treasury and published in 'Government Accounting.'

## Statement on Internal Control

### Scope of responsibility

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

### The purpose of the system of internal control

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

### Capacity to handle risk

The risk management process requires CFO to maintain a risk register, which is a full record of the risks it faces and management's response to these risks, including the adequacy of the controls in place to manage risks and any actions planned to strengthen these controls. The more significant of these risks is reported upwards and incorporated into the Risk Registers of HMCS.

The CFO and the DCA Corporate Governance team have developed a schedule of key risk and operational controls. This new control framework has been embedded in the risk management processes implemented during the financial year ending 28 February 2006.

### The risk and control framework

In CFO, the main processes in place for identifying, evaluating and managing risks are

- senior management meetings to discuss exception planning and risks to the business;
- adherence to the DCA risk strategy;
- a register of key risks and operational controls that are reflected in the a responsibilities for all team section managers; and
- seminars on Corporate Governance and risk management.

The system of internal control is based on a framework of regular management information, financial regulations, administrative procedures including segregation of duties, and a system of delegation and accountability.

### Review of effectiveness

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

My review of the effectiveness of the system on internal control is informed by the following

- introduction of more rigorous data input validation to ensure quality control at input stage thus reducing the scope for errors;
- the introduction of daily and weekly exception reporting in the lodgements, suitors, funds, Court of Protection and Securities areas to ensure that any deviations from planned activity are addressed promptly;



- improvement of communication with all stakeholders, e.g. the PGO, the OSPT and the courts to ensure a seamless flow of information;
- individual accountability written into Personal Development Plans of business section managers to reflect the need for specific compliance functions to be carried out weekly and certificated monthly;
- regular reports by line managers on the adequacy and effectiveness of the internal management control system in the main operational areas. These reports are then submitted to the Head of CFO and Deputy Accountant General for verification and certification;
- the CFO senior management carry out an ongoing review of the process for formally identifying, evaluating and managing the significant risks to the achievement of its objectives;
- the undertaking of daily and monthly reconciliation to ascertain and agree the balances held with the Bank of England and the CRND, who hold funds on behalf of the Accountant General;
- the existence of an appropriate control environment, such as clearly defined management responsibilities and evidence of reaction to control failures such as action plans to address DCA's Internal Assurance Division (IAD) recommendations and the Corporate Governance Branch health check;
- regular reviews of an annual cost budget for the CFO, which is agreed by the HMCS Board;
- for client funds invested via the Common Investment Fund, review of performance undertaken via quarterly reports submitted to the Strategic Investments Board, together with overall operational control frameworks around dealings in units and the management of the unit register;
- the establishment of a Compliance function within CFO whose role is to help embed risk management across CFO operations as well as review adherence to the Key Risks and Operational Controls that were identified jointly by Corporate Governance branch and CFO; and
- a Customer Service Division dedicated to the provision of a streamlined response to clients. Also provided is an outreach function that provides information to courts on CFO services as well as advising the courts on services offered through familiarisation visits.

The DCA has an Internal Assurance Division, which operates to the standards defined in the Government Internal Audit Manual and provides an internal audit service for CFO. The work of IAD is informed by an analysis of the risks to which the Department are exposed and annual internal audit plans are based on this analysis. DCA Audit Committee and Management Board endorsed the analysis of risk and the internal audit plans for the year ending 28 February 2006.

## Internal control

IAD carried out reviews within the Lodgment and Security Divisions as well as Fraud risks assessments for which a reasonable level of assurance was reported. There were no major Internal Control weaknesses identified in 2005-2006.

A dedicated Compliance team has now been set up within CFO to monitor progress on implementation of the controls identified in the Key Risk and Operational Controls.

## Children's Fund accounts

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

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

A special project team has concluded remedial work to improve the database of beneficiaries where contact had been lost using Trace master – a programme that searches for addresses of possible beneficiaries. The project team has now cleansed the database and improved the accuracy of clients' accounts details.

### Unclaimed balances and dormant funds

A special project team is currently undertaking remedial work to trace the holders of unclaimed balances and dormant accounts across the range of account types held at the CFO. This has included a full review of the Unclaimed Balance Account itself, together with a review of miscellaneous accounts, which do not yet qualify for carry over to the account but have been paid into court because the beneficiary could not be found. This work is near completion with over £20 million paid out during 2005-2006.

### Annual reconciliation of securities

The annual reconciliation of the Accountant General securities at the financial year ending 28 February 2006 was carried out by comparing the Client holdings on the CFO's Funds Accounting System (FAS) records against records held in the CFO CREST system and at the Registrars and Unit Managers.

*Kevin Sadler*  
Accountant General of the Supreme Court

14 July 2006

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

I certify that I have audited the Accounts for the year ended 28 February 2006 under section 45 (3) of the Administration of Justice Act 1982. These comprise the Receipts and Payments and Transactions in Securities of the Accountant General, the Statement of Balances at 28 February 2006, and associated notes. The Accounts have been prepared in the form and on the basis determined by Treasury.

## Respective responsibilities of the Accountant General and Auditor

As described on page 5, the Accountant General is responsible for the preparation of the Accounts in accordance with section 45 (1) (a) of the Administration of Justice Act 1982 and Treasury directions made thereunder, and for ensuring the regularity of financial transactions. The Accountant General is also responsible for the preparation of the Foreword and the Statement on Internal Control.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and with International Standards on Auditing (UK and Ireland). I report my opinion as to whether the Accounts properly present the receipts and payments, transactions in securities and balances at the period end, and are properly prepared in accordance with section 45 (1) (a) of the Administration of Justice Act 1982 and Treasury directions made thereunder, and whether in all material respects, the receipts and payments and transactions in securities have been applied to the purposes intended by Parliament and conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the Accounts, if proper accounting records have not been kept or if I have not received all the information and explanations I require for my audit.

I review whether the statement on pages 6 to 8 complies with Treasury's guidance 'Corporate Governance: statement on internal control'. I report if it does not meet the requirements specified by Treasury or if the statement is misleading or inconsistent with other information I am aware of from my audit of the Accounts.

I read the other information contained in the Foreword and consider whether it is consistent with the audited Accounts. I consider the implications for my opinion if I become aware of any apparent misstatements or material inconsistencies with the Accounts. My responsibilities do not extend to any other information.

## Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes the examination on a test basis of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the Accounts. It also includes an assessment of the significant estimates and judgements made by Accountant General in the preparation of the Accounts.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the Accounts are free from material misstatement, whether caused by error or by fraud or other irregularity, and that in all material respects the receipts and payments and transactions in securities have been applied to the purposes intended by Parliament and conform to the authorities which govern them. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the Accounts.

## Opinion

In my opinion

- the Accounts properly present the receipts and payments and transactions in securities of the Accountant General of the Supreme Court for the year ended 28 February 2006 and the balances held at that date;
- the Accounts have been properly prepared in accordance with section 45 (1) (a) of the Administration of Justice Act 1982 and Treasury directions made thereunder; and
- in all material respects the receipts and payments and transactions in securities have been applied to the purposes intended by Parliament and conform to the authorities which govern them.

I have no observations to make on these Accounts.

*John Bourn*  
Comptroller and Auditor General

18 July 2006

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# Accounts of the Receipts and Payments and Transactions in Securities of the Accountant General under the Court Funds Rules for the year ended 28 February 2006

	Receipts and Payments for the year ended 28 February 2006			Receipts and Payments for the year ended 29 February 2005		
	Cash	Securities nominal value	Equity index Tracker Fund Units	Cash	Securities nominal value	Equity index Tracker Fund Units
	£	£		£	£	
<b>Receipts and transfers into court</b>						
<i>Cash</i>						
Lodgements by suitors	2,065,944,890			1,978,863,037		
Sales of Common Investment Fund (CIF) units and other securities	77,045,630			51,081,712		
Dividends	6,346,728			5,817,892		
Interest credited to court accounts	231,752,083			211,119,968		
<i>Securities</i>						
Lodged		8,924,993			1,228,649	
Purchased		1,487,740	1,611,899		14,465,585	1,585,566
<b>Total receipts and transfers into court</b>	<b>2,381,089,331</b>	<b>10,412,733</b>	<b>1,611,899</b>	<b>2,246,882,609</b>	<b>15,694,234</b>	<b>1,585,566</b>
<b>Less payments and transfers out of court</b>						
<i>Cash</i>						
Payments to suitors	(2,105,468,192)			(1,881,242,424)		
Cost of purchase of CIF units and other securities	(56,082,196)			(59,635,844)		
Transfer to the Department for Constitutional Affairs (Note 8)	(7,241,308)			(6,036,781)		
<i>Securities</i>						
Transferred and delivered		(10,003,266)			(14,508,578)	(780,094)
Sold		(2,224,290)	(237,809)		(3,023,314)	(473,421)
<b>Total payments and transfers out of court</b>	<b>(2,168,791,696)</b>	<b>(12,227,556)</b>	<b>(237,809)</b>	<b>(1,946,915,049)</b>	<b>(17,531,892)</b>	<b>(1,253,515)</b>
<b>Net movement in year</b>	<b>212,297,635</b>	<b>(1,814,823)</b>	<b>1,374,090</b>	<b>299,967,560</b>	<b>(1,837,658)</b>	<b>(332,051)</b>

The notes on pages 13 to 15 form part of these Accounts.

## Statement of Balances at 28 February 2006

	Notes	Cash £	Securities nominal value £	Equity index tracker fund units
<b>Balance as at 1 March 2005</b>	2	4,259,184,757	17,453,937	4,186,661
<i>Add/(deduct)</i>				
Net movement in year		212,297,635	(1,814,823)	1,374,090
<b>Balances as at 28 February 2006</b>	2	<b><u>4,471,482,392</u></b>	<b><u>15,639,114</u></b>	<b><u>5,560,751</u></b>

*The notes on pages 13 to 15 form part of these Accounts.*

# Notes to the Accounts

## 1 Preparation of accounts

The accounts have been prepared in accordance with a Treasury Direction dated 31 July 1991. This requires the accounts to be prepared on a cash basis.

## 2 Cash balances

The cash balances for which the Accountant General is liable are

	28 February 2006 £	28 February 2005 £
<b>Cash balances representing</b>		
Court Funds (including interest) placed on basic account	<b>1,097,320,055</b>	1,110,601,911
Court Funds (including interest) placed on special account	<b>3,242,535,006</b>	2,994,594,558
Unclaimed balances	<b>47,422,312</b>	47,316,821
Other Suitors' monies deposited in the Supreme Court	<b>68,259,435</b>	93,637,575
Suitors' monies held as foreign currency	<b>15,945,584</b>	13,033,892
	<b><u>4,471,482,392</u></b>	<u>4,259,184,757</u>
<b>The balances were held</b>		
Bank of England	<b>14,279,784</b>	10,048,884
Money held as foreign currency	3 <b>15,945,584</b>	13,033,892
Commissioners for the Reduction of National Debt	2a, 2b <b>4,463,943,171</b>	4,259,406,123
Amounts awaiting banking	<b>441,516</b>	125,542
	<b><u>4,494,610,055</u></b>	<u>4,282,614,441</u>
<i>Less cheques issued prior to 1 March and not yet cashed</i>	<b><u>(23,127,663)</u></b>	<u>(23,429,684)</u>
	<b><u>4,471,482,392</u></b>	<u>4,259,184,757</u>

- a The CRND balance of £4,464 million (28 February 2005 – £4,259 million) excludes £76 million (28 February 2005 – £68 million) of Basic and Special account interest accrued but not yet credited to Court Funds. The CRND's balance at 28 February 2006 including this accrued interest was £4,540 million (28 February 2005 – £4,327 million).
- b Further details on the Court Funds Investment Account that is maintained by the Commissioners for the Reduction of National Debt are provided in Part B of the White Paper Accounts.

### 3 Foreign currency

- a Suitors' monies held as foreign currencies are deposited by the Accountant General with various foreign commercial banks acting as agents of the Bank of England. Foreign currencies were translated to Sterling at the exchange rates in force on 28 February 2006.

Currency	Balance at 28 February 2006 in foreign currency	Exchange rates	Sterling equivalent at 28 February 2006
DKK	1,038.11	10.9597	94.72
SEK	5,978.72	13.8654	431.20
EUR	2,975,515.07	1.4688	2,025,813.64
USD	24,289,848.82	1.7511	13,871,194.57
AUD	113,259.52	2.3571	48,050.37
<b>Total</b>			<b><u>15,945,584.50</u></b>

### 4 Contingent liability

The Courts of Justice (Salaries and Funds) Act 1869 (now repealed) enabled various securities held by the Accountant General to be cancelled and a corresponding liability amounting to £2.7 million was placed on the Consolidated Fund. This initial liability has been reduced by payments made from the Consolidated Fund from time to time, and a liability of £1.632 million now remains. Treasury lawyers are of the opinion that the Consolidated Fund's liability to make good suitors money in Court was repealed by the Court of Chancery (Funds) Act 1872 and any future repayments would therefore have to be made by the CFO, rather than Treasury. This outstanding liability to Suitors of £1.632 million may need to be repaid at some point in the future and where such claims arise these will need to be met by the CFO.

### 5 Common Investment Fund

The 1982 Administration of Justice Act allows the Secretary of State and Lord Chancellor to establish Common Investment Schemes in which to invest funds held in Court on behalf of clients. From 1 September 2003 the Fund was invested in an Equity Index Tracker Fund (ITF) under the management of Legal & General Investment Management Limited. The beneficiaries have unit shares in the Fund, which itself consists of a balanced portfolio managed by the Investment Manager in accordance with the investment strategy agreed with the DCA.

At the end of period ended 28 February 2006, there were 5,560,751 units in issue (28 February 2005 – 4,186,661 units) with a net asset value of 1040.723726 pence per unit – £57,872,055.00 (28 February 2005 – 867.38 pence per unit) held by clients of the Court Funds Office. The increase in units is due to sale and reinvestment of miscellaneous investments in the ITF.

Further details of the Common Investment Funds are provided in Part C White Paper Accounts.

### 6 Miscellaneous items

In addition to the balances of cash, securities and Common Investment Fund units on 28 February 2006, further items were held on behalf of the Accountant General as follows

Details	28 February 2006	28 February 2005
National savings certificates	<b>£16,000</b>	£145,582
Financial documents ordered into court	<b>3 packets</b>	3 packets
Gold coins	<b>4</b>	4
Silver coins	<b>1,746</b>	1,746
Various unit trusts (units)	<b>28,928,010</b>	35,706,352



**7 Transfer of fees**

The £7,241,308 shown in respect of transfer of fees to the Department for Constitutional Affairs represents

	<b>For the period ended 28 February 2006 £</b>	For the period ended 28 February 2005 £
Court of Protection fees met directly from funds held in Court	<b>7,229,895</b>	5,976,983
Interest earned on foreign currency deposits where no court order has been made for the payment out of interest, dividend fractions, and fees on proceedings	<b>11,413</b>	59,798
	<b><u>7,241,308</u></b>	<u>6,036,781</u>

*Kevin Sadler*  
Accountant General of the Supreme Court

14 July 2006

# Commissioners for the Reduction of National Debt (CRND)

## Court Funds Investment Account

### Foreword

#### Introduction

These accounts have been prepared by the Commissioners for the Reduction of the National Debt (CRND). The accounts, which cover the year ended 28 February 2006, are prepared under a direction issued by HM Treasury in accordance with section 45 (2) of the Administration of Justice Act 1982.

#### Brief history and background of the Court Funds Investment Account

The Court Funds Investment Account (CFIA) backs the basic and special accounts available for suitors' funds paid into Court in England and Wales.

By virtue of rules made under section 38 (7) of the Administration of Justice Act 1982 (the Act), on days when the Accountant General has excess cash in his account at the Bank of England he remits the excess amount to CRND for investment; on days when the balance in his account is insufficient to meet demands, the CRND make good the shortfall.

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

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 the CRND the sum of

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

Section 39 (5) of the Act provides a guarantee by the Consolidated Fund of the Capital paid to CRND by the Accountant General.

The resources used to deliver the CRND's objectives are accounted for within the UK Debt Management Office (DMO) Report and Accounts 2005-2006. The cost of managing the CFIA incurred by CRND is recharged to the fund. In 2005-2006, the cost amounted to £90,000 (2004-2005: £105,000).

## Commissioners for the Reduction of the National Debt

CRND's main function is the investment and management of major Government funds. The investment powers differ from fund to fund, but basically investments are restricted to central and local government securities.

There are eight Commissioners, but the Comptroller General and Assistant Comptroller of CRND, 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 Comptroller General and the Assistant Comptroller. However, in practice the role of the Comptroller General is considered analogous to acting as the Accounting Officer for CRND. Therefore, the Comptroller General takes responsibility for preparing and signing the accounts on behalf of the Commissioners. For 2005-2006, however, the Comptroller General is unavailable to discharge these responsibilities and has delegated them, with HM Treasury's approval, to the Assistant Comptroller.

In July 2002, responsibility for the administration of CRND activity was transferred from the National Investment and Loans Office (NILO) to the DMO. Since then, CRND has operated as a business unit of the DMO from shared office accommodation.

The arrangements made between CRND and the client department, the Court Funds Office (CFO), in respect of the investment service provided by CRND are set out in a Memorandum of Understanding, which describes how CRND intend to achieve the agreed investment objectives.

## Audit arrangements

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

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

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

## Management commentary

### Results for 2005-2006

Historically, the investments made by CRND have included gilt-edged securities with periods to maturity of up to 20 years. Pending the outcome of a review of the CFO's investment and banking operations, CRND has agreed with the CFO that the average modified duration of the portfolio will be allowed to move shorter. Subsequently, this has led to investment in mainly short to medium-term securities.

During 2005-2006, the CFIA made a net operating surplus from funds invested of £242.1 million (2004-2005: £183.6 million). This comprised interest receivable of £269.0 million (2004-2005: £273.6 million) less interest payable to the consolidated fund of £4.9 million (2004-2005: £4.1 million), dealing losses of £6.9 million (2004-2005: £75.2 million) and other expenditure of £15.1 million (2004-2005: £10.6 million).

The CFO withdrew £18.8 million (net of advances) from the Account over the course of the year (2004-2005: net advance of £95.3 million).

*Alex Lawrie*  
Assistant Comptroller to the Commissioners  
for the Reduction of the National Debt

25 October 2006

## Statement of Comptroller General's responsibilities

- 1 Section 45 (2) of the Administration of Justice Act 1982 requires the Commissioners to prepare accounts for each financial year in the form and on the basis determined by HM Treasury.
- 2 The CFIA annual accounts are prepared on an accruals basis, as directed by HM Treasury and must give a true and fair view of the financial position of the CFIA at the year end and of the surplus or deficit and the cash flows for the financial year.
- 3 The Commissioners have appointed the Comptroller General to discharge their statutory responsibilities, a role that is analogous to acting as an Accounting Officer. Therefore the Comptroller General has responsibility for preparing the annual accounts and for transmitting these to the Comptroller and Auditor General.
- 4 In preparing accounts an Accounting Officer is required to observe the applicable accounting standards and generally accepted accounting practice in so far as they are relevant to the Account, and apply suitable accounting policies on a consistent basis.
- 5 For 2005-2006, however, the Comptroller General is unavailable to discharge these responsibilities and has delegated them, with HM Treasury's approval, to the Assistant Comptroller.
- 6 The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, and for the keeping of proper accounting records, are set out in the Accounting Officers' Memorandum issued by HM Treasury and published in 'Government Accounting'.

# Statement on Internal Control

## 1 Scope of responsibility

The Commissioners for the Reduction of the National Debt (CRND) are responsible for preparing the accounts. They have appointed me as Secretary and Comptroller General of CRND to discharge their responsibilities in this regard. As Secretary and Comptroller General, I also have responsibility for maintaining a sound system of internal control that supports the achievement of CRND's targets, policies and objectives in managing client investment portfolios as well as reviewing the effectiveness of the system of internal controls.

CRND and the Debt Management Office (DMO) were merged in July 2002. 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 of the continued sound maintenance of the wider control framework from the Statement of Internal Control for the DMO, although I understand that only reasonable and not absolute assurance can be given that risks have been controlled.

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

## 2 The purpose of the system of internal control

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

Since the merger, relevant elements of the DMO system of internal control have been implemented for CRND. The system of internal control has been in place for the year ended 28 February 2006 and up to the date of approval of this account, and accords with Treasury guidance. The DMO has made additions to the system of internal control over the course of the year.

## 3 Capacity to handle risk

The DMO has a formal risk management strategy and policy, which includes CRND activities. The DMO has produced a Risk Management Assurance Strategy comprehensively documenting its risk management processes.

The DMO Managing Board is responsible for setting strategic direction and considering high-level operational issues. An executive sub committee of the Managing Board meets weekly. The terms of reference of these committees and those of the Fund Management Committee and Risk Committee were redefined to improve clarity of their roles and responsibilities and to strengthen the capability of the organisation to consider issues and make relevant decisions at the appropriate level.

Staff have attended presentations on relevant elements of the DMO's risk management framework. These have covered specific issues such as anti-money laundering, whistleblowing, fraud and personal dealing in order to ensure a good level of awareness of DMO's risk policies and controls. All members of staff have job descriptions, including specific key risks to be addressed.

Management in each business function is responsible for ensuring that the operations within their area are compliant with plans, policies, procedures and legislation. Most functional managers are responsible for maintaining compliance arrangements across the DMO in their area of specialism. The Risk Management Unit has issued guidance to the CRND Portfolio Manager on those sections of the Financial Services Authority handbook that are most pertinent to CRND activities in order to support him in meeting his responsibilities in this regard.

## 4 The risk and control framework

An independent actuary has reviewed all CRND Funds. The review's scope was to look at the funds' governance, mandates and investments. As a result of that review clearer, more formal arrangements were introduced, the mandates were updated and the investments (assets) held by the funds were tailored to better match their liabilities. An up-to-date memorandum of understanding is in place with all clients, outlining the respective responsibilities of CRND and the client. CRND has adopted a passive style of fund management for each client. CRND has established effective communication channels with each of its clients.

The DMO has various formal mechanisms for managing CRND's risks but it is recognised that the most important aspect is that a strong risk management culture pervades the organisation at all levels. This is embedded in both regular operations and the approach taken to new business initiatives. The DMO includes risk management considerations as part of normal business management. The DMO is making on-going efforts to embed a strong risk management culture in every part of the organisation.

The DMO's risk management strategy seeks to achieve a strong risk management culture by linking organisational objectives to the business planning process. Organisational objectives cascade down to individual objectives and job descriptions. This is intended to promote a clear understanding of the ownership of each risk within the organisation. There has been substantial progress in development of performance measures in the year, in particular for cash management operations.

Heads of business units and functional teams assess regularly whether risks to their operations are being managed effectively. The DMO has introduced Senior Risk Owners who undertake a cross-functional moderation process to promote better prioritisation of risks across the organisation. Project teams used risk registers to monitor and manage identified risks for each DMO project. Managing Board have reviewed during the year the high level risks that the organisation faces, and the adequacy of the relevant controls. This process is supported by the maintenance of exception logs, which identify control weaknesses and resultant actions to improve controls. Key risks and exceptions are documented in a regular report produced by the Risk Management Unit for the Risk Committee and the Managing Board.

A key component of the CRND control framework is the segregation of duties to promote independent checking and avoid concentration of key activities or related controls in individuals or small groups of staff.

All teams have documented procedures for their main activities. The DMO has policies on anti-fraud and whistleblowing that cover CRND activities. In establishing controls to deter money laundering the DMO has followed best practice, guidance in the Financial Services Authority's handbook and the joint money laundering steering group. The DMO has its own anti-money laundering handbook.

The DMO's Business Continuity Plan (BCP), including disaster recovery site and other arrangements, is subject to continual review and update. The DMO tested the main elements of the BCP during the year. Assessment of business continuity requirements is a specific requirement for new projects and major business initiatives.

## 5 Review of effectiveness

As Secretary and Comptroller General, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is a continuous process. It is informed by the work of the managers who have responsibility for the development and maintenance of the internal control framework, work of the internal auditors and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by Managing Board, the Audit Committee, the Risk Committee and the controls team and a process to address weaknesses and ensure continuous improvement of the system is in place.

- The Fund Management Committee, comprising CRND managers, other senior managers and DMO specialist staff, meets regularly to review CRND operational issues. In particular it monitors and advises on development of CRND governance mechanisms.
- A controls team met regularly to review the DMO's system of internal control (including CRND), recommend actions to management and to implement changes where appropriate. The team comprises the Head of the DMO's Risk Management Unit, the Controls and Compliance Manager, the Head of Internal Audit and the Finance Manager. The controls team reports regularly to the Audit Committee on progress to improve the internal control system during the year.
- The DMO's Audit Committee reviews the adequacy and effectiveness of the DMO's management of risk and internal controls, including those covering CRND.
- The DMO's Risk Management Unit provides control advice on risks throughout the DMO. In the DMO's management reporting structure the risk management unit is separate and independent of the DMO's trading operations. The risk management function also conducts risk analysis and provides an operational, market and credit risk capability for the DMO.
- The DMO's Internal Audit team evaluates the effectiveness of the DMO's processes for risk management, control and governance in order to provide an independent and objective opinion to the DMO's Accounting Officer. This evaluation also encompasses CRND processes.
- The DMO's Risk Management Unit conducts monthly Controls and Compliance testing providing the executive sub-committee of Managing Board with independent assurance on the effectiveness of operational controls and compliance with relevant FSA rules in the dealing and settlements areas. Compliance testing is also a component of each operational review undertaken by Internal Audit.

In my opinion, CRND's system of internal control was effective throughout the financial year 2005-2006 and remains so on the date I sign this statement.

*Alex Lawrie*  
Assistant Comptroller to the Commissioners  
for the Reduction of the National Debt

For and on behalf of *Jo Whelan*  
Secretary and Comptroller General to the  
Commissioners for the Reduction of the National Debt

25 October 2006



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

I certify that I have audited the financial statements of the Court Funds Investment Account for the year ended 28 February 2006 under the Administration of Justice Act 1982. These comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

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

As described in the Foreword on pages 16 and 17 the Commissioners have a statutory duty to prepare accounts in respect of their transactions. They have appointed the Secretary and Comptroller General to discharge their responsibilities for the preparation of financial statements in accordance with the Administration of Justice Act 1982 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Secretary and Comptroller General is also responsible for preparation of the other contents of the accounts. These responsibilities are set out in the Statement of Comptroller General's Responsibilities. For 2005-2006, however, the Comptroller General is unavailable to discharge these responsibilities and has delegated them, with HM Treasury's approval, to the Assistant Comptroller.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Administration of Justice Act 1982 and Treasury directions made thereunder. I also report whether in all material respects the financial transactions of the Court Funds Investment Account conform to the authorities which govern them.

I also report to you, if in my opinion, the Foreword is not consistent with the financial statements, if proper accounting records have not been kept or if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities is not disclosed.

I review whether the statement on pages 20 to 22 reflects the Commissioners for the Reduction of the National Debt's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider, nor have I considered whether the Secretary and Comptroller General's Statement on Internal Control covers all risks and controls or form an opinion on the effectiveness of the Commissioners for the Reduction of the National Debt's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Foreword and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

## Basis of audit opinion

I conducted my audit in accordance with International Standards of Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Assistant Comptroller in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Court Funds Investment Account's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error and that in all material respects the financial transactions conform with the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In my opinion

- the financial statements give a true and fair view, in accordance with the Administration of Justice Act 1982 and directions made thereunder by Treasury, of the financial position of the Court Funds Investment Account as at 28 February 2006 and of the surplus and cash flows for the year ended 28 February 2006;
- the financial statements have been properly prepared in accordance with the Administration of Justice Act 1982 and directions made thereunder by Treasury; and
- in all material respects the transactions of the Court Funds Investment Account conform to the authorities which govern them.

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General

26 October 2006

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

## Income and Expenditure Account for the year ended 28 February 2006

	Notes	2005 £000	2004 £000
Interest receivable	2	<b>269,010</b>	273,576
Surplus income payable to Consolidated Fund	11	<b>(4,850)</b>	(4,110)
Net interest income after deduction of surplus income payable		<b>264,160</b>	269,466
Dealing (losses)/profits	3	<b>(6,923)</b>	(75,294)
Total investment income		<b>257,237</b>	194,172
Other expenditure	4	<b>(15,090)</b>	(10,600)
Operating surplus		<b>242,147</b>	183,572

*The notes on pages 28 to 33 form part of these accounts.*

## Balance Sheet as at 28 February 2006

	Notes	2006 £000	2005 £000
<b>Assets</b>			
Debt securities	5	<b>2,946,988</b>	3,092,411
Loans and advances	6	<b>2,012,982</b>	1,652,131
Accrued interest	7	<b>93,416</b>	82,143
<b>Total assets</b>		<b><u>5,053,386</u></b>	<u>4,826,685</u>
<b>Liabilities</b>			
Client funds	13	<b>5,044,426</b>	4,821,080
Other liabilities	8	<b>8,960</b>	5,605
		<b><u>5,053,386</u></b>	<u>4,826,685</u>

*The notes on pages 28 to 33 form part of these accounts.*

Alex Lawrie  
Assistant Comptroller to the Commissioners  
for the Reduction of the National Debt

25 October 2006

## Cash Flow Statement for the year ended 28 February 2006

	Note	<b>2006</b> <b>£000</b>	2005 £000
Net cash flow from operating activities	9	<b>18,800</b>	(95,300)
Financing		<b>(18,800)</b>	95,300
Increase/(decrease) in cash		<b>0</b>	0

*The notes on pages 28 to 33 form part of these accounts.*

# Notes to the Accounts

## 1 Accounting policies

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.

### 1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified by the inclusion of certain investments at market valuation, and in accordance with applicable Generally Accepted Accounting Practice in the United Kingdom (UK GAAP) in so far as is appropriate to the Fund. Securities transactions are included in the accounts on a trade date accounting basis.

### 1.2 Valuation of Securities (UK Government Gilts)

All securities held by Commissioner for the Reduction of National Debt (CRND) on behalf of the Fund have been included in the balance sheet at market value.

### 1.3 Gains and losses on trading operation

Gains and losses on trading operations are calculated as the difference between the sale proceeds (excluding interest) and the cost of the stock, which is calculated on a first in, first out basis.

### 1.4 Income recognition

Income is recognised within the accounts on the following bases

- interest on investments is recognised as it accrues rather than on a cash received basis;
- realised gains and losses on trading activities are taken to the Income and Expenditure Account in the period in which they arise; and
- valuation gains and losses on dealing securities are recognised in the Income and Expenditure Account in the same way as realised gains and losses and are included within the carrying value of those securities on the balance sheet.

### 1.5 Administrative expenditure

The administrative costs recovered from clients are accounted for in the UK Debt Management Office Agency Account.

### 1.6 Ways and means

End of day cash surpluses that have not been invested in other ways are swept daily to the National Loans Fund (NLF) and are repayable on demand while the NLF makes good any daily shortfall in monies on the Fund. These investments are known as Ways and Means. The Fund receives interest on monies swept up to the NLF and pays interest on shortfalls covered by the NLF.

Ways and Means has been reclassified as Loans and Advances in 2005-2006 because its nature is similar to other investments in this category and it is considered to be more appropriate than its previous classification as Cash. The effects of this change on the balances sheet as at 28 February 2005 are an increase in Loans and Advances and a decrease in Cash by £9,931,000. The effects on the Cash Flow Statement are set out in Note 9 and 10 to the accounts.

**2 Interest receivable**

	<b>2005</b>	2004
	<b>£000</b>	£000
Debt securities		
Gilt edged securities	<b>182,286</b>	236,397
Interest receivable on deposits given	<b>86,466</b>	36,784
Interest receivable on ways and means	<b>258</b>	395
<b>Total interest receivable</b>	<b>269,010</b>	273,576

**3 Dealing (losses)/profits**

	<b>2005</b>	2004
	<b>£000</b>	£000
Profit/(loss) realised on disposal of securities	<b>(18,344)</b>	(23,774)
Valuation movement on gilts	<b>11,421</b>	(51,520)
<b>Total dealing (losses)/profits</b>	<b>(6,923)</b>	(75,294)

**4 Other expenditure**

	<b>2005</b>	2004
	<b>£000</b>	£000
Management expenses – payable to the client	<b>(15,000)</b>	(10,495)
– payable to CRND	<b>(90)</b>	(105)
<b>Total expenses</b>	<b>(15,090)</b>	(10,600)

**5 Debt securities***5a Debt securities*

	<b>2006</b>	<b>2006</b>	<b>2006</b>	2005	2005	2005
	<b>Nominal</b>	<b>Cost</b>	<b>Clean market</b>	Nominal	Cost	Clean market
	<b>£000</b>	<b>£000</b>	<b>value</b>	£000	£000	value
			<b>£000</b>			£000
UK Government gilts – Marketable	16,000	18,646	18,129	16,000	18,646	18,018
UK Government gilts – Non Marketable (NILO)	2,800,756	2,962,965	2,928,859	2,939,256	3,119,809	3,074,393
<b>Total debt securities</b>	<b>2,816,756</b>	<b>2,981,611</b>	<b>2,946,988</b>	2,955,256	3,138,455	3,092,411

## 5b Debt securities (maturity analysis)

	2006 Nominal £000	2006 Cost £000	2006 Clean market value £000	2005 Nominal £000	2005 Cost £000	2005 Clean market value £000
Maturing in less than three months	0	0	0	138,500	156,844	139,345
Maturing in over three months but less than one year	845,700	924,029	860,584	0	0	0
Maturing in over one year but less than five years	1,455,156	1,489,121	1,519,309	1,923,578	2,040,558	1,991,594
Maturing in over five years	515,900	568,461	567,095	893,178	941,053	961,472
<b>Total debt securities</b>	<b>2,816,756</b>	<b>2,981,611</b>	<b>2,946,988</b>	<b>2,955,256</b>	<b>3,138,455</b>	<b>3,092,411</b>

## 6 Loans and advances

	2006 £000	2005 £000
Fixed Rate Deposits given to DMA	1,500,000	1,208,000
Call Notice Deposits given to DMA	508,600	434,200
Ways and Means	4,382	9,931
	<b>2,012,982</b>	<b>1,652,131</b>

## 7 Accrued interest

	2006 £000	2005 £000
Accrued coupon interest	69,636	74,480
Accrued interest on Deposits	23,766	7,638
Accrued interest on Ways & Means	14	25
	<b>93,416</b>	<b>82,143</b>

## 8 Other liabilities

	2006 £000	2005 £000
Surplus due to the Consolidated Fund	8,960	4,110
Fund's own Mgmt Expenses due to the Client	0	1,495
	<b>8,960</b>	<b>5,605</b>



## 9a Reconciliation of operating profit to net cash flow from operating activities (indirect method)

	<b>2006</b>	2005
	<b>£000</b>	£000
Operating surplus	<b>242,147</b>	183,572
(Increase)/decrease in debt securities	<b>156,843</b>	1,002,988
(Increase)/decrease in movement in valuation of debt securities	<b>(11,421)</b>	51,520
(Increase)/decrease in loans and advances (inc. ways and means) given	<b>(360,851)</b>	(1,337,296)
(Increase)/decrease in other assets: accrued income	<b>(11,273)</b>	6,678
Increase/(decrease) in other liabilities: creditors	<b>3,355</b>	(2,762)
<b>Net cash flow from operating activities</b>	<b>18,800</b>	(95,300)
<b>Financing</b>		
Advanced by the client	<b>406,700</b>	477,000
Withdrawn by the client	<b>(425,500)</b>	(381,700)
	<b>(18,800)</b>	95,300

## 9b Reconciliation of operating profit to net cash flow from operating activities (direct method)

	<b>2006</b>	2005
	<b>£000</b>	£000
Cost of purchases of debt securities	<b>0</b>	(657,150)
Proceeds from sales of debt securities	<b>138,500</b>	1,682,060
Loans and advances (inc. ways and means) given out	<b>(6,210,217)</b>	(6,935,975)
Loans and advances (inc. ways and means) received	<b>5,849,366</b>	5,598,679
Interest received	<b>257,736</b>	234,557
Payment of surplus to Consolidated Fund for 2004-2005	<b>0</b>	(4,334)
Expenses	<b>(16,585)</b>	(13,137)
<b>Net cash flow from operating activities</b>	<b>18,800</b>	(95,300)
<b>Financing</b>		
Advanced by the client	<b>406,700</b>	477,000
Withdrawn by the client	<b>(425,500)</b>	(381,700)
	<b>(18,800)</b>	95,300

Purchases/Sales of Debt securities are reported gross and include net purchased accrued/(rebate) interest. There was no accrued or rebate interest on either purchases or sales in 2005-2006 (2004-2005: net purchased accrued/(rebate) interest £0 and net accrued/(rebate) interest on sales £45,696,468).

**10 Ways and means: classification change**

This note reconciles differences between the 2005 accounts and restated 2005 figures shown on this year's accounts. The changes are in respect of ways and means, which had previously been treated as cash, but is now being treated as part of Loans and Advances. The individual figures that have been restated are in Notes 9a and 9b:

*Note 9a Reconciliation of operating profit to net cash flow from operating activities (indirect method)*

	2005	2005 Restated
	£000	£000
(Increase)/decrease in deposits given	(1,335,800)	
Effect of ways and means	<u>(1,496)</u>	
(Increase)/decrease in loans and advances given (inc. ways and means)		(1,337,296)

*Note 10b Reconciliation of operating profit to net cash flow from operating activities (direct method)*

	2005	2005 Restated
	£000	£000
Loans and advances given	(6,582,578)	
Effect of ways and means	<u>(353,397)</u>	
Loans and advances given out (inc. ways and means)		(6,935,975)

The above reconciliation also applies to the figure for 2005 showing the cash deposits placed with DMA in Note 13, which is being restated in the same manner.

Loans and advances received	5,246,778	
Effect of ways and means	<u>351,901</u>	
Loans and advances received (inc. ways and means)		5,598,679

At the end of each day, any surplus cash is transferred into the Ways and means account and included in the Loans and Advances (inc. ways and means) Given Out figure. In the event of a cash deficit at the end of the day, an amount is transferred out of the Ways and Means account to cover the deficit and included in the Loans and Advances (inc. ways and means) received figure.

**11 Surplus income payable to the Consolidate Fund**

	<b>2006</b>	2005
	<b>£000</b>	£000
Interest received in the year	<b>257,736</b>	234,558
Interest payable to suitors	<b>(237,796)</b>	(219,848)
Management expenses payable	<b>(15,090)</b>	(10,600)
	<u><b>4,850</b></u>	<u>4,110</u>

**12 Securities at cost represent**

	2006 £	2006 £	2005 £	2005 £
Liability of the Investment Account to the Accountant General of the Supreme Court		<b>4,540,243</b>		4,321,247
<i>Add</i>				
Accumulated sum to provide for depreciation	<b>3,751</b>		3,751	
Accumulated net profit on sales of securities from 1 October 1965, including a loss of 18,343,868 for current year	<b>443,430</b>		461,774	
<i>Less</i>				
Difference between cost price of securities and total liabilities at 1 October, 1965	<b>(1,786)</b>		(1,786)	
Difference between cost price of securities transferred from Palatine Courts and the liability assumed at 10 February, 1972	<b>(4)</b>	445,311	(4)	468,735
		<b>4,985,634</b>		4,784,982
<i>Comprising</i>				
Adjustment for Surplus Income payable to Consolidated Fund		<b>(8,960)</b>		(4,110)
Accrued Management Expenses		<b>(0)</b>		(1,495)
Securities at cost		<b>4,994,594</b>		4,790,587
		<b>4,985,634</b>		4,784,982

**13 Client funds**

	2006 £000	2005 £000
Client Funds as at 28 February 2005	<b>4,821,080</b>	4,542,208
Operating Surplus	<b>242,146</b>	183,572
Financing	<b>(18,800)</b>	95,300
Client Funds as at 28 February 2006	<b>5,044,426</b>	4,821,080

**14 Related parties**

CRND is a separate entity within the UK Debt Management Office (DMO). CRND conducts a fund management service for a range of governmental clients. On behalf of HM Treasury, DMO undertakes Government debt and cash management activities and operates the Debt Management Account (DMA). Although located together and sharing many support services, internal controls and processes exist to ensure CRND and DMA operate independently of one another. Jo Whelan is the Secretary and Comptroller General of CRND and also the Deputy Chief Executive of the DMO. She is involved in determining and agreeing investment policy for both CRND and DMA on a basis that maintains the independence of each. Surplus cash in CRND client accounts is regularly deposited with the DMA cash management desk. The DMA gilt desk from time to time undertakes gilt purchases on behalf of CRND. These transactions are carried out on an arm's length basis and in line with a Memorandum of Understanding between the two entities.

The total amount of cash deposits placed with DMA over the period was £6,210m (2004-2005: £6,936m). During the year, there were no purchased or sold NILO gilts from the DMA (2004-2005: Purchases £650m, Sales £1,636m). The value of deposits held with the DMA as at the balance sheet date was £2,009m (2004-2005: £1,642m).

## 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 The Commissioners for the Reduction of the National Debt shall prepare accounts for the financial year ended 29 February 2004 and subsequent financial years comprising
  - a a Foreword;
  - b a Statement of Internal Control;
  - c an Income and Expenditure Account;
  - d a Balance Sheet; and
  - e a Cash Flow Statementincluding such notes as may be necessary for the purposes referred to in the following paragraphs.
- 2 The accounts shall give a true and fair view of the income and expenditure, and cash flows for the financial year, and the state of affairs as at the end of the financial year.
- 3 Subject to this requirement, the accounts shall be prepared in accordance with
  - a Generally Accepted Accounting Practice in the United Kingdom (UK GAAP) to the extent that it is relevant. Any departure from UK GAAP is only permissible in the context of providing a true and fair view for this public sector account,
  - b any other relevant guidance which the Treasury may issue from time to time in respect of accounts which are required to give a true and fair view.
- 4 This direction shall be reproduced as an appendix to the accounts.

*David A Cruden FCA*  
Head of Central Accountancy Team  
Her Majesty's Treasury

22 November 2004

# DCA Common Investment Fund Equity Index Tracker Fund

## Foreword

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

### The Equity Index Tracker Fund

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

#### 1 What is the Common Investment Fund?

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

#### 2 What does this report cover?

This report covers the performance of the Fund for the year ended 28 February 2006, together with some information for investors and their advisers.

#### 3 What is the legal basis for the Fund?

The Fund is an Unauthorised Unit Trust and was created under the Act which authorises the Lord Chancellor to make Common Investment Schemes for the purposes of investing funds held in Court and money held by any other person authorised to hold shares 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 Public Guardianship Office (PGO)/Court of Protection wishing to hold units out of Court. In addition, certain former clients of the PGO/Court of Protection, the Court Funds Office (CFO) and The Official Solicitor and the Public Trustee (OSPT) were authorised to retain units in the Fund on termination of their connection with those offices. These changes came into effect as a result of authorisation by the Lord Chancellor pursuant to section 42(5)(b) of the Act.

#### 4 Why invest in the Fund?

The 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. 80 per cent of the Fund has exposure to UK shares with the remainder investing in the US, Europe, Japan and the Pacific Basin.

Index trackers invest in a representative sample of all of the companies that make up the index that they are tracking, instead of the Fund manager actively choosing which stocks to hold in the Fund. The intention is simply to deliver the return of the index being tracked.

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

### i The Lord Chancellor's responsibilities

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

Under Section 42(2) of the Act, the Common Investment Schemes made by the Lord Chancellor shall provide for an Investment Manager to be appointed by the Lord Chancellor to manage and control the common investment funds established. As indicated above, the Lord Chancellor appointed Legal and General (Unit Trust Managers) Limited to be the Investment Manager for the Equity Index Tracker Fund for the financial period from 1 September 2003.

Under Section 42(5) shares 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 shares 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 shares 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 shares 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 shares 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 shares 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 shares 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 shares were held by the Accountant General during his minority, in relation to any shares 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 shares held by the Accountant General on her behalf immediately prior to the making of such an application;
- xi the investment manager of the Fund on his own account in the ordinary course of fund management, subject to the terms of his appointment; and
- xii any person acting in his capacity as nominee for any person included in (i) to (viii) above.

The total value of 'other' investors is shown in Note 16.

## II Appointment of the Accountant General

The Secretary of State and Lord Chancellor has, under section 97(2) of the Supreme Court Act 1981 as amended by the Public Trustee and Administration of Funds Act 1986, appointed Kevin Sadler as Accountant General of the Supreme Court on 13 September 2005. The Permanent Secretary of the Department for Constitutional Affairs has also appointed the Accountant General as the Accounting Officer for Funds in Court. His relevant responsibilities as Accounting Officer, including his responsibilities for the propriety and regularity of the funds for which he is answerable and for the keeping of proper records, are set out in the Accounting Officer's Memorandum issued by Treasury and published in 'Government Accounting.'

## III Management and Investment of Funds in Court

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

### 6 How does the Accountant General honour his responsibilities?

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

- buying and selling units in the Common Investment Scheme (on behalf of eligible investors);
- maintenance of a register of unit holders in the Common Investment Fund (albeit only on behalf of beneficiaries of the Court Funds Office – see note 16 for the segmentation analysis);
- distribution to unit holders of dividends calculated by the Manager;
- payment of Investment Manager's fees;
- investment management oversight through the Strategic Investment Board (SIB) which advises the Department for Constitutional Affairs on investment strategy and performance monitoring; and
- the implementation of a control framework with the Investment Manager to provide sufficient assurance to the Accounting Officer.

### 7 Accounts and Audit

These accounts are in respect of the Equity Index Tracker Fund for the year ended 28 February 2006 and have been prepared in accordance with an Accounts Direction issued by Treasury under section 45(2) of the Act as detailed on page 58. 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 44 and 45.

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

*Mike Dedman*  
Managing Director  
Legal & General  
(Unit Trust Managers) Limited

16 June 2006

*Kevin Sadler*  
Accountant General of  
the Supreme Court

11 July 2006

# Investment Manager's Report

## Investment Strategy

The Fund strategy is to track the capital return of the composite benchmark by investing in Legal & General Index Unit Trusts.

The Fund benchmark is as follows

	<b>Control ranges</b>
80 per cent FTSE All-Share Index	+/- 2 per cent
20 per cent FTSE All-World (ex-UK) Index	+/- 2 per cent

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

The FTSE All-World (ex-UK) Index exposure will be provided by the purchase of units in the following unit trusts

Legal & General US Index Trust

Legal & General European Index Trust

Legal & General Pacific Index Trust

Legal & General Japan Index Trust

The Investment Strategy has been set after consultation with the DCA, acting on the advice of the Strategic Investment Board (SIB). The SIB is a public body which advises on the investment activities of the Public Guardianship Office, the Official Solicitor, the Public Trustee and the Court Funds Office.

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

All copyright in the indices values and constituent list belongs to FTSE. Legal & General (Unit Trust Managers) Limited has obtained full licence from FTSE to use such copyright in the creation of this product.

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## Manager's investment report

Over the year under review, the published price of units in the Equity Index Tracker Fund rose by 19.3 per cent (excluding income).

Over the same period the composite benchmark rose by 19.7 per cent, producing a tracking deviation of - 0.4 per cent, well within the Fund's required tracking tolerances. In order to calculate the tracking performance of the Fund, the capital only performance of the underlying unit trusts is compared with the capital performance of the composite benchmark. This is because adjustments have to be made for accrued income within the underlying trusts. We also use special close of trade prices for the underlying unit trusts in order to make a comparison with the indices.

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.



## Tracking deviation

The table below shows the Fund Performance for the period from 1 March 2005 to 28 February 2006, with the benchmark performance which comprises 80 per cent FTSE All-Share Index and 20 per cent FTSE All-World (ex-UK) Index.

	Mar 2005	Apr 2005	May 2005	Jun 2005	Jul 2005	Aug 2005	Sep 2005
Total Fund	-1.28	-2.68	4.27	2.94	3.78	-0.03	3.41
Benchmark	-1.28	-2.69	4.28	2.98	3.79	0.06	3.51
Relative	0.00	0.01	-0.01	-0.04	-0.01	-0.09	-0.10
	Oct 2005	Nov 2005	Dec 2005	Jan 2006	Feb 2006	One year	
Total Fund	-2.84	3.48	3.68	2.38	1.02	19.27	
Benchmark	-2.89	3.52	3.70	2.49	1.00	19.70	
Relative	0.05	-0.04	-0.02	-0.11	0.02	-0.43	

## Distribution review

Distributions were made by the Legal & General UK Index Trust, the Legal & General US Index Trust, the Legal & General Japan Index Trust and the Legal & General Pacific Index Trust. These distributions are held in a cash income account within the Equity Index Tracker Fund until they are paid out at the dividend dates on 10 April and 12 October. The distributions for the year are set out in the Distribution tables on page 56.

## Market/economic review

In the year to 28 of February 2006, global equity market performance was strong. The FTSE All-Share rose by 18.5 per cent, marginally outperforming the FTSE All-World (ex UK) Index which rose by 18 per cent. Markets struggled to make progress early in the review period on concerns that US consumer spending was weakening while the Federal Reserve were becoming increasingly concerned about upside risks to inflation.

Equities rallied from April to October, at which point markets weakened globally on renewed concerns about US economic growth. These fears proved short-lived, however, and markets recovered much of their strength at the end of October, subsequently making steady progress through to the end of the review period. In the UK, markets were buoyed by the August rate cut that re-stimulated the housing market, as well as consumer spending.

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 0870 050 0955.

Calls are charged at the national rate. For your protection, we may record and monitor calls.

# Manager's Statement on Internal Control

## 1 Scope of responsibility

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

The operation of the 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). The performance of the Fund is reported via quarterly management information, which ensures that the objectives of index tracking are fulfilled.

Quarterly meetings are also held between Legal & General and the SIB (which includes personnel from the Department for Constitutional Affairs) 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 the Fund has operated within its stated strategy and the accounts are in line with best accounting and commercial practice. In this way, the testing of all material amounts within the accounts are verified to ensure the safeguarding of assets.

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

## 2 Purpose of system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in Equity Index Tracker Fund for the year ended 28 February 2006 and up to the date of approval of the final report and accounts.

## 3 Capacity to handle risk

Legal & General Retail Investments (LGRI) have a Risk function, staffed by a Risk Analyst, Risk Manager and headed by the Risk Director who has a seat on the Board. The function was established in September 2002, and has been developing a framework in conjunction with requirements under the Financial Services Authority's (FSA) Integrated Prudential Sourcebook. The Risk function operates within the Legal & General group risk management framework.

The Risk Director reports directly to the Managing Director of LGRI, and is authorised under the FSA's Approved Person regime, with responsibility for Controlled Function 14 Risk Assessment.

LGRI have in place documented risk policies, as follows

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

Each policy, prepared in accordance with Group standards, documents the company's appetite for that particular risk. All policies have been approved by the LGRI Risk and Compliance Committee (RCC). Compliance with the policies is monitored through the reporting of Key Risk Indicators to the RCC, which meets monthly. All risk policies are ratified by the RCC on an annual basis.

#### 4 The risk and control framework

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

The Risk and Compliance Committee (RCC), a formal sub committee of the Board, has oversight of risk management within the company. The committee was formed during 2002, and meets monthly. Membership is as follows

- Group Director, Product and Corporate Division (chair)
- Managing Director
- Sales and Marketing Director
- Group Compliance Director
- Risk Director
- Finance Director
- Finance Director (UK Operations)
- Operations and Customer Services Director

The schematic below demonstrates the risk framework within LGRI

The framework

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

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

#### 5 Review of effectiveness

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

The effectiveness of the control environment is tested through risk-based monitoring, carried out by Business Standards, Group Compliance and Internal Audit. In addition, external reviews are undertaken by external auditors. Any recommendations made to address control weaknesses are recorded by LGRI Risk on the Audit Recommendations Database. Progress on actions is reported to the RCC. Monthly reports are presented to the RCC covering both Business Standards and Compliance activity; Internal Audit present on a six monthly basis.

## 6 Significant internal control problems

There are no significant internal control problems to report.

*MW Dedman*  
Managing Director  
Legal & General (Unit Trust Managers) Limited

16 June 2006

# Respective responsibilities of the Lord Chancellor and Investment Manager

## Lord Chancellor's responsibilities

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

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

## Investment Manager's responsibilities

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

Treasury Direction requires the Investment Manager to follow best practice. In preparing the Funds Accounts, the Manager follows the disclosure requirements of the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association in November 2003 as updated by additional requirements from the Financial Services Authority (from time to time) and to the extent that such requirements are relevant to the Common Investment Fund. These require the Investment Manager to prepare accounts for each annual accounting period which give a true and fair view of the financial affairs of the Fund and of income/expenditure for the period. In preparing the accounts the Manager is required to

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

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

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

I certify that I have audited the financial statements of the Equity Index Tracker Fund for the year ended 28 February 2006 under section 45 (3) of the Administration of Justice Act 1982. These comprise the Statement of Total Return, the Statement of Change in Unitholders' Net Assets, the Portfolio Statement, the Balance Sheet, the Summary of Material Portfolio Changes, the related notes and the Distribution Tables. These financial statements have been prepared under the accounting policies set out within them.

## Respective responsibilities of the Lord Chancellor, Investment Manager and Auditor

### **The Lord Chancellor's responsibilities**

As explained in the Foreword on pages 35 to 37, under Section 42(1) of the Administration of Justice Act 1982, 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. As indicated on pages 35 to 37, the Lord Chancellor appointed Legal & General Unit Trust Managers Ltd to be the Investment Manager for the Equity Index Tracker Fund for the period 1 March 2005 to 28 February 2006.

### **The Investment Manager's responsibilities**

Under Section 45(1)(c) of the Act, and in accordance with directions made thereunder by Treasury issued, the Investment Manager, as described on page 36, is responsible for preparing the financial statements in respect of transactions in the Equity Index Tracker Fund. Treasury has directed the Investment Manager to prepare Accounts for each financial year in accordance with best commercial practice.

### **The Auditor's responsibilities**

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Administration of Justice Act 1982 and Treasury directions made thereunder. I also report whether in all material respects the financial transactions of the Equity Index Tracker Fund conform to the authorities which govern them.

I also report if in my opinion the Investment Manager's Report on pages 38 to 39 is not consistent with the financial statements, if proper accounting records have not been kept or if I have not received all the information and explanations I require for my audit or if information specified by relevant authorities is not disclosed.

I review whether the statement on pages 40 to 42 reflects the Investment Manager's governance and internal control arrangements. I report if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Investment Manager's statement covers all risks and controls. I am also not required to form an opinion on the effectiveness of Legal & General Unit Trust Managers Ltd's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Foreword, the Performance Record and General Information and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

## Basis of audit opinion

I conducted my audit in accordance with International Standards of Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Investment Manager in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Equity Index Tracker Fund's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error and that in all material respects the financial transactions conform with the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In my opinion

- the financial statements give a true and fair view, in accordance with the Administration of Justice Act 1982 and directions made thereunder by Treasury, of the financial position of the Equity Index Tracker Fund as at 28 February 2006 and of the total return and change in unitholders' net assets for the year ended 28 February 2006;
- the financial statements have been properly prepared in accordance with the Administration of Justice Act 1982 and directions made thereunder by Treasury; and
- in all material respects, the financial transactions of the Equity Index Tracker Fund conform to the authorities which govern them.

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General

18 July 2006

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

## Statement of Total Return for the year ended 28 February 2006

	Notes	28 February 2006		*Restated 28 February 2005	
		£	£	£	£
Net gains on investments	2	<b>10,315,703</b>		3,772,561	
Other gains/(losses)	3		<b>0</b>		0
Income	4	<b>1,394,684</b>		943,054	
Expenses	5	<b>(93,587)</b>		(62,346)	
Finance costs: Interest	7	<b>0</b>		(326)	
Net income before taxation		<b>1,301,097</b>		880,382	
Taxation	6	<b>(78,972)</b>		(31,083)	
Net income after taxation for the year		<b>1,222,125</b>		849,299	
Total return before distributions		<b>11,537,828</b>		4,621,860	
Finance costs: Distributions	7	<b>(1,222,910)</b>		(849,799)	
Change in net assets attributable to Unitholders		<b>10,314,918</b>		3,772,061	

## Statement of change in Unitholders' Net Assets for the year ended 28 February 2006

	28 February 2006		28 February 2005	
	£	£	£	£
Net assets at the start of the year		<b>41,557,711</b>		30,382,849
<i>Movement due to sales and repurchases of units:</i>				
Amounts received on creation of units		<b>19,300,324</b>		7,738,849
Less: Amounts paid on cancellation of units		<b>(3,661,142)</b>		(336,048)
		<b>15,639,182</b>		7,402,801
Change in net assets attributable to Unitholders (see Statement of Total Return above)		<b>10,314,918</b>		3,772,061
Net assets at the end of the year		<b>67,511,811</b>		41,557,711

\* The prior period figures have been restated in accordance with the accounting policy shown on page 50.



## Portfolio Statement as at 28 February 2006

All investments are in distribution units unless otherwise stated. The percentages in brackets show the equivalent sector holdings at 28 February 2005.

Investment	Holding/ nominal value	Market value £	% of net assets
<b>Unit Trusts investing in UK shares — 79.83% (80.18%)</b>			
Legal & General UK index trust	45,007,433	53,896,401	79.83
<b>Unit Trusts investing in overseas shares — 20.18% (19.82%)</b>			
Legal & General European Index Trust	1,644,407	2,958,288	4.38
Legal & General Japan Index Trust	4,213,443	1,592,892	2.36
Legal & General Pacific Index Trust	1,954,301	1,020,145	1.51
Legal & General US Index Trust	5,480,237	8,053,209	11.93
		13,624,534	20.18
<b>Portfolio of investments</b>		67,520,935	100.01
<b>Net other liabilities</b>		(9,124)	(0.01)
<b>Net assets</b>		67,511,811	<b>100.00%</b>

*The notes on pages 50 to 55 form part of these accounts.*

## Balance Sheet as at 28 February 2006

	Notes	28 February 2006		28 February 2005	
		£	£	£	£
<b>Assets</b>					
Portfolio of investments		<b>67,520,935</b>		41,556,585	
Debtors	8	<b>129,747</b>		330,457	
Cash and bank balances	9	<b>735,142</b>		496,014	
Total other assets		<b>864,889</b>		826,471	
<b>Total assets</b>		<b>68,385,824</b>		<b>42,383,056</b>	
<b>Liabilities</b>					
Derivative liabilities			<b>0</b>		0
Creditors	10	<b>(149,412)</b>		(301,499)	
Bank overdrafts	9	<b>(8,082)</b>		(20,234)	
Distribution payable on distribution units		<b>(716,519)</b>		(503,612)	
Total other liabilities		<b>(874,013)</b>		(825,345)	
<b>Total liabilities</b>		<b>(874,013)</b>		<b>(825,345)</b>	
Net assets attributable to Unitholders		<b>67,511,811</b>		<b>41,557,711</b>	

*The notes on pages 50 to 55 form part of these accounts.*

MW Dedman  
 Managing Director  
 Legal & General (Unit Trust Managers) Limited  
 16 June 2006

## Summary of Material Portfolio Changes for the year ended 28 February 2006

<b>Major purchases</b>	<b>Cost £'000</b>
Legal & General UK Index Trust	15,617
Legal & General US Index Trust	2,395
Legal & General European Index Trust	642
Legal & General Japan Index Trust	433
Legal & General Pacific Index Trust	262
<b>Total purchases for the year</b>	<b>£19,349</b>
	<b>Proceeds £'000</b>
<b>Major Sales</b>	
Legal & General UK Index Trust	2,976
Legal & General US Index Trust	523
Legal & General European Index Trust	87
Legal & General Japan Index Trust	80
Legal & General Pacific Index Trust	34
<b>Total sales for the year</b>	<b>£3,700</b>

# Notes to the Financial Statements as at 28 February 2006

## 1 Accounting policies

### *a Basis of accounting*

The accounts are subject to an Accounts Direction given by the Treasury (as detailed on pages 58 to 60) and are prepared under the historical cost basis as modified by the revaluation of investments and in accordance with the disclosure requirements of the Statement of Recommended Practice relating to Authorised Funds issued by the Investment Management Association in November 2003, to the extent that such requirements are relevant to the Common Investment Funds.

During the year, the Fund has adopted the presentation requirements of FRS25 'Financial Instruments: Disclosure and Presentation'. FRS25 requires that Distributions and Interest Costs within the Statement of Total Return are classified as 'Finance costs' to reflect their revised definition, while Net Assets attributable to Unitholders, are now shown as a liability of the Fund.

The effects of these changes on the current and the restatement of the prior year are as follows

Expenses and Interest Finance Costs were not affected in the current year by FRS25; however in the year to 28 February 2005, expenses decreased and Interest Finance Costs increased by £326.

Net Assets attributable to Unitholders (previously disclosed as Unitholders' Funds) has increased to £67,511,811 (£41,557,711 as at 28 February 2005).

### *b Recognition of income*

Income from distribution and accumulation units in collective investment schemes is recognised when the distribution is declared. Interest and income from fixed interest stocks is recognised on an accruals basis. All other income is recognised on an accruals basis.

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

### *c Treatment of expenses*

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

The Manager's periodic fee is deducted from income for the purpose of calculating the distribution.

### *d Distribution policy*

Realisable income, after deduction of those expenses which are chargeable in calculating the distribution, will be paid to those unitholders with a holding at ex-dividend date. In order to conduct a controlled dividend flow, interim distributions will be at the Manager's discretion, up to a maximum of the distributable income for the period. All remaining income is distributed in accordance with the Collective Investment Schemes Sourcebook.

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

### *e Investments*

The investments are valued at the mid of creation and cancellation prices at 12 noon on 28 February 2006, being the last working day of the accounting year.

Investments in securities by Legal & General on behalf of the 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 unfranked investment income 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 gains on investments**

	<b>28 February 2006</b>	28 February 2005
	£	£
The net gains on investments during the year comprise		
Proceeds from sales of investments during the year	<b>3,700,000</b>	340,000
Original cost of investments sold during the year	<b>(3,042,982)</b>	(318,615)
	<u>657,018</u>	<u>21,385</u>
Gains realised on investments sold during the year	<b>657,018</b>	21,385
Net appreciation thereon already recognised in earlier periods	<b>(297,697)</b>	(21,017)
	<u>359,321</u>	<u>368</u>
Net unrealised appreciation for the year	<b>9,956,382</b>	3,772,193
Net gains on investments	<b>10,315,703</b>	3,772,561

**3 Other gains/(losses)**

There were no other gains/(losses) during the year.

**4 Income**

	<b>28 February 2006</b>	28 February 2005
	£	£
Franked dividend distributions	<b>907,019</b>	638,109
Unfranked dividend distributions	<b>188,595</b>	112,491
Bank interest	<b>11,581</b>	5,591
Management fee rebates from Legal & General Investment Management Limited	<b>287,463</b>	186,863
Interest supplement	<b>26</b>	0
	<u>1,394,684</u>	<u>943,054</u>

## 5 Expenses

	28 February 2006 £	*Restated 28 February 2005 £
<b>Payable to the Manager, associates of the Manager and agents of either of them</b>		
Manager's periodic fee	<b>87,970</b>	58,306
<b>Other expenses</b>		
Safe custody fees	<b>4,832</b>	3,540
Transaction charges	<b>785</b>	500
	<b>5,617</b>	4,040
<b>Total expenses</b>	<b>93,587</b>	62,346

\* The prior period figures have been restated in accordance with the accounting policy shown on page 21.

## 6 Taxation

### a Analysis of taxation charge in year

	28 February 2006 £	28 February 2005 £
Corporation tax	<b>78,972</b>	43,014
Prior year tax adjustment	<b>0</b>	(11,931)
Current tax [note 6 (b)]	<b>78,972</b>	31,083
Deferred tax [note 6 (c)]	<b>0</b>	0
<b>Total taxation</b>	<b>78,972</b>	31,083

### b Factors affecting taxation charge for the year

The Current tax charge excludes capital gains and losses for the reason that Authorised Unit Trusts are not subject to Corporation tax on these items. Current tax differs from taxation assessed on net income before taxation as follows

Net income before taxation	<b>1,301,097</b>	880,382
Net income before taxation multiplied by the applicable rate of Corporation tax at 20% (2005: 20%)	<b>260,219</b>	176,076
<i>Effects of</i>		
Income not subject to taxation	<b>(181,404)</b>	(127,622)
Prior year tax adjustment	<b>0</b>	(11,931)
Disallowable expenditure	<b>157</b>	100
Movement in taxation losses	<b>0</b>	(5,540)
<b>Current tax</b>	<b>78,972</b>	31,083

### c Provision for deferred tax

There is no Deferred tax provision in the current or preceding year. At the year end there is a potential deferred tax asset of £33,752 (£33,752 as at 28 February 2005) due to excess unutilised foreign tax available for double taxation relief. The Fund is not expecting to accrue foreign dividends against which this can be offset in the foreseeable future and therefore no deferred tax asset has been recognised.

## 7 Distributions

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

	<b>28 February 2006</b>	28 February 2005
	£	£
Interim distribution	<b>626,611</b>	420,214
Final distribution	<b>716,519</b>	503,612
	<b>1,343,130</b>	923,826
<i>Add</i> Income deducted on cancellation of units	<b>38,867</b>	3,978
<i>Less</i> Income received on creation of units	<b>(159,087)</b>	(78,005)
<b>Distributions for the year</b>	<b>1,222,910</b>	849,799
<b>Interest</b>		
Bank overdraft interest	<b>0</b>	326
<b>Total finance costs</b>	<b>1,222,910</b>	850,125

The differences between the net income after taxation and the distributions for the year are as follows

	<b>28 February 2006</b>	28 February 2005
	£	£
Net income after taxation for the year	<b>1,222,125</b>	849,299
<i>Add</i> Transaction charges	<b>785</b>	500
Distributions for the year	<b>1,222,910</b>	849,799

## 8 Debtors

	<b>28 February 2006</b>	28 February 2005
	£	£
Amounts receivable for creation of units	<b>99,998</b>	300,002
Accrued income	<b>28,062</b>	17,268
Bank interest	<b>1,687</b>	1,256
Receivable income tax	<b>0</b>	436
Corporation tax recoverable	<b>0</b>	11,495
	<b>129,747</b>	330,457

## 9 Cash and bank balances

	<b>28 February 2006</b>	28 February 2005
	£	£
Cash and bank balances	<b>735,142</b>	496,014
Bank overdrafts	<b>(8,082)</b>	(20,234)
Net uninvested cash	<b>727,060</b>	475,780

**10 Creditors**

	<b>28 February 2006</b>	28 February 2005
	£	£
Purchases awaiting settlement	<b>100,000</b>	275,000
Accrued expenses	<b>8,159</b>	5,983
Corporation tax payable	<b>41,253</b>	20,516
	<b>149,412</b>	301,499

**11 Equalisation**

This applies only to units purchased during the distribution period (Group 2 units). It is the average amount of income included in the purchase price of all Group 2 units and is refunded to the holders of these units as a return of capital. Being capital it is not liable to Income tax but must be deducted from the cost of units for Capital Gains tax purposes.

**12 Contingent liabilities and outstanding commitments**

There were no contingent liabilities or outstanding commitments at the balance sheet date.

**13 Risk in relation to financial instruments**

The Fund's investment objective is stated on page 7. In pursuing its objective, the Fund holds financial instruments which expose it to various types of risk. The main risks, and the Manager's policy for managing these risks, which were applied consistently throughout the current and preceding year, are set out below.

*a Credit and liquidity risk*

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

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

*b Market risk*

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

*c Foreign currency risk*

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

*d Interest rate risk*

Interest rate risk is the risk of movements in the value of financial instruments as a result of fluctuations in interest rates. The Fund's only interest bearing financial instruments were its bank balances and overdraft facilities as



disclosed in note 9. Cash is deposited, and overdraft facilities utilised, on normal commercial terms and earn or bear interest based on LIBOR.

*e Fair value*

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

#### 14 Post balance sheet events

There were no material post balance sheet events which have a bearing on the understanding of the financial statements.

#### 15 Ultimate controlling party and related party transactions

The CFO, who provide investment management oversight services for the Fund, is a related party (as defined by Financial Reporting Standard (FRS 8). Details of units created and cancelled are shown in the Statement of Change in Unitholders' Net Assets. Note 16, shows the split of existing assets by investment channel.

Legal & General Investment Management Limited, who provide investment management services are a related party (as defined by FRS 8). Investments made on behalf of the Fund include those in L&G unit trusts, which had a market value of £67,520,935 at 28 February 2006 (as at 28 February 2005 £41,556,585).

Management fees paid to Legal & General Investment Management Limited are shown in note 5. The balances due in respect of these fees is £7,123 (as at 28 February 2005 £5,404). Management fee rebates received from Legal & General Investment Management are shown in note 4.

Rebates receivable at the year end amount to £28,062 (as at 28 February 2005 £17,268).

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.

#### 16 Split of Assets by Investment Channel

	Net asset value of fund	Net asset value per unit	Number of units in issue	%
Investment Channel 28 February 2006				
Court Funds Office (CFO)	57,872,055	1,040.72p	5,560,751	85.72%
Official Solicitor and Public Trustee (OSPT)	3,649,267	1,040.72p	350,647	5.41%
Other(+)	5,990,489	1,040.72p	575,608	8.87%
	<u>67,511,811</u>	<u>1,040.72p</u>	<u>6,487,006</u>	<u>100.00%</u>
	Net asset value of fund	Net asset value per unit	Number of units in issue	%
Investment Channel 28 February 2005				
Court Funds Office (CFO)	36,314,404	867.38p	4,186,661	87.39%
Official Solicitor and Public Trustee (OSPT)	1,028,474	867.38p	118,572	2.47%
Other(+)	4,214,833	867.38p	485,925	10.14%
	<u>41,557,711</u>	<u>867.38p</u>	<u>4,791,158</u>	<u>100.00%</u>

The 'Other' Investment Channel comprises unitholders who invested directly through Legal & General, rather than through the CFO or OSPT.

## Distribution Tables for the year ended 28 February 2006

### Interim dividend distribution in pence per unit

Group 1: units purchased prior to 1 March 2005

Group 2: units purchased from 1 March 2005 to 31 August 2005

	Net income	Equalisation (Note 11)	Distribution paid 12 October 2005
<b>Distribution units</b>			
Group 1	11.4675	0	11.4675
Group 2	2.9850	8.4825	11.4675

The distribution paid on 12 October 2004 was 9.8245p net per unit.

### Final dividend distribution in pence per unit

Group 1: units purchased prior to 1 September 2005

Group 2: units purchased from 1 September 2005 to 28 February 2006

	Net income	Equalisation (Note 11)	Distribution payable 10 April 2006
<b>Distribution units</b>			
Group 1	11.0454	0	11.0454
Group 2	2.9939	8.0515	11.0454

The distribution paid on 10 April 2005 was 10.5112p net per unit.

## Performance Record

### Net asset values

Accounting date	Net asset value of fund	Net asset value per unit	Number of units in issue
29 February 2004	£30,382,849	785.33p	3,868,780
28 February 2005	£41,557,711	867.38p	4,791,158
28 February 2006	£67,511,811	1,040.72p	6,487,006

### Unit price range and net income

Year	Highest offer	Lowest bid	Net income <sup>(3)</sup>	Per £1,000 invested <sup>(3)</sup>
Distribution units 2003 <sup>(1)</sup>	773.30p	722.60p	0	0
2004	850.30p	757.20p	15.2262p	£20.49
2005	1,012.00p	839.30p	21.9787p	£29.57
2006 <sup>(2)</sup>	1,057.00p	1,004.00p	11,0454p	£14.86

1 Since inception at 1 September 2003.

2 The table shows highest offer and lowest bid prices to 28 February 2006. This table also shows net income to 10 April 2006.

3 The table shows the net income per unit and per £1,000 invested, on a payment date basis, using a price at 1 September 2003.

Past performance is not a guide to future performance.

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

# Administration of Justice Act 1982: Common Investment Fund

## Accounts Direction given by the Treasury

### Foreword

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

“Accounts shall be prepared and shall at such times as the Treasury shall direct be sent to the Comptroller and Auditor General in respect of transactions in a fund established by a common investment scheme, by the investment manager”.

### Treasury Direction

The Treasury, in pursuance of section 45(2) of the Administration of Justice Act 1982, hereby gives the following Direction

- 1 The Investment Manager of the Common Investment Funds shall prepare accounts for the 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 the 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 Movements 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.

- 4 The Foreword shall include among other items
  - I a statement that the accounts have been prepared in accordance with directions given by the Treasury in pursuance of Section 45(2) of the Administration of Justice Act 1982;
  - II relevant information in respect of the statutory background of the Fund;
  - III the name and period of appointment of the Investment Manager;
  - IV details of the arrangements for reporting financial performance of the Fund to unitholders; and
  - V a statement on the external audit arrangements for the Fund, including commentary on the roles of the Comptroller and Auditor General and the auditors.
- 5 The Notes shall include among other items
  - I the accounting policies;
  - II a statement of the regulatory basis of the accounts, with reference to best practice principles which apply to the funds in which the 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 for Authorised Funds issued by the Investment Management Association in November 2003 and as updated by additional requirements from the Financial Services Authority (from time to time), to the extent that such requirements are relevant to the 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 time scales 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 nine months of the period end in respect of the accounts for the year ended on 29 February 2004 and thereafter within three 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

28 March 2006

## General information

### Accounting/distribution dates

The accounting and distribution dates for the Equity Index Tracker Fund are

<b>Accounting dates</b>	<b>Distribution dates</b>
28 February	10 April
31 August	12 October

### Buying and selling units

#### Unit prices

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

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

#### Management fee

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

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

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

Individual accounts are unaffected by the management charge deduction.

#### Buying and selling securities

The Investment Manager buys and sells units in the underlying unit trusts on behalf of the Equity Index Tracker Fund using forward prices at the date of investment. The prices of the underlying trusts are shown in the Financial Times on a daily basis, on the day after valuation.

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 counter parties as it thinks fit. The Manager will act with good faith and due diligence in its choice and use of brokers and counter parties.

### **Manager**

Legal & General (Unit Trust Managers) Limited  
Registered Office:  
Temple Court  
11 Queen Victoria Street  
London EC4N 4TP  
Telephone: 020 7528 6200  
Registered in England No. 1009418  
Authorised and regulated by the Financial Services Authority

### **Directors of the Manager**

JM Bury  
S Cartledge  
MW Dedman  
M Pengilly  
SR Pistell  
JB Pollock  
C Rees (appointed 14 January 2005)  
RP Sewell

### **Overall governance**

Department for Constitutional Affairs

### **Auditor**

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

### **Fund Investors**

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Official Solicitor and Public Trustee  
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London WC2A 1DD  
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Public Guardianship Office  
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### **Prepared and issued by**

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Authorised and regulated by the Financial Services Authority



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DG Ref: B46050 7401RC

Printed in the UK for The Stationery Office Limited  
on behalf of the Controller of Her Majesty's Stationery Office  
04/07

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